

# **Fiscal Statement of 1<sup>st</sup> Half Year 2010/2011**

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**Half Year July 01, 2010 – December 31, 2010**

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**FORTEC Elektronik AG**

**Ph: +49(0)8191-91172-13 Fax: +49(0)8191-21770 email: [aktie@fortecag.de](mailto:aktie@fortecag.de)**

# Management Report 2010/2011

## **Business and Results**

In first half year of BY 2010/11, turnover and earning/profit again leveled up to the figures of periods before crisis. At last, the group successfully managed the crisis achieving an increase in turnover of 40%, thus topping the profit before interest and tax (EBIT) to 768.975 EUR compared to 105.936 EUR last year. The profit after tax increased by more than tenfold from 50.569 EUR in BY 2009/10 to 593.470 EUR in BY 2010/11.

## **Financial Situation and Further Information according to § 289 Par. 4 HGB**

The company only works on own capital. Having a capital quota of 79 % at a balance volume of 23.3 million EUR, the company possesses sufficient own capital and has no bank obligations. At present, there is neither limited nor granted capital nor a return-of-share program.

The number of shares is 2.954.943 at a nominal value of 1 EUR.

Management and board at the annual shareholders' meeting of December 16, 2010 again finalised a dividend of EUR 0.30 per share. All agenda points including the support of the board of directors and managers were unanimously accepted by 100%.

The signed capital is exclusively common stock drawn to bondholders and entitled to vote. There are neither restrictions in the right to vote nor purchase. The AK Industriebeteiligungen GmbH, Norderfriedrichskog possesses 10% of the company's capital since 25.02.2003.

Appointment and dismissal of the board is in accordance with legal regulations (§§ 84, 85 AktG). Changes as to articles of the association, especially dismissal of the supervisory board requires a majority of board votes of 75%. The compensation of the supervisory board breaks down to a fixum, a variable and a share-based part. As per 13.12.2007, the general shareholders board decided, that the required statements in the financial report can be omitted as per § 285 Nr. 9a Satz 5-9 HGB and/or § 314 Absatz 1 Nr. 6 Satz 5-9 HGB.

In case of a change in control based on a take-over offer, it is agreed that the suppliers' contracts essential for the company may be cancelled by the latter; especially when there is a risk that a competitor will take over. At present, there are no reimbursement agreements made by the board in such case.

## Analysis und Strategy

FORTEC's focus is on distribution of standard components. Due to vast and always available information via internet, there will be a reduction of the margins in industrial business in the long run. FORTEC's goal is to compensate this development by own self-added value.

By connecting the product segments of power supplies, display technology (industrial displays incl. controls) and embedded computer technology (single-board computer) to create an Embedded Solution System, FORTEC possesses for a long time now a very attractive rare domain.

Marketing starts with delivery of system-proved and tested standard kits, accompanied by customers' service in hard- and software at the purchase of standard units and ends in customer specific developments.

Target customers are mainly manufacturers in the field of industrial automation, medicine technology as well as providers of security instruments and equipment.

Our big competence is to provide technology know-how in combination with sales at site. Years of business relations to some thousand customers are the basis of our success. Our core countries namely Germany, Austria and Switzerland still offer considerable potential although already reached leadership in some market segments. In the Benelux countries, we are represented for a long time by a 25% participation in an electronic distribution company which we increased to now 36.7 %.

Due to our product portfolio, our strategy is to continuously achieve profitable margins by own added-value, which, after cost deduction, still allows a reasonable interest rate of the company capital. Secured profitability was and still is the basis of our successful expansion politic.

## **Risk Management Report.**

The risks mentioned below could influence our entire company, our financial situation and our results and we have to face these risks continuously. These risks are not definite, however others may occur which at present, we do not know nor do consider as important.

Risks that could endanger the company at present are not reported.

Balance risks, if any, at balance day have been considered by appropriate accruals. The company has taken care of all possibilities to deal with any possible risks. At balancing day, the evaluation of these risks was made to our best knowledge, yet could not be sufficient in total.

Elementary risks are covered by considerable insurances and are thoroughly checked each year; in special cases it may not be sufficient.

Potential risks which have to be taken into consideration in order to exist within the market are the risks of distribution, products and marketing as well as the dependency from other suppliers.

Another enormous risk - yet not to be underestimated - is the system-related risk of the close co-operation with only few strategic partners in the same product portfolio. Already a change in personnel either by retirement and/or leave of the company's person-in-charge or any change in the shareholders' board and/or other partner could lead to the loss of an existent and successful business co-operation and this mainly in view of suppliers in the Far East with whom there are often relationships for many years and of private matter.

A considerable risk is disposition of stock. Wrong planning could result in considerable losses because there is a continuous trend to local suppliers. The risk to have unsellable merchandise on stock, is not only the result of false material planning, but also depends on the different quality standards set by customers and producers. Mainly, one important fact is that of the configuration of the merchandise with origin Far East as well as the political EU requirements as to its contents and its usage.

Compared to a few years ago, the product liability is an increasing risk to the company which is controlled and noted by choice of suppliers and their ratings. However, as concerns different quality standards, frauds and/or criminal actions of suppliers, we - as importer/supplier - are liable towards our customers.

A yet steady growing risk is the customer's requirements as concerns a prolonged time of warranty and the usual terms of a suppliers' contract. During these past years, the customers started to develop a certain aggressiveness for claims which is obviously against and at expenses of the supplier. Claims resulting of a supplier's contract may accelerate considerably the delivered value of the product; resulting in more legal proceedings including appropriate risk.

Another main topic of the risk management is the often bad credit worthiness of some middle-sized companies. Here, careful examination of their solvency is necessary, yet observing mainly the requirements of the insurance company. In view of the further economic recovery and its consequences of the financial needs of middle-size companies, we still have to expect considerable problems.

Our success also strongly depends on the vast and years of experience of our personnel. A big change in staff yet especially of key-persons would definitely endanger our current success.

A big question would endanger our business model as importer of technical high-quality products i.e. the change in customers' behaviour to no longer produce in Middle Europe and turn to local suppliers. In the future, the same effect would have the behaviour of our suppliers to sell directly to industrial customers and not any more within their distribution channels.

Another negative aspect could be a concentration process expected from the supplier's side which could result – in worst case – to a contract cancellation towards the supplier. In addition, similar effects could arise if the costs decrease because of the reduction of margins due to competitor's information available to all customers via internet. This basically influences the personnel costs applied in the German speaking area.

Due to the EDP – networking of the entire group, a break-down or a serious interference in the computer system could cause enormous damage to the company. An abuse from externals or internals, especially theft of information, business interruptions or IT-system breakouts or insufficient means for data security could extremely endanger the company.

Foreign currency risks are excluded, if possible, in case of larger project by invoicing directly in the relevant currency. However, there could be negative impulses on our company in normal business especially due to a further change of the dollar parity.

The existing growth strategy of the group does not only involve organic increase but also company acquisitions. Here, the figure above the net asset value is balanced as goodwill and checked each year as to its recoverability. If the expectations of the purchased company are not met, the expected cash-flow result cannot be achieved, then depreciations in the group's balance as per IFRS have to be done. Therefore, need for depreciation may not be eliminated in the future.

### **Internal Control and Risk Management System in View of Balancing Process**

The control and risk management is an integral part of all processes of the FORTEC group and is based on a global system of risk identification, its evaluation as well as its controlling. The board of directors holds sole responsibility of control and risk management. Active monitoring is essential to support its identification, evaluation and processing within the specific business sectors of the AG and its subsidiaries.

Monthly statements of the AG and its subsidiaries help to recognize in time any changes as concerns order income, order book, stock as well as turnover and consequently take necessary steps as to the raw margin and costs. The value of receivables, especially those of the debtors is controlled on a regular basis. The value of share holdings is controlled once a year by a so-called impairment test and corrected if necessary.

The measures of the internal control system assure the correctness and reliability of the group's balance, which, in accordance with legal regulations, is covered completely and in time; furthermore, inventory is made correctly and group's assets and depths are listed and evaluated appropriately. It is guaranteed that balancing documents provide reliable and understandable information.

The balancing regulations are in accordance with the International Financial Reporting Standards (IFRS) and are the basis for FORTEC's balancing and evaluation standards also applying to its German and foreign subsidiaries.

The group's auditor and others e.g. the tax auditor use process independent controlling. Especially as regards the group's final balancing process, a specific autonomous monitoring is applied at issue of the group's year balance.

### **Expectations**

In the segment power supplies, we topped again previous year's figures with a half-year turnover of 13.2 million EUR and an EBIT of 0.8 million EUR. During current business year, we expect to return to a moderate organic and profitable increase in turnover.

In the segment of data visualization, we achieved a half-year turnover of 8.7 million €, thus compensating the loss of 1<sup>st</sup> quarter finishing with a positive result of 0. Furthermore, we eagerly await an increase of business due to new projects reducing reasonably at the same time the organizational costs. Goal for this current business year is to make money again in the segment of data visualization.

**CONSOLIDATED BALANCE SHEET** (uncertified), according to IAS/IFRS  
**31.12.2010 (last year's figures 30.06.2010)**

<b>Assets</b>	<b>BY 31.12.2010 €</b>	<b>BY 30.06.2010 €</b>	<b>Equity &amp; Liabilities</b>	<b>BY 31.12.2010 €</b>	<b>BY 30.06.2010 €</b>
<b>A. Non-current assets</b>			<b>A. Shareholders Eqty</b>		
I. Goodwill	2.645.044	2.645.044	I. Subscribed capital	2.954.943	2.954.943
II. Intangible assets	119.293	159.802	II. Capital reserve	8.689.364	8.689.364
III. Tangible assets	1.304.035	1.319.875	III. Currency differences	687.536	687.536
IV. Financial assets	1.304.240	1.060.321	IV Other reserves	5.508.156	5.453.639
V. Long-term liabilities	130.698	127.692	V. Net income	593.470	734.999
VI. Deferred taxes	105.000	105.000		<b>18.433.469</b>	<b>18.520.480</b>
	<b>5.608.310</b>	<b>5.417.734</b>	<b>B. Lon-term liabilities</b>		
<b>B. Current assets</b>			I. Long-term reserves	52.992	54.202
I. Inventories	8.016.195	6.667.175	II. Deferred tax-liabilities	237.579	209.869
II. Accounts receivables	3.431.208	4.294.450		<b>290.571</b>	<b>326.069</b>
III. Tax receivables	99.995	60.245	<b>C. Short-term liabilities</b>		
IV. Other assetsd	449.213	241.004	I. Trade payables	2.036.850	1.698.831
V. Cash-on-hand, bank balances	5.753.264	6.355.459	II. Tax liabilities	103.780	248.204
	<b>17.749.875</b>	<b>17.618.334</b>	III. Other provisions	1.389.824	1.122.696
			IV Other liabilities/accruals	1.103.691	1.119.788
				<b>4.634.145</b>	<b>4.189.519</b>
<b>Total assets</b>	<b>23.358.185</b>	<b>23.036.068</b>	<b>Total equity&amp;liabilities</b>	<b>23.358.185</b>	<b>23.036.068</b>

## **Consolidated Income Statement** (uncertified), according IAS/IFRS

**01.07. - 31.12.2010 (last year's figures 01.07. - 31.12.2009)**

<b>Income Statement</b>	<b>BY 2010/11</b>	<b>BY 2009/10</b>
<b>Sales revenues</b>	<b>21.735.326 €</b>	<b>15.577.797 €</b>
Change in stock of unfinished merchandise	169.250 €	0
Other operating income	380.586 €	251.513 €
Cost of material	16.506.983 €	11.435.920 €
Expenses personnel	2.809.459 €	2.480.103 €
Depreciation	153.653 €	131.322 €
Other operating expenses	2.046.092 €	1.676.029 €
<b>Operating income (EBIT)</b>	<b>768.975 €</b>	<b>105.936 €</b>
Interests and similar income	28.886 €	27.242 €
Taxes on income and profit	204.391€	82.609 €
<b>Net income</b>	<b>593.470€</b>	<b>50.569 €</b>
Earning per share/1st half year	0,20 €	0,02 €
Shares outstanding	2.954.943	2.954.943



## Consolidated Income Statement (uncertified), according IAS/IFRS

01.10. - 31.12.2010 (last year's figures 01.10. - 31.12.2009)

Income Statement	Q2 (1.10.-31.12.10)	Q2 (1.10.-31.12.09)
<b>Sales revenues</b>	<b>10.729.396€</b>	<b>8.041.386 €</b>
Change in stock of unfinished merchandise	169.250 €	0
Other operating income	189.624 €	105.556 €
Cost of material	8.046.229 €	5.943.758 €
Expenses personnel	1.441.084 €	1.180.077 €
Depreciation	75.561 €	65.957 €
Other operating expenses	1.140.398 €	881.453 €
<b>Operating income (EBIT)</b>	<b>384.998 €</b>	<b>75.697 €</b>
Interests and similar income	19.383 €	588 €
Taxes on income and profit	107.282€	46.953 €
<b>Net income</b>	<b>297.099 €</b>	<b>29.332 €</b>
Earning per share/1st half year	0,10 €	0,01 €
Shares outstanding	2.954.943	2.954.943

## Consolidated Statement of Comprehensive Income

	01.07. - 31.12.2010	01.07. – 30.12.2009
1. Income during 1st half year	593.470	50.569
2. Increase/expenses/re-evaluation of tangible and intangible assets	0	0
3. Changes in market value of assets re: „available for sale“	206.002	0
4. Differences in exchange rates	0	0
5. Income taxes	0	0
6. Other result	206.002	0
7 TOTAL result	799.472	50.569

## Consolidated Statement of Changes in Equity

				Other comprehensive income		T O T A L
	Subscribed capital	Capital reserve	Exchange rate differences	Market Evaluation reserve	Profit reserve/ profit carried forward	
	EUR	EUR	EUR	EUR	EUR	EUR
<b>Balance as per 01.07.2009</b>	<b>2.954.943</b>	<b>8.689.364</b>	<b>139.399</b>	<b>-242.050</b>	<b>6.546.124</b>	<b>18.087.779</b>
Net income					50.569	50.569
Changes "other result"						0
Dividend payments					- 886.483	- 886.483
<b>Balance as per 31.12.2009</b>	<b>2.954.943</b>	<b>8.689.364</b>	<b>139.399</b>	<b>-242.050</b>	<b>5.710.210</b>	<b>17.251.865</b>

<b>Balance as per 01.07.2010</b>	<b>2.954.943</b>	<b>8.689.364</b>	<b>687.536</b>	<b>-206.002</b>	<b>6.394.640</b>	<b>18.520.480</b>
Net income					593.470	593.470
Changes "other result"				206.002		206.002
Dividend payments					- 886.483	- 886.483
<b>Balance as per 31.12.2010</b>	<b>2.954.943</b>	<b>8.689.364</b>	<b>687.536</b>	<b>0</b>	<b>6.101.627</b>	<b>18.433.469</b>

# Consolidated Cash-flow Statement (uncertified), according to IAS/IFRS

**01.07. -31.12.2010 (last year's figures 01.07. - 31.12.2009)**

<b>I. Operative Income</b>	<b><u>BY 2010 /11</u></b>	<b><u>BY 2009 /10</u></b>
Net income	€ 593.470	€ 50.569
Depreciation of tangible and intangible assets	€ 153.653	€ 131.322
Increase of inventories	€ - 1.349.020	€ - 18.380
Reduction of accounts receivables	€ 823.492	€ 1.743.852
Change of liabilities	€ 205.208	€ - 234.576
Change of accruals	€ 265.918	€ 84.155
Change of other accruals	€ - 208.209	€ - 4.998
Cash-flow from operative business	€ 484.512	€ 1.751.944
<b>II. Investment Activities</b>		
Investments of financial/tangible and intangible assets	€ - 201.224	€ - 221.925
Earnings from assets	€ 1.000	€ 0
Cash-flow from investment activities	€ - 200.224	€ - 221.925
<b>III. Financial Activities</b>		
Profit earned / paid	€ - 886.483	€ - 886.483
<b>VI. Cash-flow in total</b>	€ - 602.195	€ 643.536
<b>V. Change in liquid funds</b>		
Cash at beginning of period	€ 6.355.459	€ 5.146.225
Cash at end of period	€ 5.753.264	€ 5.789.761

## **Annexe.**

The balancing and evaluation methods of fiscal year 2009/10 according to IAS/IFRS remain unchanged. The information given in this report is only valid at day of publication and cannot be written forth. The number of full-time employees reduced to 110 (prev. year 112). The group's business comprises data visualization and power supplies.

<b><u>Segment report</u></b>	<b>Data visualization T€</b>	<b>Power supplies T€</b>
<b>Turnover</b>	<b>8.673</b>	<b>13.231</b>
<b>Profit (EBIT)</b>	<b>1</b>	<b>768</b>
<b>Financial Result</b>	<b>12</b>	<b>17</b>
<b>Income Tax</b>	<b>0</b>	<b>204</b>
<b>Net Income</b>	<b>1</b>	<b>564</b>

## **Versicherung der gesetzlichen Vertreter (Assurance of Legal Representative)**

Nach bestem Wissen versichere ich, dass gemäss den anzuwendenden Rechnungs-legungsgrundsätzen für die Zwischenberichterstattung der Konzern-Zwischen-abschluss der FORTEC Elektronik AG zum 31. Dezember 2010 ein den tatsächlichen Verhältnissen entsprechendes Bild der Vermögens-, Finanz- und Ertragslage des Konzerns vermittelt und im Konzern-Zwischenlagebericht der Geschäftsverlauf einschließlich des Geschäftsergebnisses und die Lage des Konzerns so dargestellt sind, dass ein den tatsächlichen Verhältnissen entsprechendes Bild vermittelt wird, sowie die wesentlichen Chancen und Risiken der voraussichtlichen Entwicklung des Konzerns im verbleibenden Geschäftsjahr beschrieben sind.

Germany/ Landsberg, February 24<sup>th</sup>, 2011

CEO  
Director of Board