

# Interim report 2018



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

## Interim report as of 30 June 2018

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## Management report

### 1. Business performance

#### 1.1. Sector development

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

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 Janu-

ary 2020. There is a transitional regulation for previously purchased systems that cannot be retrofitted which must comply with the requirements of the BMF letter dated 26 November 2010. These systems may still be used until the end of 2022.

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 approximately 300 specialist trade partners. Vectron primarily provides solutions for the catering industry and 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 provides 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 sales-promotional model that maintains liquidity for customers.

#### 1.2. Sales and order development

Sales in the first half of 2018 amounted to K€13,888 compared with K€19,311 in the first half of 2017. This corresponds to a decrease of around 28%. 74.4% of sales was generated in Germany, compared to 73.1% in the previous year. The share of sales generated in other EU countries decreased from 25.9% in the previous year to 24.4%. The share of sales generated in other non-EU countries increased from 1.0% in the previous year to 1.2%. The export rate is therefore 25.6%.

The share of customers using the internet services provided by the bonVito GmbH subsidiary increased considerably. The number of customers increased from 4,011 to 4,734, which corresponds to an increase of around 18%.

Vectron Systems AG provides its end customers with an attractive sales-promotional portfolio for financing their new POS systems. This sales promotion model is offered by Vectron specialist trade partners. The financing offer contributed a share of around 19% (previous year: around 13%) to total sales in the first half of 2018.

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 a "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 standard-part strategy, meaning that material procurement and development can be structured more efficiently.

The standard-part strategy permits the production of a relatively broad diversity of models without establishing disproportionately high stocks. 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 first half of the year amount to K€150 (previous year: K€1,758). Of the amount in the first half of 2018, a

major portion pertains to the purchase of software licenses, the development of new stationary and mobile POS systems as well as the modernisation and expansion of the IT infrastructure and office equipment. A substantial part of the previous year's figure contained the investments in financial assets for the acquisition of Posmatic GmbH in the amount of K€750 and various purchased intangible assets of around K€834 relating to the Vectron Cloud platform (formerly GetHappy).

Around 34% of the staff are involved in the new and further development of Vectron products. A considerable share of personnel costs therefore relates to development services. Own work was, and is, not capitalised in this context.

### 1.5. Financing

Cash and cash equivalents amounted to K€13,186 (previous year: K€8,998) in the interim report, corresponding to a significant K€4,188 increase year-on-year.

In the first half of the year, cash flow from ongoing business activity amounted to K€-1,248 (previous year: K€1,168). The cash flow from ongoing business activity therefore decreased by K€2,416 year-on-year. In the reporting period, this primarily resulted from a loss at the end of the first half of the year, a decrease in stocks and at the same time decrease in accruals and liabilities.

Investments in fixed assets in the reporting period resulted in cash flow from investment activity of K€-150.

In the reporting year, cash inflows and outflows from financing activities resulted in cash flow of K€9,038, which primarily contains cash flows from the repayment of loan liabilities, hire purchase loans and the dividend for 2017 in the amount of K€331, which was distributed in the first half of 2018 as well as the taking up of a loan in the amount of K€10,000.

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 promotional

model. Further existing lease contracts (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. Total other obligations as of 30 June 2018 amounted to K€6,996 (previous year: K€7,063). 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 first half of the year, the workforce comprised 179 employees (previous year: 169 employees). This figure contains both members of the executive board and nine trainees.

To motivate employees, Vectron uses a variable, multi-level remuneration model based on annual profit. When the profit situation is positive, all employees profit considerably from 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 for executive bodies

In addition to fixed remuneration, the members of the company's executive board also receive a profit-based component based directly on EBITDA (earnings before interest, taxes, depreciation and amortisation). 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 fixed annual remuneration. No variable components are provided.

## 2. Assets and financial situation

Intangible assets primarily contain the design and construction plans purchased from the development partners as well as development services for software components of the Vec-

tron Cloud platform (formerly GetHappy). Production tools are stated as tangible assets (technical installations). The majority of fixed assets relates directly to product development.

The wholly-owned subsidiary bonVito GmbH, founded in 2012, is recognised in financial assets. The company provides internet services in connection with POS systems. During the company's start-up phase, ordinary 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.

Stocks have decreased by approximately 11.2% compared to the previous year. For popular products, production already moved from make-to-order production to make-to-stock production in 2014, resulting in an 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.

Receivables consist of numerous smaller individual receivables related to different customers. The average days sales outstanding varied between 41 and 58 days throughout the reporting period. Longer payment 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 amounted to K€13,253 (previous year: K€14,339). The economic equity ratio (including participation rights capital II) amounted to 50.6% (previous year: 73.8%). The

loan taken up in the amount of K€10,000 was the reason for this development.

The short-term liabilities and accruals of of K€2,702 (previous year: K€3,323) can be paid from short-term tied capital (excluding liquid resources).

The financing and liquidity situation of the company can be described as positive. The cash flow statement 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

Whereas in the first half of 2017, the tax requirements for cash registers explained in Section 1.1 still had a major impact on business developments, the POS business started to normalise already in the second half of the same year. This trend continued in the first half of 2018. A comparison of sales developments in the second half of 2017 and in the first half of 2018 at least shows a sales increase of 6%, accompanied by a slight increase in earnings. The surveys conducted during telesales campaigns continue to indicate that more than 30% of customers have not yet complied with the statutory requirements and therefore still have to retrofit or replace their POS systems.

In addition to the traditional specialist trade partner sales business, the company also offers a sales promotional model ("sale-and-lease-back with subsequent sublease of these POS systems by Vectron to end customers"). Within the framework of this model, the sales revenues from subleases (K€1,270; previous year: K€1,124) during the term always need to be viewed against (almost) identical leasing expenses (K€967; previous year: K€858) in the material costs item. Direct sales costs (K€809; previous year: K€790) are also incurred under this model, which are contained in material costs in accordance with BilRUG.

If the sales processed through the sales promotional model were to be conducted in the ordinary manner and if there were no non-product-related sales with associated companies, the

adjusted performance indicators would be as follows: Sales would amount to €11.3 million (previous year: €18.2 million), material costs to €4.3 million (previous year: €7.4 million), resulting in a gross profit ratio of 61.5% (previous year: 59.1%) compared with an unadjusted gross profit ratio of 56.0% (previous year: 57.1%).

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€825 compared with the previous year's figure of K€813.

Depreciation and amortisation pertained to scheduled depreciation and amortisation and was down year-on-year.

Other operating expenses increased slightly from an average of K€564 per month to K€605. The average monthly operating costs amounted to K€156 (previous year: K€165) and sales costs to K€303 (previous year: K€261).

Other operating income decreased by K€114 to K€200 and primarily contained exchange rate gains, offset benefits in kind and income from the reversal of accruals and impairments.

The ordinary financial result in the amount of K€34 (previous year: K€15) primarily included payments for participation capital II and loan liabilities.

The percentage of foreign currency transactions in merchandise purchasing in the first half of 2018 was approximately 45% (previous year: approx. 49%) of the material input. Unfavourable exchange rate fluctuations can therefore have a negative impact 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 fluctuations. The same applies to distribution, as foreign currency regions mostly also use the euro for billing purposes. There are at present no recognisable trends toward inflation.

The interim profit before income taxes amounted to K€-1,107 (previous year: K€2,854) and interim profits to K€-756 (previous

year: K€1,898). The operating result in relation to total operating performance of -5.5% is down on the previous year's figure of 9.7%.

## 4. Significant events after 30 June 2018

Oliver Kaltner, chairman of the executive board, retired from his position on the board with effect from 5 July 2018.

By resolution of the supervisory board of 5 July 2018, Thomas Stümmler, member of the supervisory board, was appointed as deputy of the retired chairman of the executive board in accordance with Section 105 Paragraph 2 of the German Stock Corporation Act (Aktiengesetz – AktG). Silvia Ostermann was appointed as a member of the executive board as per entry notification dated 8 August 2018.

## 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 removing itself 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 in the 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 POS 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 legislative proposals and drafts that affect the POS sector directly are monitored continuously 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 focus on high-quality, complex system solutions has established itself as a useful 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 helps to diversify the risk. The planned change-over to business mod-

els 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. IT systems security, internal access restrictions and non-disclosure 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 and/or the changes. Insufficient internal processes may thus negatively affect the company's efficiency on a temporary basis. During corresponding changes, particular 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 fluctuations 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 has chosen stable and long-term refinancing partners. Additionally, sufficient levels of liquidity are maintained 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 receivables are distributed between numerous end customers. When entering into contracts with major customers, payments by instalment are agreed to limit the default risk. In the first half of 2018, Vectron's largest specialist trade partner was responsible for approximately 4% of overall sales.

As the company buys a significant proportion of the materials in foreign currency and prices are directly impacted by ex-

change 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, it is almost impossible to hedge against long-term exchange rate fluctuations.

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 extremely high, and still increasing, importance for the handling of business processes. The linking of internal systems with business partners and the provision of internet services increases the threat of attacks by hackers, spam and viruses as well as general system failures. 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

Price savings for electronic assemblies and components 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 stocked so that a sufficient lead time for a reaction to downtimes is ensured. Replacement suppliers are on stand-by if technically and economically feasible.



## 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 experts 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 created by the variable remuneration model. This has made it possible up to now to employ qualified personnel and also to retain them in the long term.

## 5.7. Product risks

The model portfolio undergoes ongoing adjustments, changes and expansions. The resulting development and product complexity can lead to product faults 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 product liability insurance.

## 6. Forecast report

### 6.1. Future sector development

The intensity of the competition will continue to be felt strongly in future. It can be expected that the structure in the previous core market, in other words POS systems for catering 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 with 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 the tax audits 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 POS systems is expected to increase further. The integration of POS systems in the internet with corresponding new products and business models will further contribute to a change within 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 even more so determine the competitive success. However, the changes will not take place as quickly as in the Consumer segment.

The sales structures – in the market segment of Vectron this refers to sales through specialist trade partners – are forecast to remain highly 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 services for customer retention as well as reporting and data analysis, both with own products and through cooperations.

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 strong market position. An additional objective is opening up new target markets and new customer sections.

bonVito has become firmly established in the market in its current form as a customer loyalty solution for individual enterprises and continues to grow steadily. The existing customer base is highly 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. The focus on services which generate a high percentage of recurring income and on a large number of internet-enabled POS systems aims to provide future opportunities for data marketing. 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 were only disclosed in mid-2018 and the exact timetable for the implementation is not yet known, 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, 8 August 2018

Vectron Systems AG  
The executive board



Jens Reckendorf



Thomas Stümmler  
(until 31 January 2018,  
from 5 July 2018)

## Interim balance sheet as of 30 June 2018

Assets	30/06/2018		31/12/2017
	€	€	€
<b>A Fixed assets</b>			
<b>I Intangible assets</b>			
1. Purchased concessions, commercial property rights and similar rights and values as well as licenses to such rights and values	307,977		326,821
2. Prepayments made	1,227,655	1,535,633	1,218,839
<b>II Tangible assets</b>			
1. Technical facilities and machines	187,644		229,723
2. Other facilities, operational and business equipment	363,158	550,802	380,177
<b>III Financial assets</b>			
Shares in associated companies		1,804,214	3,890,649
<b>B Current assets</b>			
<b>I Stocks</b>			
1. Raw, auxiliary and operating materials	4,046,255		4,422,301
2. Finished products and merchandise	2,710,927	6,757,182	3,188,770
<b>II Receivables and other assets</b>			
1. Trade receivables	3,278,178		3,295,355
2. Receivables from associated companies	728,433		413,629
- of which trade receivables: € 602,509			
3. Other assets	903,599	4,910,210	343,670
<b>III Cash-in-hand, bank balances and cheques</b>		13,186,384	24,853,775
<b>C Accrued and deferred items</b>			304,429
<b>D Deferred tax assets</b>			90,964
		29,139,817	21,478,855

Liabilities	30/06/2018		31/12/2017
	€	€	€
<b>A Equity capital</b>			
<b>I Subscribed capital</b>	6,611,996		6,611,996
- conditional capital: € 45,000			
<b>II Capital reserve</b>	5,355,295		5,355,295
<b>III Retained earnings</b>			
Statutory reserve	40,000		40,000
<b>IV Total balance sheet profit / loss</b>	1,246,158	13,253,449	2,332,337
- of which profit carried forward: € 2,001,737 (previous year: € 1,257,005)			
<b>B Accruals</b>			
1. Tax accruals	32,249		224,000
2. Other accruals	1,202,863	1,235,112	1,428,131
<b>C Liabilities</b>			
1. Participation rights capital II	1,500,000		1,500,000
- of which with a remaining term up to one year: € 1,500,000			
- of which with a remaining term of more than one year: € 0			
- of which with a remaining term of more than five years: € 0			
2. Liabilities to financial institutions	11,684,170		2,315,760
- of which with a remaining term up to one year: € 1,263,110			
- of which with a remaining term of more than one year: € 10,421,060			
- of which with a remaining term of more than five years: € 0			
3. Liabilities from deliveries and services	1,242,412		1,440,735
- of which with a remaining term up to one year: € 1,242,412			
- of which with a remaining term of more than one year: € 0			
- of which with a remaining term of more than five years: € 0			
4. Other liabilities	224,676		230,601
- of which from taxes: € 179,075 (previous year: € 184,001)			
- of which for social security: € 0 (previous year: € 0)			
- of which with a remaining term up to one year: € 224,676			
- of which with a remaining term of more than one year: € 0			
- of which with a remaining term of more than five years: € 0		14,651,258	
<b>D Accrued and deferred items</b>	0	0	0
		29,139,818	21,478,855

## Interim profit and loss account as of 30 June 2018

	01/01–30/06/2018			01/01–30/06/2017		
	€	€	€	€	€	€
1 Sales revenues		13,887,975			19,311,283	
2 Increase or decrease in finished goods and work in progress		-268,902			197,289	
3 Other operating revenues, of which from currency exchange: € 2,526		199,638	13,818,712		314,191	19,822,764
4 Material costs						
A) Cost of raw materials, consumables and supplies, and of merchandise	-4,329,113			-6,837,531		
b) Costs for services obtained	-1,778,415	-6,107,528		-1,652,166	-8,489,697	
5 Personnel costs						
a) Wages and salaries	-4,254,959			-4,179,028		
b) Social security, post-employment and other employee benefit costs, of which for old age pensions: € 39,568 (previous year: € 33,754)	-696,200	-4,951,158		-698,072	-4,877,100	
6 Depreciation of tangible and intangible fixed assets		-218,692			-250,277	
7 Other operating expenses, of which from currency exchange: € 866		-3,628,753	-14,906,131		-3,384,142	-17,001,215
8 Other interest and similar income, of which from the discounting of accruals: € 0 of which from associated companies: € 9,036		20,251			25,083	
9 Interest and similar expenses, of which from the compounding of accruals: € 0 of which to associated companies: € 0		-54,684			-40,081	
10 Income tax expenditure, of which deferred taxes: Expenditure € 6,600 (previous year: expenditure € 6,600)		351,303	316,870		-965,449	-980,447
<b>11 Earnings after taxes</b>			<b>-770,549</b>			<b>1,841,101</b>
12 Other taxes		14,970			57,770	
<b>13 Interim profit / loss</b>			<b>-755,579</b>			<b>1,898,871</b>
14 Retained profits from the previous year			2,001,737			1,257,005
<b>15 Total balance sheet profit / loss</b>			<b>1,246,158</b>			<b>3,155,876</b>

## Cash flow statement 1 January – 30 June 2018

	01/01–30/06/2018	01/01–30/06/2017
	€	€
<b>Ordinary income for the period before income tax</b>	<b>-1,106,883</b>	<b>2,864,320</b>
+ Depreciation on fixed assets	218,692	250,277
+/- Increase/decrease of other accruals, where these are not allocated to the investment or financing activities	-225,269	-804,337
+ Other non-operating expenditures	104,665	173,314
+ Loss from the sale of fixed assets	0	0
+/- Decrease/increase in stocks, receivables from deliveries and services as well as other assets not allocated to investment or financing activities	299,345	200,044
+/- Increase/decrease in liabilities from deliveries and services as well as other liabilities not allocated to investment or financing activities	-204,249	-548,619
+/- In-payments/out-payments from exceptional items	0	0
- Income taxes paid	-334,097	-968,363
<b>= Cash flow from ongoing business activities</b>	<b>-1,247,794</b>	<b>1,166,636</b>
+ Cash inflows from the disposal of tangible fixed assets	0	0
- Cash outflows for investments in tangible and intangible fixed assets	-149,567	-1,007,539
- Cash outflows for investments in financial assets	0	-750,000
<b>= Cash flow from investment activities</b>	<b>-149,567</b>	<b>-1,757,539</b>
+ In-payments from equity injections	0	0
+ In-payments from borrowing	10,000,000	0
- Out-payments from the redemption of loans	-631,590	-421,060
- Out-payments for the repayment of advances	0	0
- Out-payments to company owners (dividends)	-330,600	-1,649,999
- Out-payments to shareholders (participations)	0	0
<b>= Cash flow from financing activities</b>	<b>9,037,810</b>	<b>-2,071,059</b>
<b>= Change in cash and cash equivalents affecting payment</b>	<b>7,640,449</b>	<b>-2,661,961</b>
+ Cash and cash equivalents at the beginning of the period	5,545,935	11,660,147
<b>= Cash and cash equivalents at the end of the period</b>	<b>13,186,384</b>	<b>8,998,186</b>

## Notes to the interim financial statements as of 30 June 2018

### 1. General information on the company

Vectron Systems AG Münster produces and sells intelligent POS systems and communication software for the networking of branch operations. The location Münster is both the production centre and head office from which the domestic and international sales regions are supplied.

Company:	Vectron Systems AG
Head office:	Willy-Brandt-Weg 41, 48155 Münster, Germany
Register court:	Münster District Court
Commercial register no.:	B 10502
Authorised representative	
Executive board:	Jens Reckendorf, Thomas Stümmler (until 31 January 2018, from 5 July 2018) Oliver Kaltner (from 1 February 2018 to 5 July 2018)

### 2. Information on the interim financial statement and the accounting and assessment methods

These interim financial statements as of 30 June 2018 were prepared 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 Section 275 Paragraph 2 of the German Commercial Code (Handelsgesetzbuch – HGB) in accordance with the total cost format. The option right under Section 265 Paragraph 5 HGB was exercised. Pursuant to Section 267 Paragraph 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 not a company with focus on the capital market within the meaning of Section 264d HGB and therefore a Non-PIE company.

Intangible and tangible fixed assets are stated at cost. Self-produced intangible fixed assets have not been activated. Assets that are subject to wear and tear are written down on the basis of scheduled linear depreciation. Financial assets are stated at cost. Scheduled depreciation is 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 stated at average acquisition or production costs. Finished products are stated at production costs, i.e. manufacturing and general material costs as well as the manufacturing-related value reduction of the fixed assets were considered. The lower fair value was applied if this was below the acquisition or production costs on the balance sheet date. Interest for borrowed capital was not included.

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

Assets and liabilities in foreign currency were stated at the average spot exchange rate as of the balance sheet date. 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 stated at the fulfilment amount required in accordance with a prudent commercial judgement. Future price and cost increases are accounted for. Any existing accruals with a term of more than one year are discounted.

Liabilities are stated at their fulfilment amounts.

### 3. Information on assets

Intangible assets primarily contain purchased development services for software components and licenses. Prepayments for contracts for work and services are stated as assets under "Prepayments made".

Vectron Systems AG owns all of the shares in the subsidiary bonVito GmbH Münster founded in 2012. The equity capital of bonVito GmbH amounted to €113,590 as of 30 June 2017. The company closed the first half of 2017 with a loss of €50,755. Due to the positive development of the subsidiary, which is to be expected, the investment book value is stated at amortised costs.

In 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 is now being marketed in addition to Vectron and Duratec as a further POS brand of the Vectron Group. The equity capital of Posmatic GmbH amounted to €525,205 as of 31 December 2017. Due to the positive development of the subsidiary, which is to be expected, the investment book value is stated at amortised costs.

At the end of 2017, VECTRON America INC. started operations upon payment of the deposit in the 80% shareholding in the translated amount of €134,714 to further expand the North American 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 Section 272 V HGB [German Commercial Code] during the financial year.

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

The stocks mainly consist of raw materials, consumables and supplies for the production of the POS models and finished products and merchandise. Due to drop shipments, goods for resale only play a minor role. Due to the demand for large delivery capacities, the change of some product lines from make-to-order production to make-to-stock production, which was initially implemented in 2014, was continued in the reporting year.

Cash in hand and bank balances amounted to €13,186,384 as of the balance sheet date. The total contains a loan of K€10,000 issued by DZ Bank AG which serves to finance projects within the scope of the growth-oriented digital transformation strategy as well as investments in software, IT and cloud-based services planned in this respect. The loan matures in 2020.

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

Due to the capitalisation of deferred tax assets, profits can only be distributed if the accruals freely available after the distribution amount to at least €90,964 plus retained profits and less losses carried forward.

### 4. Information on liabilities

The shares stated in subscribed capital are no-par value bearer shares with one vote each and a book value of €1. Capital was increased from company funds (7 June 2017) at a ratio of 4 to 1 and shares were subsequently split (13 July 2017) at a ratio of 1 to 4 in financial year 2017. Contingent capital increased accordingly.

The company's share capital now amounts to €6,611,996.00 and is divided into 6,611,996 no-par value bearer shares.

As per resolution of the annual general meeting on 17 May 2018, the executive board is authorised, with the approval of



the supervisory board, to increase the share capital of the company by a total of up to €3,305,998.00 until 17 May 2023 by issuing new no-par value bearer shares against cash deposit and/or payment in kind (authorised capital 2018) and to determine a start of the profit participation which differs from legal requirements. The authorisation may be fully or partially utilised in one or several tranches. The executive board is further authorised, with the approval of the supervisory board, to decide on the content of the share rights and conditions of issue.

The shareholders shall be granted a subscription right during capital increases. However, the executive board may, with the approval of the supervisory board, exclude the subscription rights for shareholders:

- In the event of a capital increase against payment in kind;
- In the event of a capital increase against cash deposits by a total of up to 10% of the share capital of the company, namely referring to the date on which this authorisation becomes effective and is exercised, if the shares have a price on the stock exchange and the issue price of the

new shares does not fall significantly short of the stock market price. The shares that were and/or are to be sold or issued during the term of this authorisation due to other authorisations in direct or corresponding application of the exclusion of subscription rights have to be added to this limit;

- in the event of a capital increase against cash deposits to balance fractional amounts.

The supervisory board is authorised to amend the version of the articles of association in line with the respective use of the authorised capital or once the term of the authorisation has expired.

The share capital of the company is conditionally increased by up to €98,000.00 by issuing up to 98,000 new no-par value bearer shares (contingent capital 2011). The contingent capital increase serves to issue subscription rights to executive employees of the company and subordinated associated companies in Germany and abroad in accordance with the authorisation resolution passed by the annual general meeting on 26 May 2011 regarding TOP 7. The contingent capital increase

Equity capital development (euro)	Subscribed capital***	Capital reserve	Retained earnings** Statutory reserve	Participation rights capital I	Balance sheet-profit*	Total
Equity capital as of 01/01/2017	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 (including share split 1 to 4)	4,949,997	-4,949,997				0
Capital increase from contingent capital	12,000	30,330				42,300
Annual net income					1,075,333	1,075,333
<b>Equity capital as of 31/12/2017</b>	<b>6,611,996</b>	<b>5,355,294</b>	<b>40,000</b>	<b>0</b>	<b>2,332,337</b>	<b>14,339,627</b>
Dividend payout					-330,600	-330,600
Interim profit / loss					-755,579	-755,579
<b>Equity capital as of 30/06/2018</b>	<b>6,611,996</b>	<b>5,355,294</b>	<b>40,000</b>	<b>0</b>	<b>1,246,158</b>	<b>13,253,448</b>

\* The balance sheet profit of €1,246,158 (previous year: €3,155,875) contains profit carried forward of €2,001,737 (previous year: €1,257,004).

\*\* 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 contingent capital in financial year 2017: 12,000

shall only be implemented if the holders of subscription rights exercise their rights.

The share capital of the company is conditionally increased by up to €180,000.00 by issuing up to 180,000 new no-par value bearer shares (contingent capital 2017). The contingent capital increase serves to issue subscription rights to executive employees of the company and subordinated associated companies in Germany and abroad in accordance with the provisions of the authorisation resolution passed by the annual general meeting on 23 June 2017 regarding TOP 10. The contingent capital increase shall only be implemented if the holders of subscription rights exercise their rights.

The share capital of the company is conditionally increased by up to €200,000.00 by issuing up to 200,000 new no-par value bearer shares (contingent capital 2018). The contingent capital increase serves to issue subscription rights to executive employees of the company and subordinated associated companies in Germany and abroad in accordance with the provisions of the authorisation resolution passed by the annual general meeting on 17 May 2018 regarding TOP 12. The contingent capital increase shall only be implemented if the holders of subscription rights exercise their rights.

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

Designation	Euro
Annual leave/overtime	61,111
Outstanding purchase invoices	324,688
Variable remuneration components	340,000
Other accruals	477,064
<b>Total</b>	<b>1,202,863</b>

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 approval, 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 to banks result from an unsecured development loan taken out in June 2015. The loan has a term up to 30 June 2020. In June, a loan was taken up in the amount of €10,000,000.00 for the financing of projects within the scope of a growth-oriented transformation strategy. The loan has a term up to 30 December 2020.

Other liabilities contain outstanding liabilities for the participation rights capital II of €35,671.

The usual retentions of title from the acquisition of assets exist for trade payables.

## 5. Information on the interim profit and loss account

A large proportion of sales is generated by 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 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 POS systems by Vectron to end customers"). Within the framework of this sales promotion model, the sales revenues from subleases (K€1,270; previous year: K€1,124) during the term always need to be viewed against (almost) identical leasing expenses (K€967; previous year: K€858) in the material costs item. Direct sales costs (K€809; previous year: K€790) were incurred within the scope of this model, which are contained in material costs.

After deducting the figures for these effects and for non-product-related sales generated by associate companies, ad-

justed sales amounted to €11.3 million (previous year: €18.2 million), adjusted material costs to €4.3 million (previous year: €7.4 million) and consequently the adjusted gross profit ratio to 61.5% (previous year: 59.1%) for the company as a “POS manufacturer with traditional sales business”, compared with the unadjusted gross profit rate of 56.0% (previous year: 57.1%). The gross profit rate shown results from the material costs 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.

In the first half of 2018, payments of €31,489 (previous year: €53,969) arose for participation capital II.

The income taxes stated in the profit and loss account contain tax demands in the amount of €351,303. In the previous year, tax expenses amounted to €965,449.

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.

## 6. Other information

Other financial obligations in the form of liquidity-protecting leasing and rental obligations amount to a nominal €6,996,110. Contingent liabilities in the form of guarantees for the benefit of the associated company pursuant to Section 251 HGB amount to €1,088,652. These are not expected to be utilised due to the anticipated positive development of the subsidiary.

During the reporting period, an average of 170 employees (consisting of 156 full-time employees and 10 part-time employees) worked at Vectron Systems AG. These figures were determined in accordance with Section 267 V HGB.

The members of the executive board can be contacted at the company’s administrative address. Mr Jens Reckendorf is the member of the executive board responsible for Technology and Development, Mr Thomas Stümmeler is the member of the executive board responsible for Finance and Marketing/Sales (until 31 January 2018) and Mr Oliver Kaltner (from 1 February until 5 July 2018) is the chairman of the executive board.

The supervisory board consists of the following three members:

Segment (euro) as of 30 June	Period	Germany	EU	Third country	Total
Vectron POS systems	2018 H1	6,121,251	2,063,664	106,783	8,291,698
	2017 H1	9,468,190	3,206,367	138,694	12,813,251
Software	2018 H1	771,875	355,752	36,248	1,163,875
	2017 H1	1,160,765	521,018	9,661	1,691,444
Goods for resale/service	2018 H1	3,439,158	963,292	29,953	4,432,402
	2017 H1	3,482,619	1,282,722	41,247	4,806,588
Total under BilRUG	2018 H1	10,332,284	3,382,708	172,983	13,887,975
	2017 H1	14,111,574	5,010,108	189,602	19,311,283
Percentage distribution	2018 H1	74.4 %	24.4 %	1.2 %	100.0 %
	2017 H1	73.1 %	25.9 %	1.0 %	100.0 %

Other financial obligations (euro)	of which with a remaining term of			
	Total	up to 1 year	1 to 5 years	over 5 years
Leasing obligations*	4,624,817	2,173,834	2,450,983	0
Rental obligations	2,371,293	813,015	1,558,278	0
<b>Total</b>	<b>6,996,110</b>	<b>2,986,849</b>	<b>4,009,261</b>	<b>0</b>

\*The sale-and-lease-back transactions concluded within the framework of the sales promotion model have terms of 36 or 48 months with a remaining volume for the following financial years of €4,304,729, which are offset by slightly increased subleasing contracts.

- 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

Events after the balance sheet date:

Mr Oliver Kaltner retired from the executive board as of 5 July 2018. Mr Thomas Stümmeler was appointed as a member of the executive board by resolution of the supervisory board dated 5 July 2018. The entry notification is dated 13 July 2018. Ms Silvia Ostermann was appointed as a member of the executive board as per entry notification dated 8 August 2018.

Münster, 8 August 2018

Vectron Systems AG  
The executive board



Jens Reckendorf



Thomas Stümmeler  
(until 31 January 2018,  
from 5 July 2018)

# VECTRON

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