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Xtronic GmbH

Boeblingen

Annual financial statements as of December 31, 2019 and management report

Management report for the 2019 financial year

1. Foundations of society

XTRONIC GmbH, Böblingen (XTRONIC) is an engineering partner of the automotive industry, especially with special know-how in the field of electrical and electronic development. The company has been part of the Schaeffler Group with its brands INA, LuK and FAG since July 2019. Schaeffler Technologies AG & Co. KG in Herzogenaurach is 100% owner of XTRONIC.

The company operates the main location in Böblingen and another branch in Wolfsburg. The premises at both locations are rented from an external landlord. The company focuses on the processing of customer projects in the areas of OEM engineering and electronics development. XTRONIC's customers are primarily German automobile manufacturers or suppliers as well as the companies of the Schaeffler Group. The share of the intercompany business was still very low in 2019 at 5.5% (previous year: 0%). According to regions, 98.3% (previous year: 96.7%) of sales were generated in Germany, 1.7% (previous year: 3.3%) in third countries outside the EU. In addition to extensive engineering know-how,

The average number of employees increased from 154 to 162 in the previous year. As of December 31, 2019, XTRONIC had 162 employees (previous year 161).

The company is managed on the basis of the key performance indicator EBIT (earnings before interest and taxes ¹) and the performance indicator sales.

¹ EBIT is calculated on the basis of earnings after taxes plus interest and similar expenses and less interest and similar income.

Research and Development

Research and development per se defines the business activities of XTRONIC. The company is currently in a very research and development-intensive phase, which requires a large amount of capital. It is difficult to separate the pure research activities from the processing of operational customer projects, as the same employees often work in parallel. As of the reporting date, the entire area comprised 149 employees.

In the reporting year, as in the previous year, the strategic development of market-relevant technology topics and the continuous expansion of pre-competitive competencies and engineering activities in the Vehicle Engineering, Electrics / Electronics / Software Development and Production Solutions segments were the focus of corporate management.

Connectivity is an important topic of pre-competitive and service-independent research and development; Driver assistance systems, electromobility and automated driving. Here resources have been expanded and activities have been intensified.

In addition, after the company was taken over by the Schaeffler Group, it was gradually integrated into the methods and tools of the Schaeffler Group and networked with the know-how carriers.

2. Economic report

Industry-specific framework conditions

2019 was a difficult year in the global automotive industry, and especially in Europe, automobile production was once again significantly below the previous year. The reasons for this are still the effects of the diesel scandal and the uncertainty among consumers as to which new technologies will prevail on the market.

The global trends towards electrification of the drive train and further automation of the vehicle continued in the reporting year. This results in numerous opportunities for XTRONIC in particular to successfully position the existing know-how.

Earnings situation

Sales in 2019 amounted to EUR 13,781 thousand (previous year: EUR 14,710 thousand) and were thus around 6.3% below the previous year. The expected increase in sales could therefore not be achieved. The main reason for this is the correction of errors in the amount of EUR 1,105 thousand relating to the realization of partial profits in a long-term development project from the previous year and correspondingly changed sales realization of long-term projects.

There was an increase in sales in the area of development services due to a significantly higher volume with one of the main customers in the area of convenience electronics.

There is also a significant increase in sales in the area of electronics development for systems that support autonomous driving.

The order situation can be described as good; supply agreements exist with all major customers until at least the end of the following year. longer and new framework agreements have been made recently.

The net loss for the year amounts to EUR -1,168 thousand and is below the previous year's result of EUR 388 thousand and below the original expectations. The operational business is controlled on the basis of the important key performance indicator EBIT (earnings before interest and taxes²). In this respect, the analysis is based on this key figure from now on. The EBIT of EUR -1,578 thousand (previous year: EUR 686 thousand) reached around -11.5% (previous year: 4.7%) of net sales (EBIT margin) and was thus significantly below the previous year. The following reasons were decisive for this:

Increase in personnel costs: In the area of research and development in preparation for the new projects, in addition to the salary adjustments for the existing staff, a number of new appointments have also been made. In addition, due to the situation on the labor market, entry-level salaries for specialists continue to rise, especially in the electronics field, and recruitment can often only be made through personnel consultancies.

Expenses for purchased services: In the area of connectivity projects in particular, external service providers were increasingly used in order to implement the projects within the specified time frame and to build up additional know-how among their own employees.

The increase in depreciation is mainly due to the increased depreciation of property, plant and equipment, as more and more equipment is being bought and no longer leased. The amortization of intangible assets also increased, mainly due to an unscheduled depreciation of an asset that is no longer valuable.

Other operating expenses: The increase compared to the previous year is mainly due to purchased services in the development environment and increased costs for company vehicles. The costs of hardware and software maintenance for R + D applications have also increased.

Correction of errors: The correction of the previous year's effects relating to an impermissible partial profit realization in earlier periods negatively impacted the result in the amount of EUR 435 thousand.

² EBIT is calculated on the basis of earnings after taxes plus interest and similar expenses and less interest and similar income.

Financial condition

The company has been financed through a loan from Schaeffler AG since July 2019. As of December 31, 2019, there was an intercompany loan liability of EUR 3,300 thousand. In addition, the instrument of real factoring was used until the end of the reporting year. As of the reporting date, receivables in the amount of EUR 405 thousand (previous year: EUR 2,088 thousand) were assigned and settled by the factor.

The equity ratio as of the reporting date was 11.4% (previous year: 42.4%). The decline is primarily due to the annual deficit and the associated reduction in net profit with a simultaneous increase in total assets. In addition, as part of the sale of the company, the capital reserve in the amount of EUR 150 thousand, which originally resulted from a waiver with a debtor warrant, was paid out to the former shareholders.

As of the reporting date, provisions were reduced by EUR 320 thousand to EUR 682 thousand (previous year: EUR 1,002 thousand), which is primarily due to the reduction in provisions for taxes and deferred taxes.

In contrast, liabilities increased by EUR 4,382 thousand to EUR 6,416 thousand (previous year: EUR 2,034 thousand). The increase results on the one hand from the loan from Schaeffler AG to finance the increased capital requirements from ongoing business activities. On the other hand, through the first-time disclosure of the advance payments received from long-term development projects.

Financial position

The ratio of fixed assets to total assets is 25.4% (previous year: 33.3%). The balance sheet total increased, mainly due to the increase in the inventory of work in progress and the receivables and bank balances. On the liabilities side, the short-term intercompany financial liabilities and the prepayments received increased and the tax provisions significantly reduced. In addition, there is the significant reduction in net profit due to the negative result in the current financial year. Asset coverage I (equity / fixed assets) was 127.1% in 2018 and 45.0% in 2019, and has thus decreased significantly compared to the previous year due to the reduced equity.

Customer receivables from third parties have increased significantly compared to the previous year. For the first time, receivables from affiliated companies, due to belonging to the Schaeffler Group since July 2019, are shown.

In the past, investments were primarily made in intangible assets, while property, plant and equipment were often leased. A large single investment in property in the year under review was the acquisition of a testing robot including the associated software. In addition, internally generated intangible assets have also been continuously capitalized for a technology in recent years. After this development was completed in the year under review, depreciation began. In future, this right to vote is no longer to be exercised. There were no significant investment obligations as of the reporting date.

Revenues in 2019 have decreased compared to the previous year. The EBIT is well below the previous year and also below the original expectations. Significantly more investments and expenditures were necessary to create the technological and personnel requirements to survive in a rapidly changing technological environment.

Due to the increased activities in the future fields of connectivity and autonomous driving and the operational and financial integration of the company in the Schaeffler Group, we see XTRONIC in a stable asset, financial and earnings position geared towards the future. The company will continue to pursue its strategy for agile technological development as a system partner to the automotive industry and is therefore very future-oriented.

3. Forecast, opportunities and risk report

With regard to the development of the industry, a slight reduction in the number of vehicles was originally expected for the 2020 financial year, taking into account the forecasts of the IHS analysis institute (December 2019). Based on the current developments around the global Covid-19 pandemic, a significant decline in global vehicle production must currently be assumed. This also has a clear impact on the planning of XTRONIC. The originally planned significant increase in sales in 2020 can no longer be achieved and only a slight increase in sales can be assumed.

Investments are again planned for 2020 at a low level, especially in software licenses, test vehicles and operating equipment. No new investments in larger test systems are planned.

The further development and tracking of technical trends is still essential for XTRONIC in order to survive in the market. The main focus here with the Schaeffler Group is primarily in the area of autonomous driving, which means that demanding projects can be implemented in a strong network. In addition, a main focus remains on the further development of our connectivity solutions and the acquisition of new customers and markets with this technology.

An indispensable pillar of our company remains the direct development service with the customers, based on our extensive experience and competence in the areas of telematics, multimedia and convenience electronics.

The certification work for quality and environmental management will continue unchanged in the future in order to ensure long-term delivery capability. We have a management system that has been tested and certified several times and is constantly being developed.

Risk management is consistently practiced in the company, primarily through the regular analysis of the financial risks of individual projects, which are an integral part of the regular project reviews. The other risks are continuously monitored by the management team and management. In the future, the company will also be integrated into the risk management system established by the Schaeffler Group for identifying, assessing and classifying risks (risk matrix). This ensures that, in the course of an early warning system, the management and the group focus on risks. Measures are therefore determined in advance and do not follow as a reaction to a risk event.

As a member of the Schaeffler Group, the company is able to handle all financing requirements through the parent company as an in-house bank. In this respect, from our point of view, there are sufficient financing options available, which are secured by the successful refinancing of the Schaeffler Group.

General risks exist primarily in the area of recruiting new qualified employees due to a shortage of skilled workers, especially in the booming Stuttgart region. Consistent personnel marketing, the creation of modern jobs with very good training measures and quick decisions help to minimize this risk. We see our attractiveness as an employer further improved thanks to the global link between the Schaeffler Group and the opportunities that arise from it.

The sales risk, for example due to the short-term cancellation of customer projects, is counteracted by a very trusting and appreciative cooperation with all of our customers and a close exchange with them. The integration and opportunities in the Schaeffler Group further reduce this risk.

The risk of default on receivables is minimized through the long-term trusting cooperation with most of our customers. Short-term billing cycles are also agreed on in order to avoid major failures.

To reduce the quality risk in project processing, the processing statuses (milestones) are regularly coordinated with the customer in order to be able to react to deviations at an early stage and to always have a common understanding of the project result.

Due to our agile work and, above all, development environment, we see technological change itself and the resulting changes as an opportunity rather than a risk, as our intensive development activities enable us to identify new trends at an early stage and then adapt our organization flexibly.

Expected drop in sales

The coronavirus has been spreading worldwide since January 2020 (coronavirus epidemic). Since the exact effects on the situation of our customers cannot yet be foreseen, the extent cannot yet be reliably estimated. However, we continue to expect slight growth in sales in 2020, albeit significantly less than originally planned.

Risks: Due to the significant slump in sales of our customers in the wake of the global corona pandemic, we must expect significant savings, also with regard to development services. Customers also question new development issues and postpone schedules. As a result, we anticipate significantly increased pressure on prices and also reduced project budgets, which will lead to lower sales than originally budgeted on our part.

Böblingen, July 24, 2020

XTRONIC GmbH

Mathias Mungenast, managing director

Daniel Schmid, managing director

Balance sheet as of December 31, 2019

assets

	December 31, 2019		December 31, 2018	
	EUR	EUR	EUR	EUR
A. Fixed assets				
I. Intangible Assets				
1. Self-created industrial property rights and similar rights and values	797,130.96		938,431.19	
2. Concessions acquired against payment, industrial property rights and similar rights and values as well as licenses to such rights and values	589,418.56	1,386,549.52	599,345.00	1,537,776.19
II. Tangible assets				
Other equipment, factory and office equipment		649,247.69		219,311.00
		2,035,797.21		1,757,087.19
B. Current Assets				
I. Inventories				
1. Work in progress	1,849,386.68		959,273.58	
2. Advance payments made	7,407.37	1,856,794.05	125,000.00	1,084,273.58
II. Receivables and other assets				
1. Trade accounts receivable	2,529,766.90		1,982,139.84	
2. Claims against shareholders	34,319.62		0.00	
3. Receivables from affiliated companies	208,816.50		0.00	
4. Other assets	133,242.11	2,906,145.13	149,600.58	2,131,740.42
III. Cash in hand, Bundesbank balances, bank balances and checks		929,164.90		211,066.75
		5,692,104.08		3,427,080.75
C. Prepaid expenses		110,122.49		85,774.00
D. Deferred Tax Assets		175,500.03		0.00
		8,013,523.81		5,269,941.94

liabilities

	December 31, 2019	December 31, 2018
	EUR	EUR
A. Equity		
I. Drawn capital	30,000.00	30,000.00
II. Capital reserve	0.00	150,000.00
III. Profit carried forward	2,053,902.56	1,666,210.37
IV. Net loss for the year (previous year net income)	-1,168,299.08	387,692.19
	915,603.48	2,233,902.56
B. Provisions		
1. Tax provisions	21,900.00	159,157.00
2. Provision for deferred taxes	0.00	250,719.36
3. Other provisions	660,289.87	592,440.00

	December 31, 2019		December 31, 2018	
	EUR	EUR	EUR	EUR
C. Liabilities			682,189.87	1,002,316.36
1. Liabilities to banks			277,664.44	498,569.06
2. Advance payments received on orders			1,917,875.13	0.00
3. Trade accounts payable			305,498.49	400,510.51
4. Liabilities to affiliated companies			3,301,344.60	0.00
5. Other Liabilities			613,347.80	1,134,643.45
- of which from taxes EUR 175,858.23 (previous year EUR 174,023.46) -			6,415,730.46	2,033,723.02
			8,013,523.81	5,269,941.94

Income statement for the period from January 1 to December 31, 2019

	2019		2018	
	EUR	EUR	EUR	EUR
1. Sales		13,781,258.47		14,710,464.56
2. Increase in the number of work in progress		890,113.10		521,667.44
3. Other own work capitalized		2,129.09		130,423.78
4. Other operating income		354,803.35		122,988.43
5. Cost of materials				
a) Expenses for raw materials, consumables and supplies and for purchased goods	-538,263.84		-596,582.66	
b) Expenses for purchased services	-669,890.47	-1,208,154.31	-400,003.17	-996,585.83
6. Personnel expenses				
a) Wages and salaries	-10,338,529.71		-9,837,316.06	
b) Social security and pension and support expenses	-1,839,025.88	-12,177,555.59	-1,886,427.15	-11,723,743.21
7. Depreciation on intangible assets and property, plant and equipment		-538,107.82		-285,680.04
- of which impairment losses EUR -102,700 (previous year EUR 0.00) -				
8. Other operating expenses		-2,683,838.25		-1,758,593.35
9. Other Interest and Similar Income		919.98		360.38
10. Depreciation on financial assets and on securities held as current assets		0.00		-35,129.30
11. Interest and Similar Expenses		-116,836.53		-128,074.15
- of which to affiliated companies EUR 24,337.35 (previous year EUR 0.00) -				
12. Taxes on income and earnings		529,299.41		-168,370.14
- of which deferred taxes EUR 426,219.39 (previous year EUR -39,127.14) -				
13. Profit after tax		-1,165,969.10		389,728.57
14. Other taxes		-2,329.98		-2,036.38
15. Net loss for the year (previous year net income)		-1,168,299.08		387,692.19

Appendix for the 2019 financial year

A. Company information

The company is entered in the commercial register of the Stuttgart District Court under HRB No. 2449000.

B. General information on the annual financial statements

The present annual financial statements were prepared in accordance with §§ 242 ff. And §§ 264 ff. HGB.

According to Section 267 (2) HGB, the regulations for medium-sized corporations apply to the company.

The profit and loss account has been prepared using the total cost method.

In the 2019 financial year, accounting errors relating to inadmissible partial profit realization in earlier periods were identified. The correction was made in the reporting period in the current account as follows:

- Reduction in sales of EUR 1,105 thousand and recording of the advance payments received in the same amount,
- Capitalization of work in progress in the amount of EUR 670 thousand.

Thus, the annual result was burdened by the correction of the previous year's effects in the amount of EUR 435 thousand. The year under review can therefore only be compared to the previous period to a limited extent, as this has not been adjusted accordingly.

C. Information on accounting and valuation methods

The evaluation was carried out as follows:

Internally generated intangible assets contain development costs that are amortized over the normal useful life of 12 years. Since the acquisition of the company by Schaeffler Technologies AG & Co. KG, Herzogenaurach, the option to activate self-created intangible assets according to Section 248 (2) sentence 1 HGB no longer exercised.

The **intangible assets acquired against payment** are shown at the cost of acquisition. They are amortized on a straight-line basis over their expected useful life of between 3 and 5 years.

The **tangible assets** are valued at cost and amortized in accordance with their expected useful life.

Scheduled depreciation is based on the normal useful life.

- technical systems and machines between 3 and 10 years,

- other equipment, factory and office equipment between 3 and 10 years,

- Fixed assets with acquisition costs of more than EUR 250 up to and including EUR 800.00 (GWG) are generally depreciated 100% in the year of acquisition, regardless of their economic useful life. If the acquisition costs are below EUR 250, the **assets are recognized** as an expense in the year of acquisition .

Extraordinary depreciation is carried out if an impairment not covered by scheduled depreciation has occurred and is likely to be permanent.

In the **inventories** , work in progress (incomplete projects) is valued at production cost. In addition to personnel expenses and external services, components of the production costs include the material, administrative and other overheads and depreciation caused by the projects. Interest on borrowed capital is not included in the production costs.

As part of the loss-free valuation, any expenses still incurred are deducted from the expected income.

Receivables are stated at their nominal value. All risky items are taken into account through the formation of appropriate individual value adjustments; No general value adjustments were made, as all receivables that were not individually adjusted had already been settled at the time the balance sheet was drawn up.

Other assets are shown with their nominal values, payment amounts or cash values.

The amount of the other **prepaid expenses** is **calculated** using the amount that is economically attributable to the period after the balance sheet date.

Deferred taxes result from the option exercised to capitalize internally generated intangible assets and from the consideration of loss carryforwards on trade tax and corporation tax.

Other provisions take into account all discernible risks and uncertain liabilities. The provisions are valued in the amount of the settlement amount that arises based on prudent business judgment in order to settle the expected expenses for the uncertain liabilities. Future price and cost increases are taken into account if there is sufficient objective evidence that they will occur. Provisions with a remaining term of more than one year are discounted using the average market interest rate for the past seven financial years that corresponds to their remaining term.

Liabilities are shown at their settlement amount.

D. Notes on the balance sheet

1. Fixed assets

The development of fixed assets in the reporting period is shown in the fixed asset schedule attached to the notes.

The self-created intangible assets are development costs in the amount of EUR 797 thousand (previous year: EUR 938 thousand). In the reporting year, costs of EUR 2 thousand (previous year: EUR 130 thousand) were capitalized. The total amount of direct R&D costs in the reporting year was EUR 1,056 thousand (previous year: EUR 1,200 thousand).

2. Receivables and other assets

The other assets include a loan claim in the amount of EUR 8 thousand (previous year: EUR 11 thousand) with a remaining term of three years. There are no further receivables or other assets with a remaining term of more than one year.

The receivables from shareholders include other receivables in the amount of EUR 34 thousand (previous year: EUR 0 thousand).

The receivables from affiliated companies in the amount of EUR 209 thousand (previous year: EUR 0 thousand) are trade receivables in full.

3. Prepaid expenses

As in the previous year, the prepaid expenses are license and maintenance contracts with terms beyond the annual financial statements.

4. Equity

In the course of the sale of the company to the Schaeffler Group, the capital reserve in the amount of EUR 150 thousand, which originally resulted from a waiver with a debtor warrant, was released to other operating income with an effect on income. At the same time, the liability to the former shareholders was recognized in profit or loss against the other operating expenses and was already offset in the reporting year.

5. Provisions

Other provisions

The other provisions are made up as follows:

	12/31/2019	12/31/2018
	kEUR	kEUR
Personnel provisions	603	575
from that:		
Flextime credit	268	282
Variable wage components	43	0
Other personnel and social provisions	0	29
Pending vacation	292	264
Pending invoice	28	0
Year-end costs	30th	15th
Others	0	2
total	660	592

6. Liabilities

The liabilities are broken down as follows with regard to their term:

	12/31/2019	12/31/2018
	kEUR	kEUR

	12/31/2019	12/31/2018
	kEUR	kEUR
Liabilities to banks	278	499
thereof remaining term up to 1 year:	67	499
thereof remaining term of 1 to 5 years:	211	0
Advance payments received on orders	1.918	0
thereof remaining term up to 1 year:	1.918	0
liabilities from goods and services	305	401
thereof remaining term up to 1 year:	305	401
Liabilities to affiliated companies	3,301	0
thereof remaining term up to 1 year:	3,301	0
Other liabilities	613	1,135
thereof remaining term up to 1 year:	613	988
thereof remaining term of 1 to 5 years:	0	146
total	6,416	2,034

The advance payments received on orders also contain advance payments from 2018 in the amount of EUR 1,105 thousand; these were previously reported in sales and are now corrected in the current invoice. In return, an inventory of unfinished services was created.

There are no liabilities to shareholders. In the previous year, liabilities to shareholders in the amount of EUR 223 thousand were reported under other liabilities.

The liabilities to affiliated companies include financial liabilities of EUR 3,300 thousand and trade payables of EUR 1 thousand.

In the previous year, EUR 207 thousand was reported in other liabilities, which represent liabilities to banks.

7. Deferred Taxes

A tax rate of 28.985% for corporation tax and trade tax was used to determine deferred taxes. The deferred tax assets in the amount of EUR 175 thousand show the balance of deferred tax liabilities for the option used to capitalize internally generated intangible assets in the amount of EUR 231 thousand and the deferred tax assets on other provisions in the amount of EUR 19 thousand and on loss carryforwards of EUR 387 thousand. In the previous year, deferred taxes were only formed on internally generated intangible assets in the amount of EUR 251 thousand. These were reported in the tax provisions.

E. Notes on the income statement

1. Other operating expenses / personnel expenses

In the year under review, application costs in the amount of EUR 260 thousand were reported under other operating expenses. The application costs in the previous year (EUR 234 thousand) were shown under personnel expenses.

F. Other information

1. Information on amounts blocked from distribution within the meaning of Section 268 (8) HGB

The amount of EUR 973 thousand (previous year: EUR 688 thousand) that is blocked from distribution is entirely due to the capitalization of internally generated intangible assets of EUR 797 thousand (previous year: EUR 938 thousand) less the deferred tax liabilities of EUR thousand 231 (previous year: 251 thousand euros) plus deferred tax assets of 175 thousand euros (previous year: 0 thousand euros).

2. Average number of employees during the financial year

	2019	2018
Salaried employees (excluding management)	162	154
Employee	162	154

3. Other financial obligations

The other financial obligations from rental and lease agreements as well as from leasing amount to EUR 5,187 thousand for the following years.

4. Proposal for the use of results

The net loss for the 2019 reporting year is offset against the profit carried forward.

5. Company organs

Managing directors

The managing directors of XTRONIC GmbH are:

- Mr. Daniel Schmid
- Mr. Mathias Mungenast (since September 2, 2019)
- Mr. Manfred Famula (until July 2, 2019)
- Mr. Martin Schleiermacher (until July 2, 2019)

With regard to the total remuneration of the management, use is made of the option under Section 286 (4) HGB.

Advisory Board

With the shareholders' resolution of September 2, 2019, an advisory board was set up and the following members were appointed:

- Mr. Uwe Wagner (Chairman of the Advisory Board)
- Mr. Matthias Zink (since June 22, 2020)
- Mr. Jürgen Mayer (since January 23, 2020)
- Dr. Florian Schupp
- Mr. Wolfgang Börsing (until January 22, 2020)

- Dr. Dirk Kesselgruber (until June 21, 2020).

The advisory board has an advisory function and serves as a decision-making body for transactions requiring approval.

5. Group affiliation

The company is included in the subgroup financial statements of Schaeffler AG, Herzogenaurach. This is submitted to the operator of the electronic Federal Gazette (Bundesanzeiger Verlagsgesellschaft mbH, Cologne) and published in the electronic Federal Gazette. The ultimate parent company (top of the group) of XTRONIC GmbH is INA-Holding Schaeffler GmbH & Co. KG, Herzogenaurach. The consolidated financial statements of INA-Holding Schaeffler GmbH & Co. KG are submitted to the operator of the electronic Federal Gazette and published in the electronic Federal Gazette.

The total fee calculated by the auditor for the financial year in accordance with Section 285 No. 17 of the German Commercial Code (HGB) is not disclosed, as the information is included in the consolidated financial statements that include the company.

G. Events after the balance sheet date

The coronavirus has been spreading worldwide since January 2020 (coronavirus epidemic). According to the spring forecast of the German federal government of April 29, 2020, the gross domestic product is expected to decrease by 6.3% compared to 2019.

For XTRONIC GmbH, we expect that, due to the cost-cutting measures introduced on the part of our important OEM customers, the planned increases in sales cannot be realized. If it turns out that the German consumer economy will also be more severely affected than previously assumed, the slump in sales could amount to up to 10% according to our current estimate. For later fiscal years, we are currently assuming only a slow recovery and therefore only slower sales growth compared to fiscal year 2019.

Böblingen, July 24, 2020

XTRONIC GmbH

Mathias Mungenast, managing director

Daniel Schmid, managing director

Development of fixed assets in the 2019 financial year

	Acquisition and production costs				
	1.1.2019 EUR	Additions EUR	Disposals EUR	Rebookings EUR	December 31, 2019 EUR
I. Intangible Assets					
1. Self-created industrial property rights and similar rights and values	938,431.19	2,129.09	0.00	0.00	940,560.28
2. Concessions acquired against payment, industrial property rights and similar rights and values as well as licenses to such rights and values	1,265,573.04	198,789.27	0.00	0.00	1,464,362.31
	2,204,004.23	200,918.36	0.00	0.00	2,404,922.59
II. Tangible assets					
Other equipment, factory and office equipment	508,078.15	640,783.28	24,883.80	0.00	1,123,977.63
	2,712,082.38	841,701.64	24,883.80	0.00	3,528,900.22
			Accumulated depreciation		
	1.1.2019 EUR	Depreciation in the financial year EUR	Disposals EUR	Rebookings EUR	December 31, 2019 EUR
I. Intangible Assets					
1. Self-created industrial property rights and similar rights and values	0.00	143,429.32	0.00	0.00	143,429.32
2. Concessions acquired against payment, industrial property rights and similar rights and values as well as licenses to such rights and values	666,228.04	208,715.71	0.00	0.00	874,943.75
	666,228.04	352,145.03	0.00	0.00	1,018,373.07
II. Tangible assets					
Other equipment, factory and office equipment	288,767.15	185,962.79	0.00	0.00	474,729.94
	954,995.19	538,107.82	0.00	0.00	1,493,103.01
			Book values		
			December 31, 2019 EUR	December 31, 2018 EUR	
I. Intangible Assets					
1. Self-created industrial property rights and similar rights and values			797,130.96	938,431.19	
2. Concessions acquired against payment, industrial property rights and similar rights and values as well as licenses to such rights and values			589,418.56	599,345.00	
			1,386,549.52	1,537,776.19	
II. Tangible assets					
Other equipment, factory and office equipment			649,247.69	219,311.00	
			2,035,797.21	1,757,087.19	

Independent auditor's report

To XTRONIC GmbH, Böblingen

Examination Opinions

We have the annual financial statements of XTRONIC GmbH, Böblingen - consisting of the balance sheet as of December 31, 2019 and the income statement for the financial year from January 1 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 XTRONIC GmbH for the financial year from January 1 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 asset and financial position of the company as of December 31, 2019 as well as its earnings position for the financial year from January 1 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), taking into account 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 the assets, finance - and the company's earnings. Furthermore, the legal representatives are responsible for the internal controls that 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. They are also responsible for disclosing issues 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 management report, plan and carry out audit procedures 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 discovered 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 precautions 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 and the acceptability of the estimated values presented by the legal representatives and the information related to them.
- 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, 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 adequate, suitable audit evidence, we particularly review the significant assumptions on which the legal representatives are based on the future-oriented information and assess the

appropriate derivation of the future-oriented information 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.

Nuremberg, July 24, 2020

KPMG AG
auditing company

Koepflin, auditor

Behrendt, auditor
