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### KERN Microtechnik GmbH

Murnau a. Staffelsee

#### Annual financial statements for the business year from 01/01/2019 to 12/31/2019

##### Balance sheet as of December 31, 2019

of KERN Microtechnik GmbH, Eschenlohe

#### ASSETS

	Euro	December 31, 2019 Euro	December 31, 2018 Euro
A. Fixed assets			
I. Intangible Assets			
1. Concessions acquired for a fee, industrial property rights and similar rights and values as well as licenses to such rights and values	113,033.07		188,746.55
2. Goodwill	38,506.01	151,539.08	62,844.10
II. Tangible assets			
1. Land, land rights and buildings including buildings on third-party land	2,125,982.10		2,223,931.07
2. technical systems and machines	849,341.58		863,931.92
3. other equipment, factory and office equipment	709,270.01	3,684,593.69	534,960.95
III. Financial assets			
Shares in affiliated companies		1.00	1.00
B. Current Assets			
I. Inventories			
1. Raw materials and supplies	3,005,808.36		2,992,019.03
2. unfinished products, unfinished services	2,469,395.21		3,394,616.10
3. finished goods and merchandise	1,769,418.65		1,079,978.65
4. Advance payments received on orders	2,238,872.80-	5,005,749.42	2,529,336.90-
II. Receivables and other assets			
1. Accounts receivable from deliveries and services	4,649,777.86		3,779,933.91
2. Claims against shareholders	0.00		181.00
3. Claims against affiliated companies	1,229,463.58		1,515,625.23
4. other assets	1,279,884.38	7,159,125.82	1,336,911.37
- of which with a remaining term of more than one year 1,024,860.20 euros (859,264.12 euros)			
III. Cash in hand, Bundesbank balances, bank balances and checks		3,701,468.44	747,904.34
C. Prepaid expenses		25,640.90	51,362.72
		19,728,118.35	16,243,611.04

#### LIABILITIES

	Euro	December 31, 2019 Euro	December 31, 2018 Euro
A. Equity			
I. Drawn capital		500,000.00	500,000.00

		December 31, 2019	December 31, 2018
	Euro	Euro	Euro
II. Capital reserve		2,000,000.00	2,000,000.00
III. Retained earnings			
other retained earnings		5,427,729.68	5,396,291.22
IV. Net income		3,462,235.75	801,598.28
B. Provisions			
1. Tax provisions	1,058,869.67		0.00
2. other provisions	2,862,958.71	3,921,828.38	1,587,827.81
C. Liabilities			
1. Liabilities to banks	3,253,665.91		4,804,307.52
2. Trade accounts payable	965,360.26		912,271.37
3. other liabilities	187,034.62	4,406,060.79	223,789.84
- of which from taxes Euro 125,666.29 (Euro 157,322.76)			
- of which in the context of social security Euro 14,139.76 (Euro 14,233.97)			
D. Prepaid expenses		10,263.75	17,525.00
		19,728,118.35	16,243,611.04

### Income statement for the fiscal year from January 1 to December 31, 2019

#### of KERN Microtechnik GmbH, Eschenlohe

		Fiscal year	Previous year
	Euro	Euro	Euro
1. Sales		36,786,572.92	29,541,509.98
2. Increase in stocks of finished and unfinished goods		2,595,683.09-	1,024,669.72
3. Other own work capitalized		632,446.99	512,295.38
4. other operating income		513,725.67	349,416.90
- of which income from currency conversion Euro 50,678.23 (Euro 66,631.43)			
5. Cost of materials		12,020,691.02	12,875,921.89
6. Personnel expenses			
a) Wages and salaries	9,501,262.62		9,256,176.59
b) social security and pension and support expenses	1,732,720.55	11,233,983.17	1,670,954.45
- of which for pensions EUR 15,344.31 (EUR 15,799.91)			
7. Depreciation		1,025,567.49	1,284,070.72
8. other operating expenses		6,087,523.86	5,056,638.45
- of which expenses from currency conversion Euro 40,382.24 (Euro 119,177.93)			
9. other interest and similar income		54,035.77	18,283.30
10. Interest and Similar Expenses		137,600.19	158,747.61
11. Taxes on income and earnings		1,363,273.97	293,289.79
12. Profit after tax		3,522,458.56	850,375.78
13. other taxes		60,222.81	48,777.50
14. Net income		3,462,235.75	801,598.28

#### attachment

##### General Information

Kern Microtechnik GmbH was founded on January 1st, 2012. It emerged from Kern Micro- und Feinwerktechnik GmbH & Co. KG, Murnau, and is listed in the commercial register (HRB 200372, Munich Local Court).

The main tasks of the company are the development, production and worldwide sales of high-precision machine tools and the service as a contract manufacturer for parts with the highest accuracy requirements.

The annual financial statements of KERN Microtechnik GmbH were drawn up on the basis of the accounting regulations of the Commercial Code for corporations and the GmbH Act.

The total cost method was chosen for the profit and loss account.

According to the size classes specified in Section 267 of the HGB, the company is a medium-sized corporation.

##### Information on accounting and valuation

##### Accounting and valuation principles

Acquired intangible assets were stated at cost and, if they were subject to wear and tear, reduced by scheduled depreciation.

Property, plant and equipment was valued at acquisition or production cost and, if depreciable, reduced by scheduled depreciation.

Movable fixed assets up to a value of EUR 1,000.00 received in the year under review were written off in full.

The financial assets were recognized and valued as follows:

- Shares in affiliated companies only contain shares in a foreign subsidiary, which was written down in 2008 to the lower fair value. The approach is based on the remainder value of EUR 1.00.

The inventories were valued at acquisition or production cost. The method of moving average prices is used to update the book values. If the fair values were lower on the balance sheet date, these were applied.

Receivables and other assets are generally reported at their nominal value. Identifiable individual risks are taken into account through write-downs on these receivables or other assets. Due to the general credit risk, a general bad debt allowance of 1% of the adjusted net receivables was made for trade receivables. A non-interest-bearing tenant loan was discounted at 5.5% in accordance with the term. The income from the compounding amounted to EUR 24.7 thousand in the 2019 financial year (EUR 11.7 thousand in 2018).

Provisions are shown in the amount of the settlement amount necessary according to prudent business judgment.

The tax provisions contain the not yet assessed trade and corporation taxes and the solidarity surcharges.

The other provisions were set up for all other uncertain liabilities. All identifiable risks were taken into account.

Liabilities were shown at the settlement amount.

#### Different accounting and valuation methods compared to the previous year

There was no fundamental change in accounting and valuation methods compared to the previous year.

#### Basics for converting foreign currency items into euros

The annual financial statements contain items denominated in a foreign currency that have been converted into euros.

Receivables and liabilities in foreign currencies are valued at the mean spot exchange rate on the balance sheet date.

#### Information and explanations on individual items in the balance sheet and profit and loss account

##### Gross fixed asset movement schedule

The breakdown and development of the asset values can be found in the schedule of assets printed below.

#### development of the capital assets

	Acquisition costs / production costs			As of December 31, 2019 Euro
	As of 01/01/2019 Euro	Accesses Euro	Departures Euro	
	Capital assets			
I. Intangible Assets				
1. Concessions acquired for a fee, industrial property rights and similar rights and values as well as licenses to such rights and values	914,403.15	21,704.80	236,223.72	697,864.23
2. Goodwill	400,861.74	0.00	0.00	400,861.74
Total intangible assets	1,315,264.89	21,704.80	238,223.72	1,098,745.97
II. Tangible assets				
1. Land, land rights and buildings including buildings on third-party land	3,250,774.62	4,140.00	130,963.56	3,123,951.06
2. technical systems and machines	6,556,694.56	723,522.87	1,222,920.28	6,057,297.15
3. other equipment, factory and office equipment	2,430,911.08	427,640.66	1,003,943.48	1,054,608.26
Total property, plant and equipment	12,238,380.26	1,155,303.53	2,367,827.32	11,035,856.47
III. Financial assets				
1. Shares in affiliated companies	42,873.81	0.00	0.00	42,873.81
2. other loans	0.00	0.00	0.00	0.00
Total financial assets	42,873.81	0.00	0.00	42,073.81
Total fixed assets	13,596,518.96	1,177,008.33	2,596,051.04	12,177,476.25
		Depreciation		
	As of 01/01/2019 Euro	Fiscal year Euro	Departures Euro	As of December 31, 2019 Euro
Capital assets				
I. Intangible Assets				
1. Concessions acquired for a fee, industrial property rights and similar rights and values as well as licenses to such rights and values	725,856.60	97,418.28	238,223.72	664,651.16
2. Goodwill	338,017.64	24,338.09	0.00	362,355.73
Total intangible assets	1,063,674.24	121,756.37	238,223.72	947,206.89
II. Tangible assets				
1. Land, land rights and buildings including buildings on third-party land	1,026,843.55	102,088.97	130,963.56	997,968.96
2. technical systems and machines	5,692,762.64	565,781.94	1,050,589.01	5,207,955.57

	Depreciation			As of December 31, 2019 Euro
	As of 01/01/2019 Euro	Fiscal year Euro	Departures Euro	
	3. other equipment, factory and office equipment	1,895,950.13	235,940.21	
Total property, plant and equipment	8,615,556.32	903,811.12	2,168,104.66	7,351,262.76
III. Financial assets				
1. Shares in affiliated companies	42,872.81	0.00	0.00	42,872.81
2. other loans	0.00	0.00	0.00	0.00
Total financial assets	42,872.81	0.00	0.00	42,872.81
Total fixed assets	9,722,103.37	1,025,667.49	2,406,328.38	8,341,342.40
Book values				
		As of December 31, 2019 Euro	As of December 31, 2018 Euro	
Capital assets				
I. Intangible Assets				
1. Concessions acquired for a fee, industrial property rights and similar rights and values as well as licenses to such rights and values		113,033.07	186,746.55	
2. Goodwill		36,506.01	62,844.10	
Total intangible assets		151,539.08	251,590.65	
II. Tangible assets				
1. Land, land rights and buildings including buildings on third-party land		2,125,982.10	2,223,931.07	
2. technical systems and machines		049,341.58	663,931.92	
3. other equipment, factory and office equipment		709,270.01	534,960.95	
Total property, plant and equipment		3,684,593.69	3,622,823.94	
III. Financial assets				
1. Shares in affiliated companies		1.00	1.00	
2. other loans		0.00	0.00	
Total financial assets		1.00	1.00	
Total fixed assets		3,836,133.77	3,874,415.59	

#### Fiscal year depreciation

The annual depreciation for each item in the balance sheet can be found in the schedule of assets.

The low-value assets are shown as additions and disposals in the year of addition in the schedule of assets. The amount of the immediate write-offs included in the depreciation amounts for the year of acquisition is EUR 30 thousand.

#### Amortization of goodwill

The acquired goodwill was capitalized. The amortization is based on the average term of customer relationships at the time of acquisition over the normal useful life of 15 years.

#### Information and explanations on provisions

The provisions item includes provisions for warranties of 35% (2019 EUR 999.7 thousand, 2018 EUR 624.1 thousand) and provisions for vacation, overtime and profit-related remuneration of 51.7% (2019 EUR 1,477.1 thousand, 2018 671 KEUR). The other provisions in the amount of EUR 381 thousand (2018 EUR 284 thousand) include the expected expenses for the annual audit, professional association, archiving and outstanding invoices, neglected maintenance and pending losses. Provisions were made for corporation tax and trade income tax in the amount of the expected additional tax payments.

#### Information and explanations on liabilities

As of the balance sheet date of December 31, 2019, the statement of liabilities shows the following:

Type of liability	Total- amount TEuro	Remaining terms		
		up to 1 year TEuro	1 - 5 years TEuro	greater than 5 years TEuro
Liabilities to banks	3,254	1,243	1,445	566
(Previous year)	4,804	4,152	652	0
liabilities from goods and services	965	965	0	0
(Previous year)	912	912	0	0
Other liabilities	187	187	0	0
(Previous year)	224	224	0	0
total	4,406	2,395	1,445	566
(Previous year)	5,940	5,289	652	0

The liabilities to banks are secured by a land charge on the business property in Eschenlohe.

The trade payables are regularly secured with a retention of title in favor of the supplier.

**Information on the profit and loss account****Sales**

The main sales were achieved with the sale of our machines EUR 21,689 thousand, service and support EUR 5,493 thousand and parts production EUR 9,381 thousand. Furthermore, rental income, income from goods and services and from meal payments to employees in the amount of EUR 723.5 thousand were realized.

**Other company income**

The other income includes insurance compensation, the release of provisions, the reimbursement of expenses for the company's own cars and bicycles by our employees and currency gains and proceeds from the disposal of fixed assets.

**Employee**

To indicate the average number of employees during the financial year, these are summarized according to employee groups below:

Employee groups	number
Workers	92
commercial clerk	72
chief Executive Officer	2
executives	1
Total number of average employees	167

**trainee**

The total number of trainees employed on average is 24.

**Contingent liabilities according to § 251 HGB**

At Deutsche Bank, guarantees (warranties, sureties) amounting to TCHF 220 and EUR 179,000 had been drawn on as of the balance sheet date. Two individual security transfers in the form of a KERN Micro ultra-precision CNC machining center and a KERN Micro five-axis machining center have been ordered.

As of the balance sheet date, HypoVereinsbank granted a guarantee credit of 1,006,799.50.

On the business property in Eschenlohe, liabilities of third parties are secured with a mortgage in the amount of Teur 2,000.

**Proposal for the use of results**

In agreement with the shareholders, the management proposes the following appropriation of earnings:

The annual surplus amounts to 3,462,235.75 euros.

The 2018 annual surplus of EUR 801,598.28, minus a distribution of EUR 680,159.83, was allocated to retained earnings.

The management proposes to make a distribution of 1,500,000.00 euros from the annual surplus for 2019, to continue to distribute 250,000.00 euros from the retained earnings to a shareholder based on corresponding contractual agreements and to carry the remaining amount forward to a new account and into the open retained earnings.

**Other mandatory disclosures****Other financial obligations**

For economic reasons, a 20-year leasing contract was concluded for the company building in Murnau from April 1, 2003 to March 31, 2023. At the same time, the obligation to grant a tenant loan was entered into. The annual obligations for this total EUR 257.6 thousand. There is a total obligation of EUR 832.9 thousand for the remaining term.

For the same reason, there are leasing contracts for vehicles and machines that establish total obligations for the remaining term of EUR 1,212 thousand as of the reporting date.

**Names of the managing directors**

First managing director:	Simon Eickholt	regular occupation:	Merchant
Other managing directors:	Sebastian Guggenmos	regular occupation:	engineer

With regard to the information according to Section 285 No. 9 of the German Commercial Code (HGB), use is made of the safeguard clause in view of the low number of members of the management team.

**Information on shareholdings in other companies of at least 20 percent of the shares**

In accordance with Section 285 No. 11 HGB, the following companies are reported:

Company name / seat	Share amount	Results 2019 Euro	Equity December 31, 2019 Euro
Kern Precision, Inc. Chicago, Illinois, USA	100%	513,521.41	-89,876.35

**Signature of the management**

Eschenlohe, March 2020

*Simon Eickholt, managing director*  
*Sebastian Guggenmos, managing director*

**Management report for 2019**

**Kern Microtechnik GmbH****1. Business model of the company**

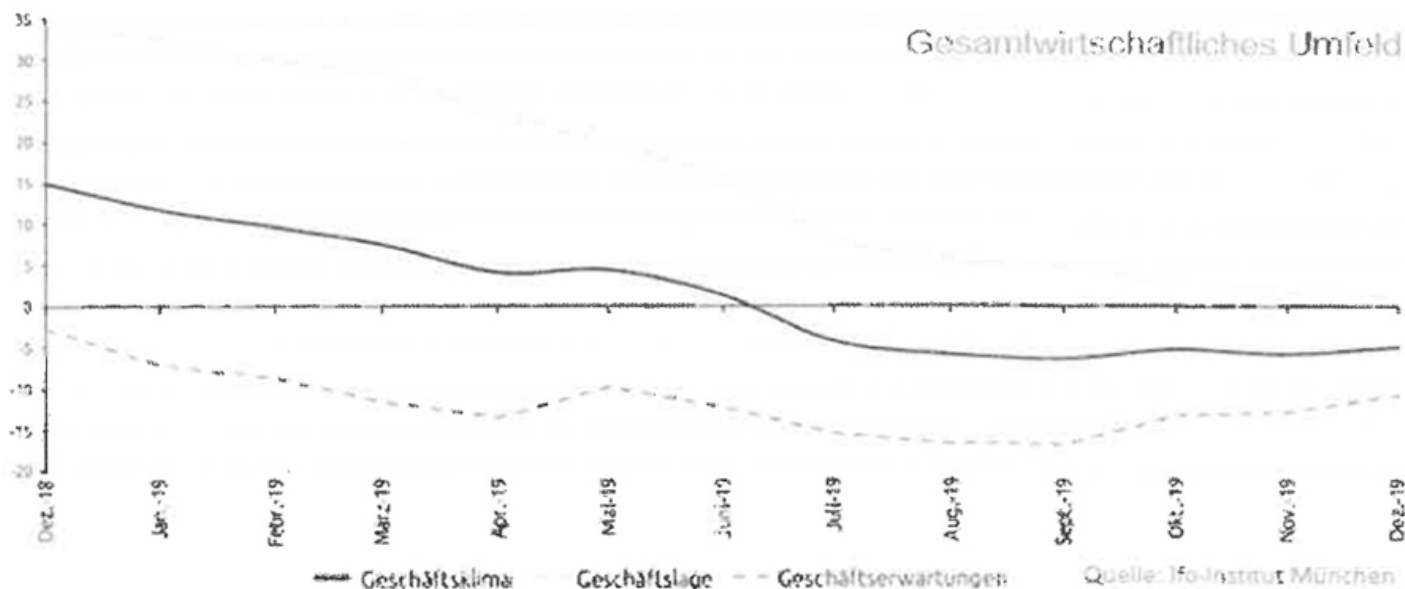
KERN Microtechnik GmbH is a medium-sized company from the Bavarian Oberland, which has three business areas; These are the areas of contract manufacturing, mechanical engineering and services for the machines manufactured in-house.

In the field of contract manufacturing, high-precision parts and key components are produced for well-known companies on a contract basis. In the field of mechanical engineering, CNC machining centers are manufactured and production processes are developed for a wide range of applications by customers who require maximum precision and productivity.

The main customers come from tool and mold making, the watch and jewelry industry, the automotive industry, the electronics industry, high-frequency technology, aerospace, as well as dental and medical technology. Universities and institutes also belong to the customer base.

**2. Macroeconomic and industry-specific framework conditions**

The German economy is leaving its long-term growth path in 2019 and is at the previous year's level. The mechanical engineering industry in Germany is struggling with a sharp decline in incoming orders, particularly due to the crisis in the automotive industry. The willingness to invest and the demand have generally deteriorated significantly. For the niche market for high-precision machines, however, demand in the USA in particular developed positively (order intake from Kern Precision Inc. + 20%). This level is also expected there in the first half of 2020, and there are no signs of a weakening. In China, 2019 was a particularly good year for Kern mechanical engineering. On average over the last three years, incoming orders have more than doubled. Due to the outbreak of the corona virus, a result at this level is not expected for 2020. In our core markets in Europe, but especially in Germany, Austria and Switzerland, 2019 was a good year that was above the previous year's level despite the mechanical engineering crisis. The expectations for 2020 are rather cautious, the ongoing crisis in mechanical engineering and the automotive industry as well as the outbreak of the corona virus are dampening expectations. But especially in Germany, Austria and Switzerland, 2019 was a good year, which despite the mechanical engineering crisis ended above the previous year's level. The expectations for 2020 are rather cautious, the ongoing crisis in mechanical engineering and the automotive industry as well as the outbreak of the corona virus are dampening expectations.

**3. Business development and business result**

In the context of increasing efficiency and miniaturization, the industry demands ever more precise components. The Kern company follows this trend in mechanical engineering and contract manufacturing by developing and using highly productive machine tools that achieve the highest levels of accuracy on the component in a stable process.

In the 2019 financial year, KERN Microtechnik GmbH's sales rose by 24.5% to EUR 36,787 thousand. In addition to increased sales, a further increase in incoming orders was also recorded. The company has been on a sustainable growth course for years, the strategic focus on productivity and accuracy is being consistently pursued and continuously refined.

The result from ordinary business activities (EBIT) is EUR 4,909 thousand and amounts to 13.34% of sales, the annual surplus amounts to EUR 3,462 thousand and amounts to 9.4% of sales.

The focus of the sales markets was Germany, followed by the USA, China and the EU countries. 47.1% of the services were exported. The two business areas of mechanical engineering (Eschenlohe location) and contract manufacturing (Murnau location) work equally profitably and have been able to significantly increase their overall performance.

Distribution of services on the sales markets in:	inland	foreign countries
Made to order	83.2%	16.8%
mechanical engineering	42.5%	57.5%

**4. Asset, financial and earnings position**

The company's financial position is solid and the equity ratio is 57.8%. Through liquidity and earnings management, it was possible to reduce liabilities to banks and to build up credit balances with banks.

The investment rate in fixed assets is 3.2% (€ 1,177,000) of total sales. In addition, systems for contract manufacturing and application technology were purchased.

Production and machinery at both locations are of the highest technical standard. Plants and systems are continuously updated and modernized.

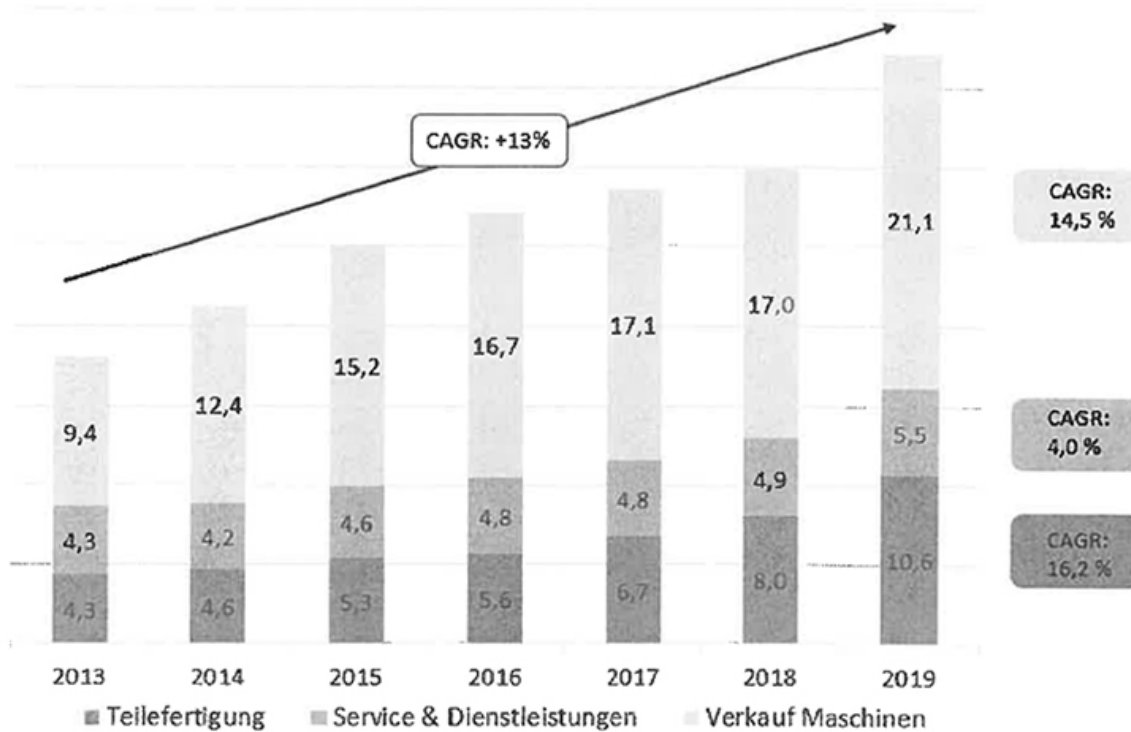
The new company canteen was furnished in a modern and attractive manner, and social rooms and public areas were renovated to create an attractive environment for employees and customers. Further investments in the training area make Kern an attractive training company and help to counteract the shortage of skilled workers.

A hall extension at the location in Eschenlohe allows further growth and greater vertical range of manufacture of important components in mechanical engineering. The focus on the high-precision key components in contract manufacturing allows further growth at the location in Murnau / Westried. A modern automation cell promises a significant increase in capacity and productivity in the coming years. The production capacity at both locations could be further increased through organizational and process optimization.

The aim for 2019 was to further sharpen the company's strategic direction, to consolidate the department structure and areas of responsibility and to further optimize the company's finance.

Important milestones have been reached. A considerable increase in sales, earnings before taxes of more than 10% of the total output, utilization of production in the optimal profit range, reduction of liabilities, constantly low inventory levels and a powerful organization in the business areas were achieved.

### Umsatzentwicklung

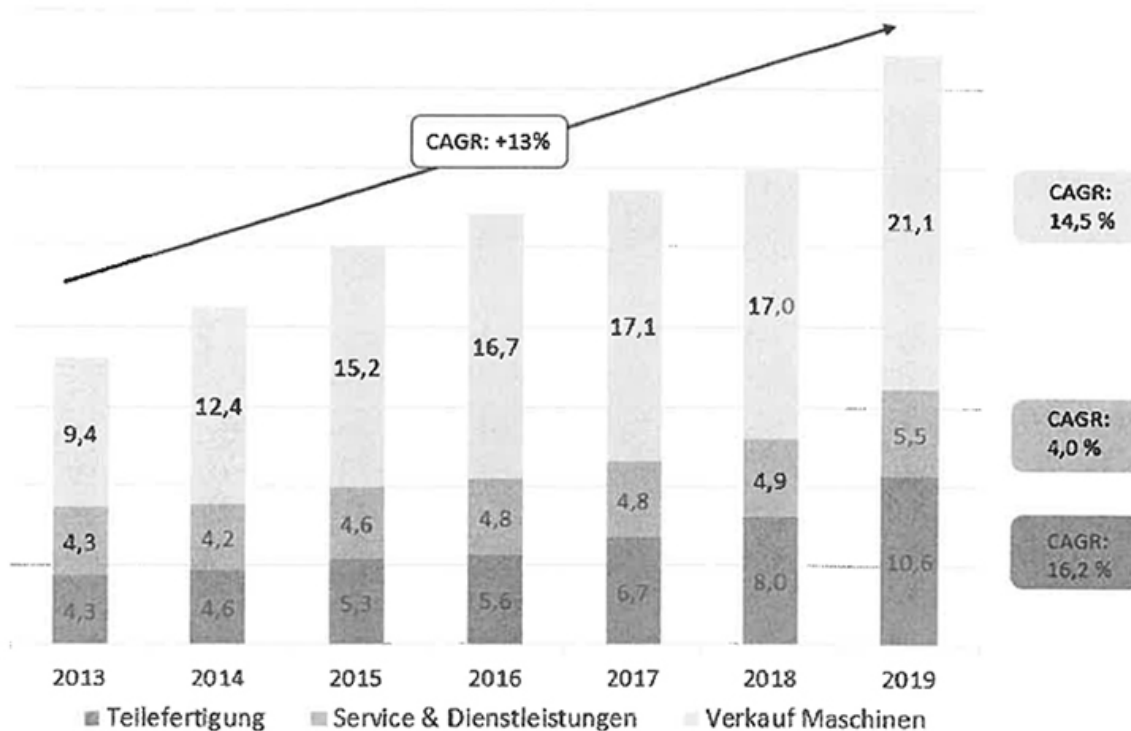


CAGR = Compound Annual Growth Rate (Jährliche Wachstumsrate)

The following also applies to the financial situation with reference to the financial performance indicators:

- The balance sheet total increased by EUR 3,484 thousand to EUR 19,728 thousand due to the positive result
- In spite of the increased overall output, inventories remained constant at EUR 5,006 thousand
- Fixed assets remained constant (EUR 3,836 thousand), while depreciation fell to EUR 1,026 thousand
- The current assets increased in 2019 by EUR 3,549 thousand to EUR 15,866 thousand
- Trade accounts receivable and other assets increased by a total of 527 kEUR
- Personnel expenses rose to EUR 11,234 thousand (+ 2.7%). The increase is due to an increase from 10 employees to a total of 205 employees, higher wages, an annual bonus for employees and special effects.
- The cost of materials amounts to EUR 12,021 thousand and is therefore at the previous year's level despite the higher overall output. The reasons for this lie in the optimized production in mechanical engineering.
- The other operating expenses rose by xx% (Mr. Bölke - base value from Datev for calculation?) To 6,088 kEUR due to necessary maintenance and investments in the plants, as well as an increase in the costs for operating resources due to increased production capacity and new customer projects.
- Material cost ratio (material cost / (sales + inventory change + self-capitalized service)) (2019: 34.52%; 2018: 41.43%; 2017: 40.36%)
- Personnel expenses ratio (personnel expenses / (sales + inventory change + self-capitalized output)) (2019: 32.26%; 2018: 35.16%; 2017: 33.36%)
- Other expense ratio (other costs / (sales + inventory change + self-capitalized service)) (2019: 17.48% 2018: 16.27%; 2017: 16.61%)
- Order backlog (2019: 17,454 kEUR; 2018: 17,464 kEUR; 2017: 8,599 kEUR)
- Inventories (2019: EUR 5,005 thousand; 2018: EUR 4,937 thousand)
- Liabilities (2019: EUR 4,406 thousand; 2018: EUR 5,940 thousand)

## Umsatzentwicklung



CAGR = Compound Annual Growth Rate (Jährliche Wachstumsrate)

### 5. Marketing and Sales

In order to consolidate and expand our position in the various market segments, we are continuously working on optimizing our market and customer-specific sales network and customer dialogue. A concentrated sales network through direct sales staff and intensive customer loyalty are the center of our sales strategy.

A high level of customer satisfaction is the basic requirement for our long-term success. That is why we systematically analyze the diverse needs and satisfaction of our customers in the individual segments. With the help of various sales tools and marketing formats, we maintain partnerships and dialogues with our customers.

Incoming orders for machines in 2019 were extremely good and are again around 5% above the previous year. The increase is due to increased demand from the new Kern Micro HD machine type, but also to growth in the foreign companies. In contract manufacturing, the order backlog rose by around 15% thanks to increased demand from new and existing customers. can be increased. The service area increased sales by around 10% compared to the previous year.

The investments in direct sales in the USA have been successfully implemented. A significant increase in incoming orders of around 20% and a positive overall forecast confirm the effectiveness of the course we have chosen. The 100% US subsidiary Kern Precision Inc., headquartered in Chicago, achieved a clearly positive result of 575,000 USD in 2019, and service activities were further expanded. The branch in Switzerland, based in Dietikon, achieved a balanced result and achieved its primary goal of ensuring high service quality, availability and speed of reaction for our Swiss customers.

### 6. Research and Development

The research and development department at Kern Microtechnik GmbH is divided into two areas of responsibility. The strategic development, which focuses on the innovation and optimization of the existing series, and the operational development, which runs customer projects and special developments.

Innovation is of fundamental importance for the Kern company, regardless of whether it is developed through customer projects or general technical innovations. As a technology leader in the field of high-precision machining, differentiation and technical progress are the basis of the company's strategy.

Important development goals were achieved in 2019:

- Launch of the Kern Micro Platform
- Market launch of the Kern Micro Vario
- Launch of the Kern Micro HD
- Improved machine performance
- In-house production projects and hydrostatic axle systems

The focus of the continuous further development of existing machine series was the long-term stability, performance optimization and the productivity of the machines. In addition to continuous improvement, the focus here is on wider use of the machines and additional functionality. These include, for example, the further development of machine-internal automation, applications in the area of Industry 4.0 and machine intelligence in general, as well as quality control mechanisms in the machine.

The consistent pursuit of the modular structure in mechanical engineering enables customer-specific solutions and short delivery times. In addition to special functions, individual automation and turnkey solutions are still very much in demand.

The platform strategy promises efficient further development, high quality in production and an extremely attractive price-performance ratio. The Kern Evo and Kern Pyramid Nano machine platforms are continuously being further developed and adapted to market requirements.

For Kern, cooperation with research institutions and universities is an important part of development work. Knowledge of the latest methods and developments enables a balanced strategy and helps to set the course in terms of corporate goals. The trusting cooperation with the research partners also strengthens sales in this area.

### 7. Employees and organization - non-financial performance indicators

The number of employees rose by 10 as of the reporting date to 205 with trainees. The company pursues a conservative personnel policy and attaches great importance to further training and development. The exchange between the business units and the foreign companies is strongly encouraged.

The focus of HR work is goal-oriented leadership, the further development of employees and the continuous optimization of the organization. Kern is constantly changing and customer-oriented.

Kern regularly works with working students who make valuable contributions during their master's or diploma thesis and develop a bond with the company. Their practical experience and company knowledge make them promising candidates for future appointments.

Apprenticeship training is of strategic importance for the company and the region. The company can thus effectively counteract the shortage of skilled workers and offer young people an attractive job in an internationally operating company. In the professional fields of mechatronics and industrial mechanics, two master apprentices now look after 31 apprentices. A demanding and varied training program is offered through the further expanded structures in the training. Significant investments in premises and a machine park round off the program.

### 8. Opportunity and risk report

Due to technical progress, globalization and modern marketing strategies, acting and differentiating in the competition of high-precision machine tools remains challenging. Strategies for an attractive range of products and services and a balanced opportunity-risk management are necessary.

#### opportunities

In a difficult economic environment, Kern relies on innovation and differentiated products and services in order to sustainably increase sales on the market. The Micro platform, but especially the Micro HD, has succeeded in counteracting the weakening demand in the mechanical engineering sector and in increasing incoming orders again compared to the previous year.

Optimized portfolio and price management makes it possible to increase profitability without losing any of its attractiveness. The expansion of the brand and the strategic expansion of the product portfolio allows the addressing of larger customer groups and neighboring customer segments. The focus on efficiency in production (Kern Micro Platform) leads in the medium term to a further improvement in profitability and attractiveness for potential buyers. The better exploitation of opportunities in the initiation and continuous improvement of distribution and sales processes enables higher sales figures with the same distribution costs. The further focus on direct sales by our own employees increases sales in the medium term. The expansion of the branch increases the relevance in the market and helps to improve sales and services. The order-independent utilization of production enables short delivery times and increases the exploitation of opportunities. Key account projects help to secure long-term sales and reduce sales expenses.

#### Technical risk

Kern has a lot of experience at the limit of what is technically feasible and in the development of special solutions. When developing sophisticated technologies, we use:

- Uniform machine platform to ensure cost efficiency and reduce complexity
- Avoidance of hard "phase in / phase out" changes in the portfolio in order to minimize fluctuations in sales and to ensure that production is fully utilized
- Pilot phases and factory tests in our own contract manufacturing process before the official market launch with improvement loops and quality assurance gates
- Cooperations and partnerships to optimize development efforts

For special solutions, Kern relies on orderly processes for decision-making and for achieving a balanced risk-opportunity ratio:

- Trial edits and test cuts
- Feasibility check and calculation of special developments

#### Commercial risk

The market demand for high quality, machine stability and short-term availability presents the company with major challenges. In order to meet these requirements, commercial risks must be taken. These are among others:

- Provision of finished machines (storage machines)
- Extension of the guarantee / warranty periods
- Alternative financing models for customers (rent, financing of partial payments)
- Deviation from the original payment model (pre-financing through down payment)
- Higher closing rates and purchase rates, as well as longer payment terms
- Price pressure and expectation of high discounts due to cost transparency and comparability

Kern counters these risks through:

- Comprehensive machine planning and continuous liquidity and profitability calculation
- Offer expansion through financing partners (rental, leasing, hire purchase) at home and abroad
- Cost optimization and focusing (Kern Micro Platform)
- New model for retrofitting standard machines (ED machine concept)
- Strengthening and expansion of the highly profitable used machine business
- Improvement of the margin situation through highly profitable machine options

The company's financial strategy is based on self-financing through sufficient profits and surpluses, risk minimization in the operative business and openness towards our financial partners.

The equity ratio has developed extremely well in recent years. The management of the financial positions follows a conservative risk policy. To minimize the risk of default, Kern has an effective debtor management system.

The company has a solvent customer base and bad debts are extremely rare. The use of financial instruments does not give rise to any risks as they are not used. Currency risks are largely hedged through currency forwards.

#### Security risks

Safety risks in production, use of machines, etc. are comprehensively covered by appropriate regulations and documents.

The risks from data loss and factory espionage can be assessed as manageable:

- Process, operator and mechanical engineering know-how are equally important when building a core machine, the availability and thus the possibility of third-party appropriation of the first two components in data sets or documents is not given.
- Kern relies on current IT systems to protect against outside influences and data theft via internet connections
- Education and training of employees
- CDAs and nondisclosure agreements with suppliers and customers

#### Legal risk

The aforementioned risks and the professionalization of potential customers harbor a possible legal risk. Kern uses professional legal help and advice to prevent confrontations and avoid risks.

- Introduction of new terms and conditions for mechanical engineering, machine service and contract manufacturing
- In-depth examination of delivery agreements, penalties and contractual claims.
- Involvement of the management in customer relationships, complaints and disputes

#### 9. Forecast report

The order situation in mechanical engineering and contract manufacturing at the turn of the year is very good, and customer demand is consistently high. A significant weakening in demand in the automotive industry, which was already noticeable in 2019, has so far been offset well by other market segments and increased competitiveness. Due to a high utilization of production and a continued high order backlog, a positive annual result for 2020 can be assumed despite the necessary caution.

The expansion of the sales team and the continuous expansion of the areas with potential in Europe and the USA are intended to sustainably secure the high level of orders for the next few years. The prerequisite for this is that there are no significant trade barriers with the USA and China. The effects of the economic paralysis caused by the corona virus cannot be quantified at this point in time. However, it can already be foreseen that sales and earnings will not be at the previous year's level due to changed customer behavior and that a significantly lower profit can be expected.

The market launch of two highly differentiated machine types, the Micro Vario and Micro HD last year, further expanded Kern's technological leadership. A very gratifying increase in incoming orders through Kern Micro HD was able to fully compensate for the deficits in the automotive sector and the weakening demand in Germany. The platform strategy has significantly improved the price-performance ratio of the machines and the competitiveness with good profitability. Further optimization is planned for 2020.

The ongoing initiatives in the area of service and sales are to be consistently continued and further optimized. Process improvements in production, purchasing and service should bring further efficiency and productivity advantages.

The forecast for 2020 is cautious due to the Corona crisis, as the macroeconomic and global political situation gives cause for great caution. Kern's strategy of avoiding dependencies on individual industries is being consistently pursued.

*Simon Eickholt, managing director*

*Sebastian Guggenmos, managing director*

#### Auditor's report

### INDEPENDENT AUDITOR'S REPORT

To KERN Microtechnik GmbH

#### Examination Opinions

We have the annual financial statements of KERN Microtechnik GmbH - consisting of the balance sheet as of December 31, 2019 and the income statement for the financial year from January 1, 2019 to December 31, 2019 as well as the notes, including the presentation of the accounting and valuation methods - checked. In addition, we have audited the management report of KERN Microtechnik GmbH for the financial year from January 1, 2019 to December 31, 2019.

According to our assessment based on the knowledge gained during the audit

- the attached annual financial statements comply in all material respects with the German commercial law regulations applicable to corporations and, in compliance with the German principles of proper accounting, give a true and fair view of the company's assets and financial position as of December 31, 2019 and its earnings position for the financial year from January 1, 2019 to December 31, 2019 and
- the attached management report gives an overall accurate picture of the company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and accurately presents the opportunities and risks of future development.

In accordance with Section 322 (3) sentence 1 of the German Commercial Code (HGB), we declare that our audit has not led to any objections to the correctness of the annual financial statements and the management report.

#### Basis for the examination results

We carried out our audit of the annual financial statements and the management report in accordance with Section 317 of the German Commercial Code (HGB) and in compliance with the generally accepted German auditing principles established by the Institut der Wirtschaftsprüfer (IDW). Our responsibility under these regulations and principles is further described in the section "Auditor's Responsibility for the Audit of the Annual Financial Statements and Management Report" of our auditor's report.

We are independent of the company in accordance with German commercial and professional regulations and have fulfilled our other German professional obligations in accordance with these requirements. We believe

#### **Responsibility of the legal representatives for the annual financial statements and the management report**

The legal representatives are responsible for the preparation of the annual financial statements, which comply in all essential respects with the German commercial law regulations applicable to corporations, and for ensuring that the annual financial statements, in compliance with the German principles of proper bookkeeping, give a true and fair view of assets and finance - and the company's earnings. Furthermore, the legal representatives are responsible for the internal controls, which they have determined to be necessary in accordance with the German principles of proper accounting to enable the preparation of the annual financial statements,

When preparing the annual financial statements, the legal representatives are responsible for assessing the company's ability to continue business operations. Furthermore, they are responsible for disclosing matters relating to the going concern of the company, if relevant. In addition, they are responsible for accounting for the going concern basis of the company's financial statements, unless actual or legal circumstances conflict with this.

In addition, the legal representatives are responsible for the preparation of the management report, which as a whole provides an accurate picture of the company's position and is consistent with the annual financial statements in all material respects, complies with German legal requirements and accurately presents the opportunities and risks of future development. Furthermore, the legal representatives are responsible for the precautions and measures (systems) that they have deemed necessary to enable the preparation of a management report in accordance with the applicable German legal regulations and to provide sufficient suitable evidence for the statements in the management report can.

#### **Auditor's responsibility for the audit of the annual financial statements and the management report**

Our objective is to obtain sufficient certainty as to whether the annual financial statements as a whole are free of material - intended or unintentional - misrepresentation and whether the management report as a whole gives an accurate picture of the company's position and, in all material matters, with the annual financial statements as well is in line with the findings of the audit, complies with German legal requirements and correctly presents the opportunities and risks of future development, as well as issuing an auditor's report that includes our audit opinions on the annual financial statements and the management report

Adequate security is a high level of security, but no guarantee that an audit carried out in accordance with Section 317 of the German Commercial Code (HGB) in accordance with the German principles of proper auditing established by the Institute of Auditors (IDW) will always reveal a material misrepresentation.

Misrepresentations can result from violations or inaccuracies and are regarded as material if it could reasonably be expected that they individually or collectively influence the economic decisions of the addressees made on the basis of these annual financial statements and management report.

During the examination, we exercise due discretion and maintain a critical attitude. Furthermore

- We identify and assess the risks of material - intentional or unintentional - misrepresentations in the annual financial statements and the management report, plan and carry out audit activities in response to these risks and obtain audit evidence that is sufficient and suitable to serve as a basis for our audit opinions. The risk that material misrepresentations are not detected is higher in the case of violations than inaccuracies, since violations can involve fraudulent cooperation, forgeries, intentional incompleteness, misleading representations or the overriding of internal controls.
- We gain an understanding of the internal control system relevant to the audit of the annual financial statements and the provisions and measures relevant to the audit of the management report in order to plan audit procedures that are appropriate under the given circumstances, but not with the aim of providing an audit opinion on the effectiveness of these Systems of society.
- we assess the appropriateness of the accounting methods used by the legal representatives as well as the acceptability of the estimated values presented by the legal representatives and related information.
- we draw conclusions about the appropriateness of the going concern accounting principle applied by the legal representatives and, on the basis of the audit evidence obtained, whether there is any material uncertainty in connection with events or circumstances, the significant doubts about the company's ability to continue as a going concern can raise. If we come to the conclusion that there is material uncertainty, we are obliged to draw attention to the relevant information in the annual financial statements and in the management report in the auditor's report or, if this information is inappropriate to modify our respective audit opinion. We draw our conclusions based on the audit evidence obtained up to the date of our auditor's report. Future events or circumstances can, however, mean that the company can no longer continue its business activities.
- we assess the overall presentation, structure and content of the annual financial statements, including the information, as well as whether the annual financial statements present the underlying business transactions and events in such a way that the annual financial statements provide a true and fair view of the asset, financial and the company's earnings.
- we assess the consistency of the management report with the annual financial statements, its compliance with the law and the picture it provides of the company's position.
- we perform audit procedures on the future-oriented information presented by the legal representatives in the management report. On the basis of sufficient suitable audit evidence, we particularly review the significant assumptions underlying the future-oriented information from the legal representatives and assess the appropriate derivation of the future-oriented information from these assumptions. We do not provide an independent audit opinion on the future-oriented information or the underlying assumptions from. There is a considerable unavoidable risk that future events will differ materially from the forward-looking statements.

Among other things, we discuss with those responsible for monitoring the planned scope and timing of the audit as well as significant audit findings, including any deficiencies in the internal control system that we discover during our audit.

**Munich, March 31, 2020**

**RBT Römer Bölke Welter Memmler Treuhand GmbH  
Wirtschaftsprüfungsgesellschaft  
Steuerberatungsgesellschaft**

*J. Welter auditor*

*W. Bölke auditor*

#### **Specification of the date on which the annual financial statements were adopted:**

The annual financial statements as of December 31, 2019 were adopted by resolution of the shareholders' meeting on March 31, 2020.

**Decision on the appropriation of profits:**

On April 3rd, 2020 the shareholders' meeting decided on a profit distribution of 1,500,000.00 euros. Furthermore, the shareholders' meeting decided on June 30th, 2020 to carry forward the remaining amount of 1,962,235.75 euros to a new account and to transfer it to the open revenue reserves.

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