

Annual Report 2023

Financial year 1 January – 31 December 2023

Date / Name of chairman of the meeting:
17 June 2024 / Frederik Andersen



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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 2023 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 on 31 December 2023 and of the results of the Company's operations for the financial year 1 January – 31 December 2023.


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

We recommend approval of the annual report at the annual general meeting.

Virum, 17 June 2024


Executive Board:


Steen Pinnerup (Jun 18, 2024 14:53 GMT+2)
Steen Pinnerup
Director


Danica Sucur (Jun 21, 2024 11:33 GMT+2)
Danica Sucur
Managing Director


Board of Directors:


BBryson (Jun 18, 2024 13:38 GMT+1)
Benjamin John Bryson
Chairman


Kimberly Miller (Jun 18, 2024 07:38 EDT)
Kimberly Cooper Miller


Steen Pinnerup (Jun 18, 2024 14:53 GMT+2)
Steen Pinnerup


Ole Thorhauge
(Employee representative)


Martin Meier
(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 01.01.2023 - 31.12.2023, which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

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

Basis for opinion

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

Management's 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 Company'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 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 about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing and 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 in accordance with International Standards on Auditing and 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 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 the preparation of 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 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 by relevant law and regulations.

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 in the relevant law and regulations. We did not identify any material misstatement of the management commentary.

Copenhagen, 17 June 2024

Deloitte

Statsautoriseret Revisionspartnerselskab
Business Registration No 33 96 35 56



Tim Kjær-Hansen
State-Authorised Public Accountant
Identification No (MNE) mne23295

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: hbm@hbkworl.com
Registration No: 23 95 84 14
Established: September 3, 1957
Registered office: Lyngby-Taarbæk

Executive Board

Steen Pinnerup, director
Danica Sucur, managing director

Board of Directors

Benjamin John Bryson (chairman)
Kimberly Cooper Miller
Steen Pinnerup
Ole Thorhauge (employee representative)
Martin Meier (employee representative)

Auditor

Deloitte Statsautoriseret Revisionspartnerselskab
Weidekampsgade 6
2300 Copenhagen S

Annual general meeting

The Annual General Meeting will be held on 17 June 2024 at the company's address.

Management's review

Financial highlights

DKK million	2023	2022	2021	2020	2019
Key figures					
Revenue	784,7	728,2	674,3	778,8	820,9
Operating profit	72,0	16,1	44,8	18,8	61,4
Profit/loss from financial items	-5,6	-4,3	-9,1	-2,3	-6,3
Profit for the year	52,5	10,6	26,3	10,9	42,5
Assets					
Intangible assets	22,9	14,1	16,2	18,8	24,3
Tangible assets	63,5	76,1	73,7	94,6	120,1
Right of use assets	206,4	217,7	228,9	-	-
Addition tangible assets	12,0	38,5	87,1	8,2	8,9
Current assets	400,4	417,1	465,0	379,8	352,8
Total assets	693,3	725,0	783,9	493,2	497,2
Share capital	102,0	102,0	102,0	102,0	102,0
Equity	317,5	289,0	313,2	284,3	279,4
Provisions	13,6	10,2	9,3	14,2	18,7
Non-current liabilities other than provisions	215,9	223,2	229,8	26,2	-
Current liabilities other than provisions	146,2	202,7	231,3	168,5	199,1
Financial ratios					
Operating margin	9,2%	2,2%	6,6%	1,4%	7,5%
Equity ratio	45,8%	39,9%	40,0%	57,6%	56,2%
Return on equity	16,9%	3,5%	8,8%	3,9%	16,5%
Average number of employees	447	453	425	432	439

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:

$$\text{Operating margin} = \frac{\text{Operating profit} \times 100}{\text{Revenue}}$$

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

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

Management's review

Operating review

Principal Hottinger Brüel & Kjær A/S activities

Hottinger Brüel & Kjær A/S 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 A/S is managed together with other affiliated companies as part of the global Hottinger Brüel & Kjær business unit also known as Spectris Dynamics in the Spectris group. The legal ownership of other affiliated companies lies elsewhere within Spectris plc.

Development in activities and financial Position

Total sales increased from DKK 728,2 million in 2022 to DKK 784,7 million in 2023, corresponding to 7,8%.

Revenue matched last year's expectation of improved sales performance due to the change in business activities. Profit before tax for the year was DKK 66,4 million compared to DKK 11,8 million in 2022.

The improved profit before tax for the year is mainly driven by increased sales thereby gross profit, and decentralizing project cost for HBK's new IT platform S4/Hana outside HBK A/S in 2023.

Equity amounts to DKK 317,5 million at the end of the year. The company's financial position remains strong with an equity ratio at 45,8%.

The 2023 result is considered to be satisfactory.

Research and development activities

Hottinger Brüel & Kjær A/S provides differentiated sensing, testing, modelling and simulation solutions to help customers accelerate their product innovation.

Hottinger Brüel & Kjær A/S provides its customers with a complete portfolio of solutions across the test and measurement product life cycle, that unite the physical world of sensors, testing and measurement with digital world of simulation, modelling software and analysis. By creating a scalable and open data acquisition hardware, software and simulation ecosystem, product developers can optimize time to market, drive innovation, and enhance their competitive edge in the global marketplace.

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 global 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 business risks, through several activities, addressing commercial, operational, and financial risks.

As Hottinger Brüel & Kjær A/S is part of Spectris Group our risk management approach is aligned with Group policy and procedures. We recognise that managing risk effectively is a requirement for achieving strategic objectives. In Spectris risk management forms an integral part of the day-to-day operations and the Group has a well-established process which delivers visibility and accountability for risk management across Spectris businesses. This process forms part of the Group's overall internal control framework.

Financial risks

Currency

Hottinger Brüel & Kjær A/S is exposed to currency risks via our exposures in various markets, primarily USD, GBP and JPY denominated risks. Currency risks are mitigated by using a combination of natural hedges and financial instruments. Hottinger Brüel & Kjær A/S uses Forward Exchange Contracts set up and managed by Group Treasury in Spectris Plc. 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 A/S adopts a prudent approach to credit control. Customers are credit rated continuously to mitigate debtor risks.

Management's review

Intellectual capital

All Hottinger Brüel & Kjær A/S employees are important contributors to the business – from developing a Hottinger Brüel & Kjær A/S product to implementing solutions for our customers. We focus on maintaining and developing our employees to ensure business continuity in our product development.

Environmental issues

Hottinger Brüel & Kjær A/S 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 Hottinger Brüel & Kjær A/S has committed itself to environmental responsibility to satisfy all the legal commitments in addition to the terms of our customers. The company is ISO 14001 accredited.

As Hottinger Brüel & Kjær A/S is a part of Spectris Group we are working on the same environmental agenda <https://www.spectris.com/sustainability-at-our-core/> - though we do not have our own version, it is planned from Spectris side to add an equivalent to our hbkworld.com website towards the end of 2024.

Outlook

Management expects a result for 2024 in line with 2023. We are expecting a gradual normalization of supply chain conditions and input cost adversities experienced in 2023. The estimates are influenced by the volatile market conditions and geopolitical situation that may further accelerate or decelerate geopolitical headwinds.

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 A/S is acutely aware of our role as a member of society at a local as well as at a global level. Hottinger Brüel & Kjær A/S consequently target 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 A/S follows the Corporate Social Responsibility related principles set out in the Spectris Code of Business Ethics (available for download at: <https://www.spectris.com/buiding-a-sustainable-business/ethical-business/>).

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.hbkworld.com/en/about/our-business/quality-management>

Hottinger Brüel & Kjær A/S 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 2023, pages 77 ff. The report is available for download at: <https://www.spectris.com/investors/annual-report/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/buiding-a-sustainable-business/>).

Goals and policies for the underrepresented gender

In Hottinger Brüel & Kjær A/S members of the Board of Directors and other management levels are chosen solely on the basis of their competences. The Board of Directors also recognizes and promotes the benefits of a diverse management group in respect of experience, 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 provides a diverse shortlist of qualified candidates. A similar requirement and procedure is implemented for internal recruitments.

Internal recruiters as well as external agencies are required to track and document their processes to secure 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 executive level (Board of Directors and Executive Board) was 50% (2 out of 4 members) in 2023.

Employee representatives are not included in the standard ratio calculation. The company is pleased the target of equal representation has been reached for this level.

Hottinger Brüel & Kjær A/S’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	2019	2020	2021	2022	2023	2024 (target)
Pct.	27%	23%	28%	31%	38%	>38%

The company remains committed to increase its underrepresented gender proportions and is increasing its focus on D&I specifically. The company’s achievement of 38% in 2023, as result of the Spectris Dynamics’ global reorganizing of the company workforce and operating model. Also supporting the path to Spectris’ overall 2030 target of 40%.

Hottinger Brüel & Kjær A/S statutory underrepresented gender policy is part of the Spectris sustainability strategy as described in section “Diversity & Inclusion” of the Spectris plc Annual Reports and accounts 2023 – also accessible at <https://www.spectris.com/sustainability-at-our-core/people/diversity-and-inclusion/>

Data Ethics

Hottinger Brüel & Kjær A/S 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 A/S currently progresses in deriving a joint data ethics policy in conjunction with other entities jointly forming the “HBK Platform”, which are domiciled in other EU member states.

We have in 2023 set up a HBK Data Ethics Policy and will continue the work with data ethics in accordance with 99d of the Danish Financial Statements Act and new legislation and recommendations going forward.

At Hottinger Brüel & Kjær A/S, we commit to using and processing data in an ethically acceptable way in all aspects of our business.

Data ethics goes beyond compliance with data privacy laws. We comply with all legal requirements but acknowledge and respect that our use of data (both personal data and non-personal data) may create risks for the users that applicable laws do not cover. We manage these risks by adhering to the principles described below.

Management's review

The purpose of this policy is to formalize Hottinger Brüel & Kjær A/S data ethics principles and describe how we wish to use and process data, making it clear to our customers, employees and other stakeholders that we are dedicated to these efforts.

Our data ethics principles

Hottinger Brüel & Kjær A/S data ethics principles derive from our corporate values centered around 'winning right – achieving the right results in the right way'.

We have identified three main principles which, together with Hottinger Brüel & Kjær A/S corporate values, work as Hottinger Brüel & Kjær A/S data ethical compass:

Transparency

Hottinger Brüel & Kjær A/S will provide transparency around the principles of storage, use, and processing of data to our employees, customers, and other stakeholders to ensure their continuing confidence in Hottinger Brüel & Kjær A/S. We ensure that our data ethics principles remain clear, understandable, and easily accessible.

Integrity

Integrity in data use and processing for Hottinger Brüel & Kjær A/S is about prioritizing safety and caretaking of those people whom our solutions and internal processes affect. Thus, our use and processing of data may never compromise the fundamental rights, freedom and safety of an individual.

Accountability

All data collection involves human decisions. We strive to implement mechanisms to control the context in which data is collected, the systems that are used for data processing, and the methods for ensuring data quality. We acknowledge that data and systems can be misused or used for unintended purposes. We assess and document permissible use of our data and systems and take measures to avoid impermissible use.

Governance

Each year we will account for this policy in accordance with section 99d of the Danish Financial Statements Act.

Events after the balance sheet date

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

Income statement

DKK'000	Note	2023	2022
Revenue	2	784,719	728,175
Production costs		-315,115	-285,003
Gross profit		469,604	443,172
Other operating income/loss		-9,106	504
Other external costs		-83,310	-148,146
Staff costs	4	-279,739	-253,672
Depreciations and impairments	15	-25,401	-25,808
Operating profit		72,048	16,050
Financial income	3	1,554	2,910
Financial expenses	8	-7,169	-7,203
Profit for the year before tax		66,433	11,757
Tax on profit for the year	9	-13,944	-1,115
Profit for the year	10	52,489	10,642

Balance sheet

DKK'000	Note	2023	2022
ASSETS			
Fixed assets			
Intangible assets			
Software	5	13,593	2,981
Research & Development assets		9,318	11,125
		<u>22,911</u>	<u>14,106</u>
Property, plant and equipment			
Production plant and machinery	6	8,198	10,280
Fixtures and fittings, tools and equipment		12,789	13,952
Property, plant and equipment under construction		2,009	11,257
Leasehold improvements		40,530	40,616
		<u>63,526</u>	<u>76,105</u>
Right of use assets	7	206,413	217,702
Total fixed assets		<u>292,850</u>	<u>307,913</u>
Current assets			
Inventories			
Raw materials and consumables		87,761	83,911
Goods in progress		22,660	19,204
Finished goods and consumables		57,936	56,169
		<u>168,357</u>	<u>159,284</u>
Receivables			
Trade receivables		37,299	68,678
Receivables from affiliates		158,049	147,271
Other receivables		15,203	26,461
Prepayments	11	21,512	15,411
		<u>232,063</u>	<u>257,821</u>
Total current assets		<u>400,420</u>	<u>417,105</u>
TOTAL ASSETS		<u>693,270</u>	<u>725,018</u>

Balance sheet

DKK'000	Note	2023	2022
EQUITY AND LIABILITIES			
Equity			
Share capital	12	102,000	102,000
Reserve for development expenditure		7,268	8,678
Fair value reserve		481	-196
Retained earnings		157,778	168,471
Ordinary dividends proposed		50,000	10,000
Total equity		317,527	288,953
Provisions			
Deferred tax	13	8,591	5,796
Other provisions	14	5,010	4,410
Total provisions		13,601	10,206
Non-current liabilities other than provisions			
Lease liabilities	7	215,930	223,155
Total non-current liabilities other than provisions		215,930	223,155
Current liabilities other than provisions			
Lease liabilities	7	7,077	6,575
Amount owned to affiliates		17,981	37,204
Prepayments from customers		4,029	29,545
Trade payables		42,105	70,416
Other payables		64,826	48,755
Deferred income		10,194	10,209
Total current liabilities other than provisions		146,212	202,704
Total liabilities other than provisions		362,142	425,859
TOTAL EQUITY AND LIABILITIES		693,270	725,018
Accounting Policies	1		
Contractual obligations, contingencies etc.	16		
Financial instruments	17		
Related parties	18		
Subsequent events	19		

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 1 st January	102,000	8,678	-196	168,471	10,000	288,953
Effect of change in accounting policies	-	-	-	439	-	439
Value adjustment of forward exchange contracts	-	-	868	-	-	868
Tax on equity transactions	-	-	-191	-	-	-191
Currency adjustment of branch	-	-	-	-31	-	-31
Dividend paid	-	-	-	-15,000	-10,000	-25,000
Transfer	-	-1,410	-	1,410	-	-
Profit/loss for the year	-	-	-	2,489	50,000	52,489
Equity end of year	102,000	7,268	481	157,778	50,000	317,527

The Board of Directors recommends the General Assembly to approve dividends for the fiscal year 2023 of DKK 50 million to be distributed.

Notes

1 Accounting policies

The Annual Report of Hottinger Brüel & Kjær A/S for 2023 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

The annual report has been presented applying 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 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

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 A/S 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)

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. Software are written down to the lower of recoverable amount and carrying amount.

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:

Production plant and Machinery	10 years
Fixtures and fittings, tools and equipment	3-10 years
Land and building leases	20 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

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 straight-line 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 30 years whereas leases of cars normally have a lease term up to 3 years.

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.

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.

Notes

1 Accounting policies (continued)

Inventories

Inventories are measured at cost in accordance with weighted-average method. Where the net realisable value is lower than cost, inventories are written down to this lower value. The net realisable value of inventories is calculated as the sales amount less costs of completion and expenses required to effect the sale and is determined taking into account marketability, obsolescence and development in the expected selling price.

The cost of raw materials and consumables comprises the cost of acquisition plus delivery costs.

The cost of finished goods and work in progress includes the cost of raw materials, consumables, direct labour and indirect production overheads.

Indirect production overheads include the indirect cost of material and labour as well as maintenance and depreciation of production machinery, buildings and equipment and expenses relating to plant administration and management.

Notes

1 Accounting policies (continued)

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 fiscal 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.

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.

Notes

DKK'000

2023 2022

2 Revenue		
Domestic	25,820	29,754
Foreign	758,899	698,421
	<u>784,719</u>	<u>728,175</u>

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 are considered sensitive market information.

3 Financial income		
Interest income, other	1,554	395
Exchange rate gain	0	2,515
	<u>1,554</u>	<u>2,910</u>

4 Staff costs		
Wages and salaries	308,298	275,211
Pensions	21,996	18,361
Social security costs	3,547	3,227
Other staff costs	8,164	7,714
	<u>342,005</u>	<u>304,513</u>
Wages related to the construction of plant and machinery and indirect production overheads on inventories	-62,266	-50,841
	<u>279,739</u>	<u>253,672</u>
Average number of employees	<u>447</u>	<u>453</u>

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 A/S 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 fiscal year, no share options have been exercised by the Executive Board under this programme. In 2023 4,000 share options were exercised. Share options granted in 2023 amount to DKK 942 thousand (2022: DKK 956 thousand).

Staff costs comprise remuneration, pension, bonus plan and company car for the Executive Board totaling DKK 6,774 thousand (2022: DKK 5,917 thousand).

5 Intangible assets

	Software	R&D assets	Total
Cost at 1 January 2023	57,238	18,063	75,301
Additions	11,533	-	11,533
Disposals	-5,614	-	-5,614
Cost at 31 December 2023	63,157	18,063	81,220
Depreciation and impairment at 1 January 2023	54,257	6,938	61,195
Depreciation and impairment	921	1,807	2,728
Disposals	-5,614	-	-5,614
Depreciation and impairment at 31 December 2023	49,564	8,745	58,309
Carrying amount at 31 December 2023	13,593	9,318	22,911
Depreciation period	3-5 years	10 years	-

The additions of DKK 11.5m mainly related to Project Switch and relates to Salesforce CRM. Project Switch are vital to the digital journey of HBK and have demonstrated promising outcome. There are no indications for impairment considerations.

Notes

DKK'000

6 Property, plant and equipment

	Production plant and machinery	Fixtures, fittings, tools and equipment	Property, plant and equipment under construction	Leasehold improve- ments	Total
Cost at 1 January 2023	66,293	37,631	11,257	43,000	158,181
Transfers	-	-	-12,137	-	-12,137
Additions	1,205	5,107	2,889	2,845	12,046
Disposals	-15,454	-12,065	-	-801	-28,320
Cost at 31 December 2023	52,044	30,673	2,009	45,044	129,770
Depreciation and impair- ment at 1 January 2023	56,013	23,679	-	2,384	82,076
Transfers	-	-	-	-	-
Depreciation	2,961	6,207	-	2,216	11,384
Disposals	-15,128	-12,001	-	-87	-27,216
Depreciation and impair- ment at 31 December 2023	43,846	17,885	-	4,513	66,244
Carrying amount at 31 December 2023	8,198	12,788	2,009	40,531	63,526
Depreciation period	10 years	3-10 years	-	20 years	-

Notes

DKK'000

7 Leases

Right of use assets

	Buildings	Cars	Total Right of use assets
Cost at 1 January 2023	232,628	65	232,693
Disposals	-	-65	-65
Cost at 31 December 2023	232,628	0	232,628
Depreciation and impairment at 1 January 2023	14,926	65	14,991
Depreciation	11,289	-	11,289
Disposals	-	-65	-65
Depreciation and impairment at 31 December 2023	26,215	0	26,215
Carrying amount at 31 December 2023	206,413	0	206,413
Depreciation period	20 years	1-2 years	

Lease Liabilities

	Buildings	Cars	TOTAL
Lease liabilities fall due as follows:			
Within 1 year	7,077	0	7,077
Between < 1 and > 5 years	33,137	0	33,137
More than 5 years	182,793	0	182,793
TOTAL	223,007	0	223,007

Notes

DKK'000	2023	2022
8 Financial expenses		
Interest expenses, group companies	43	62
Interest expenses, leases	6,620	6,738
Exchange rate losses	84	0
Other financial costs	422	403
	<u>7,169</u>	<u>7,203</u>
9 Tax on profit for the year		
Joint taxation contribution	11,952	0
Adjustment of tax relating to previous years	-1,065	-60
Deferred tax for the year	3,057	1,175
	<u>13,944</u>	<u>1,115</u>
Specification of tax on profit for the year		
Current tax/joint taxation contribution	11,149	0
Deferred tax	2,795	1,115
	<u>13,944</u>	<u>1,115</u>
Tax recognition		
Tax on profit for the year	13,944	1,115
Tax on equity movements	-136	55
	<u>13,808</u>	<u>1,170</u>
10 Proposed distribution of profit		
Ordinary dividends proposed	50,000	10,000
Retained earnings	2,489	642
	<u>52,489</u>	<u>10,642</u>

Notes

DKK'000

	2023	2022
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11 Prepayments

Prepaid software-licenses	20,859	14,411
Other	653	1,000
	21,512	15,411

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

Deferred tax at 1 January	5,796	4,912
Adjustment for previous year(s)	-262	-346
Adjustment for the year	3,057	1,230
Deferred tax at 31 December	8,591	5,796

Provision for deferred tax relate to:

Intangible assets	5,040	3,103
Manufacturing equipment	-2,506	-1,932
Leasing	-3,651	-2,646
Current assets	5,851	4,802
Provisions	3,857	3,170
Losses carried forward	0	-701
Deferred tax at 31 December	8,591	5,796

14 Other provisions

Warranty provision at 31 December	5,010	4,410
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The warranty provision covers expected costs to be incurred for products already sold and is expected to be used in full within one year.

Notes

DKK'000

	2023	2022
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15 Depreciation and impairment

Intangible assets	2,728	2,675
Property, plant, and equipment	11,384	11,888
Reversal of impairment	0	24
Right of use assets	11,289	11,221
	25,401	25,808

16 Contractual obligations, contingencies etc

Obligations regarding guarantees made for customers amount to DKK 7,831 thousand (2022: DKK 12,908 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.

17 Financial instruments

		2023		2022		
		Con- tract value	(Gain) and loss recognised in equity	Period	Con- tract value	(Gain) and loss recognised in equity
Currency	Period	38,751	616	0–12 months	30,380	273
DKK/JPY	0–12 months	0	0	0–12 months	33	-21
GBP/DKK	0–12 months	38,751	616	30,413	252	
		38,751	616	30,413	252	

Notes

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 2023 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	-	359,621
Intercompany cost of goods sold	-	42,294
IT & Management Recharges	-72,488	152,427
Employee & Other Recharge	12,530	36,902
Interest	-1,137	-
Intercompany receivables - net	55,355	78,799

19 Subsequent events

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