Annual Report 2020

Date / Name of chairman of the meeting:
18 June 2021

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 2020 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 2020 and of the results of the Company's operations for the financial year 1 January – 31 December 2020.

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.

Nærum, 18 June 2021

Executive Board:

steen pinnerup (Jun 17, 2021 16:50 GMT+2)
Steen Pinnerup
Director

Torben Bjørn
Director

Board of Directors:

Joseph Vorih (Jun 24, 2021 07:26 GMT+1)
Joseph Michael Vorih
Chairman

thomas rosenkilde anderson (Jun 24, 2021 08:28 GMT+2)
Thomas Rosenkilde Anderson
Vice chairman

steen pinnerup (Jun 17, 2021 16:50 GMT+2)
Steen Pinnerup

Torben Bjørn

Lone Gundelach Kjeldsen
(Employee representative)

Tommy Markvard Larsen
(Employee representative)

Martin Qvist Olsen
Martin Qvist Olsen (Jun 28, 2021 08:35 GMT+2)
Martin Qvist Olsen
(Employee representative)

HBK HOTTINGER BRÜEL & KJÆR

Independent auditor’s report

To the shareholder of Brüel & Kjær Sound & Vibration Measurement A/S

Opinion

We have audited the financial statements of Brüel & Kjær Sound & Vibration Measurement A/S for the financial year 1 January – 31 December 2020. The financial statements comprise income statement, balance sheet, statement of changes in equity and notes, including 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 Company's financial position at 31 December 2020 and of the results of the Company’s operations for the financial year 1 January – 31 December 2020 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the 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 our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements. 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 that 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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Company 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 as to 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 in Denmark will always detect a material misstatement when it exists. Misstatements may 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 financial statement users made 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 company 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 Company'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 Company'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 Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, 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's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, 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's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

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

Copenhagen, 17 June 2021

DELOITTE
Statsautoriseret Revisionspartnerselskab
CVR-No: 33 96 35 56

Tim Kjær-Hansen	Jens Serup
State-Authorised Public Accountant	State-Authorised Public Accountant
MNE No 23295	MNE No 45825

Management's review

Company details

Hottinger Brüel & Kjær A/S
Skodsborgvej 307
2850 Nærum

Telephone:	+45 77 41 20 00
Fax:	+45 45 80 14 05
Web-site:	www.bksv.com
E-mail:	info@bksv.com
Registration No:	23 95 84 14
Established:	3 September 1957
Registered office:	Rudersdal

Executive Board

Steen Pinnerup, director
Torben Bjørn, director

Board of Directors

Joseph Michael Vorih (chairman)
Thomas Rosenkilde Anderson (vice chairman)
Steen Pinnerup
Torben Bjørn
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 18 june 2021 at the company's address.

Management's review

Financial highlights

DKK million	2020	2019	2018	2017	2016
Key figures					
Revenue	778.8	820.9	895.9	939.9	919.8
Operating profit	18.8	61.4	119.0	125.9	157.2
Profit/loss from financial items	-2.3	-6.3	-3.9	-5.7	0.3
Profit for the year	**10.9**	**42.5**	**89.6**	**93.4**	**122.7**
Intangible assets	18.8	24.3	21.4	14.3	18.7
Tangible assets	94.6	120.1	120.0	126.7	132.4
Addition tangible assets	8.2	8.9	12.6	5.0	11.4
Current assets	379.8	352.8	345.0	434.8	417.9
Total assets	**493.2**	**497.2**	**486.4**	**575.8**	**569.0**
Share capital	102.0	102,0	102.0	102.0	102.0
Equity	**284.3**	**279.4**	**234.7**	**288.9**	**318.2**
Provisions	14.2	18.7	22.7	16.5	17.5
Non-current liabilities other than provisions	26.2	-	-	-	-
Current liabilities other than provisions	168.5	199.1	229.0	270.4	233.3
Financial ratios					
Operating margin	1%	7 %	13 %	13 %	17 %
Equity ratio	58%	56 %	48 %	50 %	56 %
Return on equity	4%	17 %	34 %	31 %	36 %
Average number of employees	**432**	**439**	**449**	**447**	**462**

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 $\dfrac{\text{Operating profit x 100}}{\text{Revenue}}$

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

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

Management's review

Operating review

Principal Brüel & Kjær activities

During 2020 Brüel & Kjær Sound & Vibration Measurement A/S (Brüel & Kjær) took part in the continued transformation of the former Brüel & Kjær and Hottinger businesses, through the aquistions and legal merger of the HBM Denmark ApS and name change into Hottinger, Brüel & Kjær A/S (HOTTINGER BRÜEL & KJÆR). The business activities remain the same as in the past, however now within a simplified legal framework and with the continued ambition of further strengthen the position of the company and the group, through simplified commercial and operational operations.

HOTTINGER BRÜEL & KJÆR develops and markets products and services relating to sound and vibration. The company undertakes the developing, manufacturing and marketing directly from the factory in Nærum, 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 with 5% and gross profit with 7% compared to 2019, primarily due to the Covid-19 pandemic.

The outbreak of the COVID-19 pandemic impacted the order intake and revenue significantly in the first 3 quarter of of 2020. During Q4 of 2020 HOTTINGER BRÜEL & KJÆR experienced an uptake and partly recovery. However, not to the same level as 2019.

The company applied for subsidies provided by the Danish government, to mitigate the negative impact on earnings of the COVID-19. Subsidies have been received to an amount of 7.2 million DKK and are recognised in the income statement, as there are no remaining material unfulfilled conditions attached to the grants. Consequently, no amounts are due to be returned. Furthermore, additional measures have been taken to adjust production capacity to the volumes and managing potential risk pertaining to inventories and trade receivables.

During 2020 it was decided to relocate the headquarters of HOTTINGER BRÜEL & KJÆR from current site in Naerum, to a new site in Virum, offering a more suitable location for the new path of HOTTINGER BRÜEL & KJÆR. As a result, an impairment charge related to the current facilities was recognised in 2020, amounting to 22.6 million DKK. The relocation is expected to take place in second half of 2021.

As a result of the COVID-19 impact on sales and the impairment of the facilities in Naerum the profit before tax for the year was 16.5 million DKK compared to 55.1 million DKK in 2019, a significant decrease of 75%.

Equity amounts to 284.3 million DKK at the end of the year. The company's financial position remains strong with an equity ratio at 58%. The merger with HBM Denmark ApS did not have material impact one the financial statement for 2020.

The 2020 result is considered to be satisfactory compared to expectations as a result of the extraordinary situation following the outbreak of Covid-19.

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.

Management's review

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. Company has a ISO 14001 accreditation.

Outlook

As consequence of improved market conditions, experienced from end Q4 2020, management expects an improved sales performance through 2021. Profit before tax for 2021 is consequently also expected above the performance of 2020. The outlook is based on managements best estimate among others considering the uncertainty imposed upon the global economy and markets by the the Covid-pandemic. 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 Regarding 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://hbkworld.com/cobe/).

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 "Global sustainable growth" of the Spectris plc Annual Reports and accounts 2020, pages 50 ff. The reports if 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 in 2020 impacted from changes in the executive management team, due to a resignation. Consequently, the company did not meet the objective of 20% by 2020.

In 2020 the proportion of the underrepresented gender for the Board of Directors was 0% (0 out of 4 members) compared to 25% in 2019 (1 out of 4 members).

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 (target)
Pct.	28%	22%	27%	23%	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.

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

No events have occurred after the balance sheet date to this date, which would influence the evaluation of this annual report.

Income statement

DKK'000	Note	2020	2019
Revenue	1	778,835	820,854
Production costs		-381,599	-392,656
Gross profit		397,236	428,198
Other operating income	2	7,548	1,085
Other external costs		-107,575	-111,923
Staff costs	3	-239,612	-240,610
Depreciations and impairments	4, 5	-38,782	-15,306
Operating profit		18,815	61,444
Financial income	6	-	2
Financial expenses	7	-2,280	-6,324
Profit for the year before tax		16,535	55,122
Tax on profit for the year	8	-5,651	-12,615
Profit for the year	9	10,884	42,507

Balance sheet

DKK'000	Note	2020	2019
ASSETS			
Fixed assets			
Intangible assets	4		
Software		4,054	7,797
Research & Development assets		14,737	16,543
		18,791	24,340
Property, plant and equipment	5		
Land and buildings		73,016	99,242
Production plant and machinery		12,812	15,283
Fixtures and fittings, tools and equipment		8,771	2,546
Property, plant and equipment under construction		54	3,030
		94,653	120,101
Current assets			
Inventories			
Raw materials and consumables		42,932	59,520
Goods in progress		13,317	14,723
Finished goods and consumables		50,296	82,339
		106,545	156,582
Receivables			
Trade receivables		71,304	71,984
Receivables from affiliates		175,137	114,567
Other receivables		19,008	2,672
Prepayments	10	7,793	6,966
		273,242	196,189
Total current assets		379,787	352,771
TOTAL ASSETS		493,231	497,212

Balance sheet

DKK'000	Note	2020	2019
EQUITY AND LIABILITIES			
Equity			
Share capital	11	102,000	102,000
Reserve for development expenditure		11,495	12,904
Fair value reserve		-3,091	320
Retained earnings		158,909	164,209
Ordinary dividends proposed		15,000	-
Total equity		284,313	279,433
Provisions			
Deferred tax	12	8,201	13,031
Other provisions	13	5,970	5,700
Total provisions		14,171	18,731
Non-current liabilities other than provisions			
Other payables		26,215	-
Total non-current liabilities other than provisions		26,215	-
Current liabilities other than provisions			
Amount owned by affiliates		29,940	52,784
Prepayments from customers		17,320	4,649
Trade payables		28,539	42,356
Other payables		77,034	81,529
Deferred income	14	15,699	17,730
Total current liabilities other than provisions		168,532	199,048
Total liabilities other than provisions		194,747	199,048
TOTAL EQUITY AND LIABILITIES		493,231	497,212

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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	12,904	320	164,209	-	279,433
Value adjustment of forward exchange contracts	-	-	-4,373	-	-	-4,373
Tax on equity transactions	-	-	962	-	-	962
Currency adjustment of branch	-	-	-	122	-	122
Value adjustment HBM DK acquisition	-	-	-	-2,715	-	-2,715
Transfer	-	-1,409	-	1,409	-	-
Profit/loss for the year	-	-	-	-4,116	15,000	10,884
Equity end of year	**102,000**	**11,495**	**-3,091**	**158,909**	**15,000**	**284,313**

The Board of Directors recommend the General Assembly to approve dividends for the year of DKK 15 million are distributed.

Accounting policies

The Annual Report of HOTTINGER BRÜEL & KJÆR for 2020 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.

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 Pc, the Company has not prepared a cash flow statement.

Significant accounting judgments and estimates (Business combinations)

In 2020 HOTTINGER BRÜEL & KJÆR A/S merged with HBM Denmark ApS. From a Spectris group perspective the merger is considered an intra-group transaction within common control. Therefore, the financial impact of the transaction is recognized and reflected in the statement of equity. The financial impact is negative DKK -2,715 thousand. The book-value method has been applied.

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.

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.

Accounting policies (continued)

Income statement

Revenue

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

Construction contracts are 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 is recognized only corresponding to the costs incurred to the extent that it is probable that they will be recovered.

Revenue is measured ex 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.

Accounting policies (continued)

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.

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.

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

On initial recognition, leases for fixed assets that transfer substantially all the risks and rewards incident to ownership to the Company (finance leases) are recognised in the balance sheet at cost, corresponding to the lower of fair value and the net present value of future lease payments. In calculating the net present value of future lease payments, the interest rate implicit in the lease or a rate that approximates this rate is used as the discount factor. Assets held under finance leases are depreciated as the Company's other fixed assets.

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

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

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.

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%.

In 2020, the amount transferred to the reserve is disclosed. In 2019 is was required to disclose the reserve, therefore the amount has been added for comparison. The reserve has no impact on the equity.

Equity statement has been changed in 2020 now including the reserve for development expenditure and fair value reserve.

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.

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.

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	2020	2019

1 **Revenue**

	2020	2019
Domestic	27,716	35,239
Foreign	751,119	785,615
	778,835	820,854

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.

2 **Other Operating Income**

	2020	2019
Covid-19 subsidies received	7,222	-
Other operating income	326	1,085
	7,548	1,085

3 **Staff costs**

	2020	2019
Wages and salaries	253,159	261,189
Pensions	16,534	16,834
Social security costs	3,459	1,459
Other staff costs	6,553	9,239
	279,705	288,721
Wages related to the construction of plant and machinery and indirect production overheads on inventories	-40,093	-48,111
	239,612	240,610
Average number of employees	432	439

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 the under this programme. In 2019 share options amounting to DKK 1,933 thousand was excersied.

Staff costs comprise remuneration, pension, bonus plan and company car for the Executive Board totalling DKK 4,557 thousand (2019: DKK 11,226 thousand) and total remuneration for the Board of Directors of DKK 75 thousand (2019: DKK 75 thousand). A part of 2019 an additioal CFO was employed and received a bonus. In 2019 a member of the executive management team was erroneously included in the Executive Board. That member also received bonuses.

4 Intangible assets

	Software	R&D assets	Total
Cost at 1 January 2020	54,273	18,063	72,336
Additions	5,977	-	5,977
Disposals	-5,039	-	-5,039
Cost at 31 December 2020	55,211	18,063	73,274
Depreciation and impairment at 1 January 2020	46,476	1,519	47,995
Depreciation and impairment	4,756	1,807	6,563
Disposals	-75	-	-75
Depreciation and impairment at 31 December 2020	51,157	3,326	54,483
Carrying amount at 31 December 2020	4,054	14,737	18,791
Depreciation period	3-5 years	10 years	

The additions of DKK 5,9m mainly consist of three projects; HBK Data Center (DKK 2,4m), HBK Global Network (DKK 0,7m) and the SAP ERP-migration project (DKK 1,3m). All projects are vital to the digital journey of HBK and have demonstrated promising outcome. There are no indications triggering impairment considerations.
The disposals consist of reclassification of software to fixtures and fittings (DKK 2,9m) as well as disposal of projects costs pertaining to CPQ Implementation (DKK 2,1m).

Notes

DKK'000

5 Property, plant and equipment

	Land and buildings	Production plant and machinery	Fixtures and fittings, tools and equipment	Property, plant and equipment under construction	Total
Cost at 1 January 2020	187,133	61,788	14,803	3,030	266,754
Transfers	-	2,184	846	-3,030	-
Additions	1,795	-1,288	7,608	63	8,178
Disposals	-	-	-1	-	-1
Cost at 31 December 2020	188,928	62,684	23,256	63	274,931
Depreciation and impairment at 1 January 2020	87,892	46,504	12,258	-	146,654
Depreciation	5,420	3,368	832	-	9,620
Impairment	22,600	-	-	-	22,600
Disposals	-	-	1,395	9	1,404
Depreciation and impairment at 31 December 2020	115,912	49,872	14,485	9	180,278
Carrying amount at 31 December 2020	73,016	12,812	8,771	54	94,653
Depreciation period	40 years	10 years	3-10 years	-	

Land and buildings have been impaired to expected recoverable amount, due to the planned relocation of the Naerum site to Virum. The impairment amouting to DKK 22,600 thousand is recognized under other depreciations and impairments in the income statement.

6 Financial income

	2020	2019
Interest income, group	0	2

Notes

DKK'000	2020	2019

7 **Financial expenses**

	2020	2019
Interest expenses, group companies	443	767
Interest expenses, other	9	8
Exchange rate losses	1,828	5,549
	2,280	6,324

8 **Tax on profit for the year**

	2020	2019
Joint taxation contribution	8,269	10,274
Other current taxes	398	538
Adjustment of tax relating to previous years	1,814	0
Deferred tax for the year	-4,830	1,803
	5,651	12,615

Specification of tax on profit for the year

	2020	2019
Current tax/joint taxation contribution	10,525	10,812
Deferred tax	-4,874	1,803
	5,651	12,615

Tax recognition

	2020	2019
Tax on profit for the year	5,651	12,615
Tax on equity movements	-962	638
	4,689	13,253

9 **Proposed distribution of profit**

	2020	2019
Ordinary dividends proposed	15,000	-
Retained earnings	-4,116	42,507
	10,884	42,507

Notes

DKK'000	2020	2019

10 Prepayments

	2020	2019
Prepaid software-licenses	7,497	6,663
Other	296	303
	7,793	6,966

11 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.

12 Deferred tax

	2020	2019
Deferred tax at 1 January	13,031	11,228
Adjustment for the year	-4,830	1,803
Deferred tax at 31 December	8,201	13,031

Provision for deferred tax relate to:

	2020	2019
Intangible assets	3,242	3,639
Manufacturing equipment	-1,376	-1,020
Land and buldings	6,111	5,522
Current assets	6,863	7,936
Provisions	-6,639	-3,046
Deferred tax at 31 December	8,201	13,031

Notes

DKK'000	2020	2019

13 Other provisions

Warranty provision at 31 December	5,970	5,700

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

14 Deferred income

Current		
Deferred income	13,333	14,385
Prepaid rental	979	979
	14,312	15,364
Non-current		
Prepaid rental	1,387	2,366
	1,387	2,366
Deferred income at 31 December	15,699	17,730

Notes

DKK'000

15 Contractual obligations, contingencies etc

Rent and lease obligations (operating leases) falling due within five years total DKK 243 thousand (2019: DKK 240 thousand).

Obligations regarding guarantees made for customers amount to DKK 16,346 thousand (2019: DKK 19,055 thousand).

Obligations concerning specific purchase orders and committed forecasts submitted to suppliers amounts to DKK 40,900 thousand (2019: DKK 33,800 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.

16 Financial instruments

	2020			2019		
Currency	Period	Con-tract value	(Gain) and loss recognised in equity	Period	Contract value	(Gain) and loss recognised in equity
DKK/USD	0–12 months	50,165	5,116	0–12 months	54,511	60
DKK/JPY	0–12 months	41,008	-531	0–12 months	41,204	138
GBP/DKK	0–12 months	31,281	-639	0–12 months	32,729	-625
		122,454	3,946		128,444	-427

Notes

DKK'000

17 Related parties

Control

The ultimate parent company of the group:

Spectris plc.
Heritage House, Church Road
Egham, Surrey TW20 9QD
England

www.spectris.com

Ownership

Principal shareholder:

Spectris Denmark ApS
Skodsborgvej 307
2850 Nærum
Denmark

A copy of the consolidated financial statements of Spectris plc. can be obtained from HOTTINGER BRÜEL & KJÆR A/S, Skodsborgvej 307, 2850 Nærum, Denmark.

HOTTINGER BRÜEL & KJÆR A/S, Skodsborgvej 307, 2850 Nærum, Denmark and the principal shareholder are included in the 2020 consolidated financial statements of Spectris plc., who holds a controlling interest.

Transactions with related parties

	Related parties with control DKK'000	Other related parties DKK'000
Intercompany sales	-	456,940
Intercompany cost of goods sold	-	20,032
IT & Management Recharges	-18,737	11,132
Employee & Other Recharge	-8.465	16.662
Interest	-443	-
Intercompany receiveables - net	-60,510	104,737

Notes

DKK'000

18 Subsequent events

No subsequent events have occurred after the balance sheet date impacting the Company's financial position.

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