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KERN Microtechnik GmbH	Accounting / finan-	Annual financial statements for the business year	07/01/2019
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KERN Microtechnik GmbH

Murnau a. Staffelsee

Annual financial statements for the business year from January 1, 2018 to December 31, 2018**Balance sheet as of December 31, 2018**

of KERN Microtechnik GmbH, Eschenlohe

ASSETS

	Euro	December 31, 2018 Euro	December 31, 2017 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	188,746.55		173,976.96
2. Goodwill	62,844.10		87,182.19
		251,590.65	261,159.15
II. Tangible assets			
1. Land, land rights and buildings including buildings on third-party land	2,223,931.07		2,325,330.04
2. technical systems and machines	863,931.92		1,018,864.46
3. other equipment, factory and office equipment	534,960.95		586,957.21
		3,622,823.94	3,931,151.71
III. Financial assets			
Shares in affiliated companies		1.00	1.00
B. Current Assets			
I. Inventories			
1. Raw materials and supplies	2,992,019.03		4,283,223.07
2. unfinished products, unfinished services	3,394,616.10		2,768,463.35
3. finished goods and merchandise	1,079,978.65		369,140.86
4. Advance payments received on orders	2,529,336.90-		636,760.00-
		4,937,276.88	6,784,067.28
II. Receivables and other assets			
1. Accounts receivable from deliveries and services	3,779,933.91		3,899,225.02
2. Claims against shareholders	181.00		0.00
3. Claims against affiliated companies	1,515,625.23		991,907.68
4. other assets	1,336,911.37		943,340.27
		6,632,651.51	5,834,472.97
- of which with a remaining term of more than one year EUR 859,264.12 (EUR 712,693.19)			
III. Cash in hand, Bundesbank balances, bank balances and checks		747,904.34	139,906.04
C. Prepaid expenses		51,362.72	49,680.06
		16,243,611.04	17,000,438.23

LIABILITIES

		December 31, 2018	December 31, 2017
	Euro	Euro	Euro
		December 31, 2018	December 31, 2017
	Euro	Euro	Euro
A. Equity			
I. Drawn capital		500,000.00	500,000.00
II. Capital reserve		2,000,000.00	2,000,000.00
III. Retained earnings			
other retained earnings		5,396,291.22	4,246,110.26
IV. Net income		801,598.28	1,277,978.84
B. Provisions			
other provisions		1,587,827.81	1,526,575.47
C. Liabilities			
1. Liabilities to banks	4,804,307.52		6,192,354.17
2. Trade accounts payable	912,271.37		758,918.07
3. other liabilities	223,789.84		498,501.42
		5,940,368.73	7,449,773.66
- of which from taxes Euro 157,322.76 (Euro 161,615.52)			
- of which in the context of social security 14,233.97 euros (12,897.03 euros)			
D. Prepaid expenses		17,525.00	0.00
		16,243,611.04	17,000,438.23

Income statement for the fiscal year from January 1 to December 31, 2018

of KERN Microtechnik GmbH, Eschenlohe

		Fiscal year	Previous year
	Euro	Euro	Euro
1. Sales		29,541,509.98	28,644,687.98
2. Increase in stocks of finished and unfinished goods		1,024,669.72	398,041.24
3. Other own work capitalized		512,295.38	676,336.65
4. other operating income		349,416.90	524,368.27
- of which income from currency conversion EUR 66,631.43 (EUR 17,582.97)			
5. Cost of materials		12,875,921.89	12,143,983.10
6. Personnel expenses			
a) Wages and salaries	9,256,176.59		8,349,902.33
b) social security and pension and support expenses	1,670,954.45	10,927,131.04	1,564,386.20
- of which for pensions EUR 15,799.91 (EUR 15,600.48)			
7. Depreciation		1,284,070.72	1,239,645.53
8. other operating expenses		5,056,638.45	4,935,481.66
- of which expenses from currency conversion Euro 119,177.93 (Euro 26,750.38)			
9. other interest and similar income		18,283.30	9,698.28
10. Interest and Similar Expenses		158,747.61	171,150.61
11. Taxes on income and earnings		293,289.79	506,515.96
12. Profit after tax		850,375.78	1,342,067.03
13. other taxes		48,777.50	64,088.19
14. Net income		801,598.28	1,277,978.84

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 company is based in Murnau a. Staffelsee.

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 prepared 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 carried at cost and, if they were subject to wear and tear, reduced by scheduled depreciation.

Tangible fixed assets were valued at acquisition or production cost and, if they were subject to wear and tear, reduced by scheduled depreciation.

Movable fixed assets up to a value of EUR 800.00 received in the reporting year were written off in full.

A fixed value is set for tools.

The financial assets were recognized and valued as follows:

Shares in affiliated companies exclusively contain shares in a foreign subsidiary, which were 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. 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.

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

The tax provisions include the not yet assessed trade and corporation taxes and the solidarity surcharges, provided that a final payment is likely to result from the advance payments made.

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.

Development of fixed assets (gross presentation)

	Acquisition costs / production costs			As of December 31, 2018 Euro
	As of 01/01/2018 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	809,953.05	104,450.10	0.00	914,403.15
2. Goodwill	400,861.74	0.00	0.00	400,861.74
Total intangible assets	1,210,814.79	104,450.10	0.00	1,315,264.89
II. Tangible assets				
1. Land, land rights and buildings including buildings on third-party land	3,250,774.62	0.00	0.00	3,250,774.62
2. technical systems and machines	6,077,582.03	809,336.26	330,223.73	6,556,694.56
3. other equipment, factory and office equipment	2,309,149.83	200,556.51	78,795.26	2,430,911.08
Total property, plant and equipment	11,637,506.48	1,009,892.77	409,018.99	12,238,380.26
III. Financial assets				
Shares in affiliated companies	42,873.81	0.00	0.00	42,873.81
Total financial assets	42,873.81	0.00	0.00	42,873.81
Total fixed assets	12,891,195.08	1,114,342.87	409,018.99	13,596,518.96
		Depreciation		
	As of 01/01/2018 Euro	Accesses Euro	Departures 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	835,976.09	89,680.51	0.00	725,656.60
2. Goodwill	313,679.55	24,338.09	0.00	338,017.64

	Depreciation			As of December 31, 2018 Euro
	As of 01/01/2018 Euro	Accesses Euro	Departures Euro	
	Total intangible assets	949,655.64	114,018.60	
II. Tangible assets				
1. Land, land rights and buildings including buildings on third-party land	925,444.58	101,398.97	0.00	1,026,843.55
2. technical systems and machines	5,058,717.57	826,398.81	192,353.74	5,692,762.64
3. other equipment, factory and office equipment	1,722,192.62	242,254.34	68,496.83	1,895,950.13
Total property, plant and equipment	7,706,354.77	1,170,052.12	260,850.57	8,615,556.32
III. Financial assets				
Shares in affiliated companies	42,872.81	0.00	0.00	42,872.61
Total financial assets	42,872.81	0.00	0.00	42,872.81
Total fixed assets	8,698,883.22	1,284,070.72	280,850.57	9,722,103.37

	Book values	
	As of December 31, 2018 Euro	As of December 31, 2017 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	188,746.55	173,976.98
2. Goodwill	62,844.10	87,182.19
Total intangible assets	251,590.65	261,159.15
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2. technical systems and machines	863,931.92	1,018,864.46
3. other equipment, factory and office equipment	534,960.95	586,957.21
Total property, plant and equipment	3,622,823.94	3,931,151.71
III. Financial assets		
Shares in affiliated companies	1.00	1.00
Total financial assets	1.00	1.00
Total fixed assets	3,874,415.59	4,192,311.86

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 depreciation included in the depreciation amounts for the year of acquisition is 26 thousand euros.

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 39.5% (2018 624.1 thousand euros, 2017 523.9 thousand euros) and provisions for vacation, overtime and profit-related remuneration with 42.5% (2018 671 thousand euros, 2017 800 TEuro) included. The other provisions in the amount of EUR 284 thousand (2017 EUR 196 thousand) essentially include expenses to be expected for the annual audit, trade association, archiving and outstanding invoices as well as neglected maintenance.

Information and explanations on liabilities

As of the balance sheet date of December 31, 2018, the statement of liabilities shows the following:

Type of liability	Total amount TEuro	Remaining terms	
		up to 1 year TEuro	1 - 5 years TEuro
Liabilities to banks	4,804	4,152	652
(Previous year)	(6,192)	(4,673)	(1,519)
liabilities from goods and services	912	912	0
(Previous year)	(759)	(759)	(0)
Other liabilities	224	224	0
(Previous year)	(499)	(499)	(0)
total	5,940.36	5,289	652
(Previous year)	7,450	(5,931)	(1,519)

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

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

The other liabilities include liabilities to shareholders amounting to TEuro 0.00 (previous year TEuro 229).

Information on the profit and loss account

Sales

The main turnover was achieved with the sale of our machines 16,967 thousand euros, service and services 4,929 thousand euros and parts production 7,959 thousand euros. Furthermore, rental income, income from goods and services and from meal payments to employees in the amount of EUR 212 thousand were realized.

Other company income

Other operating income includes income from other accounting periods in the amount of EUR 40 thousand. This concerns insurance compensation in the amount of TEuro 28 and income from the release of provisions in the amount of TEuro 12.

Other Information

Other financial obligations

There are leasing contracts for vehicles and machines that establish total obligations for the remaining term of 921 thousand euros as of the reporting date.

In order to secure liquidity, 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 258.8 thousand. There is a total obligation of 1,091 thousand euros for the remaining term.

Average number of employees employed during the financial year

The following groups of employees were employed in the company during the financial year:

Groups of workers	number
Workers	99
commercial clerk	64
chief Executive Officer	2
executives	1
The total number of average employees	166

Proposal for the use of results

The annual surplus amounts to 801,598.28 euros. In agreement with the shareholders, the management proposes to distribute a partial amount of EUR 600,000.00 plus 10% of the annual profit (EUR 80,159.83), a total of EUR 680,159.83, from the annual surplus for the 2018 financial year and the remainder in the amount of EUR 121,438.45 to be placed in the retained earnings of a partner.

The 2017 annual surplus of EUR 1,277,978.84, minus a distribution of EUR 127,797.88, was transferred to retained earnings.

Other mandatory disclosures

Names of the managing directors

On December 31, 2018, the following were appointed as managing directors:

Ekkehard Alschweig, engineer,

Thorsten-Simon Eickholt, businessman

With regard to the information on the managing director's remuneration, use was made of the safeguard clause in Section 286 (4) HGB.

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	Result 2018 euros	Equity 12/31/2018 euros
Kern Precision, Inc. Chicago, Illinois, USA	100%	7,435.22	-157,140.55

Supplementary report

After the reporting date, there were no significant events that would have had a substantial impact on the assets and earnings position of KERN Microtechnik GmbH.

Signature of the management

Eschenlohe, March 2019

Simon Eickholt, managing director

Sebastian Guggenmos, managing director

REPORT ON THE SITUATION OF THE COMPANY FOR THE FISCAL YEAR 2018

Company basics

Business model of the company

KERN Microtechnik GmbH is a medium-sized company that has three business areas; these are the areas of contract manufacturing, mechanical engineering and service for 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, aerospace, as well as dental and medical technology. Universities and institutes also belong to the customer base.

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 2018:

- Project completion of the next generation of the successful Kern Micro (market launch Q1 2019)
- Market launch of the entry-level model Kern Micro Pro (Q3 2018)
- Reaching the launch phase and pre-series core MicroHD
- Introduction of the new control variant TNC640 from Heidenhain, as well as new functions for the Kern Pyramid Nano (Q2 2018)

The focus of the continuous further development of existing machine series was the long-term stability, performance optimization and the productivity of the machines.

The consistent pursuit of the modular structure in mechanical engineering enables customer-specific solutions and short delivery times. In 2018, significantly more customer projects were carried out compared to the previous year. In addition to special functions, individual automation and turnkey solutions were required.

In 2019, the new Kern Micro II kit with three different machine types, Kern Micro Pro, Kern Micro and Kern Micro HD, will be completed and enable sales to address a wider range of customers. The platform strategy promises efficient further development, high quality in production and an attractive price-performance ratio. The Kern Evo and Kern Pyramid Nano machine platforms are continuously being 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.

Economic report

Macroeconomic and industry-specific framework conditions

The German economy continued to grow in 2018, making it the ninth year in a row. The willingness to invest and the demand have generally developed positively. For the niche market of high-precision machines, demand in the USA in particular developed positively (core order intake + 35%). This level is also expected there in the first half of 2019; there are no signs of a weakening. In our core markets in Europe, but especially in Germany, Austria and Switzerland, 2018 was an exceptional year that closed with a significant increase in orders (core order intake + 30%). The expectations for 2019 are rather subdued, in the first quarter in particular, due to the crisis in the automotive sector, there was a significant decline in orders in the market compared to the previous year. The expectations for the Asian markets are clouded due to the impending trade war with the USA, a change in buyer behavior and increased caution can already be felt.

Basically, however, the forecast for 2019 is positive and international stable development at the level of the previous year is expected.

Business development

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 2018 financial year, the total output of KERN Microtechnik GmbH grew by 4.6% to EUR 31,078 thousand. In addition to the slightly increased total output, a significant increase in incoming orders was recorded in the second half of the year. The company has been on a sustainable growth path for 5 years, the strategic focus on productivity and accuracy is being consistently pursued and continuously refined. The result of 802 T € is 2.6% of the total output.

Reasons for the result are:

- Increased expenses due to special effects in the personnel area and a success bonus for the workforce
- Necessary maintenance and investments in the factories
- Required expenditure in IT
- Increase in the cost of operating resources due to increased production capacity and new customer projects.

The focus of the sales markets was Germany followed by the USA and the EU countries. 44% of the services were exported. The two business areas of mechanical engineering (Eschenlohe location) and contract manufacturing (Murnau location) work equally profitably.

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 high-precision key components in contract manufacturing will enable further growth at the location in Murnau / Westried. By optimizing organization and processes, it was possible to reduce the inventory in mechanical engineering by approx. 24%.

After the change in management in May 2018, the aim was to sharpen the company's strategic direction, adapt the department structure and areas of responsibility accordingly, and further optimize the company's finances.

Important milestones have been reached. A shortening of the balance sheet, a significant reduction in inventories, a reduction in liabilities and a powerful organization in the business areas were implemented.

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 dense sales network and intensive customer loyalty are the center of our sales strategy. For this purpose, two sales specialists were employed at the end of the year.

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 2018 were extremely good and are around 30% above the previous year. The increase is due to increased demand from major customers, but also to growth in the foreign companies. In contract manufacturing, the order backlog increased by around 40% thanks to increased demand from new and existing customers. Sales in the service area remained at the previous year's level.

The investments in direct sales in the USA have been successfully implemented. A significant increase in incoming orders by approx. 45% and a positive overall forecast confirm the effectiveness of the chosen course. The 100% US subsidiary Kern Precision Inc., based in Chicago, achieved a positive result in 2018, and service activities were further expanded. The branch in Switzerland, based in Dietikon, also achieved a positive result and achieved its primary goal of ensuring high service quality, availability and speed of reaction for our Swiss customers.

Earnings situation

	Reporting year	Previous year
	TEuro	TEuro
Gross result	18,552	18,099
- Scheduled depreciation	-1,284	-1,240
- Personnel expenses and other operating expenses	-15,984	-14,849
Operating profit	1,284	2,010
- financial result	-140	-161
Profit of common business operation	1,144	1,849
+/- taxes	-342	-571
Corporate earnings	802	1,278

Personnel expenses rose to EUR 10,927 thousand (+10.22%). The increase is due to an increase from 11 employees to a total of 195 employees, higher wages, an annual bonus for employees and special effects.

The cost of materials came to EUR 12,876 thousand and was 6.0% higher than in the previous year. The reasons for this are a significant increase in incoming orders.

The other operating expenses rose by 2.5% to EUR 5,057 thousand due to necessary maintenance and investments in the factories, as well as an increase in the costs of operating resources due to increased production capacity utilization and new customer projects.

Assets and financial position

	December 31, 2018		December 31, 2017	
	TEuro	%	TEuro	%
assets				
Intangible assets	252	1.6	261	1.5
Property, plant and equipment	3,623	22.3	3,931	23.1
Financial assets	0	0.0	0	0.0
Capital assets	3,875	23.9	4,192	24.6
Stocks	4,937	30.4	6,784	39.9
Receivables and other assets	6,633	40.8	5,834	34.3
Liquid funds	748	4.6	140	0.8
Current assets	12,318	75.8	12,758	75.0
other assets	51	0.3	50	0.4
Total assets	16,244	100.0	17,000	100.0
liabilities				
Equity	8,698	53.5	8,024	47.2
accruals	1,588	9.8	1,527	9.0
liabilities	5,940	36.6	7,449	43.8
other liabilities	18th	0.1	0	0.0
Total equity and debt	16,244	100.0	17,000	100.0

The investment rate in fixed assets is 3.6% (€ 1,114,000) of total output. In addition, systems for contract manufacturing were purchased and financed at roughly the same market value.

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

The new core training center was equipped with modern and high-quality equipment, and social rooms and public areas were renovated in order to create an attractive environment for employees and customers.

Fixed assets remained constant (€ 3,875 thousand), while depreciation rose to € 1,284 thousand.

Current assets fell by EUR 440.6 thousand to EUR 12,317.8 thousand in 2018.

Trade accounts receivable remained at the same level and only changed by EUR -119.3 thousand.

The provisions were at the previous year's level, only the provisions for warranties increased due to the increased order intake. The repayment of liabilities to banks was carried out as planned, and optimization measures enabled the external capital requirement to be significantly reduced (€ 4,804 thousand compared to € 6,192 thousand in 2017).

The company's financial position is solid and the equity ratio is 54%.

Financial and non-financial performance indicators

Financial performance indicators

The company uses the following financial performance indicators, including forecast, for internal corporate management.

- Material cost ratio (material cost / (sales + inventory change + self-capitalized service)) (2018: 41.43%; 2017: 40.36%)
- Personnel expenses ratio (personnel expenses / (sales + inventory change + self-capitalized service)) (2018: 35.16%; 2017: 33.36%)
- Other expense ratio (other costs / (sales + inventory change + self-capitalized service)) (2018: 16.27%; 2017: 16.61%)

- Order backlog (2018: 17,464 T € 2017: 8,599 T €)
- Inventories (2018: € 2,992 thousand; 2017: € 4,283 thousand)
- Borrowed capital (2018: € 5,940 thousand; 2017: € 7,450 thousand)

Due to the special nature of the business, all three indicators are used. Due to the naturally high proportion of material costs in mechanical engineering and the proportion of personnel costs in contract manufacturing, both quotas are continuously monitored and controlled. The order backlogs are reliable indicators of the need for action with regard to the production capacities at both locations and a reliable forecast for the financial year result and its management.

The liquidity calculation is particularly important due to the different payment terms and financing models of our customers, high material costs in mechanical engineering and complex special projects. The foresight in particular is an elementary indicator for investment and financing decisions.

Non-financial performance indicators

Employee

The company had an average of 173 employees and 22 trainees in the business year.

The average length of service is 8.31 years. The employee fluctuation is accordingly to be classified as low.

We would like to express our special thanks to all employees for their willingness to work in the difficult competitive environment.

We would also like to thank our employee representatives for their cooperation for the benefit of the employees and the company.

Forecast, opportunities and risk report

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 can be offset by other market segments and industries. A significant increase in sales of around 15% in 2019 can be assumed due to a high utilization of production and a continued high order backlog.

The enlargement of the sales team and the expansion of the areas of potential in Europe and the USA should 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. The market launch of two highly differentiated machine types will further expand Kern's technological leadership. The platform strategy will significantly improve the price-performance ratio of the machines with good profitability.

The investments in production at both locations should bring measurable progress in the areas of cost efficiency and earnings as early as 2019. 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 finance department should be further improved in accordance with the strategic requirements and continuously support strategic and operational decisions.

The forecast for 2019 is consistently positive, even if the macroeconomic situation gives reason for caution. The Kern company's strategy of avoiding dependencies on individual industries is also consistently pursued. Due to the positive development in incoming orders in all business areas, we expect a significant increase in total output (+ 9.8%) and a doubling of the annual result.

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.

Opportunity report

In a good economic environment, Kern relies on growth and tries to increase sales in the market over the long term. Optimized price management makes it possible to increase profitability without losing 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. 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. 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.

Risk report

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

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

Risk reporting in relation to the use of financial instruments

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.

The main financial liabilities used by the company include bank loans and trade payables. The primary purpose of these financial liabilities is to finance the company's fixed assets and operations.

The company has various financial assets, such as trade receivables and means of payment, which result directly from its business activities. In contrast, the company does not hold any derivative financial instruments.

In order to control the risks that may arise from the financial instruments, the company management decides on appropriate strategies and procedures for each risk type, which are presented below.

Interest rate risk

The company is not exposed to any risk from fluctuations in market interest rates from long-term financial liabilities, as a fixed interest rate has been agreed for all long-term obligations over the entire term. Interest rate risks exist with liabilities to banks that are due at any time. The management tries to minimize the risk through active liquidity management.

Currency risk

Due to the business activities with foreign customers, currency risks existed to a certain extent as of the reporting date. The management regularly monitors the change in exchange rates and reacts with hedging transactions if the risk increases.

Credit risk

The company only does business with creditworthy third parties. All customers who wish to do business with the company on a credit basis are carefully screened. In addition, the accounts receivable are continuously monitored so that the company is not exposed to any significant risk of default. Corresponding individual value adjustments are quantified for any additional risks. Doubtful financial assets, which are highly likely to be uncollectible or which will actually fail, are written off in full on the balance sheet date. If there are any doubts about the collectibility, the default risk is taken into account by means of a corresponding value adjustment to the likely realizable value. In addition, a value adjustment based on past experience is made on a portfolio basis. The decision as to whether a default risk is taken into account by means of an allowance account or a direct reduction in the receivable depends, as does the use of amounts debited from the allowance account, on the degree of reliability of the assessment of the risk situation.

If the degree of reliability is high, a direct write-down is made; if the degree of reliability is low, the risk of default is mapped using value adjustment accounts. If the reasons for a value adjustment no longer exist, a corresponding write-up is made. For other financial assets of the company, such as cash and cash equivalents, the maximum credit risk in the event of counterparty default corresponds to the book value of these instruments.

Commodity price risk

For the 2019 financial year, the company secured the essential raw materials for production operations through delivery contracts. The material price planning for this period is also secured via the fixed prices usually associated with this. This minimizes the procurement risk.

Financing and Liquidity Risk

The company continuously monitors the risk of a liquidity bottleneck using a liquidity planning tool. This tool takes into account the terms of the financial investments and financial assets (e.g. receivables, other financial assets) as well as expected cash flows from business activities.

The aim of the company is to maintain a balance between the continuous coverage of funding requirements and ensuring flexibility through the use of overdrafts, loans and finance leases.

Due to the liquid funds on the balance sheet date of EUR 0.7 million (previous year: EUR 0.1 million), no liquidity risk is seen as of December 31, 2018.

Murnau, March 31, 2019

The Executive

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, 2018 and the income statement for the financial year from January 1, 2018 to December 31, 2018 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, 2018 to December 31, 2018.

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, taking into account the German principles of proper accounting, give a true and fair view of the assets and financial position of the company as of December 31, 2018 as well as its earnings position for the financial year from January 1, 2018 to December 31, 2018 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 in accordance with these regulations and principles is described in more detail 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 our other German professional obligations in Compliance 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; in order to enable the preparation of a management report in accordance with the applicable German legal regulations, and to be able to provide sufficient suitable evidence for the statements in the management report.

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 represent the underlying business transactions and events in such a way that the annual financial statements are more properly based on German principles
- Bookkeeping provides a true and fair view of the company's asset, financial and earnings position.
- 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 on which the future-oriented information is based on the legal representatives and assess whether the future-oriented information was properly derived from these assumptions. We do not issue an independent audit opinion on the future-oriented information or the underlying assumptions. 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, April 18, 2019

**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, 2018 were adopted by resolution of the shareholders' meeting on May 2, 2019.

Decision on the appropriation of profits

The shareholders' meeting decided to distribute a partial amount of EUR 600,000.00 plus 10% of the profit for the year (EUR 80,159.83), a total of EUR 680,159.83, and the remainder of EUR 121,438.45 from the annual surplus of EUR 801,598.28 to be placed in the retained earnings of a partner.
