VECTRON

Annual Report 2017

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

Key figures 2017

Financial key figures		2017	2016	Change in %
Sales	K€	32,383	33,717	-4.0
EBITDA	K€	2,253	3,610	-37.6
EBIT	K€	1,744	3,082	-43.4
Result after income tax	K€	1,075	1,965	-45.3
Cash flow from ongoing business activity	K€	-1,463	782	-287.1
Investments in tangible fixed assets and intangible assets	K€	2,412	435	454.6
Amortisations on tangible fixed assets and intangible assets	K€	509	528	-3.5
Earnings per share	€	0.16	1.19	-86.3
Book value per share	€	2.17	9.01	-75.9
Equity ratio	%	67	61	--
Export ratio	%	27	23	--

Employment figures	2017	2016	Change
Number of employees by year end (incl. executive board)	180	167	+13
- of which product development	67	54	+13
- of which sales and support	36	32	+4
- of which production	29	31	-2
- of which other	36	38	-2
- of which trainees	12	12	0
Independent sales agents	12	10	+2

Contents

Letters by the executive board

This year, we are writing to you individually due to the changes to the executive board on 1 February 2018.

Dear shareholders,

2017 was an exciting financial year. It was primarily influenced by the directive issued by the German Ministry of Finance (Finanzministerium) on 26 November 2010 to change all POS systems to electronically record all individual sales. This directive provided for a transition period ending on 31 December 2016. As expected, this increased demand for POS systems and updates of existing systems. Demand therefore went up significantly in the second half of 2016.

Measured by the total potential of our installation basis, we calculated that almost 50 % of our customers still had to change their systems, whereas the rest had already acquired new, compatible systems between 2010 and 2016. Demand in the first two quarters of 2017 was indeed still high, but contrary to our expectations this trend slowed down significantly around the middle of the year. Considerably more than 30 % of our customers had not yet made the change by that time. The reasons are likely to be anyone's guess, from a lack of information provided by tax advisors right up to deliberately waiting if this regulation would actually be imposed in the end.

In view of these developments, we increased our marketing activities and information campaigns with considerable success, but as previously stated in our report in October 2017, numerous factors depend on the actual enforcement of the regulation by the financial authorities. In the first months of 2018, we found that the authorities are already enforcing their right of "POS systems inspections" (Kassen-Nachschau) on a random basis, but it is still too early to gauge if they will roll out this activity across all regions and engage in it with sufficient intensity. However, we are confident that this will be the case and we expect a much greater boost at the latest when the new law on the introduction of anti-manipulation POS systems will become effective on 1 January 2020 as there will be a directive as well as applicable law from that date onwards, which makes it compulsory to use compliant systems and also stipulates heavy fines for non-compliance. This should create enormous positive market movements no later than 2019.

Our revenues (€ 32.38 million) were slightly down on the record figure in the previous year (€ 33.71 million) and margins were slightly up. Profits (€ 1.07 million) were down due to necessary investments in our new fields of business, and particularly in the joint project "GetHappy" with Coca-Cola.

Staff was hired and investments were made in external developments. Procedural challenges with one of the development service providers unfortunately delayed this project. We transferred the implementation almost entirely to our own employees in the meantime and have been testing the first prototypes in Leipzig since November. The functions are gradually being activated and tested for functionality and ergonomics. The previous test results show excellent technical stability. Depending on the test results, the start of marketing activities is to be agreed in cooperation with Coca-Cola. We are unable to give a specific date as yet but are making good progress. The result will be a product whose technical functions and sellability have been thoroughly tested and which is highly likely to meet our tough expectations.

Overall, we expect that Vectron will change considerably in the coming years and develop into a considerably larger, international company. This development will require entirely new management structures and methods than those applied in our SME with 180 employees, almost all of whom work in Münster, Germany.

The founders and previous managing directors, Jens Reckendorf and Thomas Stümmler, therefore decided at the beginning of 2016, as soon as the cooperation with Coca-Cola became tangible, to get on board the necessary know-how. They successfully engaged Oliver Kaltner, a renowned top manager with an affinity for technology and software as well as profound knowledge of the organisational structures of international groups which he gained from his extremely successful management activities at companies such as Microsoft Europe, Sony and Electronic Arts. During his time as CEO of Leica Camera AG, he transferred the optical engineering know-how of Leica to the booming smartphone business in a highly profitable cooperation with the global smartphone manufacturer Huawei. This knowledge of the digital transformation of a traditional SME will now be at the disposal of Vectron Systems AG on its path from a pure POS system manufacturer to an international player in the digital services and data management sector.

The previous members of the executive board are very proud of what the company has achieved but could foresee that in the coming growth period and during cooperations with major groups knowledge will be required that a typical founder does not possess in sufficient measures. It is a typical mistake made by many founders not to let go, or to let go too late, to enable the company to take the next step. I have therefore withdrawn from the operating business but will continue to assist the company as a consultant and stand as a member of the supervisory board at the next annual general meeting. My co-founder, Jens Reckendorf, remains a member of the executive board and will be able to focus even more strongly on product development. Jens Reckendorf and I focus entirely on increasing the value of our shares and Oliver Kaltner will also participate in the long-term success of the company through a four-year share option package.

All of the persons involved are highly motivated to translate the enormous entrepreneurial opportunities we have painstakingly created over many years into maximum success. I hope that you will be just as enthusiastic as us about these opportunities and join us in reaping our success.

Kind regards

Thomas Stümmler
Founder

VECTRON

Dear shareholders,

Bakeries and the catering industry are at the dawn of the digital transformation. This fact provides numerous business opportunities, both in terms of technology and sales. Vectron Systems AG has a unique opportunity and simultaneous obligation to develop its own market position and become a digital leader. The strategic alignment in recent years has to be adjusted, strengthened, consistently realised and escalated with a clear focus on growth.

Vectron has long outgrown its position as a traditional POS system manufacturer. Today, Vectron is a full-size system solution provider, which offers hardware, software and cloud services on the international market using its own engineering services. Data is the basic currency of the digital age and can be found at the core of a POS system, in other words the Vectron Business Solution Platform.

Its analysis, evaluation and use is entirely changing ERP and CRM systems. This creates brand new business, collaboration and monetisation models.

Digitalisation is not a choice, but a must for all industries. It forms the new basis for sustainable profitability regarding existing and new target groups and secure national and global value creation with continuously changing product lifecycles and general economic conditions.

I am delighted to be part of the Vectron team and would like to thank the supervisory board and shareholders for their expression of trust.

Kind regards

Oliver Kaltner
CEO

Dear shareholders,

Hardware, software and cloud services are the bedrock of further development for Vectron Systems AG. Vectron has gathered almost 30 years of experience with software, over 20 years with hardware and over six years with cloud services. The key challenge now is to optimally use this knowledge and combine it with the latest technologies.

We expect hardware product cycles to become significantly shorter. Both development and production are ready for this. We are working on adjusting the development and procurement processes accordingly. The speed will catch up with consumer electronics without compromising the quality of industrial electronics, in other words robust designs for professional use, durability and spare parts availability.

However, the crucial factor is the software, namely the POS system software and cloud services. Our primary focus in this respect is the development of the next generations. Our extensive past experiences have to be quickly and effectively translated into state-of-the-art products. One key is to change over to agile development methods in most areas. To ensure that this does not remain just a catchphrase, like is often the case, the culture of the organisation has to change fundamentally. Vectron has made a lot of progress in this respect and success can already be clearly felt and measured.

For cloud services, both the technology and a sustainable business model have to be developed. We have succeeded to do so with the bonVito platform. The experiences gained from this will help us profit from the new offers in this sector.

I look forward to continuing my active involvement in shaping the transformation of Vectron Systems AG, which is going to be particularly big this time.

Kind regards

Jens Reckendorf
CTO & Founder

Oliver Kaltner

Jens Reckendorf

Thomas Stümmler

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 2017. 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 telephone conferences. 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 2017, four supervisory board meetings took place.

- At the supervisory board meeting on 24 April 2017, the annual financial statements 2016 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 possible effects of the Law on the Protection Against Manipulation of Digital Background Recordings [Gesetz zum Schutz vor Manipulationen an digitalen Grundaufzeichnungen], effective since December 2016, were discussed. The executive board explained the status of the “GetHappy” project in cooperation with Coca-Cola.
- On 23 June 2017 a further meeting of the supervisory board took place following the company’s annual general meeting in Frankfurt. Once the members of the supervisory board had been re-elected by the annual general meeting, they elected the chairman and deputy chairman of the supervisory board. The progress of the annual general meeting was discussed. The executive board reported on the current development projects.
- At the meeting on 11 October 2017, business developments during the course of the year up to this point were discussed. The current effects of the duty for POS system to record individual transactions on the market were discussed. The executive board reported on current sales activities, the status of major projects and the results of an analysis of the market potentials in all of Vectron’s fields of business. The legal challenges regarding one of the resolutions of the annual general meeting were discussed.
- The final meeting of the year on 18 December 2017 focused on the expected annual profit, potential previous and future effects of the constraints imposed by the financial authorities and the current competitive situation. The executive board presented the current status of the “GetHappy”

project. The planning for financial year 2018 was presented, discussed and approved by the supervisory board.

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 (three individuals), it was decided to forego the formation of sub-committees.

The management report and annual financial statement submitted by the executive board for 2017 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 21 March 2018 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 agreed to the executive board's recommendation for the use of the profits.

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

Münster, March 2018

For the supervisory board

Christian Ehlers
Chairman of the supervisory board

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Company and market

The Company

Vectron Systems AG is a leading European provider of intelligent POS systems consisting of hardware, software and cloud services which are developed at the company's head office in Münster. One of our key unique selling points is that unlike other manufacturers, we base all of our system solutions on the same software, making it easy to create networks. Our developed software is also 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. Our cloud services are aimed at the B2B segment as well as the B2C segment.

This makes us a full-size system solution provider, which offers hardware, software and cloud services on the international market using its own engineering services. Above all, partners are interested in product-related transaction data, which can be found at the core of a POS system, in other words the Vectron Business Solution Platform. Data analysis, evaluation and use is entirely changing ERP and CRM systems. This creates brand new business, collaboration and monetisation models in the catering industry which is only just starting to go digital.

Sales have an international focus and are generally processed via a close-knit network of about 300 specialist trade partners, who also take care of end users. Specialist trade partners are supported by a combination of external and internal sales representatives and the support team. The sales strategy is currently being changed to omni-channel to enable us to realise the number of retailers and final points of sale as a combination of agency and direct sales transactions as a growth driver.

The Market

The traditional market for POS systems is characterised by a large number of smaller companies, which mainly work on a regional basis. Only few POS system manufacturers focus on large market shares and international sales. The market had been quite stagnant over many years. The market shares had been allocated, the manufacturers focussed on certain industries and the total number of POS systems, particularly in Germany and Western Europe, remained rather constant over many years. The current market is on the verge of far-reaching, fundamental changes due to both fiscalisation and digital transformation. Customers expect state-of-the-art technological equipment and continuous updates for software and cloud services, thus creating the need for high investments in development. The food market is growing by around 5 % each year with its structures changing toward snack food chains, system catering and restaurants with a unique brand essence.

As in other industries, the SME sector of this industry is declining. Similar to the SME sector, the hospitality industry is attempting to cope with the generation issue. These trends provide Vectron Systems AG with particular growth opportunities in the national and international market due to the high-end solutions it develops and its own large market share.

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 ERP chain and therefore provide the industry with higher margins and profits. Data is the crucial currency of the digital age. This awareness is now also dawning in the hospitality industry, with bakeries, which have been increasingly focussing on catering in recent years, at the forefront of this trend as customer footfall data is already being used for adjusting production and supply chain.

When analysing the direct potential for Vectron, it is clear that there is significant potential for growth and increasing sales in the German-speaking region as well as in the European and other foreign markets. Vectron Systems AG definitely aims to be the leading provider of digital solutions for the hospitality industry.

Sales segments

Vectron Systems AG is divided into two main segments,
Vectron hardware and Vectron cloud services.

The Vectron hardware segment generates sales from digital POS systems, this being a combination of hardware, software and peripherals. We develop all of the products and some peripherals ourselves and also purchase peripherals.

The Vectron cloud services segment combines digital solutions of the brands bonVito, GetHappy, posmatic and myVectron with the aim of developing and marketing digital solutions which create relevance and good usability in the market for the B2B and B2C sectors. Core services include the analysis, processing and reporting of transaction data as well as digital stamps, coupons, deals, table reservations, delivery service and other services. All cloud services are directly linked to the POS systems, meaning that data flows directly from and to the POS system. This transforms what used to be simple cash registers into central data centres.

Vectron hardware: Two brands, one objective

The Vectron hardware segment consists of two brands, Vectron and Duratec.

Vectron is the established POS system brand which places state-of-the-art premium hardware solutions in the market, in cooperation with specialist retail partners.

The Duratec concept is a highly important addition to the product portfolio which aims to establish technologically advanced POS systems with low installation and service costs in the market. Both brands use Vectron software and are therefore highly performant. The Vectron hardware portfolio covers all of the key technology and price segments, enabling Vectron to position itself in the market as a full-range supplier. The two hardware brand segments are described in more detail below:

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Vectron: Premium hardware

Under the brand of Vectron the company sells high-quality, technologically innovative stationary and mobile POS systems. The range is completed by some peripherals, e.g. customer displays. The POS system software is Vectron's own development and is adjusted continuously to meet requirements in the market using the company's competences. Main target groups are bakeries and the hospitality industry. For these trades the software offers numerous proven special functions and is also flexible enough to be used by many other industries, such as hairdressers.

Stationary POS systems

With its comprehensive stationary POS system range, Vectron provides suitable equipment for various company sizes and types and creates more efficient workflows and processes with advanced functions. In addition to state-of-the-art touch models that are controlled like a tablet, customers can also choose from touch keyboard models. Numerous interfaces make it easy to connect peripherals such as printers, scanners, tap systems, etc. High-quality materials provide robustness for daily use and great durability. All products meet the respective requirements of the national financial authorities.

Mobile POS systems and apps

Vectron's mobile POS systems are robust, stand-alone, professional devices that do not require a server station or internet connection. Their touch keyboard combination makes them particularly quick and intuitive to use, which is particularly popular with shops with high footfall and numerous individual sales transactions. The Vectron MobileApp for mobile Android and iOS devices completes the options of mobile cashing with Vectron. It only requires WLAN rather than an internet connection which may go down at any time. It can be used as an alternative or in addition to mobile Vectron POS systems.

Customer displays

Vectron provides customer displays in three sizes with designs to match the range of stationary POS systems. They can either be fixed to the back of the cash registers or set up on their own stand.

Software products

Vectron's "POS PC" makes the entire POS system software available to PC-based POS system solutions based on the Windows operating system. Despite its different hardware basis, the Vectron POS PC can be networked with all proprietary Vectron POS systems. Both systems offer the same functions and a unified, interchangeable data format for PLUs, sales and additional services.

The "Vectron Commander" is a versatile communication software with which Vectron POS systems can be linked. The complete programming and configuration of the connected Vectron POS systems can be effected via this software. It serves for simplified data management, automated data transfer and data evaluation via the central hub. The Commander can also be used for sending messages to the POS systems and it provides a basis for comprehensive analyses and POS system reports. The Commander reads POS system data and transmits it to instances such as special backoffice programs.

"Vectron Contacts" is a simple contact and invoice manager. It can be used for maintaining and managing customer and contact data, which can also be transmitted to all connected Vectron POS systems using the Commander software. Sales transactions recorded by the POS system can be allocated to customers and concluded as delivery slips. These delivery slips can easily be turned into individual or collective invoices (e.g. for monthly invoices) and processed further on the PC.

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The “Vectron Journal Tool” is a tool for evaluating, archiving and analysing the POS system journal data that was read out by means of the Vectron Commander. All sales transactions and campaigns are displayed in detail and suspicious cash transactions filtered.

“Vectron Analytics” is a backoffice solution which analyses the sales data read with the Commander and compiles the key company indicators into easy charts. Analytics users are able to recognise critical company developments in good time and are given useful assistance with their decision-making process.

The cloud-based “myVectron reporting-app” makes the key company indicators also available on mobile devices such as smartphones and tablets, enabling partners to monitor the performance of their businesses anywhere, at any time and in real time.

Duratec: Highly performant, simple to install and use

Duratec was launched in 2013 and is Vectron's brand for the medium price-performance segment. The Duratec product range is based on the sophisticated Vectron technology; the software, however, focusses on the essential for user interfaces as well as on strong simplification and ease of learning. For the hardware Vectron relies on long-lived special hardware. At the same time, Duratec takes into account current trends like the integration of smartphones as order phone. A PC version of the software is also available. Three stationary POS-Touch systems with 12", 14" and 15" screens are available at present.

Duratec is aimed at hospitality businesses, retailers and hairdressers with standard requirements yet high-performance expectations. The Duratec devices provide an optimal price-performance ratio. Furthermore they can be protected with a Full-Service Agreement.

Mobile cashing with Duratec

To also facilitate mobile payment processing, a POS system app for Android and iOS devices has been developed which can be used for simply recording and invoicing orders. The App works in a network with a stationary Duratec POS system as server. A monthly payment is required to use the App, thus generating a regular income for the Vectron Systems AG.

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. The bonVito online services were integrated in Duratec POS systems as well.

Vectron cloud services:

Relevant solutions

The term “Vectron cloud services” comprises all cloud services which have previously been known under the names “bonVito”, “GetHappy” and “myVectron”. These services embody the digitalisation process which is increasingly penetrating our core industries. Vectron aims to be a professional partner which realises digitalisation for its customers, thus creating new, market-relevant and targeted added value. The Vectron server structure is at the heart of the versatile cloud services. It can be scaled to suit all requirements and used for managing hundreds of thousands companies and branches.

We divide the Vectron cloud services into the key sub-areas, customer retention, efficiency tools and marketing platform.

The customer retention services cover all relevant functions of the segments, stamps, coupons, bonus points, e-payments, online payments and direct discounts. This provides our customers with excellent tools for retaining customers and increasing footfall and average consumption. It has further been proven that customer retention measures transform customers into loyal customers and loyal fans in the long term who recommend the business and therefore generate additional business.

Table reservations, online ordering and real time reporting are efficient services which speed up, digitalise and simplify processes. Tables that are currently available can be reserved directly through the website of a business. Tables that are currently reserved cannot be booked online. The reservation system therefore reconciles in real time with the POS systems. Orders placed and paid for through the online ordering module flow directly into the POS systems where their data can be processed immediately. The reporting tool provides extensive real time data which provides users with continuous information on the development of their business.

The reservation system and online ordering modules can also be used without a link to a POS system through the specific online interface, in other words are directly available for all restaurant operators, bakers, etc.

The online marketing platform is the module which is being developed under the “GetHappy” name in cooperation with CC Digital GmbH, a Coca-Cola subsidiary. It has been actively used in the Leipzig test market since 13 November 2017 where 62 companies are equipped with the system. Customers can view and directly redeem offers of the restaurants and bakeries through the GetHappy app or the GetHappy customer loyalty card. Three out of six modules, stamps, deals and prize draw, are currently switched live for testing purposes. Each module contains different functionalities which enable restaurant operators to acquire new customers through a variety of offers. The test series is being expanded with the table reservation, online ordering and coupon system modules. GetHappy is thus developing into a universal platform which combines all relevant catering services in one app with a simple user interface.

The individual services are pooled in packages for specific functions and countries and all are connected with the entire Vectron POS system portfolio. This creates highly integrated, easy-to-use solutions. This is unique in the market and strengthens the leading position of Vectron Systems AG in the market in the long term.

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Annual financial statement 2017

Management report

1. Business performance

1.1. Sector development

The POS system market is highly varied. 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.

The key change in recent years was the appearance of 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, particularly ongoing instead of one-off payments.

The requirements placed on cash registers by the tax authorities have a considerable effect on the German market. The current legal position is 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 not at all.

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

The cut-throat competitive situation and price competition generally continued in 2017 but were slowed down by a boost in demand created by the tax requirements.

With over 200,000 installed systems in more than 30 countries, Vectron Systems AG is in the "Top 10" of European manufacturers of POS systems. The products are sold through a network of approx. 300 specialist trade partners. Vectron primarily provides solutions for the hospitality industry as well as for bakeries. The end customer spectrum ranges from single cash register installations to branch networks comprising over 1,000 cash registers.

The hardware is updated at regular intervals and the software on an ongoing basis to always be in a position to service the market with technologically advanced stationary and mobile POS systems. With the secondary brand Duratec, which was launched in the autumn of 2013, Vectron now also serves the entry-level sector with robust, easy-to-use POS systems. With bonVito, Vectron has established its own internet-based, multifunctional customer retention programme in the market. It can be integrated directly in the POS systems and is sold by the subsidiary bonVito GmbH. For all products, Vectron offers its own leasing model that maintains liquidity.

1.2. Sales and order development

The delayed change-over to individual records still significantly affected sales in the first half of the year. Sales of K€ 32,383 in the reporting year fell slightly short of total sales in the previous year of K€ 33,717. This corresponds to a decrease of around 4 %. 73.3 % of sales was generated in Germany, compared to 76.7 % in the previous year. The share of sales generated in other EU countries increased from 21.9 % in the previous year to 25.4 %. The share of sales generated in other non-EU countries decreased from 1.4 % in the previous year to 1.3 %. Total sales generated in foreign markets therefore increased by around 10 %.

The share of customers using the internet services provided by the bonVito GmbH subsidiary increased considerably.

Sales increased by around 72 % year-on-year during the course of the further development of the Duratec brand. Sales in 2017 amounted to K€ 1,735 (previous year: K€ 1,007).

Vectron Systems AG provides its end customers with an attractive leasing portfolio for financing their new POS systems. This sales promotion model is offered by Vectron specialist trade partners. The financing offer contributed to total sales during the past financial year with a share of around 14 % (previous year: 13 %) .

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.

1.3. Production and procurement

The POS systems are developed and produced on the basis of "double platform strategy", i.e. each product uses the same application software and can be used in all respective industries. Hardware development follows an extensive common-part strategy, meaning that material procurement and development can be designed efficiently.

The common-part strategy permits the generation of a relatively broad diversity of models without establishing a disproportionately high stock inventory. The production process consists primarily of the assembly of modules and pre-fabricated components. In order to ensure high quality standards, the suppliers are already involved in the development phase.

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, pre-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 two financial years, stocks were deliberately increased several times to remain able to deliver goods at all times.

1.4. Investments

Investments in the reporting year amount to K€ 2,412 (previous year: K€ 434). Of this amount, K€ 246 pertains to the development of new stationary and mobile POS systems as well as the modernisation and expansion of the IT infrastructure and office equipment. A large part of the investments was used for developing the GetHappy online portal, based on a cooperation agreement with Coca-Cola. A total of K€ 1,281 was invested into this venture for costs incurred through contracts for work and services. A further K€ 885 was invested in financial assets in the form of shares in associated companies, which contain investments in Posmatic GmbH and Vectron USA Inc., Canada.

Around 37 % of the staff are involved in the new development and further development of Vectron products. A considerable share of personnel costs therefore relates to development services. Capitalisation of own work was, and is, waived in this context.

At the end of December 2016, Vectron Systems AG invested in a 75 % share in the start-up Posmatic GmbH with head office in Münster. The company also provided additional capital for the acquisition of an existing product and sales operations, development measures and sales promotion. The company was entered in the commercial register on 23 January 2017. Posmatic GmbH produces a POS software 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. In order to also cover this market, Posmatic will be marketed in addition to Vectron and Duratec as a further POS brand.

1.5. Financing

Cash and cash equivalents increased to K€ 5,546 (previous year: K€ 11,660) at year-end, corresponding to a significant K€ 6,114 decrease year-on-year.

In the reporting year, the cash flow from ongoing business activity amounted to K€ -1,463 (previous year: K€ 781). The cash flow from ongoing business activity therefore decreased by K€ 2,244 year-on-year. In the reporting year, this primarily resulted from a decrease in annual profit, a considerable increase in stocks and a simultaneous reduction of accruals.

Investments in fixed assets in the reporting year resulted in cash flow from investment activity of K€ -2,412. As part of the set-up of Posmatic GmbH, K€ 750 was invested in the acquisition of the operations of Posmatic Deutschland GmbH in the form of an asset deal and development measures and sales promotion. To further expand the North America business, K€ 135 (when translated from foreign currency) was pledged to be paid into the capital of Vectron America Inc., an 80 % subsidiary of Vectron Systems AG. As part of the GetHappy project in cooperation with Coca-Cola, the leading online marketing platform for the takeaway market is to be developed. K€ 1,281 was invested / paid in advance for this purpose. Another K€ 246 was invested in tangible fixed assets.

In the reporting year, cash inflows and outflows from financing activities resulted in cash flow of K€ -2,239, which primarily contains cash flows from the repayment of loan liabilities, hire purchase loans and the dividend for 2016 in the amount of K€ 1,649, which was distributed in financial year 2017.

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€ 7,239 (previous year: K€ 7,499). All of the liabilities have remaining terms of up to five years. We refer to the explanations in the notes.

1.6. Human resources

At the end of the year the workforce comprised 180 employees (previous year: 167 employees). This figure contains both members of the executive board and 12 trainees.

To motivate employees, Vectron uses a variable, multi-level remuneration model dependent on the annual profit. When the profit situation is good, all employees participate considerably in the variable salary components; these are in turn reduced if there is a reduction in profits. 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.

1.7. Remuneration system of the organs

In addition to a fixed remuneration, the members of the company’s executive board also receive a profit-dependent component of one percent of the operative profit (profit before taxes, interest and depreciations). Furthermore, each member of the executive board is entitled to a company car. Option rights for the acquisition of own shares are not granted.

The supervisory board receives a fixed annual remuneration. No variable components are provided.

Regarding information on the individualised remunerations we refer to the notes.

1.8. Other important processes

The resolution regarding the authorised capital 2017 has been legally challenged and the court is yet to make a decision in this respect. There were no other important processes during the financial year.

2. Assets and financial situation

The intangible assets primarily contain the design and construction plans purchased from the development partners as well as development services for software components of the

GetHappy platform. Production tools are presented as tangible assets (technical installations). The majority of the fixed assets relates directly to product development.

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. During the company's start phase, normal and business model-specific start-up losses were incurred. Due to the positive forecast for the future, the shares in the company are stated at amortised cost. This item also contains the 75 % investment in Posmatic GmbH, which was acquired from share capital in the amount of K€ 26 as per agreement of December 2016. 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.

The stock volume has increased by approx. 62.6 % compared to the previous year. For popular products, production already moved from order production to make-to-stock production in 2014, resulting in a significant increase of the proportion of finished products in the total volume. 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 would 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 average days sales outstanding varied between 35 and 47 days throughout the year. 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.

On the balance sheet date, the issued capital consisted of 6,611,996 no-par value bearer shares with one vote each. The total equity capital amounts to K€ 14,339 (previous year: K€ 14,872). The economic equity capital (incl. participation rights capital II) amounts to 73.8 % (previous year: 66.7 %). Employee share options were exercised in the financial year (see disclosures in the notes).

The short-term liabilities and accruals of of K€ 3,323 (previous year: K€ 6,078) can be paid from short-term tied capital (excluding liquid resources).

The financing and liquidity situation of the company can be described as good. The cash flow statement (see Appendix 6) shows the changes in cash and cash equivalents. Please refer to Section 1.5 in this respect and regarding off-balance sheet commitments.

3. Profit situation

The tax requirements for cash registers explained in Section 1.1 had a major impact on business developments in the reporting year. Whereas the trend from 2016 still continued at the beginning of the year, the POS business normalised in the second half of the year. However, surveys conducted during telesales campaigns indicate that more than 30 % of customers have not yet complied with these statutory requirements and therefore still have to retrofit or replace their POS systems.

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€ 2,322; previous year: K€ 1,972) during the term always need to be viewed against (almost) identical leasing expenses (K€ 1,769; previous year: K€ 1,522) under the material expenses item. Direct sales costs (K€ 1,318; previous year: K€ 1,412) are also incurred under this model, which are contained in material expenditure in accordance with BilRUG.

If the sales processed through the sales promotion model were to be conducted in the ordinary manner and if there were no product-related sales with associated companies, the adjusted performance indicators would be as follows: Sales would be € 27.7 million (previous year: € 29.4 million) and material expenditure € 11.5 million (previous year: € 12.4 million), which would result in a gross profit rate of 58.3 % (previous year: 57.7 %) compared with an unadjusted gross profit rate of 54.8 % (previous year: 54.4 %).

Personnel expenses contain wages and salaries paid as well as annual leave entitlements and accrued overtime and performance-based employee bonuses for the financial year. This resulted in a monthly average of K€ 808 compared with the previous year's figure of K€ 718. Converted to full-time equivalents, the average number of employees (excluding 12 trainees) was around 154 (previous year: 138).

Depreciation and amortisation pertains to planned depreciation and amortisation and is slightly down year-on-year.

Other operating expenses increased slightly from an average of K€ 547 per month to K€ 580. The average monthly operating costs amount to K€ 148 (previous year: K€ 145) and sales costs to K€ 275 (previous year: K€ 278).

Other operating income increased by K€ 125 to K€ 566 and primarily contains 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€ 88 (previous year: K€ 121) primarily includes payments for participation capital II and loan liabilities..

The percentage of foreign currency transactions in merchandise purchasing in 2017 was approx. 47 % (previous year: approx. 43 %) of the material input. Unfavourable exchange rate changes can therefore have a negative influence on gross profit. To limit the exchange rate risk, derivative financial instruments are concluded depending on the market situation. 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€ 1,940 (previous year: K€ 2,962) and annual profits to K€ 1,075 (previous year: K€ 1,964). The operating result in relation to total operating performance of 3.3 % is down on the previous year's figure of 5.8 %.

4. Significant events after the balance sheet date

On 1 February 2018, Oliver Kaltner, an experienced IT manager, was appointed CEO to speed up the transformation of the company into a provider of hardware and software as well as leading cloud-based services. Thomas Stümmler, one of the two founders, will stand as a member of the supervisory board at the next annual general meeting and Jens Reckendorf, the second founder, will remain CTO on the executive board.

The remuneration system of the organs is to be adjusted to reflect this change on the executive board.

5. Risk reporting

For monitoring purposes and to support decision-making, Vectron has introduced a software-supported risk management system and appointed a risk management officer who reports directly to the executive board. All risks are classified and appraised both qualitatively and quantitatively. The risks and counter-measures are monitored and recorded on a regular basis. Changes are documented so that historical developments are transparent. The results of each assessment are recorded in a risk matrix and discussed with the executive board. If additional counter-measures are required, these are initiated directly by the executive board.

5.1. Business risks

The ongoing pricing pressure may result in investment decisions, particularly during a weak economic situation, being increasingly oriented along the sale price and not the service offered. A decline in margins that cannot be otherwise compensated would then be feasible. By offering unique selling points, Vectron has so far succeeded in being disconnected from the general pricing competition within the sector. Insofar, the aim of being technology leader is of central significance for Vectron. Various technical developments result in lowering market entry hurdles and in 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. Development is mainly based on agile methods to ensure maximum reaction speeds.

The POS sector is increasingly restricted by the requirements of the financial authorities. Apart from the fiscal memory device obligation that has been in place in many countries for years, there are increasingly stringent requirements for the capturing and storage of sales data in the cash register systems, which are, however, not regulated in detail in technical terms. These sometimes constitute a considerable interference with market activity. Corresponding political decisions are rarely agreed internationally, which may lead to distortions of competition. Delays in the introduction of legal requirements can result in investment decisions being delayed and therefore postpone sales to a future date. Thus there is continuous monitoring of legislative proposals and drafts that affect the POS sector directly, so that adjustments can be integrated into the development process at an early stage. Vectron is a supporting member of Deutscher Fachverband für Kassen- und Abrechnungssysteme (DFKA e.V.), a professional association which represents the interests of the POS and invoicing systems industry in the political sector.

Economic fluctuations have an effect on the willingness to invest in POS systems. Periods of weak general economic performance can have a significantly negative effect on Vectron's sales. The concentration on high-quality, complex system solutions has established itself as a sensible way for Vectron to achieve the best possible independence from economic fluctuations, as investment decisions for high-quality systems are less dependent on short-term economic trends and more on strategic considerations. Moreover, the international business contributes to a diversification of the risk. The planned change-over to business models with ongoing instead of one-off income will result in the highest possible independence from economic cycles.

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 technology, the actual risk is considered relatively small. Despite this, Vectron has taken extensive protective measures, e.g. safeguarding of the IT systems, internal access restrictions and confidentiality agreements.

5.2. Process and value creation risks

Growth and adjustment processes of the company may result in the internal process complexity increasing faster than the positive effects of the capacity expansion or the changes. Insufficient internal processes may thus negatively affect the company's efficiency on a temporary basis. During corresponding changes, particularly importance is thus placed on suitable project management and involvement of employees. New processes are recorded in writing and monitored.

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 and chose stable and long-term refinancing partners. 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, the company is not exposed to any such risks at present. The requirements are distributed between numerous end customers. When entering into contracts with large customers, partial payments are agreed to limit the default risk. In 2017, Vectron's largest specialist trade partner was responsible for approx. 4 % of overall sales.

As the company buys a significant share of the material in foreign currency, and prices are directly impacted by exchange rates, unfavourable variations may have a detrimental result on profits. Depending on the market situation, foreign currency items are secured with derivative financial instruments. 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.

5.4. IT risks

The IT infrastructure is of very high and still increasing importance for the handling of business processes. As a result of the networking of internal systems with business partners and the provision of internet services, the threat of attacks by hackers, spam and viruses as well as general system failures increases. Vectron thus places great importance on extensive security measures, backup solutions and regular updates of the IT systems. Various technical and organisational measures are implemented to protect data.

5.5. Purchasing and cooperation risks

For electronic assemblies and components, price savings can generally only be achieved by purchasing larger quantities. Larger purchasing volumes however have the disadvantage of increased capital commitment as well as a reduced flexibility during product revisions. For this reason, Vectron concludes framework agreements with maximum terms of up to one year so that both flexibility and price savings are maintained. This makes it possible to anticipate price adjustments in good time.

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 around 15 % of the total acquisition volume in 2017. 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

Acquiring qualified personnel generally takes a lot of time and costs, particularly in the current situation on the labour market. Medium-sized companies in particular face strong competition for the best specialists from renowned large corporations. The company thus places great emphasis on the working atmosphere as well as on other non-monetary benefits. A financial incentive for all employees is the variable remuneration model. In this way it has so far been possible to employ qualified personnel and also to retain it in the long term.

5.7. Product risks

The model range undergoes ongoing adjustments, changes and expansions. The resulting development and production complexity can lead to product errors that have a significant effect on the company's profit situation. The planning and development processes are therefore being further optimised on an ongoing basis. 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

The intensity of the competition will remain to be felt strongly in future. It can be expected that the structure in the previous core market, in other words POS systems for hospitality 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. The complex constraints imposed by the financial authorities, which are different in every country, and the requirement for individual customer solutions will further push up development activities and costs. Vectron Systems AG's size, which is an advantage compared with numerous 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 catering market. The trend is similar to that in the retail sector, but at a significant delay due to the fragmented structure of the industry.

In the German core market, the Law on the Protection Against Manipulation of Digital Background Recordings [Gesetz zum Schutz vor Manipulationen an digitalen Grundaufzeichnungen] and existing tax requirements for cash registers (see Section 1.1) will continue to have a significant effect on the market. According to the company's own surveys, more than 30 % of operators in Vectron's target industries have not yet changed over to POS systems which comply with the financial authorities' requirements. It is to be expected that as from 1 January 2018, the cash register inspection measures implemented by the financial authorities will put pressure on operators to change over to compliant systems or retrofit existing ones.

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 and CRM systems as well as reporting services are becoming more usable and affordable for many 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 very stable in the long term.

6.2. Future product development

The main focus remains on the continuous further development of the various software and service products. Special importance is being placed on cloud-based services for customer retention as well as reporting and data analysis, both with own products and through cooperations.

One of the major projects is the development of the GetHappy platform. This platform combines customer retention, search, order and reservation services in the catering industry to provide a comprehensive online marketing tool.

For POS systems of the Duratec brand there are also continuous improvements and adjustments for additional foreign markets.

The Vectron and Duratec POS system portfolio consists of hardware, software and services and in combination with the Posmatic app solution provides an opportunity to further develop or newly tap various markets and industries.

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

6.3. Future business development

Vectron continues to modernise the product range in the core business through continuous investments and new innovations. The aim here is to defend and expand the good market position. An additional objective is opening up new target markets and new customer sections.

During financial year 2017, the repeated increase of sales for the Duratec brand showed that products and business model are successful. Duratec brand sales are expected to increase further in financial year 2018.

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 extremely low. This proves that cloud services can be successfully marketed in Vectron's markets. This business is to be extensively expanded with new functions, packages and the further development of the online platform. However, it is almost impossible to forecast any time scales in this respect.

The requirements of the financial authorities, particularly the Law on the Protection Against Manipulation of Digital Background Recordings [Gesetz zum Schutz vor Manipulationen an digitalen Grundaufzeichnungen], have a significant impact on future business developments. As the technical requirements and timetable for the implementation have not yet been disclosed, it has been impossible to forecast this impact up to now. Prior to the spike in demand for retrofitting and replacement devices, it may well be possible that demand will slump temporarily.

Münster, 31 January / 16 March 2018.

Vectron Systems AG
The executive board

Oliver Kaltner
(from 1 February 2018)

Jens Reckendorf

Thomas Stümmler
(until 31 January 2018)

VECTRON

Balance sheet as of 31 December 2017

Assets		31/12/2017			31/12/2016
		€	€	€	€
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	326,821			325,534
	2. Prepayments made	1,218,839	1,545,660		105,791
II	**Tangible assets**				
	1. Technical facilities and machines	229,723			349,581
	2. Other facilities, operational and business equipment	371,361			356,669
	3. Prepayments made and work in progress	8,816	609,899		0
III	**Financial assets**				
	Shares in associated companies		1,804,214	3,959,774	919,500
B	**Current assets**				
I	**Stocks**				
	1. Raw, auxiliary and operating materials	4,422,301			3,534,317
	2. Finished products and merchandise	3,188,770	7,611,070		1,229,030
II	**Receivables and other assets**				
	1. Claims arising from deliveries and services	3,295,355			4,898,606
	- of which with a residual term of more than one year: € 30,075				
	2. Claims towards associated companies	413,629			684,329
	- of which receivables arising from deliveries and services: € 288,629				
	- of which with a residual term of more than one year: € 0				
	3. Other assets	343,670			279,035
	- of which with a residual term of more than one year: € 109,551		4,052,655		
III	**Cash-in-hand, bank balances and cheques**		5,545,935	17,209,659	11,660,147
C	**Accrued and deferred items**			211,858	91,909
D	**Deferred tax assets**			97,564	122,371
				21,478,855	24,556,820

VECTRON

Liabilities		31/12/2017		31/12/2016
		€	€	€
A	**Equity capital**			
I	**Subscribed capital**	6,611,996		1,649,999
	- conditional capital: € 528,000			
II	**Capital reserve**	5,355,295		10,274.962
III	**Retained earnings**			
	Statutory reserve	40,000		40,000
IV	**Balance sheet profit**	2,332,337	14,339,628	2,907,004
	- of which profit carried forward: € 1,257,005 (previous year: € 942,201)			
B	**Accruals and deferrals**			
	1. Tax accruals	224,000		1,139,933
	2. Other accruals	1,428,131	1,652,131	2,060,277
C	**Liabilities**			
	1. Participation rights capital II	1,500,000		1,500,000
	- of which with a residual term up to one year: € 0			
	- of which with a residual term of more than one year: € 1,500,000			
	- of which with a residual term of more than 5 years: € 0			
	2. Liabilities towards financial institutions	2,315,760		2,947,350
	- of which with a residual term up to one year: € 1,052,650			
	- of which with a residual term of more than one year: € 1,263,110			
	- of which with a residual term of more than 5 years: € 0			
	3. Liabilities from deliveries and services	1,440,735		1,454,953
	- of which with a residual term up to one year: € 1,440,735			
	- of which with a residual term of more than one year: € 0			
	- of which with a residual term of more than 5 years: € 0			
	4. Other liabilities	230,601		582,343
	- of which from taxes: € 184,264 (previous year: € 474,525)			
	- of which in the context of social security: € 871 (previous year: € 0)			
	- of which with a residual term up to one year: € 230,601			
	- of which with a residual term of more than one year: € 0			
	- of which with a residual term of more than 5 years: € 0		5,487,096	
			21,478,855	24,556,820

Profit and loss account

P&L 1 January – 31 December 2017		Financial year 2017			Financial year 2016		
		€	€	€	€	€	€
1	Sales revenues		32,382,725			33,717,388	
2	Increase or decrease in finished goods inventories and work in progress		621,447			29,047	
3	Other operating revenues, of which from currency exchange: € 73,701		565,914	33,570,085		441,420	34,187,856
4	Material costs						
	A) Cost of raw materials, consumables and supplies, and of merchandise	-11,538,845			-12,414,925		
	b) Costs for services obtained	-3,106,815	-14,645,660		-2,972,682	-15,387,607	
5	Personnel costs						
	a) Wages and salaries	-8,316,199			-7,224,555		
	b) Social security, post-employment and other employee benefit costs, of which in respect of old age pensions: € 81,527 (previous year: € 73,980)	-1,391,394	-9,707,593		-1,396,895	-8,621,450	
6	Depreciation of tangible and intangible fixed assets		-509,282			-527,912	
7	Other operating expenses, of which from currency exchange: € 47,063		-6,960,175	-31,822,710		-6,565,270	-31,102,239
8	Other interest and similar income, of which from the discounting of accruals: € 0 of which from associated companies: € 33,542		63,195			76,203	
9	Interest and similar expenses, of which from the compounding of accruals: € 0 of which to associated companies: € 0		-151,742			-196,756	
10	Income tax expenditure, of which latent taxes: Expenditure € 24,807 (previous year: expenditure € 9,576)		-580,274	-668,822		-997,520	-1,118,072
11	**Earnings after taxes**			**1,078,553**			**1,967,544**
12	Other taxes			-3,221			-2,742
13	**Annual net income**			**1,075,333**			**1,964,803**
14	Retained profits from the previous year			1,257,005			942,201
15	**Net profit**			**2,332,337**			**2,907,004**

Cash flow statement

	Cash flow statement 1 January – 31 December 2017	2017	2016
		€	€
	Ordinary period result before income tax	**1,655,607**	**2,962,323**
+	Depreciation on fixed assets	509,282	527,912
+/-	Increase/decrease of other accruals, where these are not allocated to the investment or financing activity	-632,145	579,928
+	Other non-operative expenditures	160,993	-85,943
+	Loss from the sale of fixed assets	216	109
+/-	Decrease/increase in stocks, receivables from deliveries and services as well as other assets not allocated to investment or financing activity	-1,133,549	-3,050,576
+/-	Increase/decrease in liabilities from deliveries and services as well as other liabilities not allocated to investment or financing activity	-365,960	92,490
+/-	In-payments/out-payments from exceptional items	0	0
-	Income taxes paid	-1,657,200	-245,144
=	**Cash flow from ongoing business activity**	**-1,462,757**	**781,099**
+	In-payments from disposals of tangible fixed assets	0	0
-	Out-payments for investments into tangible fixed assets and intangible fixed assets	-1,527,482	-434,958
-	Out-payments for investments into financial assets	-884,714	0
=	**Cash flow from investment activity**	**-2,412,196**	**-434,958**
+	In-payments from equity injections	42,330	5,924,961
+	In-payments from borrowing	0	0
-	Out-payments from the redemption of loans	-631,590	-842,120
-	Out-payments for the repayment of advances	0	-2,484,000
-	Out-payments to company owners (dividends)	-1,649,999	-742,500
-	Out-payments to shareholders (participations)	0	0
=	**Cash flow from financing activity**	**-2,239,259**	**1,856,341**
=	**Cash change to the cash and cash equivalents**	**-6,114,212**	**2,202,482**
+	Cash and cash equivalents at the start of the period	11,660,147	9,457,664
=	**Cash and cash equivalents at the end of the period**	**5,545,935**	**11,660,147**

Notes

1. General information on the company

Vectron Systems AG Münster is active in the production and sales of intelligent POS systems and communication software for the networking of branch operations. 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
Register court:	Münster District Court
Commercial register no.:	B 10502
Authorised representatives:	Jens Reckendorf, Thomas Stümmler (until 31 January 2018) Oliver Kaltner (from 1 February 2018)

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

These annual financial statements as of 31 December 2017 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 1 March 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 a company with focus on the capital market within the meaning of Article 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 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. The finished products are appraised 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.

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

The intangible assets contain in particular hardware construction plans for cash register models. The construction plans are written off according to the average useful life of the cash register models over a period of five to six years. Advance payments for contracts for work and services were also capitalised.

The overall development of fixed assets can been 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 was € 164,345 as of 31 December 2016. The company finished financial year 2016 with an annual deficit of € 117,551. Financial year 2017 is expected to close with a profit. Due to the positive development of the subsidiary, which is to be expected, the investment book value is set at the amortised costs.

At the end of December 2016, Vectron Systems AG invested in a 75 % share in the POS software start-up Posmatic GmbH with head office in Münster. The company also provided additional capital for the acquisition of sales operations, development measures and sales promotion. The investment was entered in the commercial register on 23 January 2017. Posmatic GmbH produces a POS software 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. This sales model is particularly popular amongst smaller companies, which often cannot afford to finance traditional POS systems. In order to also cover this market, Posmatic will be marketed in addition to Vectron and Duratec as a further POS brand of the Vectron Group. The equity capital of Posmatic GmbH amounted to € 26,000 as of 31 December 2016. Financial year 2017 is expected to close with a loss. Due to the positive development of the subsidiary, which is to be expected, the investment book value is set at the 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 € 134,714 to further expand the North America business.

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 Article 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. Due to drop shipments, goods for resale only play a minor role. In view of the continuing financial boom and corresponding demand for large delivery capacities, the change of some production lines from contract manufacture 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 € 5,545,935 as of the balance sheet date.

Due to temporary differences between the valuations of assets and liabilities under commercial law and tax law, in future years there will be a tax relief. Deferred tax assets were formed at the amount of this tax relief on the basis of differences regarding the useful life of some fixed assets. The appraisal was made at a tax rate of 31.9 %.

As a result of the capitalisation of deferred tax assets, profits can only be paid out if the accruals freely available after the pay-out amount to at least € 97,564 in addition to retained profits and minus accumulated losses.

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. Capital was increased from company funds at a ratio of 4:1 and shares were subsequently split at a ratio of 1:4 in financial year 2017. Contingent capital increased accordingly. The resolutions of the annual general meeting on 23 June 2017 and capital increases illustrate the development of capital in the financial year:

Equity capital development (Euro)	Subscribed capital***	Capital reserve	Retained earnings** Statutory reserve	Participation rights capital I	Balance sheet profit*	Total
Equity capital at 01/01/2016	**1,500,000**	**4,500,000**	**40,000**		**1,684,701**	**7,724,701**
Dividend payout					-742,500	-742,500
Capital increase	149,999	5,774,962				5,924,961
Annual net income					1,964,802	1,964,802
Equity capital at 31/12/2016	**1,649,999**	**10,274,962**	**40,000**	**0**	**2,907,003**	**14,871,964**
Dividend payout					-1,649,999	-1,649,999
Capital increase from company funds (incl. share split 1:4)	4,949,997	-4,949,997				0
Capital increase from contingent capital	12,000	30,330				42,330
Annual net income					1,075,333	1,075,333
Equity capital at 31/12/2017	**6,611,996**	**5,355,294**	**40,000**	**0**	**2,332,337**	**14,339,627**

* The balance sheet profit of € 2,332,337 (previous year: € 2,907,003) contains profit carried forward of € 1,257,005 (previous year: € 942,201).
** No retained earnings due to a lack of write-ups of fixed and current assets.
*** Shares subscribed from authorised capital in financial year 2017: 0; shares subscribed from authorised capital in financial year 2017: 12,000

	Shares	Authorised capital (2013)	Authorised capital (2017)	Contingent capital (2011)	Contingent capital (2016)	Contingent capital (2017)
01/01/2017	1,649,999	600,001	0	45,000	45,000	0
Capital increase	4,949,997					
Share split 1:4	6,599,996	600,001	0	180,000	180,000	0
AGM resolutions 2017		-600,001	3,299,998			180,000
Exercised	12,000			-12,000		
31/12/2017 (I)	6,611,996	0	3,299,998	168,000	180,000	180,000
Limitation				-70,000		
31/12/2017 (II)	6,611,996	0	3,299,998	98,000	180,000	180,000

With approval of the supervisory board, the executive board is authorised to increase the share capital of the company during the period up to 6 June 2018 through issuing new bearer shares against a cash or non-cash contribution once or repeatedly, but not exceeding a total of € 750,000 (authorised capital 2013). In financial year 2016, the authorised capital (2013) in the amount of € 149,999 was partially drawn down for a capital increase in the amount of the draw-down. The authorised capital (2013) was reversed by resolution of the annual general meeting on 23 June 2017.

As per same resolution of the annual general meeting on 23 June 2017, the executive board, with approval of the supervisory board, was authorised to increase the share capital of the company during the period up to 23 June 2022 through issuing new bearer shares against a cash or non-cash contribution once or repeatedly, but not exceeding a total of € 3,299,998 (authorised capital 2017). This resolution has been legally challenged and a ruling by the court is still pending.

Further, the share capital has been conditionally increased by up to € 180,000 (before split = € 45,000) through the issuing of up to 180,000 (before the split = 45,000) new no-par value bearer shares within the scope of the conditional capital (2011). The conditional capital increase (authorisation resolution to 31 May 2016) ensures that pre-emptive rights are granted to company managers. In the reporting year, 12,000 (before split = € 3,000) pre-emptive rights were redeemed. On the balance sheet date, 98,000 (before split = 24,500) pre-emptive rights with a volume of € 98,000 (before split = € 24,500) were still issued. The contingent capital (2011) is therefore (economically) limited to € 98,000. On the balance sheet date, the pre-emptive rights, which are not stated as an expense, amounted to € 1,500,030.

Furthermore, the share capital has been increased by an additional up to € 180,000 (before split = € 45,000) through the issuing of up to 180,000 (before the split = 45,000) new no-par value bearer shares within the scope of the conditional capital (2016). The conditional capital increase (authorisation resolution to 30 June 2021) ensures that pre-emptive rights are granted to company managers. No pre-emptive rights were issued as of the balance sheet date.

The share capital has furthermore been increased by an additional up to € 180,000 by issuing up to 180,000 new no-par value bearer shares within the scope of the conditional capital (2017). The conditional capital increase (authorisation resolution to 23 June 2022) ensures that pre-emptive rights are granted to company executives. No pre-emptive rights were issued as of the balance sheet date.

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.

By way of resolution made at the annual general meeting on 7 June 2013, the executive board, with the approval of the supervisory board, has been authorised to issue participation rights, which are linked to conversion or option rights on shares of the company, in one or several tranches until 6 June 2018, with or without limited terms and up to € 10,000,000.00 in accordance with the specifications of the authorisation resolution of the annual general meeting on 7 June 2013, if necessary under exclusion of the subscription right of the existing shareholders.

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

Designation	Euro
Annual leave/overtime	152,789
Outstanding purchase invoices	358,593
Variable remuneration elements	432,156
Other accruals	484,593
Sum	**1,428,131**

By way of resolution made at the annual general meeting on 07 June 2013, participation rights capital of up to € 10,000,000 can be issued. The participation rights exclusively establish rights under the law of obligations and do not give rise to membership rights. With the supervisory board's agreement, the executive board exercised this right and issued participation rights amounting to € 1,500,000 (participation rights capital II) The subordinate participation rights capital II has a residual term up to 15 February 2019.

The liabilities towards financial institutions result from an unsecured development loan taken out in June 2015. The loan has a term up to 30 June 2020.

The other liabilities contain outstanding liabilities for the participation rights capital II of € 35,734.

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

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) are also sold. Furthermore, 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 sales promotion model, the sales revenues from sublease (K€ 2,322; previous year: K€ 1,972) during the term always need to be viewed against (almost) identical leasing expenses (K€ 1,769; previous year: K€ 1,522) under the material expenses item. Direct sales costs (K€ 1,318; previous year: K€ 1,412) 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 € 27.7 million (previous year: € 29.4 million), adjusted material expenditure to € 11.5 million (previous year: € 12.4 million) and consequently the adjusted gross profit ratio to 58.3 % (previous year: 57.7 %) for the company as a "POS manufacturer with traditional sales business" compared to the unadjusted gross profit rate of 54.8 % (previous year: 54.4 %). 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.

The profit and loss account contains the auditor's fees for the audit of the annual financial statement of € 38,000 and for tax advisory services of € 16,000.

In 2017, payments of € 116,272 (previous year: € 118,260) arose for the participation capital II.

The income taxes of € 580,274 (previous year: € 997,520) listed in the profit and loss account were incurred on profit from ordinary business activity. 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 exercise the option of endowment of statutory reserves. Fur-

Segment (Euro)	Period	Germany	EU	Third country	Total
POS systems	**2017**	**14,764,546**	**5,176,868**	**277,978**	**20,219,392**
	2016	17,333,417	4,809,489	323,934	22,466,840
Software	**2017**	**1,844,433**	**846,169**	**32,237**	**2,722,838**
	2016	1,677,780	613,330	39,524	2,330,633
Goods for resale/service	**2017**	**7,119,633**	**2,207,163**	**113,698**	**9,440,495**
	2016	6,849,162	1,972,117	98,636	8,919,915
Total	**2017**	**23,728,611**	**8,230,200**	**423,913**	**32,382,725**
	2016	25,860,360	7,394,936	462,093	33,717,388
Percentage distribution	**2017**	**73.3 %**	**25.4 %**	**1.3 %**	**100.0 %**
	2016	76.7 %	21.9 %	1.4 %	100.0 %

Other financial obligations (Euro)	of which remainder term			
	Total	up to 1 year	1 to 5 years	over 5 years
Leasing obligations*	4,460,957	2,088,727	2,372,230	0
Rental obligations	2,777,800	813,015	1,964,785	0
Sum	**7,238,757**	**2,901,742**	**4,337,015**	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 remainder volume for the following financial years of € 4,164,373, which must be viewed against slightly increased sublease contracts.

thermore, 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 € 7,238,757.

There are contingent liabilities in the form of guarantees in favour of the associated company pursuant to Article 251 HBG of € 1,269,800. Due to the anticipated positive development of the subsidiary these are not expected to be utilised.

Calculated in accordance with Article 267 V HGB, an average of 159 (previous year: 143) employees (consisting of 154 full-time employees and 9 part-time employees) worked at Vectron Systems AG during the reporting period.

The members of the executive board can be contacted at the company's administrative address. Mr Jens Reckendorf is the managing director for the business divisions technology and development, Mr Thomas Stümmler is the managing director for the divisions finance and marketing/sales. A spokesperson for the executive board has not been appointed. The executive board member remuneration including expenses, benefits in kind and profit participation for Mr Reckendorf amounts to € 236,997.40 (of which success-dependent: € 23,000) and for Mr Stümmler to € 246,149.50 (of which success-dependent: € 23,000). The members of the executive board changed in 2018.

The supervisory board consists of the following three 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

The supervisory board remuneration for the chairman is € 30,000. The other supervisory board members receive a remuneration of € 20,000 each.

Events after the balance sheet date:
Mr Thomas Stümmler retired from the executive board on 31 January 2018 and Mr Oliver Kaltner took on the position of CEO on 1 February 2018.

Münster, 31 January / 16 March 2018.

Vectron Systems AG
The executive board

Oliver Kaltner
(from 1 February 2018)

Jens Reckendorf

Thomas Stümmler
(until 31 January 2018)

Fixed assets analysis

Development of the fixed assets during the financial year 2017						
		Acquisition costs				
		Current as of: 01/01/2017	Re-classification	Addition*)	Disposal	Current as of: 31/12/2017
		€	€	€	€	€
I	**Intangible assets**					
	1. Purchased concessions, commercial property rights and similar rights and values as well as licenses to such rights and values	7,446,815.11	12,060.00	155,707.30	0.00	7,614,582.41
	2. Prepayments made	105,791.38	-12,060.00	1,125,107.99	0.00	1,218,839.37
		7,552,606.49	**0.00**	**1,280,815.29**	**0.00**	**8,833,421.78**
II	**Tangible assets**					
	1. Technical facilities and machines	1,281,809.38	0.00	18,527.93	3,847.00	1,296,490.31
	2. Other facilities, operational and business equipment	1,159,824.69	0.00	219,322.62	2,520.75	1,376,626.56
	3. Prepayments made	0.00	0.00	8,816.00	0.00	8,816.00
		2,441,634.07	**0.00**	**246,666.55**	**6,367.75**	**2,681,932.87**
III	**Financial assets**					
	1. Shares in associated companies	919,500.00	0.00	884,714.15	0.00	1,804,214.15
		919,500.00	**0.00**	**884,714.15**	**0.00**	**1,804,214.15**
		10,913,740.56	**0.00**	**2,412,195.99**	**6,367.75**	**13,319,568.80**

*) 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.

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Depreciations and amortisations					Book values	
Current as of: 01/01/2017	Re-classification	Addition**)	Disposal**)	Current as of: 31/12/2017	Current as of: 31/12/2017	Current as of: 31/12/2016
€	€	€	€	€	€	€
7,121,281.13	0.00	166,480.60	0.00	7,287,761.73	326,820.68	325,533.98
0.00	0.00	0.00	0.00	0.00	1,218,839.37	105,791.38
7,121,281.13	**0.00**	**166,480.60**	**0.00**	**7,287,761.73**	**1,545,660.05**	**431,325.36**
932,228.53	0.00	138,386.09	3,847.00	1,066,767.62	229,722.69	349,580.85
803,155.02	0.00	204,415.19	2,304.26	1,005,265.95	371,360.61	356,669.67
0.00	0.00	0.00	0.00	0.00	8,816.00	0.00
1,735,383.55	**0.00**	**342,801.28**	**6,151.26**	**2,072,033.57**	**609,899.30**	**706,250.52**
0.00	0.00	0.00	0.00	0.00	1,804,214.15	919,500.00
0.00	**0.00**	**0.00**	**0.00**	**0.00**	**1,804,214.15**	**919,500.00**
8,856,664.68	**0.00**	**509,281.88**	**6,151.26**	**9,359,795.30**	**3,959,773.50**	**2,057,075.88**

Audit certificate

Audit certificate by the auditor

We have assessed the annual financial statement – consisting of balance sheet, profit and loss account as well as notes (incl. assets analysis) – under inclusion of the book keeping and the management report (incl. cash flow statement) of

Vectron Systems AG
Münster

for the financial year from 1 January to 31 December 2017. The accounting records, the compilation of the annual financial statement and the management report in accordance with German commercial law regulations as well as the supplementary provisions of the articles of association are the responsibility of the company's legal representative. It is our duty to issue an appraisal of the annual financial statement under inclusion of the accounting records and the management report on the basis of the assessment conducted by us.

We have conducted our annual financial statement appraisal pursuant to Article 317 HGB under consideration of the German principles of an orderly annual financial statement determined by the Institute of Auditors (Institut der Wirtschaftsprüfer, IDW). According to this, the appraisal must be planned and conducted in a way that ensures the sufficiently certain recognition of errors and infringements that have a considerable effect on the picture of the financial situation conveyed by the annual financial statement under consideration of the principles of orderly accounting and the management report. When determining the audit measures, the knowledge of the business activity and the economic and legal environment of the company as well as the expectation of possible errors are considered. In the course of the appraisal, the effectiveness of the internal accounting control system as well as evidence for information contained in the accounting records, the annual financial statement and the management report are assessed primarily on the basis of spot checks. The appraisal comprises the assessment of the applied accounting principles and the fundamental evaluations of the company's legal representatives as well as the appraisal of the overall depiction of the annual financial statement and the management report. We consider that our appraisal is a sufficiently certain basis for our assessment.

Our assessment has not resulted in any objections.

On the basis of information obtained during the appraisal, we consider that the annual financial statement complies with the statutory regulations and the supplementary provisions of the articles of association and provides a picture of the company's financial situation that corresponds with the actual situation. The management report is consistent with the annual financial statement and provides overall an accurate picture of the company's situation and accurately presents the chances and risks of future development.

Münster, 17 March 2018

Impulse Digital GmbH
Wirtschaftsprüfungsgesellschaft

IMPULSE DIGITAL GMBH
WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT
WIRTSCHAFTS-
PRÜFUNGS-
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SIEGEL
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Frank Pühse
- Auditor -

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