CAPSENSIXX AG: Annual Report 2018 of Management Board

contents

Operations

capsensixx AG ("capsensixx") is domiciled in Frankfurt am Main. The company holds shares on corporations which provide banking services, financial services, software development and other administrative services of all kind.

Business segments

The capsensixx Group focuses on various products and services within the financial industry. It offers „Financial Administration as a Service", which allows initiators and decision-makers to focus on their individual performance goals, while capsensixx specialists cover all administrative tasks, risk management, monitoring, controlling, reporting, registration and other regulatory tasks. Cross-Assets, Cross-Border and Cross-Products: The capsensixx Group offers decision-makers a „single point of entry" platform. State-of-the-art technology, innovative developments and the know-how of the employees support the customer to use his core competencies and to better provide his services. Our products and services include:

Fund Management, Administration & Accounting:

Axxion S.A. (including its Luxembourg subsidiary navAXX S.A. and its German subsidiary Axxion Deutschland Investmentaktiengesellschaft mit Teilgesellschaftsvermögen) (together "Axxion") provides a fully integrated infrastructure for the entire product life cycle of investment funds: starting with issuance and required authorizations or listings, its day-to-day administrative business until final redemption or liquidation of a fund. Axxion also provides portfolio management services.

Capital Markets & Corporate Services:
Oaklet GmbH, together with its Luxembourg subsidiary Oaklet S.A. (together "Oaklet"), provides advisory services on financial engineering helping initiators to fit with their individual, economic, regulatory and tax requirements. Oaklet arranges and coordinates all contractors and servicers during the issuance, the phase of capital expenditure and the redemption phase. Additionally, Oaklet S.A., as a regulated corporate service provider, provides directorship and administrative services to its corporate clients.

Digitization & IT-services:
capsensixx intends to set-up and invest into start-up companies and to engage in further acquisitions in order to increase its service offerings within digitization & IT-services, dedicated to disruptive technologies reducing operating efforts, automation of individual workflows and self-learning and self-adjusting software using artificial intelligence. These services offer cost savings and increased efficiency, and will also enable clients to tailor their data-analysis in line with their data requirements.

Alternative Performance Measures (APM)

The management report and the financial statements of the capsensixx Group are prepared in accordance with the applicable accounting standards. In addition to the disclosures and ratios required by these standards, capsensixx publishes Alternative Performance Measures (APM) that are not subject to these regulations and for which there is no generally accepted reporting standard. capsensixx determines the APM with the aim to enable comparison of key performance indicators over time or in a sector comparison. This is done by making certain adjustments to the balance sheet or income statement items prepared in accordance with the applicable accounting standards. The adjustments may result from different calculation and valuation methods, non-uniform business activities as well as special effects that affect the informative value of these items. The aAPM thus determined apply to all periods and are used both internally to control the business and externally to assess the performance of the company by analysts, investors and rating agencies.
The capsensixx Group determines the following APMs:
- EBITDA
- Assets under Administration

Earnings Before Interest, Taxes, Depreciation and Amortization (**EBITDA**) represents earnings before interest, taxes, depreciation, impairments and reversals. In addition to the financial result, this performance indicator also neutralizes distorting effects on operating activities resulting from different methods of depreciation and valuation margins. EBITDA is calculated on the basis of the result from ordinary activities (before income taxes) plus depreciation and amortization recognized in profit or loss or the reversal of reversals of impairment of intangible and tangible assets and securities, plus interest expense and deduction of interest income.

Reconciliation of EBITDA

Result of normal business activity
(before income taxes)
+ Depreciation securities
+ Depreciation and amortization intangible assets and property, plant and equipment
- Reversals of intangible assets and property, plant and equipment
+ Depreciation / impairment of investments, shares of associated companies
- Interest income
+ Interest expenses
= EBITDA

The **Assets under Administration** (AUA) are based on the total administered volume of the Funds Management, Administration & Accounting division on a specific determination date. On the basis of the development of the total volume, forecasts can be derived for the current income and the development of the segment. Market-related changes (price gains and losses) as well as inflows and outflows are included in this development.

Non-financial performance indicators played no role in 2018.

Economic conditions

Capital markets and world economy

Overall, the investment year 2018 provided little cause for delight. After an encouraging start to the year, the markets became negative, while volatility increased by much.

Uncertainty of investors was caused by a tighter US monetary policy, and most important the US foreign policy. Despite the risk of higher costs for US consumers and businesses, the Washington administration has fired the trade dispute with Europe and China over and over again. This led to increasing pessimism about the global economic outlook.

German shares experienced a very bad year in 2018. The DAX lost -18.3% in the reporting year, putting it in last place within Europe's major stock exchanges. Overall, European titles, measured by the EuroStoxx50, lose -12%. While initially only the cyclically sensitive auto stocks were affected by the global trade conflict and declining demand from China, the bear market reached all sectors by the end of the year. Even the basic consumer and capital goods stocks, which have been stable so far, collapsed and in some cases marked new 2-year lows.

By the end of 2018, European bank stocks, with -33.3% (EURO STOXX Banks Index), auto stocks -28.8% (EURO STOXX Automobiles Index) and capital goods stocks -12.2%, are among the biggest losers. Internal European issues, such as BREXIT and Italy's expanding public debt, have overruled any good news, such as the continued positive development of the European labor market.

China's shares, as measured by the Shanghai Composite Index, lost around -23% in the wake of the US customs dispute, putting them in the forefront of Asia's loss-making emerging markets.

US stocks, especially technology stocks, posted a positive performance into the fall thanks to the generally stable US economy. But in the last few weeks American stocks were struggling and in December alone the Dow Jones Industrial Index, which tracks the 30 largest US companies, lost 10% of its value. For the year as a whole this means an annual loss of -5.6% (USD). The US Tech-Stock Index NASDAQ is down -3.9% (USD). The reason for the price collapse was sudden fears of weaker economic growth in 2019.

Looking back on this challenging stock market year, it seems that confidence in the economy and politics has been shattered. On the stock exchanges, there was sometimes a sell-off sentiment, as rarely seen and similar with the major crises of 2007 (US housing crisis) and 2012 (Euro crisis).

Developments within the Industry

Very little asset managers succeeded in 2018 to escape the negative trend. Apart from a few active asset managers and asset classes that are not subject to periodic growth (illiquid investments), the sometimes persistently high inflows of funds did not lead to higher net assets in the administration, since (for the year as a whole) the inflows of funds were often eroded by performance losses.

In addition, the economic conditions in the financial services industry have become more demanding compared to the previous year. In particular, the ongoing expansion of regulatory measures requires considerably more effort. In addition, disruptive technologies are creating persistent margin and competitive pressures in the industry.

Earnings

The following explanations are related to the Annual Financial Statements for 2018 of the capsensixx consolidated financial accounts. The profit and loss account provides a complete overview for the financial year 2018.

Assets under Administration fell in the financial year 2018 from € 8.919 billion (as at 31.12.2017) to € 8.511 billion (as at 31.12.2018). This represents a decline of only 4.57% despite the much stronger market decline.

The EBITDA of the capsensixx Group was negatively impacted in 2018 by the one-time effects of the IPO of T€ 802 and additionally by the high investment in the founding and business development of coraixx GmbH & Co. KGaA in the amount of T€ 739.
EBITDA decreased from € 8.17 million in the previous year by € 0.34 million to € 7.83 million in 2018. Adjusted for one-off effects, EBITDA nevertheless improved positively by € 0.7 million to € 8.84 million.

Due to the decline in Assets under Administration (in particular towards the end of the fourth quarter of 2018), the Group generated slightly lower "Sales Revenue" (-0.4%) of € 115.7 million. At the same time, "Cost of Materials" in the same period fell 3% to € 93.7 million.
Due to the expansion of the growing business areas of Funds Management, Administration & Accounting and Capital Markets & Corporate Services, "Wages and Salaries" increased significantly by 17.2%.

"Other Operating Expenses" rose disproportionately high at a rate of 39.2%, due to (in particular) the costs of the IPO.

As a result, "Earnings before Taxes" (unadjusted) fell by 12% in the reporting period.

Extract of the Profit and Loss Statements of capsensixx AG as of 31. December 2018

	12 month ending		Change	
in €	31. Dec 18	31. Dec 17	nominal	prozentual
Revenues	115,700,176.44	116,200,228.74	-500,052.30	-0.4%
Cost of material	-93,689,170.01	-96,583,127.34	2,893,957.33	-3.0%
Wages and salaries	-6,250,841.16	-5,331,363.77	-919,477.39	17.2%
Other operating expenses	-7,563,890.61	-5,433,092.14	-2,130,798,47	39.2%
Profit before tax	6,349,600.54	7,217,537.50	-867,936.96	-12.0%

Financial Position

All material assets and liabilities are in Euro. Hedges against fluctuations of foreign currencies on assets or liabilities are not used. Derivative financial instruments are generally used only in exceptional cases. As of the balance sheet date, the company did not hold any derivative financial instruments.

The Equity amounted to € 17.66 million at the end of the financial year 2018 and was increased by € 6.07 million, mainly due to the contribution of in kind of shares in affiliated companies and the capital increase carried out in the course of the Initial Public Offering (IPO).

The balance sheet total decreased significantly in the financial year 2018, as due to the negative market environment - at Axxion in the Funds Management, Administration & Accounting segment, "Trade receivables" (-77.1%) on the asset side and "Other short-term liabilities" (-79.5%) on the passive side decreased substantially (mainly due to the elimination of performance-dependent commission payments). The equity to debt ratio is 53%.

In the course of the IPO, the parent company PEH Wertpapier AG acquired the shares in Oaklet GmbH and Axxion S.A. in the course of a capital increase in kind by € 3 million. As part of the IPO, an additional 330,000 new shares were issued and placed.

The share capital was increased by € 3,330,000 compared to the 2017 annual financial statements - it amounts to € 3,430,000.

Segment Results

Segment Results in the consolidated financial statements is carried out in accordance with IFRS 8. According to this, the segmentation should reflect the group's internal organizational and reporting structure (management approach), since this structuring represents the various opportunities and risks associated with the operating segments.
The three segments Funds Management, Administration & Accounting, Capital Markets & Corporate Services and Digitization & IT Services are structured according to the operative business segments.

The Funds Management, Administration & Accounting segment includes Axxion S.A. (including its Luxembourg subsidiary navAXX S.A. and its German subsidiary Axxion Deutschland Investmentaktiengesellschaft mit Teilgesellschaftsvermögen and the Axxion Revolution Funds - One).

The growth of Assets under Administration in Funds Management, Administration & Accounting was hampered by negative capital market developments. Nevertheless, the number of administered funds continued to increase.

EBITDA in the Funds Management, Administration & Accounting segment increased by 14.2% year-on-year to € 7.5 million. Assets under administration fell in the financial year 2018 from € 8.919 billion (as at 31.12.2017) to € 8.511 billion (as at 31.12.2018) due to market conditions. This corresponds to a decrease of 4.57%.

Despite this decline, sales revenues were kept almost the same with a decline of only -0.074%, while the Cost of Materials (cost of sales) was reduced by about 3%.

Personnel expenses increased by almost 12% year-on-year due to the growth of the segment. The segment result (before taxes and minority interests) increased by 15.7% to € 6.475 million.

The Capital Markets & Corporate Services segment includes Oaklet GmbH and its Luxembourg subsidiary Oaklet S.A.

Despite the burdens and associated losses of planned emissions in the second half of December due to the Luxembourg implementation of the anti-tax avoidance directive, Capital Markets & Corporate Services was further expanded in 2018. For example, new employees were gained at the Frankfurt and Wasserbillig (Luxembourg) offices in order to further promote the high quality of service and the growth of the division.

EBITDA in the Capital Markets & Corporate Services segment increased by 13.3% year-on-year to € 1.841 million.

Revenues in the Capital Markets & Corporate Services segment increased by 6% compared to the 2017 calendar year to € 3.76 million.

Personnel expenses increased by almost 21% year-on-year due to the growth of the division. The segment result (before taxes and minority interests) increased by 15.2% to just under € 1.87 million.

Coraixx GmbH & Co KGaA forms the Digitization & IT Services segment.

From the successful placement of the capital increase, capsensixx has exercised its call option with INQUENCE GmbH in order to transfer the application and existing customers of its artificial intelligence-based accounting solution to coraixx GmbH & Co KGaA ("coraixx"). Coraixx offers fully automated document processing as Software as a Service Provider. In 2018, the foundation was processed and the first steps to formate a team for operational business operations and a successful recruitment of employees for the Dresden location was announced.

As business has only started in 2018, the high costs could not compensated by income. EBITDA in the Digitization & IT Services segment is negative at T€ -222.

Selected Segment Information

	Funds Management	Capital Markets & Corporate Services	Digitization & IT Services	Funds Management	Capital Markets & Corporate Services	Digitization & IT Services
	2018			2017		
Revenues	111,873	3,764	63	112,651	3,549	0
Cost of material	-93,689	0	0	-96,533	-50	0
Personnel expenses	-6,055	-1,605	0	-5,412	-1,327	0
Segment result	6,475	1,866	-739	5,598	1,619	0

Outlook

Capital markets and the world economy
Fundamentals in general draw a positive picture. We can not economically locate recession fears, which most recently developed out of an initial economic skepticism. The global economy, and especially the US economy, is in solid shape, which also justifies the monetary policy of the US Federal Reserve, which has recently moderated its interest rate policy somewhat. The European Central Bank (ECB) is also stepping out of its expansionary monetary policy (QE = quantitative easing) in the context of slowly rising inflation, taking into account the different economic dynamics in the eurozone. The central banks played an important role in 2018 and will do so again in 2019.

In the current environment, many risks appear priced in and the price declines pressed the stock markets to a relatively lower valuation level. The MSCI World's price-earnings ratio, at 15, is slightly below the average of the last ten years, giving investors real opportunities in this situation. However, we expect a similarly tense and nervous environment for 2019, as we saw in the past year. Volatility is unlikely to diminish in 2019 - on the contrary, as long as the major areas of conflict, such as Brexit, the European budget dispute and the erratic US trade policy, are not resolved, market volatility will remain high.

Reliable long-term forecasts about the future development of individual countries, sectors and companies are hardly realistic against this background. Forecasts, as the past has impressively shown, are based on assumptions that reflect today's level of knowledge and experience.

For the remainder of the year, however, the uncertainty factors are likely to increasingly influence decisions and uncertainty for investors will increase. Geopolitical risks could also temporarily increase and volatility could rise again significantly. However this may also offer opportunities to capsensixx.

Industry
capsensixx believes that several major developments are currently taking place in the fund, investment and asset management industries, in which it operates:

- Asset managers are playing a progressively larger role in providing capital to the economy, taking advantage of bank retrenchment due to regulatory and capital constraints.
- Low interest rates are causing a shift from unmanaged assets, such as cash and deposit accounts, into managed portfolios.
- Asset managers are developing new digital distribution capabilities as a way of accessing retail / direct-to-consumer channels, such as robo-advisory, particularly among younger customers.
- Increasing regulatory complexity and the continuous cost pressure contributes to the consolidation of the industry and the growth of companies providing the administration to the fund, investment and asset management industry.
- On the back of increased regulatory complexity, outsourcing has increased as small to medium size portfolio and asset managers have no longer the time, expertise, resources or risk appetite to perform the required services in-house.
- Evolving client needs require a shift towards consultation of clients to offer solution-based services tailored to the client's needs.

- Digitization and technical evolution provide additional transparency to portfolio managers, regulators and ultimately the investors. The provision of back-office functions in the asset management industry will become more automated and easier to perform.

Clients are redefining the benefits of outsourcing by asking their service providers to add value beyond cost cutting, such as providing new performance indicators, adding capacity and improved functional capabilities.

Corporate outlook

Strategy

capsensixx has a core organic growth strategy that is augmented with a focused acquisition growth strategy, both of which are reflected in the Group's successful growth track record in recent years. New businesses driving economic growth are sourced both from increasing revenues from existing clients setting up additional and new structures with the help of the Group and tend to use the Group for additional services as well as from new client relationships which we plan to continue to develop on the basis of our strong people led service philosophy.

Organic growth strategy

The key drivers of the Group's organic growth strategy include:

- Building out the Group's market presence in existing asset classes.
- Development of core products related offerings to drive increased revenue opportunities through targeted entry into new products and structures.
- Market share increase by deepening and expanding existing client relationships by offering the most comprehensive product and jurisdictional range.
- Cross-selling to existing clients and delivering new client wins through direct referrals, intermediary referrals and direct targeting.
- Expansion of existing suite of services available to clients to ensure that the Group can continue to provide a 'one-stop-shop' solution to clients in each product class, as well as differentiating the Group from its competitors.

As the Group has been able to successfully use economics of scale and built its reputation, in particular with a focus on product class related businesses, the Group expects it to be able to more easily establish new client relationships either by directly approaching new clients or by way of direct or indirect referrals by other clients or service providers.

The **Funds Management, Administration & Accounting** segment aims to grow organically by generating new clients and net inflows. Due to its ability to manage funds domiciled in Germany and the (absolute) growth rate of German funds compared to Luxembourg funds, Germany remains an important growth region for Axxion.

With the fund industry expected to consolidate in Luxembourg over the next few years, Axxion also plans to offer its back-office services (ie transfer agency, accounting, NAV calculation, etc.) to fund management companies and administrators and even competitors for outsourcing purposes.

In the **Capital Markets & Corporate Services** segment, Oaklet has launched two major projects to improve the offer and attract new customers:

- Oaklet received its "Carbon neutral" certification for the first time in autumn 2017 and has since been distributing its "carbon neutral securitization". Green bonds could play a key role in financing investment needed to meet the EU's climate change targets and the United Nations Sustainable Development Goals. The annual global investment needed to build infrastructure in a low-carbon scenario amounts to billions of euros that are unlikely to be met in the near future. Oaklet allows initiators and originators to conduct their product development and emissions with a "green" service provider.

- As part of the Anti-Tax-Avoidance Directive implementation in Luxembourg, Oaklet will also use securitization funds for the first time in 2019 and, as one of the first service providers in Luxembourg, has also successfully issued so-called "fiduciary notes".

Following the successful laying of the foundation stone and personnel acquisition at coraixx 2018, the **Digitization & IT Services** segment is expanding its business and activities in the coming months. The focus is on integrating more customers into the automated accounting solution and increasing the number of invoices processed. With the Software-as-a-Service offering, customers can process their accounting data at a fraction of the cost and manual efforts.

Acquisition Strategy

Our organic growth strategy is complemented by our acquisition strategy, with a strong track record of founding, implementing and integrating acquisitions. capsensixx takes a very selective and disciplined approach to acquisitions to generate capital value for the Group and avoid negative impact on existing business. It evaluates the long-term strategic justification for an acquisition opportunity based on a set of indicators, including:

- The ability to strengthen capsensixx's existing service delivery platform and provide operational capacity to support the growth story of capsensixx.
- The ability to acquire skilled workers to support capsensixx's People's Business approach; and
- Exploit synergies (rationalization of systems and key functions) and cross-selling opportunities within the combined business.

capsensixx sees the expected further consolidation in the industry, accelerated by increasing regulatory requirements and the continued withdrawal of global accounting firms, law firms and industry banks, as an opportunity for future acquisitions. capsensixx is therefore constantly reviewing acquisition opportunities.

capsensixx aims to improve its performance through complementary strategic acquisitions in a consolidating market and to maintain a healthy pipeline of opportunities. capsensixx is focusing its attention on acquisition opportunities that enable it to deepen and expand existing asset capabilities and expand its product offering.

Outlook

capsensixx sees opportunities to grow organically and to participate in the consolidation of the industry through selective acquisitions. capsensixx's subsidiaries will continue to focus on providing high quality and innovative services, adhering to high standards of compliance and customer analysis, improving employee development and maintaining strong customer relationships.

Given the strong net flows (net inflows) of alternative and multi-asset solutions, global managed assets are expected to increase significantly in the medium term as wealthy individuals and institutional investors seek transparent, sustainable solutions. With its ability to offer multi-asset solutions on the one hand, and alternative investment structures through its subsidiaries, capsensixx is well positioned to increase its market share in light of these growth trends in the industry.

The digital capabilities support the distribution of new products and services in the fintech industry and also limit the impact of increasing regulatory costs and competitive momentum.

Capsensixx's outlook for full-year 2019 is positive, supported by stable net-cash inflows, the strong pipeline of projects and new products (described above) at the subsidiaries levels in the areas of Fund Administration & Accounting and Capital Markets & Corporate Services, despite the negative market trend in 2018 and supported by its improved visibility and agility after the initial public offering of capensixx.

Assuming that the environment continues to develop without serious disruptions, we are planning with a slight increase in net income before income taxes (after minority interests) of the capsensixx Group for 2019 with rising sales revenues in all three segments. As part of this market scenario, we expect a slight increase in assets under administration of 3-5% and anticipate a slight year-on-year increase in EBITDA.

The risks to the outlook for capsensixx include the global development of net assets, the development of capital markets and continuing political uncertainty worldwide. In addition, unforeseen regulatory costs and potential delays in implementation may adversely affect our costs and future income.

Risks

Our Board of Directors has overall responsibility for setting up and monitoring our risk management.

The framework identifies four risk categories:

- Strategic and business risks: disruptive technologies, margin and competitive pressures, changes in demand for our products, negative global development of net assets, capital market trends and continuing political uncertainty worldwide
- operational risks: loss of employees in critical positions, failures and disruptions in our information technology and operational systems
- Risks from Reporting / Finance: Incorrect or timely reporting due to qualitatively and quantitatively insufficient resources or fraudulent actions
- Compliance risk: Risk of non-compliance with all legal and regulatory requirements, legal disputes, unfavorable changes in corporate and tax regulations as well as possible implementation delays

In addition, we are exposed to the following main risks from our financial assets: credit risk, liquidity risk and market risk (including currency risk and interest rate risk). Therefore, we have implemented policies and procedures for measuring, managing, monitoring and reporting risks, which are regularly reviewed by our Board.

We have introduced a three-step model to monitor and control our risk:

- The first level of risk management is carried out by the company. The primary responsibility for strategy, performance and risk management lies with the Management Board and the subsidiaries. Subsidiaries must comply with the regularly updated guidelines for operational management and a regularly updated risk management policy.

- The second level of risk management is risk monitoring. This is done at the level of the Subsidiaries and their Compliance Officers, Tax and Legal Advisers and the Relationship Managers to ensure that the compliance procedures and policies are adhered to in terms of customer and business acceptance in accordance with a defined risk profile.
- The third level of risk management involves ensuring the effectiveness of internal controls and the overall governance of our group through our internal audit function. The goal is for our internal audit department to visit all subsidiary units at least once every three years. Our internal audit reviews each operation primarily on the quality of business processes, finance, compliance, IT, human resources and governance with a focus on improving processes and controls.

The periodic reporting in relation to the four risk categories is made on the following points:
- reporting on predefined key risk indicators;
- incident reporting; and
- Reporting on regular risk self-assessments that are being introduced and will be conducted annually in the future.

The three classes of risks:
In addition to the risks presented in connection with our business activities and those of our subsidiaries, capsensixx is subject to the following risks:

Credit risk is the risk that a counterparty will fail to meet its obligations under a financial instrument or a customer contract, resulting in a financial loss. Credit risks mainly consist of trade receivables and bank balances. Customer credit risk is very limited as our clients are either segregated funds or segregated accounts. Customer credit risk is managed by each of our companies in accordance with our clients' credit risk management policies, procedures and controls. Outstanding customer claims are constantly monitored and tracked. We take precautions when there are objective indications that we can not collect the debt (for example, if there are indications that the debtor is experiencing significant financial difficulties or insolvency, bankruptcy risk, problems in contacting customers, disputes with a client, etc.). The analysis will be performed on a case by case basis in accordance with the guidelines. We write off bad debts as soon as identified.

The cash and cash equivalents we hold are mainly held by banks that are managed by Standard & Poor's Rating Services or Fitch Ratings Ltd. be rated "BBB" or higher.

Long-term receivables amounted to T € 394 on the reporting date of December 31, 2018 (previous year: T € 562). These essentially consisted of receivables from related companies in the amount of T € 384.

Liquidity risk includes the risk of shortage of funds and the risk that we will have difficulty in meeting our obligations in relation to our financial liabilities.

We monitor our cash shortage risk through recurring cash flow planning: Global cash flow forecasts for the next 12 months, each in December.

The bank balance as at 31 December 2018 was € 11.23 million (previous year: € 4.96 million).

Our subsidiaries prepare their own cash flow forecasts and are consolidated by our Management Board. Our Management Board oversees the rolling projections of our liquidity requirements and our actual cash position to ensure that we have sufficient cash to meet operational needs, while leaving enough space for our committed credit lines to ensure that we do not exceed credit lines or alliances.

We hold the amounts required for working capital management, and our board of directors determines the best use of excess cash (repayment of loans, deposits, etc.).

Market risk (including currency risk and interest rate risk) is the risk that changes in market prices, such as Exchange rates and interest rates, our income or the value of our holdings of financial instruments. The goal of market risk management is to manage and manage market risk exposures within acceptable parameters while optimizing returns.

The currency risk mainly relates to our business activities (when income or expenses are denominated in a currency other than our functional currency). Our exposure mainly affects US Dollars (USD) and, in insignificant amounts, also Canadian Dollar (CAD) and Swiss Franc (CHF).

During the reporting period, foreign currencies denominated in USD amounting to € 28 thousand, which are attributable to receivables from bank balances. Significant risks do not arise due to the amount.

Summary of the risks for the reporting period

The business development of capsensixx AG is also influenced by risks. This is shown above. Through our systems and extensive reporting, we ensure the identification, assessment, control and monitoring of our risks of ongoing and future development. The information provided ensures timely initiation and prioritization of risk management measures. capsensixx complied in 2018 within its economic risk-bearing capacity limits. There were no risks that could threaten the continued existence of the company and, taking into account our forecasted business development, are also not given. Even with possible disruptions, a ongoing business is ensured. Our risk monitoring and control systems and the consistent alignment of our business model with our risk-bearing capacity enable us to ensure that the risks taken in our business activities are backed by appropriate risk capital. The effectiveness of our risk management is regularly reviewed by external auditors and internal auditors. The risk management and controlling system is constantly being developed, especially with regard to the development of the volume and the complexity of our business.

The risks presented were classified as "not significant" during the reporting period.

Transactions with related parties

capsensixx AG maintains business relations with related companies and persons. As part of these business relationships with these companies and individuals, we often offer and procure the same services that are also provided to customers in general. In our opinion, we conduct all business with these companies and persons under customary conditions. No transactions occurred outside market-standard or at-arms-lengths principles.

Declaration on the dependency report in accordance with § 312 (1) AktG for the financial year 2018

Final declaration of the Management Board
Pursuant to §312 (3) AktG, we as the Management Board of Capsensixx AG declare that the Company has complied with the legal transactions and measures taken or omitted in the report on relationships with affiliated companies

according to the circumstances known to us at the time the transaction or the measure was taken or omitted, was given a fair consideration in each transaction and was not penalized by the fact that the measure was taken or omitted.

Our shares

The capsensixx shares were initially quoted on June 21, 2018 at the Frankfurt Stock Exchange with an initial offering price of € 16.00. The market capitalization of capsensixx was € 54.88 million. Market capitalization is calculated as the total number of shares outstanding (€ 3.430 million) multiplied by the stated share price (€ 16.00). PEH Wertpapier AG is the majority shareholder and holds around 77.64%, while the free-float with greenshoe amounts 22.36%.

The German and international stock exchanges showed significant fluctuations in 2018. Due to the US-China trade dispute, Brexit uncertainties or the budget dispute between the European Commission and the Italian government, investors were insecure. The leading German DAX index, which comprises the 30 largest listed German companies, came under considerable pressure; for the year he posted a minus of approx. 18 percent. The technology index TecDAX was also characterized by strong price fluctuations, but only lost around the year. 3 percent, compared to the MDAX and SDAX, which lost approx. 18 percent and approx. 20 percent.

Despite the challenging stock market environment, capsensixx AG listed its shares with the Frankfurt Stock Exchange. Since 21 June 2018, the day of the first listing, the share of the leading provider of Financial Administration as a Service has been listed in the Prime Standard - the quality segment with the highest transparency requirements of the Frankfurt Stock Exchange.

The first price was € 16.00 and thus at the issue price. As a result of the IPO, the share capital of the company increased by € 330,000 from € 3,100,000 to € 3,430,000. PEH Wertpapier AG, formerly the sole shareholder, issued a total of 437,000 shares as part of the IPO, of which 30,000 shares were placed under a greenshoe option. Even after the successful IPO, PEH Wertpapier AG remains the majority shareholder of capsensixx AG with around 77.64 percent. The free float is 22.36 percent. The IPO generated gross proceeds of € 5.3 million. The listing was an important milestone for capsensixx AG and helped to further expand its position as a leading provider of "Financial Administration as a Service" and to enable investments to drive digitization of financial processes.

Despite a positive business development, the capsensixx AG share suffered significant losses over the course of the year. Especially shares from the tech sector consolidated very strongly in the second half of 2018. capsensixx was unable to avoid. The shares traded about 32 percent lower at the end of 2018 with a Xetra closing price of € 10.80 , which was also the lowest Xetra closing price in 2018. After the end of the reporting period, the share price has already recovered a bit.

During the reporting period, capsensixx AG was covered by montega - Equity Research. In an update from November 2018, the stock is recommended for purchase with a price target of € 18.00.

On average, on every German stock exchange, approx. 2,500 shares of capsensixx AG traded. The electronic trading system Xetra of the Frankfurt Stock Exchange accounted for just under 1,500 shares accounting for approx. 60 percent of the total turnover of the daily traded capsensixx shares.

Overview/Information on capsensixx shares

ISIN / WKN	DE000A2G9M17 / A2G9M1
Ticker symbol	CPX
Type of shares	3,430,000 no-par-value bearer shares
Market capitalization	as of 31.12.2018 approx. € 37 million
High / low on Xetra	€ 15.95 on 21.06.2018 / € 10.80 on 28.12.2018
Share capital	€ 3,430,000
First day of trading	21.06.2018
Trading segment	Prime Standard of the Frankfurt Stock Exchange
Designated Sponsor	ICF BANK AG

Events of the Annual General Meeting 2018

At the 2018 Annual General Meeting on May 28, 2018, the members of the Management Board and the Supervisory Board were granted discharge for the shortened financial year 2017. To the members of the Supervisory Board for the period up to the Annual General Meeting deciding on the discharge for the financial year 2022 were elected Mr. Martin Stürner, Mr. Rudolf Locker and Mr. Gregor Langer.

At the 2018 Annual General Meeting, Baker Tilly GmbH & Co. KG, Wirtschaftsprüfungsgesellschaft, was elected as auditor for the 2018 financial year.

The resolutions were unanimous.

Board members (Management Board)

Sven-Uwe Ulbrich,
born on February 13, 1973 in Munich, is our Chief Executive Officer (CEO) and Chairman of the Management Board.

Sven is one of the founders of Oaklet GmbH, which was founded in 2006. He began his career in 1999 in the Compliance and Operations department of Hornblower Fischer AG. During 2000, Sven became a EUREX licensed trader, EUREX Supervisor, and held several series audits with the Securities and Exchange Commission (SEC) and the United States Commodity Futures Trading Commission (CFTC). Until 2002, he led the financial futures business of Hornblower Fischer AG in Germany before founding his own asset management company in Frankfurt with some partners - KMS Asset Management AG.

Sven was responsible for a structured products team, mainly equity derivatives from leading investment banks. In 2005, he designed the first bank-independent securitization transaction in Luxembourg under the 2004 Luxembourg Securitization Law. PEH Wertpapier AG acquired a majority stake in Oaklet GmbH in 2007 and Sven became a member of PEH Wertpapier AG's Management Board in 2011 and was appointed CEO of capsensixx The contract was transferred from PEH Wertpapier AG to capsensixx AG with effect from 21 June 2018 (date of first listing on the Frankfurt Stock Exchange).

Fabian Art-Ihno Föhre,
born January 22, 1974 in Las Palmas, Gran Canaria (Spain), is our Chief Financial Officer (CFO) and a member of the Management Board.

After completing his studies in Japan, Fabian joined the operations of Hornblower Fischer AG in 1999. In 2000, he joined Equinet Securities

AG as a trader assistant and later became an exchange trader at XETRA and Floor-Trader. From 2004, he worked for KMS Asset Management AG in the structuring team of Sven's unit. Together with Sven and the other founding partners of Oaklet GmbH, Fabian became one of the managing directors of Oaklet GmbH in 2006 and today is a member of the board of directors of Oaklet S.A.
Fabian was appointed CFO of capsensixx AG with effect from 21 June 2018 (date of first listing on the Frankfurt Stock Exchange).

Board members (Supervisory Board)

Martin Stürner began his career in the financial sector back in 1981 when he joined Münchinger Bank eG. In 1984 he became branch manager in Münchingen and in 1985 asset manager at Commerzbank (Munich). From 1987 until the end of 1989, he was a team leader at Bayerische Hypotheken- und Wechselbank AG, before joining M.M. Warburg & CO in Hamburg as fund manager and asset manager. In 1995 he joined PEH Wertpapier AG and became one of its shareholders.

Today he is the largest single investor of PEH Wertpapier AG and its CEO.

Rudolf Locker completed his studies in economics in Mainz in 1973. In 1974 he was admitted to Arthur Anderson as an accountant and in 1976 passed his tax consultant exam. Between 1976 and 1995 he set up his own tax consulting and accounting firm. In 1989, he was one of the founding members of the btu consultancy partner auditing firm in Oberursel and has transferred his business in kind. In 1993 he was one of the founding partners of FiRe GmbH, which went public in 1999 and is today known as Amadeus FiRe AG.

Today, Rudolf Locker is one of the major shareholders of PEH Wertpapier AG and Chairman of the Supervisory Board of PEH Wertpapier AG.

Rudolf Locker has acquired 82,000 shares of capsensixx AG and thus holds 2.39% of the share capital of capsensixx.

Gregor Langer completed his business studies in Brussels before working in various administrative and organizational positions for the Intercontinental Hotel Group. In 1989 he moved to Atlantic International Leasing GmbH - specialist for IT leasing as Financial Officer. He recognized the opportunities of such leasing and financial solutions and became an entrepreneur. He founded several leasing companies and built them up through buy & build into the AML Leasing Group, which he sold in 2007. Today, Gregor Langer acts as a private investor and so-called 'Business Angel'. Gregor Langer is a member of the Supervisory Board of PEH Wertpapier AG.

Gregor Langer has acquired 25,000 shares in capsensixx AG and thus holds about 0.73% of the share capital of capsensixx.

Compensation of the Supervisory Board and the Management Board

Each member of the Supervisory Board is entitled to € 10,000 p.a. according to the articles of association of capsensixx AG. The Chairman of the Supervisory Board receives € 20,000 p.a. The Deputy Chairman of the Supervisory Board receives € 15,000 p.a. There are no claims for the year 2018. The claim arises for the first time for the fiscal year 2019.

The expense allowances paid to the members of the Supervisory Board amounted to T € 0 in the fiscal year including VAT. The Supervisory Board waived its remuneration of T € 45.

The members of the Supervisory Board do not receive any performance-related compensation, as the company's Articles of Association are intended for a fixed remuneration only and, in addition, the absence of performance-related compensation components ensures that all decisions of the Supervisory Board are taken without taking into account any personal advantages through increased Supervisory Board remuneration.

The amount and structure of the remuneration of the Management Board is determined by the Supervisory Board. The aim of the compensation system of capsensixx AG is to provide an appropriate remuneration taking into account the personal performance of each member of the Management Board as well as the economic situation and the success of the company. In addition, the remuneration is based on industry and national standards.

The Law on the Appropriateness of Management Board Remuneration (VorstAG) came into force on 5 August 2009 and applies to all new contracts concluded after that date.

The annual remuneration of the members of the Executive Board is based on their contribution to the company's success and consists of two components: a non-performance-related remuneration and a performance-related one. The amount of the fixed salary depends on the assigned function and responsibility, the length of service with the Management Board as well as the industry and market conditions.

The employment contract of Mr Föhre was closed in 2018 until 21 November 2022. The employment contract of Mr. Ulbrich was also extended until 21.11.2022 in the context of the new contracts.

In addition to a fixed basic salary (Mr. Föhre receives € 160 thousand and Mr. Ulbrich € 240 per year), the Company pays both members of the Management Board a performance-related variable compensation (bonus). The aim of the bonus agreement is a sustainable net income. The bonus payment is made up of two components: (i) the "Income Bonus" component, which is based exclusively on the Company's net income; and (ii) the "Performance Bonus" component, which aims to achieve the medium and long term qualitative objectives of the Company Society, such as innovation, sustainability, diversity and social responsibility. The "Income Bonus" component is limited to 100% of the fixed basic salary and takes into account a corresponding minimum target achievement in order to take account of the interests of capsensixx shareholders. The "Performance Bonus" component can be up to three times the fixed base salary per year.

The bonus agreement includes an obligation to acquire capsensixx shares for a minimum holding period of 4 years. The beneficiary of the annual bonus payment is required to spend 40% of the portion of the annual bonus payment exceeding the amount of the basic fixed salary for the acquisition of capsensixx shares.

There are no provisions for severance pay in the event of early dismissal or retirement benefits for members of the Management Board. Share-based compensation or stock option plans do not exist.

Mr Föhre receives a compensation from Oaklet GmbH, which is offset against the base salary at capsensixx. Annual bonus payments to Mr. Föhre are subject to approval by the Supervisory Board of capsensixx AG.

Mr. Ulbrich continues to be active on the Management Board of PEH Wertpapier AG, but has received his compensation (fixed base salary + annual bonus, with the exception of the annual bonus for 2018) since 1.6.2018 exclusively from capsensixx AG. Capsensixx AG calculates T € 20 (+ VAT) per annum for the corresponding offsetting of the services rendered to PEH Wertpapier AG.

In the financial year, non-performance-related remuneration of € 12 thousand (+ €) thousand (previous year € 0 thousand) was paid to Mr. Fabian Föhre and € 142 thousand (previous year € 0 thousand) to Mr. Sven Ulbrich for non-performance-related remuneration. On the level of capsensixx AG are no income related bonusses for neither Mr Föhre nor Mr Ulbrich in 2018.

Relevant information on takeover

The company has issued only one class of shares. The subscribed capital amounts to € 3,430,000. It is divided into 3,430,000 bearer shares (no-par value shares).

All shares grant the same rights.

There are no shares with special rights.

There are no shares that have voting rights controls or that do not directly exercise their control rights.

There are no restrictions affecting voting rights or transfers of shares.

On the balance sheet date, capsensixx AG did not hold any of its own shares.

PEH Wertpapier AG directly holds 77.64% of the shares. The Company has no knowledge of other shareholders holding more than 3% of the voting rights.

The appointment and dismissal of the members of the Management Board takes place in accordance with the Articles of Association by the Supervisory Board. The board consists of one or more persons. Otherwise, the Supervisory Board determines the number of members of the Management Board. The Supervisory Board may appoint a Chairman of the Management Board and a Deputy Chairman of the Management Board. Deputy board members can be appointed. If only one board member is appointed, it represents the company alone. If the Management Board consists of several persons, two members of the Management Board each represent the company or a member of the Management Board together with an authorized officer. The Supervisory Board may determine whether individual members of the Management Board are authorized to represent the company and / or conduct legal transactions with them as representatives of a third party (exemption from the prohibition of multiple representation of § 181 BGB). By unanimous decision, the Board of Directors adopts rules of procedure which regulate the distribution of business among the members of the Management Board as well as the details of the decision of the Management Board. Rules of procedure of the Management Board require the approval of the Supervisory Board.

To make amendments to the Articles of Association, a resolution of the Annual General Meeting is required. Unless the law requires otherwise, the simple majority of the votes cast in accordance with § 17 (2) sentence 1 of the Articles of Association of the Company is sufficient. Furthermore, pursuant to Section 17 (2) sentence 2 of the Articles of Association, in cases where the law requires a majority of the share capital represented at the passing of the resolution, the simple majority of the represented share capital shall suffice, unless required by the law by a larger majority is prescribed.

In accordance with the Articles of Association, the Management Board, with the approval of the Supervisory Board, authorizes the share capital to be increased once or several times up to a total of € 1,220,000 by issuing new bearer shares (shares without nominal value) in return for cash and / or non-cash contributions until March 20, 2023.

Significant agreements that are subject to a change of control as a result of a takeover bid have not been made.

Compensation agreements that are made in the event of a takeover bid with the members of the Management Board or employees do not exist.

Forward looking Statements

This interim report contains forward-looking statements. A forward-looking statement is any statement that does not relate to historical facts or events or to facts or events as of the date of this interim report. This applies, in particular, to statements in this interim report containing information on our future earnings capacity, plans and expectations regarding our business growth and profitability, and the general economic conditions to which we are exposed. Expressions such as "plan", "predict", "project", "forecast", "target", "expect", "foresee", "will", "intend", "estimate", "assume", "anticipate", "goal", "potential" or "aim" may be an indication of forward-looking statements.

The forward-looking statements in this interim report are subject to risks and uncertainties, as they relate to future events, and are based on estimates and assessments made to the best of the Issuer's present knowledge. These forward-looking statements are based on assumptions, uncertainties and other factors, the occurrence or non¬occurrence of which could cause the Issuer's actual results, including the financial condition and profitability of our Group, to differ materially from or fail to meet the expectations expressed or implied in the forward¬ looking statements. These expressions can be found in several sections in this interim report, and wherever information is contained in this interim report regarding our intentions, beliefs, or current expectations relating to its future financial condition and results of operations, plans, liquidity, business outlook, growth, strategy and profitability, investments and capital expenditure requirements, expectations as to future growth in demand for our products and services as well as the economic and regulatory environment to which we are subject.

In light of these uncertainties and assumptions, it is also possible that the future events mentioned in this interim report will not occur. In addition, the forward-looking estimates and forecasts reproduced in this interim report from third-party reports could prove to be inaccurate. Actual results, performance or events may differ materially from those in such statements due to, among other reasons:

- changes in general economic conditions in the markets in which we operate, including changes in the unemployment rate, the level of consumer prices, wage levels etc.;
- the further development in the markets in which we are operating our business;
- our ability to manage growth;
- changes affecting interest rate levels;
- changes in the competitive environment and in the competition level;
- changes affecting currency exchange rates;
- inability to attract and retain qualified personnel;
- changes to the regulatory environment that may affect our and our client's business;
- changes in taxation.

Moreover, it should be noted that all forward looking statements only speak as of the date of this interim report and that neither the Issuer nor the Underwriter assumes any obligation, except as required by law, to update any forward-looking statement or to conform any such statement to actual events or developments.

Declaration on corporate governance (§ 289f HGB)

The declaration was completely submitted by capsensixx AG and made publicly accessible on the company's website (https://capsensixx.de/11-ir.html).

Imprint

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Disclaimer regarding forward-looking statements

This report contains forward-looking statements. Forward-looking statements are statements that are not historical facts; they include statements about our beliefs and expectations and the assumptions underlying them. These statements are based on plans, estimates and projections as they are currently available to the management of capsensixx. Forward-looking statements therefore speak only as of the date they are made, and we undertake no obligation to update publicly any of them in light of new information or future events. By their very nature, forward-looking statements involve risks and uncertainties.

A number of important factors could therefore cause actual results to differ materially from those contained in any forward-looking statement. Such factors include the conditions in the financial markets in Germany, in Europe, in the United States and elsewhere from which we derive a substantial portion of our revenues and in which we hold a substantial portion of our assets, the development of asset prices and market volatility, the implementation of our strategic initiatives, the reliability of our risk management policies, procedures and methods, and other risks as described in this report.