Annual Report 2020

reporting

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Consolidated Key Figures

		2020	2019	2018	2017	2016
Incoming orders	(EUR million)	72.8	95.6	88.1	78.0	82.5
Revenue	(EUR million)	77.6	91.1	83.9	78.7	80.4
EBIT (operating)	(EUR million)	1.6	4.1	3.5	1.1	6.7
EBITDA (IFRS)	(EUR million)	7.8	12.1	9.0	6.8	12.3
EBIT (IFRS)	(EUR million)	-3.9	4.3	4.1	2.3	7.2
Consolidated profit (IFRS)	(EUR million)	-4.6	2.9	3.3	0.7	5.7
Earnings per share (IFRS)	(EUR)	-0.50	0.31	0.38	0.10	0.82
Non-current assets	(EUR million)	64.3	70.6	63.0	45.9	48.9
Current assets	(EUR million)	40.9	46.1	36.8	34.8	34.0
Equity	(EUR million)	63.0	69.6	68.4	52.3	47.6
Equity ratio	(in %)	59.9	59.6	68.5	65.0	57.0
Cash and cash equivalents	(EUR million)	10.2	14.9	9.7	10.3	10.9
Number of employees (annual average)		399	404	404	415	430

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DEAR SHAREHOLDERS, EMPLOYEES, PARTNERS AND FRIENDS OF SOFTING AG

Almost exactly a year has passed since we all went into the first “lockdown”, a situation unlike anything previously experienced in the post-war era. The impact of this on our customers was and remains significant. It resulted in considerable and unpredictable economic volatility that persists to this day. We had to adapt to this new reality very quickly.

Our first priority last year was to manage our cost structures. The key financial parameter here was operating EBIT, which comes closest to cash flow and provides an indicator for preserving liquidity. We had to find new ways to reach our customers after the complete cessation of customer visits and trade fairs. There is no doubt that we succeeded in doing this in the second half of the year. By combining all of these measures, we were able to operate profitably again by the third quarter. We managed to reach break-even in terms of operating EBIT in the first nine months of of the year, before returning to growth in the fourth quarter that significantly exceeded even our expectations. In particular, revenues in North America and Asia showed a much more positive trend than expected towards the end of the year. High-margin services in what is by far our largest segment, Industrial, as well as strong revenues in the IT Networks segment resulted in operating EBIT of EUR 1.6 million (previous year: EUR 4.1 million). Although this is well below what we had originally planned for 2020, it is a great achievement by the entire Softing team given how severely the pandemic impacted all of us.

Our incoming orders of EUR 72.8 million (previous year: EUR 95.6 million) and revenue of EUR 77.6 million (previous year: EUR 91.1 million) show how clearly COVID-19 left its mark on the 2020 financial year. Due to non-cash-relevant impairment adjustments and an individual one-off charge of EUR 3.5 million in the Automotive segment, the Group posted a consolidated loss of EUR 4.6 million (previous year: profit of EUR 2.9 million). Despite this negative result, we want to distribute a minimum dividend and are proposing to the General Shareholders’ Meeting a dividend of EUR 0.04 per dividend-bearing share.

Industrial remains not only the Group’s largest segment but also its anchor of stability, generating revenue of EUR 55.8 million (previous year: EUR 58.3 million). Despite the drop in revenue, EBIT remained practically unchanged from the previous year’s figure of EUR 4.4 million at EUR 4.3 million. Softing benefits from having key components in its industrial automation portfolio that our customers in this industry cannot

and do not wish to do without, even during the crisis. While the construction of new plant systems grinds to a halt in times of crisis, protecting and modernizing the installed base is significantly more resilient to crises. We were able to initiate new business in this area during the lockdown periods. We also see this as a strategic focus area for future organic and inorganic growth.

In 2020, the Automotive segment was the business most strongly affected by both the consequences of coronavirus as well as tremendous political pressure to radically and single-mindedly convert to electric motors. Politicians are simply ignoring environmental facts and industrial policy safeguards for this industry, which is so vital for Germany. Automobile manufacturers are ailing, with many suppliers fighting for survival. Many are still not aware of the full extent of the challenges facing this sector. At Softing Automotive, this led to a sharp 37% decline in revenue from EUR 22.0 million in the previous year to EUR 13.9 million in 2020. EBIT fell from EUR 0.4 million to EUR –7.2 million due to the decline in revenue, an impairment loss, and charges for the expansion of GlobalmatiX's business.

Our GlobalmatiX subsidiary, which offers state-of-the-art telematics solutions, focuses on 2–3 core applications that enable the product to make full use of its technical and commercial advantages. We have now brought these applications to the market. A number of major customers tested these products in field trials in 2020, while others are now beginning testing. The subsidiary is expanding its technical and organizational expertise for autonomous vehicles in 2021 as part of a research project to operate driverless buses in a major German city. As the mobile network operator, GlobalmatiX is responsible for developing and operating the 5G radio cells as well as transmitting data between the buses and their control center in real time. In 2020, the impact of the COVID-19 pandemic significantly stalled the transition from field tests to final application in high volumes among our customers. This process is now underway, and we are expecting to sell more than 10,000 installations for the first time this year. As well as providing GlobalmatiX with a significant earnings boost and enabling it to achieve profitability for the first time during the current year, this also provides a foundation for revenues in future years over multi-year service agreements.

Having already been impacted by the early stages of the coronavirus crisis, the IT Networks segment suffered due to the short-cycle nature of its business and the cancellation of all trade fairs, particularly in the first half of 2020. The sharp decline in revenue of almost 40% in the first half of the year was halted in the third and fourth quarters. We even managed to slightly exceed the previous year's revenue in the final few months of the year. The severe slumps in revenue at the start of the year were primarily attributable to the abrupt elimination of direct customer contact. Within no time, the IT Networks team found completely new ways of reaching our customers that not only helped us in the second half of the year but also created a sustainable competitive advantage. For the full year, revenue in the IT Networks segment fell by 27% from EUR 10.8 million in the previous year to EUR 7.9 million in 2020. Despite the significant slump in revenue in the first half of the year, we were able to limit our losses, with EBIT amounting to EUR –1.0 million after EUR –0.5 million in the previous year.

The hygiene protocol we developed and rolled out early in the pandemic enabled our employees to strike a balance between working from home and being physically present at our offices. Individual cases of infection among employees in their personal environment, fortunately none of them serious, did not have any significant impact on our operations. We communicated closely with our employees during periods of full lockdown and coordinated our activities in each case. We are proud of their dedicated and loyal support and would like to take this opportunity to express our sincere thanks!

In mid-October 2020, the Softing Group's German companies and our development subsidiary in Romania were the target of a cyberattack as part of a series of large-scale attacks on medium-sized German companies. Despite the countermeasures we had put in place, we were unable to prevent unlawful access to our IT infrastructure. We established that unknown parties were able to view and steal some of the data available on our system. In addition to informing potentially affected customers immediately and notifying the necessary authorities, we engaged an IT security company to repel the attack immediately and carry out a forensic investigation. Although we were able to rely on a data backup that was unaffected by the attack and our employees showed tremendous commitment to help rebuild our IT infrastructure, it took several weeks for all of our operating units to become functional again. While around 90% of our IT infrastructure had been restored as of the balance sheet date, it is now much more robustly protected against similar attacks than it was before due to state-of-the-art architecture. We are not aware of any damage to our customers as a result of the attack. The direct costs of rebuilding the IT infrastructure are largely covered by an insurance policy.

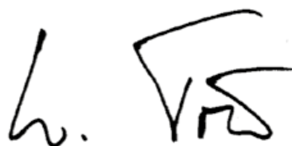
2020 was undoubtedly one of the most challenging years in the Company's entire history. We adapted to radical changes in the environment within a short space of time, protected our employees as effectively as possible against the health and economic impact of the pandemic, created new ways of communicating with our customers, and adapted our services to meet changing requirements. This makes us even more delighted about our promising start to the new year. We are determined to grow strongly once again in 2021 and see opportunities to do so across all segments. Nevertheless, we – like everyone else – are bound by overall economic demand. As a result, our course of business remains volatile in 2021 due to substantial uncertainty in the current environment.

This situation highlights the value of our regional and content-related diversification in recent years. In addition to growth opportunities in the European business, the subsidiaries in North America and China in particular are fueling our optimism. In macroeconomic terms, we expect the pandemic to become less relevant to the economy. In this scenario, we are assuming a revenue increase of between 10% and 15% in all segments. Since operating costs will rise again as tough cost-cutting measures come to an end, we are initially anticipating slow growth in operating EBIT. Depending on how quickly the macroeconomic situation normalizes, we expect the Group's operating EBIT to increase by between EUR 2.0 and 3.0 million with EBIT of EUR 1.5 to 2.5 million.

In an alternative scenario, we have reviewed how the Group's key financial figures would react to another drastic economic slowdown in the regions that dominate our business. In this case, the measures to be introduced should enable us to achieve operating EBIT at least at the level of 2020.

We hope that you stay healthy during this time and watch to see how Softing will handle the opportunities and risks presented by this period.

Sincerely yours,



Dr. Wolfgang Trier
(Chief Executive Officer)

Softing Shares

KEY DATA OF SOFTING SHARES

ISIN/WKN	DE0005178008/517800
Super sector	Information Technology (IT)
Sector	Software
Subsector	IT services
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

EQUITY MARKET CONTINUES TO BE DEPRESSED BY COVID-19 PANDEMIC

The Softing share started the year at a price of EUR 7.76 and reached its high for the year to date of EUR 8.22 on January 16/17 and January 20. The share price then declined slowly, with the downward trend accelerating towards the end of February as the coronavirus pandemic took shape. On March 19, the share price was dragged down by the stock market panic spreading in March to reach its lowest point for the year at the time of EUR 4.42. The share price recovered relatively quickly to reach two interim highs of EUR 6.50 and EUR 6.48 in late April and early June of the year before testing the bottom resistance line at the end of October with an annual low of EUR 4.37 on October 29, 2020 and then recovering again to EUR 5.04 by the December 31 reporting date. The Softing share is currently (March 11, 2021) trading at a slightly higher price of EUR 5.40. At the end of 2020, the market capitalization of Softing AG was EUR 45.9 million, well below the previous year's figure of EUR 71.0 million. The share capital of Softing AG remains unchanged at EUR 9,105,381, divided into the same number of no-par-value shares.

During the reporting period, the average daily trading volume of Softing shares was 4,683 shares (Xetra and floor trading), just slightly above what in the previous year was already a considerably reduced figure of 4,290 shares. 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 –0.50 in 2020, compared with EUR 0.31 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.

GENERAL SHAREHOLDERS' MEETING RESOLVED DIVIDEND OF EUR 0.04 PER SHARE

On May 6, 2020, the General Shareholders' Meeting of Softing AG adopted a resolution to distribute a considerably reduced dividend of EUR 0.04 (previous year: EUR 0.13) per no-par share.

SHAREHOLDER STRUCTURE

As far as the Company is aware, Trier Vermögensverwaltungs GmbH & Co. KG, Grünwald, Germany, is the single largest investor in Softing's 9,105,381 shares with 2,043,221 shares (22.4%). The next major shareholder is Mr Alois Widmann, Vaduz, Principality of Liechtenstein, who holds 1,450,000 shares (15.9%), followed by a number of institutional investors and several private anchor investors. The remaining shares are in free float.

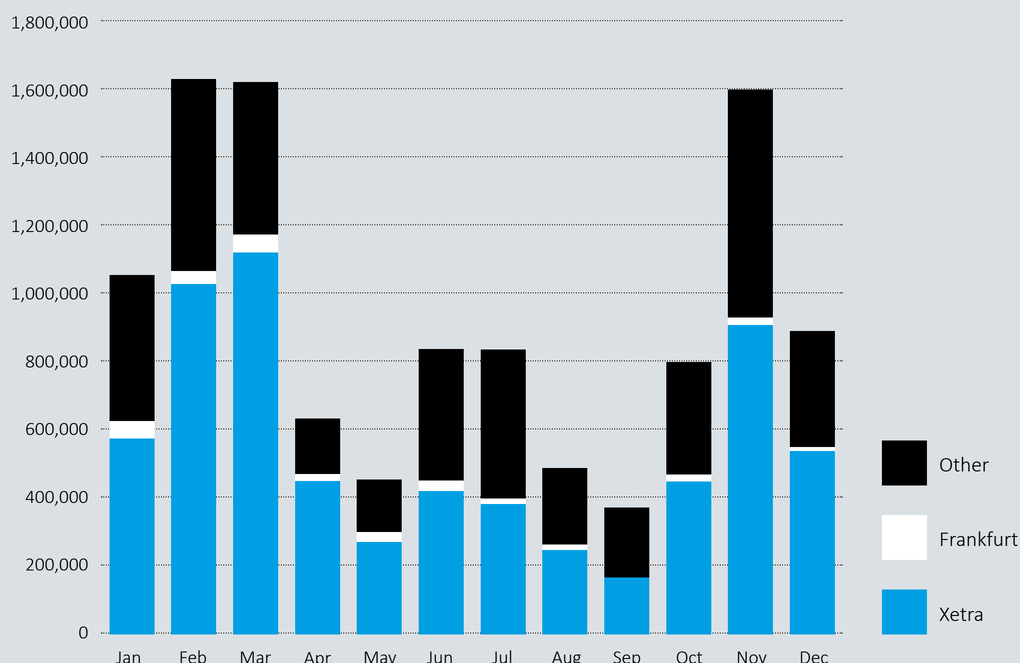
SHARE BUYBACK PROGRAM

The share buyback program announced by Softing AG in an ad hoc disclosure on April 3, 2020 started on April 15, 2020 and ended on December 28, 2020 after the maximum approved number of 90,000 shares had been bought back on the market by a bank commissioned by the Company at a total purchase price of EUR 482.4 thousand. The acquired shares are to be used primarily as acquisition currency. The Executive Board thus exercised the authorization granted by the Annual General Meeting dated May 4, 2016 to repurchase treasury shares in accordance with Section 71 (1) no. 8 of the German Stock Corporation Act (Aktiengesetz – AktG).

ANALYST RECOMMENDATIONS

Warburg Research has analyzed the Softing share regularly for years in research reports and has published five studies and updates on the share in 2020. The most recent update of February 17, 2021 continues to recommend buying the share and states a higher price target of EUR 7.50 (previously EUR 6.50). Warburg Research considers the effects of the pandemic to be temporary.

Trading Volumes of Softing Shares in 2020 in EUR



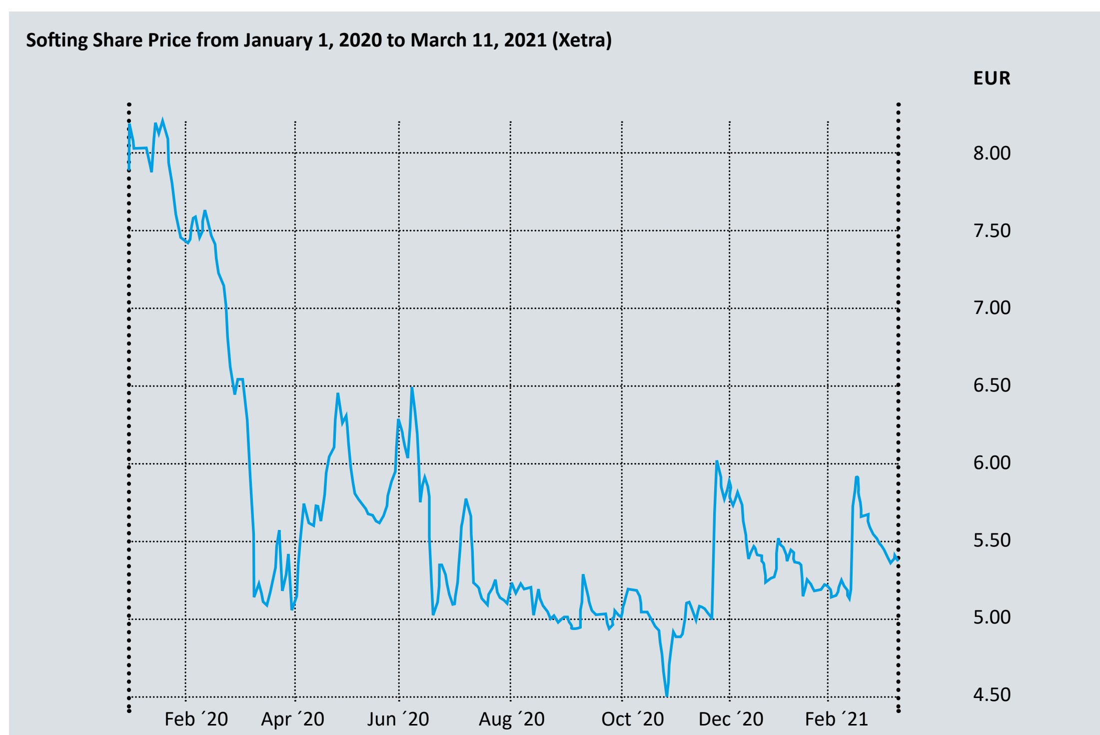
Information about analysts' reports on Softing shares is available at www.softing.com under Investor, News & Publications, Research. The Press & Interviews section contains information about the growth prospects of the Softing Group published in a variety of financial newspapers and magazines such as 4investors, boersengefluester.de, DER AKTIONÄR, finanzen.net, FOCUS-MONEY, Nebenwerte Journal, Nebenwerte Magazin, Platow Börse and others.

CAPITAL MARKET COMMUNICATIONS

Investor relations are a key concern of the Group. In 2020, communication with the capital markets met the challenge of raising awareness of the Company and continually enhancing its attractiveness on the capital markets by hosting various roadshows and numerous investor and analyst events, which were held virtually due to the COVID-19 pandemic. Softing also participated in selected virtual investor conferences, such as the German Equity Forum held in Frankfurt am Main in November, the Munich Capital Market Conference (MKK) and the Zurich Capital Market Conference. For 2021, 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.

Softing Share Price from January 1, 2020 to March 11, 2021 (Xetra)



Accepting and Bearing Responsibility – Corporate Social Responsibility (CSR) at Softing

SOFTING – COMMITTED TO ENVIRONMENTAL PROTECTION

As a software and services company, Softing consumes fewer natural resources compared to the manufacturing industry. Nevertheless, we want to use the world's increasingly scarce natural resources as efficiently as possible and keep this consumption permanently low. Our annual environmental balance sheet in the Management Review keeps track of how many natural resources we use (paper, water, waste and electricity consumption).

Softing follows an integrated approach in order to reconcile economic, environmental and social interests. After all, we are convinced that acting responsibly will enhance the performance of our business in the long term and is therefore also in the interests of our shareholders.

Management is responsible for determining the targets and responsibility for implementing these measures. All employees are involved in the process of identifying and implementing targets. This allows us to ensure that sustainability is integrated into all of our divisions.

To improve our environmental performance, we have established both a general environmental protection system and an energy management system and have appointed an environmental officer. We continuously optimize our systems and review our processes and how they interact with each other. In addition to observing statutory regulations and official requirements relating to environmental protection and energy management, we are also actively developing both of these areas in the long term. Although we have not set any quantitative or qualitative targets, we are keen to reduce environmental pollution or, ideally, completely avoid it as far as possible.

SOFTING – SUPPORTING AND ASSIGNING RESPONSIBILITY TO EMPLOYEES

Annual performance reviews are held with all of our employees to discuss their personal development. Depending on the employee's area of responsibility, individual targets are also agreed for the current year, with both sales targets and the further development of the relevant area of responsibility making up an essential component of this. Managers review the achievement of these targets as part of the annual performance reviews.

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. By offering competitive salaries in combination with a high degree of job security Softing creates the stability 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 maintain Softing's 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.

It is crucial for us to enhance our employees' expertise. Clearly defined yet practical knowledge management enables us to support every employee and develop their knowledge further. Some of our most experienced employees have accumulated over 25 years of professional experience and service with the Company and enjoy sharing their expertise.

We are an internationally focused Group with a wide range of diverse requirements. With this in mind, we rely on employees who bring different experiences, qualifications and perspectives to the Company and use their individual skills to help us successfully exploit new market opportunities. As a result, respect for equal opportunities and diversity is a key aspect of our human resources policy.

We take care to ensure that there is no inequality when it comes to remuneration based on factors such as gender or age.

Executives and employees in key positions are usually paid a variable remuneration component in addition to their basic salary to reward their outstanding commitment. This variable component is based on corporate development, business earnings figures and the employee's contribution to achieving agreed targets.

Softing operates around the world and is therefore subject to a variety of legislation. We respect the law and demand the same from all of our employees and business partners.

All employees have access to all necessary sources of information and to our Legal department to avoid any violations of the law. We also protect our employees against unjustified actions by the authorities. Legal violations will not be tolerated, however.

Softing is a global company with headquarters in Haar. Every single day, we experience a closely networked world. Although a company of our size focuses its contributions primarily on its local environment, we take our global responsibility seriously as well.

As a sustainable and healthy company, we have the financial freedom to share our success with the community in which we do business. And this is something we do as well.

Combined Management Report of Softing AG and the Softing Group for the 2020 Financial Year

FUNDAMENTAL INFORMATION ABOUT THE COMPANY AND THE GROUP

BUSINESS MODEL

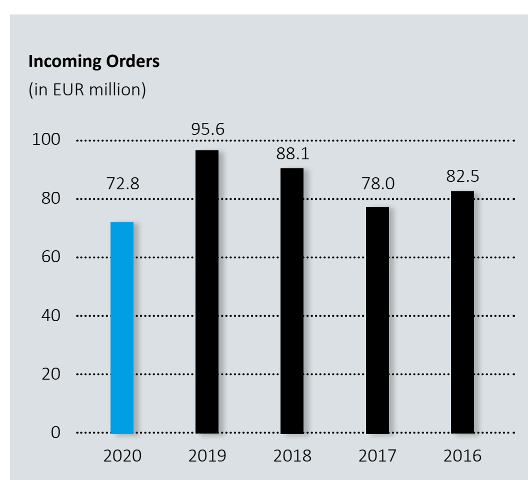
The Softing Group's Business Model

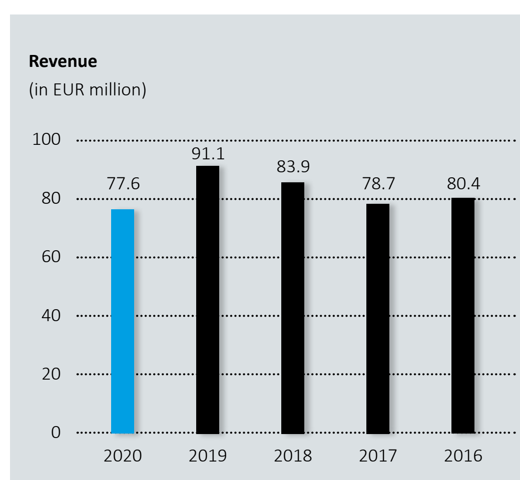
The Softing Group is an established international software and systems house in three segments: Industrial, Automotive and IT Networks. The Company develops complex, high-quality software, hardware and complete system solutions. Hardware prototypes are developed by Softing itself; production takes place 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 and was brought to market maturity in 2019. Marketing was launched in 2020.

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.

The Business Model of Softing AG

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

Industrial Segment

Softing Industrial Automation GmbH

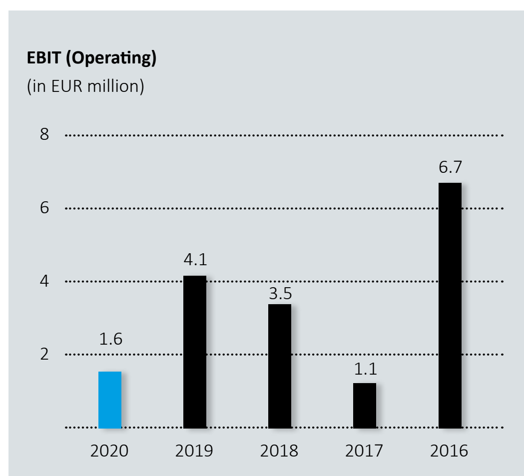
Softing Industrial Automation GmbH is a leading provider worldwide of industrial communications solutions and products for the manufacturing and the process industry. The products are tailored to the requirements of system and device manufacturers, machinery and plant engineers or end users, and they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

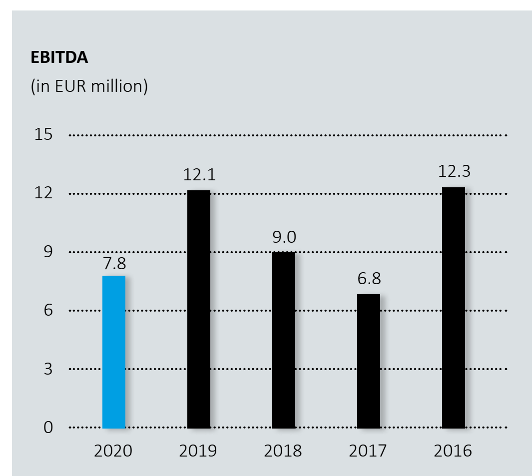
Softing Italia s.r.l.

Softing Italia is a subsidiary of Softing Industrial Automation GmbH. Softing Italia is based in Milan and serves customers in Italy locally. In 2020, 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





Holding Inc domiciled in Delaware. 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 2020, 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 2020 with it sales in the Industrial and IT Networks segments.

IT Networks Segment

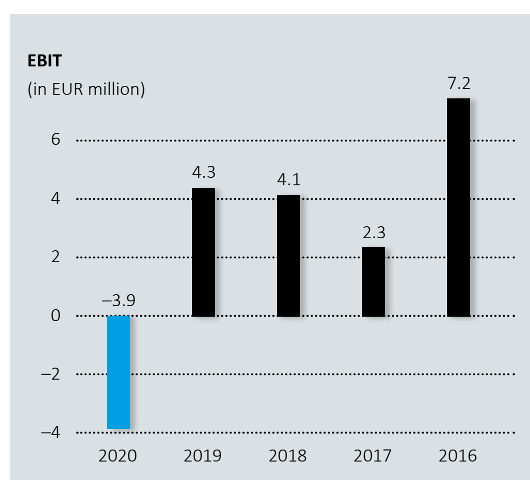
Softing IT Networks GmbH and
Softing Singapore Pte. Ltd.

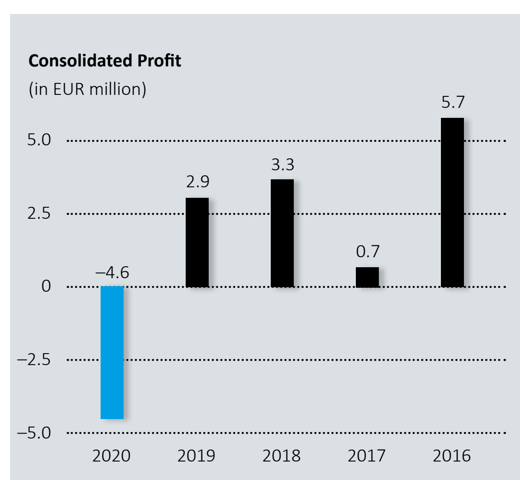
Softing IT Networks GmbH, domiciled in Haar, near Munich, Germany, provides IT network diagnostic equipment, which is used in industrial automation, office installations, and data centers. Softing Singapore, domiciled in Singapore, supplies test and measuring devices for copper and glass fiber data networks. 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 made a positive contribution to the Group's international success in 2019 with a growing product portfolio that consists of both in-house and third-party products. In 2020, the segment result turned negative due to the COVID-19 pandemic.

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 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 Kirchentellinsfurt GmbH functions as an internal development company in the Automotive segment.

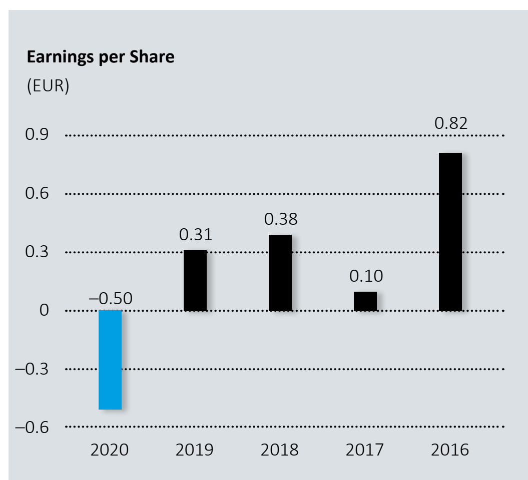
After generating good profits in 2019, the Automotive segment's core business recorded losses in 2020 due to the coronavirus pandemic and its effects.

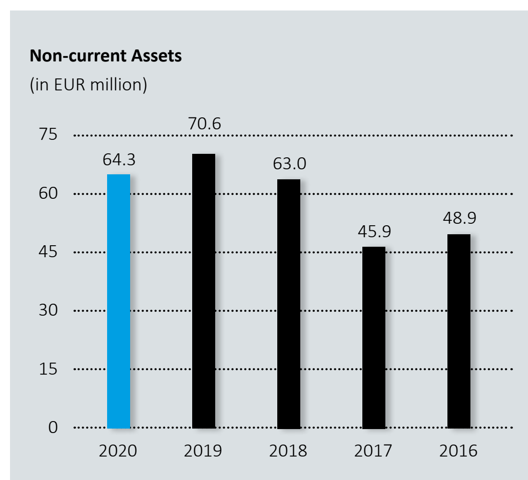
GlobalmatiX AG and GlobalmatiX Inc.

GlobalmatiX AG domiciled in Liechtenstein 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. GlobalmatiX Inc. took over marketing of GlobalmatiX AG products in North America. Despite constraints triggered by the coronavirus pandemic, these companies pressed ahead with building their sales organizations in 2020. The sales contacts created in 2020 create a solid foundation for sales success in the coming years. The losses incurred in 2020 are due to the build-up of technology and sales.

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.

Softing Services GmbH and Beijing Windhill Technology Co., Ltd. operate a 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.

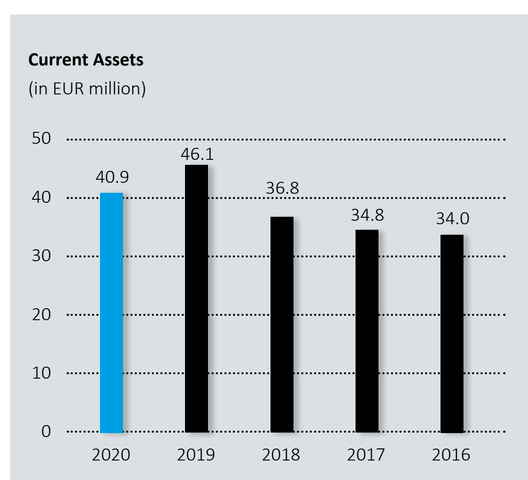
Business Model of Softing AG

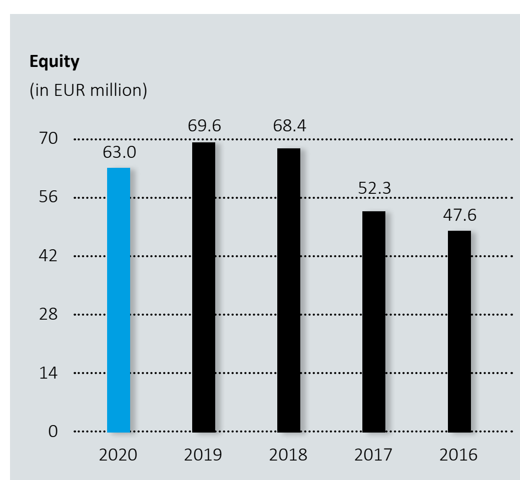
Softing AG acts as a management holding company for the Softing Group. It generates revenue from invoicing for management services, legal assistance and quality management services provided to the subsidiaries. Beyond this, the business model is limited to the management of the equity investments.

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), operating EBIT (EBIT adjusted for capitalized development services and their amortization as well as the effects of purchase price allocation), which is derived from EBIT. Working capital is also managed via selected KPIs. Working capital mainly comprises inventories as well as trade receivables and trade payables. With regard to Corporate Social Responsibility (CSR), reference is made to the disclosures in the Annual Report.





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. During the COVID 19 pandemic, the sales companies in the Group were able to deliver at all times.

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.

There was no increase in bad debts during the COVID-19 pandemic.

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

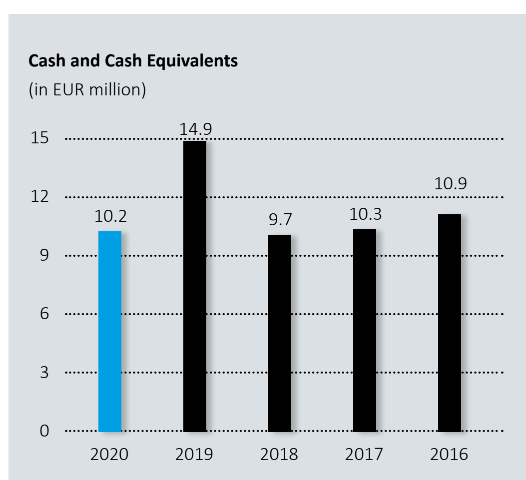
For years, the Softing Group has invested a large portion of the cash generated by its revenue in research and development. In total, Softing invested EUR 15.7 million (previous year: EUR 20.6 million) in the development of new products and the enhancement of existing ones in connection with customer projects. This corresponds to an investment ratio (ratio of development costs to revenue) of 20.3% (previous year: 22.6%), of which the Softing Group capitalized 23.3% (previous year: 26.7%).

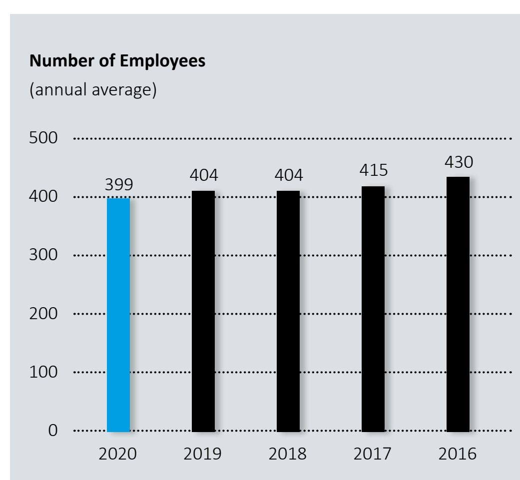
In the past financial year, amortization and impairment of capitalized development costs amounted to EUR 7.2 million (previous year: EUR 3.3 million).

At year-end, 216 employees were engaged in research and development (previous year: 226). Softing AG itself is not engaged in any research and development activities. These take place exclusively at the operating entities, as shown below.

Softing Industrial Automation GmbH

Softing Industrial Automation GmbH is well-positioned at international level as a product and engineering services provider, and industrial partner to the process and factory automation sector.





Shaped by well over 30 years of expertise and experience in software and embedded engineering, Softing and its employees today benefit from a brand that is deservedly renowned for the excellence of its industrial communications solutions.

As the trend towards all-pervasive digitalization, marked by a strong focus on IoT and IIoT, rapidly gains in pace, this not only strengthens Softing's market position but drives solid demand for the Company's products and services that target applications both at existing manufacturing sites and new production facilities.

Softing IT Networks GmbH and Softing Singapore Pte. Ltd.

For Softing IT Networks, the 2020 financial year was dominated by the topic of COVID-19. The first hard lockdown came early in 2020 and immediately impacted sales of the Company's high-quality metrology products. While the bulk of this revenue was then recouped during the year, and the fourth quarter in particular, this loss was not entirely neutralized.

COVID-19 also delayed the market launch of some recent product developments, such as the new CableMaster series. While initially scheduled for 2020, these launches were postponed to the first half of 2021. Product ranges such as WireXpert achieved new levels of excellence in terms of both software and hardware. Paired with innovative software, this mix of proven and new hardware quickly gained a seal of approval from many users. IT Networks also responded at very short notice to physical contact restrictions with an unprecedented series of webinars. Technically of a very high quality, these online seminars quickly found favor with the market, enabling contact to be made with many prospective customers and users.

Softing Automotive Electronics GmbH

In 2020, general global economic conditions and the resulting effects that were felt in the automotive sector also significantly impacted business at Softing Automotive Electronics GmbH (SAE). Caution prevailed in many target markets, stemming from the ongoing pandemic and the uncertainties it spawned. Despite these problems, SAE successfully expanded its customer base for the DTS9 diagnostics/testing solution. With some important partners gained for the new solution, the proportion of software leasing models continued to rise overall. Progress was made in acquiring new key accounts in the passenger vehicle segment, although targets were not reached as planned here. However, feedback from the market clearly shows that new functionality for remote applications is hugely relevant and attractive for customers.

Although the situation was difficult, the DTS9 Diagnostics Middleware SDE (Smart Diagnostic Engine) segment still managed to generate plenty of promising inquiries and new business. SDE.onboard was marketed successfully to customers and preparations for the corresponding production starts were made. Major international interest was also generated by combining SDE with products from the Vehicle Communication Interfaces (VCI) segment as an efficient solution for test/flash applications. Multiple proofs of concept for the relevant applications are currently ongoing for a number of OEMs in the passenger vehicle, bus and truck segments. In 2020, integration of the various product segments with high-level customer solutions was prioritized with the aim of offering customers an even greater boost to efficiency. Yet VIN|ING 2000 also attracted interest worldwide as a traditional diagnostics interface. As a result, Softing currently finds itself at an advanced stage in several tenders for new business and expects to win at least one

bid for a customer project during the first half of 2021. Technical development work in the VCI segment is focusing on the optimization of flexible, efficient device configuration as well as availability improvements.

In the Service Tester product segment, the customer base has been successfully expanded by the next-generation TDX series. Porsche Rennsport in particular is one new client who will offer an entirely new perspective here. While the volume of inquiries and invitations to tender dropped off markedly from the second quarter of 2020, SAE still qualified easily for the long list on larger awards and therefore expects to win a number of projects during the second quarter of 2021. Softing has acquired new partners for the flexible integration of database systems and the deployment of scalable cloud technologies, and is now working on the next product generation.

In the second half of the year, an impairment review of capitalized assets revealed the need for a correction to a product in the Automotive Electronics segment. The product, which is used in the development of combustion engines, will no longer achieve its forecast targets due to changes in carmakers' development policy. Softing is therefore shifting the main focus of its development work to products for hybrid and electrical drive systems, and driverless cars. This adjustment has reduced consolidated EBIT and consolidated profit for the year by EUR 3.6 million on a one-time basis (previous year: EUR 0 thousand).

GlobalmatiX

GlobalmatiX was likewise affected by COVID-19. Short-time working and conservative spending as a result of the two lockdowns have left their mark on the financial year, with research projects being postponed and delays experienced by development projects already underway. A number of projects were successfully concluded despite these setbacks, however, and especially in cases where digitalization granted customers a competitive edge or cost savings. Examples here included telematics solutions for the contactless return of rented or leased vehicles. Standardized, pre-installed products were also developed for telematics service providers (TSPs) for applications in the field of digital driver's logs, remote vehicle diagnostics, gas consumption, safety and maintenance.

REPORT ON ECONOMIC POSITION

MACROECONOMIC AND SECTOR-SPECIFIC ENVIRONMENT

According to the Kiel Institute for the World Economy (IfW), the third quarter saw the global economy regain a substantial portion of the productivity losses suffered in the first half of the year as a result of the COVID-19 pandemic. Although the recovery is currently being held in check by a further wave of infections and the measures put in place to contain it, worldwide production remains on an upward trajectory overall. Unlike in the spring, the pandemic does not so far appear to have had a severe negative impact on production in the manufacturing sector, international trade in goods or commodity prices. In the course of the first quarter, economic activity is also likely to recover in places where it had fallen markedly as the wave of infections is expected to subside. For the further course of the year as vaccination coverage increases, the expectation is then for a sustained decline in infection risks and a progressive return to normality, including for particularly high-contact sectors of the economy. The IfW anticipates that global production will rise by 6.1 percent (at purchasing power parity) in 2021 after plunging by 3.8 percent in 2020. In 2022 as well, the growth in global economic activity is likely to outpace the medium-term trend rate at 4.1 percent. Over the longer term, however, production

will remain well below the level that could have been expected before the crisis. The September forecast for 2020 was therefore adjusted down by 0.2 percentage points and the forecast for 2021 by 0.6 percentage points. For global trade (goods), the IfW anticipates a rise of 8.8 percent following a decline of 5.4 percent this year *(Source: IfW, Kiel Economic Report No. 70, 2020|Q4, www.ifw-kiel.de).*

In light of a better-than-expected third quarter, the German Engineering Federation (Verband Deutscher Maschinen- und Anlagenbau e.V. – VDMA) is revising its production forecast for 2020 up slightly. Instead of a decline in real production of 17 percent, the VDMA's economists anticipate a fall of 14 percent. According to the Federal Statistical Office of Germany, production in machinery and plant engineering fell by 13.1 percent in the first ten months of this year. The slight improvement in the state of the economy also impacts on the forecast for 2021. The VDMA now expects real production growth of 4 percent instead of the previously anticipated 2 percent, although this forecast is more than uncertain. Machinery and plant engineering is particularly affected by the high degree of uncertainty in the global economy. Added to this are continuing protectionism and the rapid structural shift in automotive manufacturing, an important customer industry. Liquidity shortages will become the actual challenge in the upturn in 2021 since mechanical engineering firms will have to make upfront expenditure as the state of the economy and the order situation improve. However, future trends – in the form of the economy's acceleration out of its COVID-19-induced slump and an acceleration in the technological transformation – also offer opportunities. In the European mechanical engineering sector, this twofold acceleration harbors exciting potential for all those finding the right answers to the challenges. *(Source: VDMA, Machinery and Plant Engineering Draw New Courage, 08.12.2020, www.vdma.org)*

Having risen by 14.0 percent year-on-year, incoming orders in the German electrical and electronics industry were up for the third month in succession in November 2020. However, orders dropped by a double-digit percentage in November 2019, meaning that the latest sharp rise was due not least of all to a base effect, according to the German Electrical and Electronic Manufacturers' Association (Zentralverband Elektrotechnik- und Elektronikindustrie e.V. – ZVEI). Domestic orders rose by 16.7 percent year-on-year in November 2020 and foreign orders by 11.7 percent. Orders from customers in the eurozone were up by 10.2 percent and orders from third-country customers by 12.6 percent. Overall in the first eleven months of last year, orders therefore declined by 4.8 percent compared with the previous year. Domestic orders more or less stagnated (–0.1 percent), whereas foreign orders were 8.5 percent lower, with orders from the eurozone (–9.0 percent) and third countries (–8.2 percent) dropping by a similar order of magnitude. Adjusted for price changes, production in the German electrical and electronics industry rose 2.5 percent above the prior-year level in November 2020. Overall in the first eleven months of 2020, production was therefore 7.0 percent lower than a year ago. Sector revenue rose by 2.7 percent year-on-year to EUR 17.0 billion in November 2020. Between January and November 2020, aggregate sector revenue amounted to EUR 163.8 billion and thus fell 6.2 percent short of the prior-year figure. The business climate in the German electrical and electronics industry improved for the eighth month in succession in December 2020. Both the assessment of the current situation and general business expectations were more favorable than in the previous month. In light of tighter lockdown measures in Germany and beyond, however, it would hardly come as a surprise if the results of the January survey were worse again. *(Source: ZVEI, New orders recover for third month in a row, Jan. 11, 2021, www.zvei.org)*

According to the German Association of the Automotive Industry (Verband der Automobilindustrie – VDA), the pandemic has so far had a severe impact on international automotive markets. In the first half of 2020, unit sales slumped worldwide. The parallel, COVID-19-induced decline in most markets is historically unprecedented: overall in the large sales regions of China, the USA and Europe, 7.5 million fewer passenger cars were sold than in the prior-year period. This equates to a decline in unit sales of 28 percent. In some European countries, passenger car sales came to an almost complete standstill in April and May. With dealerships and registration offices closed throughout virtually all countries, new passenger car registrations dropped by 67 percent in Europe. In Italy, Spain and the United Kingdom, they plunged by as much as 97 percent or more for during April and May. In the first half of 2020, new passenger car registrations in Germany declined by almost 35 percent to 1.21 million passenger cars. At the beginning of the second half of the year, some parts of Europe showed signs of recovery, although the picture was also buoyed by statistical distortions in the year-on-year comparison. Production likewise came to a standstill in many places. In Germany, only 11,000 passenger cars were manufactured in April (also a fall of 97 percent). As a result of the dramatic slump in demand, the temporary disruption to supply chains and production stoppages lasting weeks, passenger car production in Germany fell to its lowest level for 45 years in the first half of the year. Between January and June, just under 1.5 million vehicles were manufactured at German sites, 40 percent fewer than in the prior-year period. There was a similar trend in passenger car exports: in the first six months of the year, they plunged by 40 percent to 1.1 million units. Production resumed at the beginning of the second half of the year, but there is as yet no sign of catch-up effects. On the contrary, it is expected to take some time for markets to recover. Commercial vehicle markets were hit even harder by developments. The European market was down by 44 percent after the first six months of the year and the US market by 29 percent, while in China there were indications of a recovery by the middle of the year. The coronavirus crisis reached the automotive industry at a time when markets were already experiencing a downturn. While there is no medical solution to the pandemic, the possibility of further economic setbacks cannot be ruled out. The global automotive industry therefore remains in an extremely tight position – especially given the fact that the order situation was already very challenging. The global market had already contracted significantly in 2019 – in absolute terms, more significantly than in the year of the global financial crisis. *(Source: VDA, Annual Report 2020, www.vda.de)*

COURSE OF BUSINESS

Incoming Orders

Incoming orders fell from EUR 95.6 million in the previous year to EUR 72.8 million. As a result of the COVID-19 pandemic, significant year-on-year declines were recorded in the Automotive (–61.4%), IT Networks (–12.9%) and Industrial segments (–9.7%).

Due to the pandemic-related slump in incoming orders, the Softing Group recorded drops in revenue across all revenue areas, markets and segments. In 2020, revenue stood at EUR 77.6 million (previous year: EUR 91.1 million), EUR 13.5 million (14.8%) below the previous year's level; no forecast was possible due to the market slump triggered by the pandemic. EBITDA amounted to EUR 7.8 million in the year under review (previous year: EUR 12.1 million), and the EBITDA margin was 10% (previous year: 13.3%). Operating EBIT (EBIT adjusted for capitalized development services of EUR 3.7 million and amortization of EUR 7.2 million on these as well as effects from purchase price allocation in the amount of EUR 2.0 million) in 2020 totaled EUR 1.6 million (previous year: EUR 4.1 million). EBIT turned negative during the year, from

EUR 4.3 million in the previous year to EUR –3.9 million in 2020, as a result of higher depreciation and amortization as well as impairment adjustments made as the pandemic progressed. Again, it was not possible to provide a forecast in these areas.

On 20 October 2020, the Softing Group became the victim of a cyberattack targeting its German companies and its Romanian development subsidiary. According to our own fact-finding work, a number of German manufacturers also reported similar kinds of cyberattacks at the time. Despite the professional countermeasures we had put in place, we were not able to fully prevent unlawful access to our IT infrastructure. We established that unknown parties were able to view and steal some of the data available on our system.

Following discovery of the attack we took immediate action and informed the responsible authorities, namely the Cybercrime unit at the Bavarian State Criminal Police Office. An investigation was launched and is still ongoing. The incident was also reported to the responsible State Data Protection Authority. We commissioned an external IT security firm to conduct a forensic investigation of the incident and advise on countermeasures.

Operational business units were brought back online with only a few limitations shortly after the incident, and IT infrastructure was hardened and restored to 90% capacity by the reporting date. The resulting financial losses (costs of recovery and loss of earnings) have been covered by insurance.

The Industrial segment generated revenue of EUR 55.8 million (previous year: EUR 58.3 million). EBITDA totaled EUR 7.5 million (previous year: EUR 7.3 million). EBIT fell due to slightly lower revenue, from EUR 4.4 million in the previous year to EUR 4.3 million.

The Automotive segment's revenue decreased by 37% from EUR 22.0 million to EUR 13.9 million, producing EBITDA of EUR –0.6 million after EUR 3.5 million in the previous year. EBIT fell sharply from EUR 0.4 million to EUR –7.2 million due to the decline in revenue triggered by the COVID-19 pandemic and charges for the expansion of GlobalmatiX's business.

Revenue in the IT Networks segment fell by 27% from EUR 10.8 million to EUR 7.9 million, with EBITDA of EUR 0.0 million (previous year: EUR 0.4 million) and EBIT of EUR –1.0 million (previous year: EUR –0.5 million).

This resulted in consolidated profit after interest and taxes of EUR –4.6 million (previous year: EUR 2.9 million).

Course of Business of Softing AG

Due to a smaller profit transfer, the profit for the year of Softing AG, the Group's parent company, fell by EUR 4.3 million from EUR 2.8 million in 2019 to EUR –1.5 million in 2020.

The Group's expense items developed as follows:	2020 EUR (in thsds.)	2019 EUR (in thsds.)
Cost of materials	35,130	39,311
Employee Benefits Costs	31,684	35,441
Depreciation, amortization and impairment losses	11,691	7,820
Other operating expenses	8,397	10,474
Operating expenses	**86,902**	**93,046**

EARNINGS

Results of Operations of the Softing Group

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

In the past financial year, consolidated revenue decreased by 14.8% to EUR 77.6 million. The Industrial segment showed the smallest decrease in revenue at EUR 2.4 million. Own work capitalized (product developments) was EUR 3.7 million, EUR 1.9 million below the previous year's level (EUR 5.5 million); the share of own work capitalized in consolidated revenue fell from 6.1% to 4.7% in the 2020 financial year. Other operating income of EUR 1.7 million was significantly impacted by income from insurance claims for damages of EUR 0.8 million. Other operating income in the previous year totaled EUR 0.8 million.

The cost of materials decreased by EUR 4.2 million or 10.6% as a result of the decline in revenue. The main reason for this decrease is the sharp fall in revenue generated by the segments, with corresponding inventories of own and third-party products compared to the previous year. Higher inventory levels were seen at our US subsidiary OLDI in particular, which was not affected by the declines triggered by the COVID-19 pandemic and was even able to increase revenue. All told, the cost of materials ratio (cost of materials relative to revenue) was 45.3% (previous year: 43.2%), and gross profit (revenue less cost of materials) decreased accordingly from EUR 51.8 million to EUR 42.5 million.

Staff costs decreased by 10.6% to EUR 31.7 million due to various personnel measures and government support during the pandemic. As of the reporting date, the Softing Group had 397 employees (previous year: 407).

Depreciation, amortization and impairment losses on intangible assets and property, plant, and equipment/right-of-use-assets increased from EUR 7.8 million to EUR 11.7 million, due to the one-off impairment of internally generated assets related to products affected by structural change in the automotive industry.

Other operating expenses fell by EUR 2.1 million to EUR 8.4 million, mainly as result of lower distribution costs, travel costs and marketing expenses during the COVID-19 crisis.

A key parameter for evaluating and managing results of operations is earnings before interest and taxes (EBIT) of EUR –3.9 million (previous year: EUR 4.3 million) and the operating EBIT derived from it EUR 1.6 million (previous year: EUR 4.1 million).

The interest result and other finance costs amounted to EUR –1.5 million (previous year: EUR –0.1 million). The other finance income/finance costs of EUR of –1,158 thousand (previous year: EUR 322 thousand) relate to currency fluctuations of a USD loan to the American holding company, which is secured by repayment arrangements.

After accounting for taxes on income, consolidated profit amounted to EUR –4.6 million (previous year: EUR 2.9 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 1.8 million to EUR –1.2 million in the past financial year. Due to the impact of the pandemic, it was not possible to issue guidance for the income from profit transfer for the 2020 financial year.

Staff costs fell from EUR 3.1 million to EUR 2.2 million due to lower pension expenses and a decrease in variable salary components.

Other operating expenses fell overall from EUR 0.9 million to EUR 0.5 million. The decrease is mainly attributable to lower travel costs and lower expenses from exchange rate differences.

Due to lower costs related to the management of subsidiaries, revenue from affiliated companies in 2020 fell from EUR 3.3 million to EUR 2.7 million.

In the reporting period, provisions for taxes amounting to EUR 0.04 million were recognized for obligations arising from corporation tax and trade tax related to previous years. No tax provisions were recognized for the reporting year itself.

The net loss for the year was EUR –1.5 million (previous year: net profit for the year of EUR 2.8 million).

FINANCIAL POSITION

Financial Position of the Softing 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 2020 stood at EUR 63.0 million (previous year: EUR 69.6 million).

The equity ratio in the financial year was 60%, the same as in the previous year.

Non-current liabilities amounted to EUR 21.2 million (previous year: EUR 25.5 million). The decrease results from the reduction in deferred tax liabilities and the reclassification of loan liabilities to short-term borrowings.

Current liabilities fell by EUR 0.7 million to EUR 21.0 million, due mainly to the repayment of current liabilities.

Capital Expenditure

In the financial year ended, the Softing Group invested EUR 5.6 million (previous year: EUR 7.7 million) in internally and externally generated intangible assets. Investments in other non-current assets amounted to EUR 1.5 million in 2020 (previous year: EUR 1.2 million). Please refer to the Research and Development section for information on investments in the specific segments.

Liquidity

The cash flow from operating activities fell by EUR 5.5 million, from EUR 10.4 million to EUR 4.9 million, primarily due to lower earnings.

Funds used for investing activities amounted to EUR 8.5 million (previous year: EUR 8.5 million), comprising mainly investments in new product development and replacement investments.

Cash flow from financing activities amounted to EUR –1.1 million (previous year: EUR 3.4 million).

The cash available to the Group amounted to EUR 10.2 million at year-end (previous year: EUR 14.9 million).

Financial Position of Softing AG

Capital Structure

Equity decreased from EUR 49.9 million to EUR 47.5 million as of December 31, 2020. The change is due to the payment of the dividend in the amount of EUR –0.4 million, the purchase of own shares in the amount of EUR –0.4 million and the net loss for the year in the amount of EUR –1.5 million.

The equity ratios was 66.80% (previous year: 68.84%)

The decrease in provisions from EUR 3.2 million to EUR 2.7 million is principally the result of changes in provisions for variable remuneration.

Other liabilities decreased from EUR 3.3 million to EUR 2.3 million, mainly as a result of the payment of a purchase price liability for an equity investment and lower salary tax and VAT payments. The increase in variable remuneration claims had an offsetting effect, as these were not paid out.

Liabilities to banks increased by EUR 2.0 million due to the utilization of credit facilities to finance the business expansion of GlobalmatiX.

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 0.0 million as of December 31, 2019. To repay these loans and to finance GlobalmatiX AG and product innovations, Softing AG has taken out loans totaling EUR 14.0 million from two German commercial banks in 2019. As of December 31, 2020, these loans are measured at EUR 14.0 million.

Funds at year's end were EUR 6.4 million (previous year: EUR 12.6 million). There are unused credit lines in the amount of EUR 5.2 million (previous year: EUR 7.4 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 2020 represented 61.2% of total assets (previous year: 60.5%). This was offset by equity and non-current liabilities together representing 80.0% of total assets (previous year: 81.4%).

Non-current assets fell by EUR 6.3 million to EUR 64.3 million. This was largely due to the impairment of a product group for test bench applications for internal combustion engines and the decrease in capitalization from in-house developments.

Current assets comprise inventories, trade receivables, and cash and cash equivalents. This figure fell from EUR 46.1 million to EUR 40.8 million, mainly due to a decrease in cash by EUR 4.7 million, and trade receivables by EUR 1.1 million. The increase of 1.1 million in inventories was mainly due to the build-up of stocks during the COVID-19 pandemic.

Total assets in the reporting year fell to EUR 105.2 million (previous year: EUR 116.8 million).

Net Assets of Softing AG

The total assets of Softing AG fell by EUR 1.3 million year-on-year to EUR 71.2 million (previous year: EUR 72.5 million).

At EUR 31.1 million, equity interests in affiliated companies remained unchanged.

Short-term loans of EUR 2.0 million were obtained in the 2020 financial year.

In 2019, the Company's long-term loans were renegotiated with its main banks, its old debts in the amount of EUR 1,740 thousand were fully repaid and new loans were taken out with a volume of EUR 14,000 thousand. The Company is exempt from making payments of principal on these loans for a period of 2 years. They will subsequently be repaid within 5 years on a straight-line/quarterly basis. 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.

Loans to affiliated companies increased by EUR 2.1 million to EUR 17.6 million due to disbursements. Cash and cash equivalents decreased to EUR 6.4 million.

Receivables from affiliated companies were up from EUR 11.3 million to EUR 14.4 million as a result of an increase in receivables from cash pooling.

REPORTING ON NON-FINANCIAL PERFORMANCE INDICATORS

Employee expertise, qualifications, motivation and satisfaction are among the most important resources for the Softing Group's sustained success as a technology and development company. The Group therefore attaches particular importance to its employees and their training. The knowledge, skills, continuing development and dedication of its employees are essential ingredients in the Softing Group's past and future success. The Group therefore sees employee turnover as an important non-financial performance indicator and endeavors to keep it below 10% where possible. In the past financial year, employee turnover fell from 6.6% to 6.4% at the German companies. The offices abroad showed similarly low employee turnover.

OVERALL ASSESSMENT OF THE POSITION OF THE SOFTING GROUP AND OF SOFTING AG

The financial position and net assets of both the Softing Group and Softing AG have so far proven to be very stable during the coronavirus crisis. Although they have deteriorated as a result of the crisis, they remain very solid and thus offer the basis for numerous new business opportunities after the crisis.

REPORT ON OPPORTUNITIES, RISKS AND FORECASTS

REPORT ON OPPORTUNITIES

The information provided applies to the Softing 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

The Company finds itself in a growth market characterized by ever-present microelectronics, a huge rise in intercommunicating networking partners and devices, and cost and technology pressures faced by manufacturers who need precise environmental data collection to drive communication that is compatible with and correctly interpreted by the architecture.

The Company's engagement with the OPC UA community, marked by cooperation, active steering and support, has long been both a foundation and a key to success here.

Due to solution and innovation partnerships formed with companies working in IT and OT, peer groups are established in which a product and solution portfolio can be both created and developed as a continuing process. As the contextual worlds of IT and OT continue to merge with those of IoT/IIoT, this creates a significant and growing demand for technically advanced system integration work for which the Company and its partners are highly authentic providers.

Softing IT Networks GmbH and Softing Singapore Pte. Ltd.

The continued expansion of the Softing IT Networks portfolio with proprietary products, the launch of market innovations, and work in international standards bodies cements the Softing brand as a leading manufacturer of measuring technology while raising the Company's profile. The new LinkXpert series opens up a new market segment between unique qualifiers such as the NetXpert XG and the proven Cablemaster series. Its modern design and extended functionalities complement the new Softing portfolio. In the USA, Softing Inc. will use 2021 to build and expand on the excellent marketing successes it has achieved over the last few years. The team at Softing Electronic Science & Technology (Shanghai) Co., Ltd. was also successful in establishing a position in the Chinese market. The focus of the European team over the last two years has been on the DACH markets, France, Italy and Spain. Further potential for expanding sales operations exists outside these markets. New sales markets are emerging, especially in the online segment. They offer great opportunities for developing new markets by digitizing sales processes.

Softing Automotive Electronics GmbH

The rising demand for integrated solutions related to testing/flash applications underlines the level of interest in boosting efficiency, especially among OEMs. Parallel and remotely operated solutions are now increasingly important. Softing is a highly trusted name worldwide, thanks to the modular and standards-based products that it has successfully launched on the market. A key reason for this success is the consistent integration of all software layers – from the application itself to the customer's embedded device. Secure, efficient and straightforward configuration also has a major part to play here. The market is also aware that Softing has access to expertise in all of the necessary fields. Accordingly, business development work will continue to concentrate on the generation of leads from existing customers as well as from strategic key accounts. Another aim is to establish a portfolio of long-term solutions business while further expanding the customer base. Softing considers this a promising strategy for stable, profitable growth.

GlobalmatiX

Our developments in relation to the concepts of Connected Car and Connected Machine ensure that GlobalmatiX can offer smart products, solutions and services in the automotive and industrial automation segments that can now be offered to customers in Softing's other segments thanks to existing sales channels.

Corporate private networks (5G Campus) – together with driverless cars – are also offering new opportunities here. Our solutions are becoming increasingly relevant for companies who need to use AI and machine learning algorithms to generate large volumes of data in near-real time from the innards of vehicles and plant systems for further processing as part of products and services in the field of predictive maintenance. The GlobalmatiX telematics unit is increasingly being used as a CANbus data logger here.

RISK REPORT

The information provided applies to the Softing 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 Softing 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 more than 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

Over the past few years, the Company has reviewed its dependency on the British market in view of Brexit. The following risk positions have been determined and risk reduction measures implemented: One Group company obtains goods for resale from the British market with an approx. value of EUR 3.9 million. As in the past, this purchasing is subject to a currency risk. Hedges will be implemented in case of strong prospective exchange-rate fluctuations away from the target level. With uncertainties continuing to plague the delivery situation despite the successful signing of an EU-UK trade agreement, the Company is mitigating this risk with alternative suppliers from both the EU and Asia.

Various Group companies in the European Union supply products to the British market: in 2019, approx. EUR 2.0 million, with consolidated revenue of EUR 91.1 million (2.2% of consolidated revenue), and in 2020 approx. EUR 1.3 million, with consolidated revenue of EUR 77.6 million (1.7% of consolidated revenue).These deliveries are not exposed to any currency risk, since they are billed in euros. The customs risk has not been fully clarified, but can be compensated for by means of a partial increase in sales prices.

Overall, after the UK having left the EU, the risk for the Group's business activities is fairly low, particularly since risk reduction measures have already been implemented.

The Group's management ensures that it is familiar at all times with any changes in customs regulations and is able to implement measures at short notice in case of any changes.

Softing is also taking action as follows to meet the challenges arising from the pandemic to minimize the level of risk ensuing from the current crisis.

To protect employees during the COVID-19 pandemic, the Company responded quickly by setting out disinfectant dispensers at building entrances and in restrooms. Door handles, desktops, etc. are now routinely disinfected by the facility services team. Face masks have been distributed to staff, meetings are held while observing distancing regulations and/or as videoconferences, and trade show participation has been reduced to a bare

minimum. Each company has also drawn up appropriate work policies (working from home, use of vacation/comp time, short-time working) aimed at reducing physical attendance. Employees have been given laptops and VPN access to the Company network. In May, the General Shareholders' Meeting was held virtually without the physical presence of shareholders and shareholder representatives. To improve delivery reliability, Softing has increased stock levels in its own companies and requested the same from its suppliers.

With the aim of managing economic risks such as revenue shifts/losses and supply bottlenecks due to shutdowns at customers and suppliers, several forecast scenarios have been prepared to handle various shutdown durations. Cost savings were achieved by reducing overtime and vacation as well as short-time work and a general review of purchases and investments. Use of government support both in Germany and abroad, such as the Job Support Scheme (JSS) in Singapore contributed to reducing the economic risk. The risk of the different effects of the pandemic (e.g. spread) and measures (e.g. shutdown, planned economic aid, opening of borders) on various regions and countries is analyzed by continuously exchanging information with relevant managers.

Performance Risks

In 2020, revenue decreased by 14.8% compared to 2019. 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.

Apart from the serious impact felt from the COVID-19 pandemic, the automotive parts supplier industry in particular is still undergoing a prolonged process of transformation. As in previous years, the Group was unable to avoid the effects of these developments in the reporting year, and therefore continues to invest in new development work (especially in telematics) while keeping a close eye on cost levels to increase profitability over the medium to long term. Should the sector fail to recover over the medium and long term, however, this would create a lasting impact on the level of earnings overall and compromise the development of the Softing Group. While the Group does not believe this to be a likely scenario, the financial repercussions for the Group's results of operations would be considerable if the scenario did occur.

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 2020 despite increased risks due to the coronavirus crisis. Most of the Softing Group's customers are well-known and leading industrial companies. Overall, this risk is classified as a minor risk.

Use of Financial Instruments

The Group is exposed to a variety of financial risks as a result of its business activities. The aim of risk management is to minimize potential negative effects on the Group's financial position. The Group does not make use of derivative financial instruments. Due to its international scope, the Group is exposed to a currency risk whereby fluctuations in the USD, British pound, Swiss francs and Singapore dollar in particular could have an impact on the assets, liabilities, financial position and results of operations of the Group. The majority of transactions are inherently hedged, as transactions within the euro area are processed by the American subsidiary. The Group considers the residual risks from transactions in foreign currencies to be acceptable, and thus deliberately does not use any currency hedging instruments. The Group can hedge transactions in exceptional cases. Overall, this risk is classified as a moderate risk.

The Group relies on fixed lending rates for long-term loans to secure its financing. No interest rate hedging has been agreed for the existing variable-rate overdraft lines of credit. The Group does not hedge against interest rate fluctuations beyond agreeing fixed interest rates.

The Group does not hold any separate financial instruments to protect against defaults on receivables. The risk of defaults on receivables is low due to the high creditworthiness of the customer base. The Group participates in the reverse factoring program of a major customer in the USA to increase its liquidity further. Under this program, receivables are sold to a reputable bank and the Group receives payment immediately following the acquisition.

Other than the financial instruments described here, the Company does not hold any other financial instruments that are relevant for assessing its situation or expected development.

Other Risks

IT 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 believed that the probability of a threat to the security of its data inventories or information systems is manageable. As explained above in the details provided on the course of business, the cyberattack on Softing's German infrastructure has highlighted the greater risk of becoming the victim

of such an attack in the last twelve months. Overall, it can be said that measures taken beforehand to handle this risk were able to restore the Company's operational capabilities in a short space of time. The financial impact of the attack was reduced virtually to zero by the prudent step of arranging cyber insurance cover. This risk is considered a very high risk going forward.

Employee Risks

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.

Legal Risks

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 currently 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 its financial position and net assets, which remain strong despite a deterioration caused by the COVID-19 pandemic, and an expected improvement in results of operations in 2021, 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

The Upturn Has yet to Materialize

According to the Kiel Institute for the World Economy (IfW), the recovery in the German economy is being held up largely by the resurgence of the COVID-19 pandemic and the reintroduction of shutdown measures. As some of these measures will remain in place in the coming months, declines in gross domestic product (GDP) are on the horizon in the first quarter of 2021. However, these declines will not be on the same scale as in spring 2020. The negative impacts will be centered to a greater extent on a handful of consumer-related sectors. In addition, exports are likely to remain on an upward trajectory given the comparatively robust state of the global economy. All in all, the IfW expects GDP growth of 3.1 percent in 2021 following a decline of 5.2 percent in 2020. Provided the pandemic can be permanently suppressed from spring onwards, a strong recovery will set in during the coming year and be reflected in a sharp increase in GDP of 4.5 percent in 2022. *(Source: IfW, Kiel Economic Report No. 70, 2020|Q4, www.ifw-kiel.de).*

Softing Industrial Automation GmbH

On the basis of measurable data on customer acceptance and demand, plus the pipeline of customer inquiries and projects, a solid performance is expected for the year. While the unusual and volatile economic environment, not least on account of the COVID-19 pandemic, necessarily urges a degree of caution, the outlook is nonetheless not entirely bleak.

More than ever – like a pilot trusting to experience in assessing visual flight conditions – there is a need to constantly reassess the situation and take the right approach to mastering it.

Good, practical solutions to digitalization have a significantly higher profile and relevance now, while the demand for unbroken chains of data from sensors to the cloud will continue to ensure the success of the Company going forward. The Company's natural affinity for and active involvement in the design and impact of platform models with industrial relevance (OMP, DPP, VDW UMATI and NAMUR open architecture) plus its alliances and partnerships, grant the Company a secure and enduring position in the future and growth market of digitalization and Industrie 4.0.

Softing Automotive Electronics GmbH

Following the pandemic-induced slump in the automotive sector, business stabilized in the fourth quarter and is slowly growing again. Much of the fresh capital spending deferred from 2020 is expected to be carried out. As the pandemic has not yet been overcome and continues to pose risks to the global economy, all customers will remain cautious and make only essential fresh investments. Growth is therefore expected to be continuous, but at a low to medium level. The recovery is likely to extend throughout 2021. The basic demand for efficiency-enhancing tools and solutions persists, however, and is likely to strengthen. Particularly in relation to vehicle diagnosis and testing, a number of new technologies and approaches will be introduced in the coming years. Softing Automotive Electronics GmbH is therefore well positioned with its product portfolio, as many customers seek strategic suppliers in precisely these areas in order to be able to successfully master the technological challenges of the future. This will provide new opportunities for SAE and we thus expect renewed growth over the medium and long term.

GlobalmatiX

GlobalmatiX offers remote diagnostics for vehicles and machinery via an innovative telematics unit with an integrated 4G/LTE CANbus data logger. Our buyers here range from business clients in the Connected Car automotive segment and fleet service providers (from servicing, transport, leasing, insurance, and development to motorsport) to Connected Machine manufacturers. Supplying these fleets with our telematics/data logger solution is the central point of focus for our sales activities. Big Data analytics transforms diagnostics into remote diagnostics, which in turn enables plannable and predictable maintenance.

Thanks to our access to 4G and 5G mobile telecommunications technology as a mobile network operator in Softing's core markets in North America, Europe and Asia, we are well-prepared for building and expanding the Softing Group's digital business.

Softing IT Networks GmbH and Softing Singapore Pte. Ltd.

The competition situation in the certifier segment will again make itself felt in Europe in particular in 2021, until Softing will present the successor to its WireXpert series. The North America and Asia markets are expected to be less affected by this competition situation, since the competitor is significantly weaker in these regions. The strong shift in the retail sales towards online sales channels will open up even more opportunities for Softing IT Networks to place its own products in additional markets. In its certifier, qualifier and verifier segments, Softing will further consolidate its position as a technology leader by introducing additional new products. New technologies such will

be visible as a technology trend in 2021, but will only provide a substantial business contribution in subsequent years.

Online Development Inc. (OLDI)
OLDI is a leading Original Design Manufacturer (ODM) that supports many brand manufacturers and market segments in manufacturing with its broad-based portfolio of hardware/software products. Customers make good use of OLDI's extensive competencies in communications and IT to accelerate the time-to-market for new and existing technologies. Leveraging its know-how and experience in the security and scalability of IT systems, OLDI is continuously expanding its business to include new customers, projects and products. The outlook for 2021 is mixed. OLDI launched several new products in 2020 and won new projects that will contribute to further growth and profitability. On the other hand, a new US administration facing a growing debt burden, a weaker oil and gas industry, and the need to recruit new employees and renew infrastructure pose major challenges in the new year.

Outlook for the 2021 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 quick recovery of the global economy following the COVID-19 pandemic. 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 and dividends of up to EUR 1.0 million for the 2021 financial year.

Outlook for the 2021 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 2021, despite the restrictions triggered by the pandemic. Based on the Softing Group's positioning and customer feedback, Softing sees opportunities to increase incoming orders, revenue and earnings in 2021. Softing will again face numerous unavoidable uncertainties in 2021 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 2021. For 2021, 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 triggered by the pandemic.

The threat of a third coronavirus wave looming since February 2021 as a result of the mutation of the virus and the slow progress of the vaccination campaign represents an additional element of uncertainty and the effects cannot currently be foreseen. This is rekindling uncertainty over macroeconomic trends and the effects on important customer segments of Softing AG are, in turn, difficult to estimate. As a result, there remains a particularly high level of uncertainty in the forecast for future business performance and this is severely limiting the ability to make predictions.

This coronavirus-specific environment must be seen in addition to the transformation process in the automotive industry and makes it difficult to reliably and realistically assess the forecast for the 2021 financial year.

The Executive Board has therefore decided to apply two feasible scenarios in anticipating the performance of the financial and non-financial metrics used for internal management, although it does not yet seem possible to weight the scenarios or comment on their probability of occurrence.

In the following scenarios, the Executive Board assumes that the EUR 3.7 million impairment loss in the Automotive segment in 2020 will not recur in 2021.

Scenario 1: Pandemic subsides and economic support measures are implemented successfully
At segment level, an increase in revenue of between 10% and 15% and stable or rising EBIT and operating EBIT are expected in all segments. As operating costs will normalize, consolidated EBIT is forecast to be in a range of EUR 1.5 million to EUR 3.0 million. The Executive Board expects operating EBIT to rise to between EUR 2.0 million and EUR 3.0 million.

Scenario 2: Coronavirus pandemic persists or worsens and restrictive government measures remain in place
In this scenario, the Executive Board anticipates a similar business performance to 2020 and therefore expects EBIT and operating EBIT in the Group and the segments to be unchanged.

In the case of the non-financial performance indicators, it is planned to maintain the attained levels in the 2021 financial year.

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 SECTION 289A HGB AND EXPLANATORY REPORT

1. In 2020, 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:

   Mr. Hugh Alan Durell notified us on September 16, 2020 that all notifications regarding the meeting of thresholds from December 1, 2011 at 24.03%, December 5, 2011 at 26.69% and March 26, 2018 at 22.43% received from Hugh Alan Durell and Helm Trust Company Ltd (last published on July 19, 2018) will be rescinded. These notifications subsequently proved unnecessary because the voting rights were not attributable to the persons named.

   Dr. Dr. Wolfgang Trier notified us on November 24, 2020 that 24.03% of the voting rights have been attributed to him by Trier Vermögensverwaltung GmbH & Co. KG since December 1, 2011.

   Dr. Dr. Wolfgang Trier notified us on November 24, 2020 that 22.43% of the voting rights have been attributed to him by Trier Vermögensverwaltung GmbH & Co. KG since March 26, 2018.

   Dr. Dr. Wolfgang Trier further notified us on November 27, 2020 that no voting rights have been attributed to him by Trier Vermögensverwaltung GmbH & Co. KG since November 24, 2020 because he no longer controls the entity. Trier Vermögensverwaltung GmbH & Co. KG continues to hold 22.43% of the voting rights and no financial instruments as of November 24, 2020.

   Mr. Gerhard Hönig notified us on December 4, 2020 that 22.43% of the voting rights have been attributed to him since December 3, 2020. He obtained control by personally assuming the management function at Trier Familienstiftung.

   Voting rights are attributed via
   - Trier Familienstiftung
   - Trier Asset Management GmbH
   - Trier Vermögensverwaltung GmbH & Co. KG

   Mr. Alois Widmann, Vaduz/Liechtenstein, notified us in accordance with Section 33 (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 34 (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 § 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 9,080,751 shares were outstanding in the 2020 financial 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 9, 2018.

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

   Authorized Capital 2018 as of December 31, 2020, 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 9, 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 9, 2018.

8. On May 6, 2020, the General Shareholders' Meeting authorized the Executive Board to purchase own shares until May 5, 2025, 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 90,000 treasury shares as of December 31, 2020. For information on the 2020 buyback program, please refer to the IFRS notes in the notes to the consolidated financial statements.

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, 2020. 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

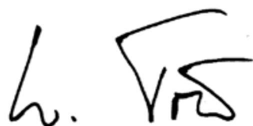
The Executive Board of Softing AG reports on issues of corporate governance in this statement – also on behalf of the Supervisory Board – pursuant to both Principle 22 of the German Corporate Governance Code and Sections 289f (1) and 315d of the German Commercial Code (HGB). The statement applies both to Softing AG as the parent and to the Softing 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 Softing 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 Softing Group and of Softing AG, together with a description of the material opportunities and risks associated with the expected development of the Softing Group and of Softing AG."

Haar, Germany, March 19, 2021
Softing AG

The Executive Board



Dr. Wolfgang Trier Ernst Homolka

Consolidated Income Statement

for the period from January 1 to December 31, 2020

	Note	Jan. 1 – Dec. 31, 2020 EUR (in thsds.)	Jan. 1 – Dec. 31, 2019 EUR (in thsds.)
Revenue	**D1**	77,597	91,068
Other own work capitalized	D2	3,668	5,526
Other operating income	D3	1,703	755
Operating income		82,968	97,349
Cost of materials/cost of purchased services	D4	–35,130	–39,311
Staff costs	D5	–31,684	–35,441
Depreciation and amortization of property, plant and equipment, right-of-use assets and intangible assets	D6	–11,691	–7,820
thereof depreciation/amortization due to purchase price allocation		–2,010	–2,034
thereof depreciation due to accounting for right-of-use-assets		–1,301	–1,416
Other operating expenses	D7	–8,397	–10,474
Operating expenses		–86,902	–93,046
Operating result (EBIT)		**–3,934**	**4,303**
Interest income	D8	53	57
Interest expense	D8	–260	–273
Interest expense from lease accounting		–121	–163
Other finance income/finance costs	D8	–1,158	322
Earnings before income taxes		**–5,420**	**4,246**
Income taxes	D9	839	–1,317
Consolidated profit		**–4,581**	**2,929**
Consolidated profit attributable to:			
Shareholders of Softing AG		–4,738	2,809
Non-controlling interests		157	120
Consolidated profit		**–4,581**	**2,929**
Earnings per share (diluted = basic)		–0.50	0.31
Average number of shares outstanding (basic)		9,080,751	9,105,381

Consolidated Statement of Comprehensive Income

for the period from January 1 to December 31, 2020

	Note	Jan. 1 – Dec. 31, 2020 EUR (in thsds.)	Jan. 1 – Dec. 31, 2019 EUR (in thsds.)
Consolidated profit		**–4,581**	**2,929**
Items that will not be reclassified to consolidated profit or loss			
Remeasurement of pensions		–22	–994
Tax effect		6	279
Total remeasurements of pensions		–16	–715
Items that will be reclassified to consolidated profit or loss:			
Currency translation differences			
Changes in unrealized gains/losses		–1,128	148
Tax effect		–23	22
Total currency translation differences		–1,151	170
Other comprehensive income		**–1,167**	**–545**
Total consolidated comprehensive income for the period		**–5,748**	**2,384**
Total consolidated comprehensive income for the period attributable to:			
Shareholders of Softing AG		–5,905	2,264
Non-controlling interests		157	120
Total consolidated comprehensive income for the period		**–5,748**	**2,384**

Consolidated Statement of Financial Position

as of December 31, 2020

Assets	Note	Dec. 31, 2020 EUR (in thsds.)	Dec. 31, 2019 EUR (in thsds.)
Non-current assets			
Goodwill	C1/C2	17,500	18,124
Other intangible assets	C3/C4	39,324	44,291
Other financial assets	C5	1,500	1,500
Property, plant and equipment	C6	5,506	5,949
Deferred tax assets	D9	516	787
Non-current assets, total		**64,346**	**70,651**
Current assets			
Inventories	C7	13,671	12,596
Trade receivables	C8	14,321	15,380
Current financial assets	C9	839	25
Contract assets	C10	442	533
Current income tax assets	C11	556	1,864
Cash and cash equivalents	C12	10,166	14,917
Current assets	C13	850	830
Current assets, total		**40,845**	**46,145**
Total assets		**105,191**	**116,796**

Equity and liabilities	Note	Dec. 31, 2020 EUR (in thsds.)	Dec. 31, 2019 EUR (in thsds.)
Equity			
Subscribed capital	C14	9,105	9,105
Capital reserves	C14	31,111	31,111
Treasury shares	C14	-485	0
Retained earnings	C14	22,850	29,119
Equity attributable to shareholders of Softing AG		62,581	69,335
Non-controlling interests	C14	429	269
Equity, total		**63,010**	**69,604**
Non-current liabilities			
Pensions	C15	3,060	3,085
Long-term borrowings	C16	12,256	14,006
Other non-current financial liabilities	C16	1,519	2,259
Deferred tax liabilities	D 9	4,336	6,160
Non-current liabilities, total		**21,171**	**25,510**
Current liabilities			
Trade payables	C17	5,999	6,476
Contract liabilities	C10	2,717	2,641
Provisions	C18	103	101
Income tax liabilities	C19	305	1,255
Short-term borrowings	C20	4,678	1,581
Other current financial liabilities	C21	6,120	7,691
Current non-financial liabilities	C22	1,088	1,937
Current liabilities, total		**21,010**	**21,682**
Total equity and liabilities		**105,191**	**116,796**

Consolidated Statement of Changes in Equity

for the period from January 1 to December 31, 2020

	Sub-scribed capital	Capital reserves	Treasury shares	Retained earnings				Equity 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.)	EUR (in thsds.)
Balance as of January 01, 2020	**9,105**	**31,111**	**0**	**28,679**	**–2,013**	**2,452**	**29,119**	**69,335**	**269**	**69,604**
Consolidated profit 2020				–4,738			–4,738	–4,738	157	–4,581
Other comprehensive income 2020					–16	–1,151	–1,167	–1,167		–1,167
of which from remeasurements					–22		–22	–22		–22
of which currency translation						–1,128	–1,128	–1,128		–1,128
of which tax effect					6	–23	–17	–17		–17
Total consolidated comprehensive income for the period				**–4,738**	**–16**	**–1,151**	**–5,905**	**–5,905**	**157**	**–5,748**
Dividend payment				–364			–364	–364		–364
Purchase of own shares			–485					–485		–485
Changes in minority interests									3	3
Transactions with owners in their capacity as owners				**–364**			**–364**	**–849**	**3**	**–846**
Balance as of December 31, 2020	**9,105**	**31,111**	**–485**	**23,577**	**–2,029**	**1,301**	**22,850**	**62,581**	**429**	**63,010**

	Sub-scribed capital	Capital reserves	Treasury shares	Retained earnings				Equity 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.)	EUR (in thsds.)
Balance as of January 01, 2019	**9,105**	**31,111**	**0**	**27,054**	**–1,298**	**2,282**	**28,039**	**68,255**	**145**	**68,400**
Consolidated profit 2019				2,809			2,809	2,809	120	2,929
Other comprehensive income 2019					–715	170	–545	–545		–545
of which from remeasurements					–994		–994	–994		–994
of which currency translation						148	148	148		148
of which tax effect					279	22	301	301		301
Total consolidated comprehensive income for the period				**2,809**	**–715**	**170**	**2,264**	**2,264**	**120**	**2,384**
Dividend payment				–1,184			–1,184	–1,184		–1,184
Changes in minority interests									4	4
Transactions with owners in their capacity as owners				**–1,184**			**–1,184**	**–1,184**	**4**	**–1,180**
Balance as of December 31, 2019	**9,105**	**31,111**	**0**	**28,679**	**–2,013**	**2,452**	**29,119**	**69,335**	**269**	**69,604**

Consolidated Statement of Cash Flows

for the period from January 1 to December 31, 2020

	Jan. 1 – Dec. 31, 2020 EUR (in thsds.)	Jan. 1 – Dec. 31, 2019 EUR (in thsds.)
Cash flows from operating activities		
Profit (before tax)	**–5,420**	**4,245**
Depreciation and amortization of fixed assets	11,691	7,820
Other non-cash transactions	89	194
Cash flows for the period	**6,360**	**12,259**
Interest income	–53	–57
Interest expense	1,539	107
Change in other provisions and accrued liabilities	–14	–879
Change in inventories	–1,075	–2,039
Change in trade receivables	1,150	–1,663
Change in financial receivables and other assets	302	–386
Change in trade payables	–477	390
Change in financial and non-financial liabilities and other liabilities	–3,281	3,042
Interest received	53	57
Income taxes received	654	352
Income taxes paid	–245	–816
Cash flow from operating activities	**4,913**	**10,367**
Cash payments for investments in non-current assets	–1,522	–1,118
Cash paid for investments in new internal/external product developments	–5,446	–7,364
Cash and cash equivalents acquired from the acquisition	–1,500	0
Cash flow from investing activities	**–8,468**	**–8,482**
Cash paid for dividends	–364	–1,184
Repayment of lease liabilities	–1,244	–1,554
Cash received from short-term bank line	2,655	0
Cash received from long-term loans	0	14,000
Cash paid for the acquisition of own shares	–485	0
Cash repayment of bank loans	–1,291	–7,547
Interest from lease accounting	–121	–163
Other interest paid	–260	–180
Total interest paid	–381	–343
Cash flow from financing activities	**–1,110**	**3,372**
Net change in cash funds	–4,665	5,257
Effects of exchange rate changes on cash funds	–86	–22
Cash funds at beginning of period	14,917	9,682
Cash funds at end of period	**10,166**	**14,917**

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

Changes in Intangible Assets and Property, Plant and Equipment

In the 2020 financial year

	Cost					
	Jan. 1, 2020	Additions	Currency differences	Restatements	Disposals	Dec. 31, 2020
	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)
Intangible assets						
Goodwill	18,420		−624			17,796
Internally generated intangible assets	30,316	3,668		3,954	190	37,748
Internally generated intangible assets under development	6,993		−65	−3,954		2,974
Other intangible assets	38,176	1,923	−1,661		738	37,700
	93,905	**5,591**	**−2,350**		**928**	**96,218**
Equity investments	1,500					1,500
	1,500					**1,500**
Property, plant and equipment						
Right-of-use-assets, operating and office equipment	54			21		75
Right-of-use assets, buildings	4,331		−130	300	14	4,487
Right-of-use assets, motor vehicles	415	157		19	99	492
Other equipment, operating and office equipment	5,869	1,376	−113		1,796	5,336
	10,669	**1,533**	**−243**	**340**	**1,909**	**10,390**
	106,074	**7,124**	**−2,593**	**340**	**2,837**	**108,108**

In the 2019 financial year

	Cost						
	Jan. 1, 2019	First-time application of IFRS 16 lease accounting Jan. 01, 2019	Additions	Currency differences	Restatements	Disposals	Dec. 31, 2019
	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)
Intangible assets							
Goodwill	18,281			139			18,420
Internally generated intangible assets	27,041		3,275				30,316
Internally generated intangible assets under development	6,028		1,837		−871	1	6,993
Other intangible assets	34,313		2,640	359	871	7	38,176
	85,663		**7,752**	**498**		**8**	**93,905**
Equity investments			1,500				1,500
			1,500				**1,500**
Property, plant and equipment							
Right-of-use-assets, operating and office equipment		56				2	54
Right-of-use assets, buildings		4,318	120	26	−121	12	4,331
Right-of-use assets, motor vehicles		321	141		−10	37	415
Other equipment, operating and office equipment	4,960		985	12		88	5,869
	4,960	**4,695**	**1,246**	**38**	**−131**	**139**	**10,669**
	90,623	**4,695**	**10,498**	**536**	**−131**	**147**	**106,074**

Accumulated depreciation and amortization					Carrying amounts	
Jan. 1, 2020	Currency differences	Depreciation and amortization in the financial year	Disposals	Dec. 31, 2020	Dec. 31, 2020	Dec. 31, 2019
EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)
296				296	17,500	18,124
20,744		7,052	190	27,606	10,142	9,572
					2,974	6,993
10,450	–686	2,454	726	11,492	26,208	27,726
31,490	**–686**	**9,506**	**916**	**39,394**	**56,824**	**62,415**
					1,500	1,500
					1,500	**1,500**
23		22		45	30	31
1,174	–54	1,100	14	2,206	2,281	3,158
168		178	101	245	247	247
3,356	–65	885	1,788	2,388	2,948	2,513
4,721	**–119**	**2,185**	**1,903**	**4,884**	**5,506**	**5,949**
36,211	**–805**	**11,691**	**2,819**	**44,278**	**63,830**	**69,864**

Accumulated depreciation and amortization					Carrying amounts	
Jan. 1, 2019	Currency differences	Depreciation and amortization 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.)
296				296	18,124	17,985
17,638		3,106		20,744	9,572	9,403
					6,993	6,028
7,862	100	2,488		10,450	27,726	26,451
25,796	**100**	**5,594**		**31,490**	**62,415**	**59,867**
					1,500	
					1,500	
		25	2	23	31	
	-2	1,186	11	1,173	3,158	
		205	37	168	247	
2,612		810	66	3,356	2,513	2,348
2,612	**-2**	**2,226**	**116**	**4,720**	**5,949**	**2,348**
28,408	**98**	**7,820**	**116**	**36,210**	**69,864**	**62,215**

Notes to the Consolidated Financial Statements for the 2020 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 (IFRS IC) 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. In addition, the Group voluntarily applied the amendments to IFRS 16 relating to rent concessions in connection with the COVID-19 pandemic, which according to the standard are effective for annual periods beginning on or after June 1, 2020. 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 2020 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 19, 2021. 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." Softing AG is also the ultimate parent company of the Group.

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. PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS ON A GOING CONCERN BASIS

The Executive Board continues to stand by its realistic expectation that the Group has sufficient resources in order to continue to operate for at least a further period of twelve months and that the going concern principle remains appropriate as a basis for its financial reporting. The outbreak of the COVID-19 pandemic and the measures imposed by governments in most countries in order to contain the virus have adversely affected the Group. Due to the measures which limited access to our customers, Softing was forced to modify or restrict its sales and marketing activities from the start of the pandemic onward. This negatively affected the Group's results of operations and liquidity position in the year under review.

For the financial year ending December 31, 2020, the Group is reporting a negative EBIT of EUR 3.9 million. The Group's operating EBIT (EBIT adjusted for capitalized development services of EUR 3.7 million and amortization of EUR 7.2 million on these as well as effects from purchase price allocation in the amount of EUR 2.0 million) amounted to a positive figure of EUR 1.6 million despite the COVID-19-related disruption. As of December 31, 2020, the Group had net current assets in the amount of EUR 22.4 million. As of February 28, 2021, the Softing Group has cash and cash equivalents of EUR 12.1 million, current receivables of EUR 10.2 million and agreed but not yet drawn down credit lines of around EUR 7.7 million at its disposal. This means that the Group has up to EUR 30 million in near cash funds available at short notice to tackle the crisis.

4. NEW AND REVISED STANDARDS

As of January 1, 2020, the Group applied the following new and revised standards and interpretations for the first time:

Amendments to IAS 1 and IAS 8: Definition of Material

These amendments include a new definition of the term "material", according to which information is material "if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." These amendments specify that materiality depends on the nature or magnitude of information, or both, either individually or in combination with other information, in the context of an entity's financial statements taken as a whole. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements and nor is there expected to be any future impact on the Group.

Conceptual Framework for Financial Reporting, Issued on March 29, 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the consolidated financial statements.

Amendments to IFRS 16: COVID-19 Related Rent Concessions

On May 28, 2020, the IASB issued COVID-19-Related Rent Concessions – Amendment to IFRS 16 Leases.

The amendments provide practical relief to lessees when applying the requirements of IFRS 16 to account for lease modifications arising as a result of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendments are effective for annual periods beginning on or after June 1, 2020. However, earlier application is permitted. The Group has made use of relief in relation to rent concessions associated with the COVID-19 pandemic. These amendments had no material impact on the consolidated financial statements.

Amendments to IFRS 3: Definition of a Business

The Company applied to the amendments to IFRS 3 for the first time in the current financial year. These amendments serve to clarify the definition of a business. As before, the definition of a business comprises the three components input(s), process(es) and output. The inputs and the processes applied to those inputs shall be used in such a way as to contribute to the ability to create output. The changed definition of output focuses on goods and services provided to customers. However, it also includes investment income such as

dividends, interest and other revenues. In contrast, cost reductions are no longer a feature of the output definition.

The amendments clarify that to be considered a business, an acquisition must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. Therefore, the existence of processes ultimately constitutes the difference between the acquisition of a business and the acquisition of a group of assets. The evaluation depends on whether or not the acquired group of activities and assets already creates outputs.

In addition, a so-called concentration test was introduced as a transaction-related option that permits a simplified assessment of whether an acquired set of activities and assets is not a business. This is the case when substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset (or group of similar identifiable assets).

The amendments were applied prospectively to all business combinations and acquisitions of assets where the date of acquisition is on or after January 1, 2020. Application of these amendments had no impact on the consolidated financial statements.

Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform (Phase 1)

The amendments to IFRS 9 and IAS 39 provide a number of practical expedients, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. Such hedging relationships can be identified by uncertainty about the timing and/or amount of interest rate benchmark-based cash flows of the hedged item or hedging instrument arising from the reform.

These amendments do not have any impact on the consolidated financial statements, since the Group has not entered into any interest rate hedge relationships.

Standards Issued But Not Yet Effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

Amendments to IFRS 9 Financial Instruments – Recognition and Measurement, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts, IFRS 16 Leases: Interest Rate Benchmark Reform (Phase 2)

On August 27, 2020, the IASB issued the finalized amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 from the IBOR reform (Phase 2). The second phase focuses on supporting the prepares in the accounting treatment of changes in contractual cash flows in financial instruments and hedging relationships from the transition to alternative reference interest rates. The amendments are effective for annual periods beginning on or after January 1, 2021. It was endorsed by the EU on January 13, 2021.

These amendments do not have any impact on the consolidated financial statements, since the Group has not entered into any interest rate hedge relationships.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure.

Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for annual periods beginning on or after January 1, 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. IFRS 17 is not applicable to the Group.

On June 25, 2020, the temporary exemption from applying IFRS 9 was extended in line with the deferral of the first-time application date of IFRS 17 for corresponding users, so that IFRS 9 is also effective in these cases for annual periods beginning on or after January 1, 2023. It was endorsed by the EU on December 15, 2020.

The Group does not expect these amendments to have any effect on the consolidated financial statements.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual periods beginning on or after January 1, 2023 and are to be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Amendments to IFRS 3: Reference to the Conceptual Framework

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations – Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

The amendments are effective for annual periods beginning on or after January 1, 2022, and are applicable retrospectively.

Amendments to IFRS 16:
Proceeds before Intended Use

In May 2020, the IASB issued Amendments to IAS 16 Property, Plant and Equipment – Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual periods beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The Group does not expect these amendments to have any significant effect on the consolidated financial statements.

Amendments to IAS 37:
Onerous Contracts – Costs of Fulfilling a Contract

In May 2020, the IASB issued amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets: Onerous Costs – Costs of Fulfilling a Contract to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a "directly related cost approach" The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual periods beginning on or after January 1, 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. The Group does not expect these amendments to have any significant effect on the consolidated financial statements.

Amendment to IFRS 1:
Subsidiary as a First-Time Adopter

As part of its 2018–2020 annual improvements to the IFRS standards process, the IASB issued an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

The amendment is effective for annual periods beginning on or after January 1, 2022. Earlier application is permitted.

The Group does not expect these amendments to have any effect on the consolidated financial statements.

Amendment to IFRS 9:
Fees in the '10 per cent' Test for Derecognition of Financial Liabilities

As part of its 2018–2020 annual improvements to the IFRS standards process the IASB issued an amendment to IFRS 9 Financial Instruments. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual periods beginning on or after January 1, 2022. Earlier application is permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which it first applies the amendment.

The Group does not expect these amendments to have any significant effect on the consolidated financial statements.

Amendments to IAS 1 Presentation of Financial Statements: Disclosure of Accounting Policies and Amendments to IFRS Practice Statement 2

On February 12, 2021, the IASB issued further amendments to IAS 1 with "Disclosure of Accounting Policies". These amendments require IFRS users to disclose their "material" accounting policies. Currently, they are required to disclose their "significant" accounting policies. Whether accounting policy information is material depends on the usefulness of this information for the purpose of decision-making by users of an entity's financial statements. In addition, the IASB has issued amendments to the IFRS Practice Statement 2 which provides additional guidance and examples to demonstrate the application of the concept of materiality to accounting policy information. The amendments are effective for annual periods beginning on or after January 1, 2023. They have not yet been endorsed by the EU.

The Group does not expect these amendments to have any effect on the consolidated financial statements.

Amendments to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors": Definition of Accounting Estimates

On February 12, 2021, the IASB published amendments to IAS 8 with the title "Definition of Accounting Estimates". The amendment of this standard clarifies the distinction between "changes in accounting policies" and "changes in accounting estimates". Changes in accounting estimates will thus be applied prospectively to business transactions and other events from the date of the change in the accounting estimate, while changes in accounting policies will also be applied, as a rule, retrospectively to past business transactions and other past events. The amendments are effective for annual periods beginning on or after January 1, 2023. They have not yet been endorsed by the EU.

The Group does not expect these amendments to have any effect on the consolidated financial statements.

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 amount paid at that particular time, a contract asset is recognized. If the payments received 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, 2020 include Softing AG and the following subsidiaries, over which Softing AG directly or indirectly exercises control:

Softing Group as of Dec. 31, 2020	Capital share/voting share	
	2020 %	2019 %
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, vormals 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	50
Softing Automotive Electronics (Kirchentellinsfurt) GmbH, Kirchentellinsfurt/Germany, formerly Softing Automotive Electronics Services GmbH	100	100
GlobalmatiX AG Vaduz/Liechtenstein	100	100
GlobalmatiX Inc., Knoxville/USA	100	100

The share of the profits of Softing Electronic Science & Technology (Shanghai) Co., Ltd., Shanghai/China formerly Shanghai Softing software Co., Ltd. attributable to minority interests amounted to EUR 69 thousand in the financial year ended (previous year: EUR 110 thousand) and that at Buxbaum Automation GmbH, Eisenstadt/Austria amounted to EUR 87 thousand (previous year: EUR 10 thousand).

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

No dividends were paid by Softing Electronic Science & Technology (Shanghai) Co., Ltd. and Buxbaum Automation GmbH, Eisenstadt/Austria.

As of December 31, 2020, there were no changes in the basis of consolidation of Softing AG compared to December 31, 2019.

As of December 31, 2019, there were also no changes in the basis of consolidation of Softing AG compared to December 31, 2018.

The Group also holds an 8.33% equity interest in Yoma Solutions GmbH in Norderstedt. Equity according to the German Commercial Code in 2019 amounted to EUR 0 thousand and the loss for the year was EUR 763 thousand.

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. Historically, the full goodwill method has not been applied.

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 this context, production costs include labor costs and other directly allocable costs that are necessary to create the development project. The Softing Group amortizes the development costs for new product lines and product versions over their respective useful life of between three and five years using the straight-line method; amortization in the year the product lines or versions are completed is recognized on a pro-rata basis. Amortization is shown in the consolidated income statement under the item "Depreciation of property, plant and equipment and amortization of intangible assets". 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 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 interest rate based on the Weighted Average Cost of Capital (WACC) concept. These comprise the cost of equity and borrowing weighted at fair value. The costs of capital are determined using Capital Asset Pricing Model (CAPM) and comprise 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. The borrowing costs are composed of a base interest rate and a specific credit spread derived from capital market data. 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. Amortization is shown in the consolidated income statement under the item “Depreciation of property, plant and equipment and amortization of intangible assets”.

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. Depreciation is shown in the consolidated income statement under the item "Depreciation of property, plant and equipment and amortization of intangible assets". If fixed assets are disposed, cost and accumulated depreciation are derecognized; income/loss from the disposal of fixed assets is recognized in the consolidated 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. This is also done for development projects that are currently under development. 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 impairment loss recognized on goodwill is not reversed.

10. LEASES

Softing exclusively acts as a lessee in rental and lease agreements. Since January 1, 2019, it has recognized leases in accordance with the guidance of IFRS 16.

Only the accounting policies with relevance for the Group from the perspective of the Softing Group as a lessee are described below. In line with the internal reporting, intercompany leases will also continue to be presented in accordance with IAS 17, as operating leases were in the past, and are eliminated for consolidated reporting purposes.

For all new contracts effective on or after January 1, 2019, Softing examines whether a contract is or contains a lease. However, for this the Group does not apply the guidance of IFRS 16 to right-of-use intangible assets.

A lease is defined as a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration. In application of this definition, the Group assesses whether the contract meets the following three preconditions:

- The contract refers to an identified asset which is either expressly indicated in the contract or is implicitly specified and can thus be considered to have been identified.
- The Group has the right to obtain substantially all of the economic benefits from the use of the identified asset throughout the period of use, while taking into consideration its rights within the defined scope of the contract.
- The Group has the right to determine the use of the identified asset throughout the period of use.

In the case of multiple-element arrangements, each separate lease component is accounted for separately, excluding real estate lease agreements for individual sites. Depending on the terms of the contract in question, the surrender of use and benefit of office and storage space as well as parking spaces for each site is accounted for as a single lease component. Non-lease components such as servicing and maintenance are recognized directly as an expense in the period in which the expenses are incurred.

Determination of the relevant lease term includes the contractual term, extension options and termination options. In the Softing Group, the assessment as to whether it is reasonably certain that a termination option, an extension option, or a purchase option will be exercised is generally made by the management of the individual company and is comprehensively determined following an evaluation of all economic advantages and disadvantages and reviewed periodically.

As of the date of provision of the leased asset, the Group recognizes a right-of-use asset and a lease liability in the balance sheet. The cost of the right-of-use asset comprises the amount of the initial measurement of the lease liability less any initial direct costs incurred by the Group, an estimate of costs to be incurred in dismantling and removing the underlying asset when the lease ends, and any lease payments made before the commencement date, less any lease incentives received. In subsequent periods, the right-of-use asset will be measured at depreciated cost.

The lease liability is measured according to the present value of the lease payments made during the term of the lease, on the basis of the underlying interest rate for the lease or, if this is not available, the incremental borrowing rate of interest. Within the scope of the subsequent measurement, interest will accrue to the carrying amount of the lease liability on the basis of the interest rate used for discounting, while the lease payments made will be deducted from this carrying amount.

Based on Softing's current portfolio of contracts, the lease payments included in the measurement of the lease liability solely comprise fixed payments (including de facto fixed payments) and variable payments coupled to an index or (interest) rate.

In principle, changes to leases and remeasurements of lease liabilities are recognized in other comprehensive income against the right-of-use asset. They are recognized in the consolidated income statement if the carrying amount of the right-of-use asset has already been reduced to zero or this is the result of a partial termination of the lease.

As a rule, the Group depreciates on a straight-line basis the right-of-use assets from the start of the lease up to the end of the period of use of the leased asset or the end of the contract term, whichever is earlier. In addition, the Group tests for impairment in case of relevant indicators.

For short-term leases and leases of low-value assets, the corresponding payments are measured on a straight-line basis over the term of the lease and presented as an expense in the income statement.

In the statement of financial position, right-of-use assets are presented under property, plant and equipment, while lease liabilities are presented under other current and non-current financial liabilities.

Until 2018, the Company had applied the provisions of IAS 17 for the classification and measurement of its leases. The Company had only entered into operating leases. The lease payments were recognized over the relevant term on a straight-line basis. In accordance with IAS 17, there were no finance leases.

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 – IFRS 9

Financial assets comprise in particular:

- Equity instruments in other companies held by the Group
- Trade receivables
- Other financial assets
- 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 Value 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.

Within the Group, only the equity investment in YOMA Solutions GmbH, Norderstedt is currently subject to this measurement.

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.

Derecognition

A financial asset (or part of a financial asset or part of a group of similar financial assets) is derecognized (i.e. removed from the consolidated statement of financial position) mainly if one of the following conditions is met:

- The contractual rights to receive the cash flows of the financial asset have expired.
- The Group has transferred its contractual rights to receive the cash flows of the financial asset to third parties or assumed a contractual obligation to an immediate payment of the cash flow to a third party under a pass-through arrangement, thereby
  (a) transferring substantially all risks and rewards of the ownership of the financial asset or

(b) neither transferring nor retaining substantially all risks and rewards of the ownership of the financial asset, but transferring the control of the asset.

The Group participates in a customer's reverse factoring program and sells receivables to a bank under this program. When the Group transfers its contractual rights to receive cash flows from an asset or enters into a pass-through arrangement, it assesses whether and to what extent it retains the risks and rewards of ownership.

If the Group neither transfers nor retains substantially all risks and rewards of the ownership of this asset, nor transfers the control of the asset, it continues to recognize the transferred asset to the extent of its continuing involvement. In this case, the Group also recognizes the liability associated with it. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations retained by the entity. If the continuing involvement guarantees the transferred asset, the extent of the continuing involvement corresponds to the lower of the asset's initial carrying amount and the maximum amount of the consideration received which the Group might have to pay back.

Under factoring, the rewards and risks are transferred to the contractual partner and the receivables are derecognized at the time of sale.

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 360 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. CONTRACT ASSETS AND CONTRACT LIABILITIES

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 received the full 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. The contract balances at Softing generally have a current remaining term.

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

14. CURRENT ASSETS

Current assets are initially measured at fair value and then are recognized at depreciated or amortized cost.

15. CURRENT AND DEFERRED TAXES

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

Taxes are recognized in the consolidated 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.

16. 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.

17. PROVISIONS

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.

18. CURRENT AND NON-CURRENT 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, financial liabilities 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 and recognized in the consolidated income statement. 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 "Short-term and long-term borrowings", "Trade payables" and "Other current financial liabilities".

19. SHORT AND LONG-TERM BORROWINGS

Short-term borrowings include current liabilities to banks that are due within one year. Long-term borrowings include liabilities to banks that are due after more than one year. Short-term and long-term borrowings are initially recognized at fair value.

Borrowings are classified as short-term 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.

20. CURRENT NON-FINANCIAL LIABILITIES

Non-financial liabilities are carried at the repayment amount.

21. SIGNIFICANT JUDGEMENTS AND ASSUMPTIONS

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 determination of the term of leases, the determination of the incremental borrowing rate for leases, 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.

22. 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.

At each reporting date, monetary items denominated in foreign currencies are translated at the closing rate. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the exchange rates prevailing at the date when the fair value was determined. Non-monetary items measured at cost are translated using the exchange rate at the date of initial recognition.

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 arising from currency translation of foreign operations are recognized in other comprehensive income and accumulated in retained earnings. They are shown separately as a currency reserve in the statement of changes in equity.

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.

Currency translation differences arising on monetary items receivable from/payable to a foreign operation that are neither planned nor likely to be settled and therefore form part of the net investment in that foreign operation are initially recognized in other comprehensive income and are reclassified from equity to profit or loss on disposal or repayment of loans.

On disposal of a foreign operation or repayment of a long-term loan, all accumulated currency translation differences attributable to the Group from the operation are reclassified to profit or loss. In this context, the following transactions are considered to be disposals of a foreign operation:

- The sale of the Group's entire equity interest or the partial sale resulting in loss of control, or partial or full repayments of loans that were originally considered non-repayable.

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

	USD/EUR		RON/EUR		CHF/EUR	
	2020	2019	2020	2019	2020	2019
Closing rate (Dec. 31)	1.23	1.12	4.87	4.78	1.08	1.09
Average exchange rate	1.14	1.12	4.84	4.75	1.08	1.13

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. Currency differences arising from financing are reported under finance income/finance costs.

C. NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

1. CHANGES IN THE BASIS OF CONSOLIDATION

As of December 31, 2020, there were no changes in the basis of consolidation of Softing AG compared to December 31, 2019.

As of December 31, 2019, there were also no changes in the basis of consolidation of Softing AG compared to December 31, 2018.

2. GOODWILL

	Dec. 31, 2020 EUR (in thsds.)	Dec. 31, 2019 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.	6,763	7,387
GlobalmatiX AG	3,117	3,117
Goodwill	**17,500**	**18,124**

Due to the change in the EUR/USD exchange rate, the goodwill of OLDI Online Development Inc. changed by EUR 624 thousand in 2020.

Softing has incorporated the temporarily troubled business environment into its impairment treatment with regard to future cash flow estimates. This means that future cash flow estimates are no longer made based on a single-value, best-possible estimate but are instead supported by scenarios (see also information on managing the crisis, “Forecast scenarios based on different models for the economic development of the impact of the pandemic”). The longer-term effects of the COVID-19 pandemic on relevant markets have also been analyzed.

As a result, revenue and margin expectations in the 2021 detailed planning period have been revised downwards to properly illustrate the current uncertainty and reluctance to invest among some customers caused by cost-saving measures and to appropriately reflect the declines in incoming orders and orders in hand already being observed.

In the medium term between 2022 and 2024, however, Softing expects COVID-19 to accelerate the trend towards new technologies and assumes that the previous year’s trends and assumptions for Softing’s business segments will remain unchanged as Softing has made focused investments in new technologies (digitalization, data analysis, etc.) in recent years. As a result, the short-term negative and longer-term positive effects of the COVID-19 pandemic will level out in the best possible estimate, which means the perpetual assumptions made on December 31, 2019 changed only slightly. No need for impairment has been identified for goodwill overall. However, management continues to carefully monitor the ongoing market environment and planning parameters to ensure that any necessary adjustments to the estimates can be made.

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 (WACC) before taxes:
  9.98% – 11.42% (previous year: 7.52% – 9.12%)
- Risk-free interest rate:
  –0.19% – 1.65% (previous year: 0.19% – 2.28%)
- Market risk premium:
  6.00% – 8.00% (previous year: 5.25% – 7.00%)
- Beta factor (weighted average of a group of comparable companies):
  1.27 (previous year: 1.18)

Management has planned the cash flows for a period of 4 years (previous year: 4 years), after which a growth rate of 1.5% (previous year: 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%. One exception is the goodwill of Softing Engineering & Solutions GmbH, which might be subject to impairment.

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 12,071 thousand (previous year: EUR 15,138 thousand).

As of the review of capitalized assets, in the second half of the year the need for adjustment arose for a product in the Automotive segment due to a value in use determined according to Level 3 of the fair value hierarchy. The product which is used in the development of combustion engines will not fulfill its cash flow forecast since the vehicle manufacturers have changed their development policy. It will therefore no longer achieve a positive value in use. Softing is therefore shifting the main focus of its development work to products for hybrid and electrical drive systems, and driverless cars. This adjustment has reduced EBIT and the profit for the year by EUR 3,577 thousand on a one-time basis (previous year: EUR 0 thousand). The asset in question has been fully written off. The impairment loss was recognized in the item Depreciation, amortization and impairment of property, plant and equipment, right-of-use assets and intangible assets.

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

	2020 EUR (in thsds.)	2019 EUR (in thsds.)
Capitalized development costs	3,668	5,526
Expenses not qualifying for capitalization	12,071	15,138
	15,739	**20,664**

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. OTHER FINANCIAL ASSETS

At the end of December 2019, Softing acquired a stake in a start-up company by way of a capital increase; this company is allocated to the Automotive segment. The equity interest acquired is less than 10%. An obligation to transfer an additional EUR 1,495 thousand to the capital reserves of the investee was written into the investment agreement. This payment was made in early 2020. For subsequent measurement of the equity investment the Group decided to recognize the effects of changes in the fair value in profit or loss. No facts arose that would result in a change in fair value.

6. 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 amortization. The Group has entered into leases for several properties, mostly for office space and, to a lesser extent, storage facilities. Other leases have been entered into for vehicles. No new property leases were signed in the reporting period. Rental agreements were concluded with terms of between one and five years and include extension options in some cases.

The rights of use to motor vehicles cover the leased fleet. As of December 31, 2020, approximately 60 leases for vehicles with remaining terms of between one and three years had been concluded.

Please refer to section C16 for information on the corresponding lease liabilities.

7. INVENTORIES

	Dec. 31, 2020 EUR (in thsds.)	Dec. 31, 2019 EUR (in thsds.)
Raw materials and consumables	3,974	3,680
Finished goods	9,697	8,916
Inventories	**13,671**	**12,596**

Loss allowances recognized in 2020 total EUR 126 thousand (previous year: EUR 116 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.

8. TRADE RECEIVABLES

Trade receivables are non-interest-bearing and are due in less than one year. All trade receivables are receivables from contracts with customers. Receivables management is being monitored more closely than before the coronavirus crisis, and no deterioration in customer payment behavior has been observed so far. This is also due to the fact that most of Softing's customers are large international corporations with sufficient funds.

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.

	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, 2020	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)
Trade receivables (gross)	14,582	240	12,093	1,972	252	25	
Risk provision (stage 2)	-21		–12	–7	–2		
Risk provision (stage 3)	-240	–240					
Trade receivables (net)	**14,321**	**0**	**12,081**	**1,965**	**250**	**25**	**0**

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

As of Jan. 31, 2020 EUR (in thsds.)	Use EUR (in thsds.)	Reversal EUR (in thsds.)	Addition EUR (in thsds.)	As of Dec. 31, 2020 EUR (in thsds.)
250	35	0	46	261

	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, 2019	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)
Trade receivables (gross)	15,630	228	13,198	2,070	133		
Risk provision (stage 2)	–21		–13	–7	–1		
Risk provision (stage 3)	–228	–228					
Trade receivables (net)	**15,380**	**0**	**13,185**	**2,063**	**132**	**0**	**0**

As of Jan. 31, 2019 EUR (in thsds.)	Use EUR (in thsds.)	Reversal EUR (in thsds.)	Addition EUR (in thsds.)	As of Dec. 31, 2019 EUR (in thsds.)
297	60	0	13	250

9. CURRENT OTHER FINANCIAL ASSETS

	Dec. 31, 2020 EUR (in thsds.)	Dec. 31, 2019 EUR (in thsds.)
Insurance receivables	758	0
Other financial assets	81	25
	839	**25**

10. CONTRACT ASSETS AND CONTRACT LIABILITIES

	Carrying amount	Of which not impaired and past due
Dec. 31, 2020	EUR (in thsds.)	EUR (in thsds.)
Contract assets (gross)	442	442
Risk provision (stage 2)	0	0
Contract liabilities	2,717	2,717
Net amount	**-2,275**	**-2,275**

Dec. 31, 2019	Carrying amount EUR (in thsds.)	Of which not impaired and past due EUR (in thsds.)
Contract assets (gross)	534	534
Risk provision (stage 2)	–1	–1
Contract liabilities	2,641	2,641
Net amount	**–2,108**	**–2,108**

Revenue of EUR 2,261 thousand (previous year: EUR 1,551 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 4,784 thousand (previous year: EUR 3,389 thousand) is allocated to the performance obligations that were partly or entirely unsatisfied at the end of the reporting period. Softing will recognize EUR 4,340 thousand (previous year: EUR 2,743 thousand) of the transaction price in the next reporting period and EUR 444 thousand (previous year: EUR 646 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.

11. CURRENT INCOME TAX ASSETS

The current income tax assets concern corporation tax receivables amounting to EUR 556 thousand (previous year: EUR 1,864 thousand). The Group's taxes are described in detail in section D 9.

12. CASH AND CASH EQUIVALENTS

	Dec. 31, 2020 EUR (in thsds.)	Dec. 31, 2019 EUR (in thsds.)
Cash and cash equivalents	**10,166**	**14,917**

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.

13. CURRENT NON-FINANCIAL ASSETS

	Dec. 31, 2020 EUR (in thsds.)	Dec. 31, 2019 EUR (in thsds.)
Receivables from employees	24	1
VAT receivables	77	51
Prepaid expenses/prepayments	588	603
Advances paid	58	56
Other non-financial assets	103	119
	850	**830**

14. 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 9,105,381 thousand). It is divided into 9,105,381 (previous year: 9,105,381) no-par-value bearer shares with a notional value of EUR 1 each. An average of 9,080,751 shares were outstanding in the reporting year (previous year: 9,105,381). At the beginning of the financial year, the number of shares outstanding was 9,105,381. As a result of the purchase of 90,000 shares, the number of shares outstanding at the end of the financial year decreased to 9,015,381.

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, 2020, was EUR 4,552,690 (previous year: EUR 4,552,690).

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 9, 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.

Capital Reserves

The capital reserves contain the premium on the issue of shares less transaction costs.

Treasury Shares

On April 3, 2020, Softing AG announced in an ad hoc disclosure that it would launch a share buyback program starting on April 15, 2020. This program was fully completed on December 28, 2020 and thus ended. A bank was instructed to buy back a maximum of 90,000 Company shares, with the buyback being limited to either that number of shares or to a total purchase price of EUR 500,000. The acquired shares are to be used primarily as acquisition currency. The Executive Board is thus exercising the authorization granted by the Annual General Meeting dated May 4, 2016 to repurchase treasury shares in accordance with Section 71 (1) no. 8 of the German Stock Corporation Act (Aktiengesetz – AktG).

The bank was instructed to buy back the shares exclusively via the stock market, independently of the company and without being influenced by the company. This is without prejudice to the company's right to terminate its relationship with this securities firm at any time and to instruct another securities firm or an investment bank. The offered purchase price per share (excluding incidental acquisition costs) was not permitted to be more than 10% above or below the average closing price at the Frankfurt Stock Exchange during the last ten stock market days prior to the date of publication of this offer.

The buyback was managed by a bank, in accordance with the Market Abuse Regulation and Art. 2 to 4 of the Commission Delegated Regulation (EU) 2016/1052 of 8 March 2016 supplementing Regulation (EU) No 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the conditions applicable to buy-back programs and stabilization measures. The bank may thus on any given date not acquire more than 25% of the average daily volume of the shares on the trading venue on which the purchase is carried out. The average daily volume of shares was calculated on the basis of the average daily volume of trading on the 20 stock market days prior to the date of purchase.

The transactions were announced in a form complying with the requirements of Article 5 (3) of Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 in conjunction with Art. 2 (2) and (3) of Delegated Regulation (EU) 2016/1052, by no later than the end of the seventh day following their execution, and were published, inter alia, on the company's website at investor.softing.com/de/aktie/aktienrueckkauf.html.

The General Shareholders' Meeting authorized the Executive Board on May 6, 2020 to purchase treasury shares of the Company and to accept treasury shares of the Company in pledge in the period up to May 5, 2025. The treasury shares purchased in 2020 were purchased on the basis of the authorization granted by the General Shareholders' Meeting on May 4, 2016.

	Number of shares	Transaction dates	Proportionate share capital	Interest in share capital	Cost	Average cost per share
			EUR (in thsds.)	%	EUR (in thsds.)	EUR
Balance on Dec. 31, 2019	0					
Additions in 2020	90,000	Apr. to Dec. 2020	90	0.99	482	5,36
Balance on Dec. 31, 2020	**90,000**		**90**	**0.99**	**482**	

No treasury share transactions took place in 2019;

As of the reporting date, Softing AG held 90,000 shares. Softing reports its treasury shares in its balance sheet by means of the cost method. The cost of these treasury shares is thus presented within the scope of a separate item within equity as a deductible item.

The changes in consolidated equity including the changes from acquisitions are presented in the "Consolidated Statement of Changes in Equity" 2020/2019.

Retained Earnings

Retained earnings include the accumulated, undistributed profits of the companies included in the consolidated financial statements. A dividend of EUR 0.04 per share (previous year: EUR 0.13) was paid out in the 2020 financial year for 2019. The Executive Board proposes a dividend of EUR 0.04 per share for financial year 2020. This corresponds to a total dividend of 364 thousand.

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

In the current year, EUR 82 thousand (previous year: EUR 131 thousand) from the partial reversal of a net investment in a foreign operation in connection with a partial repayment of a loan was reclassified from other comprehensive income to profit or loss. Accordingly, the deferred tax liabilities to be reversed in the amount of EUR 23 thousand (previous year: EUR 23 thousand) were reclassified from other comprehensive income to the income statement. The other comprehensive income is shown in the statement of comprehensive income.

Non-controlling Interests

The non-controlling interests in the amount of EUR 429 thousand (previous year: EUR 269 thousand) concern other shareholders in Austria and China.

15. PENSIONS

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 3,318 thousand (previous year: EUR 3,210 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 –2,040 thousand as of December 31, 2020 (previous year: EUR –2,012 thousand).

The pensions under variable commitments increase or decrease in line with the change in the Consumer Price Index for Germany (2015=100). It fell from 105.3 points to 105.0 points on average between 2019 and 2020.

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

Basis of calculation	Dec. 31, 2020 %	Dec. 31, 2019 %
Assumed interest rate	0.75	0.9
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	2020 EUR (in thsds.)	2019 EUR (in thsds.)
DBO as of January 1	6,294	5,239
Service cost	182	143
Interest expense	56	93
Pension payments to pensioners	–176	–174
Expected DBO as of December 31	**6,356**	**5,301**
Remeasurements, of which	23	994
Effects from adjusting the assumed interest rate	156	880
Effects from changes in trend assumptions	0	116
Effects from experience adjustments	–133	–2
Actual DBO as of December 31	**6,379**	**6,294**

The average remaining life of the obligation is 18 years (previous year: 17 years).

Calculation of annual income and annual expense	2020 EUR (in thsds.)	2019 EUR (in thsds.)
Interest income	29	56
Interest expense	–56	–93
Service cost	–182	–143
Annual expense	**–209**	**–180**

Development of plan assets	2020 EUR (in thsds.)	2019 EUR (in thsds.)
Plan assets as of January 1	3,210	3,099
Payment from plan assets	–79	–93
Payments into the employer’s plan assets	107	107
Interest earned from plan assets	29	56
Adjustment of plan assets	51	40
Plan assets as of December 31	**3,318**	**3,210**

Only reinsurance policies not quoted on an active market are taken out to hedge portions of the 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 2021 (previous year: EUR 107 thousand).

Reconciliation with the statement of financial position	Dec. 31, 2020 EUR (in thsds.)	Dec. 31, 2019 EUR (in thsds.)
Present value of the defined benefit obligations (DBO)	6,379	6,294
Fair value of the external plan assets	3,318	3,210
Provision	**3,060**	**3,085**

Development of the provision	2020 EUR (in thsds.)	2019 EUR (in thsds.)
Provision as of January 1	3,085	2,140
Service cost	182	143
Net interest expense/income	27	37
Remeasurements	-48	954
Payments made	–79	–82
Payments into plan assets	–107	–107
Provisions as of December 31	**3,060**	**3,085**

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 2020	0.25 % 4.3 %	0.25 % –4.0 %
Relative effect of interest rate change on DBO 2019	0.25 % 4.5 %	0.25 % –4.2 %

	Effect on the obligation	
	Change in the assumption –	Change in the assumption +
Relative effect of a change in the pension trend on DBO 2020	0.25 % –1.2 %	0.25 % 1.2 %
Relative effect of a change in the pension trend on DBO 2019	0.25 % –1.2 %	0.25 % 1.2 %

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 175 thousand (previous year: EUR 172 thousand) are expected for the 2021 financial year. Contributions to the plan are expected to be EUR 107 thousand (previous year: EUR 107 thousand), and interest income is expected to be EUR 47 thousand (previous year: EUR 29 thousand).

16. LONG-TERM BORROWINGS AND OTHER NON-CURRENT LIABILITIES

In 2019, the long-term borrowings were renegotiated with the principal banks, the long-term existing debt was extinguished and new loans totaling EUR 14,000 thousand were taken out; these loans were defined as redemption-free for two years and will subsequently be repaid on a straight-line basis/ quarterly within five years. 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. The non-current portion of these loans amounted to EUR 12,250 thousand as of December 31, 2020 (previous year: EUR 14,000 thousand).

There are also long-term loans of EUR 6 thousand taken out by a subsidiary from a bank (previous year: EUR 6 thousand).

On the first-time application of IFRS 16 as of January 1, 2019, additional lease liabilities of EUR 4,695 thousand were recognized in other current and non-current liabilities. Lease liabilities >1 year amounted to EUR 3,379 thousand at this date, while lease liabilities <1 year amounted to EUR 1,316 thousand. As of the balance sheet date, the lease liabilities had a carrying amount of EUR 2,691 thousand (previous year: EUR 3,502 thousand), divided into non-current lease liabilities of EUR 1,490 thousand (previous year: EUR 2,228 thousand) and current lease liabilities of EUR 1,201 thousand (previous year: EUR 1,275 thousand).

In financial year 2020, other financial lease liabilities were repaid in the amount of EUR 1,244 thousand (previous year: EUR 1,554 thousand) and interest of EUR 121 thousand (previous year: EUR 163 thousand) on leases was paid. Total cash outflow for leases including variable lease payments and payments in connection with current leases, as well as leases of low-value assets, came to EUR 1,379 thousand in financial year 2020 (previous year: EUR 1,721 thousand). As of the balance sheet date, EUR 2,849 thousand (previous year: EUR 3,776 thousand) was recognized for future cash outflows.

Possible future cash outflows of EUR 1,366 thousand (previous year: EUR 1,639 thousand) were not included in the lease liability because it is not reasonably certain that the lease will be extended (or not terminated). As of December 31, 2020, there were no cash outflows for leases that the Softing Group had entered into as the lessee as of the balance sheet date but which have not yet commenced.

As of December 31, 2020, the Group was bound by current leases for which the corresponding exemption option was utilized. The total obligation as of this date approximates the expense incurred in the financial year.

The right-of-use-assets under leases are recognized under property, plant and equipment with carrying amounts of EUR 2,557 thousand (previous year: EUR 3,438 thousand).

Lease liabilities resulting in particular from property leases and vehicle leases are repaid in monthly installments through the end of the lease term.

In the financial year, expenses for current leases for which the Group made use of the practical expedients amounted to EUR 14 thousand (previous year: EUR 3 thousand) and expenses for leases of low-value assets stood at EUR 1 thousand (previous year: EUR 1 thousand).

The outlay for variable lease payments not included in the measurement of the lease liabilities was EUR 0 thousand in the financial year (previous year: EUR 0 thousand).

17. TRADE PAYABLES

The trade payables of EUR 5,999 thousand (previous year: EUR 6,476 thousand) exclusively concern current payables toward non-Group third-parties for supplied goods and services. All trade payables are due and payable within one year.

18. PROVISIONS

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, 2020 EUR (in thsds.)	Use EUR (in thsds.)	Reversal EUR (in thsds.)	Addition EUR (in thsds.)	As of Dec. 31, 2020 EUR (in thsds.)
Warranties	93	87	0	87	94
Other	8	8	0	9	9
Total	**101**	**95**	**0**	**97**	**103**

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

19. INCOME TAX LIABILITIES

In the financial year just ended, liabilities of EUR 305 thousand (previous year: EUR 1,255 thousand) were recognized for expected tax payments. The Group's taxes are described in detail in section D9.

20. SHORT-TERM BORROWINGS

Short-term borrowings amount to EUR 4,678 thousand (previous year: EUR 1,581 thousand), which in the financial year relates to the utilization of overdraft lines of credit.

21. OTHER CURRENT FINANCIAL LIABILITIES

	Dec. 31, 2020 EUR (in thsds.)	Dec. 31, 2019 EUR (in thsds.)
Wages and salaries payable	3,821	4,660
Obligation to pay into capital reserves for the acquired equity interest	0	1,495
Leasing liabilities < 1 year	1,201	1,275
PPP US coronavirus bridging allowance, see item 8 other information	856	0
Other	242	262
	6,120	**7,691**

22. CURRENT NON-FINANCIAL LIABILITIES

	Dec. 31, 2020 EUR (in thsds.)	Dec. 31, 2019 EUR (in thsds.)
Liabilities related to social security	363	515
Other tax liabilities primarily (sales and wage tax)	633	1,273
Other	91	149
	1,087	**1,937**

D. NOTES TO THE CONSOLIDATED INCOME STATEMENT

1. REVENUE

Revenue by regions:	2020 EUR (in thsds.)	2019 EUR (in thsds.)
Germany	22,617	31,035
USA	32,774	34,090
Other countries	22,206	25,943
	77,597	**91,068**

Revenue by products and services:	2020 EUR (in thsds.)	2019 EUR (in thsds.)
Products	68,533	82,742
Services	9,064	8,326
	77,597	**91,068**

Revenue recognized at a point in time/over time:	2020 EUR (in thsds.)	2019 EUR (in thsds.)
Point in time	68,533	82,742
Of which products:	68,533	82,742
Of which services:	0	0
Over time	9,064	8,326
Of which products:	0	0
Of which services:	9,064	8,326
	77,597	**91,068**

In 2020, one customer in the Industrial segment who was responsible for revenue of EUR 19,559 thousand and 22% of consolidated revenue exceeded the revenue threshold of 10%. In 2019, one customer exceeded the revenue threshold of 10% of consolidated revenue.

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:	2020 EUR (in thsds.)	2019 EUR (in thsds.)
Income from exchange differences	281	445
Income from insurance benefits	849	18
Revenue from the reduction of loss allowances	17	4
Income from receivables written off	1	2
Recharged costs	5	29
COVID-19 aid Singapore	187	0
Other income	363	257
	1,703	**755**

4. COST OF MATERIALS

	2020 EUR (in thsds.)	2019 EUR (in thsds.)
Purchase of components and products	34,298	37,842
Third-party services	832	1,469
	35,130	**39,311**

5. STAFF COSTS

	2020 EUR (in thsds.)	2019 EUR (in thsds.)
Current salaries	25,241	27,456
Social security and retirement benefit costs	4,259	4,452
Profit-sharing, royalties	1,707	3,202
Use of company cars by employees	-14	-4
Other temporary workers	491	334
	31,684	**35,441**

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

Expenses recognized for the statutory pension scheme total EUR 1,348 thousand (previous year: EUR 1,434 thousand). The service cost for pension provisions amounts to EUR 182 thousand (previous year: EUR 143 thousand).

6. DEPRECIATION, AMORTIZATION AND IMPAIRMENT OF INTANGIBLE ASSETS,PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

Depreciation, amortization and impairment losses are listed in detail in the statement of changes in non-current assets (appendix to the notes to the consolidated financial statements). No reversals of impairments were recognized in the 2020 financial year. Impairment losses of EUR 3,577 thousand were recognized. The amount is explained in the disclosures on other intangible assets.

No impairment losses or reversals of impairments were recognized in 2019.

7. OTHER OPERATING EXPENSES

The other operating expenses are as follows:	2020 EUR (in thsds.)	2019 EUR (in thsds.)
Employee-related costs	229	304
Infrastructure costs	2,055	1,899
Distribution costs	1,927	3,532
Consulting costs	930	1,286
Third-party services	960	953
Capital market costs	316	375
Contributions and fees	143	132
Operating costs	386	455
Exchange differences	420	592
Other product development expenses	475	562
Cyberattack expenses	320	0
Other costs	235	383
	8,397	**10,474**

8. INTEREST INCOME/INTEREST EXPENSE

The financial result comprises interest expense, interest income and other financial income/ expenses.

The total interest expense breaks down as follows:	2020 EUR (in thsds.)	2019 EUR (in thsds.)
Other interest expense		
Interest from unwinding of discounts on provisions	55	93
Interest on loans	193	171
Other interest	11	9
Total other interest expense	259	273
Interest from lease accounting under IFRS 16	122	163
	381	**436**

Interest income comprises the following items:	2020 EUR (in thsds.)	2019 EUR (in thsds.)
Interest income from pension provisions	29	56
Other interest	24	1
	53	**57**

The other financial income/financial expenses of EUR 1,158 thousand (previous year: EUR 322 thousand) relate to currency fluctuations of a USD loan to the American holding company, which is secured by repayment arrangements.

9. INCOME TAXES

The income tax expense breaks down as follows:	2020 EUR (in thsds.)		2019 EUR (in thsds.)	
Deferred taxes on temporary differences	1,293		–660	
Deferred taxes on tax loss carryforwards	201		-559	
Total deferred tax expense		1,494		–1,219
Current tax expense/tax income, financial year	–609		–102	
Current tax expense/tax income from previous years	–46		4	
Total current tax expense/tax income		–655		–98
		839		**–1,317**
Effective tax rate		0.0 %		31.02 %

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:

	2020 %	2019 %
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, 2020 EUR (in thsds.)	Dec. 31, 2019 EUR (in thsds.)	Usable until
Softing AG (trade tax)	4,202	3,446	Unlimited
Softing AG (corporation tax)	3,038	2,625	Unlimited
Softing Singapore	824	689	Unlimited
Softing North America Holding (State)	859	673	Unlimited
GlobalmatiX AG	2,106	1,140	Unlimited
Buxbaum Automation GmbH	64	227	Unlimited

Of the total tax loss carryforwards in the amount of EUR 11,092 thousand (previous year: EUR 8,800 thousand), EUR 10,062 thousand (previous year: EUR 8,573 thousand) was recognized on deferred tax assets. No deferred tax assets were recognized for tax loss carryforwards of EUR 1,030 thousand (previous year: EUR 227 thousand).

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.

	2020 EUR (in thsds.)	2019 EUR (in thsds.)
Earnings before taxes	-5,420	4,246
Anticipated tax expense (28.08 %)	-1,522	1,192
Tax additions and deductions	100	22
Different tax rates	365	234
Deferred taxes, temporary differences, loss carryforwards	171	–126
Taxes, previous years	41	6
Other	6	-11
Current tax expense shown in the income statement	**-839**	**1,317**

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

	2020 EUR (in thsds.)		2019 EUR (in thsds.)	
	Assets	Liabilities	Assets	Liabilities
Intangible assets	36	5,262	110	6,471
Pension provision	919		910	
(Of which recognized directly in equity)	(792)		(785)	
Currency translation (recognized directly in equity)		594		918
Contract assets/trade payables and trade receivables	35	395	84	295
Other provisions	123		-24	
Current assets	9		5	
Deferred income		25	87	
Future tax benefits from loss carryforwards	1,334		1,139	
Netting	–1,940	–1,940	–1,524	–1,524
Gross amount/carrying amount	**516**	**4,336**	**787**	**6,160**

E. OTHER DISCLOSURES

1. SEGMENT REPORTING

Segment reporting aims to furnish information on the Group's material divisions. The segmentation follows the main product groups and applications. 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	
	2020 EUR (in thsds.)	2019 EUR (in thsds.)	2020 EUR (in thsds.)	2019 EUR (in thsds.)	2020 EUR (in thsds.)	2019 EUR (in thsds.)	2020 EUR (in thsds.)	2019 EUR (in thsds.)	2020 EUR (in thsds.)	2019 EUR (in thsds.)
External sales	55,829	58,268	13,888	22,001	7,880	10,799			77,598	91,068
Depreciation / amortization	3,187	2,870	3,121	3,116	970	932	836	902	8,113	7,820
Impairment of assets			3,577						3,577	
Segment result (operating EBIT)	5,036	4,191	–2,448	109	–948	–220			1,640	4,080
Segment result (EBIT)	4,273	4,403	–7,249	417	–958	–517			–3,934	4,303
Segment assets	46,639	47,701	34,825	39,836	14,103	14,177	9,624	15,083	105,191	116,796
of which IFRS 16	957	1,549	554	731	197	344	849	814	2,557	3,438
Segment liabilities	11,594	13,368	7,186	11,042	1,360	2,258	22,041	20,524	42,181	47,192
of which IFRS 16	1,010	1,589	575	744	207	349	898	820	2,690	3,502
Capital expenditure	2,172	2,770	2,413	5,657	1,740	1,804	800	267	7,125	10,498

Revenue from contracts with customers recognized over time	Industrial		Automotive		IT Networks		Holding, other consolidation		Total	
	2020 EUR (in thsds.)	2019 EUR (in thsds.)	2020 EUR (in thsds.)	2019 EUR (in thsds.)	2020 EUR (in thsds.)	2019 EUR (in thsds.)	2020 EUR (in thsds.)	2019 EUR (in thsds.)	2020 EUR (in thsds.)	2019 EUR (in thsds.)
Over time	52,228	55,452	8,424	16,555	7,881	10,735	0	0	68,533	82,742
Point in time	3,601	2,816	5,464	5,446	0	64	0	0	9,064	8,326
Total	55,829	56,268	13,888	22,001	7,881	10,799	0	0	77,597	91,068

The column entitled "Other consolidation" comprises the business activities of Softing AG's centralized units. All of their costs are allocated to the respective operating segments that caused the expenses to be incurred. This also includes an asymmetrical distribution of depreciation and amortization of the holding company's non-current assets. Due to different technologies and customer groups, there is no significant intersegment revenue.

Earnings before interest and taxes (EBIT) and the resulting operating EBIT of EUR 1,640 thousand (previous year: EUR 4,080 thousand) are the key

parameters for evaluating and managing a segment's earnings. Operating EBIT corresponds to EBIT shown in the consolidated income statement adjusted for capitalized development costs of EUR 3,668 thousand (previous year: EUR 5,526 thousand) and their amortization of EUR 7,231 thousand (previous year: EUR 3,269 thousand), and depreciation and amortization from purchase price allocation of 2,010 thousand (previous year: EUR 2,034 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 presented by segment.

Geographical segments:	Revenue		Non-current assets		Additions to non-current assets	
	2020 EUR (in thsds.)	2019 EUR (in thsds.)	2020 EUR (in thsds.)	2019 EUR (in thsds.)	2020 EUR (in thsds.)	2019 EUR (in thsds.)
Germany	22,617	31,035	27,689	31,246	5,406	8,334
USA	32,774	34,091	17,878	20,853	74	311
Other countries	22,206	25,942	18,264	17,765	1,645	1,853
Total	**77,597**	**91,068**	**63,830**	**69,864**	**7,125**	**10,498**

The regional allocation of revenue is based on customer address.

Segment information is based on the same accounting principles as the consolidated financial statements. The segments are assessed on the basis of operating results, with financing and tax effects not taken into account. For a reconciliation from earnings before taxes, please refer to the consolidated income statement.

With regard to information on key customers, please refer to the notes under D.1.

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 Development:

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.

Liabilities from financing activities at Softing include the short-term and long-term borrowings presented separately in the statement of financial position and, since 2019, current and non-current lease liabilities in accordance with IFRS 16. The latter are presented in the statement of financial position under other current and non-current financial liabilities.

For the reconciliation of the change in liabilities from financing activities, Softing does not divide the corresponding amounts by maturity. The presentation of the reconciliation was changed in 2019 as a result of the adoption of IFRS 16 and is shown below.

Changes in liabilities from financing activities	2020 EUR (in thsds.)	2019 EUR (in thsds.)
	Borrowings	**Leases**
Liabilities from financing activities as of Jan. 1, 2019	**8,191**	**4,695**
Cash flows	7,418	–1,351
Acquisitions of leases		262
Exchange rate changes	–22	31
Changes in fair value		–134
Liabilities from financing activities as of Dec. 31, 2019	**15,587**	**3,503**
Cash flows	1,363	–1,244
Acquisitions of leases		157
Exchange rate changes	–16	–64
Changes in fair value		339
Liabilities from financing activities as of Dec. 31, 2020	**16,934**	**2,691**

Borrowings consist of short-term borrowings of EUR 4,678 thousand (previous year: EUR 1,581 thousand) and long-term borrowings of EUR 12,256 thousand (previous year: EUR 14,006 thousand).

Leases consist of non-current leases of EUR 1,275 thousand (previous year: EUR 1,316 thousand) and long-term borrowings of EUR 2,228 thousand (previous year: EUR 3,379 thousand).

4. EARNINGS PER SHARE IAS 33

		2020	2019
Consolidated profit attributable to shareholders of Softing AG (basic = diluted consolidated profit)	EUR (in thsds.)	-4,738	2,809
Non-controlling interests	EUR (in thsds.)	157	120
Consolidated profit	**EUR (in thsds.)**	**–4,581**	**2,929**
Weighted average number of shares			
Basic	Number	9,080,751	9,105,381
Diluted	Number	9,080,751	9,105,381
Basic earnings per share	EUR	–0,50	0,31
Diluted earnings per share	EUR	–0,50	0,31

As in the previous year, no options rights exist as of December 31, 2020, 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.

In addition, Trier Vermögensverwaltung GmbH & Co. KG, which holds an equity interest of 22.43% (2,042,302) in the Company, is a related party. Since December 7, 2020, the voting rights have been attributed to Trier Asset Management GmbH, Trier Familienstiftung and Mr. Gerhard Hönig. In 2019, the voting rights were attributable to Dr. Trier.

The dividend payment to the major shareholder amounted to EUR 82 thousand in the 2020 financial year (previous year: EUR 265 thousand).

The key management personnel at Softing in accordance with IAS 24 consists of the Executive Board and the Supervisory Board. We refer to chapters E12 and E13 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 163,234 shares in Softing AG as of December 31, 2020 (previous year: 151,826).

The Executive Board member Ernst Homolka held 5,900 shares in Softing AG as of December 31, 2020 (previous year: 4,900 shares).

The Supervisory Board member, Dr. Klaus Fuchs, held 278,820 shares in Softing AG as of December 31, 2020 (previous year: 278,820).

The Supervisory Board member, Andreas Kratzer, held 10,155 shares in Softing AG as of December 31, 2020 (previous year: 10,155).

Dividends totalling EUR 7 thousand (previous year: EUR 17 thousand) were paid to key management personnel in the financial year under review, in each case based on their equity interest held at the time of dividend payment.

The Supervisory Board member Dr. Fuchs received a total fee of EUR 59 thousand (previous year: EUR 66 thousand) for providing consulting services in connection with the coordination of Softing IT Networks. In addition, the Supervisory Board member Mr. Kratzer received EUR 0 thousand (previous year: EUR 20 thousand) for investor relations consulting services. There were open positions from these transactions in the amount of EUR 59 thousand on the reporting date.

6. CONTINGENT LIABILITIES

As of the balance sheet date, the subsidiaries have provided EUR 14,710 thousand (previous year: EUR 12,040 thousand) in guarantees to collateralize loans of Softing AG and overdraft lines of credit of Softing AG. Most of the guarantees were provided in connection with the refinancing carried out in 2019.

7. OTHER FINANCIAL OBLIGATIONS/ RECEIVABLES

As of the balance sheet date, the Company had incurred purchase commitments in the amount of EUR 2,376 thousand under long-term contracts (previous year: EUR 5,428 thousand). As in the previous year, there were no purchase commitments for intangible assets and property, plant and equipment as of the balance sheet date. The Group continues to hold contingent liabilities resulting from an inquiry from the German Federal Financial Supervisory Authority (BaFin) concerning an ad hoc release. The portion for which no provision has been recognized yet amounts to up to EUR 200 thousand. Based on legal advice, Softing AG considers that it is in the right in this matter, but it has established a provision in the amount of EUR 100 thousand on grounds of commercial prudence. Softing AG will pursue all of the legal options available to it in order to defend itself against this assumption. In addition, contingent assets exist as a result of the cyber incident, due to the resulting loss of revenue, and amount to between EUR 200 thousand and EUR 300 thousand.

8. GOVERNMENT GRANTS

	2020 EUR (in thsds.)	2019 EUR (in thsds.)
As of January 1, 2020	0	0
of which reversed through profit or loss	1.303	0
in the financial year	443	0
As of December 31, 2020	860	0
of which current	860	0
of which non-current	0	0

Public grants were provided by public authorities by way of contributions to current expenses during the COVID-19 pandemic. EUR 443 thousand was deducted directly from personnel expenses. A portion of the grants received for our American subsidiaries are so-called “PPP loans” under the first government support program. Due to a better than expected economic situation, the Group does not currently expect that the terms will be fully met and has recognized these grants as a current financial liability.

9. 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, 2020, for which IFRS 7 is not applicable.

EUR (in thsds.)	Categories acc. to IFRS 9	Carrying amount	Measurement acc. to IFRS 9			Fair value	Hierarchy level
Financial assets by class		Dec. 31, 2020	Amortized cost	Fair value OCI	Fair value PL	Dec. 31, 2020	
Non-current financial assets							
Equity investments	FVTPL	1,500			1,500	1,500	Level 3
Current financial assets							
Trade receivables	AC	14,321	14,321			14,321	
Other current financial assets	AC	839	839			839	
Cash and cash equivalents	AC	10,166	10,166			10,166	
Financial liabilities by class							
Non-current financial liabilities							
Long-term borrowings	FLAC	12,256	12,256			12,320	Level 2
Other non-current financial liabilities		1,519					
of which liabilities from lease accounting	n/a	1,490	n/a				
of which long-term repayment obligation	FLAC	29	29			29	
Current financial liabilities							
Trade payables	FLAC	5,999	5,999			5,999	
Short-term borrowings	FLAC	4,678	4,678			4,699	Level 2
Other current financial liabilities		6,120					
of which liabilities from lease accounting	n/a	1,201	n/a				
of which miscellaneous other current financial liabilities	FLAC	4,919	4,919			4,919	

Carrying amount by category	Category	Dec. 31, 2020 EUR (in thsds.)
Financial assets measured at amortized cost	AC	25,326
Financial assets at fair value through profit or loss	FVTPL	1,500
Financial liabilities measured at amortized cost	FLAC	27,881

EUR (in thsds.)	Categories acc. to IFRS 9	Carrying amount	Measurement acc. to IFRS 9			Fair value	Hierarchy level
Financial assets by class		Dec. 31, 2019	Amortized cost	Fair value OCI	Fair value PL	Dec. 31, 2019	
Non-current financial assets							
Equity investments	FVTPL	1,500			1,500	1,500	Level 3
Current financial assets							
Trade receivables	AC	15,380	15,380			15,380	
Other current financial assets	AC	25	25			25	
Cash and cash equivalents	AC	14,917	14,917			14,917	
Financial liabilities by class							
Non-current financial liabilities							
Long-term borrowings	FLAC	14,006	14,006			13,750	Level 2
Other non-current financial liabilities		2,259					
of which liabilities from lease accounting	n/a	2,228	n/a				
of which long-term repayment obligation	FLAC	31	31			31	
Current financial liabilities							
Trade payables	FLAC	6,476	6,476			6,476	
Short-term borrowings	FLAC	1,581	1,581			1,638	Level 2
Other current financial liabilities		7,691					
of which liabilities from lease accounting	n/a	1,275	n/a				
of which current purchase price obligation	FLAC	1,495			1,495	1,495	Level 3
of which miscellaneous other current financial liabilities	FLAC	4,921	4,921			4,921	

Carrying amount by category	Category	Dec. 31, 2019 EUR (in thsds.)
Financial assets measured at amortized cost	AC	30,322
Financial assets at fair value through profit or loss	FVTPL	1,500
Financial liabilities measured at amortized cost	FLAC	27,015
Financial liabilities at fair value through profit or loss	FLAC	1,495

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 fair value of the equity interest acquired at the end of December 2019 reflects the corresponding transaction price at the acquisition date and is based on a company valuation, which is allocated to Level 3.

The company has applied a discounted cash flow method for measurement purposes for the 2020 financial year. The discounting rate applied and the Company's budgetary accounting are the key parameters. This calculation has not resulted in any change in the fair value. 50% markdowns were recognized for planning purposes, in view of the fact that this equity interest is held in a start-up company.

A change deemed possible in one of the material, non-observable input factors – while leaving the other input factors unchanged – would have the following impact on the fair value of the equity investment. A 5% increase/decrease in the expected cash flows would result in a EUR 100 thousand increase/decrease, recognized in profit or loss, in the carrying amount of the equity interest. A 100-basis point change in the risk-adjusted discounting rate would result in an increase/decrease in the lower five-digit euro range.

The fair value of the fixed-interest loans has been determined on the basis of currently available euro swap rates with equivalent maturities.

The payment obligation arising from the payment based on the enterprise value in 2019 is calculated using a formula on the basis of a comparison of Softing's market capitalization at the beginning and end of the financial year and is allocated to Level 2.

The net gains/losses of the respective categories of financial instruments in accordance with IFRS 9 for 2020 and IAS 39 for 2019 are shown in the following overview:

Net gains and losses, 2020 (EUR thsds.)		Interest	Impairment	Currency translation gains/losses	Net gain/loss
From financial assets measured at amortized cost	AC	24	17	-1.298	-1.256
From financial liabilities measured at amortized cost	FLAC	–205			–205

Net gains and losses, 2019 (EUR thsds.)		Interest	Impairment	Currency translation gains/losses	Net gain/loss
From financial assets measured at amortized cost	AC	1	4	–115	–110
From financial liabilities measured at amortized cost	FLAC	–180			–180

There were no net gains/losses from the equity investment, which is measured at fair value, with changes in fair value recognized in profit or loss.

Interest income from financial assets measured at amortized cost totaled EUR 24 thousand in the current period, while interest expense on financial liabilities measured at amortized cost came to EUR 205 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 180 thousand.

10. 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, 2020, and December 31, 2019.

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 60% (previous year: 60%).

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 and non-controlling interests; it therefore corresponds to the equity of EUR 63,010 thousand (previous year: EUR 69,604 thousand) reported at the balance sheet date. 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; counterparty credit 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, 2020, and December 31, 2019, there was no material counterparty credit risk. While the Executive Board therefore believes the risk of nonfulfillment 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, 2020, totaled EUR 261 thousand (previous year: EUR 250 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 10,166 thousand (previous year: EUR 14,917 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 16,934 thousand (previous year: EUR 15,588 thousand) because these loans in the amount of EUR 14,006 thousand are fixed-interest loans.

An increase of the market interest rate by 50 basis points would have an impact of EUR 15 thousand (previous year: EUR 8 thousand) on interest expense relating to the short-term loans.

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 thsd./USD			USD			
Closing rate: USD 1.23			1.35 +10 %	1.10 −10 %	Difference	Difference
Financial assets/liabilities	**USD**	**USD in EUR**			**+10 %**	**−10 %**
Trade receivables	6,919	5,639	5,126	6,265	−513	627
Receivables from affiliated companies	18,906	15,407	14,007	17,119	−1,401	1,712
Other current assets	197	160	146	178	−15	18
Cash and cash equivalents	2,958	2,410	1,179	1,441	−219	268
Current liabilities	−6,980	−5,688	−5,169	−6,318	517	−632
	22,000	**−17,928**			**−1,630**	**1,992**

Movements in the USD:EUR exchange rate would in part be reflected in the equity of the Softing Group and in part in profit or loss.

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 7,658 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 10,166 thousand (previous year: EUR 14,917 thousand), accounting for 10% (previous year: 13%) 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, 2020 (EUR thsd.)	Up to 1 year	2–5 years	More than 5 years
Financial liabilities			
Loan	4,896	11,578	1,055
Lease liabilities	1,280	1,569	
Trade payables	5,999		
Other financial liabilities	6,120	8	

Dec. 31, 2019 (EUR thsd.)	Up to 1 year	2–5 years	More than 5 years
Financial liabilities			
Loan	1,793	10,674	3,893
Lease liabilities	1,275	2,219	9
Trade payables	6,476		
Other financial liabilities	7	31	

11. PERSONNEL

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

	2020	2019
As of the balance sheet date	397	407
Annual average	399	404
Marketing & Sales	126	125
Research & Development	221	229
Administration & General	42	42
Management	10	8

12. 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 of the Executive Board

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	
	2020	2019
Fixed remuneration	738	764
Fringe benefits	32	32
Total	770	796
One-year variable remuneration	235	382
Multi-year variable remuneration	469	497
One-year remuneration based on enterprise value	0	483
Total	704	1,362
Pension expense	75	75
Total remuneration	1,549	2,233

The total remuneration for the Executive Board and the Supervisory Board amounts to EUR 1,549 thousand (previous year: EUR 2,233 thousand). All remuneration components are deemed to have been received in the financial year. A portion of the total remuneration, including that of previous years, is presented under other current financial assets at the balance sheet date in the amount of EUR 2,517 thousand (previous year: EUR 2,188 thousand).

The obligations from non-reinsured pension expenses for the Executive Board amount to EUR 1,354 thousand (previous year: EUR 1,371 thousand).

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

Remuneration based on the enterprise value consists of a current variable remuneration component paid in cash. Here, the Executive Board receives a pro-rata share of any increase in market capitalization during Softing AG's financial year. The remuneration component is redefined each year. A payment obligation only arises if the increase in the enterprise value exceeds a predefined rate of increase. If the market capitalization decreases or falls below the rate of increase, the entitlement will expire without compensation. The payment obligation is calculated using a formula on the basis of a comparison of Softing's market capitalization at the beginning and end of the financial year. Staff costs were recognized in the amount of the fixed payment obligation as of the balance sheet date. The obligation had not yet been paid out by the balance sheet date and is reported under financial liabilities.

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

Service cost of EUR 182 thousand (previous year: EUR 143 thousand) was recognized in pension expenses.

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, 2020 totaled EUR 3,031 thousand (previous year: EUR 3,078 thousand). The total remuneration of former members of the Executive Board amounted to EUR 182 thousand (previous year: EUR 182 thousand).

13. SUPERVISORY BOARD

The following persons were members of the Supervisory Board of Softing AG in the 2020 financial year:

Dr. Horst Schiessl, attorney at law, Munich, Germany (chairman)
Andreas Kratzer, certified public accountant, Zurich, Switzerland (deputy chairman from December 18, 2020)
Dr. Klaus Fuchs, graduate computer scientist und graduate engineer, Helfant, Germany (deputy chairman until December 18, 2020)

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)

Mr. Andreas Kratzer is also a member of the Board of Directors of:
Lysys Management AG Baar, Switzerland (Board of Directors)

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

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 45 thousand (previous year: EUR 144 thousand) and is comprised as follows:

EUR (in thsds.)	Fixed		Variable		Total	
	2020	2019	2020	2019	2020	2019
Dr. Horst Schiessl (chairman)	20	20	0	44	20	64
Dr. Klaus Fuchs	15	15	0	33	15	48
Andreas Kratzer	10	10	0	22	10	32

The total remuneration is presented under other current financial assets at the balance sheet date in the amount of EUR 45 thousand (previous year: EUR 144 thousand).

14. AUDITOR'S FEES

The following expenditure (including expenses) was incurred in the financial year just ended for services provided by the 2020 auditor, Rödl & Partner GmbH:

	2020 EUR (in thsds.)	2019 EUR (in thsds.)
Audit of annual financial statements	134	119
	134	**119**

15. EVENTS AFTER THE REPORTING PERIOD

There are no events after the reporting date to report.

16. 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 19, 2021

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 COMBINED 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, 2020, 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 01, 2020 to December 31, 2020, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report of Softing AG, Haar, for the financial year from January 01, 2020 to December 31, 2020. In accordance with German law, we have not audited the contents of the executive directors' responsibility statement contained in the "Responsibility Statement" section of the combined management report, the "Corporate Governance Statement" section in the combined management report, and the reference to corporate social responsibility reporting contained in the "Internal Management System" section of the combined management report, as well as the "Report of the Supervisory Board" section, all of which are part of the annual report.

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 Section 315e (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, 2020, and of its financial performance for the financial year from January 01, 2020 to December 31, 2020, and

- the accompanying combined management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined 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 combined management report does not extend to the contents of the aforementioned components of the combined management reports, whose contents we have not audited. Our audit opinion on the combined management report does not extend to the contents of the aforementioned components of the combined management reports, whose contents we have not audited.

Pursuant to Section 322 (3) 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 combined management report in accordance with Section 317 HGB and the EU Audit Regulation (No. 537/2014; hereinafter referred to as "EU Audit Regulation"), and generally accepted German standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany [Institut

der Wirtschaftsprüfer] (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 Combined 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 combined 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 01, 2020 to December 31, 2020. 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.

RECOGNITION OF REVENUE FROM CUSTOMER PROJECTS OVER TIME (SERVICE SOLUTIONS)

- Reasons why the matter was determined to be a key audit matter

In the consolidated financial statements of Softing AG, revenue of EUR 9,064 thousand from the execution of customer projects 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.

- Our audit approach

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 customer projects 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.

- Reference to related disclosures

The Company's disclosures on recognizing revenue over time are contained in sections B.1, B.13, C.10 and D.1 of the notes to the consolidated financial statements.

RECOVERABILITY OF GOODWILL

- Reasons why the matter was determined to be a key audit matter

In the consolidated financial statements of the Company, goodwill amounting to a total of EUR 17,500 thousand (16.6% of total assets and 27.8% 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.

- Our audit approach

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.

- Reference to related disclosures

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

DEVELOPMENT COSTS FOR INTERNALLY GENERATED PRODUCT DEVELOPMENTS

- Reasons why the matter was determined to be a key audit matter

In the consolidated financial statements of the Company, an amount of EUR 13,116 thousand for internally generated intangible assets and internally generated intangible assets under development is reported under the "intangible assets" item in the statement of financial position. This amount relates to development costs for new products and significant further developments (hereinafter "product developments"), which were capitalized

in accordance with IAS 38. The development costs include directly allocable costs. 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. Own work capitalized contributed EUR 3,668 thousand to consolidated profit in the financial year. This was offset by amortization of internally generated intangible assets amounting to EUR 3,475 thousand and impairment amounting to EUR 3,577 thousand. In our view, this matter was of particular significance for our audit because the capitalization, recoverability and amortization of development costs are based to a large extent on management estimates and assumptions and are therefore subject to corresponding uncertainties.

- Our audit approach

As part of our audit, we evaluated, among other things, the capitalization requirements for individual projects, 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.

- Reference to related disclosures

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.

Other Information

With the exception of the Report of the Supervisory Board, the executive directors are responsible for the other information. The other information comprises:

- the statement in accordance with Section 264 (2) sentence 3 HGB, Section 297 (2) sentence 4 HGB on the consolidated financial statements and the statement in accordance with Section 289 (1) sentence 5 HGB and/or Section 315 (1) sentence 5 HGB on the combined management report,
- the Corporate Governance Statement in accordance with Section 289f HGB and Section 315d HGB referenced in the management report,
- the corporate social responsibility reporting, which is reference in the "Internal Management System" section in the combined management report, and
- "Report of the Supervisory Board"
- the remaining parts of the annual report, with the exception of the audited consolidated financial statements and those parts of the combined management report which were audited as to their contents, together with our audit report.

Our audit opinions on the consolidated financial statements and on the combined 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 of the consolidated financial statements, our responsibility is to read the aforementioned other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, the audited disclosures of the combined management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of such other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Combined 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 Section 315e (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 combined 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 combined 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 combined 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 combined management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined 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 combined 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 combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 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 combined 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 combined 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 combined 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 combined 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 Section 315e (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 combined 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 combined 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 combined 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

Report on Assurance in Accordance with Section 317 (3b) HGB on the Electronic Reproduction of the Consolidated Financial Statements and the Combined Management Report Prepared for Publication Purposes

Opinion

We have performed an assurance engagement in accordance with Section 317 (3b) HGB to obtain reasonable assurance about whether the reproduction of the consolidated financial statements and the combined management report (hereinafter the "ESEF documents") contained in the attached electronic file Softing_AG_KA+LB_ESEF_31-12-2020.zip (SHA256-Hashwert: 8a8a9166dd512b62e093773af2b8ad84f5857b5fc6a03cbd6ff1de7988e124d4) and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance only extends to the conversion of the information contained in the consolidated financial statements and the combined management report into the ESEF format and therefore relates neither to the information contained in this reproduction nor any other information contained in the above-mentioned electronic file.

In our opinion, the reproduction of the consolidated financial statements and the combined management report contained in the above-mentioned attached electronic file and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format. We do not express any opinion on the information contained in this reproduction nor on any other information

contained in the above-mentioned file beyond this reasonable assurance opinion and our audit opinion on the accompanying consolidated financial statements and the accompanying combined management report for the financial year from January 1 2020 to December 31, 2020 contained in the »Report on the Audit of the Consolidated Financial Statements and the Combined Management Report« above.

Basis for the Reasonable Assurance Conclusion
We conducted our assurance work on the reproduction of the consolidated financial statements and the combined management report contained in the above-mentioned attached electronic file in accordance with Section 317 (3b) HGB, and the Exposure Draft of the IDW Assurance Standard: Assurance in accordance with Section 317 (3b) HGB on the Electronic Reproduction of Financial Statements and Management Reports Prepared for Publication Purposes (ED IDW AsS 410). Accordingly, our responsibilities are further described below in the "Auditor's Responsibilities for the Assurance Engagement on the ESEF Documents" section. Our audit firm has applied the IDW Standard on Quality Management: Requirements for Quality Management in Audit Firms (IDW QS 1).

Responsibilities of the Executive Directors and the Supervisory Board for the ESEF Documents
The executive directors are responsible for the preparation of the ESEF documents including the electronic reproduction of the consolidated financial statements and the combined management report in accordance with Section 328 (1) sentence 4 item 1 HGB and for the tagging of the consolidated financial statements in accordance with Section 328 (1) sentence 4 item 2 HGB.

In addition, the executive directors are responsible for such internal control as they have considered necessary to enable the preparation of ESEF documents that are free from material non-compliance with the requirements of Section 328 (1) HGB for the electronic reporting format, whether due to fraud or error.

The executive directors are also responsible for the submission of the ESEF documents together with the auditor's report and the attached audited consolidated financial statements and the audited combined management report as well as other documents to be published to the operator of the German Federal Gazette (Bundesanzeiger).

The Supervisory Board is responsible for overseeing the preparation of the ESEF documents as part of the financial reporting process.

Auditor's Responsibilities for the Assurance Engagement on the ESEF Documents
Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB. We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material non-compliance with the requirements of Section 328 (1) HGB, whether due to fraud or error, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance conclusion.
- Obtain an understanding of internal control relevant to the assurance engagement on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance conclusion on the effectiveness of these controls.
- Evaluate the technical validity of the ESEF documents, i.e., whether the electronic file containing the ESEF documents meets the requirements of Commission Delegated Regulation (EU) 2019/815 as applicable on the reporting date on the technical specification for this electronic file.

- Evaluate whether the ESEF documents enable an XHTML reproduction with content equivalent to the audited consolidated financial statements and the audited combined management report.
- Evaluate whether tagging the ESEF documents with Inline XBRL technology (iXBRL) provides an appropriate and complete machine-readable XBRL copy of the XHTML reproduction.

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the General Shareholders' Meeting on May 6, 2020. We were engaged by the Supervisory Board on December 16, 2020. We have been the group auditor of the Softing AG, Haar, without interruption since the financial year 2019.

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 Felix Haendel.

Munich, Germany, March 25, 2021

Rödl & Partner GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Hager	Haendel
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

Report of the Supervisory Board

for Financial Year 2020

The Supervisory Board of Softing AG carried out its duties as provided by law and the Company's Articles of Incorporation in financial year 2020. 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 Softing 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 2020 financial year:
On March 18, April 3, May 6, July 21, September 08, October 20 and December 18.

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 Softing 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 March 18, 2020, the Supervisory Board dealt with the Company's performance in the 2019 financial year and the first results for 2020. 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, 2019, 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 2020 General Shareholders' Meeting. Due to the COVID-19 pandemic, the Supervisory Board and Executive Board decided to hold the General Shareholders' Meeting virtually for the first time.

At the virtual Supervisory Board meeting on April 3, 2020, the Supervisory Board approved the planned share buyback program.

In the Supervisory Board meeting on May 6, 2020 after the General Shareholders' Meeting there was a recapitulation of the virtual General Shareholders' Meeting. This was followed by a report of the Executive Board on the status and outlook of the strategy and operations, and the financial position.

On July 21, 2020, 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. Another topic was filling an executive management position to lead the Automotive segment. Furthermore, the Executive Board provided the Supervisory Board with detailed information on the protective measures introduced during the COVID-19 pandemic and the economic decisions taken during the first phase of the pandemic. The Supervisory Board also adopted the risk report for the first half of 2020.

At a virtual meeting on September 8, 2020, the Supervisory Board decided to reduce the fixed portion of Executive Board remuneration by between 10% and 25% during the COVID-19 pandemic from the fourth quarter of 2020 onwards.

At the meeting on October 20, 2020, the Executive Board provided detailed data and background information on the business figures for the first nine months of 2020 and financial planning for the rest of the year. It also presented the development of GlobalmatiX AG, as well as the current status of customer acquisition, revenue and sales opportunities. The COVID-19 pandemic and its economic impact were among the other topics addressed at this meeting, while the Supervisory Board was also informed directly about the ransomware attack on German IT infrastructure. The portfolio strategy of the Softing Group was discussed.

At the Supervisory Board meeting held on December 18, 2020, the Executive Board presented to the Supervisory Board a first estimate of the 2020 annual results, its business plan for 2021 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. Mr. Widmann and the new sales manager Mr. Niedermaier personally presented the report. In this meeting, the Supervisory Board also addressed the recommendations of the German Corporate Governance Code and the topic of diversity in detail. Together with the Executive Board, it approved the Declaration of Compliance with the German Corporate Governance Code; it is permanently available to the public at the Company's website.

The annual review of the remuneration system for the Executive Board was performed.

Dr. Fuchs stepped down as Deputy Chairman of the Supervisory Board due to his workload and remains a full member of the Supervisory Board. Mr. Kratzer was appointed as Deputy Chairman of the Supervisory Board. The consultancy contract for Dr. Fuchs was then approved. The Executive Board also provided information on the COVID-19 pandemic and the rebuilding of IT infrastructure after the ransomware attack.

This was followed by a discussion of the further portfolio strategy and strategic orientation of the individual segments.

All members of the Supervisory Board attended all Supervisory Board meetings in 2020. 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 the reporting year, the Supervisory Board was again comprised of Dr. Horst Schiessl (Chairman), Dr. Klaus Fuchs (Deputy Chairman until December 18, 2020) and Mr. Andreas Kratzer (Deputy Chairman from December 18, 2020). The Supervisory Board has established an Audit Committee. The full Supervisory Board was responsible for all other tasks and decisions. In the year under review, the Executive Board consisted of Dr. Dr. Wolfgang Trier and Ernst Homolka.

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, 2020, were audited as required by law by Rödl & Partner GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, 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 19, 2021, 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 2020 at its meeting on March 19, 2021. 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 for Softing during the COVID-19 pandemic and their achievements in the 2020 financial year.

Haar, Germany, March 18, 2021

Dr. Horst Schiessl
Chairman

CORPORATE BOARDS AND DIRECTORS' HOLDINGS

Boards	Shares		Options	
	June 30, 2020 Stück	Dec. 31, 2020 Stück	June 30,2020 Stück	Dec. 31, 2020 Stück
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	163,234	163,234	–	–
Ernst Homolka, Munich	5,900	5,900	–	–

FINANCIAL CALENDAR

March 26, 2021	Consolidated Financial Statements/Annual Report 2020
May 4, 2021	Interim Management Statement Q1/3M 2021
May 5, 2021	General Shareholders' Meeting 2021
June 10, 2021	Quirin Privatbank investor conference
August 13, 2021	Half-yearly Report Q2/6M 2021
November 15, 2021	Interim Management Statement Q3/9M 2021
November 22–24, 2021	German Equity Forum, Frankfurt/Main
December 7–8, 2021	Munich Capital Market Conference

Softing AG
Richard-Reitzner-Allee 6
85540 Haar/Germany

Tel. +49 89 4 56 56-0
Fax +49 89 4 56 56-399
investorrelations@softing.com
www.softing.com