



Emerson Climate Technologies - Transportation Solutions ApS

Boeletvej 1
8680 Ry
Denmark

CVR no. 34 46 55 25

Annual report 2019/20

The annual report was presented and approved at the
Company's annual general meeting on

26 February 2021

John Edwin Rhodes
chairman

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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 of Emerson Climate Technologies - Transportation Solutions ApS for the financial year 1 October 2019 – 30 September 2020.

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

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 30 September 2020 and of the results of the Company's operations for the financial year 1 October 2019 – 30 September 2020.

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

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

Skanderborg, 26 February 2021
Executive Board:

Kenneth Peter Cordes

Board of Directors:

John Edwin Rhodes
Chairman

Scott Timothy Kieffer

Edward Mc Kiernan

Kenneth Peter Cordes



Independent auditor's report

To the shareholder of Emerson Climate Technologies - Transportation Solutions ApS

Opinion

We have audited the financial statements of Emerson Climate Technologies - Transportation Solutions ApS for the financial year 1 October 2019 – 30 September 2020 comprising 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 assets, liabilities and financial position at 30 September 2020 and of the results of the Company's operations for the financial year 1 October 2019 – 30 September 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 users made on the basis of these financial statements.

Independent auditor's report

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.



Independent auditor's report

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 Statements Act. We did not identify any material misstatement of the Management's review.

Aarhus, 26 February 2021

KPMG

Statsautoriseret Revisionspartnerselskab

CVR no. 25 57 81 98

Mikkel Trabjerg Knudsen
State Authorised
Public Accountant
mne34459

Emerson Climate Technologies - Transportation Solutions ApS
Annual report 2019/20
CVR no. 34 46 55 25

Management's review

Company details

Emerson Climate Technologies - Transportation Solutions ApS
Boeletvej 1
8680 Ry
Denmark

Telephone: +45 7023 4444
Website: www.emerson.com

CVR no.: 34 46 55 25
Established: 23 March 2012
Registered office: Skanderborg
Financial year: 1 October – 30 September

Board of Directors

John Edwin Rhodes, Chairman
Scott Timothy Kieffer
Edward Mc Kiernan
Kenneth Peter Cordes

Executive Board

Kenneth Peter Cordes

Auditor

KPMG
Statsautoriseret Revisionspartnerselskab
Bredskifte Allé 13
DK-8210 Aarhus V
Denmark

Management's review

Financial highlights

DKK'000	2019/20	2018/19	2017/18	2016/17	2015/16
Key figures					
Gross profit/loss	-22,658	17,108	14,241	8,839	23,422
Operating loss	-51,999	-10,098	-10,531	-15,699	-2,514
Profit/loss from financial income and expenses	-1,364	-7,618	-5,136	6,393	-2,351
Loss for the year	-41,623	-13,818	-10,465	-7,236	-7,029
Current assets	49,590	41,124	51,022	46,395	56,267
Total assets	163,795	183,484	219,782	234,798	262,722
Equity	36,765	78,368	92,185	102,652	109,888
Current liabilities other than provisions	102,435	74,806	90,731	100,107	125,582
Investment in property, plant and equipment	473	432	277	115	1,262
Ratios					
Return on invested capital	-29.9%	-5.0%	-4.6%	-6.3%	-0.8%
Current ratio	48.4%	55.0%	56.2%	46.3%	44.8%
Return on equity	-72.3%	-16.2%	-10.7%	-6.8%	-6.2%
Solvency ratio	22.4%	42.7%	41.9%	43.7%	41.8%
Average number of full-time employees	34	38	41	47	49

The financial ratios have been calculated as follows:

Return on invested capital	$\frac{\text{Operating profit/loss} \times 100}{\text{Average invested capital}}$
Current ratio	$\frac{\text{Current assets} \times 100}{\text{Current liabilities}}$
Return on equity	$\frac{\text{Profit/loss after tax} \times 100}{\text{Average equity}}$
Solvency ratio	$\frac{\text{Equity at year end} \times 100}{\text{Total equity and liabilities at year end}}$

Management's review

Operating review

Principal activities

Emerson Climate Technologies – Transportation Solutions ApS (the Company) provides monitoring solutions, electronics, and communications to the transportation industry within the cold chain. Products and offerings include refrigerated container (reefer) controls, boiler system controls, remote monitoring modems and refrigerated container monitoring solutions for containers, including usage on board container vessel and in-ship terminals. The Company operates within a broader Emerson entity with shared services and broadly linked solutions offerings across the entire cold chain. The Company leverages technology and expertise developed in-house as well as across the cold chain business to safeguard food through every part of its life cycle. The cold chain solutions include electronics and hardware, as well as compressors and enterprise solutions that ensure full cold chain data availability, analysis, and insight.

Development in activities and financial position

The income statement of the Company for 2020 shows a loss of DKK 41,623 thousand, and at 30 September 2020 equity stood at DKK 36,765 thousand. The loss for the year is negatively impacted by the restructuring of the business. Refer to section for unusual circumstances for more information.

The global marine transportation market grew modestly from the lows in 2017 and 2018, increasing year over year by just over 4%. The COVID-19 pandemic created some early uncertainty as shipping lines decided to delay buy decisions for new refrigerated containers. Additionally, shipping rate volatility in FY20 continued to pressure shipping lines' profitability, driving challenging negotiations with customers and the entire supply chain. The Company maintains two main channels to market: OEM (Original Equipment Manufacturer) customers of shipping lines / Terminals and direct to End-Users which in many cases are the same shipping lines and terminals as the OEM customer.

The shipping industry is in the midst of adopting new technologies to enable more cost-effective operations as well as to provide more value added services to their customers. The industry is conservative when addressing change, and adoption of technology has been slower than expected. The Company has invested significantly in recent years ahead of the industry adoption to ensure that it is well positioned among competitors to help the industry be successful. The Company has seen closer engagement with end user customers, but commitments to adopt solutions have been slower. This affected the results for the year, coming in at a total loss for 2019/20 of DKK 41,623 thousand. Management of the organization considers the loss unsatisfactory, however, in the context of the above mentioned restructuring as well as the investment in the long-term strategy of the business, the loss is not unexpected and the primary business results are in line with expectations and therefore, it is found to be acceptable.

The strategy includes a continued investment in new product development that meets the technological needs of the customers. The containerized reefer trade is expected to continue growing and, along with the technology evolution that is taking place, will drive future demands for container builders and solutions providers and is a space where the Company is in a strong position to participate.

The Company has received letter of support from its Parent entity to support the continuing operations and financing requirement in 2020/21.

Management's review

Operating review

New products

Being a part of the broader Emerson group of companies, the Company has the opportunity to continuously manage a broad pipeline of new product development activities. The company launched updated versions of wireless communications products directed at the end-user market, enabling operating cost reductions in both shipping terminals and vessels. The updated product offering has been generating sales and is forecasted to continue to grow through the 5-year strategic planning period. Over the coming years, Management expects significant sales for this product as part of the vision towards cloud based remote monitoring of refrigerated freight. Further, developments will continue into the future to meet the ever-changing technology needs of the shipping lines. Subscription based models that include a recurring revenue are in a particular development focus and represent the investments made currently to pay returns in future years.

Unusual circumstances

The Company went through a major restructuring during the financial year in order to streamline operations. It was announced in February 2019 that the Company would be hiring additional resources to support the ongoing development and consolidation of operations, leading to an improvement in long term profitability. Part of that plan included relocating out of the office in Aarhus to an Emerson-owned building in Ry.

The restructuring was part of a broader effort at the Emerson group level. The restructuring effort is expected to lead to a more profitable structure of the business, where the Company can take advantage of centers of excellence for support, development and services, and continue the high level of investment of and focus in the end-user segment of software and monitoring solutions.

The current year's loss is negatively impacted by restructuring expenses in a total of DKK 21.2 million. This circumstance deviates from the primary business. For specification of the recognition of unusual circumstances refer to note 2 of the financial statements.

Uncertainty regarding recognition and measurement

Due to the negative results that have been realised in 2019/20 and the restructuring of the business, Management has assessed that there are indications of impairment. Consequently, an impairment test has been performed, which shows that there is no need for an impairment write-down of the recognised intangible assets. Management refers to note 19 for a more detailed description of the main assumptions used in the impairment test and the related uncertainty.

Outlook

The COVID-19 pandemic creates a certain level of risk to the global economy. However, the impact in FY20 was not as great as originally feared and therefore, it provides a smaller risk looking forward.

The global reefer fleet is expected to expand in the coming years, projected at a 4.5% GAGR (Compound Average Growth Rate). Main drivers are the global economy growth and demand for refrigerated cargo, and the ongoing trend of containerization where demand moves away from specialized reefer transport to conventional reefer box transport. Further, previous surges in reefer market expansion are expected to drive a replacement volume as current reefer fleets in the field will be obsolete within the coming years. As the market recovers, there will be opportunity for the introduction of new products and services.

The adoption of new technology is entering the growth stage and will potentially radically transform the utility and value of shipping container assets by making them smart. The smart reefer is a core trend that is emerging within the reefer industry and will drive significant growth in demand in the coming year. This market is expected to grow rapidly over the coming years where it is projected that over 80% of all reefers

Management's review

Operating review

will be data enabled by 2023.

Results for financial year 2021 is expected to be a profit in the range of DKK 1-2 million.

Intellectual capital

The Company possesses very large technical and application knowledge within its business areas. Knowledge and know-how has been built over many years. Furthermore, the background, education, and experience of the employees are essential for the intellectual capital of the Company.

The right combination of education and expertise within the employee group is therefore critical. Documenting the existing domain knowledge and know-how in the Company is vital to the overall success of the business. The performance of the individual employee related to the agreed objectives is therefore subject to ongoing evaluation.

Operating risks

The general risks are related to the global development in investments and operation of refrigerated sea containers, due to the strong dependency on the global operation of the container shipping lines. Within container controls and boiler controls, the Company is additionally strongly influenced by the development of a few significant key customers.

Financial risks

The Company does not carry any cash pool liabilities nor any floating-rate interest in foreign currencies and therefore, the risks are minimized to risks on trade sales.

Currency risks

Since export sales account for a considerable part of the revenue, the Company is exposed to certain foreign exchange rate risks, primarily fluctuations in the USD rate. These risks occur associated with trade sales and therefore can be managed on a case by case basis. Further, the Emerson Corporate Treasury function provides guidance on exchange risks and positions to allow the Company to minimize risk.

Credit risks

It is company policy to always ensure payments from external customers via bank guarantees, documentary credits, or regular credit rating of the customer.

Environmental issues

The Company applies to current environmental regulations for handling packaging and scrapped electronic items.

The entity follows the group principles on environmental matter, which can be obtained through Emerson Electric Co's website:

<https://www.emerson.com/documents/corporate/2019-emerson-corporate-social-responsibility-report-en-us-6594742.pdf#page=74>

Management's review

Operating review

Research and development activities

The Company has developed a deeper pipeline of products through an effective business development and marketing effort. The Company has developed a suite of enterprise software services, called ProAct. These services are focused on reducing customers' operating expenses on refrigerated containers by applying analytics to data collected from the containers. This work is in conjunction with a number of Emerson entities globally, including Xian, China, Kennesaw, US, and Sidney, US. In order to meet technical requirements of ProAct Transport, the Company is developing new wireless hardware devices to support the communication and data flow to the ProAct Transport applications.

Events after the balance sheet date

No events have occurred after the balance sheet date that may influence the assessment of the annual report for 2019/20.

Financial statements 1 October – 30 September

Income statement

DKK'000	Note	2019/20	2018/19
Gross profit/loss	2, 3, 4	-22,658	17,108
Distribution costs	2, 3	-8,163	-7,945
Administrative expenses	2, 3	-21,178	-19,261
Operating loss		-51,999	-10,098
Other financial income	5	0	33
Other financial expenses	6	-1,364	-7,651
Loss before tax		-53,363	-17,716
Tax on loss for the year	7	11,740	3,898
Loss for the year	8	-41,623	-13,818

Financial statements 1 October – 30 September

Balance sheet

DKK'000	Note	30/9 2020	30/9 2019
ASSETS			
Fixed assets			
Intangible assets			
	9		
Completed development projects		19,390	15,171
Other intangible assets		23,754	37,355
Goodwill		69,986	80,753
Development projects in progress		0	6,580
		<u>113,130</u>	<u>139,859</u>
Property, plant and equipment			
	10		
Plant and machinery		902	756
Fixtures and fittings, tools and equipment		173	1,745
		<u>1,075</u>	<u>2,501</u>
Total fixed assets		<u>114,205</u>	<u>142,360</u>
Current assets			
Inventories			
Raw materials and consumables		11,955	7,469
Work in progress		91	0
Finished goods and goods for resale		10,679	6,425
Prepayments for goods		334	1,500
		<u>23,059</u>	<u>15,394</u>
Receivables			
Trade receivables		17,083	22,889
Receivables from group entities		655	498
Other receivables		2,940	1,869
Corporation tax, joint taxation		5,359	0
Prepayments	11	494	474
		<u>26,531</u>	<u>25,730</u>
Total current assets		<u>49,590</u>	<u>41,124</u>
TOTAL ASSETS		<u><u>163,795</u></u>	<u><u>183,484</u></u>

Financial statements 1 October – 30 September

Balance sheet

DKK'000	Note	30/9 2020	30/9 2019
EQUITY AND LIABILITIES			
Equity			
Contributed capital	12	80	80
Reserve for development costs		15,124	16,966
Retained earnings		<u>21,561</u>	<u>61,322</u>
Total equity		<u>36,765</u>	<u>78,368</u>
Provisions			
Provisions for deferred tax		23,094	29,474
Other provisions		<u>1,501</u>	<u>836</u>
Total provisions		<u>24,595</u>	<u>30,310</u>
Liabilities other than provisions			
Current liabilities other than provisions			
Banks		1	0
Prepayments received from customers		2,593	4,025
Trade payables		27,345	20,075
Payables to group entities		51,856	28,631
Corporation tax		0	1,680
Other payables		15,192	15,695
Deferred income		<u>5,448</u>	<u>4,700</u>
		<u>102,435</u>	<u>74,806</u>
Total liabilities other than provisions		<u>102,435</u>	<u>74,806</u>
TOTAL EQUITY AND LIABILITIES		<u>163,795</u>	<u>183,484</u>
Disclosure of unusual circumstances	2		
Contractual obligations, contingencies, etc.	16		
Mortgages and collateral	17		
Related party disclosures	18		
Uncertainty regarding recognition and measurement	19		

Financial statements 1 October – 30 September

Statement of changes in equity

DKK'000	Contributed capital	Reserve for development costs	Retained earnings	Total
Equity at 1 October 2019	80	16,966	61,342	78,388
Transfers, reserves	0	-1,842	1,842	0
Transferred over the distribution of loss	0	0	-41,623	-41,623
Equity at 30 September 2020	80	15,124	21,561	36,765

Financial statements 1 October – 30 September

Notes

1 Accounting policies

The annual report of Emerson Climate Technologies - Transportation Solutions ApS for 2019/20 has been prepared in accordance with the provisions applying to reporting class C medium-sized entities under the Danish Financial Statements Act.

The accounting policies used in the preparation of the financial statements are consistent with those of last year.

Omission of cash flow statement

Pursuant to section 86(4) of the Danish Financial Statements Act, no cash flow statement has been prepared. The Company's cash flows are included in the cash flow statement in the consolidated financial statements of Emerson Electric Co.

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 the date of payment are recognised in the income statement as financial income or financial expenses.

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

Income statement

Gross profit/loss

Pursuant to Section 32 of the Danish Financial Statements Act, the Company has decided only to disclose gross profit/loss.

Revenue

When sales contracts that consist of several separate components are concluded, the contract amount is allocated by the individual components based on the relative fair value approach. The separate components are recognised as revenue when the criteria applicable to the sale of goods and services have been met.

A contract is allocated by the individual components when the fair value of these individual components can be reliably measured and when each component represents a separate value to the buyer. Sales components are deemed to represent a separate value to the buyer when the component is individually identifiable and is normally sold separately.

Revenue is measured at fair value of the agreed consideration ex. VAT and taxes charged on behalf of third parties. All discounts granted are recognised in revenue.

Financial statements 1 October – 30 September

Notes

1 Accounting policies (continued)

Income from the sale of goods for resale and finished goods is recognised in revenue when transfer of the most significant rewards and risks to the buyer has taken place and provided that the income can be reliably measured and payment is expected to be received. The date of the transfer of the goods relies on standard terms of delivery based on Incoterms® 2010.

Income from the sale of services, comprising service contracts, is recognised in revenue on a straight-line basis as delivered as the services are delivered in the form of an indefinite number of actions over a specific period of time.

Production costs

Production costs comprise costs, including depreciation, amortisation, wages and salaries, incurred to generate revenue for the year. Commercial entities recognise their cost of sales, whereas production entities recognise production costs incurred to generate revenue for the year. Such costs include direct and indirect costs for raw materials and consumables, wages and salaries, rent and leases and depreciation of production plant.

Production costs also comprise research and development costs that do not qualify for capitalisation and amortisation of capitalised development costs, other intangible assets and goodwill.

Distribution costs

Costs incurred in distributing goods sold during the year and in conducting sales campaigns, etc. during the year are recognised as distribution costs. Also, costs relating to sales staff, advertising, exhibitions and depreciation are recognised as distribution costs.

Administrative expenses

Administrative expenses comprise expenses incurred during the year for management and administration of the Group, including expenses for administrative staff, Management, office premises, office expenses and depreciation.

Financial income and expenses

Financial income and expenses comprise interest income and expense, gains and losses on payables and transactions denominated in foreign currencies, as well as surcharges and refunds under the on-account tax scheme, etc.

Tax on loss for the year

The Company is covered by Danish legislation on compulsory joint taxation.

The affiliated company, Damcos Holding A/S, is the administrative company for the joint taxation and consequently settles all payments of Danish corporation tax to the tax authorities.

Current Danish corporation tax is allocated through the payment of joint taxation contributions between the jointly taxed companies in proportion to their taxable income. Accordingly, the companies with tax losses receive joint taxation contributions from companies that have been able to use the losses to reduce their own taxable profit.

Financial statements 1 October – 30 September

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1 Accounting policies (continued)

Tax for the year comprises current tax for the year and changes in deferred tax. 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 assets

Development projects

Development costs comprise costs, wages, salaries and amortisation directly and indirectly attributable to development activities.

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

Development costs recognised in the balance sheet are measured at cost less accumulated amortisation and impairment losses.

Upon completion of development work, development costs are amortised on a straight-line basis over the estimated useful lives. The amortisation period is usually 3-5 years, which is fixed on the basis of experience gained by Management and longest for strategically acquired projects.

Other intangible assets

Other intangible assets comprise trademarks, customer relationships, non-competition agreements and backlog acquired in corporate acquisition and are measured at cost less accumulated amortisation and impairment losses. Other intangible assets are amortised on a straight-line basis over the expected useful life to match the expected earnings profile.

Expected useful lives are fixed on the basis of experience gained by Management. The expected useful lives are as follow:

Acquired patents	8-14 years
Software	3-5 years
Trademarks	11 years
Customer relationships	10-11 years
Non-competition agreements	1-3 year

Goodwill

Acquired goodwill is measured at cost less accumulated amortisation and impairment losses. Goodwill is amortised on a straight-line basis over 15 years, thus matching the expected earnings profile.

The useful life and residual value for intangible assets are reassessed annually. Changes are treated as accounting estimates, and the effect on depreciation is recognised prospectively.

Financial statements 1 October – 30 September

Notes

1 Accounting policies (continued)

Property, plant and equipment

Plant and machinery and fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date on which 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.

Where individual components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items, which are depreciated separately.

The basis of depreciation is cost less any projected residual value after the end of the useful life. Depreciation is provided on a straight-line basis over the estimated useful life. The estimated useful lives are as follows:

Plant and machinery	5-10 years
Fixtures and fittings, tools and equipment	3-10 years

The useful life and residual value are reassessed annually. Changes are treated as accounting estimates, and the effect on depreciation is recognised prospectively.

Depreciation is recognised in the income statement as production costs, distribution costs and administrative expenses, respectively.

Gains and losses on the disposal of property, plant and equipment are stated 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.

Impairment of fixed assets

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

Impairment tests are conducted of 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 forecast net cash flows from the use of the asset or the group of assets, including forecast net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

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.

Financial statements 1 October – 30 September

Notes

1 Accounting policies (continued)

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 the maintenance of depreciation of production machinery, buildings and equipment as well as factory administration and management. Borrowing costs are not included 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 selling price.

Receivables

Receivables are measured at amortised cost.

Write-down is made for bad debt losses where there is an objective indication that a receivable has been impaired. If there is an objective indication 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 of receivables and the present value of forecast cash flows, including the realisable value of any collateral received. The effective interest rate for the individual receivable is used as discount rate.

Prepayments

Prepayments comprise prepayment of costs incurred relating to subsequent financial years.

Equity

Dividends

The expected dividends payment for the year is disclosed as a separate item under equity.

Reserve for development costs

The reserve for development costs comprises capitalised development costs. The reserve cannot be used for dividends, distribution or to cover losses. If the recognised development costs are sold or in other ways excluded from the Company's operations, the reserve will be dissolved and transferred directly to the distributable reserves under equity. If the recognised development costs are written down, the part of the reserve corresponding to the write-down of the developments costs will be reversed. If a write-down of development costs is subsequently reversed, the reserve will be re-established. The reserve is reduced by amortisation of capitalised development costs on an ongoing basis.

Corporation tax and deferred tax

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.

Joint tax contribution liabilities and receivables are recognised in the balance sheet as "Corporation tax liability" or "Corporation tax receivable".

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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 value of assets and liabilities. However, deferred tax is not recognised on temporary differences relating to goodwill which is not deductible for tax purposes and other items where temporary differences arise at the date of acquisition without affecting either profit/loss for the year or taxable income. Where alternative 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 is measured in accordance with the tax rules and at the tax rates applicable in the respective countries at the balance sheet date when the deferred tax is expected to crystallise as current tax.

Provisions

Other provisions comprise anticipated costs related to 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 of one to five years. Provisions for warranties are measured at net realisable value and recognised based on past experience.

Liabilities other than provisions

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

Other liabilities are measured at amortised cost, which usually corresponds to nominal value.

Deferred income

Deferred income comprises advance invoicing regarding income in subsequent years.

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2 Disclosure of unusual circumstances

Unusual circumstances comprise significant income and expenses, which have an unusual character compared with the primary business and regular operational activities. Unusual circumstances normally relate to expenses connected to restructuring of businesses, etc. Unusual circumstances include expenses of a significant one-off character.

The Company went through a major restructuring during the financial year in order to streamline operations. It was announced in February 2020 that the Company would be hiring additional resources to support the ongoing development and consolidation of operations leading to an improvement in long-term profitability. Part of that plan included relocating out of the office in Aarhus to an Emerson-owned building in Ry. The restructuring was part of a broader effort at the Emerson group level. The restructuring effort is expected to lead to a more profitable structure of the business, where the Company can take advantage of centers of excellence for support, development and services, and continue the high level of investment of and focus in the end user segment of software and monitoring solutions.

As noted in the Management's review, the current year's loss is negatively impacted by restructuring expenses in a total of DKK 21.2 million. Specification of the recognition of unusual circumstances can be specified as follows:

DKK'000	<u>2019/20</u>	<u>2018/19</u>
Production expenses		
Wages, salaries and termination of rental lease	11,114	0
Distribution costs		
Wages and salaries	2,710	0
Administrative expenses		
Wages, salaries and termination of rental lease	<u>7,361</u>	<u>0</u>
Result of unusual circumstances, net	<u><u>21,185</u></u>	<u><u>0</u></u>

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3 Staff costs

	<u>2019/20</u>	<u>2018/19</u>
Staff costs		
Wages and salaries	26,788	24,622
Pensions	1,786	1,958
Other social security costs	<u>252</u>	<u>242</u>
	<u>28,826</u>	<u>26,822</u>
Average number of full-time employees	<u>34</u>	<u>38</u>
Staff costs are recognised in the financial statements as:		
Production	18,735	16,942
Distribution	3,009	2,866
Administration	<u>7,082</u>	<u>7,014</u>
	<u>28,826</u>	<u>26,822</u>

In accordance with section 98b (3) of the Danish Financial Statements Act, remuneration of the Board of Directors and Executive Board is not disclosed.

The remuneration policy is described below.

Remuneration of the executive directors and key management personnel is based on a fixed salary, cash bonus payments and non-monetary benefits such as company car, telephone, etc.

The bonus program is based on a on-target performance payout and will be assessed on an annual basis. The bonus is measured through a matrix of performance.

Remuneration is applicable for the executive directors, management personnel and key officer personnel.

4 Depreciation and amortisation

Depreciation and amortisation of intangible assets and property, plant and equipment are recognised in the financial statements as follows:

Intangible assets

Production	<u>28,803</u>	<u>31,390</u>
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Property, plant and equipment

Production	<u>878</u>	<u>870</u>
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Financial statements 1 October – 30 September

Notes

DKK'000	2019/20	2018/19			
5 Other financial income					
Interest income from group entities	0	33			
6 Other financial expenses					
Interest expense to group entities	104	3,100			
Other financial costs	1,260	4,551			
	1,364	7,651			
7 Tax on loss for the year					
Current tax for the year	-5,412	1,660			
Deferred tax for the year	-6,380	-5,480			
Adjustment of tax concerning previous years	52	-78			
	-11,740	-3,898			
8 Proposed distribution of loss					
Retained earnings	-41,623	-13,818			
9 Intangible assets					
DKK'000	Completed development projects	Other intangible assets	Goodwill	Development projects in progress	Total
Cost at 1 October 2019	21,806	180,145	161,466	6,580	369,997
Additions for the year	2,074	0	0	0	2,074
Transfers for the year	6,580	0	0	-6,580	0
Cost at 30 September 2020	30,460	180,145	161,466	0	372,071
Amortisation and impairment losses at 1 October 2019	-6,635	-142,790	-80,713	0	-230,138
Amortisation for the year	-4,435	-13,601	-10,767	0	-28,803
Amortisation and impairment losses at 30 September 2020	-11,070	-156,391	-91,480	0	-258,941
Carrying amount at 30 September 2020	19,390	23,754	69,986	0	113,130

Completed development projects

Completed development projects relate to development of new technology released in 2018/19 and earlier. The development projects are amortised over 5 years and entail higher market penetration.

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10 Property, plant and equipment

DKK'000	Plant and machinery	Fixtures and fittings, tools and equipment	Total
Cost at 1 October 2019	3,787	7,593	11,380
Additions for the year	473	0	473
Disposals for the year	0	-7,013	-7,013
Cost at 30 September 2020	4,260	580	4,840
Depreciation and impairment losses at 1 October 2019	-3,031	-5,848	-8,879
Depreciation for the year	-327	-551	-878
Reversed depreciation and impairment losses on assets sold	0	5,992	5,992
Depreciation and impairment losses at 30 September 2020	-3,358	-407	-3,765
Carrying amount at 30 September 2020	902	173	1,075

11 Prepayments

Prepayments comprise prepayment of costs incurred relating to subsequent financial years with regard to insurance, subsidiaries, etc.

12 Equity

The contributed capital consists of 80,000 shares of a nominal value of DKK 1 each.

All shares rank equally.

DKK'000	30/9 2020	30/9 2020
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13 Deferred tax

Deferred tax at 1 January	29,474	34,974
Deferred tax adjustment for the year in the income statement	-6,380	-5,500
	23,094	29,474

14 Other provisions

Warranty provisions at 1 October 2019	836	1,891
Used during the year	0	-1,055
Provisions for the year	665	0
Other provisions at 30 September 2020	1,501	836

Other provisions comprise warranty commitments typically relating warranty for sold products.

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15 Deferred income

Deferred income of DKK 5,448 thousand (2018/19: DKK 4,700 thousand) comprises payments received regarding income in subsequent years.

16 Contractual obligations, contingencies, etc.

Contingent liabilities

The Company is jointly taxed with other Danish companies in the Emerson Group. As a wholly-owned subsidiary, together with the other companies included in the joint taxation, the Company has joint and several unlimited liability for Danish corporation taxes and withholding taxes on dividends. Any subsequent correction of the taxable jointly taxed income or withholding taxes could result in an adjustment of the Company's liability.

Operating lease obligations

Rent and lease obligations (operating leases) falling due within 12 months total DKK 119 thousand (2018/19: DKK 10,417 thousand).

17 Mortgages and collateral

The Company had issued guarantees regarding rental obligations of DKK 3,981 thousand at 30 September 2020 (2018/19: DKK 3,434 thousand).

The rental obligation was settled on 30 September 2020 and the guarantee has been released after year-end.

18 Related party disclosures

Control

EMR Emerson Holdings (Switzerland) GmbH, Neuhofstrasse 19A, 6340 Baar, Switzerland holds the majority of the contributed capital in the Company.

Emerson Climate Technologies - Transportation Solutions ApS is part of the consolidated financial statements of the Emerson Electric Co, 8000 W. Florissant Ave., St. Louis, 63136 Missouri, USA, which is the smallest and largest group, in which the Company is included as a subsidiary.

The consolidated financial statements of Emerson Electric Co. are available at the Company's address or on the website www.emerson.com.

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Related party transactions

DKK'000	2019/20
Sale of goods to group	372
Sale of services to group	2,570
Purchase of goods from group	19,406
Purchase of services from group	11,277
	<u>33,625</u>

In accordance with section 98b (3) of the Danish Financial Statements Act, remuneration of the Parent Company's Executive Board and Board of Directors is not disclosed.

Payables and receivables to/from group entities are disclosed in the balance sheet, and financial income and expenses are disclosed in notes 5 and 6.

19 Uncertainty regarding recognition and measurement

Uncertainty exists regarding the valuation of intangible assets, as revenue and earnings must increase to support the recognised value of the intangible assets.

Due to the negative results that have been realised in 2019/20 and the restructuring of the business, Management has assessed that there are indications of impairment. Consequently, an impairment test has been performed in order to determine if the fair value of the intangibles exceeds the carrying amount.

The impairment test did not show any need for additional impairment write-down. The basis for the impairment test has been a discounted cash flow model based on the following assumptions:

- Discounted cash flow forecasts derived from the most recent budgets/forecasts for the next six years (2021 through 2027) approved by Management.
- The budgets/forecasts show an expected revenue increase in the coming years (average annual growth rate over the next 7 years of 11.6 %).
- The budgets/forecasts show an expected increase in contribution margin (average annual operating profit of DKK 25,966 thousand over the next 7 years).
- The valuation model and the discounted cash flows are supported with a WACC of 8.5%.

The sensitivity of a write-down requirement is primary related to the Company's fulfillment of the derived budgets/forecasts, including budgeted income statement, balance sheet and cash flows from 2021 - 2027. Furthermore, the sensitivity is related to underlying strategic actions and value drivers as well as changes in the long-term revenue expectations. An increase in the WACC to 23.8 % or above will result in a write-down of the intangible assets.

Together with the financial backing from Emerson Electric Co., the Company expects to be able to carry out the plans in the coming year and therefore realise the budgets and forecasts that are used in the impairment test.