BIG ENOUGH TO COMPETE – SMALL ENOUGH TO CARE.

INTERIM GROUP REPORT
1st HY 2022/2023

FORTEC
ELEKTRONIK AG

Interim report 1st Half Year 2022/2023

Contents

Interim group management report: 1. Group's principles

Over the past years, FORTEC as a group has gradually transformed itself from a trading company into a system supplier of industrial high-tech products, and is now part of the international added value chain. Acting as a link between various production plants of internationally active suppliers, in particular from the Far East, as well as European and American customers, FORTEC occupies an attractive growth niche and is constantly expanding its position as a supplier of customer-specific product solutions for industrial use, for example through its own software and hardware developments, as well as the expansion of its own production services.

Target customers are companies with long-term positioning, primarily in the high-growth areas of industrial automation, information technology, security technology, medical technology and the field of automotive engineering. Attractive niche markets such as railway and transportation are also focal areas. FORTEC's success is founded on a large number of long-standing customer relationships. The aim of our sales activities is to build strategic partnerships with top customers who are leaders in their own market sectors, as well as with customers with smaller and medium-sized order volumes. Due to ever-greater complexity, orders are increasingly commonly long-term projects and the companies of the FORTEC Group - as suppliers - are becoming long-term, strategic partners to their customers.

For over 37 years now, FORTEC has consistently generated excellent returns with its business model, which has been tested in multiple cycles. With increased activity in the design of complete (sub)systems based on in-house technologies, the Group is gaining in autonomy and becoming increasingly competitive in a global environment.

The Group has several regional offices in Germany that provide local customer support. FORTEC is represented by a sales office in Austria and by its wholly owned sales subsidiary ALTRAC in Switzerland. Further to this, FORTEC is represented in the Benelux states with a shareholding in the Dutch trading company Advantec Electronics and through the foreign subsidiaries Display Technology in Great Britain, Apollo Display Technologies in the USA, and Alltronic - a subsidiary of AUTRONIC - in the Czech Republic.

The Group occupies two attractive sectors of the high-quality electronics market. FORTEC is one of the market leaders in German-speaking countries in the fields of data visualisation (display and embedded computer technology) and industrial power supplies. Furthermore, FORTEC has established good positioning on the Anglo-American market with its subsidiaries.

By linking the product areas of Display Technology and Embedded Computer Technology to form a data visualisation system, FORTEC also offers complex solutions for an innovative market. The Group's fields of competence range from the delivery of system-tested standard kits, to support services in the area of hardware and software for the sale of standard devices (for example, for professional display systems for industry or digital signage as well as complete monitors), right up to customer-specific developments and product solutions. The FORTEC Group's portfolio also includes TFT controller and drive solutions developed in-house, as well as the latest generation of optical bonding technology.

In the product area of power supplies, FORTEC covers the complete product range of power supplies and DC/DC converters, from standard products from the Far East, through series devices modified in Germany, right to customer-specific developments for niche markets realised by the subsidiary company AUTRONIC.

In this successful segment, EMTRON continues to concentrate on the pure distribution business. Stock availability of the right products forms the basis for success here. The foundations for further growth were set in place in 2019 with the construction of the new building in Riedstadt. Distribution in Great Britain and the USA is undergoing consistent expansion via the foreign subsidiaries there.

All companies of the FORTEC Group have one claim in common: "Using our expertise and speed, we create long-term value for our customers in all industries. That is how we establish long-term partnerships of equals with our customers. Our customers interact with qualified employees for whom flexibility, reliability and transparency are a given. By living the traditional values of a medium-sized business, we also continually improve our international competitiveness. We are "big enough to compete, small enough to care". This is the combination that creates a firm basis for long-term growth and gives our owners an attractive stake in our business success."

Interim group management report: 2. Control system

As a group listed on the stock exchange, FORTEC has well-established control systems that enable it to maintain a constant overview of important group activities. The Management Board receives monthly reports on the control and monitoring of the companies and is in regular contact with them.

In order to fully utilise synergies, reporting is partially carried out on an inter-company basis according to segments. Such aspects as incoming orders, the contribution margin (CM I = gross margin), turnover and EBIT serve as relevant key performance indicators. The Group considers turnover and EBIT to be the most important financial performance indicators.

Interim group management report: 3. Research and development

Through its transformation from a trading company to a system supplier in the data visualisation segment, the Group realises much broader added value today. The development of new applications and processes adapted to customer needs and market requirements is accordingly becoming increasingly important for FORTEC. The Group therefore has a development department of 26 employees (30/06/2022: 26 employees), works with external development partners and invests both in traditional product development (e.g. video converters and network IoT products) and in the further development of production technologies with an annual expenditure of around EUR 1.8 million.

Macroeconomic and sector-specific framework conditions

According to the International Monetary Fund (IMF), in 2022 there was a significant deterioration in the *economic environment* as a result of the COVID-19 pandemic, in particular the strict zero-COVID policy in China, as well as the impact of Russia's war of aggression on Ukraine. While the first half of 2022 was already marked by challenges, the mood further deteriorated in the second half of 2022 due to high energy prices and a simultaneous decline in consumption. Rising inflation over the year and continuing supply bottlenecks meant that global GDP grew by only 3.4 % last year, down from 6.2 % in 2021. For 2023, the IMF expects growth of 2.9 %.[1]

In the *euro zone*, the economy was more robust than expected in the second half of the year and a feared recession did not materialise. Due to the influencing factors mentioned above, growth rates in the euro zone were significantly lower than in the previous year, at 3.5 % (2021: +5.3 %). According to IMF estimates, growth is likely to slow again in 2023. The institution expects an increase in economic output of just 0.7 % for the monetary union.

Although the *German economy* did better than expected in the second half of 2022 and managed to avoid a recession, it recorded a decline of 0.2 % in the fourth quarter after growth of 0.5 % in the third quarter[2]. Nevertheless, economic output in the final quarter of 2022 was above the comparable quarter of 2019 and as such above the pre-crisis level. Overall, economic output in Germany grew by 1.8 % last year.[3] The consumer price index averaged 7.9 % after 3.1 % in 2021.[4][5] For 2023 as a whole, the IMF expects German GDP to stagnate, growing by only 0.1 %. The first half of 2023 in particular is likely to pose challenges for Germany as a business location. This is also reflected in the German Business Climate Index, which stands at 90.2 points for 2023. This is still below the figure in 2022 (90.4) and is also the third worst figure recorded in the survey period since 2005.[6] However, experts expect an economic recovery in the second half of 2023.[7]

1 https://www.imf.org/-/media/Files/Publications/WEO/2023/Update/January/English/text.ashx

2 https://www.destatis.de/DE/Presse/Pressemitteilungen/2023/01/PD23_037_811.html

3 https://www.destatis.de/DE/Themen/Wirtschaft/Volkswirtschaftliche-Gesamtrechnungen-Inlandsprodukt/_inhalt.html

4 https://www.destatis.de/DE/Presse/Pressemitteilungen/2023/01/PD23_037_811.html

5 https://www.destatis.de/DE/Presse/Pressemitteilungen/2022/01/PD22_025_611.html

6 https://de.statista.com/statistik/daten/studie/1303/umfrage/entwicklung-ifo-geschaeftsklimaindex-jahresdurchschnitte/

7 https://www.bundesbank.de/resource/blob/892964/bbd7cffb91f93da1255b118db7bf6da5/mL/2022-12-prognose-data.pdf

According to the association of German electrical and electronic manufacturers (ZVEI), the *German electrical and digital industry* was able to attract 10.0 % more new orders in the whole of last year than in 2021. Orders from the euro zone grew by 16.1 %, whilst the increase in orders from the non-euro zone stood at 8.1 %. The business climate in the German electrical and digital industry brightened considerably at the beginning of this year. Both the assessment of the situation and expectations were significantly better in January 2023 than in December 2022.[8]

Uncertainties regarding the development of American and Chinese politics persist and, together with the extremely strained supply chain, represent the greatest unknowns in relation to the further course of economic development.

Interim group management report: 5. Business development

In the first half of 2022/2023, FORTEC was able to continue the dynamic business development of the 2021/2022 financial year despite bottlenecks in preliminary products and geopolitical uncertainties. Sales of high-margin industrial monitors in the data visualisation segment and power supplies for harsh environments developed particularly dynamically.

Despite a significant increase in material and transport costs, FORTEC exceeded the record EBIT of the previous year with 4.6 million euros in the half year under review and achieved a profitability roughly at the previous year's level. The operating earnings before interest and taxes (EBIT) increased from EUR 4.1 million to around EUR 4.6 million. Thanks to sustained demand, it was possible to maintain a stable order book as per 31 December 2022, at EUR 95.0 million (30/06/2022: EUR 93.5 million).

Interim group management report: 6. Profit situation

Group turnover, a key financial performance indicator, increased significantly in the first half of 2022/2023 by 17.5 % or EUR 7.36 million to EUR 49.4 million (previous year: EUR 42.1 million). As such, turnover clearly developed in a positive way despite the inflationary environment and the associated cost increases.

Other operating income rose from EUR 1.1 million to EUR 1.6 million.

The cost of materials increased from EUR 6.3 million to EUR 34.4 million in line with the higher turnover.
The gross margin, taking into account the change in inventories of unfinished/finished goods, fell from 33.2 % to 32.5 % in the first half of the 2022/2023 financial year.

[8] https://www.zvei.org/fileadmin/user_upload/Presse_und_Medien/Publikationen/2023/Februar/ZVEI-Konjunkturbarometer_Februar_2023/ZVEI-Konjunkturbarometer-Februar-2023.pdf

The cost of sales ratio increased slightly to 67.5 % in the first half of 2022/2023 compared to 66.9 % in the previous year.

Personnel expenses rose by EUR 0.6 million to EUR 7.8 million (previous year: EUR 7.2 million). This increase is the result of salary adjustments and more expensive new appointments due to the tough situation on the labour market. The personnel cost ratio in relation to turnover fell noticeably from 17.1 % to 15.7 %.

The depreciation item remained almost unchanged at TEUR 797 (previous year: TEUR 806).

Other operating costs rose from EUR 3.0 million to EUR 4.4 million. The reason for the increase is higher advertising and travel activity costs, currency losses, as well as increased costs for personnel recruiting and IT services. Costs rose slightly relative to turnover, from 7.1 % to 9.0 %.

As a *key financial performance indicator*, eBIT rose by 13.7 % from EUR 4.1 million in the previous year to EUR 4.6 million, due to the aforementioned factors. The EBIT margin based on turnover remained almost unchanged at 9.4 % (previous year: 9.7 %). The slightly lower operating margin was mainly due to higher general operating costs and agreed wage increases.

Taxes on income and earnings rose by TEUR 360 in line with the rise in the consolidated net income.

The consolidated net profit for the first half of the 2022/2023 financial year stood at EUR 3.4 million (previous year: EUR 3.2 million). The return on sales after taxes fell from 7.5 % in the previous year to 6.9 %.

Earnings per share rose from EUR 0.98 in the previous year to EUR 1.04 in the year under review.

Interim group management report: 7. Asset situation

On the assets side, with a balance sheet total of EUR 72.8 million (30/06/2022: EUR 70.8 million), *non-current assets* amount to EUR 17.4 million (30/06/2022: EUR 17.8 million).

Of this, goodwill from the acquired subsidiaries remains the largest item at EUR 7.0 million. Due to accounting in accordance with IFRS 16, rights of use amounting to EUR 5.0 million (30/06/2022: EUR 5.4 million) are reported.

Under *current assets*, the largest item, with a value of EUR 34.4 million (30/06/2022: EUR 26.1 million), is the stocks standing at 47.3 % (30/06/2022: 36.8 %) of the balance sheet total.

The increase in this item is due in part to our efforts to ensure FORTEC's ability to deliver at short notice.

The item *receivables from deliveries and services* fell as of the reporting date from EUR 10.7 million on 30/06/2022 to EUR 9.8 million and is thus as high as the cash balance, which decreased by EUR 3.1 million to EUR 9.8 million on 31 December 2022 (30/06/2022: EUR 12.9 million).

The Group's equity ratio is 72.9 % (30/06/2022: 70.4 %). At EUR 53.0 million (30/06/2022: EUR 49.9 million), the Group has sufficient equity.

On the liabilities side, *non-current bank liabilities* fell from EUR 1.6 million per 30 June 2022 to EUR 1.4 million due to scheduled repayments.

The *current provisions* remained almost unchanged at TEUR 363 (30/06/2022: TEUR 371). Liabilities due to deliveries and services rose to EUR 7.8 million on 31 December 2022 (30/06/2022: EUR 6.5 million). The reason for this is the larger delivery volume.

Interim group management report: 8. Financial and liquidity position

The goal of financial management is to safeguard corporate success against financial risks of any kind. The Group pursues a conservative financing policy with the aim of securing its liquidity at all times. In doing so, the Group applies a steady and responsible dividend policy and utilises the freely available bank balances, which are intended to exceed the Group's current liabilities. This ensures liquidity at all times.

The Group's objective is to sustain a strong capital base in order to maintain investor, market and creditor confidence. The objective of capital management is to ensure that business operations are based on a high level of equity financing. To maintain or adjust the capital structure, the Group may make adjustments to dividend payments and share buybacks, and issue new shares.

The Group monitors capital using a ratio of net financial debt to the sum of the equity capital and net financial debt (capital controlling indicator). Net financial debt includes all debts according to the balance sheet less cash and cash equivalents. The equity capital comprises the equity capital shown in the balance sheet.

In TEUR	31.12.2022	30.06.2022
Total debts	19,746	20,979
Less cash and cash equivalents	-9,804	-12,884
Net debt	9,942	8,095
Equity	53,037	49,857
Capital management ratio	5.33	6.16

Cash flow from operations decreased from EUR 2.4 million to EUR -1.7 million in the first half of the 2022/2023 financial year despite the increased consolidated net profit for the period. The reasons for this are the significant increase in inventories to ensure readiness to deliver, as well as the reduction of short-term liabilities.

The cash flow from investments increased compared to the previous year to TEUR 149. This is due to investments in the fleet of machinery in the USA and new licences as part of digitisation projects.

The negative cash flow from financing activities was almost unchanged at EUR 1.1 million. In total, the Group recorded cash and cash equivalents of EUR 9.8 million (previous year: EUR 16.3 million).

Interim group management report: 9. Forecast report

The following statements regarding the future course of business and the assumptions of the economic development of the market and the industry are based on our assessments, which we currently consider to be realistic according to the information available to us. Various known and unknown risks, uncertainties and other factors may mean that the forecast developments do not actually come into being, either in terms of their tendency or their extent.

Overall, the outlook for the global economy has brightened in the current year. The International Monetary Fund (IMF) has raised its growth forecast from 2.7 % in October 2022 to the current 2.9 %. The more optimistic outlook is based on China's shift away from the zero-COVID strategy and the higher resilience of many economies. According to the IMF, the global economy will cope somewhat better than initially feared with the consequences of the war in Ukraine and the continuing high inflation.

Despite the brighter economic outlook, FORTEC's business performance will continue to be affected by the enduring critical supply situation due to the strained supply chains. For example, the ongoing aggressive military actions in Ukraine continue to limit the ability to forecast. Provided that there is no deterioration in the current financial year 2022/2023, the Management Board confirms its forecast and expects a further increase in Group turnover to between EUR 91 million and EUR 97 million. On the earnings side, the Management Board is currently planning conservatively due to generally rising costs and assumes a Group EBIT in a range of EUR 8 million to EUR 9 million.

The vision of becoming the first choice for developing technologically innovative systems and solutions continues to drive FORTEC.

Interim group management report: 10. Risk and opportunity report

10.1 Risk management

Fundamentals of risk management

Risk management is an ongoing task of identifying risks as possible negative developments and their effects on the Group at an early stage, evaluating them and implementing measures to deal with the risks accordingly.
It is therefore necessary to create an awareness of the risks existing in the company among all employees and in particular among decision-makers. For this reason, corresponding processes and procedural instructions are integrated into the QM process landscape and are permanently available to all employees; they are defined annually and their effectiveness is reviewed in internal audits. Employees are additionally sensitised in this regard through training.
Risk management is an integral part of the management system and facilitates the identification of risks and the limiting of their effects insofar as possible.

Risk identification

At least once a year, the FORTEC Group carries out a risk survey by means of questionnaires and checklists. This results in a risk matrix (risk inventory) and is reported to the Management Board. This process ensures that both known and newly arising risks in the daily course of business are made transparent and therefore controllable. To this end, specifications are also devised for the subsidiaries.

Risk assessment

Risks are assessed and classified in terms of their probability of occurrence and their qualitative significance for the company, in order to establish transparency with regards to risk relevance for the group. FORTEC draws up a quantitative assessment to facilitate even more precise evaluation of the risk-bearing capacity.

Risk management measures

Risk control can take place on the basis of the risk assessment. Appropriate risk measures have been implemented in accordance with the risk assessment carried out by the management, and the individuals responsible for their implementation have been appointed. One of the aims of the risk management system is to ensure that risks are recognised by employees and decision-makers before they result in damage to the company and that those responsible reduce the risks in good time - either independently or in cooperation with the decision-makers - to a level that is acceptable to FORTEC.

Risk reporting

Continuous risk reporting, in particular by the legally independent Group companies, ensures that the Management Board is able to regularly obtain an overall picture of the risk situation of the participations. The formal implementation of the risk management system helps in this regard. However, FORTEC also focuses on ensuring that the employees are made permanently aware of potential risks, and that risks are recognised and dealt with promptly.

Internal control and risk management with regard to the accounting process is an integral part of all processes of the FORTEC Group and is based on a systematic approach of risk identification, assessment and management that encompasses the entire Group. An internal control system supports the attainment of business policy objectives by ensuring the functionality and efficiency of business processes, compliance with laws and regulations, and the protection of business assets. The Management Board is responsible for the design of the control and risk management. Active monitoring controls by the Management Board support the identification, assessment and handling of risks in the individual business areas of the holding company and within the subsidiaries.

The Group has implemented a comprehensive QM management system for process organisation, which includes work instructions for the preparation of financial statements and other accounting-related activities that help to prevent errors.
As part of the control and risk management from the participations, monthly evaluations of the segments facilitate the prompt identification of any deviations in the planned figures for incoming orders, the order inventory, stock on hand, as well as turnover, gross margin and costs, and the implementation of countermeasures if necessary. The maturity of receivables, in particular debtors, is reviewed regularly.

The measures aimed at the correctness and reliability of accounting ensure that business transactions are recorded fully and promptly in accordance with the legal and statutory regulations, that inventories are carried out correctly, and that both assets and liabilities are accurately recognised, valued and reported in the annual financial statements. The processes serve to ensure that the accounting records provide reliable and comprehensible information.

External consultants with appropriate expertise in accounting processes, such as auditors, accountants, as well as software providers, are included in the internal risk management.

10.2 Risk report

The risks listed below - subdivided into risk categories - can affect the company as a whole (overall risk), the two segments, the financial situation (financial risks) and the results (earnings-oriented risks). Further system-related risks are the personnel risk and technical risk. The Group is permanently exposed to the risks listed below.
The principle insurable natural hazards are covered by a comprehensive insurance policy. This is reviewed annually, but may be insufficient in individual cases.

For both segments, potential risks that FORTEC must take in order to exist and survive in the market are the product risk, the risk of price changes and default risk, as well as the market risk and the dependence on upstream suppliers.

Market price risks

Since the start of 2020, the market for professional electronics has been characterised by a constant decline in market prices with consistent performance data, or by an above-average increase in technical performance with constant market prices. In times of high demand and product availability shortages, the prices for purchased parts increase dynamically.
Price change risks - which consist of a potential loss due to adverse changes in the market price and price-influencing parameters - are minimised through secure contracts and price adjustment clauses. Although FORTEC has always succeeded in managing this risk in the past, it is not possible to guarantee that market price risks will not result in future losses.

Procurement risks

a) Inventory risks

A significant earnings-oriented risk lies in the material planning of inventories. Incorrect scheduling can lead to considerable losses despite a multi-stage procurement process.

However, the risk of having unsaleable goods in stock is not only based on an incorrect estimation of future demand, but also depends on a different perception of quality standards between customers and producers, in particular with respect to the quality of the goods (especially from the Asian region), and on EU directives and regulations regarding the constituents and use of the goods.

Product liability is an ongoing risk for FORTEC, for example due to changes in purchasing rights (e.g. effects arising due to Brexit). The risk is minimised through the careful selection of suppliers and the monitoring of assessments. However, in the event of deception and criminal acts on the part of upstream suppliers, Group companies are each liable to the customer as importers.

b) Changes in suppliers

Close cooperation with only a few strategic partners in the product area poses a major *risk that is inherent in the system* that must not be underestimated. Success with Asian suppliers in particular is often based on a long-standing personal relationship between the decision-makers, in particular in the power supply segment.

As such, a change in personnel - be it due to the departure of the decision-maker(s) from the company or a change in the company's shareholder structure - can lead to the loss of existing business relationships. The company counteracts this risk by establishing secondary suppliers in certain areas.

c) Availability of goods and procurement prices

The rise in demand is currently being affected by a shortage of goods for certain electronics items, in particular in the electronics sector. In addition to price effects (rising purchase prices), this is causing delivery delays and even the non-delivery of products. This in turn can have negative consequences with regards to FORTEC's delivery capability, meaning that a loss of sales could arise in the worst case scenario. The Group attempts to counteract this risk through a forward-looking procurement policy and back-up inventories.

Risk reporting in relation to the use of financial instruments

The company holds financial instruments including: Current and investment accounts, supplier credits and receivables or similar. FORTEC has a solvent and highly creditworthy customer base, which is also generally covered by trade credit insurance for deliveries of goods to groups listed in the DAX 40 index above a receivables amount of EUR 10,000. Losses arising due to bad debts are not expected to be of a magnitude that could endanger the Group's existence. Liabilities are paid within the agreed payment periods.

To hedge the *liquidity risk*, a liquidity plan is prepared on a weekly basis and the value of receivables, especially debtors, is reviewed regularly. To further secure liquidity, the Group has sufficient bank balances that exceed current liabilities from deliveries and services.

Furthermore, the Group has two long-term bank loans with favourable conditions from the Management Board's perspective. Credit lines amounting to EUR 8 million have also been granted at group level, but these are not in use at the moment. The goal of financial and risk management is to secure the company's success against any form of financial risk.

Legal and warranty risks

A constantly increasing risk lies in customer requirements, which extend beyond the previous warranty period and the usual standard of a supply contract. In recent years, customers have gradually developed a sense of entitlement that places a clear burden on the supplier. Claims arising from the supply contract can be considerably higher than the value of the goods and legal disputes with corresponding risks are increasingly resulting from this.

Default risks

Default risk is the risk of financial loss if a customer or a contracting party to a financial instrument fails to meet their contractual obligations. A default risk generally arises from the Group's receivables due to deliveries and services, as well as debt securities held as financial investments.

As a general rule, the Group checks the creditworthiness of the customer relationship with a trade credit insurer for all new customers and otherwise on an annual basis. Uninsured relationships are individually assessed and entered into through bank guarantees, other hedges or advance payment. Accounts receivable are constantly monitored and known risks are reflected in value adjustments. Further to this, no significant default risks exist from current business activities.

The "expected credit losses" (ECL) model is used for receivables arising due deliveries and services.

Personnel risks

Success in the market remains heavily dependent on the comprehensive knowledge, long-term experience and - at the present time in particular - very much on the health of the employees. The requisite hygiene and control measures to protect against COVID-19 infection have been introduced at every site. Any large-scale change in personnel or individual key members of staff could jeopardise the success achieved so far. Hiring new employees against the background of a highly discernible shortage of skilled workers and enhancing attractiveness as an employer in a regional environment of full employment has presented a particular challenge. Recruitment therefore requires new and creative solutions such as a modern working environment, personalised working models and support from external personnel consultants who conduct searches for the best possible candidates. Furthermore, FORTEC endeavours to secure and keep the expertise within the company through early succession planning for employees who are set to leave the company.

Corporate strategy risks and competitive risks

If our industrial customers were to change their strategy and to cease production in Central Europe on a long-term basis (and in doing so rely on local suppliers), this would call our business model as a supplier of technically sophisticated products into question.

A similar effect would arise in the event of a future change in the behaviour of our upstream suppliers, resulting in these suppliers realising sales directly to industrial customers via the internet and no longer selling their products exclusively through the established distribution channels. An expected concentration process on the supplier side could also have a negative effect on us. In extreme cases, this could result in the termination of the supply relationship.

The same effect could occur if the trading margin to be achieved is below our costs due to the competitive information available to all customers via the Internet, which is mainly influenced by personnel expenses. Extensive production capacities, in particular in the data visualisation segment, increase the risk of not being able to react flexibly to market conditions due to the fixed cost block.

IT risks / cyber risks

A technical risk lies in the Group's entire IT network. Any possible failure or serious malfunction in the computer system could cause considerable damage to FORTEC. Misuse by internal or external parties despite security precautions - in particular through theft of information or through inadequate data protection precautions - can endanger the company in extreme cases. This risk is minimised through the implementation of an internal MPLS network and the associated reduction of external interfaces, as well as the ongoing training of employees.

Currency risks

Foreign currency risks are avoided insofar as possible by conducting business in a single currency. Nevertheless, changes (in particular with regards to the dollar and yen parity as well as fluctuations of the Swiss franc and the British pound against the euro, dollar and yen) can have negative effects for the Group. Currency risks can arise in particular as a result of the foreign activities, because currency fluctuations there directly influence the Group's results. The list of risks is not exhaustive; additional risks may arise that we are currently unaware of or do not consider significant.

Summary risk assessment

The overall risk position of the Group is operationally unchanged compared to the previous year. At the present time, it is not possible to definitively assess whether and what effects the war in Ukraine, the continuing differences between the USA and China, and the issues relating to Taiwan could still have. At the present time, no risks are identifiable that could endanger the continued existence of the Group as a whole. In addition to the risks, the following opportunities, in the form of opportunity management, have been integrated into the management manual. This manual is updated annually as part of the management review, in order to continuously develop the Group.

10.3 Opportunities report

The FORTEC Group sees a number of opportunities to successfully develop the company in the coming years. The company philosophy "Big enough to compete, small enough to care" continues to create opportunities compared to the previous year. New market opportunities are identified by the Management Board through targeted market observation, analysed and further developed together with the Supervisory Board within the framework of the strategic orientation. Outside the German-speaking region, we are seizing further market opportunities through subsidiaries in Great Britain and the USA.

Product opportunities arise for FORTEC as a technology company through its own products and production services in the area of display controls, touch solutions with the optical bonding process and high-quality industrial monitors due to the current trend towards digitalisation; above all through the rapidly developing Industry 4.0, i.e. a networking of industrial applications. This fourth industrial revolution with the scenario of a thoroughly rationalised factory will bring a productivity gain, from the Management Board's perspective in particular in Central Europe. FORTEC, as a supplier to the capital goods industry, could benefit from this for years. Definitive opportunities are identified by the external sales team, for example, or initiated by product marketing and evaluated in regular exchange with the company management. If applicable, the results are included in roadmaps and realised in new projects, which tie up money and resources and therefore represent a potential risk in their own right.

In the power supplies segment, FORTEC possesses expertise in application, problem solving and technical service. In the data visualisation segment (display and embedded computer technology), the technology expertise for complete and functionally tested subsystems and functional solutions is a growth driver.

Further opportunities arise due to the consolidation of operational activities within the subsidiaries, which results in synergies and the planning of a common corporate brand for the better and stronger positioning of FORTEC, also in accordance with the "Grow Together 2025 Strategy".

Although this cannot be guaranteed for the future, FORTEC is confident that the expanded mix of Distribution, Development, Production & Solutions in both segments offers good opportunities for long-term, sustainable growth.
The solid financial situation enables the Group to respond with flexibility and speed to strategic options as they arise in the light of market and industry developments.

Overall assessment of the risk and opportunity situation

From the perspective of the management of a technology company, the opportunities for the future development of FORTEC outweigh the risks. Although the entrepreneurial risks are constantly increasing, the demands on products are permanently higher and the product life cycles are becoming ever shorter, FORTEC remains of the opinion that the market environment for both segments can undergo positive change overall, in particular due to the digitalisation trend in connection with Industry 4.0 as a subset of the Internet of Things (IoT).

Nonetheless, the COVID-19 pandemic and geopolitical conflicts could continue to have a negative impact on the Group's delivery capability and sales market. The Management Board is monitoring and analysing the developments very closely.

Interim group management report: 11. Additional information in accordance with section § 315a HGB

The *number of shares* on 31 December 2022 stood at 3,250,436 with a nominal value of EUR 1. There is currently neither conditional capital nor a share buyback programme.

The subscribed capital consists exclusively of ordinary bearer shares with voting rights. There are no restrictions on voting rights, nor are there any restrictions on the transfer of shares.

The AGM of 15 February 2023 authorised the Management Board, with the approval of the Supervisory Board, to increase FORTEC's share capital by up to EUR 1,625,218.00 by issuing up to 1,625,218 no-par value bearer shares on one or more occasions against cash and/or non-cash contributions by 14 February 2028 (Authorised Capital I). The Management Board was also authorised, with the consent of the Supervisory Board, to exclude shareholders' subscription rights in the following cases:

(i) for fractional amounts;
(ii) for capital increases against contributions in kind;
(iii) in the case of cash contributions up to an amount not exceeding 10 percent of the share capital existing at the time this authorisation becomes effective or - if this value is lower - at the time this authorisation is exercised, provided that the issue price of the shares is not significantly lower than the stock exchange price of the already listed shares of FORTEC at the time the issue price is finally determined.

Appointment and dismissal of the Management Board take place in accordance with the statutory provisions (§§ 84, 85 of the Stock Corporation Act [AktG]). Compensation agreements in the event of a change of control or a takeover bid have not been concluded with the Management Board. However, in the event of a change of control as a result of a takeover bid, the supplier contracts essential to the company may be terminated by the contractual suppliers. This danger exists in particular if the contractual supplier has reason to fear the entry of a competitor.

FORTEC's *remuneration system* for the members of the Management Board includes fixed and variable salary components. The company adopted a new remuneration system at the Annual General Meeting on 11 February 2021. The fundamental features of the remuneration system can be found on the website at www.fortecag.de/investor-relations/corporate-governance/. FORTEC will report in detail in accordance with § 162 AktG on the remuneration of the Management Board once a year in a separate remuneration report.

Interim group management report: 12. Declaration on corporate governance in accordance with §315d in conjunction with §289f of the German Commercial Code (HGB)

Following due examination, the Management Board and Supervisory Board of FORTEC Elektronik AG were able to issue the Declaration of Conformity pursuant to § 161 AktG, which has been made permanently available to shareholders by the Management Board and Supervisory Board on FORTEC's website (https://www.fortecag.de/en/investor-relations/corporate-governance) as of 29 September 2022.

Responsible corporate governance with a focus on long-term value creation has been a distinguishing feature of the work of the FORTEC Elektronik AG executive and oversight boards. The Management Board reports on corporate governance in this declaration in accordance with § 289f section 1 no. 2 HGB.

For FORTEC, corporate governance is characterised not only by legal requirements and internal procedural instructions but also by a high degree of self-responsibility and ethical conduct on the part of all employees.

Working methods and composition of management bodies and committees in accordance with § 289f section 2 no. 3 HGB

Management and corporate structure: In accordance with its legal form, FORTEC Elektronik AG has a dual responsibility structure consisting of a Supervisory Board and a Management Board. The Annual General Meeting serves as the third body. All three bodies are committed to the interests of the shareholders and the company.

The Management Board is a management body bound to the interests of the company. It conducts business in accordance with the law, the articles of association and the rules of procedure issued by the Supervisory Board.

Within the framework of its responsibilities, the Management Board is responsible for the preparation of the quarterly, annual and consolidated financial statements and for the appointment of key positions in the company. Furthermore, the Management Board is responsible for ensuring compliance with legal provisions, official requirements and internal company guidelines. It facilitates and promotes their observance by the Group companies.

Significant decisions of the Management Board require the approval of the Supervisory Board. The Management Board informs the Supervisory Board regularly and comprehensively about all aspects of business development that are important for FORTEC, significant business transactions and the current earnings situation, including the risk situation and risk management.

The Management Board coordinates the strategic orientation of the company with the Supervisory Board and discusses the status of strategy implementation with it at regular intervals.

The Management Board consisted of two persons in the first half of the year.

The Supervisory Board comprises three members, two of whom are elected as shareholder representatives by the AGM and one of whom is an employee representative delegated in accordance with the One-Third Participation Act. The Supervisory Board monitors and advises the Management Board on the management of the business. The Supervisory Board regularly discusses business development, planning, strategy and its implementation. It reviews quarterly reports, adopts the annual financial statements and approves the consolidated financial statements. The regular term of office of the current Supervisory Board members ends at the AGM in 2025, which decides on the 2023/2024 financial year.

The Supervisory Board did not form any committees in the 2022/2023 financial year.

In accordance with section 111, paragraph 5 of the Stock Corporation Act, the Supervisory Board has achieved a ratio of women of 33 %. The stipulated ratio of women of 30 % on the Board of Directors has already been attained. Pursuant to § 76 section 4 AktG, the ratio of 25% set for the second management level has also been achieved.

The corporate governance of FORTEC as a listed German public limited company is primarily determined by the German Stock Corporation Act and, with restrictions, by the requirements of the German Corporate Governance Code in its current version.

The Code as amended on 16 December 2019 was published in the Federal Gazette on 20 March 2020. It represents essential legal regulations for the management and supervision of German listed groups and contains internationally and nationally recognised standards of good and responsible corporate governance. The objective of the adopted guidelines is to make the rules applicable in Germany transparent, in order to strengthen the confidence of international and national investors, customers, employees and the public in the management of German companies.

Germering, March 2023

Sandra Maile	Bernhard Staller	Ulrich Ermel
CEO	COO	COO

Consolidated balance sheet as at 31.12.2022 in accordance with IAS/IFRS

	ASSETS in TEUR	31.12.2022	30.06.2022		LIABILITIES in TEUR	31.12.2022	30.06.2022
A.	**Non-current assets**	**17,356**	**17,814**	**A.**	**Equity capital**	**53,037**	**49,857**
I.	Acquired goodwill	6,945	6,963	I.	Subscribed capital	3,250	3,250
II.	Intangible assets	269	213	II.	Capital reserve	14,481	14,481
III.	Tangible fixed assets	4,563	4,650	III.	Conversion adjustments	1,610	1,819
IV.	Rights of use	4,961	5,380	IV.	Other reserves	30,297	24,044
V.	Financial assets balanced in accordance with the equity method	71	71	V.	Net income for the period	3,389	6,253
VI.	Financial assets	104	70	VI.	Non-controlling interests	9	10
VII.	Deferred tax assets	442	468				
B.	**Current assets**	**55,427**	**53,021**	**B.**	**Non-current liabilities**	**6,784**	**7,343**
I.	Inventories	34,420	26,075	I.	Long-term bank liabilities	1,444	1,611
II.	Receivables from deliveries and services	9,792	10,683	II.	Non-current leasing liabilities	4,095	4,508
III.	Tax refund entitlements	935	2,496	III.	Other non-current financial liabilities	72	48
IV.	Other financial assets	239	571	IV.	Other non-current liabilities	423	448
V.	Other assets	237	313	V.	Non-current provisions	362	354
VI.	Cash and cash equivalents	9,804	12,884	VI.	Deferred taxes	387	374
				C.	**Current liabilities**	**12,962**	**13,636**
				I.	Liabilities to banks	333	750
				II.	Trade payables	7,830	6,540
				III.	Current leasing liabilities	1,022	1,011
				IV.	Tax liabilities	891	1,811
				V.	Other current financial liabilities	1,013	1,678
				VI.	Other current liabilities	1,510	1,475
				VII.	Provisions	363	371
	Total assets	**72,783**	**70,836**		**Total liabilities**	**72,783**	**70,836**

Consolidated Statement of Comprehensive Income 1st HY per 31.12.2022

uncertified, according to IAS/IFRS

In TEUR	Consolidated statement of income 01.07.22-31.12.22	Consolidated statement of income 01.07.21-31.12.21
Sales revenues	**49,437**	**42,077**
Change in inventories of unfinished/finished products	1,063	-11
Other operating income	1,586	1,093
Cost of materials	34,440	28,127
Personnel expenses	7,770	7,182
Depreciation	797	806
Other operating costs	4,449	2,968
Operating result (EBIT)	**4,629**	**4,075**
Dividends	0	0
Other interest and similar income	2	0
Other interest and similar expenses	76	98
Result before taxes	**4,555**	**3,978**
Taxes on income and earnings	1,166	806
Net income for the period	**3,389**	**3,172**
Other results*	-209	596
Total results	**3,180**	**3,768**
Earnings per share (in euros)	1.04	0.98
Shares in total	3,250,436	3,250,436

Of the total result, the following are attributable to:		
Shareholders of the parent company	3,180	3,769
Non-controlling shareholders	0	-1

*Other results exclusively include success-neutral currency exchange difference.

Consolidated Statement of Comprehensive Income Q2 per 31.12.2022

uncertified, according to IAS/IFRS

In TEUR	Consolidated statement of income 01.10.22-31.12.22	Consolidated statement of income 01.10.21-31.12.21
Sales revenues	**24,459**	**20,889**
Change in inventories of unfinished/finished goods	909	-258
Other operating income	794	695
Cost of materials	17,543	13,569
Personnel expenses	3,988	3,972
Depreciation	398	396
Other operating expenses	2,339	1,557
Operating result (EBIT)	**1,896**	**1,833**
Dividends	0	0
Other interest and similar income	2	0
Other interest and similar expenses	35	49
Result before taxes	**1,862**	**1,785**
Taxes on income	410	319
Net income for the period	**1,452**	**1,465**
Other results*	-595	444
Total results	**857**	**1,909**
Earnings per share (in euros)	0.45	0.45
Shares in total	3,250,436	3,250,436

Of the total result, the following are attributable to:		
Shareholders of the parent company	857	1,910
Non-controlling shareholders	0	-1

*Other results exclusively include success-neutral currency exchange difference.

Consolidated Statement of Changes in Equity per 31.12.2022

In TEUR	Subscribed Capital	Capital Reserve	Exchange Rate Differences	Other reserves		Total	Non-controlling interests	Total equity
				Market Evaluation Reserve	Profit Reserve/ Carried Forward			
Balance 01.07.2021	**3,250**	**14,481**	**814**	**0**	**25,994**	**44,540**	**0**	**44,540**
Result for the period 01.07 – 31.12.2021					3,173	3,173	-1	3,172
Change in other results			596			596	0	596
Dividend payments					0	0		0
Changes 1st HY 2021/2022	0	0	596	0	3,173	3,769	0	3,769
Balance 31.12.2021	3,250	14,481	1,410	0	29,168	48,309	10	48,319
Balance 01.07.2022	**3,250**	**14,481**	**1,819**	**0**	**30,297**	**49,847**	**10**	**49,857**
Result for the period 01.07 – 31.12.2022					3,389	3,389	-1	3,389
Change in other results			-209			-209	0	-209
Dividend payments					0	0		0
Changes 1st HY 2022/2023	0	0	-209	0	3,389	3,180	-1	3,180
As at 31.12.2022	**3,250**	**14,481**	**1,610**	**0**	**33,686**	**53,027**	**9**	**53,037**

Consolidated Cash-flow Statement per 31.12.2022

In TEUR		Annex	FY 2022/2023 01.07.22-31.12.22	FY 2021/2022 01.07.21-31.12.21
I.	**Operating activities**			
1.	Net-profit		3,389	3,172
2.	(+) Income tax expense / (-) income tax refund		1,166	806
3.	(+) Depreciation and amortisation / impairment of property, plant and equipment and intangible assets		797	806
4.	(+) Other non-cash expenses / (-) other non-cash income		84	-587
5.	(+) Loss / (-) gain on sale of property, plant and equipment		0	0
6.	(+) Decrease / (-) increase in inventories		-8,580	-1,936
7.	(+) Decrease / (-) increase in trade receivables and other receivables		1,344	1,341
8.	(-) Decrease / (+) increase in trade payables		1,413	-817
9.	(-) Decrease / (+) increase in current liabilities		-1,498	270
10.	(+) Decrease / (-) increase in long-term receivables		-2	-7
11.	(-) Decrease / (+) increase in long-term liabilities		9	17
12.	(+) Interest expenses / (-) interest income		74	97
13.	(-) Interest paid [1)]		-74	-97
14.	(+) Income taxes refunded / (-) income taxes paid		161	-692
	Cash flow from operating activities		-1,716	2,372
II.	**Investment activities**			
1.	Investments in tangible and intangible assets		-229	-98
2.	Proceeds from sale of tangible and intangible fixed assets		0	7
3.	Payments from the acquisition of consolidated companies less acquired cash and cash equivalents		0	11
4.	Interest received		0	0
	Cash flow from investing activities		-229	-80

Consolidated Cash-flow Statement per 31.12.2022

	In thousand EUR	Annex	FY 2022/2023 01.07.22-31.12.22	FY 2021/2022 01.07.21-31.12.21
III.	**Financing activities**			
1.	Payments for repayment of (financial) loans		-583	-583
2.	Interest received from financing activities		0	0
3.	Payments for leasing liabilities [2)]		-526	-506
	Cash flow from financing activities		-1,109	-1,090
IV.	**Net increase (PY decrease) in cash and cash equivalents**		**-3,055**	**1,202**
	Cash/equivalents p. 01.07		12,884	14,696
	Changes in cash and cash equivalents due to changes in exchange-rate		-26	179
	Changes to cash and cash equivalents due to changes in the scope of consolidation		0	210
V.	**Cash/equivalents p. 31.12**		**9,804**	**16,286**
	Composition of the financial resources fund			
	Cash		6	8
	Bank balances		9,798	16,278
	Cash and cash equivalents at the end of the period		9,804	16,286

1) The interest paid includes interest portion of lease liabilities

2) The Group has classified payments for the redemption component of the lease liability as financing activities, payments for the interest component as operating activities in accordance with the presentation of interest paid, and payments under short-term leases and payments for leases that are based on low-value assets as operating activities.

Annex - Explanatory notes

Basis for the preparation of the report

The condensed half-yearly report does not contain all information and disclosures required for consolidated financial statements and should therefore be read in conjunction with the consolidated financial statements and the group management report as at 30 June 2022.

The interim consolidated financial statements have neither been audited nor reviewed by an auditor.

The report has been drawn up in euros. For reasons of calculation, rounding differences may occur in the tables and in references.

Segment reporting

The Group's reportable segments are data visualisation and power supplies. Other segments include intra-group services.

In TEUR	Data-visualisation	Power Supplies	Other segments	Total	Reconciliation Consolidation	Consolidated
External turnover	31,967	17,471	0	49,438	0	49,437
Internal turnover	2,242	1,017	996	4,255	4,255	0
Segment turnover	34,209	18,488	996	53,693	4,255	49,437
Gross margin (total operating revenue ./. cost of goods sold)	11,318	4,948	641	16,908	1,203	15,705
Gross margin in %	33.1	26.8	64.4	31.5		32.5
EBIT	3,923	1,196	476	4,643	14	4,629
EBIT in %	11.5	6.5	47.8	8.6	0.3	9.4

Other disclosures

The number of employees stood at 233 (PY: 238).

Assurance of Legal Representatives

We state that, to the best of our knowledge and in accordance with the applicable reporting principles, the consolidated interim financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the interim group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Company.

Germering, 24 March 2023

FORTEC Elektronik AG

Sandra Maile CEO	Bernhard Staller COO	Ulrich Ermel COO

Disclaimer of liability

This report contains certain forward-looking statements based on currently discernible and available information, assumptions and forecasts made by the Management of FORTEC Elektronik AG. They serve solely to provide information and are characterised by terms such as "believe", "expect", "predict", "intend", "forecast", "plan", "estimate" or "endeavour". These statements are therefore only valid at the time of their publication. Various known and unknown risks, uncertainties and other factors could lead to material differences between the forecasts given here and the actual results, financial situation, development or performance of the Company. FORTEC Elektronik AG assumes no obligation to update such forward-looking statements or to align them with future events or developments. Accordingly, no liability or guarantee for the topicality, correctness or completeness of this data and information is assumed either explicitly or implicitly.

FORTEC

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