Annual Report 2018

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Consolidated Key Figures

		2018	2017	2016	2015
Incoming orders	(EUR million)	88.1	78.0	82.5	87.0
Revenue	(EUR million)	83.9	78.7	80.4	82.3
EBIT (operating)	(EUR million)	3.5	1.1	6.7	7.1
EBITDA (IFRS)	(EUR million)	9.0	6.8	12.3	10.8
EBIT (IFRS)	(EUR million)	4.1	2.3	7.2	5.5
Consolidated profit (IFRS)	(EUR million)	3.3	0.7	5.7	4.5
Earnings per share (IFRS)	(EUR)	0.38	0.10	0.82	0.65
Non-current assets	(EUR million)	63.0	45.9	48.9	47.1
Current assets	(EUR million)	36.8	34.8	34.0	35.4
Equity	(EUR million)	68.4	52.3	47.6	42.3
Equity ratio		68.5 %	65 %	57 %	51 %
Cash and cash equivalents	(EUR million)	9.7	10.3	10.9	9.2
Number of employees (annual average)		404	415	430	429

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DEAR SHAREHOLDERS, EMPLOYEES, PARTNERS AND FRIENDS OF SOFTING,

Both our incoming orders (EUR 88.1 million/previous year: EUR 78.0 million) and revenue (EUR 83.9 million/previous year: EUR 78.7 million) reached new record levels in the past year, thus completing a strong year-on-year turnaround. The almost 7% growth in revenue resulted in the highest revenue ever recorded in Softing's history. The operating results – EBITDA of EUR 9.0 million (previous year: EUR 6.8 million) and EBIT of EUR 4.1 million (previous year: EUR 2.3 million) – showed that profitability also increased significantly despite a one-time charge of EUR 1.0 million relating to the start-up costs of GlobalmatiX. This resulted in consolidated profit of EUR 3.3 million (previous year: EUR 0.7 million). Due to further major investments in new business in the current year, the Executive Board will propose a moderate dividend of EUR 0.13 to the General Shareholders' Meeting, which is in line with the previous year's dividend.

The Industrial segment, which contributes the most revenue and earnings to the Group, increased its revenue by 3.6% to EUR 52.8 million (previous year: EUR 50.9 million). The fastest-growing IT Networks segment posted excellent revenue growth of 24.4% to EUR 12.9 million (previous year: EUR 10.4 million). The Automotive segment recorded revenue growth of 4.6% or EUR 0.8 million to EUR 18.2 million excluding the start-up costs of GlobalmatiX, reaching EBIT break-even after significant losses in recent years.

In the Industrial segment, Softing benefited from a considerable rise in demand for process automation in 2018. For the current year, we have already received additional development and product orders in the seven-digit range that are scheduled for delivery in the second half of 2019. The factory automation business, which includes the Internet of Things (IoT), gateways, OPC servers and middleware, was similarly successful. This business provides our customers with access to all leading manufacturers' production control data, which is essential for connecting to the cloud. We expect this business to double in the next two years. Our US subsidiary Online Development Inc. (OLDI) successfully processed a major product development order. There are already binding orders for the soon-to-be-launched product. With its focus on "Security, Safety and Computing ", OLDI has earned an outstanding reputation in the North American market. The performance of our US distribution subsidiary Softing Inc. was also outstanding in 2018.

The IT Networks segment posted excellent growth of around 24%. We have primarily focused on expanding the business with our own products. Softing pursues an aggressive growth strategy in this area that has enabled it to gain significant market share. The rapidly growing range of Softing measuring devices for testing data transfer in copper, glass fiber and WiFi networks will generate higher service revenue during the current year. Two of the measuring devices with distinctive unique selling points that we developed in 2018 are being delivered for the first time in the coming weeks, with additional devices to follow in the second half of the year. Although this will impact costs in 2019, it will provide a lasting boost to revenue and, above all, earnings, from 2020 at the latest. From 2020 onwards, more than 70% of all IT Networks revenue will come from devices developed in-house and from production.

Acquired in 2018, GlobalmatiX AG is at the heart of our portfolio for over-the-air connectivity in the Automotive segment. In addition to a series of fleet tests, hardware installed in vehicles was successfully certified by a major automaker at the end of 2018 after several months of data security tests. The hardware was recognized as "the most penetration-proof solution on the market". Based on positive feedback from the North American market, we established GlobalmatiX Inc. in the USA at the end of 2018. After successfully releasing this vehicle-integrated hardware, we are expecting the volume business to ramp up in the first half of the year. When it comes to Softing Automotive's traditional products, we completed the core development of our new vehicle interfaces in 2018 and have already received our first orders from a premium German manufacturer. In 2018, our Diagnostic Tool Set (DTS) software, which is established with many suppliers and vehicle manufacturers, was updated with a new version and significantly expanded with new over-the-air functions. The entire product family has been completely migrated to a licensing model with annual fees. We expect our major customers to transition to the new version this year. The subsidiary founded in China in 2018 serves as a sales channel in Asia's largest vehicle market. It generated almost EUR 1 million in orders in its first year alone. We are expecting the Shanghai-based subsidiary's revenue to almost double by 2020.

With the developments and events outlined above, we have created the conditions to continue our growth in all three segments in 2019. As a result, we are aiming to increase revenue significantly and raise earnings slightly. Lower year-on-year capitalization of development costs will make a lower contribution to earnings. Similarly, further expansion of GlobalmatiX in Europe and North America may still have an adverse impact on earnings in 2019 despite expected revenue in the seven-digit range.

Encouragingly, we are currently handling more orders than ever in the new year. However, we are concerned about growth forecasts in Germany and abroad, which are repeatedly being revised downwards. Although these predictions have not yet become noticeable, there is a risk that this will be the case later in the year. Taking all effects into account, we are thus expecting annual revenue of more than EUR 88 million and earnings (EBIT) of more than EUR 4 million in 2019. Both of these targets could be exceeded in the event of positive economic development. Despite the cautious EBIT estimate for 2019, our aim of steadily driving profitability towards a double-digit EBIT margin in the coming years remains unchanged. Based on the production deadlines currently set and the typical seasonality of the IT Networks business, the vast majority of revenue and EBIT will once again be generated in the second half of the year in 2019. As ever, we will provide further guidance on our targets from the middle of the year.

After our achievements in 2018, I hope that we will all be able to add another chapter to the Softing Group's success story this year. There is no doubt that the potential is there.

Sincerely yours,

Dr. Wolfgang Trier
(Chief Executive Officer)

Softing Shares

KEY DATA OF SOFTING SHARES

ISIN/WKN	DE0005178008/517800
Sector	Industrial
Subsector	Advanced Industrial Equipment
Ticker symbol	SYT
Bloomberg/Reuters	SYT GR/SYTG
Trading segment	Prime Standard, Official Trading, EU-regulated market
Stock exchanges	XETRA, Frankfurt, Stuttgart, Munich, Hamburg, Düsseldorf, Berlin-Bremen, Tradegate
Initial listing (IPO)	May 16, 2000
Indices	Prime All Share Performance Index
Share class	No-par bearer ordinary share with a notional value of EUR 1.00 per share
Share capital	EUR 9,105,381
Authorized Capital	EUR 4,552,690 until May 8, 2023
Contingent Capital	EUR 4,552,690 until May 8, 2023
Designated sponsors	ICF Bank AG Wertpapierhandelsbank M.M. Warburg & CO (AG & CO.) KGaA
Research coverage	Warburg Research

SHARE PERFORMANCE

The DAX was highly volatile over the past year, moving within a range of around 13,600 to 10,300 points. After ending 2017 at 12,918 points, the DAX reached a new all-time high of 13,597 points on January 23, 2018. Amid strong fluctuations, Germany's leading index lost around 18.3% during the year to close the period at 10,559 points. This negative performance was caused by escalating international trade conflicts, political and economic uncertainty in the European Union, particularly with regard to Brexit and Italy, and the expectation of rising interest rates on the capital markets, particularly in the USA.

Softing began the year at a share price of EUR 9.92, benefited from the traditional January rally and reached its annual high of EUR 11.15 on January 11. This was followed by a relatively volatile but generally downward trend until mid-July that ended at EUR 7.60 on July 17, before the share price rebounded, amid severely fluctuating prices, to a temporary high of EUR 10.15 by mid-September. The share price then plummeted until the end of October, reaching EUR 7.82 on October 26 and recovering briefly to EUR 8.72 on November 8 before erratically dropping to its annual low of EUR 6.02 on December 27. The closing share price for the year was EUR 6.50 on the following day, December 28. Ultimately, it has to be said with regret that the performance of the Softing share in 2018 again was below average.

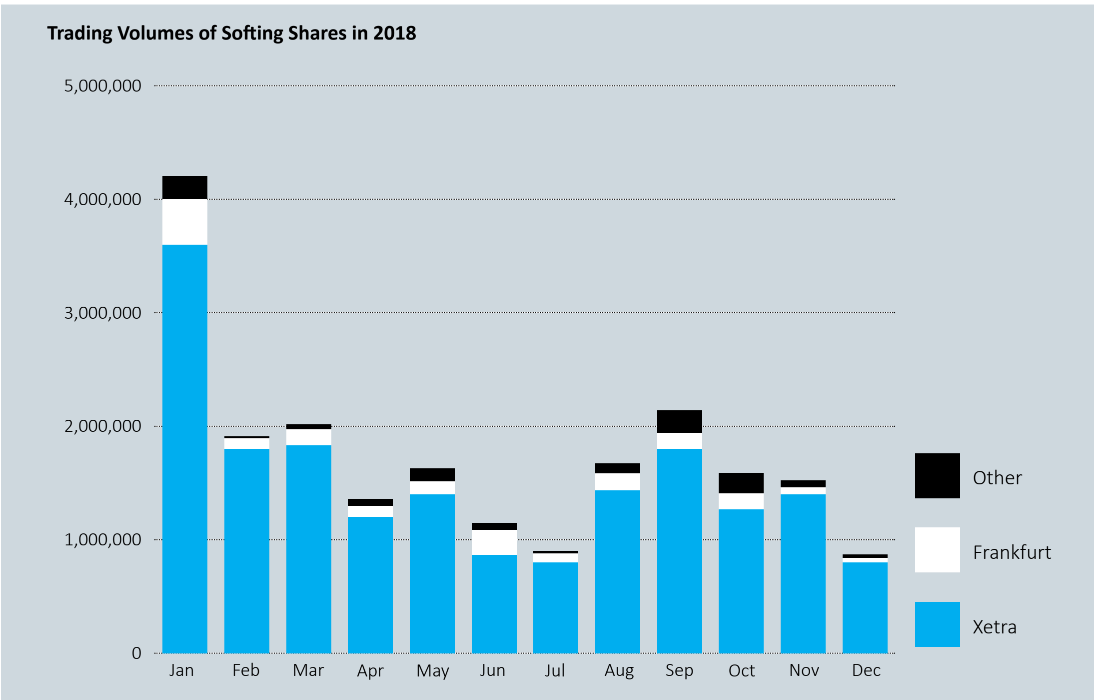
At the end of 2018, the market capitalization of Softing AG was EUR 59.2 million, again well below the previous year's figure of EUR 74.6 million. As a result of the capital increase implemented in March 2018, the share capital of Softing AG increased from EUR 7,655,381 to EUR 9,105,381 at the end of 2018, divided into the same number of no-par shares.

TRADING VOLUME

The average daily trading volume of Softing shares on XETRA and other stock exchanges more than halved compared to the previous year (21,393 shares) to 9,467 shares in 2018. In the reporting year, around 2.4 million shares were traded compared with 5.4 million shares in the previous year, although it is important to note that the previous year was dominated by a publicly placed capital increase with correspondingly high share turnover. The total trading volume (XETRA, Frankfurt and other stock exchanges) was around EUR 20.9 million (previous year: EUR 57.5 million). Softing supports the liquidity of its shares by using two designated sponsors, ICF Bank AG Wertpapierhandelsbank and M.M. Warburg & CO (AG & CO.) KGaA.

EARNINGS PER SHARE

Earnings per share (EPS) were EUR 0.35 in 2018, compared with EUR 0.10 in the previous year. Softing AG calculates earnings per share in accordance with IAS 33 on the basis of the average number of shares outstanding. It has to be noted in this context that the capital increase carried out in March 2018 once again resulted in a dilutive effect.



SHAREHOLDER STRUCTURE

As far as the Company knows, Helm Trust Company Limited, St. Helier, Jersey, UK, remains the single largest investor in Softing's 9,105,381 shares. As of the reporting date, Softing AG was not aware of any notifications stating that the shareholder's equity investment had exceeded or fallen below any thresholds compared with the reported share of 22.4% in the Company's share capital. The next largest position, at 15.9%, is held by Mr. Alois Widmann, the former owner of GlobalmatiX. In addition to these investors, there are a number of institutional investors and several private anchor investors. The remaining shares are in free float.

ANALYST RECOMMENDATIONS

Warburg Research has analyzed the Softing share regularly for years in research reports and last year published four studies and updates on the share. In all its analyses, the bank issued a "hold" recommendation, including in its most recent study published on February 4, 2019, in which it states a target price of EUR 9.70.

Information about analysts' reports on Softing shares is available at www.softing.com under Investor, News & Publications, Research. The Press & Interviews section contains information about the growth prospects of the Softing Group published in a variety of financial newspapers and magazines such as 4Investors, Anlegerbrief, Bernecker Tagesdienst, Börsengeflüster, Börse Online, Business Wire, Capital Depesche, computer-automation.de, Der Aktionär, Die Vorstandswoche, Effecten-Spiegel, Finanzen.net, Hot Stock Report, Nebenwerte-Journal, Nebenwerte Magazin, Platow Börse, Prior Börse, Value-Depesche, Wirtschaft Regional and others.

CAPITAL MARKET COMMUNICATIONS

Investor relations are a key concern of the Group. In 2018, the Investor Relations team helped to raise awareness of the Company and continually enhance its attractiveness on the capital markets by hosting various roadshows and numerous investor and analyst events. Softing also participated in selected investor conferences, such as the German Equity Forum held in Frankfurt am Main in November or the Munich Capital Market Conference (MKK). For 2019, we have set ourselves the goal of further increasing our presence and visibility in order to provide continuous support for existing and newly acquired investors.

The activities in financial communications were complemented by numerous meetings with institutional and private investors as well as representatives of the press. On the Company's website, investors can find relevant information on the Softing shares (Investor section) and about the Company.

Accepting and Bearing Responsibility – Corporate Social Responsibility at Softing

Maintaining and expanding our partnership with our customers and the technological leadership we have attained is our daily challenge. For Softing's customers, this leading position confirms that they have chosen the right partner for demanding solutions in the fields of industrial automation and automotive electronics. Solutions created by Softing employees with their expertise, creativity and dedication each and every day.

Our employees are our main assets. Making the effort to create an environment for our employees in which they enjoy their work and have social safeguards as well is a moral imperative, but it also makes business sense. Competitive salaries in combination with a high degree of job security provide the safety required by the families who stand behind our employees. For many years, Softing has almost exclusively offered permanent employment contracts. The only exceptions to this are fixed-term hires to cover maternity leave, for example. Technically and organizationally challenging tasks, relaxed interactions and fair treatment even in cases of conflict create a positive working atmosphere at Softing. In summary, this results in unusually low fluctuation and the continual growth of individual and collective knowledge. We actively shape such a Softing culture in all of our subsidiaries in Europe, North America and Asia as well.

Softing supports students by cooperating with universities to offer individual programs for the best students in each class and by providing a generous number of internships. All of the technical departments offer topics and jobs for bachelor's and master's theses in coordination with university institutes. A high double-digit number of students take advantage of this each year. For several of our employees, this was their route into Softing.

While Softing strictly rejects quota programs on all levels that are hectically driven by political motivation, we strive to attract more female employees by offering appealing jobs with as much flexibility as possible. In doing so, we do not apply a rigid scheme, but focus on the individual's situation. There is no question that we offer equal pay to men and women with the same experience for the same job without needing to be pressured by legislators. As a result of our company policy, the proportion of female employees at Softing has risen steadily in recent years.

Another cornerstone of our human resources policy is that we are not influenced by a person's age when hiring employees. All that matters are the skills they bring with them and, first and foremost, their degree of personal commitment. We regularly hire employees who are older than 50 or 55. Our company benefits greatly from their professional and life experience. We also succeed in retaining older employees in a way that is compatible with their respective phase of life.

Softing is a global company with headquarters in Haar. Every single day, we experience a closely networked world. Although a company of our size must focus its contributions primarily on its local environment, we take our global responsibility seriously as well. In all of our commitments, it is important to us to be very confident that our donations will be allocated effectively. For instance, we support the construction of wells in poor rural regions of India and over the years have donated high four- and sometimes five-digit amounts toward polio vaccination campaigns in the infection zones there. Locally, we have focused on the efforts by charitable organizations to collect additional private funding for the new Hauner Children's Hospital in Munich.

As a sustainable and healthy company, we have the financial freedom to share our success with the community in which we do business. And we take advantage of it.

Combined Management Report of Softing AG and the Group for the 2018 Financial Year

FUNDAMENTAL INFORMATION ABOUT THE GROUP

BUSINESS MODEL

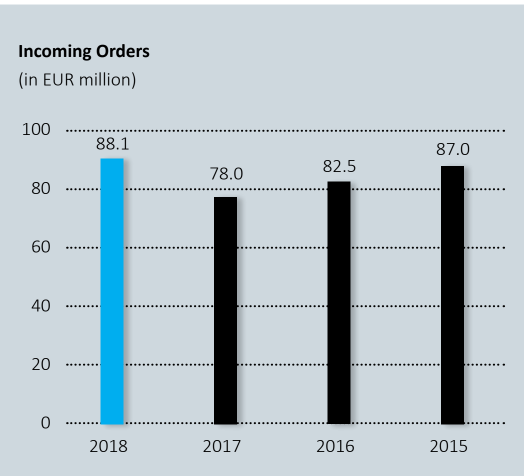
The Group's Business Model

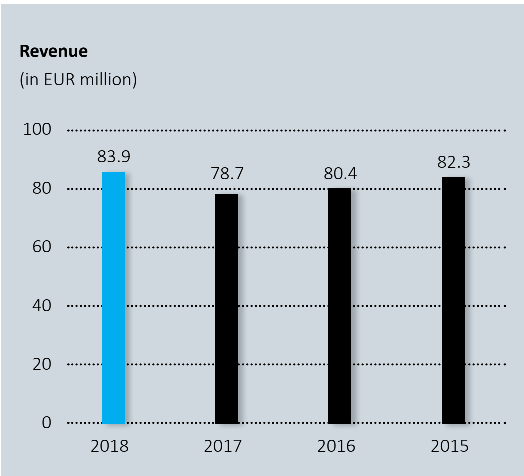
Softing is an established international software and systems house in three segments: Industrial, Automotive and IT Networks. The Company develops complex, high-quality software, hardware and complete system solutions. Hardware prototypes are developed by Softing itself; production takes place externally.

Through its Industrial segment, Softing is a leading provider worldwide of industrial communications solutions and products for the manufacturing and process industry. The products are tailored to the requirements of system and device manufacturers, machinery and plant engineers as well as end users, and they are known for being extremely user-friendly and offering functional advantages. It focuses on components and tools for fieldbus systems and industrial control systems, as well as on solutions for production automation.

Diagnostics, measurement and testing, the core topics covered by Softing's Automotive segment, represent key technologies in automotive electronics as well as such closely related areas in electronics as the commercial vehicle or agricultural machinery industry. The Company's range of products and services encompasses hardware and software, customized solutions as well as on-site consulting and engineering. Softing specializes in the entire life cycle of electronic control units and systems – from development to production all the way to services. Development work in Automotive is focused on standardization. Softing is an active member in the major standards bodies for automotive electronics such as ASAM and ISO. With the acquisition of GlobalmatiX AG in 2018, remote data transmission took on a new dimension for the Group.

The IT Networks segment is dedicated to testing, qualifying and certifying cabling in IT systems based on worldwide technological standards. Customers use IT Networks' measuring devices for copper and fiber optic networks to optimize their daily work processes and create security in data exchange.





Consulting, analyses, studies and training round out the range of services offered by all three operating segments. Softing primarily offers its services and products to the European and North American markets. But the Asian markets such as China, Japan and Korea are becoming more and more important.

Presentation of the Segments

Segmentation of the Softing Group is based on its internal reporting and organizational structure, taking into account the different risks and income structures of each individual division. Segmentation by divisions entails allocating Softing's activities to the Automotive, Industrial and IT Networks segments. Please see the section on segment reporting in the notes to the consolidated financial statements for further details as well as quantitative disclosures on the Softing Group's segments.

Softing AG

Softing AG is the Group's central management holding company.

Industrial Segment

Industrial Automation GmbH

Softing Industrial Automation GmbH is a leading provider worldwide of industrial communications solutions and products for the manufacturing and the process industry. The products are tailored to the requirements of system and device manufacturers, machinery and plant engineers or end users, and they are known for being user-friendly and offering functional advantages.

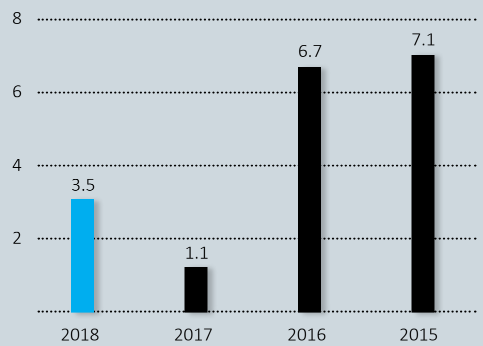
Softing Italia s.r.l.

Softing Italia is a subsidiary of Softing Industrial Automation GmbH. Softing Italia is based in Milan and serves customers in Italy locally. In 2018, this company once again made a positive contribution to the overall earnings of the Softing Group.

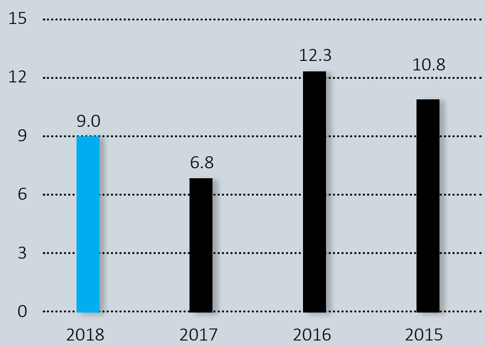
Online Development Inc. (OLDI) und Softing Inc.

Online Development Inc. (OLDI) and Softing Inc. (both domiciled in Knoxville, TN), and the sales office Softing Inc. (Newburyport, MA) are organizationally subsidiaries of Softing North America

EBIT (Operating)
(in EUR million)



EBITDA
(in EUR million)



Holding Inc. An Original Design Manufacturer (ODM) for almost 30 years, OLDI offers a portfolio of hardware and software products that supports a large number of industrial market segments. Major brand manufacturers use OLDI's wealth of expertise in industrial data processing and communication to enhance the market launch of both innovative and proven technologies. Serving the North American market, Softing Inc. handles project work with its internal resources while providing local support to product business. In 2018, the two American companies made a positive contribution overall to the success of the Softing Group.

Buxbaum Automation GmbH

The sales office Buxbaum Automation GmbH, Eisenstadt serves customers in Austria locally. The company again made a positive contribution to the overall earnings of the Softing Group in 2018 with it sales in the Industrial and IT Networks segments.

IT Networks Segment

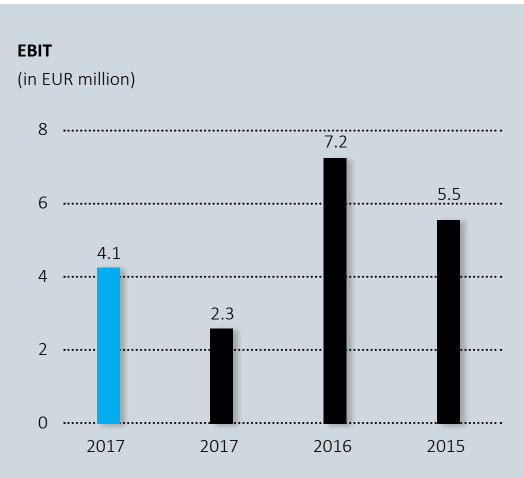
Softing IT Networks GmbH and Softing Singapore Pte. Ltd.

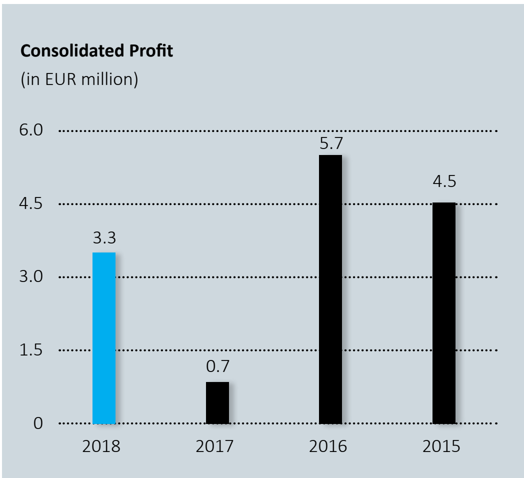
Softing IT Networks GmbH, domiciled in Haar, near Munich, Germany, provides IT network diagnostic equipment, which is used in industrial automation, office installations, and data centers. Softing Singapore, domiciled in Singapore, supplies test and measuring devices for copper and glass fiber data networks. This includes both the development and manufacture of ultra-high performance products in this field and accessories to support sales activities. Apart from sales and distribution, the company provides technical support and calibration services for the products offered. The two Softing IT Networks companies make a positive contribution to the Group's international success with a growing product portfolio that consists of both in-house and third-party products.

Automotive Segment

Softing Automotive Electronics GmbH

Softing Automotive Electronics GmbH, domiciled in Haar, Germany, offers products and services for diagnostics and test automation. The comprehensive process-based approach of the Softing solutions enhances quality and reliability in control unit communications. With over 80,000 installations, Softing holds a leading position in the growth market for diagnostic and test systems in the field of automotive electronics. Automobile manufacturers and system and control unit suppliers around the world rely on Softing's proven hardware and software tools and solutions. SMT (Softing Mess-Technik) also covers the entire field of mobile and stationary data logging systems.





Softing Engineering & Solutions GmbH

Softing Project Services GmbH was merged into Softing Messen & Testen GmbH effective August 1, 2018. At the same time, Softing Messen & Testen GmbH was renamed Softing Engineering & Solutions GmbH domiciled in Kirchentellinsfurt.

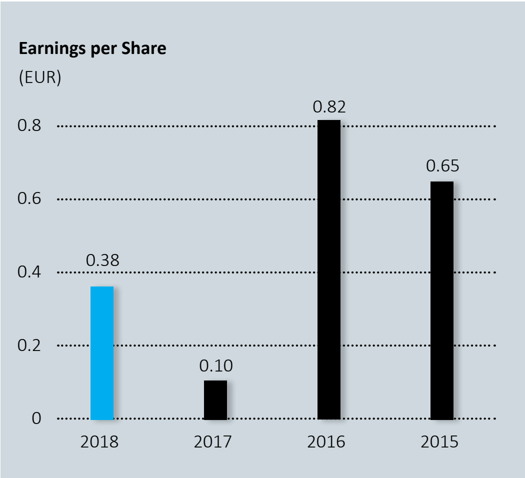
Softing Engineering & Solutions GmbH organizationally is a subsidiary of Softing Automotive Electronics GmbH. Softing has successfully engaged in the field of automotive test solutions for more than 20 years and offers extensive expert knowledge on every aspect of automated testing of automotive electronics. The Company has already implemented functional tests and test designs for many control units used in motor vehicles. To offer the best possible support, Softing Engineering & Solutions GmbH provides high-quality services directly on customers' premises. Competent consulting and engineering services focused on the Company's core competence – diagnostics, measurement and testing – are rendered to customers. Its well-trained staff in some cases work directly on site. Establishing close links between all important participants is a hallmark of the approach of Softing Engineering & Solutions GmbH and plays a decisive role in the success of its projects.

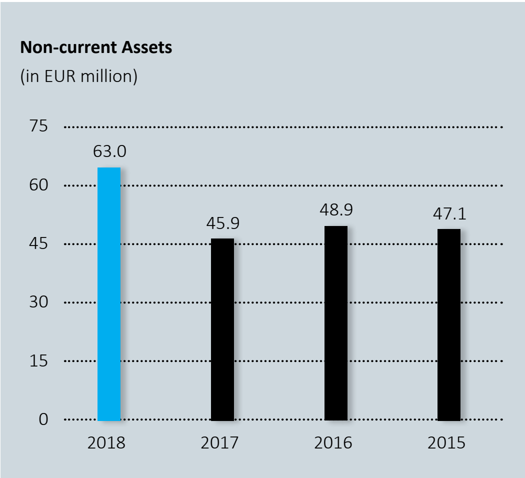
Softing Automotive Electronics (Kirchentellinsfurt) GmbH

Softing Automotive Electronics Services GmbH was renamed Softing Automotive Electronics (Kirchentellinsfurt) GmbH effective August 1, 2018. It functions as an internal development company in the Automotive segment.

GlobalmatiX AG and GlobalmatiX Inc.

On March 16, 2018, Softing AG acquired all of the interests in GlobalmatiX AG in Vaduz, Liechtenstein, through a contribution in kind. GlobalmatiX AG is a mobile virtual network operator (MVNO) offering mobile data communications for vehicles and machinery in Europe and North America where such technology is needed in the areas of (semi-)autonomous driving and other connected services for vehicles and machinery. This acquisition enables Softing to significantly extend its capabilities in the megatrends of digitalization and Industrie 4.0 and lays the foundation for new service-focused revenue. On October 30, 2018, Softing North America Holding Inc. founded GlobalmatiX Inc., Knoxville/USA. GlobalmatiX Inc. will take over marketing of GlobalmatiX AG products in North America.





Softing Services GmbH
Softing Services GmbH, domiciled in Haar, Germany, provides services for Softing AG's operating companies.

SoftingRom s.r.l.
The subsidiary SoftingROM s.r.l. (SoftingROM), which is domiciled in Cluj, Romania, is a subsidiary of Softing Services GmbH. SoftingROM forms an important pool of IT specialists for complex development tasks within the Softing Group and is a strategically important part of the Softing Group.

Softing S.A.R.L.
Softing S.A.R.L., domiciled in Paris, France, provides the legal and organizational framework for the sales and marketing activities of the Softing Group in France.

Softing Electronic Science & Technology (Shanghai) Co., Ltd.
On February 10, 2018, Softing Services GmbH signed an agreement with Beijing Windhill Technology Co., Ltd. on the sale of 50% of the shares in Shanghai Softing software Co., Ltd., Shanghai/China. At the same time, Softing Services GmbH and Beijing Windhill Technology Co., Ltd. entered into an agreement on a future joint venture concerning the marketing of Softing Group products in the Chinese market.

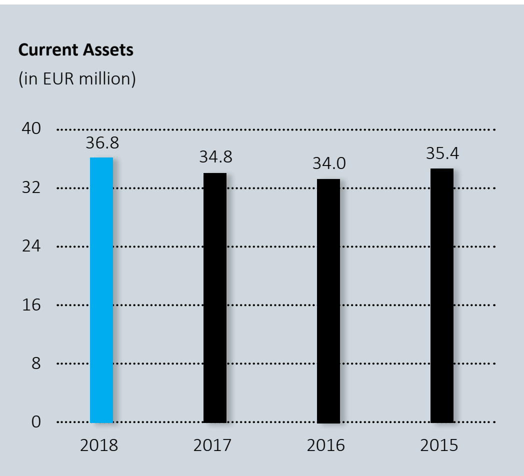
Softing North America Holding Inc., Delaware/USA
Softing North America Holding Inc. is the central holding company for the North American subsidiaries.

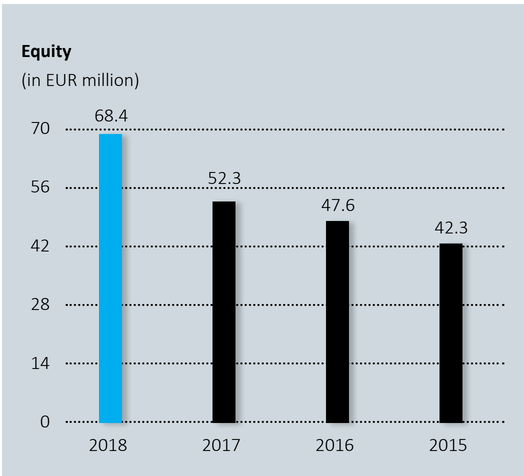
Business Model of Softing AG
Softing AG acts as a management holding company for the Softing Group. It generates revenue from invoicing for management services, legal assistance and quality management services provided to the subsidiaries. Beyond this, the business model is limited to the management of the equity investments.

These consolidated financial statements were prepared in accordance with Section 315e (1) German Commercial Code subject to application of the International Financial Reporting Standards (IFRS) as applicable within the European Union.

INTERNAL MANAGEMENT SYSTEM

The Softing Group uses key performance indicators (KPIs) to manage its business; these KPIs include consolidated revenue; earnings before interest and taxes (EBIT) and operating EBIT, which is derived from EBIT; EBIT adjusted for capitalized development services and their amortization as well as the effects of purchase price allocation. Working





capital is also managed via selected KPIs. Working capital mainly comprises inventories as well as trade receivables and trade payables.

Inventories are analyzed on an ongoing basis, and any need for writedowns is determined based on inventory coverage. Short-term sales forecasts are used to manage orders for new goods based on inventory availability. The aim is to have delivery capacity at all times so that our customers can also be supplied with products at short notice.

Trade receivables are periodically monitored based on their aging structure and tested for impairment. Customers are usually subject to internal credit limits. There is strict follow-up of past-due receivables.

Trade payables are mostly settled using available cash discounts.

On account of its business model, internal management at Softing AG is based mainly on the profits or losses under profit transfer agreements and dividends of Group companies. By managing the subsidiaries as explained above, Softing AG also manages the profits or losses under profit transfer agreements in the parent company itself.

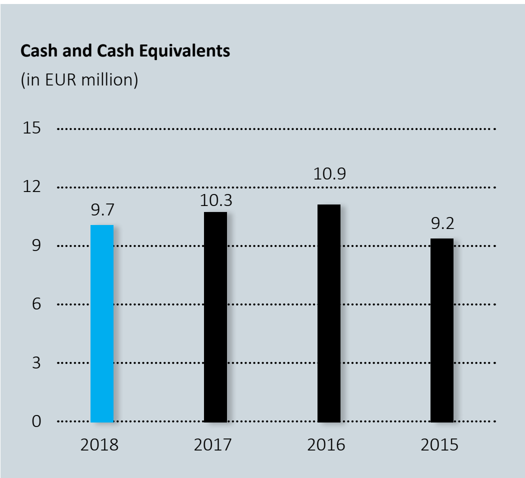
Research and Product Development

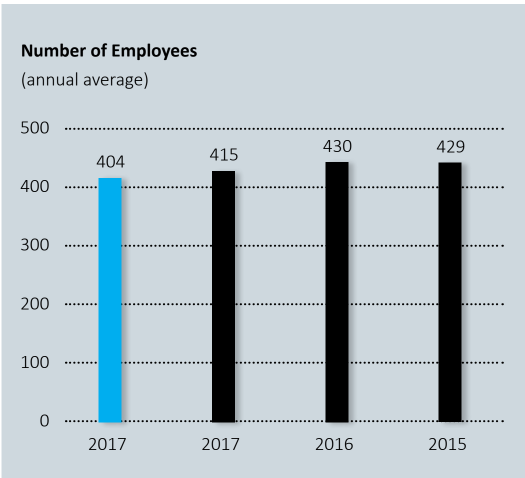
For years, the Softing Group has invested a large portion of the cash generated by its revenue in research and development. In total, Softing invested EUR 20.3 million (previous year: EUR 23.2 million) in the development of new products and the enhancement of existing ones in connection with customer projects. This corresponds to an investment ratio (ratio of development costs to revenue) of 24% (previous year: 29%).

In the past financial year, amortization of capitalized development costs amounted to EUR 2.1 million (previous year: EUR 2.1 million).

At year-end, 232 employees were engaged in research and development (previous year: 251). Softing AG itself is not engaged in any research and development activities. These take place exclusively at the operating entities.

In 2018, Softing Industrial Automation invested around EUR 5.9 million in the development of new products and the refinement of existing ones. Key developments in the reporting year are summarized below.





The Industrial Data Networks business unit expanded its gateways product portfolio to include 'entry-level' models for connection to PROFIBUS DP segments. This segment of the portfolio specifically addresses control and monitoring applications for high-volume production, and at the interface between continuous and discrete manufacturing. The feature set has been enhanced for the special process industry models of gateways for integrating PROFIBUS PA devices with traditional Modbus TCP or modern PROFINET architectures: these models now also support high-availability applications. This also once again extends the application scope for these products. The third generation of the embedded communication module for integrating fieldbus communication into process automation field devices has been rounded off by including bus-side support for PROFIBUS PA as well as a device-side Modbus interface. Following the OPC Foundation's certification of the uaToolkit Embedded, Softing is now the first provider in its immediate circle of competitors with this quality label. For 2019, four new gateway products are planned, as well as 16 version releases of existing products with significant feature set extensions. This will once again broaden the spectrum of supported application scenarios.

The Softing Industrial Data Intelligence business unit is expanding its portfolio in the field of edge gateways and infrastructure software for secure communication in Industrie 4.0. These new edge gateways offer a fast, low-cost alternative for connecting existing islands of production plant that have yet to be networked. Introduced in 2018, the Secure Integration Server (SIS) sits above this device layer, where thousands of devices are connected via OPC UA – even across facility boundaries. DataFEED SIS aggregates the data and uses configurable profiles to manage secure device access.

In 2018, the IT Networks business unit made regular additions to its product portfolio with products developed in-house. In the field of qualification testers, Softing IT Networks developed a world first in this segment – a series of models capable of up to 10 Gb/s.

Thanks to close collaboration with manufacturers of high-end cabling systems, the expansion of Category 8 measuring technology begun in 2017 was further accelerated in 2018, making a decisive contribution to the Group's excellent business performance with certifiers. The WireXpert certifier product portfolio has been expanded to include a specialized model plus new accessories for measurements on industrial cabling. Also in 2018, an innovative cloud solution was developed that enables WireXpert instruments to connect to an enterprise cloud directly at the customer. Softing's internally developed WaveXpert series is being positioned as a world first in the Wi-Fi segment, offering Wi-Fi network packet analysis at up to 4x 1.7 Gb/s.

Softing Automotive Electronics GmbH has pursued the development of its products and solutions for diagnosis and testing with key international customers. In the portfolio category of 'Applications', development continued on the eighth generation of the successful Diagnostic Tool Set (DTS) product family. In parallel, considerable progress was made with the market launch of the new, ninth-generation DTS. Improvements were also made to the Softing TDX machine shop system, which proved very popular with new customers. The CAR ASYST and CA ANALYTICS software packages were further developed as mobile expert tools for the machine shop environment and prepared for deployment in other application fields. In the 'Middleware' category, the Softing MVCI Server (COS) product family was expanded and modified in line with the current international standard. Softing's Vehicle Communication Framework (VCF) was developed further in parallel to the VIN|ING family. Further development and/or completion of the VIN|ING family was also a key focus of work in the 'Embedded Solutions' category. While devices in the VIN|ING 3000/6000 series were being prepared for market launch, the VIN|ING 2000 was already being shipped out to its first customers.

The year 2018 was dominated by preparations for the market entry of GlobalmatiX with a unique telematics portfolio for major customers with mixed fleets of the kind operated by vehicle makers, for example. Our service is both innovative and disruptive – not only supplying conventional telematics (GIS data, driving profiles) but also CAN diagnostic data for mixed-model fleets of any brand. Our disruptive solution is the first to enable the comprehensive use of telematics for the entire fleet.

REPORT ON ECONOMIC POSITION

MACROECONOMIC AND SECTOR-SPECIFIC ENVIRONMENT

Global Economic Downturn in 2018

According to the Institute for the Global Economy (IfW) in Kiel, Germany, the global economy lost steam in 2018. The economic climate clouded considerably nearly everywhere. A contributing factor, besides uncertainty about growing trade conflicts, was the tightening of monetary policy in the United States. This resulted in a turnaround in international capital flows, which in turn put the brakes on economic expansion in emerging economies. Global output will rise 3.7% this year, as in the previous year, but next year the growth rate could decline to 3.4%. The IfW again cut back its forecast for 2018 and 2019 slightly by 0.1 percentage points in each case. For 2020, growth is again expected to amount to 3.4%. The risks in particular include further intensification of trade conflicts. In Europe, concerns about Italy's ability to handle its debt load, delayed reforms in France, and, not least, a possible no-deal Brexit could cause economic performance to be weaker than anticipated. *(Source: ifw, Kiel Economic Report No. 49, 2018/Q4)*

Mechanical and Plant Engineering: Upturn Continues in 2018

After ten months of the reporting year, production in the mechanical engineering industry was up 3.7%, says the German Engineering Federation (Verband Deutscher Maschinen- und Anlagenbau – VDMA). This means the sector grew for the second consecutive year in 2018. In the first ten months of the reporting year, incoming orders in mechanical engineering were 7% higher than in the previous year. The number of wage earners in Germany also grew by 34,000, or 3.4%, to 1.067 million by September. The number of persons employed in the mechanical engineering sector totals more than 1.3 million, once again making the industry the largest industrial employer in the country. However, businesses are concerned about bottlenecks in both the supply chain and the availability of skilled workers. According to current surveys, 27% of mechanical engineering companies in Germany suffer from a dearth of workers, while 28% of companies saw production lag due to the scarcity of materials. Exports by German mechanical engineering firms were up by a nominal 5.2% to EUR 131.9 billion in the first nine months of 2018. China (up 11.4% to EUR 14.23 billion) and the United States (up 6.9% to EUR 14.16 billion) were neck and neck for the top spot in export ranking, with China taking a narrow lead. China's export surplus in this period was, however, dimmed by the outlook for a weakening domestic economy as a result of punitive tariffs imposed by the U.S. government, among other factors. At the same time, labor and production costs in China continue to rise. The U.S. economy is currently benefiting from the corporate tax cut, although domestic investments are already waning here as well. The VDMA therefore expects the EU to proactively pursue the negotiations on a streamlined free trade agreement with the United States as well as an investment agreement with China. In its own region, the association calls upon the European Union to ensure greater unity among member states, particularly in a year with European elections. Strengthening the EU economy will also necessitate breaking down excessive bureaucracy, which in the VDMA's view causes small and medium-sized businesses to incur significant additional costs, as in the case of transposing the Posting of Workers Directive into national law. Assemblers or service professionals must often quickly travel to customers within Europe, but this is being made impossible in principle by the regulations. *(Source: VDMA, www.vdma.org)*

Weaker Incoming Orders in the Electrical and Electronics Industry

Incoming orders in the German electrical and electronics industry at the end of 2018 were 2.6% below the prior-year figure. Domestic demand saw 1.4% more orders than in the previous year, while international orders were 5.9% lower. Above all, orders from countries in the euro zone declined sharply (–8.9%). Customers from outside the euro zone placed 3.9% fewer orders. This meant incoming orders were only up slightly by 0.5% from January to the end of the year. Whereas domestic orders dropped 2.5% year over year, orders from abroad rose 3.0%. Customers from the euro zone (+1.5%) and from outside the euro zone (+3.9%) ordered more. Price-adjusted production by the domestic electrical and electronics industry remained 3.0% below the prior-year level in November 2018. For the entire period from January to November 2018, production was therefore up 2.8% over the same period the previous year. This could therefore exceed the German Electrical and Electronic Manufacturers' Association (ZVEI) forecast of +3% for the year as a whole. On balance, companies revised their production plans downward in December, the fourth month in a row. Still, the share of companies who want to increase their output in the coming three months (23%) exceeds the share who plan to reduce production (15%). The majority aims to maintain current production levels. From January up to and including November 2018, aggregated electrical revenue totaled EUR 179.8 billion, up 3.1% on its prior-year figure. Domestic revenue and foreign revenue rose by 3.0% (to EUR 85.8 billion) and 3.3% (to EUR 94.0 billion), respectively. Revenue from customers in the euro zone (+5.4% to EUR 34.9 billion) grew more than twice as fast in the eleven-month period as revenue from business partners from countries outside the currency union (+2.0% to EUR 59.1 billion). The business climate in the German electrical and electronics industry declined for the third consecutive month in December 2018. This time, the assessment of the current situation deteriorated, while general business expectations were somewhat sunnier. However, the latter remained well under the zero line on balance. Export expectations also fell further in December for the fourth consecutive time. In this case, the balance of positive and negative answers fell from 9 to 5 percentage points compared with the previous month. *(Source: ZVEI business barometer January 2019)*

International Automotive Industry Sees Robust Performance Overall in 2018

The automotive industry's performance across the globe varied in 2018. The European passenger vehicle market hung on to its high level of the previous year, and this segment even grew slightly in the United States. The Brazilian and Russian markets posted strong increases, and India also saw growth. In China, the market first saw a downturn, but the market volume is still very high. A total of 15.6 million passenger vehicles were newly registered in Europe in 2018, as many as in the previous year. In December, passenger vehicle sales in Europe were down 9% to just over 1.0 million units. December had fewer business days than in the prior-year month in many countries. Of the large-volume markets, France (+3%) and Spain (+7%) saw growth for the year as a whole, while Germany remained at the previous year's level. The markets in Italy (–3%) and the UK (–7%) declined. In the United States, the light vehicles market closed out 2018 with 17.2 million vehicles sold, 78,800 units more than in the previous year (±0%). Sales of passenger vehicles decreased 13%, while sales in the light truck segment rose 8%. In December, 1.6 million light vehicles were sold (+1%). The volume of the passenger car market in China dropped by nearly 4% to 23.3 million new vehicles in 2018. This was the first downturn in decades and was primarily due to the trade conflict with the United States. The sales volume in December was 2.4 million units, some 16% below the prior-year level. In

India, the sales volume grew by 5% in 2018, with 3.4 million units sold. In December, the market stood at the previous year's level (238,700 units). The new vehicle business in Japan was solid in the previous year: At 4.4 million passenger vehicles sold, this matched the prior-year result. Sales in December declined 3% with 319,700 new passenger vehicles registered. The market in Russia recovered further in 2018. With 1.8 million new vehicles sold, growth amounted to 13% over the volume of the previous year. December saw the sale of 175,200 light vehicles, up 6%. The Brazilian market for light vehicles grew robustly in 2018 as a whole: New vehicle sales rose 14% to nearly 2.5 million units. In December, the increase was 10% (225,400 vehicles). That was the 20th consecutive month of growth. (*Source: VDA, press releases dated January 1, 2019, www.vda.de)*

COURSE OF BUSINESS

Softing found its way back to its previous revenue levels in 2018, with revenue growth reported in all markets and segments. In 2018, revenue stood at EUR 83.9 million (previous year: EUR 78.7 million), EUR 5.2 million (6.6%) over the previous year's level, which exceeding the forecast of EUR 80.0 million by around EUR 3.9 million. EBITDA amounted to EUR 9.0 million in the year under review (previous year: EUR 6.8 million), and the EBITDA margin was 10.8% (previous year: 8.7%). Operating EBIT (EBIT adjusted for capitalized development services of EUR 4.4 million and amortization of EUR 2.1 million on these as well as effects from purchase price allocation in the amount of EUR 1.8 million) in 2018 totaled EUR 3.6 million (previous year: EUR 1.1 million). As a result, the guidance of EUR 3.7 million was almost met. In 2018, EBIT at EUR 4.1 million (previous year: EUR 2.3 million) reached the guidance of EUR 4.0 million, despite downward pressure of around EUR 1.1 million from the acquisition of GlobalmatiX.

The Industrial segment generated revenue of EUR 52.8 million (previous year: EUR 50.9 million). EBITDA totaled EUR 5.3 million (previous year: EUR 6.3 million). EBIT dropped due to a higher cost of sales from EUR 3.8 million in the previous year to EUR 3.2 million.

The Automotive segment's revenue increased by 4.6% to EUR 17.4 million to EUR 18.2 million, producing EBITDA of EUR 2.7 million after EUR 0.2 million in the previous year. As a result, EBIT rose from EUR –1.0 million to EUR 0.6 million.

The IT Networks segment increased revenue by a robust 24.5% from EUR 10.4 million to EUR 12.9 million and generated EBITDA of EUR 0.7 million (previous year: EUR 0.0 million) and EBIT of EUR 0.2 million (previous year: EUR –0.5 million).

This resulted in consolidated profit for the year of EUR 3.3 million (previous year: EUR 0.7 million).

Due to a larger profit transfer, the net loss for the year of Softing AG, the Group's parent company, fell by EUR 1.8 million from EUR –3.2 million in 2017 to EUR –1.4 million in 2018.

The Group's expense items developed as follows:

	2018 EUR (in thsds.)	2017 EUR (in thsds.)
Cost of materials	36,471	32,247
Employee benefits costs	33,440	33,031
Depreciation, amortization and impairment losses	4,937	4,494
Other operating expenses	10,830	12,064
Operating expenses	**85,678**	**81,836**

EARNINGS

Results of Operations of the Group

The Group's financial key performance indicators are revenue, operating EBIT and EBIT.

In the past financial year, consolidated revenue increased by 6.6% to EUR 83.9 million. Own work capitalized (product developments) was EUR 4.4 million, EUR 0.2 million below the previous year's level (EUR 4.6 million); the share of own work capitalized in consolidated revenue declined in the 2018 financial year. Other operating income of EUR 1.4 million was significantly impacted by income from exchange differences of EUR 0.9 million. Other operating income in the previous year totaled EUR 0.9 million.

The cost of materials increased by EUR 4.2 million or 13.1%. The main reason for this increase is the strong growth in revenue generated by the IT Networks segment, with corresponding inventories of own and third-party products compared to the previous year. All told, the cost of materials ratio (cost of materials relative to revenue) was 43.5% (previous year: 41%), and gross profit (revenue less cost of materials) increased at a disproportionally slower pace from EUR 46.5 million to EUR 47.4 million.

Staff costs rose slightly by 1.2% to EUR 33.4 million, mainly due to a marginal increase in variable remuneration. The slightly lower headcount had an offsetting effect. As of the reporting date, the Softing Group had 402 employees (previous year: 411).

Depreciation, amortization and impairment losses on intangible assets and property, plant, and equipment increased from EUR 4.5 million to EUR 4.9 million, due to the increase in the write-down from the purchase price allocation of GlobalmatiX.

Other operating expenses fell sharply by EUR 1.2 million to EUR 10.8 million, mainly as result of reduced external services in product development.

A key parameter for evaluating and managing results of operations is earnings before interest and taxes (EBIT) of EUR 4.1 million (previous year: EUR 2.3 million) and the operating EBIT derived from it (EUR 3.5 million; previous year: EUR 1.1 million).

The interest result remained at EUR –0.2 million and in 2018 was once again dominated by interest expense on the loans taken out to finance the purchase price for OLDI.

After accounting for taxes on income, consolidated profit amounted to EUR 3.3 million (previous year: EUR 0.7 million).

Results of Operations of Softing AG

As a management holding company, Softing AG only generated revenue from performing services for its subsidiaries. These services principally entailed active corporate management of the subsidiaries as well as legal assistance and quality management services. Fixed portions of the costs incurred for these services were charged to the subsidiaries. The costs for general controlling activities were not allocated to the subsidiaries.

Softing AG does not itself operate directly in the market, instead receiving income from equity investments and from profit and loss transfer agreements. Profit and loss transfer agreements are in place with the following subsidiaries:

Directly:

- Softing Industrial Automation GmbH
- Softing Automotive Electronics GmbH
- Softing Services GmbH
- Softing IT Networks GmbH

Indirectly (via Softing Automotive Electronics GmbH):

- Softing Engineering & Solutions GmbH

Income from profit transfer is a key control parameter for Softing AG and constitutes the financial key performance indicator. This changed from EUR –5.6 million to EUR –1.3 million in the past financial year. The guidance for the income from profit transfer for the 2018 financial year was EUR 0.5 – 1.0 million. This forecast was missed especially by Softing Industrial Automation GmbH and Softing IT Networks GmbH mainly as result of reduced external services in product development.

Staff costs declined from EUR 2.0 million to EUR 2.3 million due to higher pension expenses.

Other operating expenses rose overall by EUR 0.7 million to EUR 0.8 million.

Due to lower costs related to the management of subsidiaries, revenue from affiliated companies in 2018 fell from EUR 3.0 million to EUR 2.9 million.

Provisions for taxes amounting to EUR 0.1 million (previous year: approx. EUR 0.0 million) were recognized for obligations arising from corporation tax and trade tax in past financial years (tax audit for the years 2013 to 2016). However, other assets also include a claim for repayment of EUR 0.4 million for 2017. This reclaimed payment resulted from adjustments to earnings in the financial statements under commercial law and the tax accounts of subsidiaries with project business, and from a corporation tax loss carryback.

The net loss for the year was EUR 1.4 million (previous year: EUR 3.2 million).

FINANCIAL POSITION

Financial Position of the Group

Financial Management

As part of the Group's financial management, the German subsidiaries are included in a cash pooling system managed by Softing AG. Where deemed necessary, the cash flows of companies doing business in foreign currencies are hedged using conventional forwards. No forward contracts were entered into in the past financial year.

Capital Structure

The equity of the Softing Group at the end of 2018 rose to EUR 68.4 million (previous year: EUR 52.3 million). Based on the authorization granted by the General Shareholders' Meeting on May 6, 2015 (Authorized Capital 2015), the purchase price of GlobalmatiX AG was paid in Softing AG shares with a value of EUR 13.7 million (the fair value at the acquisition date according to IFRSs was EUR 13.4 million). On March 16, 2018, the Executive Board of Softing AG decided with the approval of the Supervisory Board to increase the Company's share capital by EUR 1,450,000 from EUR 7,655,381 to EUR 9,105,381 shares against contributions in kind by issuing 1,450,000 new no-par bearer shares at an issue price of EUR 9.43. Mr. Alois Widmann, Vaduz, Principality of Liechtenstein, was permitted to subscribe to and accept the new shares. Mr. Widmann is transferring all of his shares in GlobalmatiX Aktiengesellschaft, headquartered in Vaduz, Liechtenstein, to the Company. The Company and Mr. Widmann entered into a transfer agreement to this effect on March 16, 2018.

The equity ratio in the financial year was 69%, after 65% in the previous year.

Non-current liabilities amounted to EUR 9.4 million (previous year: EUR 11.1 million). The main reason for the reduction was the netting of deferred tax assets and liabilities within the consolidated tax group.

Current liabilities rose by EUR 4.7 million to EUR 22.0 million, due mainly to the increase in trade payables and short-term borrowings.

Capital Expenditure

In the financial year ended, the Softing Group invested EUR 6.4 million (previous year: EUR 4.6 million) in internally and externally generated intangible assets. Investments in other non-current assets amounted to EUR 1.2 million in 2018 (previous year: EUR 0.8 million). Please refer to the Research and Development section for information on investments in the specific segments.

Liquidity

The cash flow from operating activities rose by EUR 5.8 million, from EUR 3.6 million to EUR 9.4 million, primarily due to higher earnings.

Funds used for investing activities amounted to EUR 7.7 million (previous year: EUR 9.8 million), comprising mainly investments in new product development and replacement investments.

The cash flow from financing activities amounted to EUR –2.2 million and was impacted by the repayment of loans in the amount of EUR 2.5 million, new short-term borrowings of EUR 1.5 million and the dividend payment of EUR 1.0 million.

The cash available to the Group amounted to EUR 9.7 million at year-end (previous year: EUR 10.3 million).

Financial Position of Softing AG

Capital Structure

Equity increased from EUR 37.0 million to EUR 48.3 million as of December 31, 2018. The change is due to the payment of the dividend in the amount of EUR –1.0 million, the net loss for the year in the amount of EUR –1.4 million, and the capital increase of EUR 13.7 million.

The equity ratios was 77.7% (previous year: 66.4%)

The increase in provisions from EUR 1.7 million to EUR 2.2 million is principally the result of changes in provisions for pensions and personnel.

Other liabilities increased from EUR 1.7 million to EUR 2.4 million due to non-payment of variable remuneration entitlements and higher VAT payments.

Liabilities to banks declined by EUR 1.4 million to regular repayments of the loans taken out in 2014 in the amount of EUR 2.4 million and the offsetting effect of taking out a short-term operating loan of EUR 1.0 million.

Liquidity

The subsidiaries obtained financing almost exclusively from Softing AG's cash pooling system and its own cash contributions to the operations of subsidiaries not participating in the cash pooling system. Separate bank loans were taken out by subsidiaries only to a minor extent. The fixed purchase price of OLDI was financed through EUR 11.0 million in total loans obtained by Softing AG from two commercial banks in Germany. These amounted to EUR 4.1 million as of December 31, 2018.

Funds at year's end were EUR 5.1 million (previous year: EUR 7.1 million). There are unused credit lines in the amount of EUR 4.0 million (previous year: EUR 5.0 million).

NET ASSETS

Net Assets of the Softing Group

Non-current assets comprise items including intangible assets, goodwill, property, plant, and equipment, and deferred tax assets and at the end of 2018 represented 63.1% of total assets (previous year: 56.9%). This was offset by equity and non-current liabilities representing 77.9% (previous year: 78.6%).

Non-current assets rose by EUR 17.1 million to EUR 63.0 million. This was largely due to the acquisition of GlobalmatiX AG. Goodwill increased by EUR 3.4 million, other intangible assets by EUR 14.6 million due to the recognition of a mobile communications license of GlobalmatiX AG in the amount of EUR 12.0 million, and property, plant and equipment by EUR 0.3 million. Deferred tax assets fell to EUR 0.8 million (previous year: EUR 2.1 million), as a result of netting with deferred tax liabilities within the German consolidated tax group.

Current assets comprise inventories, trade receivables, and cash and cash equivalents. This figure rose from EUR 34.8 million to EUR 36.8 million, mainly due to an increase in trade receivables and inventories of EUR 3.1 million. The EUR 0.6 million decrease in cash and cash equivalents and the EUR 0.3 million reduction in tax assets had an offsetting effect.

Total assets in the reporting year grew to EUR 99.8 million (previous year: EUR 80.7 million).

Net Assets of Softing AG

The total assets of Softing AG rose by EUR 7.2 million year-on-year to EUR 63.0 million (previous year: EUR 55.8 million).

Interests in affiliated companies increased by EUR 14.0 million from EUR 17.2 million to EUR 31.2 million. This is mainly due to the acquisition of GlobalmatiX AG.

Short-term loans of EUR 1.0 million were taken out in the 2018 financial year.

Loans to affiliated companies decreased by EUR 0.5 million to EUR 14.4 million due to repayments. Cash and cash equivalents decreased to EUR 5.1 million.

Receivables from affiliated companies were down from EUR 15.4 million to EUR 12.0 million as a result of a decrease in receivables from cash pooling.

OVERALL ASSESSMENT OF THE GROUP'S AND THE PARENT COMPANY'S POSITION

While the financial position and net assets of both the Group and Softing AG continue to be very solid, the results of operations improved substantially year-on-year in 2018 due to higher earnings and lower losses of some of the subsidiaries.

REPORT ON POST-BALANCE SHEET DATE EVENTS

There are no events after the balance sheet date to report.

REPORT ON OPPORTUNITIES, RISKS AND FORECASTS

REPORT ON OPPORTUNITIES

The information provided applies to the Group and to Softing AG in equal measure. The opportunities and risks arise in the individual subsidiaries of Softing AG. Due to the profit and loss transfer agreements in place and the investment income generated, these also have a direct effect on the single-entity financial statements of Softing AG, possibly with a time lag compared with IFRS accounting.

Softing Industrial Automation GmbH

Following the highly successful market launch of mobiLink, the world's first mobile interface for setting device parameters with simultaneous support for the three standard communication protocols used in process automation, the Industrial Data Networks business unit expects a further significant rise in sales in 2019. The first design-ins have now been seen for the gateways for connecting PROFIBUS devices to modern Industrial Ethernet architectures that were first launched in 2018. Thanks to the highly innovative and simple approach taken by commKit to integrating a FOUNDATION Fieldbus or PROFIBUS PA communications interface by using a shared hardware and parameter setting tool, Softing offers larger providers potential for internal savings while giving smaller providers the means to actually implement their own product line for these important niche technologies. In 2019, Industrial Data Networks therefore expects business to be generated here by migration from earlier design-ins.

End-to-end digitalization in the value chain is creating entirely new business opportunities for Softing, specifically specialized kinds of non-networked machinery that are deployed in large numbers in plastics or metal processing. This market can be rapidly developed with dataFEED uagates, which are gateways tailored to these exact requirements. Software as a Service: for the first time, dataFEED SIS now gives customers the option of sourcing the product via annual or service licenses in order to adjust their costs continuously to match usage patterns. In cloud platforms, data intelligence is driving the development of hardware and software cloud communication solutions. This year, we have already introduced solutions for networking with leading cloud platforms such as Microsoft Azure, Amazon AWS and Siemens Mindsphere.

Softing IT Networks GmbH, Softing Singapore Pte. Ltd.

For 2019 and 2020, more new and improved products are planned in the segments of verifiers, qualifiers and certifiers for both copper and fiber-optic cabling. These products will further expand and strengthen the product ranges offered by the IT Networks division. A new partner has also been acquired for Wi-Fi network planning and analysis. IT Networks has now been handling distribution for this partner since late 2018. The development projects completed in 2017 and 2018 have therefore given IT Networks a product portfolio that continues to grow, with a number of industry 'firsts' that Softing will utilize in 2019 to further consolidate its position as a technology leader and trendsetter.

Online Development Inc. (OLDI)

OLDI is an Original Design Manufacturer (ODM) whose portfolio of hardware and software products provides support to many brand manufacturers and industrial market segments. Customers use OLDI's extensive knowledge of data processing and communication in manufacturing applications to shorten the time to market for their new and existing products. Thanks to a strategic focus on operational reliability, data security and scalable computing power, OLDI has further expanded its business with new customers, projects and technologies. Due to the expertise built up in these projects, additional business opportunities can be expected from 2019 onwards.

Softing Automotive Electronics GmbH

In 2018, Automotive Electronics further expanded its portfolio of products and services, particularly as regards the portfolio categories of 'Applications' (by expanding Softing TDX) and 'Embedded Solutions' (with the VIN|ING 2000 market launch). As the planned DTS 9 market launch has already triggered plenty of market interest in its beta phase, Softing sees promising potential here to expand its market position. Other positive factors include the imminent acquisition of more new customers for Softing TDX and the VIN|ING 3000/6000 series market launch. Revenue will also remain stable for Softing Messtechnik (SMT), thanks to its multiyear contracts. On the basis of the above, Softing expects to see sustained, long-term growth here.

GlobalmatiX

In the second half of 2018, GlobalmatiX was able to initiate several detailed pilot tests with larger OEMs. Initial revenue is expected in 2019. In the fourth quarter of 2018, we also established GlobalmatiX Inc. in the USA. Initial test installations with another OEM and a fleet operator for the US government have also started in the USA.

SoftingRom s.r.l.

Softing continually develops new products and technologies in order to address the transition to new technologies, as well as to tap new markets and opportunities for growth. The Romanian subsidiary SoftingROM has the task of boosting the required development services. Cluj in Romania is an ideal location for Softing since it can be reached relatively quickly and inexpensively from Munich. There are also many well-educated engineers and computer scientists in the region.

RISK REPORT

The information provided applies to the Group and to Softing AG in equal measure. The risks arise in the individual subsidiaries of Softing AG. Due to the profit and loss transfer agreements in place and the investment income generated, these also have a direct effect on the single-entity financial statements of Softing AG, possibly with a time lag compared with IFRS accounting. The risks presented affect all segments.

Softing is an internationally operating company involved in industrial automation technology, automotive electronics and network communication. The Company is exposed to a number of risks that are inextricably linked to its entrepreneurial activities.

In particular, this concerns risks resulting from market development, the positioning of products and services, contractual and non-contractual liability, and business processes. The Group's business policy is to best exploit existing business opportunities. It is the task of risk policy to carefully weigh the risks associated with this. Risk management is therefore an integral component of all business processes and company decisions. The risk management system of the Group and of Softing AG comprises both risks and opportunities in equal measure.

Risk principles are defined by the Executive Board. They include statements on risk strategy, the willingness to take risks and the scope of these principles.

Risk analysis entails assessing identified risks in terms of the probability of their occurring (quantitative dimension) and the potential loss (dimension of intensity). Risk assessment is subject to practical limits, however – especially in the area of operating risks – because the number of potential risks is high but, more often than not, the available risk data is incomplete. As a result, subjective risk assessments must be made in many areas exposed to risk because the expenditure for risk management should be reasonable.

To be able to assess the risks, they have been divided into several categories. Multiplying the probability of occurrence by the extent of loss gives rise to the following levels of risk:

a. Minor risks (relative risk impact of up to 25%) are insignificant for the Company and no action needs to be taken to mitigate the risk. The relative risk impact is the ratio of loss amount multiplied by the probability of risk occurrence to the planned EBIT of a Group company.
b. Moderate risks (relative risk impact of up to 50%) have a limited extent of loss and a moderate probability of occurrence. There is no immediate need for action. Efficient, effective measures are sufficient to reduce moderate risks or to manage them rapidly in the event of an emergency.
c. Major risks (relative risk impact of up to 50%) cause greater loss and/or have a higher probability of occurrence than moderate risks. These risks should be reduced through appropriate controls or process optimization. Where possible, appropriate measures should be taken to reduce the major gross risk to the moderate or minor level of risk.
d. Going-concern risks (relative risk impact of more than 75%) could jeopardize the continued existence of an organizational unit or the Softing Group as a whole. Measures must be taken immediately to reduce the gross risk.

The risks are stated as gross risks before risk mitigation measures.

The Group uses a number of control systems to monitor and control its risks. These include a centralized company planning process, among other things. Softing regularly monitor the achievement of its business goals and the risks that are connected to this.

The risks involved in individual business processes were periodically recorded, analyzed and evaluated in the reporting period. The Group also assessed whether individual risks which are of minor importance when viewed in isolation could develop into a risk threatening the Company's existence when combined.

The risk factors mentioned below could have a strong negative impact on the Company's business performance, cash flows and profit or loss. Risks that are believed to be of little relevance to the Group's business at this time are not mentioned.

External Risks

The constant expansion of business with customers in the United States and other dollar countries has increased the significance of assessing currency risks. Every year, Softing checks if the currency risks in connection with the ongoing business with its subsidiaries in the United States and Singapore should be hedged. If it appears necessary, Softing uses conventional forward exchange deals as hedges. Overall, this risk is classified as a moderate risk.

Performance Risks

In 2018, revenue increased by 6.6% compared to 2017. There is always a general risk both of underutilization of capacities and sustaining pressure on realizable revenues. Softing addresses these risks with stricter cost management measures and flexible working hour models so that it can quickly adapt to any changes in demand. Overall, this risk is classified as a large risk.

The situation on the market is characterized by a rapid change of the employed technologies. This means that there is a danger that acquired know-how may prematurely lose value due to an unexpected market development. Softing address this risk by actively participating in a large number of national and international working groups, which enables it to recognize technological trends early on and help actively shape them. Overall, this risk is classified as a large risk.

In certain areas of the Group's business, both in the Industrial and the Automotive segment, Softing is involved in the complex development projects of customers. These projects entail a certain realization risk regarding the planned budgets and time frames. Any deviations could lead to a deterioration of profit and claims for damages. Softing addresses with this risk by planning such projects in accordance with a process model defined by its quality management system, and by carefully monitoring project progress with an alarm controlling system. The Group makes continual investments to further improve its already high quality standard. Overall, this risk is classified as a moderate risk.

When manufacturing products – particularly hardware products – the Group makes considerable use of supplies from external companies. The inclusion of third parties in its own value chain naturally reduces the level of influence Softing has on quality, costs and adherence to schedules. Unexpected price increases can affect the result considerably. Softing counteracts this risk through long-term supplier contracts wherever possible. Supplier failures can lead to delivery bottlenecks. Softing reduces the risk by regularly auditing its suppliers and consistently limiting the share of deliveries from individual suppliers. Overall, this risk is classified as a moderate risk.

The Group's products and services are used in the production of industrial goods. Downtime or malfunction can result in significant damage to persons and property. Softing reduces this risk by following a careful development process which is tailored to the specific scope of application. Significant residual risks are covered through insurance policies. Overall, this risk is classified as a moderate risk.

Financial Risks

Credit risks have not played a significant role in the past. The Group's restrictive credit management process allows it to identify imminent insolvencies faster and thus to counteract them in due time. Together, all of these measures again helped to forestall major defaults on receivables in 2018. Overall, this risk is classified as a minor risk.

Other Risks

As in all companies, the smooth functioning of business processes depends on the availability of the IT infrastructure. Attacks from the Internet, as well as other IT failures or damage to the IT infrastructure, pose a serious threat to the Company's ability to function. Softing implemented IT security measures which so far prevented damage caused by computer viruses and sabotage. This is why the Group believes that the probability of a threat to the security of its data inventories or information systems is manageable. Overall, this risk is classified as a moderate risk.

The financial success of the Softing Group is rooted to a large extent in the skills and qualifications of its employees. For this reason, all employees are trained on an ongoing basis to ensure that the quality of their performance corresponds to the requirements of customers.

There is keen competition for highly qualified professionals and executives in the labor market at this time. Qualified staff are a material prerequisite for boosting the Company's shareholder value. Hence Softing always seeks to recruit new, very well trained personnel; integrate them as best as possible; promote them and establish a long-term collaboration with them. In addition to attractive employment conditions, Softing also offers its staff targeted training and continued education. But there is the potential risk that suitable professionals or executives cannot be recruited in the market in due time, and that this might have a negative effect on the Company's results of operations, financial position and net assets. Overall, this risk is classified as a large risk.

Even though not a single compliance case has so far arisen at Softing, the Executive Board and the legal department continue to take the issue of compliance very seriously. Through workshop participation and a series of presentations, the Group ensures that current trends and issues are taken on board and adapted to the situation at Softing. Overall, this risk is classified as a small risk.

In management's view, there are no acute risks that would jeopardize the Company's existence as a going concern or negatively impact its development.

Based on the risk policy and the current assessment of the risks, the risk exposure of both the Group and Softing AG is regarded as manageable. On account of the strong financial position and net assets, and improving results of operations in 2018, the Executive Board believes that the Group will be able to bear the residual risks not covered by insurance even in the event of unfavorable developments.

REPORT ON EXPECTED DEVELOPMENTS

Slower Global Economic Growth Expected for 2019

In the forecast period, growth in global output will slow, and the growth rate could decline from 3.7% to 3.4% in the coming year. The IfW again cut back its September forecast for 2019 slightly by 0.1 percentage points. For 2020, growth is again expected to amount to 3.4%. This rate of expansion does not constitute significant economic weakness, although capacity utilization in the advanced economies will not increase much, and in many emerging economies, production will expand at only a moderate pace in view of often unfavorable economic and political conditions and a difficult financial environment. The increase in global trade is likely to drop significantly to 3.2% in 2018 and again decrease somewhat in the two coming years to 2.3% and 2.8%. The deterioration in the conditions for international trade will likely put a damper on growth. For its forecast, the IfW assumes that trade conflicts will be resolved gradually with the slowing effects of this factor lessening with time. As a result, the pace of global trade expansion will pick up again somewhat despite a simultaneous increase in global output in 2020. *(Source: ifw, Kiel Economic Report No. 49, 2018/Q4)*

Softing Industrial Very Well Positioned Technologically and on the Supply Side for 2019

Despite the projected cooling of the global economy, Industrial Data Networks considers itself very well positioned technologically and on the supply side to successfully continue the current focus on the process automation and network diagnostics businesses and to reach the targets set by the Company. Structural changes and a strategic concentration on sales lend additional support to this optimistic assessment.

Driven by the IT industry and the major cloud providers, digital transformation in automation will be the central issue again this year. Even if no global economic growth is seen, manufacturing companies will continue to invest heavily in digitalization. End-to-end data exchange improves the availability and efficiency of production facilities worldwide. By focusing on IoT in development and marketing, Data Intelligence is a key player and important partner to end customers, systems integrators and systems providers.

Softing Automotive

In the coming year, Softing Automotive will concentrate on the market launch of DTS 9 and the entire VIN|ING family. Upgrades to TDX and the entire line of middleware will also be promoted in the European, North American, and Chinese and Japanese markets. Softing will enter into additional strategic partnerships beyond the existing joint venture in China.

GlobalmatiX

GlobalmatiX operates in the Connected Car and Internet of Things (IoT) segment, which is currently the highest-growth market. As a pioneer in remote diagnostics using CAN data, we serve the fleet customers of automakers, their suppliers and companies in the service, transportation, leasing and insurance fields. Delivering our telematics solution to these fleets is our central sales activity. Moreover, our solution transforms diagnostics into remote diagnostics and uses Big Data analytics to enable foreseeable and predictive maintenance like that already possible in the aerospace industry. Thanks to our access to 4G and 5G mobile telecommunications technology in Softing's core markets in North America, Europe and Asia, we are well-prepared for this development.

Softing IT Networks

Through active participation in international standards organizations, new technologies such as Ethernet over 2-wire cable and new high-speed applications for data centers will be incorporated further into new measurement technology solutions in the coming years. Whereas IT Networks has historically had a strong sales operation in western Europe, we will continue to concentrate in 2019 and 2020 on expanding the North American and Asian markets. In Asia, the focus is on the Chinese market. The extended product portfolio will additionally unlock opportunities to develop new customer segments in established markets as well.

Outlook for the 2019 Financial Year for Softing AG

It is the clear objective of Softing AG to systematically strengthen its own activities and expand its worldwide presence through targeted partnerships.

Thanks to a combination of its modern product portfolio, close proximity to customers and good financial reserves, Softing is in a better position than many competitors and thus will be able to benefit from opportunities in the market in the near term.

The Company's future development hinges largely on the continued positive development of the global economy. This is why the Company's actual performance might deviate from the Executive Board's expectations.

Based on projected earnings, Softing AG is forecasting income from profit and loss transfer agreements of EUR 1.0 million to EUR 1.4 million for the 2019 financial year.

Outlook for the 2019 Financial Year for the Softing Group

The declared goal remains to further boost the operational excellence of the Group by optimizing market penetration to ensure regional balance in line with our focus. Softing is firmly committed to continuing the pursuit of this goal in 2019. Based on the Group's positioning and customer feedback, Softing sees opportunities to increase incoming orders, revenue and earnings in 2019. Softing will again face numerous unavoidable uncertainties in 2019 regarding economic developments in Europe as well as in Asia and North America. Softing would not be able to avoid the impact of downturns in the demand markets. These external risks are taken into account in the forecast as dampening factors.

As a leading technology group, Softing must and will work to actively shape technical change. The speed of change continues to increase substantially in all segments. For this reason, Softing plans to use the expertise that its current portfolio and acquisitions provide for the extensive development of new products and the extensive refinement of existing ones in 2019. For 2019, Softing is generally assuming that capitalization of development costs will remain largely stable due to increased investment in new products. Investment in some product lines will decline due to completions, while new technologies and products will receive a kick-start. We also have opportunities for above-average returns in the existing business, for instance in the process and manufacturing industries, which Softing consolidates in the Industrial segment. Strong growth in our own products in the IT Networks segment is expected to continue thanks to new products. In the Automotive segment, the key factor is landing new projects from major customers, even though these will only have a minimal influence on revenue in the current year. Excess inventories remain as a result of the aforementioned economic risks and political uncertainties.

Overall, the Group expects a moderate increase in revenue and incoming orders to EUR 88 million. Given the current global uncertainties, we cautiously anticipate EBIT of EUR 4.0 million and operating EBIT of EUR 3.7 million. If performance is positive, EBIT in particular has upside potential. At segment level, a moderate increase in revenue and stable EBIT and operating EBIT are projected in all segments. Due to the fact that a number of major contracts have already been acquired but cannot be delivered until the second half of the year, we expect the strongest growth, especially for EBIT, to be seen in the second half of the year, as was the case in the previous year. We will provide quarterly reports with more details on these figures.

INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT SYSTEM RELEVANT FOR THE CONSOLIDATED FINANCIAL REPORTING PROCESS

Definitions and Elements of the Softing Group's Internal Control and Risk Management System

The Softing Group's internal control system comprises all principles, procedures and actions required for ensuring the effectiveness, economy and propriety of the Company's financial reporting as well as compliance with material legal requirements.

The internal control system of the Softing Group comprises an internal management and monitoring system.

Monitoring mechanisms that are process-integrated or uninvolved in business processes constitute the elements of the Softing Group's internal monitoring system. Hence automated IT process controls besides manual process controls – such as the two-person integrity (TPI) principle – are an integral part of all process-integrated activities.

As part of the internal control system, those aspects of the risk management system that concern financial reporting are focused on the risk of misstatements in the Group's bookkeeping as well as its external reporting system. Besides risk management at the operating level – which also includes risk transfer to insurance companies through insurance policies serving to limit the risk of loss or liability as well as through suitable hedging transactions serving to limit foreign currency risks – the Softing Group's risk management system also comprises early detection as well as management and monitoring of risks, systematically and groupwide. The Softing Group has established a monitoring system pursuant to Section 91 (2) German Stock Corporation Act that is aimed at early detection of risks that might jeopardize the Company's existence in order to ensure systematic early detection of risk throughout the Group. For additional disclosures on the risk management system, please see the section entitled, "Risk Report."

As part of the risk reporting system, the Executive Board is regularly informed about risks. Risks are identified at an early stage and assessed. Risks are reported across all companies, with the risks recorded being listed and evaluated. The Executive Board is responsible for defining appropriate risk management measures. Significant individual risks are recorded independently of the regular cycle and reported without delay.

Use of IT Systems

Accounting transactions are recorded in the single-entity financial statements of the German companies' subsidiaries using IFS's bookkeeping system. Our foreign subsidiaries utilize local providers of bookkeeping systems. All subsidiaries supplement their separate financial statements by additional information using standardized reporting packages that are entered into Softing AG's consolidation system in connection with the preparation of the Group's consolidated financial statements. The system from software manufacturer Lucanet is used as the consolidation system. All consolidation processes required to prepare the consolidated financial statements of Softing AG – e.g. acquisition accounting, asset and liability accounting, or elimination of expenses and earnings – are generated and documented in the consolidation system.

Specific Risks Related to the Financial Reporting Process

Specific risks related to the Group's financial reporting process may arise from unusual or complex transactions that could be treated erroneously in the accounting systems. Transactions that are not routinely processed also entail inherent risks. Additional risks related to the financial reporting process arise from the latitude that employees must be given in regards to the recognition and measurement of assets and liabilities.

Material Control and Monitoring Activities Aimed at Assuring the Propriety and Reliability of the Financial Reporting Process

All facets of the internal control system that serve to provide a proper and reliable financial reporting process ensure complete and timely recording of all transactions in compliance with all requirements under the law and the Company's Articles of Incorporation. It also assures that inventories are taken in proper fashion and that both assets and liabilities are accurately recognized, measured and shown in the consolidated financial statements. These control activities also serve to ensure that the bookkeeping records provide reliable and plausible information. If errors occur and are identified despite these activities, these are corrected without delay.

The monitoring activities serving to ensure that the financial reporting is proper and reliable also comprise the analysis of transactions and developments using specific analyses of key indicators. The separation of functions related to administration, execution, accounting and approval – as well as their perception as such by a variety of individuals – limits the possibilities for engaging in intentional acts. For example, this also ensures that bookkeeping processes are carried out both in the proper period and in full even if the IT systems that the Group companies use for the underlying accounting are changed.

The internal control system also serves to make sure that changes in the Softing Group's economic or legal environment are duly presented and that new or amended statutory requirements concerning the financial reporting process are applied.

The International Financial Reporting Standards (IFRS) represent the uniform accounting policies applied by the domestic and foreign entities included in Softing's consolidated financial statements. Besides general accounting policies, in particular, this concerns requirements related to the statement of financial position, the income statement, the notes, the management report, the statement of cash flows, the statement of comprehensive income, the statement of changes in equity and segment reporting, taking requirements under EU law into account.

Softing's accounting standards also govern concrete formal requirements that the consolidated financial statements must fulfill. They not only determine which companies to include in consolidation, they also fix the components of the reporting packages that the Group companies must prepare in detail. Among other things, these formal requirements serve to ensure the binding utilization of a standardized and complete set of forms. Softing's accounting standards also contain specific requirements regarding the treatment and settlement of intra-group transactions and the reconciliation of accounts based thereon.

At the Group level, the specific elements of control designed to ensure the propriety and reliability of Group accounting principles comprise analyses and possibly revisions of Group companies' separate financial statements. The centralized execution of impairment tests for the cash generating units from the Group's perspective assures that uniform and standardized measurement criteria are applied. Furthermore, additional data are processed and aggregated at the Group level in regards to external information in both the notes and the management report, including information related to events after the reporting period.

Caveats

The internal control and risk management system makes it possible to record, process and measure all transactions pertaining to the Group as well as their appropriate presentation through the financial reporting process thanks to the Softing Group's organizational, control and monitoring structures.

However, personal discretion, defective controls, criminal acts or other circumstances cannot be precluded by the very nature of the matter at hand and, as a result, may limit the effectiveness and reliability of the internal control and risk management system such that even groupwide application of the systems utilized cannot guarantee with absolute certainty complete, accurate and timely recording of transactions as part of the financial reporting process.

DISCLOSURES IN ACCORDANCE WITH SECTIONS 289 (4) AND 315 (4) HGB AND EXPLANATORY REPORT

1. In 2018, the share capital of Softing AG was EUR 9,105,381 denominated in the same number of no-par shares, all granting the same rights, specifically voting rights. No shareholder or shareholder group has special rights.

2. Shareholders' voting rights are not restricted by law or the Company's Articles of Incorporation. The voting rights are not limited to a specific number of shares or votes. The Executive Board is not aware of any limitations regarding the voting rights.

   The shareholders of Softing AG are not limited by law or the Company's Articles of Incorporation in their decision to purchase or sell shares. To be effective, the purchase or sale of shares does not require the approval of the Company's boards. The Executive Board is not aware of any limitations regarding the assignability of shares.

3. We have been notified of the following direct or indirect equity interests that exceed 10% of the voting rights:

   Helm Trust Company Limited, St. Helier, Jersey, Channel Islands, notified us in accordance with Section 21 (1) German Securities Trading Act that its voting share in our company fell below the threshold of 25% on March 28, 2018, and was 22.43% on that date (2,042,302 voting shares).

   Of this amount, 22.43% (2,042,302 voting shares) must be attributed to it in accordance with Section 22 (1) sentence 1 no. 1.

   Attributed voting shares are held by the following entities it controls and whose interest in the voting shares of Softing AG is 3% or more in each case:
   - Trier Familienstiftung
   - Trier Asset Management GmbH
   - Trier Vermögensverwaltung GmbH & Co. KG

   Mr. Alois Widmann, Vaduz/Liechtenstein, notified us in accordance with Section 21 (1) German Securities Trading Act that his voting share in our company exceeded the threshold of 15% on March 28, 2018, and was 15.92% on that date (1,450,000 voting shares).

   Of this amount, 15.92% (1,450,000 voting shares) must be attributed to Mr. Widmann in accordance with Section 22 (1) sentence 1 no. 1.

4. The Company has not issued any shares with special rights conferring powers of control.

5. No employees may directly exercise their control rights in connection with their equity interests.

6. In accordance with Article 7 of the Articles of Incorporation of Softing AG, the Executive Board of Softing AG comprises one or more persons. Even if the Company's share capital exceeds EUR 3,000,000, the Executive Board may comprise just one person. Deputy members of the Executive Board may be appointed. The Supervisory Board appoints the members of the Executive Board and determines the number of persons serving on the Executive Board. The Supervisory Board may appoint a chairman of the Executive Board and a deputy chairman of the Executive Board.

   The Supervisory Board is authorized to make amendments to the Articles of Incorporation insofar as they concern only the wording thereof. More comprehensive amendments to the Articles of Incorporation are subject to the requirements of Sections 133 and 179 German Stock Corporation Act.

   An average of 8,771,682 shares were outstanding in the reporting year.

   In May 2018, the General Shareholders' Meeting authorized the Executive Board of Softing AG to increase the Company's share capital with the approval of the Supervisory Board by a total of EUR 4,552,690 on one or several occasions up to May 8, 2023 by issuing new no-par bearer shares against contributions in cash and/or in kind (Authorized Capital 2018). The existing authorized capital (Authorized Capital 2015) was cancelled based on a resolution adopted by the General Shareholders' Meeting on May 09, 2018.

   As of the balance sheet date, the fully paid-in share capital of the Company was EUR 9,105,381 (previous year: EUR 7,655,381 thousand). It is divided into 9,105,381 (previous year: 7,655,381) no-par-value bearer shares with a notional value of EUR 1 each. An average of 8,771,682 shares were outstanding in the reporting year.

   Based on the authorization granted by the General Shareholders' Meeting on May 6, 2015 (Authorized Capital 2015), the purchase price of GlobalmatiX AG was paid in Softing AG shares with a total value of EUR 13.7 million. On March 16, 2018, the Executive Board of Softing AG decided with the approval of the Supervisory Board to increase the Company's share capital by EUR 1,450,000 from EUR 7,655,381 to EUR 9,105,381 shares against contributions in kind by issuing 1,450,000 new no-par bearer shares at an issue price of EUR 9.43. Mr. Alois Widmann, Vaduz, Principality of Liechtenstein, was permitted to subscribe to and accept the new shares. Mr. Widmann is transferring all of his shares in GlobalmatiX Aktiengesellschaft, headquartered in Vaduz, Liechtenstein, to the Company. The Company and Mr. Widmann entered into a transfer agreement to this effect on March 16, 2018.

   Authorized Capital 2018 as of December 31, 2018, was EUR 4,552,690.

7. The Executive Board is authorized to contingently increase the Company's share capital with the approval of the Supervisory Board by up to EUR 4,552,690.00 by issuing up to 4,552,690 new no-par bearer shares (Contingent Capital 2018). The contingent capital increase will serve the granting of option rights or obligations to the holders of warrants arising from bonds with warrants under the terms of the respective options or the granting of conversion rights or obligations to the holders of convertible bonds under the terms of the respective convertible bonds issued by the Company up to May 8, 2023 in accordance with the resolution of the General Shareholders' Meeting on May 8, 2018. The new shares will be issued at the respective option or conversion price to be determined in accordance with the above-mentioned authorization resolution. The contingent capital increase will be implemented only in the event that bonds with warrants or convertible bonds are issued

and only to the extent that the holders of the bonds with warrants or the convertible bonds make use of their option or conversion right or the holders of bonds obligated to convert or to exercise the option fulfill this obligation and the contingent capital is needed in accordance with the terms and conditions of the bond with warrants or the convertible bond. The new shares issued on the basis of the exercise of the option or conversion right or the fulfillment of the conversion or option obligation have a share in the profit from the beginning of the financial year in which they arise. The Executive Board is authorized, with the approval of the Supervisory Board, to stipulate the further details of the implementation of the contingent capital increase. Said authority was not exercised to date. The existing contingent capital (Contingent Capital 2013) was cancelled based on a resolution adopted by the General Shareholders' Meeting on May 09, 2018.

8. On May 4, 2016, the General Shareholders' Meeting authorized the Executive Board to purchase own shares until May 3, 2021, provided that such purchase is not made for the purpose of trading in treasury shares, and provided that the purchase price of said shares is not more than 10% above or below the share's average closing price at the Frankfurt Stock Exchange during the last ten days preceding the purchase (share repurchase). The closing price shall be determined as the share's closing auction price in electronic trading on the Frankfurt Stock Exchange (XETRA trading) or a system succeeding XETRA trading. The authorization may be exercised once or several times, in whole or in part. It is limited to purchasing shares representing no more than a total of 10% of the Company's share capital. Any treasury shares acquired under this authorization – together with other treasury shares that the Company has already acquired and still holds – may not exceed 10% of the Company's share capital.

9. The repurchase serves to create an acquisition currency that is required in the medium term and that is available at a price which the Company believes to be considerably below fair value. The Company held no treasury shares as of December 31, 2018.

10. There are no material agreements entered into by the parent company that provide for a change of control following a takeover bid.

11. An agreement with one member of the Executive Board gives him the right to terminate his employment for cause if at least one outside shareholder or one shareholder group acting in concert reaches 1.4 million voting shares through possession or attribution. If this Executive Board member exercises this right to terminate his employment for cause, he is entitled to compensation equaling approximately two annual salaries.

BASIC INFORMATION ON THE REMUNERATION SYSTEMS FOR MEMBERS OF CORPORATE BODIES

Remuneration of the Executive Board is divided into a fixed salary component and a performance-based, i.e. variable component. The performance-based components are contingent on consolidated profit. Likewise, the performance of Softing's shares is key to the variable component of executive remuneration as well. Members of Softing AG's Executive Board are also entitled to a company car agreement. There is no stock option plan in place. For more details regarding the Executive Board's remuneration, please see the notes to the consolidated financial statements.

Pension provisions for former members and one current member of the Executive Board were recognized as of December 31, 2018. For details, please see the disclosures on pension provisions in the notes.

The director's contracts of the Executive Board members run until 2021 and 2023, respectively.

Each member of the Supervisory Board receives a fixed remuneration of EUR 10,000 for each full financial year of service on the Supervisory Board. In addition, they also receive a variable remuneration Equaling 0.5% of consolidated EBIT before taking into account the Supervisory Board's variable remuneration. The chairman receives 200% of the fixed and variable amount, the deputy chairman 150%. The remuneration for the entire Supervisory Board is limited to a total of EUR 200,000 per financial year.

STATEMENT ON CORPORATE GOVERNANCE

The Executive Board of Softing AG reports on issues of corporate governance in this statement – also on behalf of the Supervisory Board – pursuant to both Section 3.10 of the German Corporate Governance Code and Sections 289f (1) and 315d of the German Commercial Code (HGB). The statement applies both to Softing AG as the parent and to the Group in equal measure. For the contents of the statement, please see this link on our website at www.softing.com: http://investor.softing.com/en/corporate-governance/erklaerung-289-a-hgb

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements and the annual financial statements of Softing AG give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and of Softing AG, and the combined management report includes a fair review of the development and performance of the business and the position of the Group and of Softing AG, together with a description of the material opportunities and risks associated with the expected development of the Group and of Softing AG.

Haar, Germany, March 22, 2019

Softing AG

The Executive Board

Dr. Wolfgang Trier　　Ernst Homolka

Consolidated Income Statement

for the period from January 1 to December 31, 2018

	Note	Jan. 01, – Dec. 31, 2018 EUR (in thsds.)	Jan. 01, – Dec. 31, 2017 EUR (in thsds.)
Revenue	**D1**	**83,890**	**78,708**
Other own work capitalized	D2	4,425	4,600
Other operating income	D3	1,443	873
Operating income		**89,758**	**84,181**
Cost of materials	D4	–36,471	–32,247
Staff costs	D5	–33,440	–33,031
Depreciation, amortization and impairment losses	D6	–4,937	–4,494
thereof depreciation/amortization due to purchase price allocation		–1,769	–1,223
Other operating expenses	D7	–10,830	–12,064
Operating expenses		**–85,678**	**–81,837**
Profit/loss from operations (EBIT)		**4,081**	**2,344**
Interest income	D8	70	47
Interest expense	D8	–231	–235
Finance income/finance costs	D8	689	–1,027
Earnings before income taxes		**4,609**	**1,129**
Income taxes	D9	–1,277	–404
Consolidated profit		**3,332**	**726**
Attributable to:			
Owners of the parent		3,347	742
Minority interests		–15	–16
Consolidated profit		**3,332**	**726**
Earnings per share (basic = diluted)		0.38	0.10
Average number of shares outstanding (basic)		8,771,682	7,342,683

Consolidated Statement of Comprehensive Income

for the period from January 1 to December 31, 2018

	Note	Jan. 01, – Dec. 31, 2018 EUR (in thsds.)	Jan. 01, – Dec. 31, 2017 EUR (in thsds.)
Consolidated profit		**3,332**	**726**
Items that will *not* be reclassified to consolidated profit or loss			
Remeasurements		32	51
Tax effect		–9	–14
Total actuarial gains/losses from pensions		23	37
Items that will be reclassified to consolidated profit or loss:			
Currency translation differences			
Changes in unrealized gains/losses		42	–1,161
Tax effect		–12	325
Total currency translation differences		0	836
Currency translation differences		**53**	**–799**
Gesamtergebnis der Periode		**3,385**	**–73**
Total comprehensive income for the period attributable to:			
Owners of the parent		3,400	–57
Minority interests		–15	–16
Total comprehensive income for the period		**3,385**	**–73**
Earnings per share (basic = diluted)		0.39	0.00
Average number of shares outstanding (basic)		8,771,682	7,342,683

Consolidated Statement of Changes in Equity

for the period from January 1 to December 31, 2018

	Subscribed capital	Capital reserves	Retained earnings				Attributable to share-holders of Softing AG	Non-controlling interests	Total equity
			Net retained profits and other	Remeasure-ments	Currency translation	Total			
	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)
Balance as of December 31, 2017	**7,655**	**19,214**	**24,728**	**−1,321**	**2,028**	**25,436**	**52,305**	**−33**	**52,272**
Change in accounting policies			−26			−26	−26		−26
Balance as of January 1, 2018	**7,655**	**19,214**	**24,702**	**−1,321**	**2,028**	**25,410**	**52,279**	**−33**	**52,246**
Dividend payment			−995			−995	−995		−995
Capital increase	1,450	11,897				0	13,347		13,347
Remeasurements				32		32	32		32
Capital increase, minorities						0	0	126	126
Deconsolidation effect						0	0	67	67
Tax effect				−9	−82	−91	−91		−91
Currency translation					336	336	336		336
Net profit for 2018			3,347			3,347	3,347	−15	3,332
Balance as of December 31, 2018	**9,105**	**31,111**	**27,054**	**−1,298**	**2,282**	**28,039**	**68,255**	**145**	**68,400**

	Subscribed capital	Capital reserves	Retained earnings				Attributable to share-holders of Softing AG	Non-controlling interests	Total equity
			Net retained profits and other	Remeasure-ments	Currency translation	Total			
	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)
As of January 1, 2017	**6,959**	**12,270**	**25,342**	**−1,358**	**4,370**	**28,355**	**47,584**	**−17**	**47,567**
Dividend payment			−1,392			−1,392	−1,392		−1,392
Capital increase	696	6,944				0	7,640		7,640
Remeasurements				51		51	51		51
Deconsolidation effect			36			36	36		36
Tax effect				−14	403	389	389		389
Currency translation					−2,745	−2,745	−2,745		−2,745
Net profit for 2017			742			742	742	−16	726
Balance as of December 31, 2017	**7,655**	**19,214**	**24,728**	**−1,321**	**2,028**	**25,436**	**52,305**	**−33**	**52,272**

Consolidated Statement of Cash Flows

for the period from January 1 to December 31, 2018

	Jan. 01, 2018 – Dec. 31, 18 EUR (in thsds.)	Jan. 01, 2017 – Dec. 31, 17 EUR (in thsds.)
Cash flows from operating activities		
Profit (before tax)	4,609	1,129
Depreciation, amortization and impairment losses on fixed assets	4,937	4,494
Other non-cash transactions	74	1,194
Cash flows for the period	**9,620**	**6,817**
Interest income	–70	–47
Interest expense	231	235
Change in other provisions and accrued liabilities	–6	–124
Change in inventories	–1,490	147
Change in trade receivables	–1,424	–237
Change in financial receivables and other assets	–1,561	–516
Change in trade payables	1,381	–282
Change in financial and non-financial liabilities and other liabilities	2,442	–974
Interest received	70	0
Income taxes received	741	0
Income taxes paid	–506	–1,463
Cash flows from operating activities	**9,428**	**3,556**
Investments in fixed assets	–1,357	–970
Cash paid for investments in new internal/external product developments	–6,365	–4,600
Cash paid for the acquisition of subsidiaries/variable purchase prices	0	–4,209
Cash and cash equivalents acquired from the acquisition	6	0
Cash flows from investing activities	**–7,716**	**–9,779**
Cash paid for dividends	–995	–1,392
Cash received from short-term bank line	1,500	1,000
Repayment of bank loans	–2,504	–1,307
Cash received from capital increase	0	7,864
Interest paid	–231	–147
Cash flows from financing activities	**–2,230**	**6,018**
Net change in funds	–517	–205
Effects of exchange rate changes on cash and cash equivalents	–77	–388
Cash and cash equivalents at the beginning of the period	10,276	10,869
Cash and cash equivalents at the end of the period	**9,682**	**10,276**

For further information, please see item E3 of the Notes.

Consolidated Statement of Financial Position

as of December 31, 2018 and December 31, 2017

Assets	Note	Dec. 31, 2018 EUR (in thsds.)	Dec. 31, 2017 EUR (in thsds.)
Non-current assets			
Goodwill	C1/C2	17,985	14,540
Intangible assets	C3/C4	41,882	27,268
		59,867	41,808
Property, plant and equipment	C5	2,348	2,022
		62,215	43,830
Deferred tax assets	D9	765	2,071
Non-current assets, total		**62,980**	**45,901**
Current assets			
Inventories	C6	10,557	9,067
Trade receivables	C7	13,682	12,067
Receivables from customer-specific construction contracts	C8	0	760
Contract assets	C8	568	0
		14,250	12,827
Other current assets	C9	703	656
Current income tax assets	C10	1,652	1,991
Cash and cash equivalents	C11	9,682	10,276
Current assets, total		**36,844**	**34,817**
Total assets		**99,824**	**80,718**

Equity and liabilities	Note	Dec. 31, 2018 EUR (in thsds.)	Dec. 31, 2017 EUR (in thsds.)
Equity			
Subscribed capital	C12	9,105	7,655
Capital reserves	C12	31,111	19,214
Retained earnings	C12	28,039	25,436
Equity (Group share)	C12	68,255	52,305
Minority interests	C12	145	–33
Equity, total		**68,400**	**52,272**
Non-current liabilities			
Pensions and similar obligations	C13	2,141	2,181
Long-term borrowings	C14	1,976	4,153
Other non-current liabilities	C14	57	57
Deferred taxes	D 9	5,227	4,748
Non-current liabilities, total		**9,401**	**11,139**
Current liabilities			
Trade payables	C15	6,086	4,574
Payables from customer-specific construction contracts	C8	0	952
Contract liabilities	C8	2,069	0
Provisions and accrued liabilities	C16	175	163
Income tax liabilities	C17	1,407	598
Short-term borrowings	C18	6,215	4,788
Current non-financial liabilities	C19	1,549	2,663
Current financial liabilities	C20	4,522	3,569
Current liabilities, total		**22,023**	**17,307**
Total equity and liabilities		**99,824**	**80,718**

Changes in Intangible Assets and Property, Plant and Equipment

In the 2018 financial year

	Cost					
	Jan. 01, 2018	Acquisitions from business combinations	Additions	Currency differences	Disposals	Dec. 31, 2018
	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)
Intangible assets						
Goodwill	14,836	3,117	0	328	0	18,281
Internally generated intangible assets	28,893	0	5,626	21	1,471	33,069
Other intangible assets	20,301	12,313	896	865	62	34,313
	64,030	**15,430**	**6,522**	**1,214**	**1,533**	**85,663**
Property, plant and equipment						
Other equipment, furniture and fixtures and office equipment	4,136	25	1,200	37	438	4,960
	68,166	**15,455**	**7,722**	**1,251**	**1,971**	**90,623**

In the 2017 financial year

	Cost				
	Jan. 01, 2017	Additions	Currency differences	Disposals	Dec. 31, 2017
	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)
Intangible assets					
Goodwill	15,789	0	–953	0	14,836
Internally generated intangible assets	24,293	4,600	0	0	28,893
Other intangible assets	23,067	126	–2,495	397	20,301
	63,149	**4,726**	**–3,448**	**397**	**64,030**
Property, plant and equipment					
Other equipment, furniture and fixtures and office equipment	4,622	844	–69	1,261	4,136
	67,771	**5,570**	**–3,517**	**1,658**	**68,166**

Accumulated depreciation, amortization and impairment losses						Carrying amounts	
Jan. 01, 2018	Acquisitions from business combinations	Currency differences	Depreciation, amortization and impairment losses in the financial year	Disposals	Dec. 31, 2018	Dec. 31, 2018	Dec. 31, 2017
EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)
296	0	0	0	0	296	17,985	14,540
16,369	0	0	2,107	838	17,638	15,431	12,524
5,557	0	242	2,109	46	7,862	26,451	14,744
22,222		242	4,216	884	25,796	59,867	41,808
2,114	0	13	722	237	2,612	2,348	2,022
24,336	**0**	**255**	**4,938**	**1,121**	**28,408**	**62,215**	**43,830**

Accumulated depreciation, amortization and impairment losses					Carrying amounts	
Jan. 01, 2017	Currency differences	Depreciation, amortization and impairment losses in the financial year	Disposals	Dec. 31, 2017	Dec. 31, 2017	Dec. 31, 2016
EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)
296	0	0	0	296	14,540	15,493
14,220	0	2,149	0	16,369	12,524	10,073
4,877	–487	1,562	395	5,557	14,744	18,190
19,393	–487	3,711	395	22,222	41,808	43,756
2,365	–33	783	1,001	2,114	2,022	2,257
21,758	**–520**	**4,494**	**1,396**	**24,336**	**43,830**	**46,013**

Change in RoU of intangible assets and property, plant and equipment in financial year 2018, first-time application of IFRS 16

	Right of use cost				
	Jan. 01, 2018	Additions	Currency differences	Disposals	Dec. 31, 2018
	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)
Intangible assets					
RoU, other intangible assets	6	0	0	6	0
	6	**0**	**0**	**6**	**0**
Buildings					
RoU, buildings	4,877	704	126	65	5,642
	4,877	**704**	**126**	**65**	**5,642**
Property, plant and equipment					
RoU, office equipment	159	0	6	7	158
RoU, passenger cars	404	146	44	51	543
	563	**146**	**50**	**58**	**701**
	5,446	**850**	**176**	**129**	**6,343**

Expected change in RoU of intangible assets and property, plant and equipment in financial year 2019, first-time application of IFRS 16

	Right of use cost				
	Jan. 01, 2019	Additions	Currency differences	Disposals	Dec. 31, 2019
	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)
Intangible assets					
RoU, other intangible assets	0	0	0	0	0
	0	**0**	**0**	**0**	**0**
Buildings					
RoU, buildings	5,642	0	0	148	5,494
	5,642	**0**	**0**	**148**	**5,494**
Property, plant and equipment					
RoU, office equipment	158	0	0	78	80
RoU, passenger cars	543	0	0	100	443
	701	**0**	**0**	**178**	**523**
	6,343	**0**	**0**	**326**	**6,017**

Accumulated depreciation, amortization and impairment losses					Carrying amounts	
Jan. 01, 2018	Currency differences	Depreciation, amortization and impairment losses in the financial year	Disposals	Dec. 31, 2018	Dec. 31, 2018	Dec. 31, 2017
EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)
0	–1	6	5	0	0	6
0	–1	6	5	0	0	6
0	3	1,197	58	1,142	4,500	4,877
0	3	1,197	58	1,142	4,500	4,877
0	2	98	7	93	65	159
0	0	238	52	186	357	404
0	2	336	59	279	422	563
0	**4**	**1,539**	**122**	**1,421**	**4,922**	**5,446**

Accumulated depreciation, amortization and impairment losses					Carrying amounts	
Jan. 01, 2019	Currency differences	Depreciation, amortization and impairment losses in the financial year	Disposals	Dec. 31, 2019	Dec. 31, 2019	Dec. 31, 2018
EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)
0	0	0	0	0	0	0
0	0	0	0	0	0	0
1,142	0	1,252	143	2,251	3,243	4,500
1,142	0	1,252	143	2,251	3,243	4,500
93	0	30	77	46	34	65
187	0	189	100	276	167	357
280	0	219	177	322	201	422
1,422	**0**	**1,471**	**320**	**2,573**	**3,444**	**4,922**

Notes to the Consolidated Financial Statements for the 2018 Financial Year

A. GENERAL INFORMATION

1. BASIS

The consolidated financial statements of Softing AG were prepared in accordance with all International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) that were applicable on the balance sheet date and all Interpretations of the IFRS Interpretations Committee (IFRIC) that were binding for the financial year ended and applicable in the European Union in accordance with Regulation No. 1606/2002 of the European Parliament and of the Council on the application of international accounting standards. The term IFRS also includes the applicable International Accounting Standards (IASs). Furthermore, the provisions applicable under German Commercial law as defined in Section 315e (1) German Commercial Code (HGB) were also taken into account.

The consolidated income statement is drawn up using the nature of expense format. The consolidated financial statements are structured in accordance with the provisions of IAS 1. The presentation in the consolidated statement of financial position differentiates between current and non-current assets. Assets are classified as current if they become due within one year. The consolidated statement of financial position also differentiates between current and non-current liabilities. Liabilities are classified as current if they become due within one year.

The reporting currency is the euro (EUR). All amounts are stated in thousands of euros (EUR thousand) unless indicated otherwise. These financial statements cover the 2018 financial year based on the reporting period from January 1 to December 31 of that same year. Due to rounding, it is possible that individual figures and percentages may not precisely add up to the totals shown.

The consolidated financial statements and the Group management report are published in the electronic Federal Gazette.

The Executive Board of Softing AG released the consolidated financial statements to the Supervisory Board on March 22, 2019. It is the task of the Supervisory Board to examine the consolidated financial statements and declare whether it approves them.

2. PURPOSE OF THE GROUP

Softing AG, headquartered in Haar near Munich, Germany, is the Group's parent company. Softing AG is a stock corporation under German law. It is registered at Munich Local Court with the address "Richard-Reitzner-Allee 6, 85540 Haar."

The purpose of Softing AG and its subsidiaries is to provide analysis, consulting, development and implementation services in the context of IT projects as well as business studies, expert opinions and training, especially in the areas of process automation and production data acquisition, system and user software for micro- and minicomputer systems, long-distance data transmission, computer networks and commercial IT applications. The results of these activities are incorporated into the products marketed by the Softing Group.

3. NEW AND REVISED STANDARDS

Due to the first-time application of IFRS 9 and IFRS 15, the Group recorded transition effects in the areas described below from January 1, 2018, which led to a change in accounting policy. Softing applied the modified retrospective approach in the transition to both IFRS 9 and IFRS 15.

The following table shows the changes from December 31, 2017 to January 1, 2018 due to the first-time application of IFRS 9 and IFRS 15.

	Jan. 01, 2018	IFRS 9 effects	IFRS 15 effects	Dec. 31, 2017
Assets				
Non-current assets	45,901			45,901
Trade receivables	12,042	–25		12,067
Receivables from customer-specific construction contracts	0		–760	760
Contract assets	759	–1	760	0
Current assets	34,791	–26		34,817
Total assets	**80,690**	**–26**	**0**	**80,718**
Equity and liabilities				
Retained earnings	25,410	–26		25,436
Equity, total	52,246	–26		52,272
Non-current liabilities, total	11,139			11,139
Payables from customer-specific construction contracts	0		–952	952
Contract liabilities	2,331		2,331	0
Current non-financial liabilities	1,284		–1,379	2,663
Current liabilities, total	17,307		0	17,307
Total equity and liabilities	**80,690**	**–26**	**0**	**80,718**

IFRS 9 Financial Instruments

Classification and Measurement of Financial Instruments

First-time application of these requirements did not have a material impact on the net assets, financial position and results of operations. Application of the simplified approaches set out in IFRS 9 meant that prior-year figures were not restated.

Financial assets that were previously recognized at amortized cost are also measured at amortized cost under IFRS 9 because these are held in order to collect contractual cash flows that are solely repayments of principal and interest.

There is no change in the recognition of financial liabilities measured at amortized cost. Effects arising from the modification of financial liabilities are now required to be recognized in profit or loss. The provisions relating to the derecognition of financial assets and financial liabilities are largely unchanged.

The changes arising from the classification of financial instruments without considering the new impairment provisions under IFRS 9 are shown in the table below:

Classes of financial instruments	Measurement categories in accordance with IAS 39	Measurement categories in accordance with IFRS 9	Carrying amount Dec. 31, 2017	Carrying amount Jan. 1, 2018	Difference
Current financial assets					
Trade receivables	LaR	AC	12,067	12,042	–25
Current financial assets	LaR	AC	192	192	
Cash and cash equivalents	LaR	AC	10,276	10,276	
Liabilities					
Other long-term borrowings (> 1 year)	FLAC	FLAC	4,153	4,153	
Current financial liabilities					
Trade payables	FLAC	FLAC	4,574	4,574	
Short-term borrowings	FLAC	FLAC	4,788	4,788	
Current financial liabilities	FLAC	FLAC	3,569	3,569	

LaR = Loans and receivables
AC = Financial assets at amortized cost
FLAC = Financial liabilities at amortized cost

Impairment of Financial Assets

Furthermore, IFRS 9 introduces the expected loss model for recognition of impairment on financial assets. This means that a provision for risk must be recognized on the basis of historical credit loss rates before loss events occur; this must be updated at the balance sheet date to reflect current and forward-looking information. To determine the expected credit losses on trade receivables and contract assets after recognition of loss allowances on an individual assessment basis, the Group applies the simplified impairment model of lifetime expected credit losses. The maturity-specific allowance factors are based on historical as well as forward-looking information. Initial application of the new regulations reduced impairment losses on trade receivables and contract assets by EUR 26 thousand as of January 1, 2018 (before adjustment for deferred taxes) due to the use of a loss allowance table to calculate the loss allowances for trade receivables that were not considered on an individual assessment basis. The expected losses over the remaining term are determined as percentages depending on how long the receivables are overdue.

On the basis of the findings for 2014–2017, the following percentage adjustments were made as of January 1, 2018. These were also used unchanged for the 2018 consolidated financial statements:

	Dec. 31, 2018 %	Jan. 01, 2018 %
Not past due	0.10 %	0.10 %
Past due for 1 to 30 days	0.33 %	0.33 %
Past due for 31 to 90 days	0.50 %	0.50 %
Past due > 90 days	0.90 %	0.90 %

The following table shows the determination of the impairment of trade receivables using a collective assessment basis as of January 1, 2018:

	Carrying amount	Of which neither past due nor impaired	Of which not impaired and past due within the following time bands			
			Less than 90 days	91 to 180 days	181 to 360 days	More than 360 days
Jan. 01, 2018	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)
Trade receivables	12,067	7,476	4,590	1	0	0
Expected loss rate from trade receivables	–25	–7	–18	0	0	0
Contract assets from customer-specific construction contracts	760	760	0	0	0	0
Expected loss rate from contract assets	–1	–1	0	0	0	0
	12,801	**8,228**	**4,572**	**1**	**0**	**0**

Due to the application of simplified first-time application, the increase of EUR 26 thousand in the loss allowance (before adjustment for deferred taxes) was recognized in equity (retained earnings).

First-time application of the new impairment model did not give rise to any material impacts in cash and cash equivalents and other financial receivables.

Disclosures

The entry into force of IFRS 9 Financial Instruments also requires additional disclosures in the notes in accordance with IFRS 7 Financial Instruments: Disclosures. These relate in particular to disclosures on impairment losses and are made in chapter B.12

IFRS 15 Revenue from Contracts with Customers

The Group has applied IFRS 15 since January 1, 2018. This has led to changes in accounting principles and restatements of the amounts recognized in the financial statements. In compliance with the transitional provisions of IFRS 15, the Group applied the new regulations using the modified retrospective method. The new standard was only applied to contracts that had not yet been fulfilled by January 1, 2018.

The Group conducted an impact assessment before the amendments became effective. This assessment indicated that in general first-time application of IFRS 15 would not have a material impact on existing accounting practice. For this reason, no transition effects were recognized in equity as of the transition date. Only the amounts that were previously disclosed as receivables/liabilities from customer-specific construction contracts under

IAS 11 will be presented as contract assets or contract liabilities in the future. Deferred income will also be shown as contract liabilities.

Standards and Interpretations not Applied Early

IFRS 16 – Leases
On January 13, 2016, the IASB issued the final version of the new leasing standard, IFRS 16. The new rules must also be applied to existing leases. The amendments relate to accounting for (nearly all) leases which must be recognized at the lessee according to the "right of use" approach. According to this model, the lessee recognizes an asset for the right of use of the leased object during the lease period and a liability for the lease payments. The distinction to date between finance and operating leases was not retained. Instead, with only a few exceptions, all material leases will be recognized in the statement of financial position of the lessee in the future. Simplification options are provided for short-term lease agreements with a term of no more than 12 months and lease agreements covering low-value assets.

IFRS 16 (first-time application 2019) must be applied for the first time for financial years beginning on or after January 1, 2019. Earlier application is not envisaged. In 2018, the Group analyzed the effects of the standard on its net assets, financial position and results of operations.

We comment as follows on the future effects of the amended lease standard (IFRS 16):

	Theoretical effects in 2018 on depreciation by ROUA EUR (in thsds.)	Expected effects in 2019 on depreciation by ROUA EUR (in thsds.)
Depreciation – right of use – passenger cars	–238	–189
Depreciation – right of use – office and operating equipment	–98	–30
Depreciation – right of use – concessions	–6	0
Depreciation – right of use – buildings	–1,197	–1,252
Total depreciation, leases	**–1,539**	**–1,471**

Future Effects on the Income Statement

- We expect the depreciation amount on right of use assets (IFRS 16.53 a) to amount to EUR 1,471 thousand in 2019.
- The interest expense on lease liabilities (IFRS 16.53 b) is expected to amount to EUR 156 thousand in 2019; an incremental borrowing rate averaging 3.78% was estimated.

	Theoretical effects in 2018 on interest expense by ROUA EUR (in thsds.)	Expected effects in 2019 on interest expense by ROUA EUR (in thsds.)
Interest expense – passenger cars	–15	–10
Income statement – Interest expense – operating and office equipment	–5	–2
Income statement – Interest expense – concessions	0	0
Income statement – Interest expense – buildings	–171	–144
Total interest expense, leases	**–191**	**–156**

- The expense relating to short-term leases for which the elective option in IFRS 16.5 a in conjunction with IFRS 16.6 is exercised (i.e. the entity elects not to apply the general lease accounting model to leases being recognized at the lessee) will probably amount to EUR 78 thousand in 2019.
- The expense relating to leases of low-value assets < EUR 5,000, for which the elective option in IFRS 16.5 b in conjunction with IFRS 16.6 is exercised (i.e. the entity elects not to apply the general lease accounting model to leases being recognized at the lessee), is expected to amount to EUR 1 thousand in 2019.
- The expense relating to variable lease payments not included in the measurement of lease liabilities in the period (IFRS 16.53 e) will amount to EUR 0 thousand because this was not a requirement.
- Income from subleasing right-of-use assets (IFRS 16.53f) will probably amount to EUR 0 thousand in 2019 because the Group does not sublease any right-of-use assets.
- No gains or losses arising from sale and leaseback transactions are expected in 2019 because the Group has not entered into any sale and leaseback transactions.
- Lease expenses of around EUR 1.5 million will be eliminated.

Future Effects of Leases on the IFRS Balance Sheet
In addition to the statement of changes in non-current assets, the tables include a statement of changes in non-current assets for the changes in ROU for financial years 2018 (theoretical) and 2019 (expected).

Lease liabilities are expected to change as follows from January 1, 2019:

	Up to 1 year EUR (in thsds.)	2 to 5 years EUR (in thsds.)	More than 5 years EUR (in thsds.)
Lease liabilities – passenger cars	123	49	0
Lease liabilities – operating and office equipment	24	12	0
Lease liabilities – concessions	0	0	0
Lease liabilities – buildings	1,079	2,146	87
Total lease liabilities	**1,226**	**2,207**	**87**

Future Effects of Leases on the Cash Flow Statement
The effects of existing leases on the cash flow statement (IFRS 16.53 g) will amount to a cash outflow of EUR 1,493 thousand in 2019.

The following revised Standards do not have any material effects on the consolidated financial statements:

Classification and Measurement of Share-based Payment Transactions; Amendments to IFRS 2
The amendments to IFRS 2 made in June 2016 contain clarifications on the measurement base of cash-settled grants as well as on recognition of modifications of cash-settled grants to equity-settled grants. An exception to the classification principles of IFRS 2 has also been introduced: Where an entity is required to withhold an amount for an employee's tax obligation associated with a share-based payment and transfer that amount, normally in cash, to the tax authority on the employee's behalf, the transaction is classified in its entirety as an equity-settled share-based payment

transaction if it would have been so classified in the absence of a net settlement feature.

This amendment affects entities with the following arrangements:

- equity-settled grants whereby the entity is required to withhold an amount for the employee's tax obligation and transfer it to the tax authority;
- cash-settled grants that are subject to service conditions and/or non-market performance conditions;
- cash-settled grants modified to equity-settled grants.

Annual Improvements to IFRSs (2014 – 2016 Cycle)

The annual improvements to IFRSs published in 2016 contain the following requirements, whose application is mandatory from January 1, 2018:

IFRS 1 Deletion of the short-term exemptions from application of the transitional provisions of IFRS 7, IAS 19 and IFRS 10, because they have now served their intended purpose.

IAS 28 When an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organization, or a mutual fund, unit trust and similar entities, the entity may elect to measure that investment at fair value through profit or loss. The amendment clarifies that the entity must make this election separately for each associate or joint venture at initial recognition of the associate or joint venture.

Clarification that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

IAS 40 An entity must transfer a property to, or from, investment property in accordance with IAS 40.57 when, and only when, there is a change in use. The amendments clarify that this must be supported by evidence that a change in use has occurred and that the list of examples of evidence of a change in use provided in IAS 40.57 is not exhaustive. It is also stressed that a change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.

The following elective options exist for the transition to the amended standard:

- Prospective application to all changes in use from the beginning of the annual reporting period in which the entity first applies the amendments. At the date of first-time application, an entity must reassess the classification of property held at that date to determine whether it reflects the conditions that exist at that date. If this is not the case, the property must be reclassified with recognition of the effects in retained earnings at the date of first-time application.
- Retrospective application is permitted if, and only if, that is possible without the use of hindsight, i.e. the information needed for this was already available at the time of any earlier change in use.Additional disclosure requirements exist in the case of prospective application.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

The interpretation addresses the exchange rate to use on initial recognition of a foreign currency transaction in an entity's functional currency when an entity has received or paid advance consideration in a foreign currency on the related asset, expense or income.

Where a single advance payment has been made (or received), the date of the transaction is the date of initial recognition of the non-monetary asset or non-monetary liability arising from advance consideration. At this time, the spot exchange rate between the functional currency and the foreign currency is applied to the foreign currency amount.

If there are multiple payments or receipts in advance, the entity must determine a date of the transaction and, consequently, the exchange rate for each payment or receipt of advance consideration.

Entities can elect to apply the interpretation as follows:

- retrospectively in accordance with IAS 8;
- prospectively to all assets, expenses and income in the scope of the interpretation initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation;
- prospectively from the beginning of a prior reporting period presented as comparative information.

Future Requirements

The following new standards and interpretations have been published whose application is not yet mandatory in annual financial statements for the year ended December 31, 2018.

IFRS 17 Insurance Contracts

IFRS 17 was issued in May 2017 to replace IFRS 4 Insurance Contracts. The measurement model used in IFRS 17 is based on determining the current fulfillment cash flows of the insurance contracts, which means their carrying amounts must be adjusted in each reporting period on the basis of changes in estimates. Insurance contracts are measured using a building block approach. The following building blocks are used for the measurement:

- discounted probability-weighted expected cash flows;
- explicit risk adjustment; and
- a contractual service margin that represents the unearned profit from the contract that the entity will recognize as it provides services in the future.

The standard provides an option to recognize the effects of changes in discount rates either in profit or loss or directly in other comprehensive income. Exercise of this option will probably reflect the way in which the insurance company recognizes its financial assets in accordance with IFRS 9.

For certain insurance contracts with a short coverage period, entities can choose a simplified method (premium allocation approach) to determine the provision for the future insurance cover. These short-term contracts are often entered into by property and casualty insurers.

For certain contracts entered into by life insurers in which the policyholder participates in the returns of the underlying assets, the standard's general measurement model is applied in the form of the variable fee approach. When this approach is applied, the entity's share in the fair value changes of the underlying assets is included in the contractual service margin. The earnings of insurers that apply this model will therefore probably be less volatile than if the general model is applied.

The new rules will affect the contracts entered into and the key figures of all entities that issue insurance contracts or investment contracts with discretionary participation features.

IFRS 17 was issued in May 2017 and must be applied for the first time for financial years beginning on or after January 1, 2021.

The effects on the consolidated financial statements of Softing AG are currently being reviewed. No material changes are expected.

IFRIC 23 Uncertainty Over Income Tax Treatments

The interpretation explains how to recognize and measure current and deferred tax assets or liabilities when there is uncertainty over income tax treatments. It specifies in particular:

- how to determine the unit of account and that uncertain tax treatments should be considered separately or together based on which approach better predicts the resolution of the uncertainty;
- that the entity must assume that a taxation authority will examine the uncertain tax treatment and have full knowledge of all related information when making those examinations;
- that the entity must reflect the effect of uncertainty in its income tax accounts if it is not probable that the taxation authority will accept an uncertain tax treatment;
- that the effects of the uncertainty must be determined using either the most likely amount or the expected value method depending on which method the entity expects to better predict the resolution of the uncertainty;
- that a judgment or estimate always needs to be reassessed if the facts and circumstances on which the judgment or estimate was based change or as a result of new information that affects the judgment or estimate.

Although there are no new disclosure requirements, entities are reminded of the general obligation to provide information about assessment and estimates when preparing their financial statements.

IFRS 23 was issued in June 2017 and must be applied for the first time for financial years beginning on or after January 1, 2019.

The effects on the consolidated financial statements of Softing AG are currently being reviewed. No material changes are expected.

Prepayment Features with Negative Compensation – Amendments to IFRS 9

The amendments to IFRS 9 made in October 2017 allow entities to measure certain financial assets with negative compensation at amortized cost in the event of early repayment. These assets, which include a number of credit and debt instruments, would otherwise be measured at fair value through profit or loss.

To be considered for measurement at amortized cost, the negative compensation must constitute appropriate compensation for early termination of the contract and the financial asset must be allocated to the "hold" business model.

IAS 28 Long-term Interests in Associates and Joint Ventures

The amendments clarify the accounting for long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture measured using the equity method but to which the equity method is not applied. IFRS 9 is used for recognition and measurement of these interests. Consequently, any impairment requirements for these interests are determined in accordance with IFRS 9. IFRS 28.8, which considers such shares in the loss allocation in connection with the application of the equity method on the value of interests, remains applicable, however.

The amendment must be applied for the first time for financial years beginning after January 1, 2019. Earlier application is permitted.

Annual Improvements to IFRSs (2015 – 2017 Cycle)

The following improvements were finalized in December 2017:

IFRS 3: Where an entity, through acquisition of additional interests, obtains control as defined by IFRS 10 of a business that was previously a joint operation, this is referred to as a business combination achieved in stages. The entity therefore remeasures the previously held interest in the joint operation.

IFRS 11: Where an entity, through acquisition of additional interests, obtains joint control of a business that was previously a joint operation, the entity does not remeasure the previously held interest in that business.

IAS 12: Clarification that the income tax consequences of dividend payments on financial instruments classified as equity should be accounted for in accordance with the treatment of the transaction(s) leading to the tax effect.

IAS 23: Clarification that if any borrowings made specifically for the purpose of obtaining a qualifying asset remain outstanding after the related asset is ready for its intended use or sale, those borrowings become part of the funds that an entity borrows generally for other qualifying assets for which no specific borrowings are made.

The Group has applied the annual improvements since January 1, 2019. This does not affect the consolidated financial statements of Softing AG.

Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

The amendments to IAS 19 contain provisions on accounting for plan amendments, curtailments or settlements. These require an entity:

- to use updated actuarial assumptions and the net liability (or net asset) at the intervention date to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement;
- to recognize in profit or loss as part of the past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognized because of the impact of the asset ceiling;
- to recognize the impact of changes in the asset ceiling in other comprehensive income.

The amendments to IFRS 10 and IAS 28 clarify that gains or losses on the transfer of assets to an associate or joint venture must be recognized in full if the associate or joint venture constitutes a business as defined by IFRS 3. However, gains or losses on such a transaction are only recognized proportionally if the asset being transferred does not constitute a business. Entities will be able to apply the amendments prospectively.

In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting.

B. ACCOUNTING POLICIES

The financial statements of Softing AG and its domestic and international subsidiaries have been prepared using uniform accounting policies. The accounting policies were applied consistently for all periods presented in the consolidated financial statements.

1. RECOGNITION OF REVENUE

Revenue is measured at the fair value of the consideration received or rendered, less returns and discounts and volume rebates granted. The following details apply to the recognition of revenue:

Revenue from the Sale of Products

Revenue from the sale of products is recognized when control of distinct goods is transferred to the customer. This means that the customer can direct the use of, and obtain substantially all of the remaining benefits from, the goods. A contract between Softing and the customer provides the basis for this. The parties must have agreed to the contract and the arrangements stipulated therein, the individual obligations of the parties and the payment terms must be identifiable, the contract must have commercial substance, and it must be likely that Softing will receive consideration for the service provided. The revenue generally corresponds to the transaction price. Softing bases its determination of the transfer of control on the Incoterms agreed. A receivable is reported on shipment of the goods because at this time the right to consideration is unconditional, meaning that from this date payment automatically becomes due in time. If the contract contains more than one distinct performance obligation, the transaction price is divided up between the individual performance obligations on the basis of the relative standalone selling prices. If no standalone selling prices can be observed, Softing estimates these. The individual identifiable performance obligations are realized on a specific date. Payments normally fall due no later than 30 days after the goods have been sent to the customer.

Revenue from Services

Revenue from services mainly comprises customer-specific software developments. If, based on their specifications, the customer developments do not have an alternative use and there is an enforceable right to payment from the customer at least in the amount of a refund of the costs arising from the performance completed to date, including a reasonable profit margin, revenue is recognized over time. The percentage of completion is calculated using the cost-to-cost method because the costs incurred represent the best indicator for the performance obligation that has already been satisfied. The performance that has been completed at the end of the reporting period is recognized as a proportion of the total performance to be completed. Where contracts include hardware installation, the revenue for the hardware is recognized at the date on which the hardware was delivered, ownership was transferred, and the customer accepted the hardware. Estimates concerning the revenue, cost or order progress are adjusted as soon as circumstances change. Any resulting increases or decreases in the estimated revenue or costs are recognized in profit or loss for the period in which management becomes aware of the circumstances leading to the adjustment. In the case of fixed-price contracts, the customer pays an amount set in a payment schedule. If the services Softing performs exceed the payment amount, a contract asset is recognized. If the payments are higher than the value of the services performed, a contract liability is disclosed.

Revenue from the performance of other services is recognized in the reporting period in which the services are performed. Where the contact stipulates a fixed hourly rate, revenue is recognized in the amount which Softing is entitled to invoice. Services are normally invoiced on a monthly or quarterly basis and payment is due within 30 days of receipt of invoice.

Interest Income

Interest is recognized using the effective interest method. Interest income from bank balances and other financial assets is recognized as income only if the Company is likely to partake of the economic benefit and if the amount of income can be reliably determined.

2. BASIS OF CONSOLIDATION

The consolidated financial statements as of December 31, 2018 include Softing AG and the following subsidiaries, over which Softing AG directly or indirectly exercises control:

Softing Group as of Dec. 31, 2018	Capital share	
	2018 %	2017 %
Softing AG, Haar/Germany		
Softing Automotive Electronics GmbH, Haar/Germany	100	100
Softing Services GmbH, Haar/Germany	100	100
Softing Engineering & Solutions GmbH, Kirchentellinsfurt/Germany, formerly Softing Messen und Testen GmbH	100	100
Softing Industrial Automation GmbH, Haar/Germany	100	100
Softing Italia s.r.l., Cesano Boscone/Italy	100	100
SoftingROM s.r.l., Cluj-Napoca/Romania	100	100
Buxbaum Automation GmbH, Eisenstadt/Austria	65	65
Softing Inc., Newburyport/USA	100	100
Softing North America Holding Inc., Delaware/USA	100	100
OLDI Online Development Inc., Knoxville/USA	100	100
Softing IT Networks GmbH, Haar/Germany	100	100
Softing Singapore Pte. Ltd., Singapore	100	100
Softing S.A.R.L., Paris/France	100	100
Softing Electronic Science & Technology (Shanghai) Co., Ltd, Shanghai/China, formerly Shanghai Softing software Co., Ltd.	50	100
Softing Automotive Electronics (Kirchentellinsfurt) GmbH, Kirchentellinsfurt/Germany, formerly Softing Automotive Electronics Services GmbH	100	100
GlobalmatiX AG Vaduz/Liechtenstein	100	0
GlobalmatiX Inc., Knoxville/USA	100	0

As of December 31, 2018, the following changes occurred in the basis of consolidation of Softing AG compared to December 31, 2017:

GlobalmatiX AG
On March 16, 2018, Softing AG acquired all of the interests in GlobalmatiX AG in Vaduz, Liechtenstein.

GlobalmatiX AG is a mobile virtual network operator (MVNO) offering mobile data communications for vehicles and machinery in Europe and North America where such technology is needed in the areas of (semi-)autonomous driving and other connected services for vehicles and machinery.

This acquisition enables Softing to significantly extend its capabilities in the megatrends of digitalization and Industrie 4.0 and lays the foundation for new service-focused revenue.

The purchase price of EUR 13.7 million paid in shares of Softing AG was financed based on the authorization granted by the General Shareholders' Meeting of Softing AG on May 6, 2015 (Authorized Capital 2015). On March 16, 2018, the Executive Board of Softing AG decided with the approval of the Supervisory Board to increase the Company's share capital by EUR 1,450,000 from EUR 7,655,381 to EUR 9,105,381 shares against contributions in kind by issuing 1,450,000 new no-par bearer shares at an issue price of EUR 9.43. Mr. Alois Widmann, Vaduz, Principality of Liechtenstein, was permitted to subscribe to and accept the new shares. Mr. Widmann is transferring all of his shares in GlobalmatiX Aktiengesellschaft, headquartered in Vaduz, Liechtenstein, to the Company. The Company and Mr. Widmann entered into a transfer agreement to this effect on March 16, 2018.

GlobalmatiX Inc.
On October 30, 2018, Softing North America Holding Inc. founded GlobalmatiX Inc., Knoxville/USA. GlobalmatiX Inc. will take over marketing of GlobalmatiX AG products in North America.

Softing Electronic Science & Technology (Shanghai) Co., Ltd., Formerly Shanghai Softing software Co., Ltd.
On February 10, 2018, Softing Services GmbH signed an agreement with Beijing Windhill Technology Co., Ltd. on the sale of 50% of the shares in Softing Electronic Science & Technology (Shanghai) Co., Ltd. (formerly Shanghai Softing software Co., Ltd., Shanghai/China. At the same time, Softing Services GmbH and Beijing Windhill Technology Co., Ltd. entered into an agreement on a future joint venture; the purchase price paid for 50% of the shares was EUR 1 thousand.

Softing is thus taking account of the considerable importance of the Chinese automotive market, which is characterized by a rapidly growing need for product and project solutions in Softing's core expertise in the development and diagnostics of control units. Up to 50 experienced sales and development employees are available to Softing Electronic Science & Technology (Shanghai) Co., Ltd. in the Shanghai and Beijing offices.

Softing Electronic Science & Technology (Shanghai) Co., Ltd. will continue to be included in the group of consolidated affiliated companies because Softing is responsible for the company's economic and financial management. Softing holds two of the three seats on its Board of Directors and Softing Electronic Science & Technology (Shanghai) Co., Ltd. is dependent on the marketing of software products developed by subsidiaries of Softing.

Softing Messen & Testen GmbH and Softing Projekt Services GmbH

Softing Project Services GmbH was merged into Softing Messen & Testen GmbH effective August 1, 2018. At the same time, Softing Messen & Testen GmbH was renamed Softing Engineering & Solutions GmbH domiciled in Kirchentellinsfurt.

Softing Automotive Electronics Services GmbH

Softing Automotive Electronics Services GmbH was renamed Softing Automotive Electronics (Kirchentellinsfurt) GmbH effective August 1, 2018.

The following subsidiaries avail themselves of exemption pursuant to Section 264 (3) German Commercial Code:

- Softing Industrial Automation GmbH (Haar)
- Softing Automotive Electronics GmbH (Haar)
- Softing Services GmbH (Haar)
- Softing Engineering & Solutions GmbH (Kirchentellinsfurt)
- Softing IT Networks GmbH (Haar)

3. PRINCIPLES OF CONSOLIDATION

Subsidiaries are all companies that the Group controls in terms of financial and operating policies. The consolidation of an entity is contingent on the possibility of control. According to IFRS 10, a control relationship requires power over an investee, returns, and the ability to affect those returns through this power. Power is defined as a situation in which the parent has the ability to direct the relevant activities of the investee which significantly affect the investee's returns. Power can be demonstrated by way of voting rights or other contractual rights. A combination of both is also possible. Power is exerted if an entity holds more than 50% of the voting rights in an investee, and no other contradictory agreements or circumstances exist. In assessing control, potential voting rights, economic dependence, the interest held compared with that of the other shareholders, and voting patterns at shareholder meetings must be taken into consideration.

Subsidiaries acquired are accounted for using the purchase method. The consideration for the acquisition is equal to the fair value of the transferred assets, the equity instruments issued by the Group and the liabilities assumed from the previous owners of the acquired subsidiary as of the acquisition date. In addition, the consideration paid includes the fair value of any recognized assets or liabilities arising from agreed contingent consideration. Acquired assets identifiable in the course of a business combination along with liabilities and contingent liabilities assumed are recognized when they are acquired at their fair value at the time of acquisition. For each acquisition of an entity, the Group decides on a case-by-case basis whether the non-controlling interests in the entities acquired are recognized at fair value or in the amount of their proportional share of the net assets of the acquired entity.

Any contingent consideration to be paid by the Group is recognized at fair value at the time of acquisition. Future adjustments to the fair value of contingent consideration classified as an asset or a liability are measured in accordance with IFRS 9 and recognized in profit or loss. Contingent consideration that is classified as equity is not remeasured and, when settled later, is accounted for in equity.

Transactions involving non-controlling interests without a loss of control are reported as transactions with the owners of the Group acting in their capacity as owners. Any difference between the fair value of the consideration paid and the acquired interest in the carrying amount of the net assets of the subsidiary arising from the acquisition of a non-controlling interest is recognized in equity. Gains and losses arising from the sale to non-controlling interests are also recognized in equity.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control begins and until the date on which control ends.

Intragroup sales, expenses and income, receivables and payables as well as the results of intragroup transactions (intercompany profits) are eliminated during consolidation.

4. INTANGIBLE ASSETS

Intangible assets comprise goodwill resulting from acquisition accounting as well as other intangible assets and capitalized development costs. With the exception of goodwill resulting from acquisition accounting, all intangible assets have a finite useful life.

5. DEVELOPMENT COSTS

Development costs for developing new products and for materially refining a product or process are capitalized if the product or process is technically and financially feasible; if there is an intention to complete it; if the development is marketable; if the costs can be reliably determined; and if the Group possesses sufficient resources to complete the development project. All other development costs are immediately recognized as expenses in the income statement. Capitalized development costs for completed projects are reported at cost net of accumulated amortization and impairment. In that connection, the costs also include allocable material and production overheads besides the costs of material and direct production. Administrative costs are capitalized only if there is a direct relationship to production. The Softing Group amortizes the development costs for new product lines and product versions over their respective useful life using the straight-line method; amortization in the year the product lines or versions are completed is recognized on a pro-rata basis. In accordance with IAS 38, research costs cannot be capitalized and are immediately recognized as an expense in the income statement.

6. GOODWILL

Goodwill arises in conjunction with the acquisition of subsidiaries and equals the total of the consideration paid, the amount of all non-controlling interests in the acquired entity, and the fair value of previously held equity interests in the acquired entity, less the fair value of the net assets acquired. If the fair value of the net assets acquired exceeds the total of the consideration paid, the amount of all non-controlling interests, and the fair value of the previously held equity interests, the difference is recognized directly in profit or loss.

According to IFRS 3, goodwill is not amortized but subjected to an annual impairment test pursuant to IAS 36 if there is an indication of impairment. For the purpose of this impairment test, goodwill is allocated to a cash generating unit (CGU).

At Softing, the cash generating units correspond to the individual entities unless an entity's business activity covers more than one segment. In this case, goodwill is allocated based on segments. The relevant cash generating units for goodwill are:

- Softing Engineering & Solutions GmbH, Kirchentellinsfurt/Germany
- Softing Industrial Automation GmbH, Haar/Germany
- OLDI Online Development Inc., Knoxville/USA
- Softing IT Networks GmbH, Haar/Germany & Softing Singapore Pte. Ltd., Singapore
- GlobalmatiX AG Vaduz/Liechtenstein & GlobalmatiX Inc. Knoxville/USA

An impairment loss is recognized if the carrying amount of the cash generating unit to which the goodwill is allocated is higher over the long term than the recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. If the carrying amount of the CGU is higher than its recoverable amount, the difference is directly recognized as an impairment charge in profit or loss. As the fair value less costs to sell cannot be determined with reasonable effort, the value in use is recognized.

The value in use of the cash generating unit was determined as follows: Based on the bottom-up planning for the next four financial years as approved by the management of Softing AG, the future cash flows (before interest and taxes) of the cash generating unit were determined. The planning is based on historical data and the best possible estimates of management regarding future developments. In order to carry out the impairment test, the management estimated the cash generated beyond the planning period, assuming that growth of 1.5% (previous year: 1.5%) is recorded in future years. The value in use of the underlying cash generating unit was determined by applying the discounted cash flow method. The discount rate used is a pre-tax rate and reflects the specific risks of the Group company in question. In each case, it is calculated using the capital asset pricing model (CAPM).

According to this model, the costs of capital are comprised of the risk-free interest rate and a risk premium calculated as the difference of the average market return and the risk-free interest rate multiplied by the company-specific risk (beta factor). The beta factor for this is derived from a group of comparable companies. When determining the value in use, discount rates before taxes are taken as a basis for each cash-generating unit.

An impairment loss recognized on goodwill is not reversed in future periods.

7. OTHER INTANGIBLE ASSETS

Intangible assets acquired for consideration are carried at amortized cost. They are amortized in accordance with their respective useful life using the straight-line method. Software and technology is amortized over a period of three to seven years in accordance with its respective useful life using the straight-line method. Rights and business relations are amortized over a period of five to twenty years.

8. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is measured at cost, less accumulated depreciation, usage-based accumulated depreciation and usage-based accumulated impairment losses.

Property, plant and equipment is depreciated using the straight-line method in accordance with its useful life. Hardware is depreciated over three years; furniture and fixtures are depreciated over five to seven years, and new equipment installed is depreciated over the remaining term of the lease. If fixed assets are disposed, cost and accumulated depreciation are derecognized; income/loss from the disposal of fixed assets is recognized in the income statement under other operating income/ expenses.

Costs related to repairs and maintenance work are recognized as expenses at the time they are incurred. Significant renovations and improvements are only allocated to the carrying amount of the original asset or capitalized as a separate asset if it is probable that economic benefits will flow to the Group in connection with that asset in the future, and these benefits can be estimated reliably.

9. IMPAIRMENT

The Group reviews the carrying amounts of intangible assets and property, plant and equipment at each reporting date for indications of impairment. In this case, the recoverable amount of the relevant asset is determined for the purpose of determining the scope of the potential impairment loss. The recoverable amount is the higher of fair value less costs to sell or the value in use. The value in use corresponds to the present value of the estimated cash flows. An interest rate before taxes that corresponds to market rates is used as the discount rate. If no recoverable amount can be determined for an individual asset, the recoverable amount for the smallest identifiable class of assets (cash generating unit – CGU), to which the respective asset can be allocated, is determined. Goodwill resulting from acquisitions are allocated to the CGUs that are to reap the benefits from the synergies arising from the acquisition. Such cash generating units represent the lowest reporting level in the Group at which management monitors the goodwill for internal control purposes. The recoverable amount of a CGU that contains goodwill is tested for impairment at least once a year. An impairment loss is recognized for an asset immediately if its recoverable amount is lower than its carrying amount. If the recoverable amount of the asset or the CGU is determined to be higher after an impairment loss has been recognized, the write-down of the asset or the CGU is not reversed.

10. LEASES

The Company has only entered into operating leases in 2018. The lease payments are recognized over the relevant term on a straight-line basis. There are no finance lease agreements.

11. INVENTORIES

Inventories are recognized at the lower of cost or net realizable value. As a rule, production supplies and goods for resale/finished merchandise are recognized at the weighted average.

Production costs comprise material and production costs overheads directly attributable to the production process as well as reasonable amounts of the production-related overheads. Production costs do not include selling costs and general administration costs. If the net realizable value at the balance sheet date is below cost, for instance because of long periods of storage, damage or reduced marketability, inventories are written down to the lower value. Net realizable value is the estimated selling price of the item in the course of ordinary business less estimated costs incurred until completion and less estimated necessary selling costs.

12. FINANCIAL ASSETS IN ACCORDANCE WITH IFRS 9 FROM JANUARY 1, 2018

Financial assets comprise in particular:

- Trade receivables
- Other financial assets, and
- Cash and cash equivalents

Financial assets with a term of more than twelve months are presented under non-current financial assets.

Financial assets are classified based on the underlying business model and the cash flow characteristics, which stipulate that the contractual cash flows of a financial asset may solely comprise repayments of principal and interest on the principal amount outstanding. The cash flow characteristics are always tested at the level of the individual financial instrument. The business model is assessed based on the question of how financial assets can be managed to generate cash flows. Management can be based on a hold or sell model or a combination of the two.

The Group divides financial assets into one of the following categories:

- Financial assets measured at amortized cost (debt instruments)
- Financial assets at fair value through other comprehensive income (debt instruments)
- Financial assets at fair value through profit or loss
- Financial assets at fair value through other comprehensive income (equity instruments)

Financial Assets Measured at Amortized Cost (Debt Instruments)

The most important category of financial assets for the Group is the category of assets measured at amortized cost relating to debt instruments. They are recognized at amortized cost if the following two criteria are met:

- The business model for managing these financial instruments involves holding them to collect the underlying contractual cash flows, and
- The contractual cash flows generated consist solely of principal and interest.

These financial assets are subsequently measured using the effective interest method subject to the impairment rules in IFRS 9.5.5 ff. In the Group it is mainly trade receivables, other financial assets and bank deposits that belong to this category.

Financial Assets at Fair Falue Through Other Comprehensive Income (Debt Instruments)

Debt instruments are recognized at fair value through other comprehensive income including recycling if the following two criteria are met:

- The business model for managing these financial instruments involves holding them to collect the underlying contractual cash flows, and selling them, and
- The contractual cash flows generated consist solely of principal and interest.

For this category of financial assets, interest, foreign currency measurement effects, and expenses and income are recognized through profit or loss in the income statement in connection with impairment losses. Any changes are recognized in other comprehensive income in accordance with IFRS 9 and reclassified to profit or loss when the assets are sold (recycling).

The Group currently does not have any financial assets that fall in the scope of this measurement category.

Financial Assets at Fair Value Through Profit or Loss

This category comprises financial assets held for trading, financial instruments measured using the fair value option, financial assets mandatorily at fair value and equity instruments not measured at fair value through other comprehensive income. An asset is classified as held for trading if it is acquired or incurred for the purpose of selling or repurchasing it in the near term. Derivatives that are not part of a hedge are always held for trading. Financial assets that do not satisfy the cash flow characteristics are always measured at fair value through profit or loss irrespective of the underlying business model. The same measurement applies to financial instruments that are held within a business model whose objective is to collect contractual cash flows (“sell” model).

The fair value option for financial assets is not used in the Group.

Any changes in the fair value of these instruments are recognized in profit or loss.

The Group currently does not have any financial assets that fall in the scope of this measurement category.

Financial Assets at Fair Value Through Other Comprehensive Income (Equity Instruments)

When recognizing an equity instrument for the first time, the Group has the irrevocable option to measure this at fair value through other comprehensive income. This is subject to the condition that the instrument is an equity instrument in accordance with IAS 32 that is not held for trading purposes and does not constitute contingent consideration within the meaning of IFRS 3. The option is exercised separately for each individual equity instrument.

On the disposal of such financial assets, any gains or losses are not recycled through profit or loss. Dividends from such instruments are recognized in profit or loss. Equity instruments measured at fair value through other comprehensive income are not subject to the provisions on impairment.

The Group currently does not have any financial assets that fall in the scope of this measurement category.

Impairment of Financial Assets

Financial assets, except financial assets measured at fair value through profit or loss, contract assets in accordance with IFRS 15, lease receivables, loan commitments and financial guarantees are subject to the impairment model within the meaning of IFRS 9.5.5. According to this approach, the Group must recognize a loss allowance on these assets based on the expected credit loss. The expected credit loss is the difference between the contractually agreed cash flows and the expected cash flows, measured at present value and applying the original effective interest rate. Expected cash flows also include proceeds from short hedges and other loan collateral that is an integral part of the relevant contract.

As a rule, expected credit losses are recognized in three stages. For financial assets which have not experienced a significant increase in credit risk since initial recognition, a loss allowance in the amount of the expected 12-month credit loss is recognized (Level 1). Where a significant increase in credit risk has occurred, the expected credit loss for the remaining lifetime of the asset is determined (Level 2). The Group generally assumes that a significant increase in credit risk has occurred if payments are 30 days past due. This principle can be refuted if reliable and justifiable information indicates in individual cases that credit risk has not increased. If there is objective indication of impairment, the underlying assets must be assigned to Level 3. Objective evidence of impairment is assumed if the assets are more than 90 days past due unless there is reliable, justifiable information in the specific case that longer arrears are more appropriate. Moreover, a refusal to make payment and similar are considered objective evidence of impairment.

The class of assets that is relevant for the Group for application of the simplified impairment model comprises trade receivables and contract assets. For these, the Group applies the simplified approach in accordance with IFRS 9.5.15. In this approach, the loss allowance always equals the credit loss expected over the lifetime of the asset.

For other assets subject to the amended impairment model in IFRS 9 and to which the general approach is applied, the expected credit loss is measured by grouping financial assets on the basis of common credit risk characteristics, and considering individual default information. In any case, the calculation is based on current probabilities of default on the respective reporting date.

Softing generally assumes that a default has occurred when contractual payments are more than 180 days past due. In addition, in individual cases, other internal and external information may be considered that indicates that contractual payments cannot be paid in full. Financial assets are derecognized when there is no reasonable expectation that future payments will be made.

13. FINANCIAL ASSETS IN ACCORDANCE WITH IAS 39 UNTIL DECEMBER 31, 2017

Financial assets are only recognized if Softing is a party to the agreement governing the financial assets. Financial assets are derecognized when the rights to cash flows from a financial asset expire or are transferred to a third party. When transferring rights, the criteria of IAS 39 with regard to the transfer of rewards and risks connected to owning the financial assets must be taken into account.

At Softing, financial assets are categorized as follows: (a) financial assets at fair value through profit or loss; (b) loans and receivables; and (c) available-for-sale financial assets. The categorization depends on the purpose for which the financial assets were acquired. Management determines the categorization of financial assets upon initial recognition.

a. Financial liabilities at fair value through profit or loss
   Assets classified as at fair value through profit or loss are financial assets held for trading purposes. A financial asset is assigned to this category if it was as a rule acquired for the purpose of being a short-term purchase. Assets in this category are reported as current assets if the sale of these assets is expected within 12 months. All other assets are classified as non-current assets.

b. Loans and receivables
   Loans and receivables are non-derivative financial assets with fixed and determinable payments that are not quoted on an active market. They are classified as current assets as long as they are not due more than 12 months after the reporting date. If this 12-month period is exceeded, they are reported as non-current assets. Loans and receivables are reported in the consolidated statement of financial position under "Trade receivables and other receivables" and "Cash and cash equivalents."

c. Available-for-sale financial assets
   Available-for-sale financial assets are non-derivative assets that were either assigned to this category or none of the other categories presented here. They are classified as non-current assets, if management does not intend to sell them within 12 months after the reporting date, and the asset is not due within this period.

Financial assets that are not classified as at fair value through profit or loss are initially measured at their fair value plus transaction costs. Financial assets belonging to this category are initially measured at their fair value; associated transaction costs are recognized in profit or loss. For subsequent measurement, financial assets are allocated to the categories listed above.

The following applies to subsequent measurement:

Loans and receivables are carried at amortized cost using the effective interest method.

Financial assets held for sale are recognized at fair value, with unrealized gains and losses from exchange rate changes being shown in other comprehensive income until realization. If there is objective evidence that the financial asset is impaired, the cumulative loss that had been recognized other comprehensive income is removed from equity and recognized in profit or loss. The Company includes all available information such as market conditions and prices, factors specific to the given investment as well as duration and scope of the decline in the fair value below the cost to assess whether the financial assets available for sale are impaired. Softing considers any decline that exceeds 20% of the cost or continues for more than six months as an objective indication of impairment. Softing reverses an impairment loss in subsequent periods if the reasons for the impairment no longer exist.

If there is objective evidence of impairment, an allowance equaling the difference between the carrying amount and present value of estimated future cash flows is recognized. Objective indications include, for example, a considerable or long-term decline in the fair value of a financial asset to a level lower than the carrying amount, a high probability of insolvency or other types of restructuring, or a breach of contract by the issuer such as considerable payment delays.

Financial assets of all categories are recognized as of their settlement date. Financial assets comprise the statement of financial position items cash and cash equivalents, trade receivables, securities and other financial receivables.

Trade Receivables and Other Financial Receivables

Both trade receivables and other financial receivables are classified as "loans and receivables" and measured accordingly.

Securities, Cash and Cash Equivalents

Securities are classified as available-for-sale financial assets and accounted for at their fair value. Unrealized gains and losses are recognized in other comprehensive income as part of the revaluation surplus, allowing for deferred taxes. In case of impairment, the revaluation surplus is adjusted by the amount of the impairment, and the respective amount is recognized in the income statement.

Cash and cash equivalents comprise all liquid assets with remaining maturities of less than three months on the date of acquisition or investment. Cash and cash equivalents are measured at their nominal value.

14. CONTRACT ASSETS AND CONTRACT LIABILITIES (FROM JANUARY 1, 2018)

Contract assets arise from the application of revenue recognition over time. At Softing this is particularly the case when the products, based on their specifications, do not have an alternative use and there is an enforceable right to payment from the customer at least in the amount of a refund of the costs arising from the performance completed to date, including a reasonable profit margin (software development for customers). In such cases, Softing recognizes revenue on the basis of the input-oriented cost-to-cost method. Here, the revenue is recognized in accordance with the stage of completion. The stage of completion is the proportion that contract costs incurred for work performed to date bear to the total contract costs.

Since revenue is required to be recognized before the date on which Softing has an unconditional right to consideration, a contract asset is recognized.

Contract liabilities mainly result from advances received from customers where these are in connection with a customer order and the products have not yet been delivered or performance completed.

Contract assets and contract liabilities are netted at the level of the individual contract. Depending on the remaining term, the assets or liabilities are presented as current or non-current.

The provisions of IFRS 9 on impairment are applied to contract assets.

14. RECEIVABLES FROM CUSTOMER-SPECIFIC CONSTRUCTION CONTRACTS (UNTIL DECEMBER 31, 2017)

Customer-specific construction contracts (software development for customers) are recognized according to the percentage of completion method under IAS 11, which stipulates that revenue must be recognized in accordance with the stage of completion. The stage of completion is the proportion that contract costs incurred for work performed to date bear to the total contract costs (cost-to-cost method). Recognition must be reliable as stipulated in IAS 18.14. Advances received are offset against the degree of completion of the construction contracts. Contract work is recognized under receivables arising from customer-specific construction contracts to the extent that in individual cases the degree of completion exceeds the advances received". Any negative balance remaining after deduction of the advances is recognized under liabilities arising from customer-specific construction contracts.

15. OTHER ASSETS

The other assets comprise non-financial assets. They are initially measured at fair value and then are recognized at depreciated or amortized cost.

16. CURRENT AND DEFERRED TAXES

The tax expense for the period comprises current and deferred taxes.

Taxes are recognized in the income statement unless they relate to an item that was recognized directly in equity or in other comprehensive income. In this case, the taxes are also recognized in equity or in other comprehensive income.

The current tax expense is measured based on the tax regulations of the countries in which Softing and its subsidiaries do business and generate taxable income that are applicable on the reporting date (or applicable in the near future). Management regularly reviews tax returns, particularly with regard to circumstances open to interpretation and, where appropriate, recognizes provisions in the amounts the Company is expected to have to pay to the tax authorities. Income taxes are determined using the balance sheet liability method.

As a rule, deferred tax assets and deferred tax liabilities are recognized for all temporary differences between the carrying amount of an asset or liability and its fair value determined for tax purposes. Deferred tax assets are also recognized for tax loss carryforwards and tax credits.

Deferred tax assets on tax loss carryforwards must be recognized to the extent that the future use of these tax loss carryforwards is probable. All deferred tax assets on tax losses were therefore recognized taking their realizability into account.

Deferred taxes are determined on the basis of the tax rates which, based on the current legal situation, apply at the time of realization or which are expected to apply in the individual countries. The effect of changes in tax rates on deferred taxes is recognized in profit or loss, or in equity, at the time the legal changes become effective.

Deferred tax assets are only recognized in the amount in which it is probable that taxable income will be available against which temporary differences can be applied.

Deferred tax liabilities and assets, which arise through temporary differences in the context of investments in subsidiaries are recognized, unless the Group can determine when the temporary differences reverse and it is probable that the temporary differences will not reverse in the foreseeable future as a result of this effect.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

17. PENSION PROVISIONS

Provisions for defined benefit pension plans are measured in accordance with IAS 19 using the projected unit credit method. This method takes into account not only the pensions and benefits accrued but also expected future pension increases based on a prudent assessment of relevant factors. Calculation is based on actuarial expert opinions taking into consideration biometrical assumptions and a discount rate derived from the yield of high-quality corporate bonds with matching maturities. The amount of the provision for defined benefit plans recognized in the statement of financial position corresponds to the present value of the defined benefit obligation on the balance sheet date less the fair value of the plan assets. The present value is calculated by discounting the expected future cash flows at an interest rate applicable to high-quality corporate bonds. Actuarial remeasurements are recognized in other comprehensive income.

18. PROVISIONS AND ACCRUED LIABILITIES

The other provisions are recognized for all other contingent liabilities and risks of the Softing Group toward third parties. They are recognized only if the current obligation (factually or legally) arises from a past event, if utilization is probable, and if the amount of the obligation can be estimated reliably. The amount recognized comprises the present value of the expected expenditure, including interest cost, if any, on non-current provisions, required to settle the present obligation at the balance sheet date.

19. FINANCIAL LIABILITIES

Financial liabilities frequently constitute an obligation to return in cash and cash equivalents or another financial asset. Financial liabilities are only recognized if Softing is a party to the agreement governing the financial liabilities. Financial liabilities are removed from the statement of financial position when they have been extinguished, i.e. when the obligations specified in the contract are discharged or canceled or expire.

Upon initial recognition, general and specific borrowings are measured at fair value after deduction of transaction costs. They are subsequently measured at amortized cost. Any difference between the disbursement amount (after deduction of transaction costs) and the repayment amount is amortized over the term of the loan using the effective interest method. All financial liabilities held for trading fall into the category of financial liabilities at fair value through profit or loss. These include derivatives that are not part of a hedge and financial instruments for which the fair value option was exercised. Softing does not have any such financial instruments at present.

The Group has not made use of the fair value option for debt instruments in accordance with IFRS 9.

Financial liabilities comprise the statement of financial position items “Trade payables” and “Current financial liabilities”.

20. SHORT-TERM BORROWINGS

Short-term borrowings include current liabilities to banks. Short-term borrowings are initially recognized at fair value.

Financial liabilities are classified as current if Softing does not have the unconditional right to postpone extinguishment of the liability to a point in time at least twelve months after the balance sheet date.

21. OTHER LIABILITIES

The other liabilities concern non-financial liabilities and are recognized at their repayment amount.

22. EXERCISE OF JUDGMENT AND ESTIMATE UNCERTAINTIES

The preparation of the consolidated financial statements in accordance with the provisions of the IASB requires forward-looking assumptions to be made and estimates to be used that have an effect on the carrying amounts of recognized assets and liabilities, income, expenses, and contingent liabilities. The forward-looking assumptions and estimates essentially relate to the uniform determination of useful lives throughout the Group, the recognition and measurement of provisions (in particular pension provisions), and the realizability of future tax benefits as well as the material exercise of judgment with regard to the expected time of occurrence, the amount of the future taxable income, and future tax planning strategies (tax forecasts). As a rule, the forward-looking assumptions and estimates are based on experience and knowledge gained from the past; they also take into account macroeconomic factors which might be used as a reliable basis. Forecasts are intrinsically uncertain and difficult especially because they are forward-looking. In individual cases, the actual values may deviate from the assumptions and estimates. The assumptions and estimates are reviewed regularly. Changes are recognized in profit or loss as of the time better knowledge is obtained, or in the period in which better knowledge is obtained, as well as in future periods if the changes comprise several periods.

The most important forward-looking assumptions and other material sources of estimate uncertainties as of the closing date that could result in a considerable risk of having to make significant adjustments to the recognized assets and liabilities in the next financial year concern the measurement of pension provisions, and the possible impairment of goodwill. The weighted average cost of capital (WACC) and the tax rates are the material parameters for carrying out the annual impairment test of goodwill.

Recognizing revenue over time using the cost-to-cost input method entails recognizing revenue based on the stage of completion. This method requires careful assessment of the stage of completion. Factors such as contract revenue, total contract costs, costs yet to be incurred until completion and contract risks are material to the estimate.

There is discretion in assessing the criteria relevant to the capitalization of development costs and the amount of the hourly rates for personnel used in the capitalization. The following assessments, in particular, are subject to our discretion: whether the given asset possesses technical and commercial utility for sale or own use; whether we plan on and are capable of completing the intangible asset and either using or selling it; and whether the asset will generate a future economic benefit.

23. CURRENCY TRANSLATION

Foreign currencies are translated using the functional currency method as defined in IAS 21. With the exception of Softing IT Networks in Singapore, where the functional currency is the USD, the functional currency of all foreign subsidiaries is the respective local currency because the material foreign companies that are included in the consolidated financial statements operate their businesses independently in financial, economic and organizational terms primarily in their respective economic environment. The exchange rate risk within the Softing Group is essentially restricted to USD, RON and CHF.

For Group companies which do not report in EUR, the assets and liabilities are translated into euros at the exchange rate applicable at the balance sheet date, and expenses and income are translated at the annual average exchange rate for the purpose of preparing consolidated financial statements. Equity is translated at historical rates. Currency translation differences, including those arising from acquisition accounting, are recognized in other comprehensive income.

Goodwill and fair value adjustments arising during an acquisition of a foreign entity are recognized as assets and liabilities of the foreign entity and translated at the rate of exchange on the closing date. All resulting currency translation differences are recognized in other comprehensive income.

The euro exchange rates applicable for currency translation changed as follows:

	USD/EUR		RON/EUR		CHF/EUR (new 2018)	
	2018	2017	2018	2017	2018	2017
Closing rate (Dec. 31)	1.15	1.20	4.66	4.66	1.13	n/a
Average exchange rate	1.18	1.13	4.65	4.57	1.15	n/a

Currency gains or losses resulting from foreign currency transactions (transaction in a currency other than a company's functional currency) are reported as other operating income or other operating expenses in the individual financial statements of the Group companies.

C. NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

1. CHANGES IN THE BASIS OF CONSOLIDATION

As of December 31, 2018, the following changes occurred in the basis of consolidation of Softing AG compared to December 31, 2017:

GlobalmatiX AG
On March 16, 2018, Softing AG acquired all of the interests in GlobalmatiX AG in Vaduz, Liechtenstein.

GlobalmatiX AG is a mobile virtual network operator (MVNO) offering mobile data communications for vehicles and machinery in Europe and North America where such technology is needed in the areas of (semi-)autonomous driving and other connected services for vehicles and machinery.

This acquisition enables Softing to significantly extend its capabilities in the megatrends of digitalization and Industrie 4.0 and lays the foundation for new service-focused revenue.

The fair value of the identifiable consolidated assets and liabilities of the acquired companies and the corresponding consolidated carrying amounts were as follows immediately prior to the time of acquisition:

EUR (in thsds.)	Carrying amount immediately prior to the business combination	Fair value as of the date of initial consolidation
Intangible assets	0	12,313
Property, plant and equipment	25	25
Cash and cash equivalents	5	5
Short-term borrowings	383	383
Trade payables	131	131
Provisions and accrued liabilities	18	18
Deferred taxes	0	1,500
Net assets (100 %)	–502	10,310
Consideration/purchase price in shares		13,427
Goodwill		3,117

The Group is amortizing the intangible asset relating to the mobile communications license arising from the purchase price allocation according to the straight-line method over a period of 15 years.

The cash flow to equity method and the reconstruction method with different measurement assumptions were used to determine the carrying amount of the mobile communications license: Cash flow to equity based on the intended business model, applying a discount rate depending on the revenue potential and taking into account a venture capital premium (interest rates 25–40%); Cash flow to equity based on the intended business model, applying a default rate to the calculated present value; Cash flow to equity based on an alternative business model, applying a discount rate and taking into account the risk profile and a venture capital premium (interest rates 25–40%); determination of a reconstruction value of a comparison transaction.

The goodwill acquired includes the workforce and established relationships with customers and contractual partners.

The gross amount of assets at the time of acquisition corresponds to their fair value.

The purchase price was financed by issuing Softing shares based on the authorization granted by the General Shareholders' Meeting of Softing AG on May 6, 2015 (Authorized Capital 2015). On March 16, 2018, the Executive Board of Softing AG decided to increase the Company's share capital with the approval of the Supervisory Board by EUR 1,450,000.00 from EUR 7,655,381.00 to EUR 9,105,381.00 by issuing 1,450,000 new no-par bearer shares from authorized capital against contributions in kind at an issue price of EUR 9.43. The purchase price at the time of acquisition therefore amounted to the fair value of the shares issued (EUR 9.26) of EUR 13,427 thousand. The transaction costs of the capital increase amounted to EUR 80 thousand. Mr. Alois Widmann, Vaduz, Principality of Liechtenstein, was permitted to subscribe to and accept the new shares. Mr. Widmann is transferring all of his shares in GlobalmatiX Aktiengesellschaft, whose registered office is in Vaduz, Liechtenstein, to the Company. The Company and Mr. Widmann had entered into a transfer agreement to this effect on March 16, 2018.

No contingent consideration was agreed.

The goodwill is not tax-deductible.

The statement of comprehensive income for the reporting period includes total revenue of EUR 0.0 million, losses of EUR –0.4 million, and depreciation and amortization of EUR 0.6 million from purchase price allocation from GlobalmatiX AG. The incidental costs of the acquisition amounted to EUR 0.1 million.

Compared to the interim financial statements as of June 30, 2018, the purchase price allocation has been restated by EUR 0.6 million, which is based on a better understanding of the assessment of the eligibility for capitalization of the technological platform for controlling the mobile connection in the amount of EUR 0.3 million as of the date of initial consolidation and the recognition of the fair value of the consideration in the amount of EUR –0.3 million as of the date of entry in the commercial register. In total, goodwill was reduced by EUR 0.6 million.

GlobalmatiX Inc.

On October 30, 2018, Softing North America Holding Inc. founded GlobalmatiX Inc., Knoxville/USA. GlobalmatiX Inc. will take over marketing of GlobalmatiX AG products in North America.

Softing Electronic Science & Technology (Shanghai) Co., Ltd.

On February 10, 2018, Softing Services GmbH signed an agreement with Beijing Windhill Technology Co., Ltd. on the sale of 50% of the shares in Shanghai Softing software Co., Ltd., Shanghai/China. At the same time, Softing Services GmbH and Beijing Windhill Technology Co., Ltd. entered into an agreement on a future joint venture; the purchase price paid for 50% of the shares was EUR 1 thousand.

Softing is thus taking account of the considerable importance of the Chinese automotive market, which is characterized by a rapidly growing need for product and project solutions in Softing's core expertise in the development and diagnostics of control units. Up to 50 experienced sales and development employees are available to Softing Electronic Science & Technology (Shanghai) Co., Ltd. in the Shanghai and Beijing offices.

Softing Electronic Science & Technology (Shanghai) Co., Ltd. will continue to be included in the group of consolidated affiliated companies because Softing is responsible for the company's economic and financial management. Softing holds two of the three seats on its Board of Directors and Softing Electronic Science & Technology (Shanghai) Co., Ltd. is dependent on the marketing of software products developed by subsidiaries of Softing.

Softing Messen & Testen GmbH and Softing Projekt Services GmbH

Softing Project Services GmbH was merged into Softing Messen & Testen GmbH effective August 1, 2018. At the same time, Softing Messen & Testen GmbH was renamed Softing Engineering & Solutions GmbH domiciled in Kirchentellinsfurt.

Softing Automotive Electronics Services GmbH

Softing Automotive Electronics Services GmbH was renamed Softing Automotive Electronics (Kirchentellinsfurt) GmbH effective August 1, 2018.

2. GOODWILL

	Dec. 31, 2018 EUR (in thsds.)	Dec. 31, 2017 EUR (in thsds.)
Softing Engineering & Solutions GmbH	2,055	2,055
Softing Industrial Automation GmbH	384	384
Softing IT Networks GmbH (Psiber Data GmbH)	5,181	5,181
OLDI Online Development Inc.	7,248	6,921
GlobalmatiX AG	3,117	0
Goodwill	**17,985**	**14,541**

Due to the change in the EUR/USD exchange rate, the goodwill of OLDI Online Development Inc. changed by EUR 328 thousand in 2018.

The entities' goodwill was tested for impairment pursuant to IAS 36. The recoverable amount of the CGUs was determined based on a calculation of the entities' value in use. The impairment test did not result in any need to write down the goodwill. The following parameters were used for the items of goodwill:

- Discount rates before taxes 7.7%–13.8% (previous year: 8.4%–12.1%)
- Risk-free interest rate: 0.99%–3.31% (previous year: 1.22%–2.84%)
- Market risk premium: 5.1%–6.50% (previous year: 5.69%–6.50%)
- Beta factor (weighted average of a group of comparable companies): 1.06–1.31 (previous year: 0.99–1.08)

Due to the start-up character of the entity, a discount rate of 25–40% was applied for the measurement of GlobalmatiX, depending on the degree to which the business relationship was concrete.

Management has planned the cash flows for a period of 4 years, after which a growth rate of 1.5% was assumed for extrapolating the cash flow forecasts.

A change in the interest rate by 100 basis points would not lead to a write-down of goodwill, neither would a decrease in the planned gross revenue by 5%.

The material planning premises include, in particular, the expected development of the market in relation to the performance of Softing AG, the change in both sales and profits and the weighted average cost of capital. General market forecasts and current developments as well as historical experience are used to establish the assumptions. In particular, the long-term growth rates reflect circumstances specific to the business.

Besides sales, the margin is the material driver of value in the determination of the recoverable amount. The discount rate also has a significant impact on the measurement gain or loss.

The margin is adjusted to expected developments in the market during the budgetary period.

3. DEVELOPMENT COSTS

The change in capitalized development costs is shown in the changes in intangible assets and property, plant and equipment (appendix to the notes to the consolidated financial statements).

Expenses for research and development (without capitalized development costs) in the financial year just ended totaled EUR 15,914 thousand (previous year: EUR 18,647 thousand).

No impairment losses were recognized in addition to amortization.

The following overview shows the total expenditures for research and development:

	2018 EUR (in thsds.)	2017 EUR (in thsds.)
Capitalized development costs	4,425	4,600
Expenses not qualifying for capitalization	15,914	18,647
	20,339	**23,247**

4. OTHER INTANGIBLE ASSETS

The development of other intangible assets is shown in the changes in intangible assets and property, plant and equipment (appendix to the notes to the consolidated financial statements). No impairment losses were recognized in addition to amortization.

5. PROPERTY, PLANT AND EQUIPMENT

The change in property, plant and equipment is shown in the changes in intangible assets and property, plant and equipment, which is attached to the consolidated financial statements. No impairment losses were recognized in addition to depreciation.

6. INVENTORIES

	Dec. 31, 2018 EUR (in thsds.)	Dec. 31, 2017 EUR (in thsds.)
Raw materials and consumables	3,161	2,307
Finished goods	7,396	6,760
Inventories	**10,557**	**9,067**

Loss allowances recognized in 2018 total EUR 51 thousand (previous year: EUR 63 thousand). As in the previous year, no reversals of impairment losses were recognized in profit or loss. The purchased inventories are subject to reservation of title until the purchase price receivable has been settled.

7. TRADE RECEIVABLES

	Dec. 31, 2018 EUR (in thsds.)	Dec. 31, 2017 EUR (in thsds.)
Trade receivables	13,682	12,067
Receivables from customer-specific construction contracts	0	760
	13,682	**12,827**

Trade receivables are non-interest-bearing and are due in less than one year. All trade receivables are receivables from contracts with customers.

Softing recognizes loss allowances for general credit losses using the expected loss model in accordance with IFRS 9.5.5. These are initially recognized through allowance accounts unless it can be assumed at the time the reason for the loss allowance arises that the receivable will be unrecoverable in full or in part. In such cases, the carrying amount of the receivables is written down directly through profit or loss.

Risk provision for trade receivables:

	Carrying amount	Of which impaired receivables (stage 3)	Of which neither past due nor impaired	Of which not impaired and past due within the following time bands			
				Less than 90 days	91 to 180 days	181 to 360 days	More than 360 days
Dec. 31, 2018	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)
Trade receivables (gross)	13,979	269	9,355	4,267	68	6	14
Risk provision (stage 2)	–28		–9	–18	–1	0	0
Risk provision (stage 3)	–269	–269					
Trade receivables (net)	**13,682**	**0**	**9,346**	**4,249**	**67**	**6**	**14**

Changes in expected credit losses on trade receivables are shown in the following table:

	As of Dec. 31, 2017 EUR (in thsds.)	Transition to IFRS 9 EUR (in thsds.)	As of Jan. 01, 2018 EUR (in thsds.)	Use EUR (in thsds.)	Reversal EUR (in thsds.)	Addition EUR (in thsds.)	As of Dec. 31 EUR (in thsds.)
2018	372	26	398	135	0	8	297

For the Prior-year Period, the Following Disclosures Were Made in Accordance with IFRS 7 as Shown for IAS 39

Aging structure of financial instruments from trade receivables:

	Carrying amount	Of which neither past due nor impaired	Of which not impaired and past due within the following time bands			
			Less than 90 days	91 to 180 days	181 to 360 days	More than 360 days
Dec. 31, 2017	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)
Forderungen aus Lieferungen und Leistungen	12,067	7,476	4,590	1	0	0
Forderungen aus kundenspezifischen Fertigungsaufträgen	760	760	0	0	0	0
	12,827	**8,236**	**4,590**	**1**	**0**	**0**

The maximum counterparty credit risk corresponds to the receivables' carrying amount.

Impairment losses according to IAS 39 changed as follows overall:

	As of Jan. 01 EUR (in thsds.)	Use EUR (in thsds.)	Reversal EUR (in thsds.)	Addition EUR (in thsds.)	As of Dec. 31 EUR (in thsds.)
2017	295	15	0	118	398

8. CONTRACT ASSETS AND CONTRACT LIABILITIES

	Dec. 31, 2017 EUR (in thsds.)	First-time application of IFRS 15 EUR (in thsds.)	Jan. 01, 2018 EUR (in thsds.)	Dec. 31, 2018 EUR (in thsds.)
Contract assets	0	760	760	568
Contract liabilities	0	2,331	2,331	2,069
Net amount	**0**	**–1,571**	**–1,571**	**–1,501**

Risk provision for contract assets:

	Carrying amount	Of which neither past due nor impaired	Of which not impaired and past due within the following time bands			
			Less than 90 days	91 to 180 days	181 to 360 days	More than 360 days
Dec. 31, 2018	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)
Contract assets (gross)	2,069	2,069	0	0	0	0
Risk provision (stage 2)	–1	–1	0	0	0	0
Contract assets (gross)	**2,068**	**2,068**	**0**	**0**	**0**	**0**

Revenue of EUR 1,441 thousand from contracts with customers included in contract liabilities at the beginning of the period was recognized in the current period. A transaction price totaling EUR 3,048 thousand is allocated to the performance obligations that were partly or entirely unsatisfied at the end of the reporting period. Softing will recognize EUR 2,635 thousand of the transaction price in the next reporting period and EUR 413 thousand in subsequent periods. The transaction prices stated are prices for customer-specific software maintenance agreements and customer-specific engineering work. For performance obligations with a maximum term of one year or where invoicing is based on fixed hourly rates, the transaction price is not stated in accordance with IFRS 15.

9. OTHER CURRENT ASSETS

	Dec. 31, 2018 EUR (in thsds.)	Dec. 31, 2017 EUR (in thsds.)
Receivables from employees	7	48
Other financial receivables	71	192
Prepaid expenses/prepayments	517	335
Advances paid	22	35
Other assets	86	46
	703	**656**

10. CURRENT INCOME TAX ASSETS

The current income tax assets concern corporation tax receivables amounting to EUR 1,651 thousand (previous year: EUR 1,991 thousand). The Group's taxes are described in detail in section D 9.

11. CASH AND CASH EQUIVALENTS

	Dec. 31, 2018 EUR (in thsds.)	Dec. 31, 2017 EUR (in thsds.)
Cash and cash equivalents	**9,682**	**10,276**

Cash and cash equivalents include cash and bank balances and are measured at their nominal value as of the balance sheet date. Bank balances comprise time deposits and current account funds; these time deposits can be liquidated within three months. Cash and cash equivalents are not impacted significantly by foreign currencies. A review of the banks' ratings has not revealed any additional risks to cash. The maximum counterparty credit risk corresponds to the carrying amounts.

12. EQUITY

Subscribed Capital

As of the balance sheet date, the fully paid-in share capital of the Company was EUR 9,105,381 (previous year: EUR 7,655,381 thousand). It is divided into 9,105,381 (previous year: 7,655,381) no-par-value bearer shares with a notional value of EUR 1 each. An average of 8,771,682 shares were outstanding in the reporting year. Based on the authorization granted by the General Shareholders' Meeting on May 6, 2015 (Authorized Capital 2015), the purchase price of GlobalmatiX AG was paid in Softing AG shares with a total issue value of EUR 13.7 million. On March 16, 2018, the Executive Board of Softing AG decided with the approval of the Supervisory Board to increase the Company's share capital by EUR 1,450,000 from EUR 7,655,381 to EUR 9,105,381 shares against contributions in kind by issuing 1,450,000 new no-par bearer shares at an issue price of EUR 9.43 (not the value relevant pursuant to IFRSs because the fair value as of the issue date is used here). Mr. Alois Widmann, Vaduz, Principality of Liechtenstein, was permitted to subscribe to and accept the new shares. Mr. Widmann is transferring all of his shares in GlobalmatiX Aktiengesellschaft, headquartered in Vaduz, Liechtenstein, to the Company. The Company and Mr. Widmann entered into a transfer agreement to this effect on March 16, 2018.

Shareholders' voting rights are not restricted by law or the Company's Articles of Incorporation. The voting rights are not limited to a specific number of shares or votes.

For more information, please see the disclosures under Section 315 (4) German Commercial Code in the management report.

Authorized Capital
The Executive Board is authorized to increase the Company's share capital with the approval of the Supervisory Board once or several times by up to EUR 4,552,690.00 by issuing up to 4,552,690 new no-par bearer shares against contributions in cash and/or in kind (authorized capital 2018) until May 8, 2023. The Executive Board is also authorized to disapply shareholders' statutory pre-emptive right with the approval of the Supervisory Board

- as necessary for offsetting fractional shares;
- if the shares are issued against in-kind contributions for the purpose of acquiring companies or equity interests in companies or business units or for the purpose of acquiring receivables from the given entity;
- if a capital increase against cash contributions does not exceed 10% of the share capital and the issue price of the new shares is not substantially lower than the share price pursuant to Section 186 (3) sentence 4 German Stock Corporation Act. Disapplying shareholders' pre-emptive right under other authorizations pursuant to Section 186 (3) sentence 4 German Stock Corporation Act shall be considered in connection with any exercise of this authorization under the aforementioned statute.

The Executive Board is authorized to fix all other details of the capital increase and its implementation. The Supervisory Board is authorized to amend the Articles of Incorporation such that they reflect the extent of each capital increase from authorized capital.

The authorized capital as of December 31, 2018, was EUR 4,552,690 (previous year: EUR 2,783,776).

The existing authorized capital (Authorized Capital 2015) was cancelled based on a resolution adopted by the General Shareholders' Meeting on May 9, 2018.

Profits for the year eligible for distribution were determined based on the net retained profits of Softing AG pursuant to the German Commercial Code.

Contingent Capital
The Executive Board is authorized to contingently increase the Company's share capital with the approval of the Supervisory Board by up to EUR 4,552,690.00 by issuing up to 4,552,690 new no-par bearer shares (Contingent Capital 2018). The contingent capital increase will serve the granting of option rights or obligations to the holders of warrants arising from bonds with warrants under the terms of the respective options or the granting of conversion rights or obligations to the holders of convertible bonds under the terms of the respective convertible bonds issued by the Company up to May 8, 2023 in accordance with the resolution of the General Shareholders' Meeting on May 8, 2018. The new shares will be issued at the respective option or conversion price to be determined in accordance with the above-mentioned authorization resolution. The contingent capital increase will be implemented only in the event that bonds with warrants or convertible bonds are issued and only to the extent that the holders of the bonds with warrants or the convertible bonds make use of their option or conversion right or the holders of bonds obligated to convert or to exercise the option fulfill this obligation and the contingent capital is needed in accordance with the terms and conditions of the bond with warrants or the convertible bond. The new shares issued on the basis of the exercise of the option or conversion right or the fulfillment of the conversion or option obligation have a share in the profit from the beginning

of the financial year in which they arise. The Executive Board is authorized, with the approval of the Supervisory Board, to stipulate the further details of the implementation of the contingent capital increase. Said authority was not exercised to date. The existing contingent capital (Contingent Capital 2013) was cancelled based on a resolution adopted by the General Shareholders' Meeting on May 09, 2018.

Capital Reserves

The capital reserves contain the premium on the issue of shares less transaction costs. The capital increase against contributions in kind resulted in a premium of EUR 11,977 thousand less transaction costs of EUR 80 thousand offset against equity.

Retained Earnings

Retained earnings include the accumulated, undistributed profits of the companies included in the consolidated financial statements.

Retained earnings also include the differences from the currency translation and the associated deferred taxes of transactions made by foreign subsidiaries, changes in the fair value of financial instruments not recognized through profit or loss, and the remeasurements from pension obligations and their deferred tax effects not recognized through profit or loss.

The other comprehensive income is shown in the statement of comprehensive income.

Non-controlling Interests

The non-controlling interests in the amount of EUR 145 thousand (previous year: EUR –33 thousand) concern other shareholders in Austria and China.

Treasury Shares

No treasury share transactions took place in 2018;

As of the reporting date, Softing AG did not hold any treasury shares.

The changes in consolidated equity including the changes from acquisitions are presented in the table "Consolidated Statement of Changes in Equity" 2018/2017.

13. PENSIONS AND SIMILAR OBLIGATIONS

This item concerns the partially reinsured and defined benefit pension commitments granted to the three former members and one current member of the Executive Board, which provide for lifelong retirement and widow's benefits, as well as orphans' benefits in the event one or both parents are lost. There is a variable commitment in addition to a fixed commitment. The amount of benefits is determined individually. The liabilities in connection with the pension plans are determined annually by independent experts in accordance with the projected unit credit method. The capitalized value of the reinsurance cover of EUR 3,099 thousand (previous year: EUR 2,992 thousand) was offset against pension provisions. Actuarial remeasurements were recognized immediately in retained earnings in accordance with IAS 19.120. The cumulative gains and losses reported in this item were EUR –1,307 thousand as of December 31, 2018 (previous year: EUR –1,319 thousand).

The pensions under variable commitments increase or decrease in line with the change in the Consumer Price Index for Germany (2010=100); It rose from 109.3 points to 111.4 points on average between 2017 and 2018.

The actuarial assumptions on which the calculation is based are summarized in the following table:

Basis of calculation	Dec. 31, 2018 %	Dec. 31, 2017 %
Assumed interest rate	1.8	1.6
Salary trend	0.0	0.0
Expected rate of pension increase	1.1	1.1
Anticipated employee turnover rate	0.0	0.0
Biometric basis of calculation	**Mortality Tables 2018 G/Prof. Dr. Heubeck**	

Development of the obligation	2018 EUR (in thsds.)	2017 EUR (in thsds.)
DBO as of January 1	5,174	5,124
Service cost	145	144
Interest expense	81	80
Pension payments to pensioners	–174	–168
Expected DBO as of December 31	**5,227**	**5,180**
Actual DBO as of December 31	5,239	5,174
Remeasurements, of which	12	–6
Effects from adjusting the assumed interest rate	0	0
Effects from changes in trend assumptions	0	0
Effects from experience adjustments	12	–6

The average remaining life of the obligation is 16.2 years (previous year: 14.5 years).

Calculation of annual income and annual expense	2018 EUR (in thsds.)	2017 EUR (in thsds.)
Interest income	48	46
Interest expense	81	80
Service cost	145	144
Annual expense	**178**	**178**

Development of plan assets	2018 EUR (in thsds.)	2017 EUR (in thsds.)
Plan assets as of January 1	2,992	2,886
Payment from plan assets	–92	–92
Payments into the employer's plan assets	107	107
Interest earned from plan assets	48	46
Adjustment of plan assets	44	45
Plan assets as of December 31	**3,099**	**2,992**

Only reinsurance policies not quoted on an active market are taken out to hedge obligations arising from pensions. Each of these policies relates directly to the underlying pension commitment.

The expected contributions to plan assets amount to EUR 107 thousand in 2019 (previous year: EUR 107 thousand).

Reconciliation with the statement of financial position	Dec. 31, 2018 EUR (in thsds.)	Dec. 31, 2017 EUR (in thsds.)
Present value of the defined benefit obligations (DBO)	5,239	5,174
Fair value of the external plan assets	3,099	2,993
Provision	**2,140**	**2,181**

Development of the provision	2018 EUR (in thsds.)	2017 EUR (in thsds.)
Provision as of January 1	2,181	2,237
Service cost	145	144
Net interest expense/income	33	34
Actuarial remeasurements, of which	12	–7
Effects from adjusting the assumed interest rate	0	0
Effects from experience adjustments	12	–7
Adjustment of plan assets	–44	–44
Payments made	–81	–76
Payments into plan assets	–107	–107
Provisions as of December 31	**2,140**	**2,181**

The sensitivity of the overall pension obligation to changes in the weighted main assumptions is:

	Effect on the obligation	
	Change in the assumption –	Change in the assumption +
Relative effect of interest rate change on DBO 2018	0.25 %	0.25 %
	4.1 %	–3.9 %
Relative effect of interest rate change on DBO 2017	0.25 %	0.25 %
	4.3 %	–4.0 %

	Effect on the obligation	
	Change in the assumption –	Change in the assumption +
Relative effect of a change in the pension trend on DBO 2018	0.25 %	0.25 %
	–1.4 %	1.4 %
Relative effect of a change in the pension trend on DBO 2017	0.25 %	0.25 %
	–1.7	1.8 %

No sensitivity analysis based on life expectancy was presented because participants in question include only three former beneficiaries and one active beneficiary.

The sensitivities were determined by changing one parameter while leaving all other parameters unchanged.

Pension payments of EUR 173 thousand (previous year: EUR 168 thousand) and interest income of EUR 56 thousand (previous year: EUR 48 thousand) are expected for the 2019 financial year.

14. NON-CURRENT BORROWINGS AND OTHER NON-CURRENT LIABILITIES

The non-current portion of the loans used to finance the purchase price of OLDI Online Development Inc. amounts to EUR 1,740 thousand (previous year: EUR 4,109 thousand); is it shown under other long-term borrowings. Short-term repayment is also possible. In the course of obtaining these loans, Softing AG agreed to comply with financial covenants entailing an obligation to maintain certain financial ratios. The financial covenants require Softing to maintain a specified equity ratio and not exceed a maximum debt-to-equity ratio for the Group. During the financial year, Softing AG had no problem fulfilling the covenant regarding equity ratio and debt-to-equity ratio.

15. TRADE PAYABLES

The trade payables of EUR 6,086 thousand (previous year: EUR 4,574 thousand) exclusively concern current liabilities toward non-Group third-parties for supplied goods and services. All trade payables are due and payable within one year.

16. PROVISIONS AND ACCRUED LIABILITIES

The other provisions are recognized for all other contingent liabilities and risks of the Softing Group toward third parties. They are recognized only if utilization is probable and the amount of the obligation can be estimated reliably. The amount recognized is the best estimate of the expenditure required to settle the present obligation at the balance sheet date.

	As of Jan. 01, 2018 EUR (in thsds.)	Use EUR (in thsds.)	Reversal EUR (in thsds.)	Addition EUR (in thsds.)	As of Dec. 31, 2018 EUR (in thsds.)
Warranties	132	121	0	97	109
Other	31	9	0	45	66
Total	**163**	**130**	**0**	**142**	**175**

This exclusively comprises current provisions that are estimated to become due within one year.

17. INCOME TAX LIABILITIES

In the financial year just ended, liabilities of EUR 1,407 thousand (previous year: EUR 598 thousand) were recognized for expected tax payments. The Group's taxes are described in detail in section D9.

18. SHORT-TERM BORROWINGS

The current portion of the loans used to finance the purchase price of OLDI Online Development Inc. (EUR 2,722 thousand), the current portion of a loan granted to a former shareholder (EUR 354 thousand), a loan of Softing IT Networks GmbH (EUR 33 thousand), a short-term loan from Softing Italia s.r.l. and a short-term utilization of a bank line (EUR 3,000 thousand) as of the balance sheet date amounts to EUR 6,215 thousand (previous year: EUR 4,788 thousand) and is due for repayment or prolongation in the next financial year.

19. CURRENT NON-FINANCIAL LIABILITIES

	Dec. 31, 2018 EUR (in thsds.)	Dec. 31, 2017 EUR (in thsds.)
Liabilities related to social security	468	407
Other tax liabilities primarily (sales and wage tax)	884	768
Deferred income	0	1,379
Other	197	109
	1,549	**2,663**

As a result of the first-time application of IFRS 15, the figures of deferred income were reclassified to contract liabilities as of January 1, 2018 using the retrospective method.

20. CURRENT FINANCIAL LIABILITIES

	Dec. 31, 2018 EUR (in thsds.)	Dec. 31, 2017 EUR (in thsds.)
Wages and salaries payable	4,285	3,344
Other	237	225
	4,522	**3,569**

D. NOTES TO THE CONSOLIDATED INCOME STATEMENT

1. REVENUE

Revenue by regions:	2018 EUR (in thsds.)	2017 EUR (in thsds.)
Germany	28,897	25,285
USA	32,258	30,718
Other countries	22,735	22,705
	83,890	**78,708**

Revenue by products and services:	2018 EUR (in thsds.)	2017 EUR (in thsds.)
Products	75,813	71,861
Services	8,077	6,847
	83,890	**78,708**

Revenue recognized at a point in time/over time:	2018 EUR (in thsds.)	2017 EUR (in thsds.)
Point in time	75,813	71,861
Of which products:	75,813	71,861
Of which services:	0	0
Over time	8,077	6,847
Of which products:	0	0
Of which services:	8,077	6,847
	83,890	**78,708**

Revenue includes a change of EUR 61 thousand from customer-specific construction contracts that was recognized over time using the cost-to-cost method. Here, the Group estimates the proportion of the total of services to be provided that have already been performed by the reporting date. In the previous period, the change was EUR 124 thousand on non-current construction contracts in accordance with IAS 11.

Revenue from construction contracts amounted to EUR 4,821 thousand (previous year: EUR 5,036 thousand).

In 2018, no customer exceeded the revenue threshold of 10% of Group revenue. In 2017, two customers exceeded the revenue threshold of 10% of Group revenue at 14% and 11%.

For detailed information on operating segments, we refer to the segment reporting (see chapter E1).

2. OTHER OWN WORK CAPITALIZED

Other own work capitalized concerns costs for/investments in the development of new software products. Most of these costs are personnel costs of the development departments and the associated costs.

3. OTHER OPERATING INCOME

The other operating income comprises the following items:	2018 EUR (in thsds.)	2017 EUR (in thsds.)
Income from exchange differences	893	506
Revenue from the reduction of loss allowances	3	15
Insurance compensation payment	9	5
Income from receivables written off	16	0
Recharged costs	165	85
Other income	357	262
	1,443	**873**

4. COST OF MATERIALS

	2018 EUR (in thsds,)	2017 EUR (in thsds,)
Purchase of components and products	35,527	31,325
Third-party services	943	922
	36,471	**32,247**

5. STAFF COSTS

	2018 EUR (in thsds.)	2017 EUR (in thsds.)
Current salaries	26,699	26,671
Social security and retirement benefit costs	4,343	4,520
Profit-sharing, royalties	2,227	1,615
Use of company cars by employees	4	8
Other temporary workers	167	217
	33,440	**33,031**

The statutory pension scheme in Germany is treated as a defined contribution scheme.

Expenses recognized for the statutory pension scheme total EUR 1,410 thousand (previous year: EUR 1,439 thousand). The service cost for pension provisions amounts to EUR 145 thousand.

6. DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES

Depreciation and amortization are listed in detail in the statement of changes in assets (appendix to the notes to the consolidated financial statements).

No impairment losses or reversals of impairments were recognized in 2018.

7. OTHER OPERATING EXPENSES

The other operating expenses are as follows:	2018 EUR (in thsds.)	2017 EUR (in thsds.)
Employee-related costs	211	303
Infrastructure costs	3,020	2,889
Distribution costs	3,424	3,526
Consulting costs	1,499	864
Third-party services	612	951
Capital market costs	402	296
Contributions and fees	113	126
Operating costs	462	552
Exchange differences	416	640
Other product development expenses	356	1,388
Other costs	314	529
	10,829	**12,064**

The other operating expenses contain rental and lease expenses for buildings and cars of EUR 1,586 thousand (previous year: EUR 1,576 thousand).

8. INTEREST INCOME/INTEREST EXPENSE

The financial result comprises interest income and interest expense.

The interest expense breaks down as follows:	2018 EUR (in thsds.)	2017 EUR (in thsds.)
Interest from unwinding of discounts on provisions	81	81
Interest on loans	123	147
Other interest	27	7
	231	**235**

Interest income comprises the following items:	2018 EUR (in thsds.)	2017 EUR (in thsds.)
Interest income from pension provisions	48	46
Other interest	22	1
	70	**47**

9. INCOME TAXES

The income tax expense breaks down as follows:	2018 EUR (in thsds.)	2017 EUR (in thsds.)
Deferred taxes on temporary differences	–534	1,360
Deferred taxes on tax loss carryforwards	192	–489
Tax expense	–342	871
Tax expense/income financial year	–747	606
Tax expense/income from previous years	–188	–1,073
Tax expense/income	–935	–467
	–1,277	**404**
Effective tax rate	27.72 %	35.75 %

Deferred taxes are recognized for temporary differences between the amounts recognized for financial reporting purposes and the amounts recognized for tax purposes, and for any differences arising from uniform measurement and consolidation within the Group. Deferred taxes are determined based on the applicable country-specific tax rates. The underlying domestic tax rate, which has not changed compared to the previous year, is determined as follows:

	2018 %	2017 %
Corporation tax including solidarity surcharge	15.83	15.83
Trade tax rate	12.25	12.25
	28.08	**28.08**

The deferred tax assets on tax loss carryforwards in Germany and abroad were recognized because in the Group's opinion the loss carryforwards are not impaired in the amount recognized due to positive tax forecasts and a positive market outlook as of the balance sheet date.

The tax loss carryforwards of the individual companies are as follows:

	Dec. 31, 2018 EUR (in thsds.)	Dec. 31, 2017 EUR (in thsds.)	Usable until
Softing AG (trade tax)	4,828	3,602	Unlimited
Softing AG (corporation tax)	3,917	2,649	Unlimited
Softing Singapore	2,695	1,299	Unlimited
Softing North America Holding (Federal/State)	0	245	Unlimited
Softing Inc. (Federal/State)	0	186	Unlimited
GlobalmatiX AG	326	0	Unlimited
Buxbaum Automation GmbH	258	258	Unlimited

Of the total tax loss carryforwards in the amount of EUR 10,553 thousand (previous year: EUR 8,239 thousand), EUR 10,295 thousand (previous year: EUR 7,981 thousand) was recognized on deferred tax assets.

The current income tax expense is derived as follows from the expected tax expense. As in the previous year, the calculation for the Group is based on the tax rate applicable for Softing AG, as this company is responsible for the main part of the Group's business.

	2018 EUR (in thsds.)	2017 EUR (in thsds.)
Earnings before taxes	4,609	1,130
Anticipated tax expense (28.08 %)	1,294	317
Tax additions and deductions	–176	505
Different tax rates	19	238
Deferred taxes, temporary differences, loss carryforwards	–35	95
Tax rate change, USA	0	292
Taxes, previous years	173	–1,073
Other	2	30
Current tax expense shown in the income statement	**1,277**	**404**

Deferred tax assets and deferred tax liabilities are allocable to the following items:

	2018 EUR (in thsds.)		2017 EUR (in thsds.)	
	Assets	Liabilities	Assets	Liabilities
Intangible assets	97	6,055	13	4,070
Pension provision	643		671	
(Of which recognized directly in equity)	(506)		(515)	
Currency translation (recognized directly in equity)		829		635
Trade receivables	110	14	97	43
Contract assets/contract liabilities	0	183	0	0
Other provisions	105		129	
Current assets	9		13	
Deferred income	0		3	
Future tax benefits from loss carryforwards	1,655		1,145	
Netting	–1,854	–1,854	0	0
Gross amount/carrying amount	765	5,227	2,071	4,748

In the current financial year, the accounting practice was adjusted with regard to netting: deferred tax assets and liabilities within consolidated tax group were offset against each other to enhance the informative value. If the amounts had been netted in the previous year, deferred tax assets of EUR 1,579 thousand would have been offset against deferred tax liabilities.

E. OTHER DISCLOSURES

1. SEGMENT REPORTING

Segment reporting aims to furnish information on the Group's material divisions. The activities of the Group are segmented in accordance with IFRS 8 using the management approach. Segmentation is based on the Group's internal reporting and organizational structure, taking into account the different risks and income structures of each individual division. The corporate divisions are shown in the following table in accordance with IFRS 8.

Segmentation	Industrial		Automotive		IT Networks		Holding, other consolidation		Total	
	2018 EUR (in thsds.)	2017 EUR (in thsds.)	2018 EUR (in thsds.)	2017 EUR (in thsds.)	2018 EUR (in thsds.)	2017 EUR (in thsds.)	2018 EUR (in thsds.)	2017 EUR (in thsds.)	2018 EUR (in thsds.)	2017 EUR (in thsds.)
External sales	52,793	50,941	18,200	17,406	12,897	10,361			83,890	78,708
Depreciation/ amortization	2,109	2,495	2,042	1,213	452	448	334	338	4,937	4,494
Segment result (operating EBIT)	4,242	4,244	–1,117	–2,889	407	–238			3,532	1,117
Segment result (EBIT)	3,210	3,811	633	–998	238	–469			4,081	2,344
Segment assets	45,537	41,248	35,634	18,341	12,071	10,280	6,582	10,849	99,824	80,718
Segment liabilities	9,941	8,180	7,996	5,115	2,005	1,244	11,482	1	31,424	28,446
Capital expenditure	1,084	2,023	20,529	3,068	1,215	259	347	220	23,176	5,570

Revenue from contracts with customers recognized over time	Industrial		Automotive		IT Networks		Holding, other consolidation		Total	
	2018 EUR (in thsds.)	2017 EUR (in thsds.)	2018 EUR (in thsds.)	2017 EUR (in thsds.)	2018 EUR (in thsds.)	2017 EUR (in thsds.)	2018 EUR (in thsds.)	2017 EUR (in thsds.)	2018 EUR (in thsds.)	2017 EUR (in thsds.)
Over time	50,268	47,841	12,648	13,696	12,897	10,323	0	0	75,813	71,860
Point in time	2,525	3,100	5,552	3,710	0	38	0	0	8,077	6,848
Total	52,793	50,941	18,200	17,406	12,897	10,361	0	0	83,890	78,708

The column entitled "Other consolidation" comprises the business activities of Softing AG's centralized units. Their costs are allocated to the respective operating segments that caused the expenses to be incurred. Due to different technologies and customer groups, there is no significant intersegment revenue.

The key parameters for evaluating and managing a segment's results of operations are: earnings before interest and taxes (EBIT) and the operating EBIT derived from it (EUR 3,532 thousand; previous year: EUR 1,117 thousand), adjusted for capitalized development costs of EUR 4,425 thousand (previous year: EUR 4,600 thousand) and their amortization of EUR 2,105 thousand (previous year: EUR 2,149 thousand); depreciation and amortization from purchase price allocation of 1,769 thousand (previous year: EUR 1,223 thousand). With the exception of the write-downs, other income and expense items are not regularly reviewed at the segment level by the responsible corporate department, given their secondary importance to the Group, and thus are not broken down by segment.

Geographical segments:	Revenue		Fixed assets		Additions fixed assets	
	2018 EUR (in thsds.)	2017 EUR (in thsds.)	2018 EUR (in thsds.)	2017 EUR (in thsds.)	2018 EUR (in thsds.)	2017 EUR (in thsds.)
Germany	28,897	25,285	25,819	23,547	6,390	5,264
USA	32,258	30,718	20,141	19,990	112	132
Other countries	22,735	22,705	16,254	293	16,674	174
Total	**83,890**	**78,708**	**62,215**	**43,830**	**23,176**	**5,570**

Segment information is based on the same accounting principles as the consolidated financial statements.

2. SEGMENT ALLOCATION OF PRODUCTS

Industrial Automation

Products and services for integrating communication functions in automation systems and devices, specifically for standards such as PROFIBUS, PROFINET, EthernetIP, EtherCAT, Powerlink, Modbus, CAN, CANopen, DeviceNet, FOUNDATION Fieldbus, (wireless) HART;

Interface cards, integration modules, chip solutions and communications software (stacks) for implementing bus links in systems and devices used in process and production automation;

Gateways for linking fieldbuses to Ethernet-based communication systems and groupwide planning and administration systems;

Tools for configuring networks, as well as toolkits for integrating configuration functions into the engineering systems of automation system manufacturers;

Tools and devices for signal and protocol analysis of industrial communication networks; and OPC servers, OPC middleware and development tools for OPC Clients and Servers (Toolkits).

Automotive Electronics

Vehicle adapters and data bus interfaces

Interfaces for CAN, K-Line, LIN, Ethernet and FlexRay data bus systems in different form factors with a variety of PC connections such as USB, WLAN, Bluetooth, PCI, PCIexpress, PC/104 and PCMCIA. Programming interfaces compliant with ISO and other standards as well as customized adaptations. Special solutions for development/testing, production and service.

Diagnostic Tools

Diagnostic solutions for development/testing, production and service. Editors for diagnostic data. Diagnostic servers for the real-time processing of diagnostic data based on ISO and customer standards. Customized and proprietary analytic tools for diagnostic data. ODX and OTX solutions play an important role in this context.

Test Automation

Software interfaces for connecting diagnostic servers to production systems. Editing and runtime systems for test sequences with connections to numerous third-party products. Customized test stations for development, quality assurance and production. Solutions for the flash programming of control units. Devices for simulating electronic control units and rest bus systems.

Customized Developments

Customer-specific software and hardware developments for data communication/diagnosis/test systems.

Resident Engineering

On-site customer support in the form of consultation, project management and project participation as well as development activities in the fields of data communication, diagnosis, trade fairs and test systems.

Measurement Technology

Softing measurement technology (SMT) represents a unique system whose development was driven entirely by automotive developments. This results in a broad range of applications for test rigs or “raw” mobile applications in vehicle testing. Application of this comprehensive measurement and automation system is not limited to automotive technology at all; indeed, it is well suited for applications in any industrial environment.

IT Networks

Diagnostic devices for Ethernet networks in the automation industry and for the diagnosis of copper and optical fiber networks in data centers and office installations.

3. STATEMENT OF CASH FLOWS

The statement of cash flows represents the consolidated cash flows of the consolidated companies; it was determined indirectly.

The cash and cash equivalents shown in the statement of cash flows comprise cash on hand and bank balances.

The reconciliation of net assets is as follows:

	Current assets	Liabilities from financing activities		
	Cash and cash equivalents	Short-term borrowings	Long-term borrowings	Total
Net assets as of Jan. 1, 2017	10,869	2,660	6,596	1,613
Cash flows	–205	2,128	–2,443	110
Foreign currency translation adjustment item	–388	0	0	–388
Net asset as of Dec. 31, 2017	**10,276**	**4,788**	**4,153**	**1,335**
Retrospective restatement when transitioning to IFRS 9	0	0	0	0
Net asset as of Jan. 01, 2018	**10,276**	**4,788**	**4,153**	**1,335**
Cash flows	–517	1,427	–2,177	233
Foreign currency translation adjustment item	–77	0	0	–77
Net asset as of Dec. 31, 2018	**9,682**	**6,215**	**1,976**	**1,491**

4. EARNINGS PER SHARE IAS 33

		2018	2017
Consolidated profit	EUR (in thsds.)	3,332	726
Minority interest	EUR (in thsds.)	–15	–16
Basic earnings (= diluted earnings)	**EUR (in thsds.)**	**3,347**	**742**
Weighted average number of shares			
Basic	Number	8,771,682	7,342,683
Diluted	Number	8,771,682	7,342,683
Basic earnings per share	EUR	0.38	0.10
Diluted earnings per share	EUR	0.38	0.10

The change in the number of shares outstanding which results from the capital increase in 2018 was calculated on a pro-rated basis (to the day).

No options rights exist as of December 31, 2018, which could influence diluted earnings per share in the future.

5. RELATED PARTIES

Besides the companies included in the consolidated financial statements, the members of the Executive Board and of the Supervisory Board are considered related parties of the Softing Group as defined in IAS 24, both in their function as members of corporate boards and, in some cases, as shareholders.

We refer to chapters E10 and 11 for information regarding the remuneration of the Supervisory Board and the Executive Board.

The Chairman of the Company's Executive Board, Dr. Wolfgang Trier, held 122,221 shares in Softing AG as of December 31, 2018 (previous year: 122,221).

The Executive Board member Ernst Homolka held 1,800 shares in Softing AG as of December 31, 2018 (previous year: 1,800 shares).

The Supervisory Board member, Dr. Klaus Fuchs, held 278,820 shares in Softing AG as of December 31, 2018 (previous year: 278,820).

The Supervisory Board member, Andreas Kratzer, held 10,155 shares in Softing AG as of December 31, 2018 (previous year: 10,155).

The Supervisory Board member Dr. Fuchs received a total fee of EUR 68 thousand (previous year: EUR 77 thousand) for providing consulting services in connection with the coordination of Softing IT Networks.

6. CONTINGENT LIABILITIES

As of the balance sheet date, Softing AG has provided EUR 12,116 thousand (previous year: EUR 11,712 thousand) in guarantees for liabilities related to bank overdraft lines of credit. The probability of any outflow of funds in connection with these guarantees is regarded as remote because the creditworthiness of the debtors is ensured. Most of the guarantees were provided in connection with the loan taken out by operating Group companies for the acquisition of OLDI.

7. OTHER FINANCIAL OBLIGATIONS

As of the balance sheet date, the Company had incurred purchase commitments in the amount of EUR 4,979 thousand under long-term contracts (previous year: EUR 3,091 thousand).

There were also liabilities under long-term rental and lease agreements. These liabilities stem primarily from contracts related to buildings, passenger cars and office equipment. The minimum amounts of undiscounted future payments as of the balance sheet date are as follows:

	2018 EUR (in thsds.)	2017 EUR (in thsds.)
< 1 year	1,647	1,355
1 – 5 years	3,350	2,996
> 5 years	421	1,270
Total	**5,418**	**5,621**

8. DISCLOSURE OF THE CARRYING AMOUNTS OF THE INDIVIDUAL CATEGORIES OF FINANCIAL INSTRUMENTS ACCORDING TO IFRS 7

Fair Values of Financial Instruments

The following table shows both the carrying amounts and the fair values of all financial instruments recognized in the consolidated financial statements that fall within the scope of IFRS 7. Almost all of the fair values correspond to the carrying amounts because, with the exception of cash, the financial instruments recognized almost solely comprise non-derivative current receivables and liabilities. As in the previous year, there were no financial instruments as of December 31, 2018, for which IFRS 7 is not applicable.

EUR (in thsds.)	Categories acc. to IFRS 9	Carrying amount	Measurement acc. to IFRS 9			Fair value
Financial assets by class		Dec. 31, 2018	Amortized cost	Fair value OCI	Fair value PL	Dec. 31, 2018
Current financial assets						
Trade receivables	AC	13,682	13,682			13,682
Other current financial assets	AC	71	71			71
Cash and cash equivalents	AC	9,682	9,682			9,682
Financial liabilities by class						
Non-current financial liabilities						
Long-term borrowings	FLAC	1,976	1,976			1,971
Current financial liabilities						
Trade payables	FLAC	6,086	6,086			6,086
Short-term borrowings	FLAC	6,215	6,215			6,438
Current financial liabilities	FLAC	4,522	4,522			4,521

Carrying amount by category	Category	Dec. 31, 2018 EUR (in thsds.)
Financial assets measured at amortized cost	AC	23,435
Financial liabilities measured at amortized cost	FLAC	18,798

EUR (in thsds.)	Categories acc. to IFRS 9	Carrying amount	Measurement acc. to IFRS 9			Fair value
Financial assets by class		Dec. 31, 2017	Amortized cost	Fair value OCI	Fair value PL	Dec. 31, 2017
Current financial assets						
Trade receivables	LaR	12,067	12,067			12,067
Other current financial assets	LaR	192	192			192
Cash and cash equivalents	LaR	10,276	10,276			10,276
Financial liabilities by class						
Non-current financial liabilities						
Long-term borrowings	FLAC	4,153	4,153			3,747
Current financial liabilities						
Trade payables	FLAC	4,574	4,574			4,574
Short-term borrowings	FLAC	4,788	4,788			5,068
Current financial liabilities	FLAC	3,569	3,569			3,569

Carrying amount by category	Category	Dec. 31, 2017 EUR (in thsds.)
Loans and receivables	LaR	22,535
Financial liabilities measured at amortized cost	FLAC	17,084

No further disclosures on the fair value have to be made pursuant to IFRS 7.29a if the carrying amount is a reasonable approximation of fair value.

Financial assets and financial liabilities measured at fair value are allocated to the following levels of the fair value hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs).
- Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly (Level 2 inputs).
- Unobservable inputs for the asset or liability (Level 3 inputs).

The current and non-current purchase price liabilities in the other non-current liabilities and current financial liabilities items are assigned to Level 3. The fair value of the contingent consideration was determined based on the forecast revenue and EBIT of the acquisitions adjusted for the likelihood of occurrence. A change in input factors within the range of alternative assumptions considered possible does not result in any meaningful change in the fair values.

The net gains/losses of the respective categories of financial instruments in accordance with IFRS 9 for 2018 and IAS 39 for 2017 are shown in the following overview:

Net gains and losses, 2018 EUR (in thsds.)		Interest	Impairment	Currency translation gains/losses	Net gain/loss
From financial assets measured at amortized cost	AC	22	–34	1,114	1,102
From financial liabilities measured at amortized cost	FLAC	–150			–150

Net gains and losses, 2017 EUR (in thsds.)		Interest	Impairment	Currency translation gains/losses	Net gain/loss
Loans and receivables	LaR	1	–118	–1,211	–1,328
Financial liabilities measured at amortized cost	FLAC	–155			–155

Interest income from financial assets measured at amortized cost totaled EUR 22 thousand in the current period, while interest expense on financial liabilities measured at amortized cost came to EUR 150 thousand. In the previous year, interest income on loans and receivables had amounted to EUR 1 thousand, while interest expense on financial liabilities measured at amortized cost had stood at EUR 155 thousand.

9. OBJECTIVES AND METHODS OF FINANCIAL RISK MANAGEMENT

Softing AG's capital management aims first and foremost at ensuring that the Company maintains a solid equity ratio to support its business activities. The Group manages its capital structure and makes adjustments, allowing for changes in economic conditions. To maintain or adjust its capital structure, the Group may make repayments of capital to its shareholders or issue new shares. There were no changes in the objectives, guidelines and procedures as of December 31, 2018, and December 31, 2017.

The Group monitors its capital using the equity ratio. But the Executive Board does not define a specific target to that end. The equity ratio in the financial year was 69% (previous year: 65%).

The capital of Softing AG relevant for controlling purposes encompasses the subscribed capital, the capital reserves, the retained earnings, the equity from unrealized gains and losses, treasury shares and non-controlling interests. Softing AG funds the development of its business to the greatest extent possible from its own cash flow.

As an internationally operating company, Softing is exposed to a variety of risks in the course of its operations. Therefore, the objective of its financial risk management is to detect all material financial risks early on and to take appropriate measures to protect existing and future success potential.

These risks include currency risks resulting from activities in different currency regions; default risks involving non-fulfillment of contractual obligations by contracting parties; interest rate risks, where fluctuations in the market interest rate trigger changes in the fair value of a financial instrument; and interest-related cash flow risks that trigger changes in the future cash flow of a financial instrument because of changes in market interest rates.

To evaluate and take into account such risks, Softing has defined principles through a centralized risk management system that serve to identify and evaluate such risks consistently and systematically. Continual reporting is used by Softing to check compliance with all principles. This enables the Company to identify and analyze risks early on.

There are no major concentrations of risk in the Group.

Please also see the disclosures on risks and opportunities in the management report.

Default Risks

Softing is exposed to default risks if contractual partners fail to meet their obligations. To avoid of risks of this nature, Softing enters into contracts only with contractual partners that have an excellent credit rating. As of the closing dates of December 31, 2018, and December 31, 2017, there was no material counterparty credit risk. While the Executive Board therefore believes the risk of non-fulfillment on the part of its contractual partners to be very low, it cannot completely exclude the risk in the final analysis.

Counterparty credit risks primarily concern trade receivables. Loss allowances are recognized to allow for any discernable counterparty credit risks in connection with individual financial assets. Loss allowances as of December 31, 2018, totaled EUR 296 thousand (previous year: EUR 398 thousand).

Regardless of any existing collateral, the carrying amount of financial assets equals the maximum counterparty credit risk if the contractual partners fail to meet their payment obligations.

Interest Rate Risks

Softing is also exposed to interest rate risks. The assets subject to interest rate fluctuations essentially concern cash and cash equivalents and securities classified as current assets. Bank balances totaling EUR 9,682 thousand (previous year: EUR 10,276 thousand) bear interest of 0.00% (previous year: 0.00%). No material interest rate risks result from subsidiaries' liabilities to banks in the amount of EUR 8,191 thousand (previous year: EUR 8,942 thousand) because they can be converted into fixed-interest loans at any time.

An increase of the market interest rate by 50 basis points would have an impact of EUR 41 thousand (previous year: EUR 45 thousand) on interest expense relating to the loan.

Foreign Currency Risk

The Softing Group's foreign currency risk is limited to three currencies: USD, CHF and RON. The foreign currency risk relating to US dollars is hedged naturally, because in the United States and in Singapore (where US dollars are the functional currency), income and expenses are generated/incurred for products. The foreign currency risk associated with the Romanian RON and CHF is minimal because these currencies are linked to the euro, and the agreements with the Romanian subsidiary stipulate euros.

All foreign currency forwards had been settled as of the reporting date. The following sensitivities apply with regard to USD:

In EUR (in thsds.)/USD			USD			
Closing rate: USD 1.15			1.26 +10%	1.03 –10%	Difference	Difference
Financial assets/liabilities	**USD**	**USD in EUR**			**+10 %**	**–10 %**
Trade receivables	4,329	3,781	3,437	4,201	–344	420
Receivables from affiliated companies	2,470	2,157	1,961	2,397	–196	240
Other current assets	192	168	153	187	–15	19
Cash and cash equivalents	3,751	3,276	2,978	3,640	–298	364
Non-current liabilities to affiliated companies	–18,435	–16,100	–14,637	–17,889	1,464	–1,789
Current liabilities to affiliated companies	–7,314	–6,388	–5,807	–7,098	581	–710
Total	**–15,006**	**–13,106**			**1,191**	**–1,456**

Movements in the USD:EUR exchange rate would be reflected mainly in the equity of the Softing Group.

Liquidity Risk

Liquidity risk is the risk that the Group might not have adequate funds to fulfill its payment obligations.

The Group's liquidity requirements are met primarily through its operating business. Softing AG continuously monitors the risk of a potential liquidity bottleneck using its liquidity planning. The Group's goal is to continue meeting its liquidity requirements through its own cash flow.

The Group possesses sufficient liquidity and unused credit lines in the amount of EUR 4,000 thousand to meet its obligations over the next four years in line with its strategic plans. For disclosures on maturities, please see section C.

Cash and cash equivalents at year's end were EUR 9,682 thousand (previous year: EUR 10,276 thousand), accounting for 9.7% (previous year: 12.7%) of the Group's total assets.

The following table shows the financial liabilities of the Group by maturity classes based on the remaining life as of the reporting date and based on the contractually agreed maturity. The amounts shown in the table are not discounted cash flows.

Dec. 31, 2018 EUR (in thsds.)	Up to 1 year	2 – 5 years	More than 5 years
Non-current financial liabilities			
Long-term borrowings		1,976	
Current financial liabilities			
Trade payables	6,086		
Short-term borrowings	6,215		

Dec. 31, 2017 EUR (in thsds.)	Up to 1 year	2 – 5 years	More than 5 years
Non-current financial liabilities			
Long-term borrowings		4,153	
Current financial liabilities			
Trade payables	4,574		
Short-term borrowings	4,788		

10. PERSONNEL

The number of employees (exclusively salaried employees) excluding the Executive Board was as follows:

	2018	2017
As of the balance sheet date	402	411
Annual average	404	415
Marketing & Sales	115	115
Research & Development	240	253
Administration & General	41	39
Management	8	8

11. EXECUTIVE BOARD

The following persons were members of the Executive Board of Softing AG in the reporting period:

Dr.-Ing. Dr. rer. oec. Wolfgang Trier, Grünwald, Germany, Chairman

Mr. Ernst Homolka, Munich, Germany, Executive Board member for Finance and Human Resources

In accordance with the resolution adopted by the General Shareholders' Meeting on May 8, 2018, the remuneration of individual members of the Executive Board is not disclosed until 2022.

Benefits granted EUR (in thsds.)	Total	
	2018	2017
Fixed remuneration	746	733
Fringe benefits	32	32
Total	778	765
One-year variable remuneration	243	189
Multi-year variable remuneration	367	460
Share-based payment	0	0
Total	610	649
Pension expense	63	42
Total remuneration	1,451	1,456

All remuneration components are deemed to have been received in the financial year.

The fringe benefits and the pension expense include flat-rate vehicle allowances and the employer contributions to social security and contributions to pensions.

The total remuneration must be classified as short-term in accordance with IAS 24.17.

Furthermore, service cost of EUR 145 thousand (previous year: EUR 144 thousand) was recognized.

A D&O insurance with a deductible of 10% has been taken out for the members of the Executive Board.

The Executive Board member also holds the Company's key central positions.

An agreement with one member of the Executive Board gives him the right to terminate his employment for cause if at least one outside shareholder or shareholder groups acting in concert reaches 1.4 million voting shares through possession or attribution. If this Executive Board member exercises this right to terminate his employment for cause, he is entitled to compensation equaling approximately two annual salaries.

Pension obligations for former members of the Executive Board as of December 31, 2018 totaled EUR 2,922 thousand (previous year: EUR 2,944 thousand). The total remuneration of former members of the Executive Board amounted to EUR 174 thousand (previous year: EUR 168 thousand).

12. SUPERVISORY BOARD

The following persons were members of the Supervisory Board of Softing AG in the 2018 financial year:

Dr. Horst Schiessl, attorney at law, Munich, Germany (chairman)
Dr. Klaus Fuchs, graduate computer scientist and graduate engineer, Helfant, Germany (deputy chairman)
Andreas Kratzer, certified public accountant, Zurich, Switzerland

Dr. Schiessl is also a member of the Supervisory board and advisory board of the following companies:
Baader Bank AG, Unterschleißheim (chairman)
Dussmann Stiftung & Co. KGaA, Berlin, Germany (member of the Supervisory Board)
Dussmann Stiftung, Berlin, Germany (member of the foundation council)
Dussmann Stiftung & Co. KG, Berlin, Germany (member of the advisory board)
Deutsche Mittelstandsservice AG (chairman)

Dr. Fuchs did not hold any offices on other Supervisory boards.

Mr. Andreas Kratzer is also a member of the Board of Directors of:
SIAT-Swiss Investment & Trade Group AG, Buchs, Switzerland (Board of Directors)
Mobil Power AG, Zurich, Switzerland (Board of Directors)
Lysys AG Baar, Switzerland (Board of Directors)
Immoselect AG, Baar, Switzerland (Board of Directors)
Biotensidon International AG, Baar, Switzerland (Board of Directors)
Belano Residenz AG, Baar, Switzerland (Board of Directors)

Each member of the Supervisory Board receives a fixed remuneration of EUR 10,000 for each full financial year of service on the Supervisory Board. In addition, each member receives variable remuneration amounting to 0.5% of Group EBIT before variable Supervisory Board remuneration. The chairman receives 200% of the fixed and variable amount, the deputy chairman 150%.

Remuneration for the members of the Supervisory Board in the reporting period totaled EUR 139 thousand (previous year: EUR 99 thousand) and is comprised as follows:

EUR (in thsds.)	Fixed		Variable		Total	
	2018	2017	2018	2017	2018	2017
Dr. Horst Schiessl (chairman)	20	20	42	24	62	44
Dr. Klaus Fuchs	15	15	31	18	46	33
Andreas Kratzer	10	10	21	12	31	22

13. AUDITOR'S FEES

The following expenditure (including expenses) was incurred in the financial year just ended for services provided by the auditor, PricewaterhouseCoopers GmbH:

	2018 EUR (in thsds.)	2017 EUR (in thsds.)
Audit of annual financial statements	185	191
	185	**191**

14. EVENTS AFTER THE REPORTING PERIOD

There are no events after the balance sheet date to report.

15. DECLARATION REGARDING THE GERMAN CORPORATE GOVERNANCE CODE PURSUANT TO SECTION 161 GERMAN STOCK CORPORATION ACT

The Declaration of Compliance pursuant to Section 161 German Stock Corporation Act was issued by the Executive Board and the Supervisory Board of Softing AG and has been made permanently available to shareholders on the Internet at www.softing.com.

Haar, Germany, March 22, 2019

Softing AG

The Executive Board

Dr. Wolfgang Trier Ernst Homolka

Independent Auditor's Report

TO SOFTING AG, HAAR

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Audit Opinions

We have audited the consolidated financial statements of Softing AG, Haar, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1, 2018 to December 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Softing AG, which is combined with the Company's management report, for the financial year from January 1 to December 31, 2018. We have not audited the content of those parts of the group management report listed in the "Other Information" section of our auditor's report in accordance with the German legal requirements.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2018, and of its financial performance for the financial year from January 1 to December 31, 2018, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under

Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

❶ **Accounting for revenue from services recognized over time**
❷ **Development costs for internally generated product developments**
❸ **Recoverability of goodwill**
❹ **Capital increase from authorized capital through a contribution in kind (contribution of GlobalmatiX AG)**

Our presentation of these key audit matters has been structured in each case as follows:

① Matter and issue
② Audit approach and findings
③ Reference to further information

Hereinafter we present the key audit matters:

❶ **Accounting for revenue from services recognized over time**

① Matter and issue

In the consolidated financial statements of Softing AG, revenue of € 4.8 million from the customer-related development of software arising from the fulfillment of service obligations over time is reported. Provided that the criteria of IFRS 15 have been met, the revenue is recognized in accordance with the stage of completion, with the estimate of the stage of completion being based on the ratio of costs actually incurred in relation to the contract to the planned total costs ("cost-to-cost method"). In particular, estimating the planned total costs and appropriately allocating personnel expenses to the projects require the management to use estimates and assumptions.

Due to the complexity of the accounting, the long-term nature of the contracts and the resulting uncertainties relating to the estimates, this matter was of particular significance in the context of our audit.

② Audit approach and findings

As part of our audit, we assessed and tested, among other things, the processes and controls established by the Group in relation to recognizing revenue over time from the development of software for customers taking into account the stage of completion. We examined projects on a sample basis to establish whether the conditions for recognizing revenue over time as set out in IFRS 15 were met. Moreover, we evaluated the determination of the stage of completion of customer-specific contracts on the basis of the cost-to-cost method and the resulting proportion of revenue and profit recognized, bearing in mind the probability of an expected loss to be recognized immediately. In this connection we retraced the calculation of the planned total costs as well as of the costs actually incurred. In addition, we assessed the consistency of the methods used to calculate the costs incurred. Furthermore, in order to mitigate the inherent audit risk in this audit area, we ensured that audit procedures were consistently carried out throughout the Group.

In doing so, we were able to satisfy ourselves that the estimates applied and the assumptions made by management concerning the recognition and measurement of revenue over time were sufficiently documented and that the estimates applied and the assumptions made by management were consistently derived.

③ Reference to further information

The Company's disclosures on recognizing revenue over time are contained in sections B.1, B.14, C.8 and D.1 of the notes to the consolidated financial statements.

❷ Development costs for internally generated product developments

① Matter and issue

In the consolidated financial statements of the Company, an amount of EUR 15.4 million for "internally generated intangible assets" is reported under the "intangible assets" balance sheet item. This amount relates to development costs for new products and significant further developments (hereinafter "product developments"), which were capitalized in accordance with IAS 38. Development costs include direct costs and shared overhead expenditure. The criteria of IAS 38.57 determine whether internally generated product developments are eligible for capitalization – specifically the technical feasibility of completing the intangible asset, how the intangible asset will generate probable future economic benefits and the ability to measure reliably the expenditure attributable to the intangible asset during its development – and provide considerable scope for judgment. The asset is generally amortized over 5 years once the Company begins consuming the economic benefits from that asset. Capitalized own expenses contributed EUR 4.4 million to consolidated profit or loss in the fiscal year. This was offset by amortization of internally generated intangible assets amounting to EUR 2.1 million. In our view, this matter was of particular significance for our audit because the capitalization and amortization of development costs are based to a large extent on management estimates and assumptions and are therefore subject to corresponding uncertainties.

② Audit approach and findings

As part of our audit, we evaluated, among other things, the capitalization requirements for individual projects on a sample basis, using the criteria set out in IAS 38.57.

We also assessed the methodology used to calculate the costs eligible for capitalization. We determined that the process for capitalizing development costs is appropriately designed and the established controls have been properly implemented. We assessed the amount of the capitalized development costs and the recoverability of the product developments on the basis of appropriate evidence. In so doing, we also inspected project records in order to satisfy ourselves of the respective percentage of completion. In our view, the methodology applied by the Company for capitalizing product developments is appropriate and the percentage of completion and capitalized development costs have been sufficiently documented.

③ Reference to further information

The Company's disclosures on capitalized development costs are contained in sections B.5 and C.3 of the notes to the consolidated financial statements.

❸ Recoverability of goodwill

① Matter and issue

In the consolidated financial statements of the Company, goodwill amounting to a total of EUR 18.0 million (18% of total assets and 26% of equity) is reported. Goodwill is tested for impairment by the Company once a year or when there are indications of impairment to determine any possible need for write-downs. The impairment test is carried out at the level of the groups of cash-generating units to which the relevant goodwill has been allocated. The carrying amount of the relevant goodwill is compared with the corresponding recoverable amount in the context of the impairment test. The calculation of the recoverable amount generally employs the value in use. The present value of the future cash flows from the respective group of cash-generating units normally serves as the basis of valuation. Present values are calculated using discounted cash flow models. For this purpose, the medium-term business plan adopted by the Group forms the starting point which is extrapolated based on assumptions about long-term rates of growth. Expectations relating to future market developments and assumptions about the development of macroeconomic factors are also taken into account. The discount rate used is the weighted average cost of capital for the relevant group of cash-generating units. The impairment test determined that no write-downs were necessary.

The outcome of this valuation is dependent to a large extent on the estimates made by management with respect to the future cash inflows for the respective group of cash-generating units, the discount rate used, the rate of growth and other assumptions, and is therefore subject to considerable uncertainty. Against this background and due to the complex nature of the valuation, this matter was of particular significance in the context of our audit.

② Audit approach and findings

As part of our audit, we assessed the methodology employed for the purposes of performing the impairment test, among other things. After matching the future cash inflows used for the calculation against the medium-term business plan adopted by the Group, we evaluated the appropriateness of the calculation especially through reconciliation with general and sector-specific market expectations. Furthermore, we also evaluated the proper consideration of the costs for Group functions. In the knowledge that even relatively small changes in the discount rate applied can have a material impact on the value of the entity calculated in this way, we also focused our testing in particular on the parameters used to determine the discount rate applied, and evaluated the valuation model. We retraced the sensitivity analyses performed by the Company, in order to reflect the uncertainty inherent in the projections.

Overall, the measurement inputs and assumptions used by management are in line with our expectations and are also within the ranges considered by us to be reasonable.

③ Reference to further information

The Company's disclosures on impairment testing and goodwill are contained in section B.6 und C.2 of the notes to the consolidated financial statements.

❹ Capital increase from authorized capital through a contribution in kind (contribution of GlobalmatiX AG)

① Matter and issue

During the financial year, Softing AG carried out a capital increase from authorized capital through a contribution in kind (contribution of GlobalmatiX AG). This results in an addition on the asset side of the statement of financial position in the consolidated financial statements under the "intangible assets" item for a mobile communications license identified as part of the purchase price allocation totaling EUR 12.0 million less deferred taxes of EUR 1.5 million, as well as an addition of EUR 3.1 million under the "goodwill" item. On the liabilities side of the statement of financial position, this results in a EUR 1.5 million increase in authorized capital under the "equity" item as well as a transfer to capital reserves totaling EUR 11.9 million.

The transfer of the equity investment in GlobalmatiX AG constitutes an acquisition as set out in IFRS 3. As compensation, Softing AG granted a fixed number of its own shares from a non-cash capital increase carried out for this purpose. The shares granted as compensation were measured at fair value as of the acquisition date. As the shares are listed on the active market, the fair value measurement was based on the market price as of the acquisition date. The notional value of the authorized capital was added to the "equity" item of the statement of financial position. The amount allocated to the capital reserves arose from the difference between the fair value and notional value less transaction costs.

The enterprise value of GlobalmatiX AG was measured using the discounted cash flow model and alternative valuation methods (including determining the reconstruction value). All of the assets and liabilities of GlobalmatiX AG were also measured as of the acquisition date. The key identifiable asset results from the mobile communications license. The cash flow to equity method and the reconstruction method with different measurement assumptions were used to determine the carrying amount of the mobile communications license: As part of the purchase price allocation, the carrying amount of the mobile communications license was set at EUR 12.0 million.

The goodwill calculated at EUR 3.1 million results from the difference between the recognized assets and liabilities, the carrying amount of the mobile communications license and the fair value of the shares granted as compensation.

The outcome of this measurement is dependent to a large extent on the estimates made by management with regard to the measurement inputs as well as the measurement assumptions used in each case. As a result, the valuation is subject to significant uncertainties. Against this background, and due to the very complex nature of the valuation and the material significance for the Company's net assets and results of operations, this matter was of particular significance in the context of our audit.

② Audit approach and findings

As part of our audit, we initially gained an understanding of the contractual terms of the transfer and the provisions of the Articles of Incorporation and company law, and used these and other sources to assess the accounting treatment undertaken by the Company. We evaluated the methodology used by the Company to calculate the shares granted as compensation and the acquired assets and liabilities of GlobalmatiX AG as of the acquisition date.

In addition, we evaluated the purchase price allocation, particularly with regard to the carrying amount of the mobile communications license, which was identified as a key intangible asset of GlobalmatiX AG, as well as the derivation of goodwill.

In doing so, we assessed the expertise and professional qualifications of the Company employees responsible for the purchase price allocation and the external third parties they consulted. Among other things, we also assessed the valuation techniques used and examined the appropriateness of these methods. We evaluated the parameters and assumptions underlying the valuations, particularly through reconciliation with general and sector-specific market expectations. In the knowledge that even relatively small changes in the discount rate applied can have a material impact on the value of the entity calculated in this way, and in particular on that of the acquired mobile communications license, we also focused our testing in particular on the parameters used to determine the discount rate applied, and evaluated the valuation model.

We assessed the derivation of goodwill based on the assets and liabilities of GlobalmatiX AG measured at fair value.

In our view, the measurement inputs used by management and the underlying measurement assumptions are generally appropriate for the measurement of the assets and liabilities of GlobalmatiX AG and the derivation of goodwill.

③ Reference to further information

The Company's disclosures on intangible assets, deferred taxes, goodwill and the equity transaction are contained in sections B.2, 4, 6, 16; and C.1, 2, 12 of the notes to the consolidated financial statements and in the consolidated statement of changes in fixed assets as an appendix to the notes to the consolidated financial statements.

Other Information

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the group management report:

- the statement on corporate governance pursuant to § 289f HGB and § 315d HGB contained in the section entitled "Statement on corporate governance" of the group management report
- the corporate governance report pursuant to No. 3.10 of the German Corporate Governance Codex

The other information comprises further the remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or

- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to §315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to §315e Abs. 1 HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the General Shareholders' Meeting on May 09, 2018. We were engaged by the Supervisory Board on December 17, 2018. We have been the group auditor of the Softing AG, Haar, without interruption since the financial year 2012.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Stefano Mulas.

Report of the Supervisory Board

for the 2018 Financial Year

The Supervisory Board of Softing AG carried out its duties as provided by law and the Company's Articles of Incorporation in financial year 2018. The Supervisory Board regularly advised the Executive Board in matters of management and diligently monitored its actions. The Supervisory Board was informed regularly about the situation of Softing AG and the Group and monitored and accompanied the work of the Executive Board as well as compliance with applicable legal provisions and the Company's internal guidelines. The Executive Board informed the Supervisory Board in writing and orally about the business policies, fundamental questions of future business activities, the economic situation and future strategic development, the risk situation and risk management as well as significant business transactions, and discussed these matters with the Supervisory Board. The Supervisory Board was involved in decisions of material significance at all times.

A total of 7 Supervisory Board meetings were held in the 2018 financial year:

on February 8, March 15/16, May 9, July 12, September 27 and December 17.

The regular deliberations during Supervisory Board meetings and between the Executive Board and the Supervisory Board focused on the organizational and strategic development and orientation of the Group, the positioning and financial development of Softing AG, and significant business events for the Company. Between meetings, the Supervisory Board was also informed of plans and developments that were of particular importance. The Supervisory Board thoroughly reviewed, discussed and approved all matters which require approval under legal provisions and the Articles of Incorporation or the Rules of Procedure.

Furthermore, in regular discussions with the Executive Board, the chairman of the Supervisory Board obtained information about important decisions and business transactions of special significance. He also held separate discussions with the Executive Board on strategy to explore the perspectives for and future alignment of each individual business.

Our deliberations and reviews focused on the entire accounting system of Softing AG and the Group, the monitoring of the internal control system as well as the effectiveness of the internal auditing and risk management system.

MAIN FOCUS OF THE MEETINGS

At the Supervisory Board meeting on February 8, 2018, the Supervisory Board dealt with the approval of the joint venture with Shanghai-based Windhill Ltd. to realign sales activities in China.

At the Supervisory Board meeting on March 15, 2018, the Supervisory Board dealt with the Company's performance in the 2017 financial year and the first results for 2018. Another key item on the agenda at the Supervisory Board meeting was the adoption of the annual financial statements and the approval of the consolidated financial statements, both as of December 31, 2017, after the auditor, who was present, had reported on the completed audit and extensively answered questions by the Supervisory Board. The Supervisory Board concurred with the Executive Board's proposal for the appropriation of profits. At this meeting, the Supervisory Board also carried out the efficiency review recommended by the German Corporate Governance Code. The Supervisory Board came to the conclusion that its work was efficient. It also approved the Agenda for the 2018 General Shareholders' Meeting.

At the Supervisory Board meeting on March 16, 2018, the Supervisory Board authorized the acquisition of GlobalmatiX AG Vaduz/Liechtenstein and the approval to exercise part of the Management Board's authorization to issue new shares from Authorized Capital 2015.

In the Supervisory Board meeting on May 9, 2017 after the General Shareholders' Meeting there was a recapitulation of the General Shareholders' Meeting, and the newly assembled Supervisory Board met for its inaugural session. This was followed by a report of the Executive Board on the status and outlook of operations and the financial position. The Executive Board also presented the risk report as of March 31, 2018. After that, the management functions of the Group companies were discussed.

On July 12, 2018, the Executive Board presented data and background information on the business figures for the first half-year and the financial planning at the Supervisory Board meeting. The Supervisory Board obtained a detailed report from the Executive Board on the development of business in the past first months, and the performance of GlobalmatiX AG was presented. Other topics included the filling of executive management positions and the optimization of IT and controlling activities by installing new systems.

At the meeting held on September 27, 2018, the Executive Board presented the report on the financial results for the period from January to August 2018. In a special report, Mr. Widmann, Managing Director of GlobalmatiX AG and the Executive Board presented the further development and structure of GlobalmatiX AG.

At the Supervisory Board meeting held on December 17, 2018, the Executive Board presented to the Supervisory Board a first estimate of the 2018 annual results, its business plan for 2019 and its multi-year planning. After careful review, the Supervisory Board approved the two plans. This was followed by the report on the performance of the GlobalmatiX acquisition. In this meeting, the Supervisory Board also addressed the recommendations of the German Corporate Governance Code and the topic of diversity in detail.

At that time, no amendments to the German Corporate Governance Code (GCGC) were available, so there was no need for Softing to make any adjustments. The Supervisory Board adopted the resolution required in this context. It approved the Declaration of Compliance with the German Corporate Governance Code, which it had prepared jointly with the Executive Board; it is permanently available to the public at the Company's website. The annual review of the remuneration system was performed.

All members of the Supervisory Board attended all Supervisory Board meetings in 2018. There was no conflict of interest of members of the Supervisory Board in the financial year just ended. The independence of the financial expert on the Supervisory Board was monitored on an ongoing basis and is assured.

COMPOSITION OF THE SUPERVISORY BOARD AND THE EXECUTIVE BOARD

In 2018, the General Shareholders' Meeting held on May 7, 2018 elected a new Supervisory Board, which was confirmed by a majority of the General Shareholders' Meeting without making any changes to its previous composition. As a result, there were no personnel changes on the Supervisory Board in the 2018 financial year. In the reporting year, the Supervisory Board was again comprised of Dr. Horst Schiessl (Chairman), Dr. Klaus Fuchs (Deputy Chairman) and Mr. Andreas Kratzer. The Supervisory Board did not establish any committees, given its size. Instead, the full Supervisory Board was responsible for all tasks and decisions.

ANNUAL FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

The annual financial statements of Softing AG were prepared in accordance with the German Commercial Code and the consolidated financial statements and the Group management report were prepared in accordance with International Financial Reporting Standards (IFRSs). The annual financial statements and the management report of Softing AG, and the consolidated financial statements and the Group management report as of December 31, 2018, were audited as required by law by PricewaterhouseCoopers AG, Wirtschaftsprüfungsgesellschaft, Munich, Germany, the auditors appointed by the General Shareholders' Meeting. The auditors issued an unqualified auditor's opinion each for the annual financial statements and the consolidated financial statements. The auditors performed an audit in accordance with Section 317 (4) German Commercial Code and came to the conclusion that the Executive Board established a monitoring system which fulfills the legal requirements for the early detection of risks jeopardizing the Company's existence as a going concern and that the Executive Board took appropriate measures to detect developments at an early stage and avert risks.

The auditors stated their independence vis-à-vis the Supervisory Board as required by the German Corporate Governance Code and disclosed the audit and consulting fees received in the financial year.

The annual financial statements and the audit reports of the auditors were made available in time to all members of the Supervisory Board. At its financials meeting on March 22, 2019, the Supervisory Board examined the annual financial statements and the management report of Softing AG as well as the consolidated financial statements and the Group management report presented by the Executive Board including the audit report prepared by the auditors of the financial statements. The auditors and the Executive Board participated in the meeting.

The auditors reported on their audit in general as well as on individual focal points and the significant results of their audit. They answered the questions raised by the members of the Supervisory Board in detail. The Supervisory Board approved the result of the audit. There was no reason to raise any objections based on the final result of this examination.

The Supervisory Board approved the annual financial statements and the consolidated financial statements for 2018 at its meeting on March 22, 2019. The annual financial statements are therefore formally adopted. The Supervisory Board agreed with the appropriation of the net retained profits proposed by the Executive Board.

THANK YOU

The Supervisory Board would like to thank the Executive Board and all employees for their extraordinary efforts and their achievements in the 2018 financial year.

Haar, Germany, March 22, 2019

Dr. Horst Schiessl
Chairman

Corporate Governance Report

The Executive Board and the Supervisory Board of Softing AG support many suggestions and rules of the German Corporate Governance Code and declare that they were and will be in compliance in the future with the recommendations regarding conduct contained in the Code's current and applicable version in the 2018 financial year, taking into account the exceptions and comments listed below. The Executive Board and Supervisory Board issued the Declaration of Compliance in December 2018. Below, the Executive Board and the Supervisory Board disclose and explain any deviations from the Code. You can download the full text of the Code from the Investor Relations section of our website at www.softing.com.

1. Softing AG (hereinafter: the Company) will comply with the recommendations of the German Corporate Governance Code, as amended on February 7, 2017, with the following exceptions:

a. **The Executive Board's duties to inform and report to the Supervisory Board are not specified in greater detail (Section 3.4 (1) sentence 3 of the Code).**
   The Supervisory Board has not specified the Executive Board's duties to inform and report in greater detail because the Executive Board is already legally obligated to regularly inform the Supervisory Board about all material business transactions without delay. In addition, the Supervisory Board has not had any reason to find fault with the Executive Board's information policy to date.

b. **The Company currently has not agreed a deductible for the D&O insurance taken out on behalf of the members of its Supervisory Board (Section 3.8 (3) of the Code).**
   The Company does not believe that such a deductible could enhance the motivation and responsibility of the members of the Company's Supervisory Board in carrying out their duties.

c. **The Company does not maintain Declarations of Compliance with the German Corporate Governance Code at its website for five years (Section 3.10 sentence 3 of the Code).**
   It does not believe that it is necessary to store non-current Declarations of Compliance with the German Corporate Governance Code on its website for five years. Such postings do not offer new information relevant to the capital market.

d. **No consideration was given to the relationship between the remuneration of senior management and the staff overall, when determining the remuneration for the Executive Board (Section 4.2.2 (2) sentence 3 of the Code)**
   Section 4.2.2 (2) sentence 3 of the Code recommends that the Supervisory Board consider the relationship between the remuneration of the Executive Board and that of senior management and the relevant staff overall, particularly in terms of its development over time. When the current director's contracts of the Executive Board members were concluded, the Supervisory Board ensured – in compliance with the requirements of the German Stock Corporation Act – that the overall remuneration appropriately reflects the tasks and performance of the respective Executive Board member and does not exceed what is a customary level of remuneration. Using the customary calculation method, the determination of the Executive Board's remuneration was oriented on the Company's scope of business, its economic and financial position and the structure of the Executive Board remuneration in place at comparable companies. Furthermore, consideration was given to the individual tasks and scope of responsibilities of the respective Executive Board member. To the extent that the Code, as amended, specifies reviewing the vertical appropriateness of Executive Board remuneration, which

is required by the German Stock Corporation Act, and provides a more detailed definition of both the peer groups relevant for comparison and the time period to which such a comparison applies, the Company as a precaution declares that it deviates from the Code. When reviewing vertical appropriateness, the Supervisory Board did not distinguish between the peer groups of the Code recommendation and did not collect any data regarding the development over time of the wage and salary structure, either.

e. Variable remuneration components with a multiple-year, forward-looking assessment basis (Section 4.2.3 (2) sentence 3 of the Code)
Executive Board remuneration already includes a multiple-year assessment basis. However, this multiple-year assessment basis does not have essentially forward-looking characteristics. The Company believes that additional, essentially forward-looking characteristics do not currently represent additional incentives for the Executive Board. The Supervisory Board and the Executive Board will, however, discuss a change in the assessment basis for variable remuneration during the next year.

f. Diversity in the Executive Board (Section 5.1.2 (1) sent. 2 of the Code)
When appointing the members of the Executive Board, the Supervisory Board cannot also respect diversity because the Company currently has only two Executive Board members. Given that the Executive Board comprises just two members – a number the Company believes to be adequate and whose positions will be filled for the foreseeable future – the recommendations in the Code to aim for diversity do not appear feasible for the time being. Furthermore, the Supervisory Board does not consider it appropriate to select Executive Board members based on criteria such as orientation or race, but instead to rely on personality and expertise only.

g. The Supervisory Board has not set up any committees (Sections 5.3.1, 5.3.2, 5.3.3 of the Code).
Given the size of the Supervisory Board (three members), setting up committees is not considered necessary.

h. No age limit has been specified for members of the Executive Board and the Supervisory Board (Section 5.1.2 (2) sent. 3 and Section 5.4.1 (2) of the Code).
A specific age limit could be an undesired criterion to exclude qualified members of the Executive Board or the Supervisory Board.

i. Specification of concrete objectives regarding the composition of the Supervisory Board and preparation of a profile of skills and expertise (Section 5.4.1 (2), (3) and (4) of the Code).
The Company's Supervisory Board will not specify any concrete objectives regarding its composition, nor has it prepared a profile of skills and expertise for the entire Supervisory Board. Up to now, the Supervisory Board has exclusively based its proposals for the nomination of Supervisory Board members on the suitability of the male and female candidates with the aim of creating a Supervisory Board whose members as a group possess the knowledge, skills and professional experience required to properly complete its tasks. The Supervisory Board firmly believes that this approach works, which is why it does not see any need to change this practice. In particular, the Company does not intend to implement the recommendation to set a regular limit of length of membership because as a rule, the Company wishes to have access to the expertise of experienced Supervisory Board members as well. The Supervisory Board does not consider a predetermined limit for the

maximum period of service appropriate, since the term of office for Supervisory Board members stipulated in the law and Articles of Incorporation provide for a reasonable period for Supervisory Board mandates.

Since the Supervisory Board accordingly does not set specific targets regarding its composition and does not prepare a profile of skills and expertise, either, the recommendations in Section 5.4.1 (3) cannot be followed. For this reason, the Company also cannot follow the recommendations in Section 5.4.1 (4), according to which proposals by the Supervisory Board to the General Meeting shall take these targets into account, while simultaneously aiming at fulfilling the overall profile of required skills and expertise of the Supervisory Board. The implementation status can therefore not be published in the Corporate Governance Report, either.

j. Performance-related remuneration shall be oriented toward sustainable growth of the enterprise (Section 5.4.6 (2) sent. 2 of the Code)
In addition to fixed remuneration, the members of the Supervisory Board also receive performance-related remuneration based on consolidated EBIT before taking into account the Supervisory Board's variable remuneration. The Company's Articles of Incorporation thus do not expressly require a link to sustainable growth of the Company. The Company continues to believe that basing performance-related remuneration on consolidated EBIT of the respective financial year is a sensible approach, because due to the nature of its business, deliberate deferrals of expenses and income are hardly possible. Consolidated EBIT is a key performance indicator. Furthermore, no generally accepted model for basing the remuneration of Supervisory Board members on a company's sustainable development has established itself in the capital markets to date. For the time being, the Company will continue to monitor the situation.

k. The Supervisory Board does not discuss quarterly or half-yearly financial reports with the Executive Board prior to publication (Section 7.1.2 sent. 2 of the Code).
The Company believes that a separate discussion of the reports is not necessary because the Supervisory Board is informed regularly of the business transactions.

2. Since the publication of its most recent Declaration of Compliance in December 2015, Softing AG has generally been in compliance with the recommendations contained in the German Corporate Governance Code as amended on February 7, 2017. The Company has not observed the following recommendations: Section 3.4 (1) sentence 3; Section 3.8 (3); Section 3.10, sentence 3; Section 4.1.3 sentence 2; Section 4.2.2 (2) sentence 3; Section 4.2.3 (2) sentence 3; Section 5.1.2 (1) sentence 2; Section 5.3.1; Section 5.3.2; Section 5.3.3; Section 5.1.2 (2) sentence 3; Section 5.4.1 (2), (3) and (4); Section 5.4.6 (2) sentence 2; and Section 7.1.2 sentence 2.

Please see the explanations under no. 1 for the reasons for not observing the recommendations of the Code stated under no. 2.

Remuneration for the active members of the Supervisory Board in the 2018 financial year is presented in the notes of the 2018 annual report.

Disclosures regarding directors' dealings pursuant to Section 15a German Securities Trading Act (WpHG) are published in the Investor Relations section of our website at www.softing.com.

CORPORATE BOARDS AND DIRECTORS' HOLDINGS

Boards	Shares		Options	
	Sep. 30, 2018 Number	Dec. 31, 2018 Number	Sep. 30, 2018 Number	Dec. 31, 2018 Number
Supervisory Board				
Dr. Horst Schiessl (chairman), attorney at law, Munich	–	–	–	–
Dr. Klaus Fuchs (member), graduate computer scientist and graduate engineer, Helfant	278,820	278,820	–	–
Andreas Kratzer (member), certified public accountant, Zurich, Switzerland	10,155	10,155	–	–
Executive Board				
Dr.-Ing. Dr. rer. oec. Wolfgang Trier, Munich	122,221	122,221	–	–
Ernst Homolka, Munich	1,800	1,800	–	–

FINANCIAL CALENDAR

March 29, 2019	Consolidated Financial Statements/Annual Report 2018
May 07, 2019	Interim Management Statement Q1/3M 2019
May 08, 2019	General Shareholders' Meeting 2019
August 14, 2019	Half-yearly Report Q2/6M 2019
November 15, 2019	Interim Management Statement Q3/9M 2019

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