

Annual Report 2019



This is a translation of the German Annual Report. In case of any divergences, the German original is legally binding.



VECTRON

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Letter by the executive board to the shareholders



Dear fellow shareholders,

financial year 2019 was heavily focused on the transformation of our business model and the new fiscal laws in Germany, our main market, which came into effect as from 2020.

As the legal and technical specifications for the protection of cash registers against manipulation were only fully disclosed in August 2019, the Federal Ministry of Finance introduced a period of grace ending on 30 September 2020 during which all cash registers must be modified. This finally gives all of the parties involved a date that they can use for their planning. Based on our experiences in Austria, where a similar law was passed in 2016, we expect for demand to see a spike just months before the due date as numerous operators plan to leave their investment until the last minute. In Austria, this resulted in a dramatic increase in sales in the POS industry which lasted for two and a half years. It is uncertain if the same scenario is going to repeat itself in Germany, but we believe it to be a definite possibility.

Demand was already up in the last quarter of 2019. This trend continued in the first quarter of 2020 until the start of the Coronavirus crisis whose effects will ultimately depend on the duration and severity of the implemented measures.

However, the growing impact of digital services on the operators of POS systems will be even more crucial for the long-term future of the company and the entire industry. Until a few years ago, POS systems were the only digital solutions in restaurants. Now, it is becoming increasingly important for operators to have a digital presence. Online orders, online reservations, digital loyalty cards and vouchers as well as new payment methods are increasingly important factors that impact the sales of a business.

However, today's business owners are faced with a multitude of providers and platforms. The services offered are often very expensive and most are not integrated in the existing EDP or POS system. Instead of taking an online order directly in the POS, for instance, an additional tablet computer is set up next to it on which the order is displayed. This then has to be manually transferred to the POS, a cumbersome process. When using several services, this means that multiple tablets are standing besides the POS that all have to be operated differently on top of it. Such parallel operation takes effort and leads to errors. Our customers therefore have had the following wish for many years:

- All relevant services in one place
- Only one contract and one invoice
- Integration of the services in the POS system / no additional hardware
- Low package price

We are working as hard as we can on realising this vision. Under the name “Duratec Digital World”, we offer such complete package, in cooperation with resmio, restablo, epay and DeutschlandCard.

We invested significant funds in the amount of K€ 3,427 in the development and marketing of this product package in 2019. Without this project, we would therefore have closed the reporting period with profit. As the sales and earnings potentials of the new business model are several times higher than those in our traditional business, it would be a grave error to leave this opportunity to other providers. Especially as a listed company, we see it as our duty to exploit opportunities that could significantly boost the value of our company.

At the same time, we are not a start-up, but a solid SME that does not plan to grow at any cost and aims to keep an eye on expenses. By employing this method, we were able to considerably reduce the loss from K€ 3,876 to K€ 1,392 in 2019. By successfully implementing a capital increase in February 2020, we also ensured that our equity is sufficient to take the risks that are always associated with a new business model.

We expect reliable data that shows if and how the business model is establishing itself in 2020 and therefore look forward to this reporting period with excitement. The structural changes in our target industries mentioned above will occur regardless of the type and duration of the Coronavirus crisis. We believe that especially during the crisis, customers will be much more interested in such favourably priced digital offer than the purchase of a POS system only without integrated services. Our broad positioning increases our flexibility and opportunity to profit from the crisis.

Kind regards

Your Vectron executive board



Thomas Stümmler
CEO



Jens Reckendorf
CTO



Silvia Ostermann
COO

Report by the supervisory board



The supervisory board performed the duties it is charged with by law and according to the articles of association during the financial year 2019. The supervisory board was involved by the executive board in all fundamental business decisions and was always informed promptly of current developments. In addition to the regular meetings, each month the executive board reported in writing on the current economic situation by way of a clearly defined budget report, provided an outlook towards the remainder of the ongoing financial year and drew comparisons with previous reporting periods, which meant that up-to-date information was available at all times. If required, questions by supervisory board members were also answered quickly outside the executive board meetings individually or in regular board calls. The supervisory board gave its recommendations on the proposed resolutions of the executive board under consideration of the prerequisites prescribed by law and in the articles of association.

During the financial year 2019, four regular supervisory board meetings took place.

- At the supervisory board meeting on 08 April 2019, the annual financial statements 2019 were presented by the auditor, mutually discussed and approved by the supervisory board. The management report was approved. The resolutions on the recommended use of profits were passed. The executive board reported on the status of the cooperation with Metro as well as on its own initiative for generating recurring revenue, which is running at the same time. Thomas Stümmler announced that he planned to resign from his supervisory board mandate with effect from the end of the annual general meeting on 19 June 2019 in order to open up the option of being elected to the company's executive board again.
- The supervisory board held another meeting on 19 June 2019. The executive board informed the supervisory board about the status of the company's preparations for the use of certified security devices for the implementation of the Law on the Protection Against Manipulation of Digital Background Recordings [Gesetz zum Schutz vor Manipulationen an digitalen Grundaufzeichnungen], effective since 1 January 2020. The current variable remuneration model was presented and discussed. The supervisory board resolved to appoint Thomas Stümmler as the chairman of the executive board for the period from 5 July 2019 to 31 December 2020.
- At the meeting on 17 September 2019, the executive board reported on the technical and sales measures in preparation for the new legislation as from 1 January 2020 and on the related marketing strategy. The project status of the launch of the new "Duratec Digital World" (DDW) business model was presented and discussed. Possible changes to the organisational structure as well as the current and future performance indicators for managing the company were presented and discussed.

- At the final meeting of the year on 10 December 2019, the supervisory board approved the development of the first sales centres for the new DDW business model. The status of the project had been explained in details beforehand. The executive board reported on the planning for future hardware platforms, the status of the extension of the lease agreement for the company's building, the development of personnel costs and the status of business in the USA. The expected potential annual profit was presented to the executive board. The supervisory board had previously approved the budget planning 2020 in the runup to the publication of the medium-term planning on 25 November 2019.

Executive board and supervisory board have issued a compliance declaration pursuant to Article 161 AktG [German Stock Corporation Act]. This has been made publicly available on the company's website. Vectron Systems AG declares that it follows the German Corporate Governance Code in the version dated 7 February 2017 with exceptions. The exceptions are considered prudent due to company-specific circumstances. Due to the low number of supervisory board members (four individuals), it was decided to forego the formation of sub-committees.

The management report and annual financial statement submitted by the executive board for 2019 were audited by the auditing company Impulse Digital GmbH Wirtschaftsprüfungsgesellschaft and granted an unqualified audit opinion. The annual auditor reported orally on the assessment in the supervisory board meeting on 23 April 2020 and was available to the supervisory board for supplementary information.

Following the assessment of the annual financial statement (balance sheet, profit and loss account, notes and management report), the supervisory board agreed with the result of the annual auditor's audit. The annual financial statement is thus confirmed.

The supervisory board thanks the executive board and all employees of the company for the work undertaken in the reporting year.

Münster, April 2020

For the supervisory board



Christian Ehlers
Chairman of the supervisory board





Company and market

We are a leading European provider of intelligent POS systems, which we develop at our head office in Münster, Germany. They consist of hardware, software and digital services. We have developed our software to be open and flexible so that it can be adapted to a multitude of industries and used with all major operating systems – Windows, Android, iOS and Linux. However, we focus on the gastronomy and bakery markets. We have primarily succeeded in our core business, the sale of traditional POS, until now. Our sales activities have an international focus and are generally processed via a close-knit network of about 300 specialist trade partners, who also take care of customer service. We support specialist trade partners with a combination of external and internal sales representatives and the Support Team.

The food market grew by around 5 % year-on-year with its structures changing toward snack food chains, system gastronomy and restaurants with a unique brand essence. The new fiscal requirements, digital transformation and, since March 2020, the effects of the Coronavirus crisis are creating sweeping and profound changes in the current market. Customers expect state-of-the-art technological equipment and continuous updates for software and cloud services, thus creating the need for high investments in new development.

Digital transformation in the gastronomy sector refers to the use of an increasing number of digital services, such as own business website, online portals, online orders, online table reservations, voucher cards, point collection system, e-payment types and online guest feedback. At present, gastronomy business owners usually have to conclude various individual contracts, which means numerous invoices, additional devices next to the POS and extremely high costs per functionality. In addition, each system works differently and the lack of integration in the POS means that all data has to be entered twice, which costs time and is prone to errors. Gastronomy business owners' expectations of future digital products are therefore to have just one solution that covers all aspects and all of whose functions are integrated in the POS. They do not wish to run any additional hardware and wish to have only one contract and invoice, if possible. We have adjusted our business model in order to meet these expectations in the market. With our all-inclusive Duratec Digital World solution, gastronomy business owners receive a complete package that provides all services in one place and integrated in the POS. In addition, the offer is considerably better value than the booking of individual services from several providers.

2020 initially provided the ideal conditions for launching this new model. The new POS Security Ordinance (Kassensicherungsverordnung – KassenSichV) in effect since 1 January 2020 stipulates that all electronic cash registers must be fitted with a technical security device, amongst other things. As a result, all POS systems in Germany will either require an upgrade or replacement. Our large installation base provides huge market potential. At the same time, we plan to acquire additional market shares with the replacement business and, in particular, significantly de-

velop the digital business at the same time before the fiscalisation effect wears off. The temporary closure of most businesses and gastronomy businesses due to the spread of the Coronavirus in Germany as well means that we, like all other businesses, are faced with an entirely new and difficult to estimate situation since March 2020 which has also resulted in a delay in the implementation of the POS Security Ordinance.

However, we have been investing in digital services for years and with our wholly owned subsidiary, bonVito GmbH, which has not yet been consolidated, have already proven that we are able to develop software as a service (SaaS) models and to take them into the profit zone. Our online service platform for major customers broke even in the first half of 2019.

Now we also plan to reach the vast number of gastronomy business owners with our digital products. The capital increase in February 2019 and related entry of the anchor shareholder Primepulse SE (Primepulse) was another step in this direction. In addition to the investment, Primepulse strategically supports us with its know-how during the widespread rollout of the new digital services.

Although digital services such as online delivery services and ordering systems have been on the market for years, they are only now starting to gain momentum. Numerous gastronomy business owners have never used online marketing yet and around 50 % do not even have their own websites. Online orders have become increasingly attractive due to the distancing rules issued by the government in March. However, all of the existing providers are still a long way from penetrating all of the market at present. We therefore are confident that the digital transformation of the industry bears huge potential. We aim to significantly increase the lifecycle value through recurring revenue and to multiply sales per customer over the useful life.

Service portfolio

Our service portfolio includes POS hardware and software as well as digital services that are sold under several brand names.

Core business: POS systems, software and peripheral appliances

Our core business, which has been extremely successful in the market for decades, is the traditional sale of POS systems via specialist trade partners. We sell high-quality, technically innovative, stationary and mobile POS systems under the Vectron brand name. The range is completed by some peripherals, e.g. customer displays. The POS

software has been developed in-house and is being continuously adapted to meet market requirements. Main target groups are bakeries and the gastronomy industry. For these trades the software offers numerous proven special functions and is also flexible enough to be used by numerous other industries.

With our comprehensive stationary POS system range, we provide suitable equipment for various company sizes and types and create more efficient workflows and processes with advanced functions. The large number of hardware and software interfaces, which has not been achieved by our competition, enables us to implement individual requirements and makes our solutions interesting, particularly for large chains. In addition to stationary systems, we also provide mobile devices for table service. Modern POS apps for iOS and Android devices are also part of the portfolio.

Duratec was launched in 2013 and is our brand for the medium price and performance segment. The Duratec product range is based on the sophisticated Vectron technology; with the software, however, we have focussed on the essential for user interfaces as well as on strong simplification and ease of learning. We take into account current trends like the integration of smartphones as order phone. In addition to special hardware with long useful lives, a software version for PC is also available. Duratec is aimed at gastronomy businesses, retailers and hairdressers with standard requirements. The scope of functions of Duratec devices, which purposefully has been considerably restricted compared to that of Vectron POS systems, allows a clear distinction of both brands and prevents cannibalism effects for the Vectron core business. As the programming of the devices is clearly faster and easier the Duratec is also interesting for dealers in Germany and abroad. We integrated the bonVito online services in Duratec POS systems as well.

To support sales, we offer a sales promotion model (“sale-and-lease-back with subsequent sublease of these POS systems by Vectron to end customers”). Vectron reserves the right to sublease POS systems. Hardware, installation and commission have been factored into the costs.

One of our unique selling points is that we develop both POS software and part of the hardware and are thus able to offer optimally matched POS systems. The software is usually purchased as an indefinite one-off license. Software updates are only included to a limited extent in order to promote the purchase of new licenses in the event of major software advancements. As well as the actual POS software, which is also available for PC, we provide additional backoffice software products such as the “Vectron Commander”, which makes it possible to link and centrally program the individual POS. It also provides the basis for comprehensive analyses and POS reports. Additional software products include the “Vectron Contacts” contact and invoice manager, “Vectron Journal Tool” evaluation, archiving and analysis tool and “Vectron Analytics”. The latter is used for analysing the sales data read by

the Commander and displaying the key performance indicators in a simple graphic overview.

The majority of the hardware and software is one-off business. As long as customers do not purchase new hardware or software, no further revenue is generated during the period of use. However, this is a highly profitable business and we promote follow-up purchases by offering optional software modules.

We are continuously developing our products further in order to maintain our competitiveness in the long term. In 2019, software updates were released and the POS Touch 15 II Wide POS was launched as a new POS model, in which we accounted for the current trend toward widescreen displays. We further placed all of our efforts in our core business into the timely implementation of the requirements of the POS Security Ordinance (Kassensicherungsverordnung 2020 – KassenSichV). Shortly before the end of the year, we were one of the first POS manufacturers to release a software version which meets the new requirements and also had already ordered the required technical security devices from various manufacturers, meaning that we were able to deliver several thousand pre-orders before the year drew to a close.

As from the fourth quarter of 2019, sales already started to increase significantly in connection with the new fiscal requirements, which led to a slight sales increase year-on-year. This trend continued until the beginning of March 2020, the start of the global market collapse due to COVID-19. Once the situation has normalised, we hope for a quick recovery of the core business.

Innovation: Digital business

In order to significantly increase revenue per customer over the useful life and reduce our dependence on the market fluctuations, we aim to increasingly generate monthly recurring revenues from digital services in the future instead of the one-off POS business, which at the same time will improve sales planning.

With our myVectron and bonVito brands, we have been providing software as a service (SaaS) products for many years. We are a professional partner which realises digitalisation for its customers and creates new, market-relevant and targeted added value. We are able to manage hundreds of thousands of operations and branches with our scalable server structure.

We pool various digital services under the “myVectron” brand name. These include, for instance, a reporting app which provides comprehensive real-time data and thus keeps business owners updated about the developments in their businesses, a software update subscription and a fiscal archive, which reliably backs up all fiscal data daily on Vectron servers located in Germany. These backups comply with data pro-

tection regulations and can be accessed at any time. We are gradually adding new services to our portfolio in order to take as many of our installed POS systems online as possible and generate regular revenues. In January 2020, we released a digital till receipt solution which meets the current expectations in the market with regard to the discussion about the obligation to issue receipts and the resulting waste of paper. A link to the DATEV POS archive is also being implemented. This is of great interest to numerous customers.

Our cloud-based iPad POS system, Posmatic, provides all of the functions of a modern POS system and is fully offline-compatible. Posmatic contains professional features such as waiter lock, voucher management, customer pager and interfaces to other gastronomy industry software products, e.g. personnel placement management, goods management and hotel software (PMS). A monthly fee is paid for its use.

The exclusive partnership with DeutschlandCard enables us to provide gastronomy business owners with a module for issuing DeutschlandCard points and accepting them as payment. This gives customers in the gastronomy industry access to 20 million card holders who can now pay them with the points they have collected on their DeutschlandCards.

We have been able to collect in-depth digital experiences with bonVito, our long-standing online service platform for major customers, and have also proven the viability of this model by now.

The bonVito customer retention services cover stamp books, coupons, bonus points, e-payments, online payments and direct discounts with all relevant functions. This provides our major customers with excellent features for retaining existing consumers and increasing footfall and average consumption. The table reservation function is an efficient service which speeds up and simplifies processes. Tables can be reserved directly from a gastronomy business owner's website. Current bookings and reservation status are taken into account throughout this process, meaning that customers booking online can reserve all tables that are actually available at the time and will be automatically referred to the next available slot should all tables be booked.

We have invested a substantial amount into developing the digital business over the years. The amount in 2019 alone was around € 3.5 million and the total comes to approximately € 10 million.

We are focussing on developing new business models in order to generate faster and stronger future growth in the digital business. The result is Duratec Digital World, our all-inclusive solution for gastronomy business owners, which is being sold in a major test phase since June 2019. If customers consent to their data being transferred, the package contains the free-of-charge lease of a Duratec POS during the 36-month

contractual term. Revenues are generated through withheld digital services that are offered on a pay-per-use basis instead. Experiences from previous projects have shown that in most cases it is quicker and more cost-effective to resort to cooperations instead of in-house developments for digital projects. Suitable Duratec Digital World cooperation partners were therefore identified. The product package contains the DeutschlandCard bonus programme, epay is our partner for cash-free payments, online table reservations are processed by resmio and online orders by restablo. All of these cooperation partners are linked to our POS systems via interfaces, which facilitates automated processes and forms the basis for the collection of transaction data. A coupon solution developed by us completes the package.

The market test results are so promising that we are continuing, and even expanding, the project in 2020. We increased our sales activities for a major rollout until March 2020 and will continue to do so as soon as the situation permits again. We plan to secure the future refinancing requirements for this model with our core business, similarly to our sales promotion model.

Overall, we expect the revenues generated from the use of services to considerably exceed costs. We plan to quickly spread our products throughout the market with a mixture of sales channels, including sales through trading partners. We generated several hundred contracts already by the end of 2019. These are now being gradually installed and will go online with the individual services. Metro provides us with technical and sales support for Duratec Digital World and we were able to present our products and services at the Metro trade stand at the Intergastra 2020, amongst other promotional activities.

One-off effect: Fiscalisation

The POS Security Ordinance (Kassensicherungsverordnung – KassenSichV) came into effect on 1 January 2020. The ordinance sets new standards for the prevention of cash register manipulation and therefore tax evasion. Since the beginning of the year, it is now mandatory to fit electronic recording devices with POS function with a technical security device. If the construction of the POS makes it impossible to upgrade, the POS must be replaced. At the same time, digital records must be secured and held available for perusal and tax audits. It is also mandatory to issue till receipts. The POS systems and technical security devices must be registered with the tax authorities and deregistered there when being decommissioned. For tax audits, the recorded data must be presented in a standardised format – the “Digital Interface of the Financial Administration for POS Systems” [Digitale Schnittstelle der Finanzverwaltung für Kassensysteme (DSFinV-K)]. The financial authorities can also check that the systems are being used correctly and that all sales are being recorded by carrying out unannounced POS checks at any time. Any cash registers purchased between 25 November 2010 and 1 January 2020 that meet the requirements of the

“Principles for the Proper maintenance and Storage of Ledgers, Records and Documents in Electronic Format as well as Data Access” [Grundsätze zur ordnungsmäßigen Führung und Aufbewahrung von Büchern, Aufzeichnungen und Unterlagen in elektronischer Form sowie zum Datenzugriff“ (GoBD)] but cannot be upgraded in accordance with the POS Security Ordinance (Kassensicherungsverordnung – KassensichV) due to their construction must be replaced by 31 December 2022 at the latest.

Violations of the new regulations for the operation of POS are an administrative offence that may incur a fine of up to € 25,000.00 – notwithstanding any potential consequences under tax law.

In order to implement the wide-spread upgrade of electronic recording systems, electronic recording systems that do not yet have a certified technical security device or DSFinV-K digital interface will not be queried until 30 September 2020.

Our wide market share and large installation basis provide us with a good starting position for profiting disproportionately from the replacement business. In addition, we were one of few POS manufacturers that were able to provide a legally compliant solution for our Vectron and Duratec brands already at the end of 2019. Unlike numerous competitors, we therefore remained able to supply at all times and delivered the first 3,000 technical security devices to our specialist trade partners in December 2019.

As long as the fiscalisation effect continues, we aim to continue the replacement business and acquire as much new business as possible and at the same time con-



siderably expand our digital business. We firmly base our activities in this respect on our Duratec Digital World product.

Outlook

In our medium-term planning in November 2019, we forecast a huge sales increase in 2020, particularly because of the POS Security Ordinance (Kassensicherungsverordnung – KassenSichV). We had to withdraw this forecast in an ad-hoc announcement on 17 March 2020 due to the Coronavirus crisis and the related temporary closure of most gastronomy businesses. The expected sales will be postponed as a result of the economic consequences of the current situation. We cannot estimate reliably at present how long this situation will prevail.

The period of grace until 30 September 2020 will now be far too short in order to upgrade or replace all POS systems. We therefore assume that we will continue to profit from the ordinance in 2021. At the end of 2022, the second deadline will expire, which means that sales are likely to once again be significantly up on regular business that year. After this date, we expect the core business to drop back to solid standard figures.

Despite sales in 2019 in the amount of K€ 25,169 primarily having been generated in the core business and the majority of the sales increases expected in the discernible future being caused by the fiscalisation process, and therefore also being generated in the core business, we expect for the digital business to develop into an extremely exciting part of our business.

We are excellently prepared to exploit the boost caused by the fiscalisation process for expanding our market share and to significantly drive the proportion of our digital business with our Duratec Digital World product. In January and February 2020, we significantly increased the number of contracts concluded by scaling our business.

We also plan to expand the digital business for our main Vectron brand by increasing our myVectron marketing activities.

Our large market share and considerable number of POS that are already online through myVectron, bonVito and Duratec Digital World place us in an ideal starting position for collecting transaction data. We are currently preparing data trading as another business field, developing intelligent forecast models and engaging in talks with interesting potential cooperation partners. We are convinced that especially the analysis and use of product-related transaction data will result in an optimisation of the business activities throughout the entire goods management chain and therefore provide the industry with higher margins and profits. Data is the crucial currency of the digital age. Businesses that own sufficiently large data volumes and

are able to analyse them according to relevant criteria can use the results for developing profitable business models. We plan to use this as an additional pillar for our company in the future.

We have made it our top goal to be the leading provider during the digital transformation in the gastronomy industry. As the digital leader, we plan to be the largest provider with the biggest number of online services. The capital increase implemented in February 2020 enables us to take further steps in this direction and to overcome the current situation, which is difficult for us as well as all other companies. In March 2020, we started early to reduce ongoing costs as much as possible and wherever useful and to focus on business that will boost sales as soon as the situation normalises.



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Management report

1. Business performance

1.1. Company situation

With more than 200,000 installed systems worldwide, Vectron Systems AG is one of Europe's leading intelligent POS system providers. The company's solutions comprise hardware, software and cloud services. They are primarily aimed at the gastronomy and bakery industry, but can also be used by retailers and service providers.

The products are sold through a network of approx. 300 specialist trade partners, mainly in Germany and other European countries. The end customer spectrum ranges from single cash register installations to branch networks comprising over 1,000 cash registers.

1.2. Overall economic development

According to the information provided by the Federal Statistical Office, Germany's gross domestic product (GDP), adjusted for price, increased by 0.6 % year-on-year in 2019. The German economy therefore grew for the tenth year in a row. This is the longest growth phase since the unification of Germany. However, growth in 2019 lost momentum compared with growth rates of 2.5 % in 2017 and 1.5 % in 2018.

In the German gastronomy industry (excluding catering), Vectron's main target industry, sales grew by a nominal 3.0 % and a real 0.2 % (adjusted for price) year-on-year in 2019 according to DEHOGA, following nominal 3.5 % and real 1.2 % growth in 2018. Current figures for the bakery industry are not yet available. The industry grew slightly by a nominal 1.3 % in 2017 and 2018. The overall general economic conditions were therefore slightly worse for the German customers of Vectron Systems AG than in the overall economy.

1.3. Sector development

The POS system market is highly diverse. The diversity of the sector and varying company sizes among users are reflected on the provider side. As only few manufacturers are active globally in various markets, most competitors are small, often only regional providers.

One key change in recent years was the appearance of competing providers of solutions based on iOS and android devices. Despite high investments by the providers, these systems have not yet been able to gain a large market share and some consolidations have already taken place as a result. New pricing models are also starting to establish themselves (albeit relatively slowly), particularly ongoing instead of one-off payments.

The requirements placed on cash registers by the tax authorities have a considerable effect on the market. Until recently, the current legal position in Germany was determined by two letters of the Federal Ministry of Finance (Bundesfinanzministerium – BFM) dated 26 November 2010 (“Aufbewahrung digitaler Unterlagen bei Bargeschäften” – “Storing digital documents for cash transactions”) and 14 November 2014 (GoBD = “Grundsätze zur ordnungsgemäßen Führung und Aufbewahrung von Büchern, Aufzeichnungen und Unterlagen in elektronischer Form sowie Datenzugriff” – “Principles for properly maintaining and storing books, records and documents in electronic form as well as data access”). These state that a POS system must keep detailed records of all booking data and also record other data in electronic form (obligation to keep individual records). This data must be archived for a minimum period of 10 years. The transitional period, during which it was still permitted to use systems that could not be retrofitted, expired at the end of 2016. However, numerous users did not comply with this period and changed over only after the due date or have still not done so.

The Law on the Protection Against Manipulation of Digital Background Recordings [Gesetz zum Schutz vor Manipulationen an digitalen Grundaufzeichnungen] came into force on 29 December 2016. This law prescribes that all cash registers must be fitted with a certified technical security device as from 1 January 2020. There is a transitional regulation for previously purchased systems that cannot be retrofitted which must comply with the requirements of the BFM letter dated 26 No-

vember 2010. These systems may still be used until the end of 2022.

The practical implementation of the law is regulated by the POS Security Ordinance (Kassensicherungsverordnung – KassensichV), various technical guidelines issued by the Federal Office for Information Security (BSI) and the application ordinance on Section 146a of the German Tax Code (Abgabenordnung – AO). The last part of the specifications, the “Digital Interface of the Financial Administration for POS Systems” [Digitale Schnittstelle der Finanzverwaltung für Kassensysteme (DSFinV-K)] was only published on 12 August 2019. As the remaining period until the end of the year was not nearly enough for the technical implementation of a wide-spread installation, the German Federal Ministry of Finance (BMF) granted a period of grace until 30 September 2020. POS systems without technical security devices may still be used during this period. However, all POS systems sold as from 1 January 2020 must already be upgradable with a technical security device.

In order to meet the requirements, all electronic cash registers in Germany must either be upgraded or replaced. Vectron's large installation base bears great market potential. There is an opportunity of acquiring further market shares and at the same time to significantly develop the digital business before the “fiscalisation effect” wears off. The digital business comprises the use of digital services such as reporting, voucher cards, point collection systems, online orders, online table reservations and payment solutions. This required considerable investments in the reporting period and previous years in order to develop the digital service further.

The competition for data also impacts the POS industry. Digital services are already considerably changing the gastronomy market. Developments similar to those in the retail sector can be observed. The analysis and exploitation of POS transaction data will become a central task of POS systems and/or cloud service providers.

1.4. Sales and order development

At the end of the first fiscalisation phase, sales decreased significantly from K€ 32,383 (2017) to K€ 24,825 (2018). Financial

year 2019 was heavily focused on the transformation of digital business models and the new fiscal laws. As, however, the legal and technical specifications for the protection of cash registers against manipulation were only fully disclosed in August 2019, the Federal Ministry of Finance introduced a period of grace ending on 30 September 2020 during which all cash registers must be modified. Whereas a rise in demand was expected in connection with the effective date of the second fiscalisation phase on 1 January 2020, demand increased in the last quarter of 2019. This trend continued in the first quarter of 2020 until the start of the Coronavirus crisis

Total sales in the reporting period amounted to K€ 25,169 (previous year: K€ 24,825), corresponding to a slight year-on-year increase of 1.4 %.

K€ 19,742 (previous year: K€ 18,309) of sales revenues, or 78.4 % (previous year: 73.8 %), pertained to Germany, K€ 5,113 (previous year: K€ 6,181), or 20.3 % (previous year: 24.9 %), to other EU countries and K€ 314 (previous year: K€ 335), or 1.2 % (previous year: 1.3 %) to third countries.

The share of customers using the internet services provided by the bonVito GmbH subsidiary increased considerably. Vectron also profited directly from this development. The number of contracts increased from 4,972 to 5,576, which corresponds to an increase of approximately 12 %.

Vectron Systems AG provides its end customers with a financing model for new POS systems. This sales promotion model is offered by Vectron specialist trade partners. The financing portfolio contributed around 17 % (previous year: around 18 %) to total sales in financial year 2019.

Vectron's business model is geared towards extremely short delivery times and corresponding short production lead times, from which the Vectron specialist trade partners profit in particular. This business model does not result in significant order backlogs.

1.5. Production and procurement

Vectron uses the same application software in most of its POS systems. This software can also be used in various industries.

Different models and/or model changes and diverse target industries therefore cause comparatively little cost.

The production process consists primarily of the assembly of modules and pre-fabricated components as well as quality controls. Device types in high demand are produced for stockpiling. Stocks are dispatched as soon as an order is received, meaning that delivery periods are usually very short. Less frequently demanded products are made specifically to order.

To ensure continuous delivery capability and fast reaction times, defined minimum amounts are stocked for all important components. New product lines or expected peak demand may thus result in temporarily increased stock levels. In the past financial years, stocks were deliberately increased several times to remain able to deliver goods at all times.

1.6. Investments

Investments in the reporting year amount to K€ 465 (previous year: K€ 326). The majority pertains to the modernisation and expansion of the IT infrastructure, operational and business equipment as well as the acquisition of all of Posmatic GmbH.

Around 33 % (previous year: 33 %) of employees worked on the development and further development of new and existing Vectron products. A considerable share of personnel costs therefore relates to development services. However, the company chose not to capitalise these costs.

1.7. Financing

At year-end, cash and cash equivalents amounted to K€ 11,316 (previous year: K€ 11,562), a figure on par with the previous year.

The company successfully implemented its capital increase, which had been resolved on 6 February 2019, from K€ 6,612 to up to K€ 7,273 by issuing up to 661,199 new no-par value bearer shares against cash deposits whilst partially utilising the existing authorised capital and excluding the shareholders' pre-emptive rights. All new shares were privately and exclusively placed with investors in Germany and other European

countries at the placement price of € 7.60 per share, which had been resolved by the executive board with consent from the supervisory board. In this context, Toshō Capital GmbH, a company owned by the major shareholder and chairman of the executive board, Thomas Stümmeler, acquired a total of 390,199 shares from the capital increase. The gross transaction income from issuing the shares amounts to K€ 5,025.

In September 2019, the company found a new strategic investor in PRIMEPULSE SE. PRIMEPULSE, with head office in Munich, Germany, which is also an anchor shareholder of the two listed companies, CANCOM SE and STEMMER IMAGING AG, decided to develop an initial position with Vectron due to Vectron's promising positioning. In order to make it possible for PRIMEPULSE to participate in Vectron, the two founders and majority shareholders, Thomas Stümmeler and Jens Reckendorf, decided to sell some of their own shares. With around 10 % of Vectron's share capital, PRIMEPULSE now is one of the majority shareholders next to Thomas Stümmeler and Jens Reckendorf. However, Thomas Stümmeler and Jens Reckendorf remain Vectron's biggest shareholders with a joint share of around 46 %.

In the reporting year, the cash flow from ongoing business activity amounted to K€ -2,511 (previous year: K€ -2,323). The cash flow from ongoing business activity therefore decreased by K€ 188 year-on-year. The balance is primarily comprised of the loss at year-end and the increase in receivables.

Investments in fixed assets in the reporting period resulted in cash flow from investment activity of K€ -465 (previous year: K€ -278). Of this amount, K€ 66 (previous year: K€ 77) pertained to software licenses and K€ 27 (previous year: K€ 58) to technical plant and machinery. The remaining amount of K€ 372 (previous year: K€ 190) includes investments in operational and business equipment and prepayments made as well as financial assets in the amount of K€ 250, namely the acquired remaining shares in Posmatic GmbH.

In the reporting period, cash inflow and outflow from financing activities resulted in cash flow of K€ 2,731 (previous year: K€ 8,617), which results from the capital increase in February 2019 as well as the repayment of the participation rights in the amount of K€ 1,500 and the repayment of loans in the amount of K€ 842.

The financing strategy is geared towards long-term stability.

Significant obligations not contained in the balance sheet include a rental agreement for the property at the company head office as well as the refinancing of the sales promotion model. Existing leasing contracts beyond this (transport fleet, tools, trade fair construction etc.) only play a minor role. To support bonVito GmbH in the start phase, guarantee commitments were entered into. The total sum of the other obligations by the balance sheet date is K€ 5,594 (previous year: K€ 6,223). All of the liabilities have remaining terms of up to four years. We refer to the explanations in the notes.

1.8. Human resources

At the year-end the workforce comprised 187 employees (previous year: 183 employees). This performance indicator contains three members of the executive board and 18 trainees. Vectron applies a profit-based, variable, multi-level remuneration model for almost all employees to automatically adjust personnel costs to the economic situation and to motivate employees. If the profit situation is positive, employees earn considerably more through their variable salary components. This model balances the employer's and the employees' interests in a way that is accepted by the workforce. In addition to this, a share option programme (contingent capital, see information in the notes) was introduced for managers.

1.9. Remuneration system of the organs

All members of the company's executive board contain fixed and variable remuneration. The variable components of two of the members contain a performance-related component of one percent of operative profit (earnings before interest, taxes, depreciation and amortisation). The variable component of one of the members contains a capped target bonus. In addition, in 2018, 25,000 pre-emptive rights for the acquisition of 25,000 non-par value bearer shares of the company with a mathematical share in share capital of € 1.00 each (base value) were issued at the strike price during the exercise period. The annual general meeting on 17 May 2018 resolved to grant pre-emptive rights to members of the company's executive board. Furthermore, each member of the executive board is entitled to a company car.

The supervisory board receives a fixed annual remuneration. No variable components are provided. Please refer to the notes.

1.10. Other important processes

There were no other important processes during the financial year.

2. Assets and financial situation

Intangible assets primarily contain purchased development services for software components of the Vectron cloud platform and software licenses.

The wholly owned subsidiary bonVito GmbH founded in 2012 is presented under the financial assets. The company provides internet services in connection with POS systems and has been generating net profit each year since 2018.

This item also includes the investment in Posmatic GmbH, which was increased by 25 % to 100 % as of 1 January 2019. Posmatic manufactures a POS software app which runs on Apple hardware, such as iPads, iPods and iPhones. End customers generally purchase their own hardware and pay a monthly user fee for the software. The usual start-up losses for this specific business model were incurred during the start-up phase. Based on a positive forecast, the shares are stated at amortised cost.

Stocks have decreased by approximately 14.6 % compared to the previous year. Popular products are produced in advance and the proportion of finished products in the total volume increased as a result. Fundamentally, the ability to supply goods at any time is given a high priority, which means that temporary expansions of stock levels are deliberately accepted. Due to the business model with very short order lead times by the Vectron customers, delivery shortages could otherwise have an immediate negative effect on sales. There are no noteworthy risks as the stocks are materials for current models.

The inventory of receivables consists of numerous smaller individual receivables related to different customers. The aver-

age days sales outstanding varied between 38 and 60 days throughout the reporting period. Longer payments terms are only granted in exceptional circumstances. The actual payment default rate is very low. Potential risks are addressed through the formation of individual and general value adjustments.

As of the balance sheet date, the issued capital was comprised of 7,291,859 (previous year: 6,611,996) no-par value bearer shares with one vote each. The total equity capital amounts to K€ 13,813 (previous year: K€ 10,133).

The short-term liabilities and accruals of K€ 12,903 (previous year: K€ 4,305) can be paid from short-term tied capital in the amount of K€ 21,840.

The financing and liquidity situation of the company can be described as good. The cash flow statement shows the changes in cash and cash equivalents. Please refer to Section 1.7 in this respect and regarding off-balance sheet commitments.

3. Profit situation

In the first half of financial year 2019, the reluctance to buy in view of the final implementation of the new legal requirements for POS manipulation protection as of 1 January 2020 continued to result in muted demand for POS systems.

In addition, profit was significantly reduced by the ongoing expenses for the development of the new digital business model. Around one third of all employees work on these new developments, which resulted in costs for the new business fields in the first six months of the reporting period that are included in the EBITDA.

Within the scope of the expected “fiscalisation boom”, the new digital products will serve to considerably increase Vectron Systems AG’s revenues and optimise revenue sources by shifting them away from one-off payments toward permanent, ongoing, monthly fees.

In addition to the traditional specialist trade partner sales business, the company also offers a sales promotion model (“sale-and-lease-back with subsequent sublease of these POS

systems by Vectron to end customers”). Within the framework of this model, the sales revenues from sublease (K€ 2,717; previous year: K€ 2,609) during the term are offset against corresponding leasing expenses (K€ 2,056; previous year: K€ 2,001) under the material expenses item. Additionally, direct sales costs (K€ 845; previous year: K€ 1,170) were incurred with this model, which are contained in the material expenses item.

After deducting the figures for these effects and for non-product-related sales generated by associate companies, adjusted sales amounted to € 21.0 million (previous year: € 20.0 million), adjusted material costs to € 7.8 million (previous year: € 8.5 million) and consequently the adjusted gross profit ratio to 63.0 % (previous year: 57.4 %) for the company as a “POS manufacturer with traditional sales business”, compared with the unadjusted gross profit rate of 57.7 % (previous year: 52.9 %). The gross profit rate shown results from the material expenditure in proportion to sales (excluding stock changes).

Personnel expenses contain wages and salaries paid as well as annual leave entitlements and accrued overtime and special employee bonuses for the financial year. This resulted in a monthly average of K€ 775 compared with the previous year’s figure of K€ 850. Converted to full-time equivalents, the average number of employees (excluding 18 trainees) was around 158 (previous year: 158).

Following the additional need for the amortisation of intangible assets in 2018, depreciation and amortisation in the reporting period are back to the normal levels of the years preceding the previous year.

Other operating expenses decreased from an average of K€ 613 per month to K€ 579. The average monthly operating costs amounted to K€ 148 (previous year: K€ 144) and sales costs to K€ 290 (previous year: K€ 290).

Other operating income decreased by K€ 133 year-on-year to K€ 319 and primarily contained exchange rate gains, offset benefits in kind and income from the reversal of accruals and impairments.

The ordinary financial result in the amount of K€ -174 (previous year: K€ -165) primarily includes loan liabilities.

The percentage of foreign currency transactions in merchandise purchasing in financial year 2019 was approximately 37 % (previous year: approximately 35 %) of the material input. Other expenses by the company are not significantly influenced by exchange rate variations. The same applies to distribution, as foreign currency areas mostly also use the Euro for billing purposes. There are at present no recognisable inflationary tendencies.

Annual profit before income taxes amounts to K€ -1,956 (previous year: K€ -5,619) and annual profits to K€ -1,392 (previous year: K€ -3,876).

Now that there is finally clarity about the introduction of the manipulation protection and the date has been set for 30 September 2020, the unwillingness to invest is slowly decreasing throughout the entire POS industry. This is reflected in the business trend at the end of 2019, amongst other factors. In the fourth quarter, Vectron generated sales in the amount of K€ 7,689, which is a considerable year-on-year increase. Total sales of K€ 25,169 were thus generated and the net loss for the year reduced significantly compared to the previous year.

4. Significant events after 31 December 2019

For significant events after the balance sheet date,

- the capital increase with a gross income from issued shares of around € 11 million,
- Brexit, and
- the Coronavirus,

please refer to the disclosures in the significant events section of the notes as well as the forecast report in the management report.

5. Risk reporting

For monitoring purposes and to support decision-making, Vectron Systems AG has introduced a risk management sys-

tem and appointed a risk management officer who reports directly to the executive board. The risks and counter-measures are monitored and recorded on a regular basis. The risks are classified and appraised both qualitatively and quantitatively. Changes are documented so that historical developments are transparent. The results of each audit are reported to the executive board. If additional counter-measures are required, these are initiated directly by the executive board. A performance indicator is calculated from the probability of occurrence and potential damage. This forms the basis for inclusion in the risk report.

5.1. Business risks

The long-standing pricing pressure in the industry may result in a narrowing of the margins for the sale of POS systems, which could not be compensated with other means. By offering unique selling points, Vectron has so far largely disconnected itself from the general pricing competition within the sector. The development of the new business fields with their recurring revenues will lead to a great degree of independence in this respect.

Various technical developments have lowered market entry hurdles for new providers and lead to a continuous change of products and business models. Missing a new trend could damage Vectron's profitability long-term. The monitoring of competitors and other sectors in order to constantly check and adjust the company strategy is thus of great importance. For this reason, product developments are continually adjusted to current findings. All developments are now based on agile methods (Scrum) to ensure maximum reaction speeds.

Economic fluctuations impact users' willingness to invest in POS systems, meaning that an economic downturn (potentially only in individual sales countries) can lead to significant sales decreases. The focus on high-quality and complex system solutions and the transition to business models with recurring instead of one-off revenues will provide the company with as much independence as possible from the economic cycles.

As from 1 January 2020, POS systems in Germany must be fitted with a certified technical security device in accordance with

Section 146a of the German Tax Code (Abgabenordnung – AO) so as to prevent the manipulation of electronic records. Due to the delayed availability of the technical and tax law requirements, the German Federal Ministry of Finance (BMF) granted a period of grace for implementing the upgrades until 30 September 2020. In the markets of other countries with similar constraints, numerous users let similar periods of grace pass without responding and reacted with a significant delay. Further postponements of the date cannot be ruled out. Sales expected in 2020 generated from upgrades and the replacement of devices could therefore be delayed. Vectron Systems AG aims to respond to this situation with the rapid implementation as well as close coordination of product development, marketing, sales and logistics.

5.2. Process and value creation risks

The company's growth and adjustment processes, particularly for the development of the new business fields and the expansion in other countries may lead to the complexity of internal processes increasing too quickly, thus leading to loss of efficiency and lack of quality. During corresponding changes, particularly importance is thus placed on suitable project management and involvement of employees.

The process development and invoicing of digital services is complex and prone to errors. Problems can have considerable negative effects on sales, revenues and customer satisfaction. This is primarily counteracted with the launch of suitable IT solutions.

Within the scope of the obligation to use a suitable technical security device, demand for suitable POS systems is to be expected to increase sharply and suddenly. The production capacities of Vectron and/or its suppliers may be insufficient, required components may be unavailable in sufficient quantities or it may be impossible to guarantee the service quality which the customers are used to. This risk is primarily counteracted by increasing stocks of materials and finished products and implementing organisational measures.

As a technology company, Vectron may become the target of industrial espionage. Due to the particular market characteristics and the specialist knowledge required to use the tech-

nology, the actual risk is considered relatively small. Despite this, Vectron has taken extensive protective measures, e.g. IT systems security, internal access restrictions and non-disclosure agreements.

5.3. Finance risks

Sales variations may have a significant short-term effect on the available cash flow and thus endanger the overall financing of the company. Vectron therefore aims for a high equity ratio. Additionally, sufficient levels of liquidity holdings are kept, so that the stability of the company is ensured at all times even during longer periods of weak economic performance.

Dependencies on individual, major customers always pose a risk, such as in the case of payment default. However, this risk is currently low for Vectron (the largest Vectron customer accounted for 4.1 % of total sales in 2019), but may increase due to individual major orders.

As the company buys a significant share of the material in foreign currency (primarily US dollar), and/or prices are directly impacted by exchange rates, unfavourable exchange rate fluctuations may have a significantly negative impact on profits. Foreign currency items are secured with derivative financial instruments, if possible. Due to the sometimes high volatilities, these securities are however not always available at acceptable conditions. In addition, securing against long-term exchange rate changes is practically impossible.

Longer-term business interruption, e.g. as a result of a fire, could have considerable financial costs. This risk is mitigated through a business interruption insurance, if possible. However, certain risks, such as force majeure, cannot be insured or would be too expensive to insure to be economically viable.

Tax audits always bear a potential revenue and/or liquidity risk. Up to now, financial years 2008 to 2015 have been audited without resulting in any material back payments.

5.4. Technical and IT risks

The company is highly dependent on numerous IT systems and other technology. Breakdowns, malfunctions, data loss or hacker attacks could endanger the company's continued existence as a going concern. Vectron places great importance on state-of-the-art security measures and backup solutions as well as regular IT system updates.

5.5. Purchasing and cooperation risks

A price increase for purchased components can result in a narrowing of the margin. In order to prevent this issue, Vectron agrees fixed-price contracts that prevent direct price increases by suppliers. As the exchange rate trend is used for calculation of the fixed price, there is nevertheless an indirect potential currency risk. However, it is impossible to fix prices in the long term.

Price savings for electronic assemblies, components and finished devices can generally only be achieved by purchasing larger quantities. However, larger purchasing volumes require more tied capital and bear the risk of impairments in the event of products being cancelled. The company therefore only concludes framework agreements for quantities whose sale is largely secured.

In the case of Vectron-specific or single-source components, the downtime of a pre-supplier can result in delivery delays. The largest single supplier contributed a share of 11.8 % of the total acquisition volume in 2019. To avoid shortages, minimum amounts of all critical components are stored so that a sufficient lead time for a reaction to downtimes is ensured. Where technically and economically feasible, replacement suppliers are on stand-by.

5.6. Personnel risks

In view of the lack of qualified employees in recent years, problems with the acquisition of qualified employees may result in the company being unable to implement its planned product developments and sales activities and exploit corresponding business opportunities. Numerous individual measures are being implemented to position Vectron as an attractive employer.

The unavailability of key employees can lead to significant problems with operations. A risk in this respect is that it may be impossible to retain these key employees in the company. In order to promote employee retention, Vectron places great importance on a good working climate and the targeted promotion of cooperation amongst colleagues.

5.7. Product and product development risks

The product portfolio undergoes ongoing adjustments, changes and expansions. The resulting development and production complexity can lead to delays and product errors that can have a significant effect on the company's profit situation. There is also a risk of developing products that do not meet requirements in the market. Both planning and development are therefore as iterative as possible to ensure that findings in the market flow into these activities as quickly as possible. Software tests are automated as much as possible. The risk is further limited through a product liability insurance.

6. Forecast report

6.1. Future sector development

It can be expected that the structure in the previous core market, in other words POS systems for gastronomy businesses and bakeries, will generally remain unchanged, i.e. the industry is dominated by many small and regional market participants. At the same time, user requirements will continue to increase, particularly regarding ease of use and powerful analysis functions. Competition is likely to remain as fierce as ever.

In Germany, the main sales region, the Law on the Protection Against Manipulation of Digital Background Recordings [Gesetz zum Schutz vor Manipulationen an digitalen Grundaufzeichnungen] will have a significant effect on the market. The period of grace granted means that the change-over has been postponed from 1 January 2020 to 30 September 2020.

The required development costs will continue to grow. Vectron Systems AG's size, which is an advantage compared with nu-

merous competitors, provides the company with the opportunity to develop its market share.

The competition for data and data management will also increasingly impact the POS industry. Digital services are already considerably changing the gastronomy market. The trend is similar to that in the retail sector, but at a significant delay due to the fragmented structure of the industry.

The use of mobile consumer hardware, in particular tablet computers, as a basis for cash register systems is expected to increase further. The integration of cash register systems into the internet with corresponding new products and business models will further contribute to changing the sector. Customer retention systems as well as reporting services are becoming more usable and affordable for an increasing number of users in the form of cloud solutions. In future, the innovative capability of the providers will therefore determine the competitive success even more. However, the changes will not take place as quickly as in the consumer segment.

The sales structures – in the market segment of Vectron this is sales through specialist trade partners – are forecast to remain largely stable in the long term.

The COVID-19 pandemic may have a major impact on the providers of POS systems and related services. It cannot be reliably determined at present how long the slump in demand will continue and how strong the recovery will be. However, these facts will be crucial to the question if and how many providers will disappear from the market.

6.2. Future product development

The main focus remains on the continuous further development of the various software and service products.

The further development of the Vectron Cloud online platform is a focal point. Customer retention, ordering, reservation and e-payment services are technically integrated on this platform, both with the company's own products and cooperations. These services are marketed in various combinations under different product names.

New POS system software is also being developed at present. In a first step, it will complement existing products in order to use it in all Vectron POS systems in the long term.

The hardware for the stationary and mobile POS systems is replaced and complemented with other products in a targeted manner to position the company in other niche markets.

6.3. Future business development

The measures for combating the COVID-19 pandemic are having a massive effect on Vectron's target markets. According to the company's own analyses, following the total closures of all restaurants in mid-March, restaurant sales have collapsed by almost 90 % between the first and second half of the month. Only some of the restaurants offer delivery and takeaway services and these activities generate only a fraction of the usual sales. Bakeries did not close, but without their cafe business, sales slumped by almost 25 % during March.

The effects on Vectron's short and medium-term business development cannot be estimated at present. In any case, the economic situation of the gastronomy and bakery industry is impacting the willingness of customer to invest. There are no reliable scenarios for the resumption of the general economy, particularly the heavily affected sectors, and the recovery of investments.

As announced in the ad-hoc report on 17 March 2020, previous planning is therefore out of date and it is currently impossible to reliably forecast business trends in 2020 and beyond. The gross income of around € 11.0 million generated from the shares issued as part of the capital increase in February 2020 plus the existing comfortable level of cash and cash equivalents provide Vectron with sufficient liquid resources, even for crisis situations that could endanger the company's existence as a going concern. The usual options in crisis situations can also be implemented. Reduced working hours are already being used as an instrument for adjusting to the drop in capacity utilisation and for saving costs. A KfW loan or other financing option and cost saving measures could also be considered, if necessary. The medium and long-term outlook also depends on overall economic developments. It is impossible to create any forecasts at present. The current forecasts published by

the economic research institutes fluctuate between a GDP slump of 2.8 %, followed by strong growth, and a collapse of more than 20 %.

The effects from Brexit should be manageable for Vectron.

By focussing on service, the company plans to reduce its dependence on general economic developments.

- bonVito has become firmly established at the market in its current form as customer loyalty solution for individual enterprises and continues to grow steadily. The existing customer base is very stable and the termination rates are low.
- Vectron markets various supplementary products for POS systems under the “myVectron” product name and based on the new Vectron cloud platform. The main products include reporting apps, data backups in the cloud and interfaces to DATEV cloud solutions.
- With its “Digital World” product package, Vectron provides customers with a complete package comprising the most popular digital services with integration in a POS system. The aim is to provide customers a complete solution that

meets all of their digital requirements in one place. The advantages are that additional operating steps and additional hardware, such as tablet computers, are no longer required thanks to the direct integration of the services in the POS as well as much lower package prices.

The Law on the Protection Against Manipulation of Digital Background Recordings [Gesetz zum Schutz vor Manipulationen an digitalen Grundaufzeichnungen] will have a significant positive effect on future business developments. Experiences from similar laws in countries such as Austria give rise to expect a considerable rise in demand for a period of two to three years. Due to the delays caused by the COVID-19 pandemic, only a small number of systems will have been changed over as of the cut-off date on 30 September 2020. After this date, the intensity of controls by the financial administration in the form of so-called cash register audits will also be a deciding factor for the speed with which the changeover will be implemented.

Münster, 31 March 2020

Vectron Systems AG
The executive board



Jens Reckendorf
CTO



Thomas Stümmeler
CEO



Silvia Ostermann
COO

Balance sheet as of 31 December 2019

Assets	31/12/2019		31/12/2018
	€	€	€
A Fixed assets			
I Intangible assets			
1 Purchased concessions, commercial property rights and similar rights and values as well as licenses to such rights and values	129,029.66		199,266
2 Prepayments made	0.00	129,029.66	0
II Tangible assets			
1 Technical facilities and machines	140,559.45		223,323
2 Other facilities, operational and business equipment	267,145.29		305,570
3 Prepayments made and work in progress	48,430.00	456,134.74	31,980
III Financial assets			
Shares in associated companies		2,054,214.15	2,639,378.55
			1,804,214
B Current assets			
I Stocks			
1 Raw, auxiliary and operating materials	2,598,210.67		3,779,777
2 Finished products and merchandise	2,360,043.17	4,958,253.84	2,026,265
II Claims and other assets			
1 Claims arising from deliveries and services	5,010,094.63		2,268,332
- of which with a residual term of more than one year: € 0			
2 Claims towards associated companies	218,848.14		520,005
- of which receivables arising from deliveries and services: € 84,486.02			
- of which with a residual term of more than one year: € 0			
3 Other assets	336,731.70	5,565,674.47	410,909
- of which with a residual term of more than one year: € 0			
III Cash-in-hand, bank balances and cheques		11,316,281.74	21,840,210.05
			11,561,664
C Accrued and deferred items			68,235.98
			68,512
D Deferred tax assets			2,169,510.52
			1,659,432
		26,717,335.10	24,859,248

Profit and loss account

P&L 1 January – 31 December 2019	Financial year 2019			Financial year 2018		
	€	€	€	€	€	€
1 Sales revenues		25,169,313.44			24,824,922.55	
2 Increase or decrease in finished goods inventories and work in progress		29,696.36			220,655.22	
3 Other operating revenues, of which from currency exchange: € 22,339		<u>319,666.15</u>	25,518,675.95		<u>453,045.65</u>	25,498,623.42
4 Material costs						
a) Cost of raw materials, consumables and supplies, and of merchandise	-7,566,369.19			-8,524,485.18		
b) Costs for services obtained	<u>-3,090,158.23</u>	-10,656,527.42		<u>-3,179,643.14</u>	-11,704,128.32	
5 Personnel costs						
a) Wages and salaries	-7,832,922.56			-8,724,733.76		
b) Social security, post-employment and other employee benefit costs, of which for old age pensions: € 73,003 (previous year: € 82,035)	<u>-1,464,648.75</u>	-9,297,571.31		<u>-1,476,157.79</u>	-10,200,891.55	
6 Depreciation of tangible and intangible fixed assets		-390,254.02			-1,682,141.19	
7 Other operating expenses, of which from currency exchange: € 27,687		<u>-6,952,189.58</u>	-27,296,542.33		<u>-7,361,140.37</u>	-30,948,301.43
8 Other interest and similar income, of which from the discounting of accruals: € 0 of which from associated companies: € 9,596			19,126.12		42,574.03	
9 Interest and similar expenses, of which from the compounding of accruals: € 0 of which to associated companies: € 0			-193,364.73		-207,089.52	
10 Income tax expenditure, of which latent taxes: revenue € 510,078 (previous year: expenditure € 1,155,254)		<u>564,268.95</u>	390,030.34		<u>1,742,714.92</u>	1,578,199.43
11 Earnings after taxes			-1,387,836.04			-3,871,478.58
12 Other taxes			-4,361.31			-4,847.23
13 Net loss for the year			-1,392,197.35			-3,876,325.81
14 Loss / profit carried forward from previous year			-1,874,588.48			2,001,737.33
15 Balance sheet loss			<u>-3,266,785.83</u>			<u>-1,874,588.48</u>

Cash flow statement

Cash flow statement 1 January – 31 December 2019		
	2019	2018
	€	€
Ordinary period result before income tax	-1,956,466	-5,614,194
+ Depreciation on fixed assets	390,254	1,682,142
+/- Increase / decrease of other accruals, where these are not allocated to the investment or financing activity	260,700	-483,660
+/- Other non-operative expenditures/revenues	0	-1,042
+/- Loss / profit from the sale of fixed assets	0	-9,214
+/- Decrease / increase in stocks, receivables from deliveries and services as well as other assets not allocated to investment or financing activity	-1,610,722	2,990,382
+/- Increase / decrease in liabilities from deliveries and services as well as other liabilities not allocated to investment or financing activity	280,392	-674,372
+/- In-payments / out-payments from exceptional items	0	0
-/+ Income taxes paid / received	124,547	-213,556
= Cash flow from ongoing business activity	-2,511,295	-2,323,514
+ In-payments from disposals of tangible fixed assets	92	48,055
- Out-payments for investments into tangible fixed assets and intangible fixed assets	-215,371	-325,563
- Out-payments for investments into financial assets	-250,000	0
= Cash flow from investment activity	-465,279	-277,508
+ In-payments from equity injections	5,073,312	0
+ In-payments from borrowing	0	10,000,000
- Out-payments from the redemption of loans	-2,342,120	-1,052,650
- Out-payments for the repayment of advances	0	0
- Out-payments to company owners (dividends)	0	-330,600
= Cash flow from financing activity	2,731,192	8,616,750
= Cash change to the cash and cash equivalents	-245,382	6,015,728
+ Cash and cash equivalents at the start of the period	11,561,664	5,545,935
= Cash and cash equivalents at the end of the period	11,316,282	11,561,663

Notes

1. Information on the company

The purpose of Vectron Systems AG is to develop, distribute and sell integrated solutions for POS systems and related systems, including software and cloud-based data analysis, data management, goods management, CRM and service modules, interfaces for third parties, related services of any kind, and the production of the required hardware, particularly POS systems and accessories.

The location Münster is both the production centre and the head office from which the domestic and international sales regions are supplied.

Company:	Vectron Systems AG
Head office:	Willy-Brandt-Weg 41, 48155 Münster, Germany
Register court:	Münster District Court
Commercial register no.:	B 10502
Authorised representative:	Thomas Stümmeler (CEO) Silvia Ostermann (COO) Jens Reckendorf (CTO)

2. Information on the annual financial statement and the accounting and assessment methods

These annual financial statements as of 31/12/2019 were compiled in Euro (€) on the basis of the regulations under German commercial law and the supplementary specific requirements stipulated by law and the articles of association.

The structure of the balance sheet and the profit and loss account complies with commercial law regulations and supplementary, legal form-specific legal regulations. The profit and loss account is structured pursuant to Article 275 section 2 HGB [German Commercial Code] in accordance with the total cost format. The option right under Article 265 section 5 HGB was exercised. Pursuant to Article 267 section 2 HGB, the company is a medium-sized corporation.

On 01/03/2017, the company started trading its shares in the

“Scale” segment for SMEs (previously in the Entry Standard) of Deutsche Börse AG, a sub-section of the OTC market. The company is therefore not a company with focus on the capital market within the meaning of Section 264d HGB and therefore a Non-PIE company.

The intangible assets and the tangible fixed assets are appraised at acquisition cost. Self-produced intangible fixed assets have not been activated. Assets that are subject to wear and tear are reduced by planned linear depreciation. The lower fair value was applied if this was below the amortised acquisition or production costs on the balance sheet date and the impairment was expected to be permanent. The financial assets are appraised at acquisition cost. The planned depreciations are generally determined on the basis of the following operating lives across the group.

Category	Years
IT programs / other rights	3 -10
POS software / construction plans	5 -6
Tangible fixed assets	3 -13

Stocks are appraised at average acquisition or production costs. Finished products are stated at production costs, i.e. manufacturing and general material costs as well as the manufacturing-related value reduction of the fixed assets were considered. The lower fair value was applied if this was below the acquisition or production costs on the balance sheet date. Interest for borrowed capital was not included.

Claims from deliveries and services, receivables towards associated companies, other assets as well as liquid resources are shown at par. Default risks and value risks applicable to receivables from deliveries and services have been suitably considered both through individual and global valuation adjustments.

Assets and liabilities in foreign currency were appraised as of the balance sheet date at the average spot exchange rate. All foreign currency items have terms of less than one year.

Deferred taxes are stated for temporary differences between the valuations of assets and liabilities under commercial and tax law.

This also includes deferred taxes on tax losses carried forward which are expected to be utilised within five years.

Accruals are set at the fulfilment amount required in accordance with a prudent commercial assessment. Future price and cost increases are being accounted for. Any existing provisions with a term of more than one year are discounted.

Liabilities are set at their fulfilment amounts.

3. Illustrations on assets

Intangible assets primarily contain purchased software licenses as well as development services.

The overall development of the fixed assets can be seen in the fixed assets statement (appendix 4).

Vectron Systems AG owns 100 % of the shares in the subsidiary bonVito GmbH Münster founded in 2012. The equity capital of bonVito GmbH amounted to K€ 123 as of 31 December 2018 (previous year: K€ 54). The company finished financial year 2018 with net profit for the year of K€ 69 (previous year: K€ -111). Net profit for the year in 2019 is expected to be higher. Due to the positive development of the subsidiary, which has taken place since 2018, the investment book value is stated at amortised costs.

On 1 January 2019, the remaining 25 % of the shares in Posmatic GmbH were acquired in the amount of K€ 250. In December 2016, Vectron Systems AG already invested in a 75 % share in the start-up of Posmatic GmbH, Münster, Germany. The company also provided additional capital for the acquisition of sales operations and for development measures and sales promotion. Posmatic GmbH provides POS software which runs on Apple hardware, such as iPads, iPods and iPhones. The equity capital of Posmatic GmbH amounted to K€ 483 as of 31 December 2018 (previous year: K€ 514). The company finished financial year 2018 with net loss for the year of K€ 31 (previous year: K€ 262). A greater net loss for the year is expected in 2019 due to restructuring measures that were implemented for creating synergy effects. Due to the positive development of the subsidiary, which is to be expected following planned start-up losses, the investment book value is stated at amortised costs.

At the end of 2017, VECTRON America INC. started operations upon payment of the deposit in the 80 % shareholding in the translated amount of K€ 135 to further expand the North American business. The equity capital of the company amounted to KCAD 67 as of 31 December 2018 (previous year: KCAD 313). The company finished financial year 2018 with net loss for the year of KCAD 264 (previous year: KCAD 0). Net loss for the year in 2019 is expected to be very low. Due to the positive development of the subsidiary, which is to be expected following planned start-up losses, the investment book value is stated at amortised costs.

The company did not receive any unrealised investment income from the above-stated shares which would have to be barred from distribution in accordance with Section 272 V HGB [German Commercial Code] during the financial year.

There is no obligation to prepare consolidated financial statements pursuant to Article 293 HGB.

The stocks mainly consist of raw materials, consumables and supplies for the production of the cash register models and finished products and merchandise. Trade goods only play a minor role as a logistics partner is managing both inventories and dispatch. Due to the demand for large delivery capacities, the change of some product lines from make-to-order production to make-to-stock production, which was initially implemented in 2014, was continued in the reporting year.

Cash in hand and bank balances amounted to € 11,316 as of the balance sheet date (previous year: K€ 11,562). We refer to the explanations on loan liabilities.

Due to temporary differences between the valuations of assets and liabilities under commercial law and tax law and due to tax losses carried forward, there will be a tax relief in future years. Deferred tax assets were recorded at the amount of this tax relief on the basis of differences regarding the useful life of some fixed assets as well as provisions for impending losses and tax losses carried forward. The appraisal was made at a tax rate of 31.9 %. Please refer to the disclosures on the section on significant events after the balance sheet date.

Due to the capitalisation of deferred tax assets, profits can only be distributed if the accruals freely available after the

distribution plus retained profits and less losses carried forward amount to at least € 2,170 (previous year: K€ 1,659).

4. Illustrations on liabilities

The shares listed in the subscribed capital are no-par value bearer shares with one vote each and a book value of € 1.

The company's share capital now amounts to € 7,291,859.00 and is divided into 7,291,859 no-par value bearer shares. It went up year-on-year due to various capital increases.

Due to the resolutions of the annual general meeting on 19 June 2019, which included the rescission of the (unused) authorised capital 2018 as well as the creation of the authorised capital 2019, the development of the capital and pre-emptive rights issued during the reporting period is shown below.

As per resolution of the annual general meeting on 17 May 2018, the executive board is authorised, with the approval of the supervisory board, to increase the share capital of the company by a total of up to € 3,305,998.00 until 17 May 2023 by issuing new no-par value bearer shares against cash de-

posit and/or payment in kind (authorised capital 2018) and to determine a start of the profit participation which differs from legal requirements. The authorisation may be fully or partially utilised in one or several tranches. The executive board is further authorised, with the approval of the supervisory board, to decide on the content of the share rights and conditions of issue. The shareholders shall be granted a subscription right during capital increases. However, the executive board may, with the approval of the supervisory board, exclude the subscription rights for shareholders under certain conditions. In the reporting period, € 661,199 of the authorised capital 2018 was drawn down and the remainder rescinded.

As per resolution of the annual general meeting on 19 June 2019, the executive board is authorised, with the approval of the supervisory board, to increase the share capital of the company by a total of up to € 3,636,597.00 until 19 June 2024 by issuing new no-par value bearer shares against cash deposit and/or payment in kind (authorised capital 2019) and to determine a start of the profit participation which differs from legal requirements. The authorisation may be fully or partially utilised in one or several tranches. The executive board is further authorised, with the approval of the supervisory board, to decide on the content of the share rights and conditions of issue.

Equity capital development (€)	Subscribed capital***	Capital reserve	Retained earnings**: Statutory reserve	Participation rights capital I	Balance profit *	Total
Equity capital at 01/01/2018	6,611,996	5,355,294	40,000	0	2,332,337	14,339,627
Dividend payout					-330,600	-330,600
Capital increase from company funds						
Capital increase from contingent capital						
Net loss for the year					-3,876,326	-3,876,326
Equity capital at 31/12/2018	6,611,996	5,355,294	40,000	0	-1,874,589	10,132,701
Dividend payout						
Capital increase against deposits	661,199	4,363,913				5,025,112
Capital increase from contingent capital	18,664	29,536				48,200
Net loss for the year					-1,392,197	-1,392,197
Equity capital at 31/12/2019	7,291,859	9,748,743	40,000	0	-3,266,786	13,813,816

* The balance sheet loss of € -3,266,785 (previous year: € -1,874,588) contains loss / profit carried forward of € -1,874,588 (previous year: € 2,001,737).

** No retained earnings due to a lack of write-ups of fixed and current assets.

*** Shares subscribed from authorised capital in financial year 2019: 661,199; shares subscribed from authorised capital in financial year 2019: 18,664

	Shares	Authorised capital			Contingent capital			
		2017	2018	2019	2011	2016	2017	2018
Originally resolved nominal amount (after conversion of 1 to 4 share split in 2017)		3,299,998	3,305,998	3,636,597	180,000	180,000	180,000	200,000
31/12/2017 (II)	6,611,996	3,299,998	0	0	98,000	180,000	180,000	0
AGM resolutions 2018		-3,299,998	3,305,998			-180,000		200,000
Exercised								
31/12/2018 (I)	6,611,996	0	3,305,998	0	98,000	0	180,000	200,000
Limitation					-42,000			
31/12/2018 (II)	6,611,996	0	3,305,998	0	56,000	0	180,000	200,000
AGM resolutions 2019			-2,644,799	3,636,597				
Exercised	679,863		-661,199		-18,664			
31/12/2019 (I)	7,291,859	0	0	3,636,597	37,336	0	180,000	200,000
Limitation								
31/12/2019 (II)	7,291,859	0	0	3,636,597	37,336	0	180,000	200,000
of which pre-emptive rights issued (after share split 2017) in units:					37,336		98,000	25,000
of which in cash (as of the balance sheet date) in EUR:					586,829		615,300	0

The shareholders shall be granted a subscription right during capital increases. However, the executive board may, with the approval of the supervisory board, exclude the subscription rights for shareholders under certain conditions. The authorised capital 2019 was not drawn down in the reporting period.

The share capital of the company is conditionally increased nominally by up to € 180,000.00 by issuing up to 180,000 new no-par value bearer shares (contingent capital 2011). Pre-emptive rights were exercised in the reporting period. As of the balance sheet date, the contingent capital 2011 was effectively only increased further by up to € 37,336.00 by issuing up to 37,336 new no-par value bearer shares. On the balance sheet date, the pre-emptive rights, which are not stated as an expense, amounted to K€ 586. The contingent capital increase serves to issue subscription rights to executive employees of the company and subordinated associated companies in Germany and abroad in accordance with the authorisation resolution passed by the annual general meeting on 26 May 2011 regarding TOP 7. The contingent capital increase shall only be implemented if the holders of subscription rights exercise their rights.

The share capital of the company is conditionally increased by up to € 180,000.00 by issuing up to 180,000 new no-par value bearer shares (contingent capital 2017). Pre-emptive rights were issued in the reporting period. On the balance sheet date, the pre-emptive rights, which are not stated as an expense, amounted to K€ 615. The contingent capital increase serves to issue subscription rights to executive employees of the company and subordinated associated companies in Germany and abroad in accordance with the provisions of the authorisation resolution passed by the annual general meeting on 23 June 2017 regarding TOP 10. The contingent capital increase shall only be implemented if the holders of subscription rights exercise their rights.

The share capital of the company is conditionally increased by up to € 200,000.00 by issuing up to 200,000 new no-par value bearer shares (contingent capital 2018). No pre-emptive rights were issued in the reporting period. On the balance sheet date, the pre-emptive rights, which are not stated as an expense, amounted to K€ 0. The contingent capital increase serves to issue subscription rights to members of the executive boards of the company and subordinated associated companies in

Germany and abroad in accordance with the provisions of the authorisation resolution passed by the annual general meeting on 17 May 2018 regarding TOP 12. The contingent capital increase shall only be implemented if the holders of subscription rights exercise their rights.

In accordance with Article 71 section 1 no. 8 AktG [German Stock Corporation Act], the company is entitled to buy own shares during the period up to 12 June 2020. The purchase is limited to a quantity corresponding to 10 % of the existing share capital. The authorisation can be exercised within the upper limit in full or in partial amounts. The purchase can be made via the stock exchange or through a public offering. This was not exercised during the financial year.

The other accruals that are comprehensively classified as short-term are primarily distributed amongst the following areas:

Designation	€
Annual leave / overtime	199,600
Outstanding purchase invoices	341,170
Variable remuneration elements	67,480
Other accruals	596,922
Total	1,205,172

Regarding the liabilities from deliveries and services, the usual retentions of title from the acquisition of assets exist.

At K€ 421, the liabilities to banks result from an unsecured development loan taken out in June 2015. The loan has a term up to 30 June 2020. In June 2018, an earmarked loan was taken up in the amount of K€ 10,000 for the financing of projects within the scope of a growth-oriented transformation strategy. The loan has a term up to 30/12/2020. In 2019, the loans (K€ 10,000) were secured with cessions by security in the form of chattel mortgages on goods inventories and the assignment of securities for receivables.

5. Notes on the profit and loss calculation

A large proportion of the sales is achieved through internally developed and produced Vectron POS systems. In addition to

the sale of hardware, the internally developed software (network communication, expansion licences) and online services are also sold. Vectron's complete portfolio is rounded off by peripheral appliances (printers, scanners, cash register drawers etc.) and services.

In addition to the classic specialist trade partner sales business, the company also offers a sales promotion model ("sale-and-lease-back with subsequent sublease of these cash registers by Vectron to end customers"). Within the framework of this model, the sales revenues from sublease (K€ 2,717; previous year: K€ 2,609) during the term are offset against corresponding leasing expenses (K€ 2,056; previous year: K€ 2,001) under the material expenses item. Additionally, direct sales costs (K€ 845; previous year: K€ 1,170) were incurred with this model, which are contained in the material expenses item.

After deducting the figures for these effects and for non-product-related sales generated by associate companies, adjusted sales amounted to € 21.0 million (previous year: € 20.0 million), adjusted material costs to € 7.8 million (previous year: € 8.5 million) and consequently the adjusted gross profit ratio to 63.0 % (previous year: 57.4 %) for the company as a "POS manufacturer with traditional sales business", compared with the unadjusted gross profit rate of 57.7 % (previous year: 52.9 %). The gross profit rate shown results from the material expenditure in proportion to sales (excluding stock changes).

Other operating income primarily contains exchange rate gains, offset benefits in kind, income from the reversal of accruals and impairments as well as other income.

Depreciation and amortisation does not contain any impairments. In the previous year, impairments amounted to K€ 1,218.

The profit and loss account contains the auditor's fees for the audit of the annual financial statement of K€ 30 and for tax advisory services of K€ 6.

The income taxes stated in the profit and loss account contain deferred tax income in the amount of K€ 510. Additional amounts result from taxes for previous financial years.

The balance sheet was compiled under consideration of the partial use of the annual result. The executive board did not

Segment [€]	Period	Germany	EU	Third country	Total
POS systems	2019	11,451,127	3,148,117	210,126	14,809,371
	2018	10,649,845	3,682,737	219,549	14,552,131
Software	2019	1,546,766	479,587	32,177	2,058,530
	2018	1,407,940	581,668	55,280	2,044,888
Goods for resale / service	2019	6,743,983	1,485,538	71,891	8,301,412
	2018	6,251,315	1,916,465	60,124	8,227,904
Total	2019	19,741,876	5,113,243	314,195	25,169,313
	2018	18,309,100	6,180,870	334,953	24,824,923
Percentage distribution	2019	78.4 %	20.3 %	1.2 %	100.0 %
	2018	73.8 %	24.9 %	1.3 %	100.0 %

exercise the option of endowment of statutory reserves. Furthermore, no proposal / resolution for appropriation had been made as yet.

6. Other information

Other financial obligations in the form of liquidity-protecting leasing and rental obligations amount to a nominal K€ 5,594 (previous year: K€ 6,223).

Contingent liabilities in the form of guarantees for the benefit of the associated company, bonVito GmbH, pursuant to Section 251 HBG amount to K€ 754 (previous year: K€ 1,158). Due to the positive development of the subsidiary these are not expected to be utilised.

During the reporting period, an average of 161 employees (consisting of 149 full-time employees and 12 part-time employees) worked at Vectron Systems AG. These figures were determined in accordance with the methods stated in Section 267 V HGB.

The members of the executive board can be contacted at the company's administrative address. Jens Reckendorf is the member of the executive board responsible for Technology & Development, IT and Support & Services, Thomas Stümmler is the CEO and responsible for Strategy, Products/Brands, Public and Investor Relations as well as Marketing and Sales and Silvia Ostermann is the member of the executive board responsible for Personnel, Finances, Law, Purchasing, Production as well as Workflows and Processes.

The executive board member remuneration including ex-

Other financial obligations [€]	of which remainder term			
	Total	up to 1 year	1 to 5 years	over 5 years
Leasing obligations*	4,442,003	2,969,146	1,472,858	0
Rental obligations**	1,151,771	813,015	338,756	0
Sum	5,593,774	3,782,160	1,811,614	0

* The sale-and-lease-back transactions concluded within the framework of the sales promotion model have terms of 36 or 48 months with a remaining volume for the following financial years of K€ 4,175 (previous year: K€ 4,258) which are offset by slightly increased subleasing contracts.

** Rental obligations relate to the period until May 2021.

penses, benefits in kind, profit participation and pre-emptive rights for the reporting period for Mr Reckendorf amounts to € 218,937.36 (of which success-dependent: € 0.00 plus pre-emptive rights € 0.00), for Mr Stümmler to € 224,104.80 (of which success-dependent: € 0.00 plus pre-emptive rights € 0.00) and for Ms Ostermann to € 213,220.84 (of which success-dependent: € 34,945.00 plus pre-emptive rights € 0.00).

The supervisory board consists of the following four members:

- Mr Christian Ehlers (chairman), lawyer
- Mr Maurice Oosenbrugh (deputy chairman), business manager, managing partner of EUCON GmbH
- Mr Heinz-Jürgen Buss, Dipl.-Kaufmann [business administration graduate], managing director Winkelmann Group GmbH & Co. KG
- Mr Thomas Stümmler (until 19 June 2019 as member of the supervisory board deployed to the executive board), business manager
- Mr Thorsten Behrens (from 19 June 2019), Dipl.-Kaufmann [business administration graduate], managing director Stephens Inc.

The supervisory board remuneration for the chairman is K€ 30. The other supervisory board members receive a remuneration of K€ 20 each.

7. Events after the balance sheet date:

The annual financial statements must be, and have been, prepared to reflect the situation as of the balance sheet date (balance sheet date principle). Subsequent events of retrospective relevance are taken into consideration, but events with a material impact on profit and loss are not.

The Coronavirus pandemic is a subsequent event with a material impact on profit and loss, meaning that any effects arising

thereof generally do not have any retrospective effect on the annual financial statements as of 31 December 2019, but will only impact the new reporting period – subject to a negation of the continuation of the company as a going concern. Please refer to the forecast in the management report for further details.

The gross income of around € 11.0 million generated from the shares issued as part of the capital increase in February 2020 plus the existing comfortable level of cash and cash equivalents provide Vectron with sufficient liquid resources, even for crisis situations that could endanger the company's existence as a going concern. The usual options in crisis situations can also be implemented. Reduced working hours are already being used as an instrument for adjusting to the drop in capacity utilisation and for saving costs. A KfW loan or other financing options and cost saving measures could also be considered, if necessary.

In February 2020, the reporting company fully placed the above-mentioned capital increase in the amount of around 10 % of share capital. The company's share capital was increased by up to € 727,319.00 by issuing up to 727,319 new no-par value bearer shares ("new shares") whilst partially drawing down the existing authorised capital 2019 and excluding the shareholders' pre-emptive rights. The interest in subscribing to the company's new shares by far exceeded the amount available, meaning that the order book was closed after just a few hours. All new shares were therefore allocated at a placement price of € 15.10 each during an accelerated bookbuilding process. The reporting company generated gross income from the issuance of the new shares in the amount of € 11 million.

Münster, 31 March 2020

Vectron Systems AG

The executive board



Jens Reckendorf



Thomas Stümmler



Silvia Ostermann

VECTRON



Fixed asset analysis (appendix 4)

Development of the fixed assets during the financial year 2019

Commercial law	Acquisition costs				Current as of: 31/12/2019
	Current as of: 01/01/2019	Reclassification	Addition*)	Disposal	
	€	€	€	€	€
I Intangible assets					
1 Commissions, commercial property rights and similar rights and values as well as licenses to such rights and values	7,653,832.41	0.00	65,514.50	0.00	7,719,346.91
2 Prepayments made	0.00	0.00	0.00	0.00	0.00
Total intangible assets	7,653,832.41	0.00	65,514.50	0.00	7,719,346.91
II Tangible assets					
1 Technical facilities and machines	1,383,433.96	0.00	26,837.40	0.00	1,410,271.36
2 Other facilities, operational and business equipment	1,422,791.55	0.00	106,568.93	11,942.51	1,517,417.97
3 Prepayments made	31,980.00	0.00	16,450.00	0.00	48,430.00
	2,838,205.51	0.00	149,856.33	11,942.51	2,976,119.33
III Financial assets					
Shares in associated companies	1,804,214.15	0.00	250,000.00	0.00	2,054,214.15
Total financial assets	1,804,214.15	0.00	250,000.00	0.00	2,054,214.15
	12,296,252.07	0.00	465,370.83	11,942.51	12,749,680.39

*) No interest on debt was capitalised as assets in the financial year

**) No write-ups and impairments were recorded in assets in the financial year.

Depreciations and amortisations				Book values		
Current as of: 01/01/2019	Reclassification	Addition**)	Disposal**)	Current as of: 31/12/2019	Current as of: 31/12/2019	Current as of: 31/12/2018
€	€	€	€	€	€	€
7,454,566.32	0.00	135,750.93	0.00	7,590,317.25	129,029.66	199,266.09
0.00	0.00	0.00	0.00	0.00	0.00	0.00
7,454,566.32	0.00	135,750.93	0.00	7,590,317.25	129,029.66	199,266.09
1,160,111.23	0.00	109,600.68	0.00	1,269,711.91	140,559.45	223,322.73
1,117,221.12	0.00	144,902.41	11,850.85	1,250,272.68	267,145.29	305,570.43
0.00	0.00	0.00	0.00	0.00	48,430.00	31,980.00
2,277,332.35	0.00	254,503.09	11,850.85	2,519,984.59	456,134.74	560,873.16
0.00	0.00	0.00	0.00	0.00	2,054,214.15	1,804,214.15
0.00	0.00	0.00	0.00	0.00	2,054,214.15	1,804,214.15
9,731,898.67	0.00	390,254.02	11,850.85	10,110,301.84	2,639,378.55	2,564,353.40

Audit certificate by the independent auditor

for Vectron Systems AG, Münster

Audit opinion

We have audited the annual financial statements of Vectron Systems AG – consisting of the balance sheet for the period ended on 31 December 2019, the profit and loss account for the financial year from 1 January to 31 December 2019 and the notes to the annual financial statements – as well as the presentation of the accounting methods. We also audited the management report of Vectron System AG, including the cash flow statement for the financial year from 1 January to 31 December 2019.

Based on our audit findings,

- we have concluded that the annual financial statements comply with German commercial law applicable to corporate entities in all major respects and that they are a true representation of the actual assets and financial situation of the company as of 31 December 2019 and its profit situation for the financial year from 1 January to 31 December 2019 in compliance with the German principles of proper accounting and
- that the attached management report gives an overall true presentation of the company's situation. This management report matches the annual financial statements in all major respects, complies with German law and gives a true and fair view of the opportunities and risks of future development.

In accordance with Section 322 paragraph 3 sentence 1 HGB, we declare that our audit has not led to any reservations regarding the orderliness of the annual financial statements and management report.

Basis for the audit findings

We have conducted our annual financial statement appraisal pursuant to Section 317 HGB under consideration of the German principles of an orderly annual financial statement de-

termined by the Institute of Auditors (Institut der Wirtschaftsprüfer, IDW). Our responsibilities according to these regulations and principles are described in detail in the section "Responsibilities of the auditor for the audit of the annual financial statements and management report" in our audit certificate. We are an independent party to the company in compliance with German commercial and professional law and have met our other professional obligations under German law in accordance with these requirements. We are of the opinion that the proof obtained by us for the audit is sufficient and suitable to serve as the basis for our audit findings on the annual financial statements and management report.

Other information

The legal representatives are responsible for providing the other information. Other information comprises the annual report, which we expect to be provided with after the date of this audit certificate, with the exception of the audited annual financial statements and management report as well as our audit certificate.

Our audit findings on the annual financial statements and management report do not cover the other information and we therefore will not issue an audit opinion on it nor draw any other form of conclusion from it.

In connection with our audit, we are responsible to read the other information as soon as it becomes available and whilst doing so appraise if it contains

- major discrepancies to the annual financial statements, management report or our audit findings or
- if its presentation appears to have other major inaccuracies.

If upon reading the annual report, with the exception of the audited annual financial statements and management report

as well as our audit certificate, we conclude that it contains material inaccuracies, we are obliged to report this fact to the persons responsible for monitoring the company.

Responsibilities of the legal representatives and supervisory board for the preparation of the annual financial statements and management report

The legal representatives are responsible for preparing the annual financial statements, which comply with German commercial law applicable to corporate entities in all major respects, and for ensuring that the annual financial statements give a true and fair representation of the actual assets, financial situation and profit situation of the company in compliance with the German principles of proper accounting. The legal representatives are further responsible for performing the internal controls which they have determined to be necessary in accordance with the German principles of proper accounting to facilitate the preparation of annual financial statements which are free from material misstatements of a deliberate or accidental nature.

During the preparation of the annual financial statements, the legal representatives are responsible for assessing the ability of the company to continue as a going concern. They are also responsible to state any relevant facts relating to the continuation of the company as a going concern. They are further responsible for maintaining the accounts on the basis of the going concern principle, unless prevented from doing so by actual or legal circumstances.

In addition, the legal representatives are responsible for preparing the management report, which accurately presents the situation of the company and matches the annual financial statements in all major respects, complies with German law and gives a true and fair view of the opportunities and risks

of future development. The legal representatives are also responsible for implementing all provisions and measures (systems) which they have regarded as necessary to facilitate the preparation of the management report in accordance with the applicable German laws and to provide sufficient proof for the statements contained in the management report.

The supervisory board is responsible for monitoring the company's accounting process for the preparation of the annual financial statements and management report.

Responsibilities of the auditor for auditing the annual financial statements and management report

We aim to ascertain with sufficient certainty if the annual financial statements are overall free from deliberate or accidental misstatements and if the management report overall gives an accurate representation of the situation of the company and matches the annual financial statements and audit findings in all major respects, complies with German law and gives a true and fair view of the opportunities and risks of future development and also to issue the audit certificate, which contains our audit opinion on the annual financial statements and management report.

Sufficient certainty means that there is a high degree of certainty, but does not provide any guarantee that a proper audit that has been properly performed in accordance with Section 317 HGB and the German principles of proper accounting promulgated by the Institute of Public Auditors in Germany, Incorporated Association (Institut der Wirtschaftsprüfer – IDW) will always uncover material misstatements. Misstatements can result from violations or inaccuracies and are regarded as material if they could be reasonably expected to individually or overall impact the economic decisions made by readers based on these annual financial statements and management report.

We act with due diligence during our audit and remain a general critical attitude. We also

- identify and assess the risks of material deliberate or accidental misstatements in the annual financial statements and management report, plan and perform audit activities in response to these risks and obtain proof which is sufficient and suitable to serve as a basis for our audit findings. The risk of failing to uncover material misstatements is higher in the case of violations than for inaccuracies, as violations may contain fraudulent cooperations, counterfeits, deliberate omissions, misleading presentations and/or the disablement of internal controls.
- gain an understanding of the internal control system relevant to the audit of the annual financial statements and the provisions and measures relevant to the audit of the management report which are necessary for planning our audit actions which are reasonable under the given circumstances but not with the aim to issue an audit opinion on the effectiveness of these systems of the company.
- assess the appropriateness of the accounting methods applied by the legal representatives and the tenability of the estimates and related disclosures presented by the legal representatives.
- draw conclusions on the appropriateness of the accounting principles applied by the legal representatives for the continuation of the company as a going concern and, on the basis of the audit proof obtained, to assess if there is any major uncertainty in connection with events or circumstances which could cast major doubt on the ability of the company to continue as a going concern. If we draw the conclusion that there is a material discrepancy, we are obliged to point out the related disclosures in the annual financial statements and management report in the audit certificate or modify our respective audit opinion if these disclosures are inappropriate. We draw our conclusions on the basis of the audit proof obtained until the date of our audit certificate. However, future events or circumstances may result in the company being unable to continue as a going concern.
- assess the overall presentation, structure and content of the annual financial statements, including disclosures and

if the annual financial statements present the underlying business transactions and events so that they give an accurate view of the actual assets, financial position and profit position of the company in accordance with the German principles of proper accounting.

- assess if the management report matches the annual financial statements, its compliance with the law and the view of the situation of the company presented by it.
- audit the forward-looking statements issued by the legal representatives in the management report. Based on sufficiently suitable audit proof, we particularly trace the material assumptions on which the forward-looking statements of the legal representatives are based and assess the proper derivation of the forward-looking statements from these assumptions. We do not issue a separate audit opinion on the forward-looking statements nor their underlying assumptions. There is a significant, unavoidable risk that future events may differ significantly from the forward-looking statements.

We discuss topics such as the planned scope and timetable of the audit as well as material audit findings, including potential deficiencies in the internal control system, which we find during our audit with the persons responsible for monitoring the company.

Münster, 15 April 2020

Impulse Digital GmbH
Wirtschaftsprüfungsgesellschaft



Frank Pühse
- Auditor -



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