Annual Report 2021

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Consolidated Key Figures

		2021	2020	2019	2018	2017
Incoming orders	(EUR million)	104.8	72.8	95.6	88.1	78.0
Revenue	(EUR million)	84.7	77.6	91.1	83.9	78.7
EBIT (operating)	(EUR million)	3.0	1.6	4.1	3.5	1.1
EBITDA (IFRS)	(EUR million)	9.1	7.8	12.1	9.0	6.8
EBIT (IFRS)	(EUR million)	–0.5	–3.9	4.3	4.1	2.3
Consolidated profit (IFRS)	(EUR million)	–0.1	–4.6	2.9	3.3	0.7
Earnings per share (IFRS)	(EUR)	–0.01	–0.50	0.31	0.38	0.10
Non-current assets	(EUR million)	62.5	64.3	70.6	63.0	45.9
Current assets	(EUR million)	40.8	40.9	46.1	36.8	34.8
Equity	(EUR million)	63.5	63.0	69.6	68.4	52.3
Equity ratio	(in %)	61.5	59.9	59.6	68.5	65.0
Cash and cash equivalents	(EUR million)	9.6	10.2	14.9	9.7	10.3
Number of employees (annual average)		388	397	404	404	415

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DEAR SHAREHOLDERS,
EMPLOYEES, PARTNERS AND FRIENDS OF SOFTING AG,

We are delighted to report a turnaround in our operating results combined with a significant recovery in the 2021 financial year, despite the persistent challenges posed by the pandemic during this period.

We grew revenue by more than 9% to just under EUR 85 million (previous year: approx. EUR 77 million), and almost doubled our key parameter of operating EBIT to EUR 3.0 million as planned (previous year: EUR 1.6 million). Our orders on hand, which provide the springboard for revenues in 2022, amounted to EUR 33.6 million as of December 31, 2021, more than double the previous year-end figure of EUR 15.0 million.

While our absolute operating profit remains well below the medium-term target we set ourselves despite a significant improvement in percentage terms, it is heading in the right direction. This is even more apparent when you look at incoming orders, which surged by 44% to an all-time high of around EUR 105 million (previous year: around EUR 73 million). This does not even include the emerging momentum of GlobalmatiX and the reinvigoration of Softing Automotive. As a result, we are highly optimistic about the current financial year.

In recent years, we have had to learn how to deal with external factors that have an entirely unexpected impact on us and reached an extent we would not have thought possible at all. Now, just as fears of COVID-19 begin to subside at last and we seek to hit the ground running, we are all being put to the test both personally and professionally once more. War is raging in Europe once again – pure, raw violence against people who posed no threat to anyone. The news and images emerging from Russia's brutal attack on Ukraine mean that even the staunchest of Putin's lobbyists within Germany's political and press landscape can no longer deny their sponsor's war crimes. In addition to being emotionally difficult to bear, these events shine a spotlight on the illusions that many have succumbed to in recent years and the way totalitarian tyrants like Putin think and behave. It is part of our social responsibility as a company to declare in no uncertain terms our support and admiration for the Ukrainian people, who are resisting Russia's attempts to subjugate them with an incredible desire for freedom, fighting spirit and willingness to sacrifice everything for their country. Our sympathies go out to the victims, their families and the children who have lost parents and/or siblings.

You do not have to be a prophet to predict that the Russian market and economy will implode. This will have hardly any direct impact on Softing. In fact, we could even become unintentional beneficiaries of this war, something that leaves a bitter taste in the mouth. The extreme rise in oil and gas prices and the need to find alternatives to Russian oil and gas deliveries means that the oil and gas industry outside Russia will ramp up investments in their systems, which will drive revenues in our Industrial Automation segment. While the war will undoubtedly also have an indirect adverse impact on our company and customers, we are not able to quantify this.

The Industrial Automation segment will launch several new products for the process industry during the current year. In addition to new versions of our gateways, we will also be introducing a completely new product – a switch for two-wire data lines in explosion hazard zones. The APL technology incorporated into these products offers significant benefits for our customers and will allow us to gain a greater foothold in the process industry's infrastructure components market. For our customers in the manufacturing industry, we are focusing on enhancing the functionality of our established market-leading OPC UA software and expanding our range of edge connectors for interconnecting existing systems. The performance of the Group's Softing Italia subsidiary has also been very encouraging. After increasing revenue by more than 20% to EUR 12 million in 2021, a revenue figure of EUR 15 million is within reach for our Italian subsidiary.

In the Automotive segment, we have already announced the receipt of a large new order totaling more than EUR 12 million. The segment is focusing on enhancing the functionality of our major DTS and TDX software packages. In addition to the day-to-day business, several international customers are also opting for Softing solutions involving these products this year, which should generate significant seven-figure revenues over the coming years. We consider ourselves to be equally well positioned for the awarding of a major project in Germany involving extremely rapid vehicle data input, i.e. the installation of vehicle-specific software during assembly for the entire production network (all plants) of a leading manufacturer. The Group's expertise in this area is enhanced by the ultra-fast WiFi and 5G wireless technology of its GlobalmatiX subsidiary.

GlobalmatiX also delivered a very encouraging performance after the start to the year in the fleet market had been slowed primarily because of COVID-19. Although revenue in this subsidiary only totaled a few hundred thousand euros in 2020, it quickly climbed to around EUR 1 million in 2021, a figure we will reach as early as the first quarter in the current year. A growing number of customers are being won over by the opportunity to present diagnostics data, position data, accident analysis including damage reports, and keyless door opening with a single item of hardware. As a mobile virtual network operator, GlobalmatiX can also offer data transfers between vehicles and the cloud, making it a one-stop shop for all services.

Equipping the entire camper fleet of fast-growing start-up 'roadsurfer', which is set to grow to more than 5,000 vehicles this year, with GlobalmatiX hardware enables the company to carry out contactless, location-independent fleet management as well as protecting its vehicles against theft and detecting and assessing accidents. We market this as car-to-cloud-to-company management (C3M) and are encouraged by the high levels of interest our customers are showing in this product. To secure the company's growth in organizational terms, we have divided GlobalmatiX more clearly into development, service and sales divisions. A new managing director with extensive experience in the rental business will be taking responsibility for the newly established sales organization effective April 1, 2022. This appointment will be bolstered by the guaranteed production of at least 20,000 telematics boxes for the current year, as the installation of these boxes in vehicles is a prerequisite for GlobalmatiX's services. An order to set up a 5G campus network received last year will also be implemented in 2022.

The IT Networks segment was extremely successful during the year under review, increasing its revenue by more than 20% year-on-year to over EUR 7 million. This segment has a clear target to exceed EUR 10 million in revenue by 2023 at the latest. IT Networks is still very much in the investment phase and will introduce four new devices to the market by the middle of 2022. The segment's first presentations to trade fairs and sales partners were so successful that we have expanded our production schedule for the two main devices in this series from 2,000 to 4,000 units this year. IT Networks' flagship product, the WireXpert cable certifier, is expected to set a new sales record this year. In this respect, we benefit from the fact that the manufacturer of the product, our subsidiary Softing Singapore, has managed to increase production capacities despite significant challenges in procuring electronic components. With the prerequisites for double-digit growth now in place from a product perspective, Softing is shifting its strategic focus to enhancing its marketing performance. With this in mind, we will increase the number of sales and marketing employees by 50% this year.

We believe that the biggest threat and thus the greatest volatility for our business are the persistent difficulties in the supply of electronic components that are essential for many of our products. The cost of checking the availability of components on an almost daily basis or changing circuit diagrams to incorporate the use of alternative components is enormous. All of this delays the production and delivery of existing orders. Our US subsidiary Online Development Inc. (OLDI) alone has currently built up an order backlog of around USD 18 million – equivalent to more than half of OLDI's annual revenue – and we are currently unable to say how quickly it can be cleared. The good news is that all of the orders in hand from customers are still in place, with customers prepared to pay significantly higher prices in some cases if their orders can be delivered quickly. With this in mind, we see opportunities to exceed our revenue targets as well as risks to achieving them.

Across the Group, our operating profit or EBITDA rose by almost 17% to EUR 9.1 million in 2021 (previous year: EUR 7.8 million), which corresponds to a slightly higher EBITDA margin of 10.6% (previous year: 10.0%). The clear improvement in EBIT of around EUR 3.4 million to EUR –0.5 million (previous year: EUR –3.9 million) caused consolidated loss to decrease sharply by around EUR 4.5 million and virtually break even at EUR –0.1 million, down from EUR –4.6 million in the previous year. Despite significant repayments and widespread advance purchases of electronic components, the cash and cash equivalents directly available to the Group remained virtually unchanged at EUR 9.6 million (previous year: EUR 10.2 million). In light of the Group's highly positive overall performance and the positive outlook for the current financial year, the Executive Board and Supervisory Board are proposing to the General Shareholders' Meeting that a dividend of EUR 0.10 per share be paid (previous year: EUR 0.04 per share).

Based on the Softing Group's positioning, feedback from our customers and high incoming orders in the previous year, we see good opportunities to increase order intake, revenue and earnings further in 2022. The Executive Board expects the pandemic to subside and issues surrounding the procurement of electronic components to ease in the second half of the year. At segment level, we expect revenue in each segment to rise by between 7% and 40%. Based on the aforementioned assumptions, we are anticipating consolidated revenue of more than EUR 90 million for the 2022 financial year. Although Softing is still focused on generating growth at the expense of weaker earnings, we expect the Group's operating EBIT to rise to more than EUR 4.0 million.

If, contrary to expectations, the electronic components procurement crisis persists or deteriorates further, we anticipate a similar course of business and operating EBIT at least on a par with the 2021 figures. Despite all the current threats, there are always hidden opportunities no matter how perilous a situation might appear. Softing is keeping a close eye on these opportunities and is determined to seize them. We invite you to be part of Softing's journey. Amid all of the world's problems, we wish you good health, a measure of optimism and courage to make it through these times.

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

Softing began the year at a share price of EUR 5.48 and reached an initial interim high of EUR 6.36 on February 17, 2021, before falling to a level around EUR 5.20 as the third wave of the coronavirus pandemic gained ground in March and April. The share then climbed fairly quickly to a further interim high of EUR 6.30 in late May, before rapidly reaching its high for the year of EUR 7.96 on June 11. In early October and mid-December, the share once again tested the bottom resistance lines at EUR 6.10 and EUR 6.00, but then rose to EUR 6.80 by the reporting date of December 31, thanks to a large number of operational successes in the company's Automotive segment and for GlobalmatiX especially. At the end of 2021, the market capitalization of Softing AG was EUR 61.9 million, well above the previous year's figure of EUR 45.9 million. The share capital of Softing AG remains unchanged at EUR 9,105,381, divided into the same number of no-par-value shares. The Softing share is currently (March 9, 2022) trading at a strongly reduced level around the EUR 5.60 mark, due to the extreme uncertainty and upheavals on the stock markets triggered by the Russian military's war of aggression against Ukraine.

During the reporting period, the average daily trading volume of Softing shares was 5,130 shares (Xetra and floor trading), just over 9.5 percent above the prior-year figure of 4,683 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) improved by EUR 0.49 to EUR –0.01 in 2021, compared with EUR –0.50 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 RESOLVES TO DISTRIBUTE A DIVIDEND

On May 5, 2021, the General Shareholders' Meeting of Softing AG resolved to distribute a dividend of EUR 0.04 per share, as in the previous year, despite the earnings situation for the 2020 financial year.

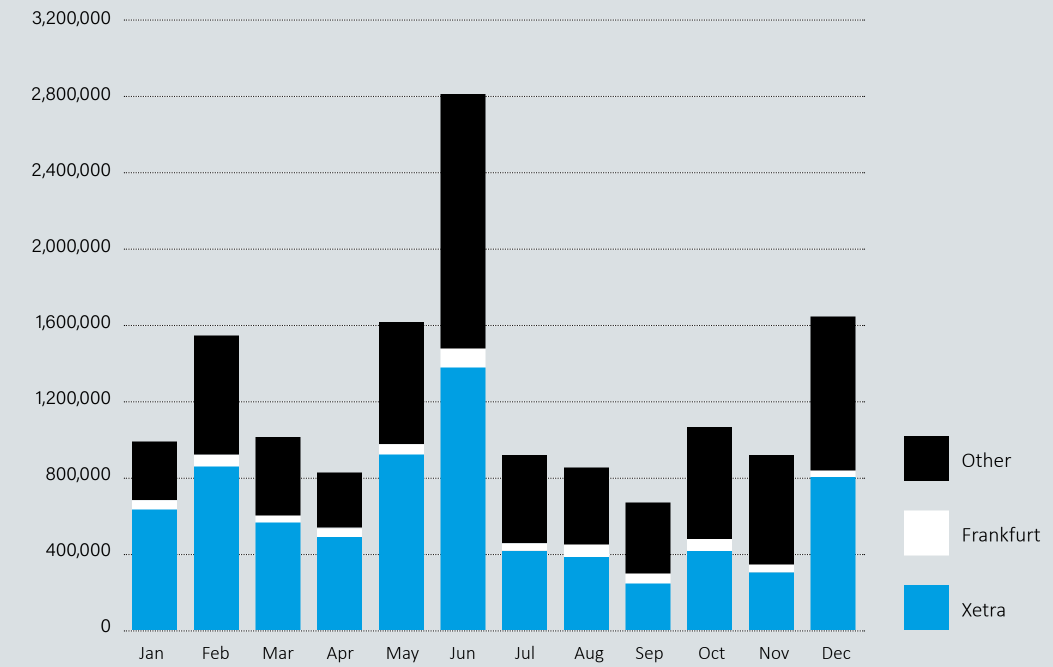
SHAREHOLDER STRUCTURE

As far as the Company is aware, Helm Trust Company Limited, St. Helier, Jersey, UK, remains the single largest investor in Softing's 9,105,381 shares with 2,043,221 shares (22.4 percent). The next major shareholder is Mr Alois Widmann, Vaduz, Principality of Liechtenstein, who holds 1,450,000 shares (15.9 percent), followed by a number of institutional investors and several private anchor investors. The remaining shares are in free float.

ANALYST RECOMMENDATIONS

Warburg Research has analyzed the Softing share regularly for years in research reports and has published five studies and updates on the share in 2020. The most recent update of January 19, 2022 continues to recommend buying the share and states a higher price target of EUR 8.70 (previously EUR 8.00). Warburg Research and sees solid prospects for GlobalmatiX, the successful digitalization of Softing's IT Network business and recovery potential for its Automotive segments following the COVID-19 pandemic.

TRADING VOLUMES OF SOFTING SHARES IN 2021 IN EUR



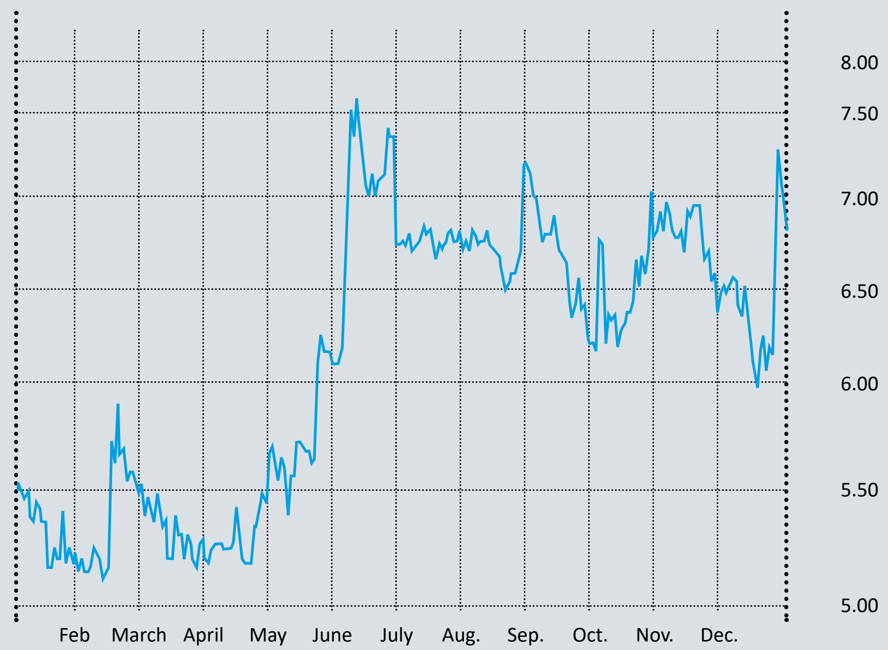
Information about analysts' reports on Softing shares is available at www.softing.com under Investor, News & Publications, Research. The Press & Interviews section contains information about the growth prospects of the Softing Group published in a variety of financial newspapers and magazines such as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

CAPITAL MARKET COMMUNICATIONS

Investor relations are a key concern of the Group. In 2021, 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 2022, 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 4, 2021 TO DECEMBER 31, 2021 (XETRA)



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

We firmly believe that sustainable action enhances our financial performance in the long term and that such an approach is also in the interests of our stakeholders. Softing follows an integrated approach in order to reconcile economic, environmental and social interests.

Management is responsible for defining the goals and implementing the actions. All employees are involved in the process of goal setting and implementation. This ensures that sustainability is integrated into all business units and is – and remains – an essential part of Softing's corporate strategy.

To improve environmental performance, an energy management system was set up in addition to the environmental protection system. The systems are continuously optimized, including the required processes and their interaction. The processes, which are transparent and binding for all employees, govern the procedures in the Company. We strive to actively enhance our environmental and energy management efforts in the long term above and beyond compliance with legal regulations and official requirements. Our goal is to reduce environmental impact or, at best, avoid it altogether. We have not set any quantitative or qualitative targets. Savings are achieved through working practices.

For Softing, compliance means adherence to all legal obligations, regulations and rules applicable to the Company, and exhibiting professional expertise and personal responsibility in dealing with external rules, internal rules and the requirements of shareholders and contractual partners. Compliance with the rules of information security and the requirements of data protection is a matter of course for us.

Softing AG and its companies participate in the VDA's information protection test procedure. The existing label was not only renewed but successfully upgraded to a higher security level. The approvals are stored on the designated platform www.enx.com. Employees are guided by the "Code of Conduct" and various topic-specific policies (e.g. supplier management, risk and opportunity management, information security). Compliance with the regulations and processes is regularly checked by internal and external audits.

Performance reviews are held with all members of staff at least once a year to discuss individual developments. Depending on the employee's area of responsibility, individual target agreements are also set for the current year, with the further development of the respective area of responsibility being an essential component in addition to revenue targets. Achievement of these targets is assessed by the managing directors as part of the annual performance review.

Stakeholders are defined, considered and evaluated as part of the Group's ISO 9001 certification. These include individuals, groups and organizations that may have a direct or indirect influence on Softing. Communication channels are also defined and embedded as an integral part of quality management.

Sustainability in relation to our products means that we implement the environmental requirements relevant to us and continuously review the requirements.

As a software and service company, Softing consumes few natural resources compared with the manufacturing industry. Nevertheless, we want to use the increasingly scarce natural resources as efficiently as possible and keep their consumption low permanently or achieve savings. The annual environmental scorecard which is part of the management review tracks the use of natural resources (paper, water, waste, and electricity consumption).

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

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

This also includes fostering the knowledge of employees. A defined knowledge management system that is applied actively enables Softing to foster and develop each employee's knowledge. Some of our most experienced employees can look back on more than 25 years of professional experience and company affiliation and are happy to pass on their knowledge.

We are an international Group offering services that are in some cases highly diversified. That is why we rely on employees who contribute different experiences, skills and perspectives, and whose individual expertise helps us to successfully exploit market opportunities as they arise. Safeguarding equal opportunities and diversity is therefore a key concern of our human resources policy. We take care to ensure salaries are not unfair, for example in terms of gender or age.

Managers and employees in key positions are usually paid a variable salary component that rewards special commitment in addition to their basic salary. The variable component is based on the Company's performance, key performance indicators and the employee's contribution to achieving agreed targets.

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

Softing will provide its employees all of the information and legal advice that they need to prevent violations of the law. We will also protect our employees against unjustified actions by the authorities. Legal violations will not be tolerated, however. Softing enforces compliance with these rules.

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

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

You will find more information on this topic on our website softing.com in the third quarter.

CORPORATE BOARDS AND DIRECTORS' HOLDINGS

Boards	Shares		Options	
	June 30, 2021 Number	Dec. 31, 2021 Number	June 30, 2021 Number	Dec. 31, 2021 Number
Supervisory Board				
Dr. Horst Schiessl (chairman), attorney at law, Munich	–	–	–	–
Dr. Klaus Fuchs (member), graduate computer scientist and graduate engineer, Helfant	278,820	278,820	–	–
Andreas Kratzer (member), certified public accountant, Zurich, Switzerland	10,155	10,155	–	–
Executive Board				
Dr.-Ing. Dr. rer. oec. Wolfgang Trier, Munich	163,234	163,234	–	–
Ernst Homolka, Munich	9,400	9,400	–	–

FINANCIAL CALENDAR

March 29, 2022	Consolidated Financial Statements / Annual Report 2021
May 3, 2022	Interim Management Statement Q1/3M 2022
May 6, 2022	General Shareholders' Meeting 2022
August 12, 2022	Half-yearly Report Q2/6M 2022
November 15, 2022	Interim Management Statement Q3/9M 2022
November 28–30, 2022	German Equity Forum, Frankfurt/Main

Combined Management Report of Softing AG and the Softing Group for the 2021 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. 2020 saw the start of marketing, and in 2021 GlobalmatiX achieved its first major marketing successes.

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 Group's Business Model

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. 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 ("Industrial Internet of Things", 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 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.

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.

Buxbaum Automation GmbH

The sales office Buxbaum Automation GmbH, Eisenstadt serves customers in Austria locally.

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.

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.

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 2021. The sales contacts created in 2020 created a solid foundation for sales success in 2021 and the coming years. GlobalmatiX won its first major orders with significant quantities in 2021. The cumulative build-up of service revenues in the coming years will lay the groundwork for a profitable future.

Other Companies

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.

Inventory is analyzed on an ongoing basis and reviewed at regular intervals for parts that are no longer needed and written down as necessary. 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 and procurement crisis, there were delays in supply capability.

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 17.0 million (previous year: EUR 15.7 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 20.0 percent (previous year: 20.3 percent). The Softing Group capitalized 21.5 percent (previous year: 23.3 percent) of its research and development costs.

In the financial year ended, amortization of capitalized development costs amounted to EUR 4.5 million (previous year: EUR 3.6 million). There were no impairment losses (previous year: EUR 3.5 million).

At year-end, 217 employees were engaged in research and development (previous year: 216). 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

In 2021, development activities focused on the new Ethernet communication technology (APL) which has been specifically developed to meet the process industry's requirements. In addition to expanding its technology integration products and services, the Company expects this innovation to deliver new growth due in particular to an all-new product family – APL switches.

Softing IT Networks

COVID-19 also continued to delay the market launch of some recent product developments, such as the new CableMaster series. The product launches planned for the end of 2021 were once again postponed, but will now certainly be available in the first six months of 2022. Product ranges such as WireXpert achieved new levels of excellence in terms of both software and hardware in 2021.

Softing Automotive

In the Automotive segment, Softing AG emphasized two core topics.

On the one hand, development activities focused on the implementation of new functionalities around flexible and scalable remote diagnostics, as these have gained further importance with the COVID 19 pandemic. While the situation remained tense, the diagnostics software product segment still managed to generate plenty of promising inquiries and new business. The combination of software and hardware products – as an efficient solution for test/flash applications – continues to attract major international interest. Softing continued to successfully position its traditional diagnostic tool VIN|ING 2000 on its markets in 2021. In 2021, integration of the various product segments with high-level customer solutions was prioritized and product market teams were initiated with the aim of offering customers an even greater boost to efficiency. Softing is now working on the next product generation for the flexible integration of database systems and the deployment of scalable cloud technologies.

On the other hand, the Softing Group (Globalmatix AG) in 2021 finalized its development of a central platform (cloud platform) for the realization of "Connected Car" applications by means of the "GPS Telematixbox" featuring an integrated CAN data logger with a high data resolution and real-time access to vehicle signals for virtually all brands. This will enable new "Connected Car" applications which will be reflected in measurable simplifications and savings for our customers. These factors are driving the rapid digitalization of vehicle fleets, encompassing every brand and every model. One application is particularly notable. It enables a digital settlement process for minor collisions (minor damage at a speed of less than 10 km/h). Using artificial intelligence, the damage is calculated in close to real time. A certified, virtual expert review process then produces a damage profile with a precise estimate of the likely costs for the repair of this damage at a workshop.

REPORT ON ECONOMIC POSITION

MACROECONOMIC AND SECTOR-SPECIFIC ENVIRONMENT

According to the Kiel Institute for the World Economy (IfW), the world economic recovery lost momentum halfway through the year. In many parts of the world, rising rates of coronavirus infection once again curbed economic activity, supply bottlenecks hampered the upswing in industrial output, and the Chinese economy appears to be going through a bad patch. There is considerable uncertainty regarding the economic impact of the new Omicron coronavirus variant. The IfW expects economic activity to be noticeably subdued over the next few months, but for the world economic recovery to resume in the remainder of 2022. For the coming year, global production is expected to rise by 4.5 percent (at purchasing power parity), following a growth rate of 5.7 percent in this year. The IfW has thus lowered its forecast for 2022 by 0.5 percentage points. For 2023, it has slightly raised its outlook, from 3.8 to 4 percent. Inflation is currently likely to have peaked and is expected to decline significantly during the forecast period, primarily due to the energy price component. The underlying upsurge in prices is likely to remain higher across the entire forecast period than it was prior to the crisis. *(Source: IfW, Kiel Institute Economic Outlook World, No. 85, 2021|Q4, www.ifw-kiel.de)*

In the view of the German Engineering Federation (Verband Deutscher Maschinen- und Anlagenbau – VDMA), the leading indicators continue to point to robust sentiment among mechanical engineering companies. For instance, the global purchasing manager index for the manufacturing sector registered 54.2 index points for the third consecutive occasion. At 58 points, sentiment in the eurozone countries continues to exceed the world average. According to the current baseline forecast from Oxford Economics, the key downside risks are disruptions to supply chains, the coronavirus pandemic and higher inflation levels. In the event of the negative scenario of a "protracted coronavirus phase", in the short term it would be the mechanical engineering sector which would register the lowest level of global sales growth. It would achieve an average growth rate of 2 percent in 2022, instead of the 5 percent modeled in the baseline scenario. Disruptions to supply chains may affect companies in the manufacturing sector throughout 2022, and the situation may only improve in 2023, according to a customer survey by Oxford Economics. In addition, the labor shortage is increasingly hampering the current upswing. *(Source: VDMA, Economic Bulletin International, January 10, 2022, www.vdma.org)*

2021 was a highly successful year for the electrical, electronics and digital industry, according to the German Electrical and Electronic Manufacturers' Association (Zentralverband Elektrotechnik und Elektroindustrie e.V. – ZVEI). Production rose by a good 9 percent in the period from January to November 2021, while nominal revenue increased by almost 10 percent in the same period. Extrapolated to the year under review as a whole, revenue almost reached the EUR 200 billion mark for the first time. The trend was positive for virtually every subsector. The number of employees rose by more than 5,000 to 877,000, while short-time work decreased significantly to 15,000. The industry is suffering due to the ongoing scarcity of materials. Without the supply bottlenecks, the volume of revenue might have been significantly higher in 2021 and have surpassed the EUR 200 billion mark. The ZVEI expects the situation to improve from mid-year at the earliest. In view of the embattled global supply chains and the industry's level of integration, the ZVEI points to an urgent need to strengthen Europe's technological autonomy and resilience. "It is only from a position of strength that Europe will be able to confidently project its economic interests against China and the USA. It is important to avoid any one-sided relationship of dependency, whether in the area of leading-edge technologies such as semi-conductors or in terms of top-level research," says the ZVEI's president, Dr. Gunther Kegel. Europe must be able to deploy its own competencies strongly and convincingly, without lapsing into protectionism. For instance, the EU must now rapidly launch its second IPCEI (Important Project of Common European Interest) for microelectronics. Dr. Kegel comments: "Europe cannot afford to be left behind where billions of subsidies are being made available elsewhere." The association also has a confident view of 2022, but points to a considerable degree of uncertainty attached to this year's forecast. "As things currently stand, we expect production to increase by 4 percent," says the ZVEI's president. *(Source: Four Percent Production Growth: Electrical, Electronics and Digital Industry Has Optimistic View for 2022, January 24, 2022, www.zvei. org)*

COURSE OF BUSINESS

In the 2021 financial year, the Softing Group initiated a turnaround and made up for much of its coronavirus-related revenue and EBIT losses. This is reflected in its 9.1 percent increase in revenue, a 44 percent rise in incoming orders and EBITDA growth to EUR 9.1 million.

Incoming orders increased from EUR 72.8 million in the previous year to EUR 104.8 million. This is the highest figure in the Softing Group's history. Orders on hand amount to EUR 33.6 million as of December 31, 2021 (previous year: EUR 15.0 million). All of the Group's segments registered significant growth in terms of their incoming orders and order books.

Due to the rise in the volume of incoming orders, the Softing Group recorded revenue growth across all revenue areas, markets and segments. In 2021, revenue stood at EUR 84.7 million (previous year: EUR 77.6 million), which was EUR 7.1 million (9.2 percent) higher than the previous year's level; it was very difficult to provide a forecast on account of the pandemic and the procurement crisis. However, Softing almost achieved its revenue forecast for 2021. Had there not been considerable delivery delays associated with the procurement crisis, it would have far surpassed this forecast. This is confirmed by an incoming orders figure in excess of EUR 100 million.

EBITDA amounted to EUR 9.1 million in the year under review (previous year: EUR 7.8 million), and the EBITDA margin was 10.6 percent (previous year: 10 percent). Operating EBIT (EBIT adjusted for capitalized development services of EUR 3.7 million and amortization of EUR 4.6 million on these as well as effects from purchase price allocation in the amount of EUR 2.6 million) in 2021 totaled EUR 3.0 million (previous year: EUR 1.6 million).

The EBIT figure for 2021 improved by comparison with the previous year, 2020, from EUR –3.9 million to EUR –0.5 million, despite additional goodwill impairment of EUR 1.0 million. Softing had already adjusted its forecast in this area over the course of the year, but the result fell short of the target level for the reasons outlined above. Overall, this resulted in consolidated profit after interest and taxes of EUR –0.1 million (previous year: EUR –4.6 million).

Segment development was as follows:

Softing Industrial
Demand for industrial products developed dynamically in the context of the post-coronavirus recovery and continued to be buoyed by the positive exchange rate trend in the second half of the year.

The Industrial segment generated revenue of EUR 61.0 million (previous year: EUR 57.2 million). EBITDA totaled EUR 7.3 million (previous year: EUR 7.7 million). EBIT fell due to higher costs, from EUR 4.5 million in the previous year to EUR 4.2 million.

Softing Automotive
While the situation remained tense, the diagnostics software product segment still managed to generate plenty of promising inquiries and new business. The combination of software and hardware products – as an efficient solution for test/flash applications – continues to attract major international interest. Softing continued to successfully position its traditional diagnostic tool VIN|ING 2000 on its markets in 2021. In 2021, integration of the various product segments with high-level customer solutions was prioritized and product market teams were initiated with the aim of offering customers an even greater boost to efficiency. Softing is now working on the next product generation for the flexible integration of database systems and the deployment of scalable cloud technologies.

Softing Automotive Electronics GmbH (SAE) was nonetheless able to expand its customer base for diagnostic and testing solutions. It gained additional important customers for its new solutions, and the proportion of software leasing models thus continued to rise overall. Softing is making progress in acquiring new key accounts in the broader automotive manufacturer sector and has achieved some initial successes here.

Within the scope of testing for goodwill impairment for Softing Engineering & Solutions GmbH, Kirchentellinsfurt – which belongs to the Group's Automotive segment – a EUR 1.0 million impairment loss was determined and recognized in profit or loss at Group level. In the second half of 2020, 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 reduced consolidated EBIT and consolidated profit for 2020 by around EUR 3.6 million on a one-time basis.

In the telematics field, the fleet market, the car hire segment and the mobility sector are picking up considerably following the coronavirus phase. "Last year's systematic refinement of our products and services is clearly paying off. Our solutions scale up in an increasingly broad and more international market. We gained initial customers and generated initial revenue. However, telematics' EBIT contribution remains negative due to the continuing high volume of expenses associated with the market launch process.

The Automotive segment's revenue increased by 18 percent from EUR 13.5 million to EUR 15.9 million, producing EBITDA of EUR 1.9 million after EUR –0.5 million in the previous year. Due to lower depreciation and amortization, EBIT rose sharply from EUR –7.2 million to EUR –2.6 million. The EBIT figure is still negative due to the high market entry investments made in the area of telematics services.

IT Networks Segment

Paired with innovative software, this mix of proven and new hardware quickly gained a seal of approval from many users. IT Networks responded at very short notice to the social distancing measures with an unprecedented series of webinars. Technically of a very high quality, these online seminars quickly found favor with the market in 2021, enabling relationships to be established and deepened with many prospective customers and users. Revenue was thus significantly increased, while the EBIT figure was still marginally negative due to investments in new products. The primary focus of the European team over the last two years has been on the DACH markets, France, Italy, Spain and Eastern Europe. The markets in Spain, Greece and Eastern Europe also exhibited growth with healthy demand in 2021. Nonetheless, due to increased IT and other costs it was not yet possible to convert this revenue growth into a positive EBIT figure.

Revenue in the IT Networks segment rose by 19 percent from EUR 7.1 million to EUR 8.4 million, with EBITDA of EUR 0.3 million (previous year: EUR 0.3 million) and EBIT of EUR –0.8 million (previous year: EUR –0.6 million).

Course of Business of Softing AG

Due to a larger profit transfers from the subsidiaries, the profit for the year of Softing AG, the Group's parent company, rose by EUR 1.9 million from EUR –1.5 million in 2020 to EUR –0.4 million in 2021.

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 increased by 9.1 percent to EUR 84.7 million. The Industrial segment showed an increase in revenue of EUR 3.8 million. Own work capitalized (product developments) was EUR 3.7 million, which was on a par with the previous year's level. The share of own work capitalized as a percentage of consolidated revenue fell from 4.7 percent to 4.3 percent in the 2021 financial year. Other operating income of EUR 2.8 million was significantly impacted by income from currency differences of EUR 0.9 million (previous year: EUR 0.3 million) and the participation in a research program (EUR 0.3 million). Income from insurance compensation at EUR 0.9

million was up year-on-year (previous year: EUR 0.8 million). Other operating income in the previous year totaled EUR 1.7 million.

The Group's expense items developed as follows:	2021EUR million	2020EUR million
Cost of materials	39.1	35.1
Employee benefits costs	33.6	31.7
Depreciation, amortization and impairment losses	9.5	11.7
Other operating expenses	9.5	8.4
Operating expenses	**91.7**	**86.9**

The cost of materials increased by EUR 4.0 million to EUR 39.1 million, or 11.2 percent, as a result of the revenue growth. This rise mainly reflects the growth in revenue generated by the Group's segments and higher material sourcing expenses owing to the scarcity of components, with corresponding inventories of own and third-party products compared to the previous year. All told, the cost of materials ratio (cost of materials relative to revenue) was 46.1 percent (previous year: 45.3 percent), and gross profit (revenue less cost of materials) increased accordingly from EUR 42.5 million to EUR 45.6 million.

Staff costs rose by 6.1 percent to EUR 33.6 million. This was due to a process of normalization over the course of the coronavirus pandemic (decrease in short-time work, increase in variable remuneration and normalization of amount of vacation). As of the reporting date, the Softing Group had 388 employees (previous year: 397).

The receipt of EUR 0.9 million of government coronavirus subsidies in the USA reduced staff costs, as much of these subsidies were offset against staff costs.

Depreciation, amortization and impairment losses on intangible assets and property, plant, and equipment/right-of-use-assets decreased from EUR 11.7 million to EUR 9.5 million and include EUR 1.0 million of goodwill impairment.

Other operating expenses increased by EUR 1.0 million to EUR 9.4 million. This trend is attributable to the post-coronavirus crisis process of normalization, with an increased volume of sales and marketing activities as well as travel. The volume of expense for IT security also increased.

A key parameter for evaluating and managing results of operations is earnings before interest and taxes (EBIT) of EUR –0.5 million (previous year: EUR –3.9 million) and the operating EBIT derived from it EUR 3.0 million (previous year: EUR 1.6 million).

The interest result and other finance costs amounted to EUR 0.8 million (previous year: EUR –1.5 million). The other finance income/finance costs of EUR 1.1 million (previous year: EUR –1.2 million) 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 –0.1 million (previous year: EUR –4.6 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 –1.2 million to EUR 0.3 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 2021 financial year.

Other operating income increased by EUR 0.3 million to EUR 0.5 million due to higher currency gains.

Staff costs rose from EUR 2.2 million to EUR 3.0 million due to higher variable salary components.

Other operating expenses were level with previous year at EUR 0.5 million.

Due to higher costs related to the management of subsidiaries, revenue from affiliated companies in 2021 rose from EUR 2.7 million to EUR 3.2 million.

In the reporting period, provisions for taxes amounting to EUR 0.0 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 profit for the year was EUR 0.4 million (previous year: net loss for the year of EUR –1.5 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.

Capital Structure

The equity of the Softing Group at the end of 2021 stood at EUR 63.5 million (previous year: EUR 63.0 million).

The equity ratio reached 61.5 percent (previous year: 59.9 percent).

Non-current liabilities amounted to EUR 17.0 million (previous year: EUR 21.2 million). The decrease results from the reduction in deferred tax liabilities and the repayment/reclassification of loan liabilities to short-term borrowings.

Current liabilities rose by EUR 1.8 million to EUR 22.8 million, due mainly to the increase in trade payables.

Capital expenditure

In the financial year ended, the Softing Group invested EUR 4.8 million (previous year: EUR 5.6 million) in internally and externally generated intangible assets. Investments in other non-current assets amounted to EUR 1.5 million in 2021 (previous year: EUR 1.5 million). Please refer to the Research and Development section for information on investments in the specific segments.

Liquidity

The cash flow from operating activities rose by EUR 6.1 million, from EUR 4.9 million to EUR 11.1 million, primarily due to higher earnings.

Funds used for investing activities amounted to EUR 5.9 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 –5.9 million (previous year: EUR –1.1 million), with repayments of short- and long-term bank loans totaling EUR 4.0 million.

The cash available to the Group amounted to EUR 9.6 million at year-end (previous year: EUR 10.2 million).

Financial Position of Softing AG

Capital Structure

Equity as of December 31, 2021 was EUR 47.6 million, the same as in the previous year.

The equity ratio was 68.7 percent (previous year: 66.8 percent)

The increase in provisions from EUR 2.7 million to EUR 3.4 million is mainly the result of changes in provisions for variable remuneration and changes in pension provisions.

Other liabilities increased from EUR 2.3 million to EUR 3.0 million, due mainly to the increase in variable remuneration entitlements as these were not paid out.

Liabilities to banks fell by EUR 3.8 million due to the repayment of utilized credit facilities and the scheduled repayment of long-term loans.

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, 2021, these loans are measured at EUR 12.3 million.

Funds at year's end were EUR 4.6 million (previous year: EUR 6.4 million). There are unused credit lines in the amount of EUR 4.6 million (previous year: EUR 5.2 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 2021 represented 60.5 percent of total assets (previous year: 61.2 percent). This was offset by equity and non-current liabilities together representing 77.9 percent of equity and liabilities (previous year: 80.0 percent).

Non-current assets fell by EUR 1.8 million to EUR 62.5 million. This was largely due to the impairment of product developments and an adjustment of goodwill in a cash-generating unit.

Current assets comprise inventories, trade receivables, and cash and cash equivalents. Current assets remained the same at EUR 40.8 million.

Total assets in the reporting year fell to EUR 103.4 million (previous year: EUR 105.2 million).

Net Assets of Softing AG

The total assets of Softing AG fell by EUR 1.9 million year-on-year to EUR 69.3 million (previous year: EUR 71.2 million).

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

Short-term loans of EUR 3.8 million were repaid in the 2021 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 decreased by EUR 0.8 million to EUR 16.8 million due to repayments. Cash and cash equivalents decreased to EUR 4.6 million due to repayments of loans.

Receivables from affiliated companies were up from EUR 14.4 million to EUR 15.0 million as a result of an increase in trade receivables and profit transfers.

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 percent where possible. In the past financial year, employee turnover rose from 6.4 percent to 9.8 percent 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 stable during the current crises, which are not yet over. Their financial position and net assets improved year-over-year in 2021, as the coronavirus crisis abated. Revenue increased, incoming orders significantly improved and losses were reduced. While the overall situation has not yet returned to the pre-crisis level, it nonetheless remains solid and thus offers the foundations for numerous new business opportunities once the crisis is over.

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

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.

Softing Industrial will continue to focus on key growth drivers in the area of industrial communication in 2022. This includes developing new Ethernet communications technology (APL) specially designed for the requirements of the process industry and launching it to the market. In addition to expanding its technology integration products and services, the Company expects this innovation to providing a boost to growth towards the end of the year due in particular to an all-new product family – APL switches. The selection of data connectivity products has also been broadened via strategic partnerships with leading automation suppliers, and is expected to contribute to the Company's success this year as marketing efforts are intensified. One key driver of additional growth is in the area of OT/IT convergence and the strategic expansion of cloud connectivity solutions known as edge connectivity products. A series of products in this area is being launched on the market in 2022, with a strategic partnership with Siemens set to boost their distribution and acceptance. The Company will also focus on strengthening its sales and marketing organization and integrating international Softing offices more closely. A newly-created Service department will meet the steadily increasing demand from automation customers for consulting services.

Softing IT Networks GmbH

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 the market segment between the unique NetXpert XG qualifier and the proven Cablemaster series. Its modern design and extended functionalities are closing a long-standing gap Softing's portfolio. In the USA, Softing will use 2022 to build and expand on the excellent sales successes it has achieved over the last few years. 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 product innovations will provide a substantial business contribution in subsequent years.

The team at Softing Electronic Science & Technology (Shanghai) Co., Ltd. achieved further success in establishing a position in the Chinese market in 2021. The primary focus of the European team over the last two years has been on the DACH markets, France, Italy, Spain and Eastern Europe. France in particular recorded strong growth in 2021 as a result of its repositioning, and we are expecting further positive momentum in this market. The markets in Spain, Greece and Eastern Europe also exhibited robust growth with healthy demand in 2021. We continue to see great opportunities for developing new markets by digitizing sales processes as well as by providing more intensive individual support for our partners.

Softing Automotive

By consistently integrating all software layers from application to embedded solutions including onboarding, Softing can offer its customers modular, standards-based products and integration projects. This successful positioning in the global market enables Softing to meet the rising demand for integrated solutions related to testing/flash applications. The growing prevalence of mobile and home working among our customers opens up another market for Softing. Parallel, remotely and autonomously operated solutions are becoming increasingly important as they help manufacturers to improve their efficiency. The market is also aware that Softing has access to expertise in all of the necessary fields for stable and profitable long-term growth. The Company's business development efforts will continue to focus on generating opportunities and leads from existing customers as well as strategic key accounts and new customers. Many customers are now seeking strategic suppliers of efficiency-enhancing tools and solutions in order to be able to successfully master the technological challenges of the future. A number of new technologies and approaches relating to vehicle diagnosis and testing in particular will be introduced in the coming years, giving Softing Automotive Electronics GmbH opportunities to use its product portfolio to further expand its existing business. As this demand is expected to ramp up further, it will open up new opportunities for Softing, which means we continue to anticipate growth in the medium and long term.

The ability to use these technologies in various vehicles and brands, the modular and customized applications for all vehicles, the "over-the-air" mobile communications technology, the high data resolution, and the range of applications available from just one terminal were key factors in securing additional large orders. The use of GlobalmatiX telematics solutions creates the prerequisites for the complete digitalization of a connected car concept (connecting the vehicle with the possibilities of cloud technologies). This will simplify complex return processes for rental cars, car sharing models and vehicle subscription provider in a customer-friendly way and make them more cost-effective. Building up a vehicle maintenance history increases the resale value of vehicles. Keyless access also enables vehicles to be rented from vehicle rental stations with less effort. Cloud-based platforms are increasingly required to analyze large volumes of data from vehicle fleets in real time. In addition, this data is now being requested as a service by vehicle manufacturers and their suppliers. As a result, the GlobalmatiX telematics interface is increasingly being used as an interconnected data collector when developing vehicles. GlobalmatiX also successfully patented the security system based on "Design by Security" for connectivity in vehicles and protected it worldwide. GlobalmatiX currently offers the widest range of data collection and data density, transfer security and software solutions for managing large brand-independent fleets, paired with its own mobile communications technology.

The Company's existing customers are also pursuing ambitious expansion targets beyond Germany. Our Car-to-Cloud-to-Company Management offers an integrated solution for digitalizing a large fleet of vehicles across borders while maintaining a detailed overview of the fleet over long distances. GlobalmatiX demonstrates its capabilities in this cross-border collaboration with a single communication device in each vehicle that can be retrofitted quickly as well as various applications that can be activated easily and cost-effectively using its own 4G/5G mobile communications technology. Thanks to our access to 4G and 5G mobile telecommunications technology as a mobile virtual network operator (MVNO) in our core markets in North America, Europe and Asia, we are well prepared to build and expand the Softing Group's digital business over the coming years.

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.

Risk-bearing capacity is the maximum level of risk which the Company is able to bear without jeopardizing its going-concern status. This entails a comparison of the aggregate risk with the funds available for risk coverage, the so-called cover funds. The latter comprise the resources available within the scope of the Company's net assets, financial position and results of operations which will be drawn upon to cushion the effects in the event of risks being realized. If the ratio of the cover funds to aggregate risk is not sufficient, a Company's existence might be jeopardized in case of various risks materializing at the same time. As of the end of the financial year, the Executive Board assumes that short-term cover funds of EUR 9.6 million are available by way of uncommitted cash and cash equivalents. There are also unused credit lines in the amount of EUR 7.7 million as well as trade receivables which exceed trade payables by EUR 6.8 million.

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 percent) 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 percent) 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 percent) 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 percent) 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 referred to as gross risks before risk mitigation measures.

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

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

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

External Risks

The 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.

In the second year of the pandemic, Softing AG continued with the measures it introduced to protect its employees in 2020 and ensured that all of the Company's facilities continued to run in order to prevent any operational interruptions. As a result, there was a greater focus on the longer-term economic impacts of the pandemic in 2021 and beyond. These impacts include a strained supply chain and the associated risk of potential revenue shifts and losses as well as some sharp price increases among the suppliers Softing AG has to deal with.

Softing AG is partially addressing the risk of delivery delays by working with new suppliers, replacing specific parts in products and increasing its safety stock wherever possible. Although these measures do not mean these risks can be avoided and there is the possibility that revenue will be shifted to later periods, we do not envisage any losses from potential revenue shifts as these products cannot simply be replaced in our customers' value chains.

Softing AG is partially addressing the risk of sharp price increases and rising procurement prices for Softing products by increasing its inventories and concluding long-term procurement and cost transfer agreements with its customers.

Geopolitical uncertainty has also increased considerably since the last quarter of 2021, in part due to the conflict between Russia and Ukraine, which could result in sanctions and weaker demand. As the Softing Group's customers are primarily based in Western countries, it does not envisage any direct consequences for the Company; however, any escalation of the conflict could result in energy shortages and an economic downturn that would also impact Softing AG.

As a general precaution, Softing AG pursues a financing and capital management approach that provides a buffer against sudden unexpected risks.

To improve delivery reliability, Softing has increased stock levels in its own companies and requested the same from its suppliers, which is also reflected by the rise in order commitments.

The shortage of electronic components led to delays in delivering products during the second half of 2021. This is particularly evident in the Group's incoming orders of EUR 104.8 million compared with recognized revenue of EUR 84.7 million. Delivery bottlenecks will largely persist in 2022. Softing is addressing this risk by increasing the stock of available components, pre-financing its manufacturers and stepping up the efforts of its purchasing managers. Delivery bottlenecks are also resulting in higher cost prices for Softing's products, which we are countering with price increases and direct consultation with our customers on the subject of price versus delivery time. According to estimates from several institutions (ECB, World Bank, ifo Institute etc.) the resulting inflation, which is being further fueled by surging energy prices, is expected to decline during the forecast period. However, the underlying upsurge in prices will remain higher across 2022 as a whole than in the previous year. In risk management terms, this means that the aforementioned measures will continue during the 2022 financial year.

Softing believes that a spillover of the current omicron wave of coronavirus into Asia, particularly China, represents an additional risk that increases the procurement risk. A drastic shutdown and a zero-Covid policy like the one pursued so far in China would take the procurement crisis to new heights to which Softing would only be partially able to react.

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.

Ukraine Crisis

At present, the war of aggression being waged by Russia and Belarus against Ukraine since late February 2022 and the resulting sanctions imposed on Russia and Belarus are having virtually no impact on the Softing Group's business activities. The Softing Group has hardly any customer relationships in the affected countries and does not procure anything from them. Nevertheless, the Softing Group is following the latest developments closely, as indirect effects could arise from a further increase in inflation, a deterioration in the economic climate and further shortages on the procurement market. The impact of these effects largely depends on how long the military conflict lasts and how long sanctions are imposed on Russia and Belarus and is currently difficult to assess.

Performance Risks

In 2021, revenue increased by 9.1 percent compared to 2020. However, 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/procurement crisis, 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 2021 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, for example by entering into short-term foreign currency forwards. At the end of the year, a foreign currency forward to hedge GBP currency risks was in place with a volume of approximately EUR 1 million. 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 2022, 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

Upturn Remains Moderate

The Kiel Institute for the World Economy (IfW) expects that economic activity will still be markedly subdued at the start of 2022, but that the global economic recovery will gather momentum again as the year progresses. Global production (at purchasing power parity) is forecast to grow by 4.5 percent in 2022. For 2023, it has slightly raised its outlook, from 3.8 to 4 percent. Inflation is currently likely to have peaked and is expected to decline significantly during the forecast period, primarily due to the energy price component. The underlying upsurge in prices will remain higher across the entire forecast period than in the previous year as delivery bottlenecks continue to push production costs higher and restrict the supply of consumer goods. *(Source: IfW, Kiel Institute Economic Outlook World, No. 85, 2021|Q4, www.ifw-kiel.de)*

Softing Industrial Segment

Despite the persistently volatile economic environment, the Industrial segment is in an excellent position both in technological and supply terms to achieve its ambitious growth targets for 2022. This optimistic assessment is supported by the structural change and strategic focus in sales and marketing and is further bolstered by the creation of additional synergy effects within the Softing Group. Risks arise from the continuing shortage of skilled workers as well as growing disruption to global supply chains.

A solid performance is expected for the year based on measurable data on customer acceptance and demand, plus the pipeline of existing customer orders and projects. While the unusual and volatile economic environment brought about by the COVID-19 pandemic and procurement crisis necessarily urges a degree of caution, we believe the outlook for the next few quarters is positive.

Online Development Inc., which operates in the US market, expects a decline in revenue as a result of the procurement crisis and subdued demand from its major customers in the 2022 financial year, which will also cause EBIT to decline.

Demand for motors and geared motors and expertise in AC, DC, brushless, induction and shielded pole technology still appears to be robust.

Overall, we therefore expect revenue in the Industrial segment to rise, with EBIT slightly below the previous year's level.

Softing Automotive Segment

The COVID-19 pandemic and procurement crisis will continue to affect global economic development, and customers will act cautiously to minimize risks. As large orders may be delivered more slowly due to delays in the availability of components, the recovery anticipated for 2022 as a whole will shift into the second half of the year.

Revenue growth in the area of telematics will accelerate considerably in 2022. Commercial distribution via major orders began in 2021 with vehicle rental companies in the car and van sector, for example, but also in the rental of mobile homes or by cooperating with vehicle logistics companies and processing specialists in the vehicle delivery market. Delivery and installation volumes are planned to reach five digits in terms of units in 2022 and will result in double-digit revenue growth and positive EBIT in the Automotive segment primarily driven by the telematics sector.

Softing IT Networks Segment

The competition situation in the certifier segment will again make itself felt in Europe in particular in 2022, until Softing will present the successor to its WireXpert series this year. While the North America and Asia markets will continue to be increasingly challenged in terms of sales in 2022, the new product range provides advantages over the products offered by competitors. 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 product innovations will be visible as a technology trend in 2022 and will provide a substantial business contribution in subsequent years. Rising demand and a new generation of products will therefore cause revenue to increase in 2022, which is likely to be reflected in an improved yet still slightly negative EBIT figure.

Outlook for the 2022 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 2022, despite the restrictions triggered by the pandemic and a crisis in the procurement of electronic components. Based on the Softing Group's positioning and customer feedback and a high level of orders on hand from the previous year, Softing again sees opportunities to increase incoming orders, revenue and earnings in 2022. Softing will again face numerous unavoidable uncertainties in 2022 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 2022. For 2022, 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. The limitations triggered by the risks already mentioned continue to apply. The ongoing COVID-19 pandemic and the resulting crisis in the procurement of electronic components continue to play a major role in the development of the business. However, economic risks also include everything from prolonged inflationary trends and political uncertainty to the threat of war.

The omicron wave of coronavirus resulting from the mutation of the virus and the slow progress of the vaccination campaign represents an additional element of uncertainty, the effects of which cannot currently be clearly 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 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 2022 financial year.

The Executive Board expects the pandemic to subside and issues surrounding the procurement of electronic components to ease in the second half of the year.

At segment level, revenue in each segment is predicted to rise by between 7 percent and 40 percent. We expect the Group's EBIT and operating EBIT to increase, driven by the Automotive segment. As operating costs normalize further, consolidated EBIT is forecast to be in a range of EUR 1.5 million to EUR 2.0 million. The Executive Board expects operating EBIT to rise to between EUR 4.0 million and EUR 4.8 million.

If, contrary to expectations, the electronic components procurement crisis persists or deteriorates further, the Executive Board anticipates a course of business similar to that observed in 2021 and an unchanged, slightly negative EBIT and operating EBIT for the Group and segments on a par with the 2021 figures. It is not currently possible to assess how Russia's war of aggression against Ukraine will further affect the procurement of materials. Sanctions and countersanctions may have an additional negative impact on global supply chains. As already outlined, this may push the recognition of some revenue into the 2023 financial year and could thus lower the earnings forecast, despite the improved order situation.

In the case of the non-financial performance indicators, it is planned to maintain the attained levels in the 2022 financial year.

Outlook for the 2022 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. An easing of the procurement crisis, which can be expected in the second half of the year, will also have a positive impact on development. These circumstances, which Softing cannot influence, might cause the Company's actual performance to 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 1.7 million for the 2022 financial year Expected earnings before taxes, assuming income from profit and loss transfer agreements and dividends, will range between EUR 1.0 million and EUR 1.5 million.

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 2021, 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 percent 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 percent, December 5, 2011 at 26.69 percent and March 26, 2018 at 22.43 percent 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 percent 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 percent 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 percent 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 percent 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 percent on March 28, 2018, and was 15.92 percent on that date (1,450,000 voting shares).

Of this amount, 15.92 percent (1,450,000 voting shares) must be attributed to Mr. Widmann in accordance with Section 34 (1) sentence 1 no. 1.

In 2022, there was no change to the above voting rights notifications.

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 9,015,381 shares were outstanding in the 2021 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, 2021, 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 percent 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 percent 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 percent of the Company's share capital.

9. The buyback served 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, 2021.

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

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 18, 2022
Softing AG

The Executive Board

Dr. Wolfgang Trier   Ernst Homolka

Consolidated Income Statement

for the Period from January 1 to December 31, 2021

	Note	Jan. 1 – Dec. 31, 2021 EUR (in thsds.)	Jan. 1 – Dec. 31, 2020 EUR (in thsds.)
Revenue	**D1**	**84,690**	**77,597**
Other own work capitalized	D2	3,653	3,668
Other operating income	D3	2,848	1,703
Operating income		**91,191**	**82,968**
Cost of materials / cost of purchased services	D4	–39,075	–35,130
Staff costs	D5	–33,608	–31,684
Depreciation, amortization and impairment of property, plant and equipment, right-of-use assets and intangible assets	D6	–9,547	–11,691
thereof depreciation / amortization / due to purchase price allocation / impairment of goodwill		–2,593	–2,010
thereof depreciation due to accounting for right-of-use-assets		–1,248	–1,301
Other operating expenses	D7	–9,437	–8,397
Operating expenses		**–91,667**	**–86,902**
Profit / loss from operations (EBIT)		**–476**	**–3,934**
Interest income	D8	26	53
Interest expense	D8	–252	–260
Interest expense from lease accounting		–87	–121
Other finance income / finance costs	D8	1,074	–1,158
Earnings before income taxes		**285**	**–5,420**
Income taxes	D9	–353	839
Consolidated profit		**–68**	**–4,581**
Consolidated profit attributable to			
Shareholders of Softing AG		–255	–4,738
Non-controlling interests		187	157
Consolidated profit		**–68**	**–4,581**
Earnings per share (diluted = basic)		–0.01	–0.50
Average number of shares outstanding (basic)		9,015,381	9,080,751

Consolidated Statement of Comprehensive Income

for the Period from January 1 to December 31, 2021

	Jan. 1 – Dec. 31, 2021 EUR (in thsds.)	Jan. 1 – Dec. 31, 2020 EUR (in thsds.)
Consolidated profit	**–68**	**–4,581**
Items that will not be reclassified to consolidated comprehensive income		
Remeasurement of pensions	396	–22
Tax effect	–111	6
Remeasurement from pensions, total	285	–16
Items that will be reclassified to consolidated comprehensive income:		
Currency translation differences		
Changes in unrealized gains / losses	527	–1,128
Tax effect	149	–23
Total currency translation differences	676	–1,151
Other comprehensive income	**961**	**–1,167**
Consolidated comprehensive income for the period	**893**	**–5,748**
Consolidated comprehensive income for the period attributable to		
Shareholders of Softing AG	706	–5,905
Non-controlling interests	187	157
Consolidated comprehensive income for the period	**893**	**–5,748**

Consolidated Statement of Financial Position

as of December 31, 2021

Assets	Note	Dec. 31, 2021 EUR (in thsds.)	Dec. 31, 2020 EUR (in thsds.)
Non-current assets			
Goodwill	C1 / C2	17,064	17,500
Other intangible assets	C3 / C4	38,770	39,324
Other financial assets	C5	1,500	1,500
Property, plant and equipment	C6	4,758	5,506
Deferred tax assets	D9	433	516
Non-current assets, total		**62,525**	**64,346**
CURRENT ASSETS			
Inventories	C7	13,409	13,671
Trade receivables	C8	14,066	14,321
Current other financial assets	C9	1,345	839
Contract assets	C10	307	442
Current income tax assets	C11	538	556
Cash and cash equivalents	C12	9,613	10,166
Current non-financial assets	C13	1,558	850
Current assets, total		**40,836**	**40,845**
Total assets		**103,361**	**105,191**

Equity and liabilities	Note	Dec. 31, 2021 EUR (in thsds.)	Dec. 31, 2020 EUR (in thsds.)
Equity			
Subscribed capital	C14	9,105	9,105
Capital reserves	C14	31,111	31,111
Treasury shares	C14	–485	–485
Retained earnings	C14	23,196	22,850
Equity, shareholders of Softing AG		62,927	62,581
Non-controlling interests	C14	621	429
Equity, total		**63,548**	**63,010**
Non-current liabilities			
Pensions	C15	2,605	3,060
Long-term borrowings	C16	9,456	12,256
Other non-current financial liabilities	C16	1,074	1,519
Deferred tax liabilities	D9	3,851	4,336
Non-current liabilities, total		**16,986**	**21,171**
Current liabilities			
Trade payables	C17	7,226	5,999
Contract liabilities	C10	3,471	2,717
Provisions	C18	164	103
Income tax liabilities	C19	345	305
Short-term borrowings	C20	3,510	4,678
Other current financial liabilities	C21	6,945	6,120
Current non-financial liabilities	C22	1,166	1,088
Current liabilities, total		**22,827**	**21,010**
Total equity and liabilities		**103,361**	**105,191**

Consolidated Statement of Changes in Equity

for the Period from January 1 to December 31, 2021

	Subscribed capital	Capital reserves	Treasury Shares	Retained earnings				Equity, shareholders of Softing AG	Non-controlling interests	Total equity
				Net retained profits and other	Remeasurements	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 1, 2021	**9,105**	**31,111**	**–485**	**23,577**	**–2,029**	**1,301**	**22,850**	**62,581**	**429**	**63,010**
Consolidated profit 2021				–255			–255	–255	187	–68
Other comprehensive income 2021					285	676	961	961		961
of which from remeasurements					396		396	396		396
of which currency translation						527	527	527		527
of which tax effect					–111	149	38	38		38
Consolidated comprehensive income for the period				**–255**	**285**	**676**	**706**	**706**	**187**	**893**
Dividend payment				–361			–361	–361		–361
Purchase of own shares										
Change in minorities									6	6
Transactions with owners in their capacity as owners				**–361**			**–361**	**–361**	**6**	**–355**
Balance as of December 31, 2021	**9,105**	**31,111**	**–485**	**22,961**	**–1,744**	**1,977**	**23,195**	**62,926**	**622**	**63,548**

	Subscribed capital	Capital reserves	Treasury Shares	Retained earnings				Equity, shareholders of Softing AG	Non-controlling interests	Total equity
				Net retained profits and other	Remeasurements	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 1, 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
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
Change in minorities									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**

Consolidated Statement of Cash Flows

for the Period from January 1 to December 31, 2021

	Jan. 1 – Dec. 31, 2021 EUR (in thsds.)	Jan. 1 – Dec. 31, 2020 EUR (in thsds.)
Cash flows from operating activities		
Profit (before tax)	**285**	**–5,420**
Depreciation, amortization and impairment losses on fixed assets	9,547	11,691
Other non-cash transactions	100	89
Cash flows for the period	**9,932**	**6,360**
Interest income / finance income	–1,100	–53
Interest expense / finance costs	294	1,539
Change in other provisions and accrued liabilities	–109	–39
Change in inventories	262	–1,075
Change in trade receivables	388	1,150
Change in financial receivables and other assets	–1,112	302
Change in trade payables	1,227	–477
Change in financial and non-financial liabilities and other liabilities	1,869	–3,255
Interest received	26	53
Income taxes received	123	654
Income taxes paid	–746	–245
Cash flows from operating activities	**11,054**	**4,914**
Cash paid for investments in new internal product developments	–3,653	–3,668
Cash paid for investments in new external product developments	–1,156	–1,778
Cash paid for investments in other intangible assets	–22	–145
Cash paid for investments in non-current assets	–1,080	–1,378
Cash paid for the acquisition of equity interests	0	–1,500
Cash flows from investing activities	**–5,911**	**–8,469**
Cash paid for dividends	–361	–364
Repayment of lease liabilities	–1,227	–1,244
Cash received from short-term bank line	0	2,655
Cash paid for the acquisition of own shares	0	–485
Cash repayment of bank loans	–3,968	–1,291
Interest, lease accounting	–87	–121
Other interest paid	–207	–260
Total interest paid	–294	–381
Cash flows from financing activities	**–5,850**	**–1,110**
Net change in funds	–709	–4,665
Effects of exchange rate changes on cash and cash equivalents	156	–86
Cash and cash equivalents at the beginning of the period	10,166	14,917
Cash and cash equivalents at the end of the period	**9,613**	**10,166**

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

Changes in Intangible Assets and Property, Plant and Equipment

in Financial Year 2021

	Cost					
	Jan. 1, 2021	Additions	Currency differences	Restatements / reclassifications	Disposals	Dec. 31, 2021
	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)
Intangible assets						
Goodwill	17,796		564			18,360
Internally generated product developments*	40,723	3,653	95			44,471
Externally generated product developments*	5,835	1,156				6,991
Other intangible assets	31,864	22	1,495		1	33,380
	96,218	**4,831**	**2,154**		**1**	**103,202**
Other investments	1,500					1,500
	1,500					**1,500**
Property, plant and equipment						
Right-of-use assets, operating and office equipment	75	53		–9	36	83
Right-of-use assets, buildings	4,487	286	93	–10	455	4,401
Right-of-use assets, vehicles	492	63		–2	106	447
Other equipment, furniture and fixtures and office equipment	5,336	1,080	101		73	6,444
	10,390	**1,482**	**194**	**–21**	**670**	**11,375**
	108,108	**6,313**	**2,348**	**–21**	**671**	**116,077**

in Financial Year 2020

	Cost					
	Jan. 1, 2020	Additions	Currency differences	Restatements / reclassifications	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 product developments*	37,310	3,668	–65		190	40,723
Externally generated product developments*	4,057	1,777				5,834
Other intangible assets	34,118	145	–1,660		738	31,865
	93,905	**5,590**	**–2,349**		**928**	**96,218**
Other 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, vehicles	415	157		19	99	492
Other equipment, furniture and fixtures and office equipment	5,869	1,376	–113		1,796	5,336
	10,669	**1,533**	**–243**	**340**	**1,909**	**10,390**
	106,074	**7,123**	**-2,592**	**340**	**2,837**	**108,108**

* Internally generated and externally generated intangible product developments have been restated compared to the previous year to improve clarity.

Depreciation / amortization / impairment					Carrying amounts	
Jan. 1, 2021	Currency differences	Depreciation / amortization in the financial year	Disposals	Dec. 31, 2021	Dec. 31, 2021	Dec. 31, 2020
EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)
296		1,000		1,296	17,064	17,500
27,606		3,788		31,394	13,077	13,117
343		764		1,107	5,884	5,491
11,149	667	1,755	1	13,570	19,810	20,716
39,394	**667**	**7,307**	**1**	**47,367**	**55,835**	**56,824**
					1,500	1,500
					1,500	**1,500**
45		22	36	31	52	30
2,206	49	1,074	455	2,874	1,527	2,281
245		152	106	291	156	247
2,388	68	993	27	3,422	3,022	2,948
4,884	**117**	**2,241**	**624**	**6,618**	**4,757**	**5,506**
44,278	**784**	**9,548**	**625**	**53,985**	**62,092**	**63,830**

Depreciation / amortization / impairment					Carrying amounts	
Jan. 1, 2020	Currency differences	Depreciation / 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	13,117	9,572
163		180		343	5,491	6,993
10,287	–686	2,274	726	11,149	20,716	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	21
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**	**5,939**
36,211	**–805**	**11,691**	**2,819**	**44,278**	**63,830**	**69,854**

Notes to the Consolidated Financial Statements for the 2021 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. 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 2021 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 Combined 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 18, 2022. 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 adjust its sales and marketing activities from the start of the pandemic onward. However, the financial year showed that the adjustments were successfully translated into sales success. This resulted in an increase in revenue of more than 9 percent from EUR 77.6 million in 2020 to EUR 84.7 million in the financial year ended. Incoming orders of EUR 104.8 million, compared to EUR 72.8 million in the previous year, reached a new high in the Group's history. The orders on hand brought forward into the new financial year amount to EUR 33.6 million and are the basis for solid revenue growth in 2022. This had positive effects on the Group's results of operations and liquidity position in the year under review. For the financial year ending December 31, 2021, the Group is reporting a negative EBIT of EUR 0.5 million. The Group's operating EBIT (EBIT adjusted for capitalized development services of EUR 3.7 million and amortization of internally generated and third-party product developments of EUR 4.6 million as well as effects from purchase price allocation in the amount of EUR 2.6 million) amounted to a positive figure of EUR 3.0 million, despite the procurement crisis and the continued disruptions caused by the pandemic. As of December 31, 2021, the Group had net current assets in the amount of EUR 18.0 million. As of January 31, 2022, the Softing Group has cash and cash equivalents of EUR 10 million, current receivables of EUR 11.8 million and agreed but not yet drawn down credit lines of around EUR 7.8 million at its disposal. This means that the Group has up to EUR 29.6 million in near cash funds available at short notice to tackle the economic uncertainties during the procurement crisis and the continued disruptions caused by the pandemic.

4. NEW AND REVISED STANDARDS

A series of new standards are applicable in the first reporting period in a financial year beginning after January 1, 2021. Early adoption is possible. However, the Group has not opted for early adoption of these new or revised standards in its preparation of these consolidated financial statements.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform – Phase 2

These amendments had no impact on the consolidated financial statements.

These amendments provide users temporary reliefs covering the effects on financial reporting arising from the replacement of the Interbank Offered Rates (IBOR) with alternative, virtually risk-free rates (RFR). These amendments provide for the following practical expedients:

- A practical expedient which permits changes to contracts or contractual cash flows directly arising from the reform – such as a fluctuating market interest rate – to be treated as changes to a floating interest rate
- A practical expedient which permits amendments to hedge designations and hedge documentation which are necessary due to the IBOR reform while enabling the continuation of hedge accounting
- A temporary exemption from the requirement of separate identifiability if an RFR instrument is used to hedge a risk component

These amendments had no impact on the consolidated financial statements.

Amendments to IFRS 16: COVID-19 Related Rent Concessions after June 30, 2021. 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 due to rent concessions granted directly 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. Originally, these amendments were to apply until June 30, 2021. However, as the COVID-19 pandemic continues, on March 31, 2021, the IASB extended the application period of the practical expedient to June 30, 2022.

The amendments are effective for annual periods beginning on or after April 1, 2021. The Group has not received any rent concessions to date in 2021 connection with COVID-19.

Future Requirements as of December 31, 2021:

January 1, 2022
Onerous Contracts – Costs of Fulfilling a Contract (Amendments to IAS 37)
These amendments clarify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether that contract is onerous. The amendments are effective in reporting periods beginning on or after January 1, 2022 for contracts in force as of the date of first-time application of these amendments. As of the date of first-time application, the cumulative effect of application of these amendments will be recognized as an adjustment of opening retained earnings or, where appropriate, other equity interests. The comparative figures have not been restated. The Group has determined that this transition will not currently have any effect.

January 1, 2022
Annual Improvements to IFRS Standards 2018–2022

January 1, 2022
Property, Plant and Equipment: Proceeds before Intended Use (Amendments IAS 16)

January 1, 2022
Reference to the Conceptual Framework (Amendments to IFRS 3)

January 1, 2023
Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

January 1, 2023
IFRS 17 – Insurance Contracts and Amendments to IFRS 17 Insurance Contracts

January 1, 2023
Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)

January 1, 2023
Definition of Accounting Estimates (Amendments to IAS 8)

January 1, 2023
Deferred Tax related to Assets and Liabilities Arising from a Single Transaction (Amendments to IAS 12)

The Group is continually analyzing the new standards and does not expect the new standards to have a material impact on the Group's accounting.

B. ACCOUNTING POLICIES

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

1. RECOGNITION OF REVENUE

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

Revenue from the Sale of Products

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

Revenue from Services

Revenue from services mainly comprises customer-specific software developments. If, based on their specifications, the customer developments do not have an alternative use and there is an enforceable right to payment from the customer at least in the amount of a refund of the costs arising from the performance completed to date, including a reasonable profit margin, revenue is recognized over time. The percentage of completion is calculated using the cost-to-cost method because the costs incurred represent the best indicator for the performance obligation that has already been satisfied. The performance that has been completed at the end of the reporting period is recognized as a proportion of the total performance to be completed. Where contracts include hardware installation, the revenue for the hardware is recognized at the date on which the hardware was delivered, ownership was transferred, and the customer accepted the hardware. Estimates concerning the revenue, cost or order progress are adjusted as soon as circumstances change. Any resulting increases or decreases in the estimated revenue or costs are recognized in profit or loss for the period in which management becomes aware of the circumstances leading to the adjustment. In the case of fixed-price contracts, the customer pays an amount set in a payment schedule. If the services Softing performs exceed the 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, 2021 include Softing AG and the following subsidiaries, over which Softing AG directly or indirectly exercises control:

Softing Group as of Dec. 31, 2021	Capital share / voting share	
	2021 %	2020 %
Softing AG, Haar / Germany		
Softing Automotive Electronics GmbH, Haar / Germany	100	100
Softing Services GmbH, Haar / Germany	100	100
Softing Engineering & Solutions GmbH Kirchentellinsfurt / Germany formerly softing Messen und Testen GmbH	100	100
Softing Industrial Automation GmbH, Haar / Germany	100	100
Softing Italia s.r.l., Cesano Boscone / Italy	100	100
SoftingROM s.r.l., Cluj-Napoca / Romania	100	100
Buxbaum Automation GmbH, Eisenstadt / Austria	65	65
Softing Inc., Knoxville / 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 78 thousand in the financial year ended (previous year: EUR 69 thousand) and that at Buxbaum Automation GmbH, Eisenstadt/Austria amounted to EUR 109 thousand (previous year: EUR 87 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, 2021, there were no changes in the basis of consolidation of Softing AG compared to December 31, 2020 and 2019.

The Group also holds an 8.33 percent equity interest in Yoma Solutions GmbH in Norderstedt. Equity according to the German Commercial Code in 2021 amounted to EUR 0 thousand and the loss for the year was EUR 1,415 thousand (previous year: EUR 926 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 percent 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 1.0 percent (previous year: 1.0 percent) 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. Amortization 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 corresponds to the fair value less costs to sell or the value in use, whichever is higher. 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.

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 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 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	
	2021	2020	2021	2020	2021	2020
Closing rate (Dec. 31)	1.13	1.23	4.95	4.87	1.03	1.08
Average exchange rate	1.18	1.14	4.92	4.84	1.12	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, 2021, there were no changes in the basis of consolidation of Softing AG compared to December 31, 2020 and 2019.

2. GOODWILL

	Dec. 31, 2021 EUR (in thsds.)	Dec. 31, 2020 EUR (in thsds.)
Softing Engineering & Solutions GmbH	1,055	2,055
Softing Industrial Automation GmbH	384	384
Softing IT Networks GmbH (Psiber Data GmbH)	5,181	5,181
OLDI Online Development Inc.	7,327	6,763
GlobalmatiX AG	3,117	3,117
Goodwill	**17,064**	**17,500**

Due to the change in the EUR/USD exchange rate, the goodwill of OLDI Online Development Inc. increased by EUR 564 thousand in 2021.

The 2022 detailed planning period was adjusted on the basis of short-term revenue and margin expectations. This resulted in increases in the expected cash flow in some cash-generating units, while there was a deterioration at Softing Engineering & Solutions GmbH due to rising costs (see "Impairment").

In the medium term between 2023 and 2025, 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. The crisis in the procurement of necessary components is also taken into account only in the short term. The market for electronic components developed cyclically in the past, too, and Softing expects the situation to improve in the second half of 2022. As a result, the short-term negative and longer-term positive effects of the COVID-19 pandemic/procurement crisis will level out in the best possible estimate, which means the assumptions regarding the terminal value made as of December 31, 2021 improved for the CGUs and worsened for one CGU (see "Impairment"). 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 following parameters were used for the items of goodwill:

For Europe:
- Discount rates (WACC) before taxes: 11 percent (previous year: 11.42 percent)
- Risk-free interest rate: 0.10 percent (previous year: –0.19 percent)
- Market risk premium: 8.0 percent (previous year: 8.00 percent)
- Beta factor (weighted average of a group of comparable companies): 1.19 (previous year: 1.27)

For the USA:
- Discount rates (WACC) before taxes: 10 percent (previous year: 9.98 percent)
- Risk-free interest rate: 2.10 percent (previous year: 1.65 percent)
- Market risk premium: 6.0 percent (previous year: 6.00 percent)
- Beta factor (weighted average of a group of comparable companies): 1.19 (previous year: 1.27)

Management has planned the cash flows for a period of 4 years (previous year: 4 years), after which a growth rate of 1.0 percent (previous year: 1.0 percent) was assumed for extrapolating the cash flow forecasts.

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.

Impairment:
The recoverable amount of the cash generating unit Softing Engineering & Solutions GmbH is determined on the basis of the calculation of a value in use, using cash flow forecasts based on cash flow plans approved by management for a period of 4 years.

The predicted cash flows were updated in 2021, since it was clear that the future costs for highly qualified personnel and IT security would increase over the long term and the expected future cash flows would therefore be lower than previously expected. The pre-tax discounting rate before tax applied for the cash flow forecasts is 11 percent (2020: 11.4 percent). Cash flows after a period of 4 years are extrapolated on the basis of a growth rate of 1.0 percent (2020: 1.0 percent). This growth rate corresponds to the assumed long-term average growth rate in the measurement and testing segment. The impairment test showed that the recoverable amount is below the carrying amount of the cash-generating unit. On the basis of this analysis, the Executive Board reported an impairment loss of EUR 1,000 thousand in the financial year ended (previous year: EUR 0 thousand). This impairment loss was recognized in the income statement under depreciation, amortization and impairment losses.

A 100-basis point increase in the discounting rate or a 5 percent decrease in EBIT would result in a further decrease in goodwill.

A change in the interest rate by 100 basis points would not lead to a write-down of goodwill in the cash-generating units, neither would a decrease in planned EBIT by 5 percent. One exception is the goodwill of Softing Engineering & Solutions GmbH, which would be subject to further impairment.

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 13,302 thousand (previous year: EUR 12,071 thousand).

In financial year 2021, the impairment test of capitalized assets did not reveal any need for correction (previous year: EUR 3,577 thousand).

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

	2021 EUR (in thsds.)	2020 EUR (in thsds.)
Capitalized development costs	3,653	3,668
Expenses not qualifying for capitalization	13,302	12,071
	16,955	**15,739**

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). With the exception of goodwill, 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 percent. 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. 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, 2021, approximately 47 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, 2021 EUR (in thsds.)	Dec. 31, 2020 EUR (in thsds.)
Raw materials and consumables	4,386	3,974
Finished goods	9,023	9,697
Inventories	**13,409**	**13,671**

Loss allowances recognized in 2021 total EUR 285 thousand (previous year: EUR 126 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, 2021	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)
Trade receivables (gross)	14,322	236	12,148	1,870	67	0	0
Risk provision (stage 2)	–19		–12	–6	–1		
Risk provision (stage 3)	–236	–236					
Trade receivables (net)	**14,066**	**0**	**12,136**	**1,864**	**66**	**0**	**0**

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

As of Jan. 1, 2021 EUR (in thsds.)	Use EUR (in thsds.)	Reversal EUR (in thsds.)	Addition EUR (in thsds.)	As of Dec. 31, 2021 EUR (in thsds.)
261	13	0	7	255

	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	0
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. 1, 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

9. CURRENT OTHER FINANCIAL ASSETS

	Dec. 31, 2021 EUR (in thsds.)	Dec. 31, 2020 EUR (in thsds.)
Insurance receivables	1,087	758
Loans, investees	150	0
Other financial assets	108	81
	1,345	**839**

10. CONTRACT ASSETS AND CONTRACT LIABILITIES

	Carrying amount	Of which neither past due nor impaired
Dec. 31, 2021	EUR (in thsds.)	EUR (in thsds.)
Contract assets (gross)	307	307
Risk provision (stage 2)	0	0
Contract liabilities	3,471	3,471
Net amount	**–3,164**	**–3,164**

	Carrying amount	Of which neither past due nor impaired
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**

Revenue of EUR 2,338 thousand (previous year: EUR 2,261 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 5,925 thousand (previous year: EUR 4,784 thousand) is allocated to the performance obligations that were partly or entirely unsatisfied at the end of the reporting period. Softing will recognize EUR 5,075 thousand (previous year: EUR 4,340 thousand) of the transaction price in the next reporting period and EUR 850 thousand (previous year: EUR 444 thousand) in subsequent periods. The transaction prices stated are prices for 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 538 thousand (previous year: EUR 556 thousand). The Group's taxes are described in detail in section D 9.

12. CASH AND CASH EQUIVALENTS

	Dec. 31, 2021 EUR (in thsds.)	Dec. 31, 2020 EUR (in thsds.)
Cash and cash equivalents	**9,613**	**10,166**

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, 2021 EUR (in thsds.)	Dec. 31, 2020 EUR (in thsds.)
Receivables from employees	25	24
VAT receivables	302	77
Prepaid expenses / prepayments	564	588
Advances paid	581	58
Other non-financial assets	86	103
	1,558	**850**

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 9,015,381 shares were outstanding in the reporting year (previous year: 9,080,751). Softing AG holds 90,000 of its own shares in treasury share (previous year: 90,000 shares)

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 percent 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, 2021, 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 percent 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 percent 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	April – December 2020	90	0.99	482	5.36
Balance on Dec. 31, 2021	**90,000**		**90**	**0.99**	**482**	

No treasury share transactions took place in 2021;

As of the reporting date, Softing AG held 90,000 shares in treasury (previous year: 90,000). 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" 2021/2020.

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 0.04) was paid out in the 2021 financial year for 2020. The Executive Board proposes a dividend of EUR 0.10 per share for financial year 2021. This corresponds to a total dividend of 902 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 531 thousand (previous year: EUR 82 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 the consolidated income statement. Accordingly, the deferred tax liabilities to be reversed in the amount of EUR 148 thousand (previous year: EUR 23 thousand) were reclassified from other comprehensive income to the consolidated 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 621 thousand (previous year: EUR 429 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 fair value of the reinsurance cover of EUR 3,430 thousand (previous year: EUR 3,318 thousand) was offset against pension provisions. Actuarial remeasurements were recognized immediately in retained earnings in accordance with IAS 19.120. The cumulative gains and losses reported in this item were EUR –1,743 thousand as of December 31, 2021 (previous year: EUR –2,040 thousand).

The pensions under variable commitments increase or decrease in line with the change in the Consumer Price Index for Germany (2015=100). It rose from 105.0 points to 110.5 points on average between 2021 and 2022.

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

Basis of calculation	Dec. 31, 2021 %	Dec. 31, 2020 %
Assumed interest rate	1.15	0.75
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	2021 EUR (in thsds.)	2020 EUR (in thsds.)
DBO as of January 1	6,378	6,294
Service cost	181	182
Interest expense	47	56
Pension payments to pensioners	–175	–176
Expected DBO as of December 31	**6,431**	**6,356**
Remeasurements, of which	–397	23
Effects from adjusting the assumed interest rate	–396	156
Effects from changes in trend assumptions	0	0
Effects from experience adjustments	–1	–133
Actual DBO as of December 31	**6,034**	**6,379**

The average remaining life of the obligation is 15.8 years (previous year: 18 years).

Calculation of annual income and annual expense	2021 EUR (in thsds.)	2020 EUR (in thsds.)
Interest income	25	29
Interest expense	–47	–56
Service cost	–181	–182
Annual expense	**–203**	**–209**

Development of plan assets	2021 EUR (in thsds.)	2020 EUR (in thsds.)
Plan assets as of January 1	3,318	3,210
Payment from plan assets	–75	–79
Payments into the employer’s plan assets	107	107
Interest earned from plan assets	25	29
Adjustment of plan assets	55	51
Plan assets as of December 31	**3,430**	**3,318**

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 2022 (previous year: EUR 107 thousand). Payments into plan assets of EUR 107 thousand are also expected in the years up to 2025.

Reconciliation with the statement of financial position	Dec. 31, 2021 EUR (in thsds.)	Dec. 31, 2020 EUR (in thsds.)
Present value of the defined benefit obligations (DBO)	6,034	6,379
Fair value of the external plan assets	3,430	3,318
Provision	**2,605**	**3,060**

Development of the provision	2021 EUR (in thsds.)	2020 EUR (in thsds.)
Provision as of January 1	3,060	3,085
Service cost	181	182
Net interest expense	22	27
Remeasurements	–450	–29
Pension payments	–175	–176
Benefit payment from plan assets	75	79
Payments into plan assets	–107	–107
Provisions as of December 31	**2,605**	**3,060**

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

	Effect on the obligation	
	Change Assumption –	Change Assumption +
Relative effect of interest rate change on DBO 2021	0.25 pp 4.0%	0.25 pp –3.8 %
Relative effect of interest rate change on DBO 2020	0.25 pp 4.3%	0.25 pp –4.0%

	Effect on the obligation	
	Change Assumption –	Change Assumption +
Relative effect of a change in the pension trend on DBO 2021	0.25 pp –1.0 %	0.25 pp 1.1%
Relative effect of a change in the pension trend on DBO 2020	0.25 pp –1.2 %	0.25 pp 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 175 thousand) are expected for the 2022 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 40 thousand (previous year: EUR 47 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 9,450 thousand as of December 31, 2021 (previous year: EUR 12,250 thousand).

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

As of the balance sheet date, the lease liabilities had a carrying amount of EUR 1,900 thousand (previous year: EUR 2,691 thousand), divided into non-current lease liabilities of EUR 1,066 thousand (previous year: EUR 1,490 thousand) and current lease liabilities of EUR 834 thousand (previous year: EUR 1,201 thousand).

In financial year 2021, other financial lease liabilities were repaid in the amount of EUR 1,227 thousand (previous year: EUR 1,244 thousand) and interest of EUR 87 thousand (previous year: EUR 121 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 1,329 thousand in financial year 2021 (previous year: EUR 1,379 thousand). As of the balance sheet date, EUR 1,993 thousand (previous year: EUR 2,849 thousand) was recognized for future cash outflows.

Possible future cash outflows of EUR 1,241 thousand (previous year: EUR 1,366 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, 2021, there were future cash outflows of EUR 3,986 thousand (previous year: EUR 0 thousand) 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, 2021, 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 1,736 thousand (previous year: EUR 2,557 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 15 thousand (previous year: EUR 14 thousand) and expenses for leases of low-value assets stood at EUR 0 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 7,226 thousand (previous year: EUR 5,999 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. 1, 2021 EUR (in thsds.)	Use EUR (in thsds.)	Reversal EUR (in thsds.)	Addition EUR (in thsds.)	As of Dec. 31, 2021 EUR (in thsds.)
Warranties	94	44	0	48	98
Other	9	9	0	66	66
Total	**103**	**53**	**0**	**114**	**164**

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 345 thousand (previous year: EUR 305 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 3,510 thousand (previous year: EUR 4,678 thousand), which in the financial year relates to the utilization of overdraft lines of credit.

21. OTHER CURRENT FINANCIAL LIABILITIES

	Dec. 31, 2021 EUR (in thsds.)	Dec. 31, 2020 EUR (in thsds.)
Wages and salaries payable	5,830	3,821
Lease liabilities (< 1 year)	834	1,201
PPP US coronavirus bridging allowance, see item 8 other information	0	856
Other	280	242
	6,945	**6,120**

22. CURRENT NON-FINANCIAL LIABILITIES

	Dec. 31, 2021 EUR (in thsds.)	Dec. 31, 2020 EUR (in thsds.)
Liabilities related to social security	392	363
Other tax liabilities primarily (sales and wage tax)	614	633
Other	160	91
	1,166	**1,087**

D. NOTES TO THE CONSOLIDATED INCOME STATEMENT

1. REVENUE

Revenue by regions:	2021 EUR (in thsds.)	2020 EUR (in thsds.)
Germany	25,150	22,617
USA	31,717	32,774
Other countries	27,823	22,206
	84,690	**77,597**

Revenue by products and services:	2021 EUR (in thsds.)	2020 EUR (in thsds.)
Products	72,271	68,533
Services	12,419	9,064
	84,690	**77,597**

Revenue recognized at a point in time / over time:	2021 EUR (in thsds.)	2020 EUR (in thsds.)
Point in time	72,271	68,533
Of which products:	72,271	68,533
Of which services:	0	0
Over time	12,419	9,064
Of which products:	0	0
Of which services:	12,419	9,064
	84,690	**77,597**

In 2021, one customer in the Industrial segment who was responsible for revenue of EUR 16,761 thousand (previous year: EUR 19,559 thousand) and 20 percent (previous year: 22 percent) of consolidated revenue exceeded the revenue threshold of 10 percent.

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:	2021 EUR (in thsds.)	2020 EUR (in thsds.)
Income from exchange differences	934	281
Income from insurance benefits	925	849
Revenue from the reduction of loss allowances	2	17
Income from receivables written off	0	1
Recharged costs	1	5
COVID-19 aid Singapore	36	187
Research grants	311	0
Income from commissions	277	192
Other income	362	171
	2,848	**1,703**

4. COST OF MATERIALS

	2021 EUR (in thsds.)	2020 EUR (in thsds.)
Purchase of components and products	38,075	34,298
Third-party services	1,000	832
	39,075	**35,130**

5. STAFF COSTS

	2021 EUR (in thsds.)	2020 EUR (in thsds.)
Current salaries	26,061	25,241
Social security and retirement benefit costs	4,421	4,259
Profit-sharing, royalties	2,867	1,707
Use of company cars by employees	–24	–14
Other temporary workers	283	491
	33,608	**31,684**

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

Expenses recognized for the statutory pension scheme total EUR 1,428 thousand (previous year: EUR 1,348 thousand). The service cost for pension provisions amounts to EUR 181 thousand (previous year: EUR 182 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). Impairment losses of EUR 1,000 thousand were recognized on goodwill in financial year 2021.

7. OTHER OPERATING EXPENSES

The other operating expenses are as follows:	2021 EUR (in thsds.)	2020 EUR (in thsds.)
Employee-related costs	177	229
Infrastructure costs	2,572	2,055
Distribution costs	2,041	1,927
Consulting costs	1,135	930
Third-party services	1,090	960
Capital market costs	298	316
Contributions and fees	189	143
Operating costs	374	386
Exchange differences	359	420
Other product development expenses	391	475
Cyberattack expenses	350	320
Other costs	461	235
	9,437	**8,394**

8. INTEREST INCOME / INTEREST EXPENSE

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

The total interest expense breaks down as follows:	2021 EUR (in thsds.)	2020 EUR (in thsds.)
Other interest expense		
Interest from unwinding of discounts on provisions	47	55
Interest on loans	193	193
Other interest	13	11
Total other interest expense	253	259
Interest from IFRS 16 lease accounting	87	122
	340	**381**

Interest income comprises the following items:	2021 EUR (in thsds.)	2020 EUR (in thsds.)
Interest income from pension provisions	25	29
Other interest	1	24
	26	**53**

The other finance income/finance costs of EUR 1,074 thousand (previous year: EUR –1,158 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:		2021 EUR (in thsds.)		2020 EUR (in thsds.)
Deferred taxes on temporary differences	260		1.293	
Deferred taxes on tax loss carryforwards	67		201	
Total deferred tax expense / income		327		1.494
Current tax expense / income financial year			–609	
Current tax expense / income previous year	–680		–46	
Total current tax expense / income	0	–680		–655
		–353		**839**
Effective tax rate		123.9%		0.0%

Due to the impairment of goodwill in the amount of EUR 1,000 thousand in the current financial year, which does not effect tax, the effective tax rate is 123.9 percent. Without this effect, the effective tax rate would be 27.5 percent.

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:

	2021 %	2020 %
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, 2021 EUR (in thsds.)	Dec. 31, 2020 EUR (in thsds.)	Usable until
Softing AG (trade tax)	5,087	4,202	Unlimited
Softing AG (corporation tax)	3,981	3,083	Unlimited
Softing Singapore	2,429	824	Unlimited
Softing North America Holding (State)	968	859	Unlimited
Buxbaum GmbH	0	64	Used
GlobalmatiX AG	3,539	2,106	Unlimited

Of the total tax loss carryforwards in the amount of EUR 16,004 thousand (previous year: EUR 11,092 thousand), EUR 12,070 thousand (previous year: EUR 10,062 thousand) was recognized on deferred tax assets. No deferred tax assets were recognized for tax loss carryforwards of EUR 3,934 thousand (previous year: EUR 1,030 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.

	2021 EUR (in thsds.)	2020 EUR (in thsds.)
Earnings before taxes	285	–5,420
Expected tax income / expense (28.08%)	80	–1,522
Tax additions and deductions	312	100
Impairment of goodwill	–280	0
Different tax rates	261	365
Other deferred taxes, temporary differences, loss carryforwards not recognized	–20	177
Taxes, previous years	0	41
Current tax expense shown in the income statement	**353**	**–839**

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

	2021 EUR (in thsds.)		2020 EUR (in thsds.)	
	Assets	Liabilities	Assets	Liabilities
Intangible assets	0	5,061	36	5,262
Pension provision	801		919	
(Of which recognized directly in equity)	(680)		(792)	
Currency translation (recognized directly in equity)		583		594
Contract assets / trade payables and trade receivables	47	261	35	395
Other provisions	97		123	
Current assets	73		9	
Deferred income		0		25
Future tax benefits from loss carryforwards	1,469		1,334	
Netting	–2,054	–2,054	–1,940	–1,940
Gross amount / carrying amount	**433**	**3,851**	**516**	**4,336**

E. OTHER DISCLOSURES

1. OPERATING SEGMENTS BY PRODUCT AND COMPANY

For the purpose of corporate management, the Group has business units based on the products and services offered. These business units are primarily reflected in individual Group entities. The Group has the following three reportable operating segments:

Industrial Automation Segment
This segment comprises the entities Online Development Inc., Softing Inc., Softing Italia, Buxbaum Automation GmbH, and Holding Softing North America Inc., as these entities mainly develop, manufacture and sell the following industrial products and applications:

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);

Development and import of motors and geared motors for various applications, as well as offering specialized expertise in AC, DC, brushless, induction and shielded pole technologies.

Automotive Segment
The segment comprises the entities Softing Automotive Electronics GmbH, Softing Engineering & Solutions GmbH as well as Globalmatix AG and Globalmatix Inc., which manufacture and sell the following automotive products and applications:

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.

Remote Diagnostics Telematics Services:
The use of GlobalmatiX telematics solutions creates the prerequisites for the complete digitalization of a connected car concept (connecting the vehicle with the possibilities of cloud technologies). This will simplify complex return processes for rental cars, car sharing models and vehicle subscription provider in a customer-friendly way and make them more cost-effective.

IT Networks Segment
The IT Networks segment comprises the subsidiaries Softing IT Networks GmbH, Softing Singapore and Softing France.

The product portfolio includes 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.

Other Segment
The Other segment comprises the entities Softing Services GmbH, Softing Romania, Softing China and Softing AG insofar as these do not provide services for other segments and costs are charged to them.

2. SEGMENT REPORTING

Segmentation is primarily along the main product groups and use cases, with these being mainly reflected in the Group companies that manufacture and distribute the respective main products. 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.

	Industrial		Automotive		IT Networks		Other		Total segments		Other consolidation		Total	
	2021 EUR (in thsds.)	2020 EUR (in thsds.)	2021 EUR (in thsds.)	2020 EUR (in thsds.)	2021 EUR (in thsds.)	2020 EUR (in thsds.)	2021 EUR (in thsds.)	2020 EUR (in thsds.)	2021 EUR (in thsds.)	2020 EUR (in thsds.)	2021 EUR (in thsds.)	2020 EUR (in thsds.)	2021 EUR (in thsds.)	2020 EUR (in thsds.)
Revenues with third parties	60,465	56,867	15,688	13,313	7,149	5,897	1,388	1,519	84,690	77,597	0	0	84,690	77,597
Revenues with other segments	499	343	210	185	1,242	1,162	0	0	1,950	1,690	−1,950	−1,690	0	0
Total revenue	60,964	57,210	15,897	13,499	8,391	7,059	1,388	1,519	86,640	79,287	−1,950	−1,690	84,690	77,597
Depreciation / amortization	−3,051	−3,191	−3,430	−3,122	−1,120	−925	−949	−880	−8,551	−8,117	3	3	−8,547	−8,114
Impairment of assets	0	0	−1,000	−3,577	0	0	0	0	−1,000	−3,577	0	0	−1,000	−3,577
Operating segment result	5,061	5,249	−1,734	−3,154	−662	−553	158	−162	2,823	1,380	194	304	3,017	1,684
EBIT	4,204	4,489	−2,551	−7,168	−830	−648	60	−182	883	−3,510	−1,357	−424	−475	−3,934
Segment assets	49,964	46,417	37,087	39,210	13,507	13,051	21,931	23,150	122,489	121,828	−19,128	−16,638	103,362	105,191
of which IFRS 16	674	957	385	554	186	149	492	897	1,736	2,557	0	0	1,736	2,557
Segment liabilities	16,172	14,806	9,066	8,430	2,725	2,517	31,679	36,929	59,643	62,682	−19,830	−20,501	39,813	42,181
of which IFRS 16	393	678	242	397	90	61	341	354	1,066	1,490	0	0	1,066	1,490
Capital expenditure	1,578	2,172	2,202	2,413	1,779	1,729	753	812	6,313	7,125	0	0	6,313	7,125

Revenue from contracts with customers recognized over time	Industrial		Automotive		IT Networks		Other		Total	
	2021 EUR (in thsds.)	2020 EUR (in thsds.)	2021 EUR (in thsds.)	2020 EUR (in thsds.)	2021 EUR (in thsds.)	2020 EUR (in thsds.)	2021 EUR (in thsds.)	2020 EUR (in thsds.)	2021 EUR (in thsds.)	2020 EUR (in thsds.)
Point in time	56,190	53,267	7,559	7,849	7,134	5,897	1,388	1,519	72,271	68,534
Over time	4,275	3,601	8,129	5,464	15	0	0	0	12,419	9,063
Total	60,465	56,868	15,688	13,313	7,149	5,897	1,388	1,519	84,690	77,597

The column entitled “Other” comprises the business activities of Softing AG’s centralized units and the costs not allocable to the segments. The majority of Softing AG’s costs are allocated to the operating segments based on their origin.

Earnings before interest and taxes (EBIT) and the resulting operating EBIT of EUR 3,017 thousand (previous year: EUR 1,640 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 3,653 thousand (previous year: EUR 3,668 thousand) and amortization of internally generated and third-party product developments of EUR 4,552 thousand (previous year: EUR 7,231 thousand), and depreciation and amortization from purchase price allocation of 2,593 thousand (previous year: EUR 2,010 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		Fixed assets		Additions to fixed assets	
	2021 EUR (in thsds.)	2020 EUR (in thsds.)	2021 EUR (in thsds.)	2020 EUR (in thsds.)	2021 EUR (in thsds.)	2020 EUR (in thsds.)
Germany	25,150	22,617	24,600	27,688	3,961	5,406
USA	31,717	32,774	18,251	17,878	35	74
Other countries	27,823	22,206	19,240	18,264	2,317	1,645
Total	**84,690**	**77,597**	**62,092**	**63,830**	**6,313**	**7,125**

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.

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 reconciliation was as follows:

Changes in liabilities arising from financing activities	EUR (in thsds.)	EUR (in thsds.)
	BORROWINGS	**Leases**
Liabilities from financing activities as of January 1, 2020	**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 December 31, 2020	**16,934**	**2,691**
Cash flows	3,968	–1,227
Acquisitions of leases		403
Exchange rate changes		54
Changes in fair value		–21
Liabilities from financing activities as of December 31, 2021	**12,966**	**1,900**

Borrowings consist of short-term borrowings of EUR 3,510 thousand (previous year: EUR 4,678 thousand) and long-term borrowings of EUR 9,456 thousand (previous year: EUR 12,256 thousand).

Leases consist of non-current leases of EUR 835 thousand (previous year: EUR 1,201 thousand) and long-term borrowings of EUR 1,065 thousand (previous year: EUR 1,490 thousand).

4. EARNINGS PER SHARE IAS 33

		2021	2020
Consolidated profit attributable to shareholders of Softing AG (diluted = basic consolidated profit)	EUR (in thsds.)	–256	–4,738
Non-controlling interests	EUR (in thsds.)	187	157
Consolidated profit	**EUR (in thsds.)**	**–69**	**–4,581**
Weighted average number of shares			
Basic	Number	9,015,381	9,080,751
Diluted	Number	9,015,381	9,080,751
Basic earnings per share	EUR	-0.01	-0.50
Diluted earnings per share	EUR	-0.01	-0.50

As in the previous year, no options rights exist as of December 31, 2021, 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 percent (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.

Mr. Alois Widmann, Managing Director of GlobalmatiX AG, holds 1,450,000 (previous year: 1,450,000) shares, i.e. 15.92 percent of Softing's shares.

The dividend payment to the major shareholder amounted to EUR 140 thousand in the 2021 financial year (previous year: EUR 140 thousand).

The key management personnel at Softing in accordance with IAS 24 consists of the Executive Board and the Supervisory Board, and the executive management of GlobalmatiX AG, because that executive management holds 15.92 percent of the shares in Softing AG and has a material influence on the future strategy of the Company. 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, 2021 (previous year: 163,234).

The Executive Board member Ernst Homolka held 9,400 shares in Softing AG as of December 31, 2021 (previous year: 5,900 shares).

The Supervisory Board member, Dr. Klaus Fuchs, held 278,820 shares in Softing AG as of December 31, 2021 (previous year: 278,820).

The Supervisory Board member, Andreas Kratzer, held 10,155 shares in Softing AG as of December 31, 2021 (previous year: 10,155).

Dividends totalling EUR 76 thousand (previous year: EUR 76 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 total remuneration of related parties in key positions amounts to EUR 2,265 thousand (previous year EUR 1,594 thousand).

Transactions with Related Parties (Persons):
The Supervisory Board member Dr. Fuchs received a total fee of EUR 51 thousand (previous year: EUR 59 thousand) for providing consulting services in connection with the coordination of Softing IT Networks.

Transactions with Key Management Personnel:
Group companies acquired assets from xTCU AG in financial year 2021 and 2020 at arm's length conditions. A person in a key position of the Group is a controlling shareholder of xTCU AG. A contract exists between the Group and xTCU AG for the supply of technical components and development services.

The transactions were of the following value.

	Value of transactions in EUR thousand		Balances outstanding in EUR thousand	
Purchase of services	**2021**	**2020**	**2021**	**2020**
Other related parties (persons)	51	59	51	59
Company under the control of a related party (person)	322	835	–51	13
Sale of goods and purchase of services				
Company under the control of a related party (person)	420		6	

6. CONTINGENT LIABILITIES

As of the balance sheet date, the subsidiaries have provided EUR 14,710 thousand (previous year: EUR 14,710 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 8,858 thousand under long-term contracts (previous year: EUR 2,376 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.

8. GOVERNMENT GRANTS

	2021 EUR (in thsds.)	2020 EUR (in thsds.)
As of January 1, 2020		0
Received in the financial year		1,303
of which reversed through profit or loss		443
As of December 31, 2020	860	860
of which current	860	860
of which non-current	0	
Received in the financial year	604	
Total reversed through profit or loss	1,464	
As of December 31, 2021	0	

Public grants were provided by public authorities by way of contributions to current expenses during the COVID-19 pandemic. An amount of EUR 1,154 thousand (previous year: 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 expected the terms to not be fully met and therefore recognized these grants as a current financial liability in 2020. The grants were then recognized in profit or loss against personnel expenses in 2021 as the Group met the government requirements. The Group also received grants for a research project in the field of autonomous driving amounting to EUR 310 thousand (previous year: EUR 0 thousand).

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, 2021, 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, 2021	Amortized cost	Fair value OCI	Fair value PL	Dec. 31, 2021	
Non-current financial assets							
Other investments	FVTPL	1,500			1,500	1,500	Level 3
Current financial assets							
Trade receivables	AC	14,066	14,066			14,066	Level 2
Current other financial assets	AC	1,344	1,344			1,344	Level 2
Cash and cash equivalents	AC	9,613	9,613			9,613	Level 2
Foreign currency forwards not designated as hedging instruments	FVTPL	0	0			0	Level 2
Financial liabilities by class							
Non-current financial liabilities							
Long-term borrowings	FLAC	9,456	9,456			9,445	Level 2
Other non-current financial liabilities		1,074					
of which liabilities from lease accounting	n / a	1,065	n / a				
of which long-term repayment obligation	FLAC	9	9			9	
Current financial liabilities							
Trade payables	FLAC	7,226	7,226			7,226	Level 2
Short-term borrowings	FLAC	3,510	3,510			3,510	Level 2
Other current financial liabilities		6,945					
of which liabilities from lease accounting	n / a	835	n / a				
of which miscellaneous other current financial liabilities	FLAC	6,110	6,110			6,110	Level 2

Carrying amount by category	Category	Dec. 31, 2021 EUR (in thsds.)
Financial assets at amortized cost	AC	25,023
Financial assets at fair value through profit or loss	FVTPL	1,500
Financial liabilities at amortized cost	FLAC	26,311

EUR (in thsds.)	Categories acc. to IFRS 9	Carrying amount	Measure-ment 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							
Other investments	FVTPL	1,500			1,500	1,500	Level 3
Current financial assets							
Trade receivables	AC	14,321	14,321			14,321	Level 2
Current other financial assets	AC	839	839			839	Level 2
Cash and cash equivalents	AC	10,166	10,166			10,166	Level 2
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	Level 2
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	Level 2

Carrying amount by category	Category	Dec. 31, 2020 EUR (in thsds.)
Financial assets at amortized cost	AC	25,326
Financial assets at fair value through profit or loss	FVTPL	1,500
Financial liabilities at amortized cost	FLAC	27,881
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 2021 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. Markdowns of 52 percent 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 percent increase/decrease in the expected cash flows would result in a three-digit EUR 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 fair value of foreign currency forwards not designated as hedges is EUR 0 thousand.

The Group only enters into foreign currency forwards with investment-grade financial institutions. Present value computation-based forward price models are among the most frequently used valuation methods. These models include various factors, e.g. the credit ratings of business partners, spot and forward exchange rates, yield curves for selected foreign currencies, currency spreads between selected foreign currencies, yield curves and forward curves for the underlying commodities.

On December 31, 2021, the derivative position valued on a mark-to-market basis does not include any loss allowance for the default risk of the counterparty for the derivative due to the short duration. Gains and losses from foreign currency forwards are recognized in the financial result.

The payment obligation arising from the payment based on the enterprise value in 2021 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 2021 and 2020 are shown in the following overview:

Net gains and losses, 2021 (EUR thsds.)		Interest	Impairment	Currency translation gains / losses	Net gain / loss
from financial assets at amortized cost	AC	1	2	1,649	1,653
from financial liabilities at amortized cost	FLAC	–206			–206

Net gains and losses, 2020 (EUR thsds.)		Interest	Impairment	Currency translation gains / losses	Net gain / loss
from financial assets at amortized cost	AC	24	17	–1,298	–1,256
from financial liabilities at amortized cost	FLAC	–205			–205

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 at amortized cost totaled EUR 1 thousand in the current period, while interest expense on financial liabilities at amortized cost came to EUR 206 thousand. In the previous year, interest income on loans and receivables had amounted to EUR 24 thousand, while interest expense on financial liabilities at amortized cost had stood at EUR 205 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, 2021, and December 31, 2020.

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 61.5 percent (previous year: 59.9 percent).

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 63,584 thousand (previous year: EUR 63,010 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.

With the exception of the major customers mentioned under D1., there are no material 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, 2021, and December 31, 2020, there was no material counterparty credit risk. While the Executive Board therefore believes the risk of non-fulfillment on the part of its contractual partners to be very low, it cannot completely exclude the risk in the final analysis.

Counterparty credit risks primarily concern trade receivables. Loss allowances are recognized to allow for any discernable counterparty credit risks in connection with individual financial assets. Loss allowances as of December 31, 2021, totaled EUR 255 thousand (previous year: EUR 261 thousand).

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

Interest Rate Risks

Softing is also exposed to interest rate risks. The assets subject to interest rate fluctuations essentially concern cash and cash equivalents and securities classified as current assets. Bank balances totaling EUR 9,613 thousand (previous year: EUR 10,166 thousand) bear interest of 0.00 percent (previous year: 0.00 percent). No material interest rate risks result from subsidiaries' liabilities to banks in the amount of EUR 12,966 thousand (previous year: EUR 16,934 thousand) because these loans in the amount of EUR 12,256 thousand are fixed-interest loans.

An increase of the market interest rate by 50 basis points would have an impact of EUR 4 thousand (previous year: EUR 15 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.

The following sensitivities apply with regard to USD:

In EUR thsd./USD			USD			
Closing rate: USD 1.23			1.25 +10%	1.02 –10%	Difference	Difference
Financial assets / liabilities	**USD**	**USD in EUR**			**+10%**	**-10%**
Trade receivables	4,655	4,110	3,736	4,566	–374	457
Receivables from affiliated companies	16,105	14,220	12,927	15,800	–1,293	1,580
Other current assets	221	195	178	217	–18	22
Cash and cash equivalents	5,047	4,456	4,051	4,951	–405	495
Current liabilities	–7,192	–6,350	–5,773	–7,056	577	–706
	18,836	**16,630**			**–1,512**	**1,848**

Movements in the USD:EUR exchange rate would in part be reflected in the equity of the Softing Group and in part in the consolidated income statement.

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 9,613 thousand (previous year: EUR 10,166 thousand), accounting for 9.3 percent (previous year: 10.0 percent) 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, 2021 (EUR thsd.)	Up to 1 year	2–5 years	More than 5 years
Financial liabilities			
Loan	3,510	9,456	
Lease liabilities	834	1,066	
Trade payables	7,226		
Other financial liabilities	6,945		

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	

11. HEDGING RELATIONSHIPS AND DERIVATIVES

The Softing Group is exposed to certain risks in its business operations due to its international activities. The Softing Group manages the related currency risk partly by means of the sporadic use of derivative financial instruments.

The Softing Group's risk management strategy and its implementation are explained in Note E.10.

Derivatives Not Designated as Hedging Instruments

The Softing Group uses forward exchange contracts to hedge a portion of the transaction risks. These forward exchange contracts are not designated as cash flow hedges. The period for which these forward exchange contracts are entered into corresponds to the period for which a foreign currency risk applies in relation to the hedge, generally up to 3 months. Forward exchange contract are also entered into on a revolving basis.

12. PERSONNEL

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

	2021	2020
As of the balance sheet date	388	397
Annual average	388	399
Marketing & Sales	115	126
Research & Development	217	221
Administration & General	45	42
Management	11	10

13. EXECUTIVE BOARD REMUNERATION

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

Benefits granted EUR (in thsds.)	Total	
	2021	2020
Fixed remuneration	787	738
Fringe benefits	80	50
Total	867	788
Discretionary bonus	100	25
One-year variable remuneration	259	210
Multi-year variable remuneration	399	469
One-year variable remuneration based on enterprise value	534	0
Total	1,292	704
Pension expense	76	75
Total remuneration	2,235	1,567

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 3,919 thousand (previous year: EUR 2,517 thousand).

In addition, unused vacation days in the amount of EUR 16 thousand from the previous year were settled in the financial year (previous year: EUR 0 thousand).

The obligations from non-reinsured pension expenses for the Executive Board amount to EUR 1,115 thousand (previous year: EUR 1,354 thousand).

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

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.

Furthermore, service cost of EUR 181 thousand (previous year: EUR 182 thousand) was recognized.

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

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

Pension obligations for former members of the Executive Board as of December 31, 2021 totaled EUR 2,773 thousand (previous year: EUR 3,031 thousand). The total remuneration of former members of the Executive Board amounted to EUR 175 thousand (previous year: EUR 182 thousand).

All other details are presented in the remuneration report pursuant to Section 162 AktG.

14. SUPERVISORY BOARD

The following persons were members of the Supervisory Board of Softing AG in the 2021 financial year:

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

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. Kratzer does not hold any offices on other supervisory boards.

Dr. Fuchs does 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 percent of Group EBIT before variable Supervisory Board remuneration. The chairman receives twice the fixed and variable remuneration, the deputy chairman one and a half times of that amount.

Remuneration for the members of the Supervisory Board in the reporting period totaled EUR 45 thousand (previous year: EUR 45 thousand) and is comprised as follows:

EUR (in thsds.)	Fixed		Variable		Total	
	2021	2020	2021	2020	2021	2020
Dr. Horst Schiessl (chairman)	20	20	0	0	20	20
Andreas Kratzer	15	10	0	0	15	10
Dr. Klaus Fuchs	10	15	0	0	10	15
Total remuneration	45	45	0	0	45	45

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 45 thousand).

The total remuneration for the Executive Board and the Supervisory Board amounts to EUR 2,265 thousand (previous year: EUR 1,594 thousand).

15. AUDITOR'S FEES

The following expenditure (including expenses) was incurred in the financial year just ended for services provided by the 2021 auditor, Rödl & Partner GmbH:

	2021 EUR (in thsds.)	2020 EUR (in thsds.)
Audit of annual financial statements	122	134
Other services	71	
	193	**134**

16. EVENTS AFTER THE REPORTING PERIOD

Ukraine Crisis

At present, the war of aggression being waged by Russia and Belarus against Ukraine since late February 2022 and the resulting sanctions imposed on Russia and Belarus are having virtually no impact on the Softing Group's business activities. The Softing Group has hardly any customer relationships in the affected countries and does not procure anything from them. Nevertheless, the Softing Group is following the latest developments closely, as indirect effects could arise from a further increase in inflation, a deterioration in the economic climate and further shortages on the procurement market. The impact of these effects largely depends on how long the military conflict lasts and how long sanctions are imposed on Russia and Belarus and is currently difficult to assess.

Softing Automotive Electronics Kirchentellinsfurt GmbH, Kirchentellinsfurt, was merged with Softing Automotive Electronics GmbH, Haar, with retrospective effect as of January 1, 2022.

In January 2022, Softing AG established GlobalmatiX, Haar. This company will in the future coordinate sales and marketing activities for GlobalmatiX products.

A new property lease was signed in the reporting period.

This property lease is for the Group's headquarters in Haar and is effective from March 1, 2022. Due to a change of lessor and because this is a new and entirely separate lease, it will only be recognized in the statement of financial position from the first quarter of 2022 onwards.

17. DECLARATION PURSUANT TO SECTION 289F AND 315D GERMAN COMMERCIAL CODE

The declaration pursuant to Section 289f and 315d of the German Commercial Code 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 18, 2022

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, 2021, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1, 2021 to December 31, 2021, 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 1, 2021 to December 31, 2021. 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, 2021, and of its financial performance for the financial year from January 1, 2021 to December 31, 2021, 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.

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 combined 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 1, 2021 to December 31, 2021. 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 8,194 thousand from the development 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 17,064 thousand (16.5 percent of total assets and 26.9 percent 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 a write-down of EUR 1,000 thousand was necessary in the cash-generating unit Softing Engineering & Solutions GmbH.

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 und 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 13,077 thousand for internally generated product developments is reported under the "Other 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 3,653 thousand to consolidated profit in the financial year. This was offset by amortization of internally generated intangible assets amounting to EUR 3,788 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 (sales forecasts, impairment tests). 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

The executive directors and the Supervisory Board are responsible for the other information. The other information comprises:

- the statements in accordance with Section 297 (2) sentence 4 HGB and Section 315 (1) sentence 5 HGB on the consolidated financial statements and the combined management report,
- the report of the Supervisory Board,
- the disclosures in the "Corporate Responsibility Report" section of the annual report,
- the remaining parts of the "annual report",
- the foreword of the Executive Board, which is expected to be made available to us after the date of this auditor's report,
- but not the consolidated financial statements, not the audited content of the combined management report, and not our auditor's report thereon.

The Supervisory Board is responsible for the report of the Supervisory Board. In all other respects, the executive directors are responsible for the other information.

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 on the information available to us before the date of this auditor's report, 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 (3a) 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_31-12-2021.zip (SHA256 hash value: 4d8574a2edaf732fa5e60d9ad21e65a05a48c4800862608f78ad830f6bb84ff0) 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 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 2021 to December 31, 2021 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 electronic file in accordance with Section 317 (3a) HGB, and the IDW Assurance Standard: Assurance in accordance with Section 317 (3a) HGB on the Electronic Reproduction of Financial Statements and Management Reports Prepared for Publication Purposes (IDW AuS 410 (10.2021)). 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 of the Company 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 of the Company 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 Supervisory Board is responsible for overseeing the process of preparing 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) in accordance with the requirements of Articles 4 and 6 of the Delegated Regulation (EU) 2019/815, in the version applicable at the date of the consolidated financial statements 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 5, 2021. We were engaged by the Supervisory Board on November 10, 2021. 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).

OTHER MATTER – USE OF THE AUDITOR'S REPORT

Our auditor's report must always be read together with the audited consolidated financial statements and the audited combined management report as well as the assured ESEF documents. The consolidated financial statements and the combined management report converted to the ESEF format – including the versions to be published in the Federal Gazette – are merely electronic renderings of the audited consolidated financial statements and the audited combined management report and do not take their place. In particular, the ESEF report and our assurance opinion contained therein are to be used solely together with the assured ESEF documents made available in electronic form.

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Felix Haendel.

Munich, Germany, March 18, 2022

Rödl & Partner GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

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

Report of the Supervisory Board

for Financial Year 2021

The Supervisory Board of Softing AG carried out its duties as provided by law and the Company's Articles of Incorporation in financial year 2021. 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 6 Supervisory Board meetings were held in the 2021 financial year:

on March 19, March 25, May 5, July 23, October 28 and December 17.

Furthermore, two Audit Committee meetings were held in the 2021 financial year:

on March 1 and October 28.

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 Audit Committee meeting held on March 1, 2021, the Audit Committee informed itself about the progress of the 2020 annual audit and the expected results.

At the Supervisory Board meetings on March 19, 2021 and March 25, 2021, the Supervisory Board dealt with the Company's performance in the 2020 financial year and the first results for 2021. 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, 2020, 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 2021 General Shareholders' Meeting. Due to the COVID-19 pandemic, the Supervisory Board and Executive Board decided to hold a virtual General Shareholders' Meeting again.

In the Supervisory Board meeting on May 5, 2021 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 23, 2021, 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. The Executive Board reported on the status and measures in the pandemic and the estimated vaccination status among employees. The Supervisory Board also adopted the risk report for the first half of 2021. Furthermore, the Supervisory Board suggested inviting a responsible managing director for each segment to the planning meeting in December.

At the meeting on October 28, 2021, the Executive Board provided detailed data and background information on the business figures for the first nine months of 2021 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 on product supply capabilities were among the other topics addressed at this meeting, The Executive Board also reported on the negotiations for the new lease for the headquarters in Haar near Munich. The Executive Board is seeking to sign a seven-year lease with the new owner of the property. The portfolio strategy of the Softing Group was discussed. At the subsequent meeting of the Audit Committee, attended by the responsible auditors, the focal points of the audit of the 2021 financial statements were determined.

At the Supervisory Board meeting held on December 17, 2021, the Executive Board presented to the Supervisory Board a first estimate of the 2021 annual results, its business plan for 2022 and its multi-year planning. After careful review, the Supervisory Board approved the two plans. As suggested by the Supervisory Board, managing directors were present in some cases when the planning for the segments was discussed. This was followed by the report on the performance of the GlobalmatiX acquisition. Mr. Homolka presented the risk report for the second half of 2021 and answered the Supervisory Board's follow-up questions. The annual review of the remuneration system for the Executive Board was performed. 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 2021. There was no conflict of interest of members of the Supervisory Board in the financial year just ended. The independence of the financial experts 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), Mr. Andreas Kratzer (Deputy Chairman) and Dr. Klaus Fuchs. The duties of the Audit Committee were performed by Dr. Schiessl and Mr. Kratzer. 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, 2021, 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 18, 2022, 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 2021 at its meeting on March 18, 2022. 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 2021 financial year.

Haar, Germany, March 18, 2022

Dr. Horst Schiessl
Chairman

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