

3Shape Medical A/S

Annual report 2022



3shape 

Approved at the Company's annual general meeting on

Chair of the meeting:

.....
Henriette Stakemann

3Shape Medical A/S
Holmens Kanal 7
1060 København K
CVR: 35802940

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3Shape Medical A/S

Statement by Management

The Board of Directors and the Executive Board have today discussed and approved the annual report of 3Shape Medical A/S for the financial year 1 January - 31 December 2022.

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

In our opinion, the financial statements of the Company give a true and fair view of the financial position of the Company at 31. december 2022 and of the results of its operations for the financial year 1 January - 31 December 2022.

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

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

Copenhagen, March 2023
Executive Board:

.....
Jakob Just-Bomholt (CEO)

Board of Directors:

.....
Jørgen Falkebo Jensen (Chairman)

.....
Tais Clausen (Vice chairman)

.....
Nikolaj Deichmann (Vice chairman)

.....
Henriette Schütze

.....
Mikael Worning

Independent auditor's report

To the shareholder of 3Shape Medical A/S

Opinion

We have audited the financial statements of 3Shape Medical A/S for the financial year 1 January – 31 December 2022, which comprise income statement, balance sheet, statement of changes in equity and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2022 and of the results of the Company's operations and cash flows for the financial year 1 January – 31 December 2022 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 our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company 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.

Management's responsibilities for the financial statements

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

In preparing the financial statements, Management is responsible for assessing the 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 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 the financial statements.

Independent auditor's report

As part of an audit conducted in accordance with ISAs 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 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 note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act. Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement of the Management's review.

Copenhagen March 2023
EY Godkendt Revisionspartnerselskab
CVR-nr. 30 70 02 28

Kennet Hartmann
statsaut. revisor
mne40036

Morten Weinreich Larsen
statsaut. revisor
mne42791

Management's review

The company's most important activities

The company's most important activities are development, production and sales of 3D scanners and 3D CAD / CAM software. The primary sales are products and software for dental clinics.

Developments in activities and economic conditions

The company's gross profit in 2022 amounts to 8,754 DKKt compared to 13,883 DKKt in 2021. Profit for the year amounted to 64,726 DKKt, inclusive of other operating income of 74,777 DKKt from divestment of implantology software, furthermore the company has proposed dividend for the year 2022 of 70,000 DKKt to be paid out during 2023. The equity was 76,313 DKKt per 31 December 2022.

In 2021 the company signed an agreement to divest the implantology software to 3Shape A/S subject to regulatory approval. Regulatory approval was obtained during 2022 and the transaction closed the end of 2022 and the transaction resulted in a gain of 74.777 DKKt.

Events after the balance sheet date

There have been no significant events in the period after the end of the financial year and up to the Board of Directors' approval of the annual report.

3Shape Medical A/S

Income statement

DKK '000

Note		2022	2021
	Revenue	15.507	18.681
2,11	Production costs	-6.753	-4.798
	Gross profit/loss	8.754	13.883
2,11	Distribution costs	-168	-1.800
2,11	Administration costs	-414	-2.533
4	Other operating income	74.777	-
	Operating profit/loss	82.949	9.550
3	Financial income	90	15
3	Financial expenses	-84	-76
	Profit/loss before tax	82.955	9.489
5	Tax	-18.229	-2.087
	Profit/loss for the year	64.726	7.402
	<u>Proposed distribution of profit/loss:</u>		
	Proposed dividend recognized under equity	70.000	-
	Transferred to retained earnings	-5.274	7.402
		64.726	9.489

3Shape Medical A/S

Balance sheet

DKK '000

Note	Assets	2022	2021
6	Intangible fixed assets	248	471
7	Property, plant and equipment	1.499	334
	Deposits, financial fixed assets	306	307
	Total non-current assets	2.053	1.112
	Raw material	2.654	-
	Finished goods and goods for resale	1.355	15
	Inventories	4.009	15
	Trade receivables	1.488	2.344
	Receivables from associated companies	8.100	6
	Deferred tax assets	272	274
	Other receivables	-	668
	Receivables	9.860	3.292
	Cash and cash equivalents	81.419	15.685
	Total current assets	95.288	18.992
	Total assets	97.341	20.104
	Equity and liabilities		
8	Share capital	1.006	1.006
	Retained earnings	5.307	10.581
	Proposed dividend	70.000	-
	Total equity	76.313	11.587
9	Prepayments from customers	76	895
	Total non-current liabilities	76	895
9	Prepayments from customers	64	4.644
	Trade payables	267	90
	Debt to associated companies	1.664	791
	Corporate tax	18.228	1.681
10	Other payables	729	416
	Total current liabilities	20.952	7.622
	Total liabilities	21.028	8.517
	Total equity and liabilities	97.341	20.104

3Shape Medical A/S

Statement of changes in equity

DKK '000

Note	Statement of changes in equity			
	Share capital	Retained earnings	Proposed dividend	Total equity
Equity at 1 January 2022	1.006	10.581	-	11.587
Transferred via distribution of profit/loss	-	-5.274	70.000	64.726
Equity at 31 December 2022	1.006	5.307	70.000	76.313

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3Shape Medical A/S

Notes

1 Accounting policies

The annual report of 3Shape Medical A/S for 2022 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to reporting class B entities. And elective choice of certain provisions applying to reporting class C entities. In general the accounting policies used in the preparation of the financial statements are consistent with those of last year.

Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rates at the transaction date. Foreign exchange differences arising between the exchange 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

Revenue

The Company has chosen IAS 11/IAS 18 as interpretation for revenue recognition.

Income from the sale of goods for resale and finished goods is recognised in revenue when the most significant rewards and risks have been transferred to the buyer, the income can be measured reliably and payment is expected to be received.

On the conclusion of sales contracts that consist of several separate sales transactions, the contract price is split up into the individual sales transactions based on the relative fair value approach. The separate sales transactions are recognised as revenue when the criteria for sale of goods or services are met.

Revenue from time-limited software licenses is accrued and recognized on a straight-line basis over the license period in accordance with the contract.

Production costs

Production costs comprise costs, including depreciation, amortisation and salaries, incurred in generating revenue for the year. The entity recognises its production costs incurred in generating the revenue for the year. Such costs include direct and indirect costs of raw materials and consumables, wages and salaries, rent and leases as well as impairment losses on production plant.

Distribution costs

Distribution costs comprise costs related to the distribution of goods sold in the year and to sales campaigns, etc., carried out in the year, including costs related to sales staff, advertising, exhibitions as well as amortisation and depreciation. Sales and marketing costs are recognised in the income statement when the Company obtains control of the sales or marketing product.

Research and development cost

The Company recognizes all internal and external research and development costs as they occur due to the embedded risk in these costs, which is also the custom in the industry. Research and development costs comprise costs related to staff and other costs that can be directly or indirectly linked to improvements of products or development of new products.

Administrative costs

Administrative costs comprise costs incurred in the year to manage and administer the Company, including expenses related to administrative staff, management, office premises, office expenses and amortisation/depreciation.

Other operating income

Other operating income consists of accounting items with secondary character in relation to the company's primary operation.

Notes

1 Accounting policies (continued)

Financial income and expenses

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

Tax for the year

The company is subject to the Danish rules on compulsory joint taxation of the Group's Danish subsidiaries. Subsidiaries are included in the joint taxation arrangement from the date when they are included in the consolidated financial statements and up to the date when they are excluded from the consolidation. 3Shape Holding A/S acts as administration company for the joint taxation arrangement and consequently settles all corporate income tax payments with the tax authorities.

On payment of joint taxation contributions, the Danish corporation tax charge is allocated between the jointly taxed entities in proportion to their taxable income. Entities with tax losses receive joint taxation contributions from entities that have been able to use the tax losses to reduce their own taxable income.

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

Balance sheet

Intangible assets

Acquired intangible assets are measured at cost less accumulated depreciation.

Patents and licenses are measured at cost less accumulated amortisation and impairment losses. Patents are amortised on a straight-line basis over the remaining term of the patent, and licenses are amortised over the term of the license, however not exceeding 10 years.

Gains and losses on the disposal of patents and licenses 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 expenses, respectively.

Tangible Assets

Property, plant and equipment

Fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses.

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

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

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

Leasehold improvements	5 years (or shorter if agreement is shorter)
Fixtures and fittings, tools and equipment	3-5 years

Depreciation is based on the residual value of the asset and is reduced by impairment losses, if any. The depreciation period and the residual value are determined at the acquisition date and are reassessed annually. Where the residual value exceeds the carrying amount of the asset, no further depreciation charges are recognised. In case of changes in the depreciation period or the residual value, the effect on the depreciation charges is recognised prospectively as a change in accounting estimates.

Depreciation is recognised in the income statement as production costs, distribution costs, research & development costs and administrative expenses, respectively. Gains and losses on the disposal of items of property, plant and equipment are calculated as the difference between the selling price less selling costs and the carrying amount at the date of disposal. Gains and losses are recognised in the income statement as other operating income or other operating expenses, respectively.

Notes

1 Accounting policies (continued)

Leases

The Company has chosen IAS 17 as interpretation for classification and recognition of leases.

All leases are considered operating leases. Payments relating to operating leases and any other leases are recognised in the income statement over the term of the lease.

Impairment of non-current assets

The carrying amount of intangible assets and property, plant and equipment is tested annually for indication of impairment.

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

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

Previously recognised impairment losses are reversed when the reason for recognition no longer exists.

Inventories

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

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

Finished goods and work in progress are measured at cost, comprising the cost of raw materials, consumables, direct wages and salaries as well as indirect production overheads. Production overheads comprise costs of material and labour as well as maintenance of and depreciation on production machinery, buildings and equipment as well as costs relating to plant administration and management.

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

Receivables

Receivables are measured at amortised cost.

The Company has chosen IAS 39 as interpretation for impairment write-down of financial receivables.

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

Receivables in respect of which there is no objective evidence of individual impairment are tested for objective evidence of impairment on a portfolio basis. The portfolios are primarily based on the country of domicile and credit ratings of the debtors in accordance with the credit risk management policy of the Company. The objective evidence applied to portfolios is determined based on historical loss experience.

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

Prepayments

Prepayments comprise costs incurred concerning subsequent financial years.

Equity

Dividend

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

1 Accounting policies (continued)

Liabilities

Corporation tax and deferred tax

Current tax payables and receivables are recognised in the balance sheet computed on the taxable income for the year, adjusted for tax on taxable income in previous years and tax paid on account. Joint taxation contributions payable and receivable are recognised in the balance sheet as receivables or debt to or from associated companies.

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. However, deferred tax is not recognised on temporary differences relating to non-deductible goodwill and on office premises and other items where temporary differences – apart from acquisitions – arise at the acquisition date 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 intended use of the asset or settlement of the liability, respectively.

Deferred tax assets, including the tax value of tax loss carryforwards, 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.

Adjustment is made to deferred tax resulting from elimination of unrealised intra-group profits and losses.

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

Other liabilities

Other liabilities are measured at net realisable value.

Prepayments from customers

Prepayments from customers recorded as liabilities comprise payments from customers concerning subsequent financial years and accrual of revenue from time-limited software licenses, which is recognized on a straight-line basis over the license period in accordance with the contract entered into.

3Shape Medical A/S

Notes

DKK '000

2 Depreciation of intangible and tangible assets

	2022	2021
Amortisation on intangible assets	224	224
Depreciation on tangible assets	236	1
Total	460	225

Depreciation is recognised in the income statement as follows:

Administration costs	224	224
Gross profit/loss (Production costs)	236	1
Total	460	225

3 Financial income and expenses

	2022	2021
Interest income	29	-
Foreign exchange gains	60	15
Other financial income	1	-
Financial income	90	15
Interest expenses	-67	-73
Capital losses intercompany	-	-11
Other financial expenses	-17	8
Financial expenses	-84	-76
Total financial income and expenses	6	-61

4 Other operating income

	2022	2021
Sale of Implantology software	74.777	-
Total	74.777	-

Other Operating Income concerned the divestment of a medical device registered software asset to 3Shape A/S. The transaction resulted in a gain of 74.777 DKKt.

3Shape Medical A/S

Notes

DKK '000

5 Tax

	2022	2021
Corporate tax for the year	18.228	1.681
Corporate tax adjustment prior year	-	185
Deferred tax adjustment	1	221
Total	18.229	2.087

6 Intangible assets

	Patents
Acquisition	
1 January 2022	2.239
31 December 2022	2.239
Amortisation and impairment losses	
1 January 2022	1.767
Amortisation	224
31 December 2022	1.991
Carrying amount at:	
31 December 2022	248

7 Tangible assets

	Leasehold improvement	Fixtures and fittings, tools and equipment	Tangible assets under construction	Total tangible assets
Acquisition				
1 January 2022	-	443	334	777
Additions	1.215	186	-	1.401
Transferred	334	-	-334	-
31 December 2022	1.549	629	-	2.178
Depreciation and impairment losses				
1 January 2022	-	443	-	443
Depreciation	165	71	-	236
31 December 2022	165	514	-	679
Carrying amount at:				
31 December 2022	1.384	115	-	1.499

3Shape Medical A/S

Notes

DKK '000

8 Share capital

The share capital comprises 1.006.000 class A shares of 1 DKK each.

	2022	2021	2020	2019	2018
Opening balance	1.006	1.006	1.005	1.004	1.003
Capital increase	-	-	1	1	1
Total	1.006	1.006	1.006	1.005	1.004

9 Prepayments from customers

	2022	2021
Prepayments from customers are expected to mature within:		
0-1 years	64	4.644
2-5 years	76	884
> 5 years	-	11
Total	140	5.539

Prepayments from customers recognized under liabilities primarily relate to payments for license subscriptions which cannot be recognized as revenue until a future period.

10 Other payables

	2022	2021
Other payables are expected to mature within:		
0-1 years	729	416
Total	729	416

11 Employee costs and incentive plans

	2022	2021
Wages and salaries	2.300	7.855
Pensions	61	108
Other social security costs	7	26
Other employee costs	12	-783
Total	2.380	7.206

Average number of full-time employees

3 **11**

Employee costs are recognised in the income statement as follows:

Employee costs on production costs	2.380	7.206
Total	2.380	7.206

	2022	2021
Remuneration to the company's Management amounts to:		
Management and Board of Directors	1.261	578
Total	1.261	578

Incentive plans

3Shape Holding A/S has established a warrant program and a matching shares program for a small number of employees in the Group. The expected costs derived from the program is immaterial and not recognized as a cost in the financial statements. In accordance with Danish Financial Statements Act § 98b section 3 remuneration to the company's Management is presented together for the Executive Management and the Board of Directors.

3Shape Medical A/S

Notes

DKK '000

12 Contractual obligations and contingencies, etc.

The Company is jointly taxed with the Danish entities of 3Shape group. The parent company 3Shape Holding A/S, is the administration company. The Company has unlimited joint and several liability, together with the Group's Danish entities for payment of Danish corporation taxes and withholding taxes on dividends, interest and royalties within the joint taxation group.

Operating commitments

	2022	2021
Rental agreement	1.175	1.859
Total	1.175	1.859

Remaining term is 23 months.

13 Related parties

3Shape Medical A/S' related parties comprise the following:

Controlling interest

The following shareholders are listed in the company's owner's register as owning a minimum of 5% of the votes or a minimum of 5% of the share capital:

- 3Shape Holding A/S, Copenhagen