Annual Report 2023

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Consolidated Key Figures

		2023	2022	2021	2020	2019
Incoming orders	(EUR million)	63.7	155.8	104.8	72.8	95.6
Revenue	(EUR million)	112.6	98.3	84.7	77.6	91.1
EBIT (operating)	(EUR million)	5.6	3.3	3.0	1.6	4.1
EBITDA (IFRS)	(EUR million)	13.9	9.7	9.1	7.8	12.1
EBIT (IFRS)	(EUR million)	–2.7	0.8	–0.5	–3.9	4.3
Consolidated profit (IFRS)	(EUR million)	–5.4	–1.2	–0.1	–4.6	2.9
Earnings per share (IFRS)	(EUR)	–0.60	–0.13	–0.01	–0.50	0.31
Non-current assets	(EUR million)	56.6	64.4	62.5	64.3	70.6
Current assets	(EUR million)	46.5	46.1	40.8	40.9	46.1
Equity	(EUR million)	54.6	61.8	63.5	63.0	69.6
Equity ratio	(in %)	53.0	56.0	61.5	59.9	59.6
Cash and cash equivalents	(EUR million)	4.9	6.8	9.6	10.2	14.9
Number of employees (annual average)		432	395	388	399	404

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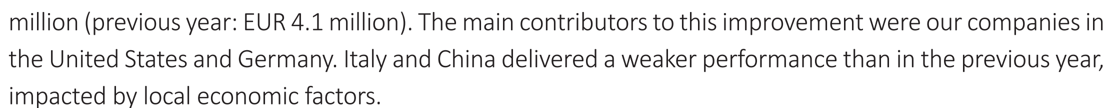
DEAR SHAREHOLDERS, EMPLOYEES, PARTNERS AND FRIENDS OF SOFTING AG,

To get straight to the point: even though we faced a number of challenges in 2023, it was a good year for Softing. We made significant headway not only in terms of growth and profitability, but also in product and market development. Some measures had a visible impact as early as 2023, but other steps are only just starting to take effect or will do so in subsequent years.

Softing gained momentum once more, with revenue comfortably passing the EUR 100 million threshold for the first time ever on a purely organic basis. We lifted revenue by over 14% to EUR 112.6 million from EUR 98.3 million in the previous year. In addition to the development of new customer relationships and the expansion of existing ones, this is thanks in no small measure to the clearing of backorders from 2022. Yet, even if – due to the delivery backlog – we look at the average of revenue for 2022 and 2023 instead of revenue for the individual year, we still achieved organic growth of around 8% in this two-year period.

The materials procurement teams, which we strengthened in response to the supply chain issues, were highly successful and became increasingly skilled at procuring the required quantities of electronic components and repeatedly aligning production with the components available. This in turn enabled us to make deliveries within significantly shorter time frames. As a result, incoming orders in 2023 returned a more normal level of EUR 63.7 million, down from the extremely high figure of EUR 155.8 million recorded for the previous year, which was dominated by concerns about delivery deadlines. If we also averaged this over two years, annual incoming orders would be around EUR 110 million. The faster delivery times also benefited orders on hand, which stood at EUR 45.1 million as of December 31, 2023 (previous year: EUR 89.9 million).

Once again, the Industrial segment made the largest contributions to both revenue and earnings, generating revenue of EUR 83.0 million (previous year: EUR 72.0 million). We are especially pleased about the trend in operating EBIT in our largest segment, which climbed to EUR 9.8 million from EUR 4.9 million in 2022, giving an operating EBIT margin of around 12%. EBIT came in at a slightly lower level, at EUR 8.8



million (previous year: EUR 4.1 million). The main contributors to this improvement were our companies in the United States and Germany. Italy and China delivered a weaker performance than in the previous year, impacted by local economic factors.

The Automotive segment achieved long-term sales success with new hardware and software products. We expanded our customer base for diagnostic and testing solutions by adding new and advanced software solutions, primarily increasing the proportion of business done with software leasing (SaaS) models. Installing test benches at new customers also gave our revenue a significant boost, resulting in an 18.1% increase in revenue from EUR 19.3 million to EUR 22.8 million for the Automotive segment. This figure does not yet include any relevant revenue from the major order placed by a premium manufacturer to equip its global production facilities. The resulting surge in revenue will only start in the current year. All of the core areas of the Automotive segment made a positive contribution to EBIT.

Our GlobalmatiX subsidiary won additional customers for piloting its telematics solutions for vehicles. However, orders for feasibility studies were postponed by customers and revenue fell significantly short of the guidance. We developed and tested new products to be used for innovative tire protection, keyless operation of rental fleets and concealed theft protection. While this kept costs high, it differentiates us from generic low-cost solutions on the market and will serve as a jumping-off point for revenue growth in subsequent years. Even in the opening months of the current year, we received new orders that sent out an important signal. We believe that these and very specific discussions about near-term deliveries confirm our strategy despite the negative impact on the Automotive segment caused by GlobalmatiX. We expect revenue to rise in the current year, which will at least significantly ease financial pressure.

The continued high level of market entry investments in the area of telematics services eroded improvements in the Automotive segment to some degree. Operating EBIT, our primary key performance indicator, increased by EUR 1 million to EUR –0.9 million (previous year: EUR –1.9 million), but remained negative and points to a need for further action. In addition, EBIT for the Automotive segment was reduced by non-recurring effects of over EUR 3.0 million caused by the correction of goodwill and the amount capitalized for GlobalmatiX software.

It was a turbulent year for the IT Networks segment. We significantly expanded our product portfolio last year and closed gaps, particularly in the area of fiber optic technology. The final market launch of the LinkXpert series took place in the latter half of the year, when we also took over sales of arc fusion splicers for connecting fiber optic cables. However, because the typical lead time in this market segment is six to eight months, the effects will only become fully visible in the current year, for which we anticipate double-digit growth. In 2023, the surprise total loss of a contract manufacturer from the United States also impacted on our operations. Despite moving the orders to two German manufacturers right away, it meant that we were unable to deliver two product lines, each with an annual revenue potential in excess of EUR 1 million, for seven and eleven months respectively due to the lead times.

Our acquisition of Psiber Data GmbH led to the creation of the IT Networks segment. Transforming from a sales organization with third-party products into a company that manufactures most of its own products had a financial impact. For accounting reasons, the figures recognized for distribution, which are now declining, may not be offset against the figures for the new product business. Goodwill was corrected in the amount of EUR 5.1 million. Even though this one-off correction had no impact whatsoever on cash flow, it had a significant adverse effect on segment EBIT.

Revenue for the IT Networks segment was slightly lower at EUR 7.3 million (previous year: EUR 7.7 million) due to the protracted supply disruption for the two top-selling device series. This, along with the ongoing costs of setting up a pan-European sales organization and the expenses for developing a core product for IT Networks from scratch, kept operating EBIT in negative territory at EUR –2.6 million (previous year: EUR –2.4 million). We expect earnings to shoot up in the current year now that the entire portfolio can be delivered from stock and an important new product is due out in the fall.

Operating EBIT for the entire Softing Group, i.e. EBIT adjusted for capitalized development services of EUR 5.7 million and amortization and impairment of EUR 6.2 million on these as well as effects from purchase price allocation, totaled EUR 5.6 million in 2023 (previous year: EUR 3.3 million), significantly exceeding the prior-year figure for operating EBIT of EUR 3.0 million to EUR 3.5 million in spite of the challenges described above.

EBIT for the 2023 financial year is mainly impacted by the restatement of goodwill in the IT Networks and GlobalmatiX segments in the aggregate amount of EUR 6.2 million and the related valuation allowances recognized on internally developed software of EUR 2.0 million. The one-off correction of goodwill reduced consolidated EBIT to EUR –2.7 million in 2023 from EUR 0.8 million in the previous year. Even after adjusting for non-recurring impairment losses, EBIT significantly exceeded the guidance at EUR 5.5 million.

The current political and economic backdrop remains very challenging for our work, to say the least. Summing up the political situation briefly: Russia continues to wage war in Europe, a new, horrific conflict has broken out in the Gaza Strip, and China continues to augment its military capabilities at record speed despite its economic problems. The last remaining military superpower – the USA – goes to the polls this year, and we could well see the election of an egomaniac who is intellectually unfit to lead the Western world. Meanwhile, Germany is essentially lacking political leadership, rendering it insignificant on the world stage. Instead of using tax revenue primarily to fund growth and education, the federal government is squandering them on completely excessive social benefits for purely consumption-oriented measures and businesses wherever it can. In short, remaining calm and optimistic in this difficult situation requires some energy.

Economic forecasts for Germany and Europe assume stagnation or at most slight growth – at least for the first half of 2024. Major US companies in the automation industry project that demand will initially decline and do not expect fresh growth stimulus until the second half of the year. China is not expected to grow at all this year. The 5% growth forecast by the Chinese government is wishful thinking at best. Softing's strategy is therefore to exploit potential with our existing customers to the fullest, to examine opportunities for non-organic growth and to shore up profitability through disciplined cost management.

We anticipate that Industrial Automation will post weaker revenue in the first half of the year before recovering at least to some extent in the second half. For Automotive we expect to see higher revenue with much better margins thanks to the strong positioning in longer-term projects. Revenue for GlobalmatiX should rise significantly, creating an improved earnings position. IT Networks will benefit from the availability of the entire product range and from significantly expanded sales channels – the latter boosting revenue in the second half of the year in particular.

In view of the economic situation, we project revenue of between EUR 105 million and EUR 113 million at Group level for 2024. We expect the Softing Group to generate operating EBIT of between EUR 5.0 million and EUR 7.0 million, with a much-improved positive EBIT in the range of EUR 3.0 million to EUR 4.5 million.

The Executive Board continues to base its planning on a normal procurement situation for electronic components and an only moderate recession in the global economy. Due to the large number of geopolitical hotspots and their impact on the global economy, increased forecasting uncertainty is inevitable, as reflected in the revenue and earnings ranges mentioned above.

We look forward to your sustained support and hope you will accompany us as we implement our goals.

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 5, 2027
Contingent Capital	EUR 4,552,690 until May 5, 2027
Designated sponsors	ICF Bank AG Wertpapierhandelsbank M.M. Warburg & CO (AG & CO.) KGaA
Research coverage	Warburg Research

EQUITY MARKETS IN 2023

The 2023 trading year was dominated by three factors in particular: Russia's war of aggression against Ukraine, the battle to curb inflation, and rising interest rates. The mood in the equity markets reached rock bottom after a banking crisis in the spring that peaked with the collapse of Swiss banking giant Credit Suisse. This caused Germany's DAX share index to drop to 14,600, an annual low it reached again in October before the market turned a corner and the DAX rose above 17,000 points for the first time in its history. By year-end it sat at 16,752 points, 20% higher than at the start of the year.

SOFTING SHARES

Softing's shares started the year at a price of EUR 5.24 and, on the back of positive figures announced for the first quarter, reached their first interim high of EUR 7.40 on April 19 and remained above EUR 7.00 until mid-June. The share price then declined to EUR 6.40 over the next four weeks before rebounding to EUR 7.15 on July 17. After that, Softing's shares steadily trended downwards to EUR 6.00 until October 30, albeit with several smaller upward movements along the way. In November, the stock reached an interim high of EUR 6.50 before falling sharply to its annual low of EUR 5.30 by December 27. The shares were trading at EUR 5.40 at year-end on December 29. At the December 31, 2023 reporting date, the market capitalization of Softing AG was EUR 49.2 million, slightly above the previous year's figure of

EUR 48.3 million. The share capital of Softing AG remains unchanged at EUR 9,105,381, divided into the same number of no-par-value shares. Softing shares are currently (March 20, 2024) trading at EUR 5.60.

EARNINGS PER SHARE

Earnings per share (EPS) were EUR –0.63 in 2023, compared with EUR –0.13 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

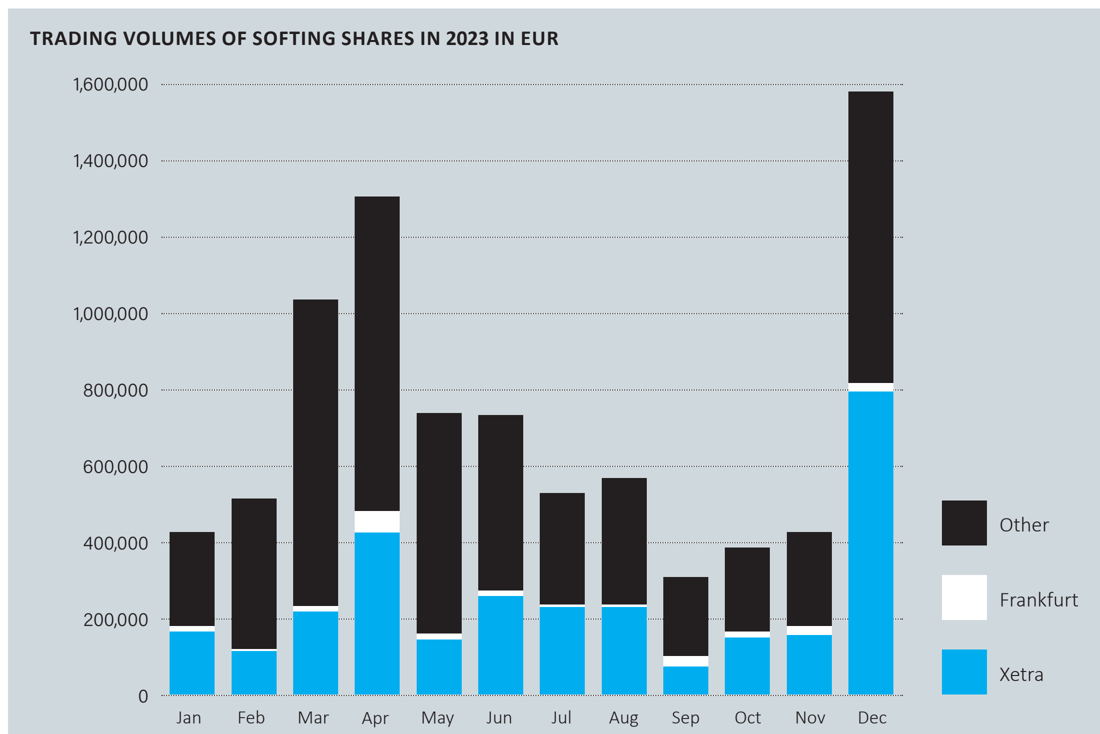
On May 4, 2023, the General Shareholders' Meeting of Softing AG again resolved to distribute a dividend of EUR 0.10 per share based on the earnings generated in the 2022 financial year.

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%). The next major shareholder is Mr. Alois Widmann, Vaduz, Principality of Liechtenstein, who holds 1,450,000 shares (15.9%), followed by a number of institutional investors and several private anchor investors. The remaining shares are in free float.

ANALYST RECOMMENDATIONS

Warburg Research has analyzed Softing shares regularly for years in research reports and has published six studies and updates on the shares in 2023. The most recent update of December 18, 2023 continues to recommend buying the shares and states a price target of EUR 8.90.



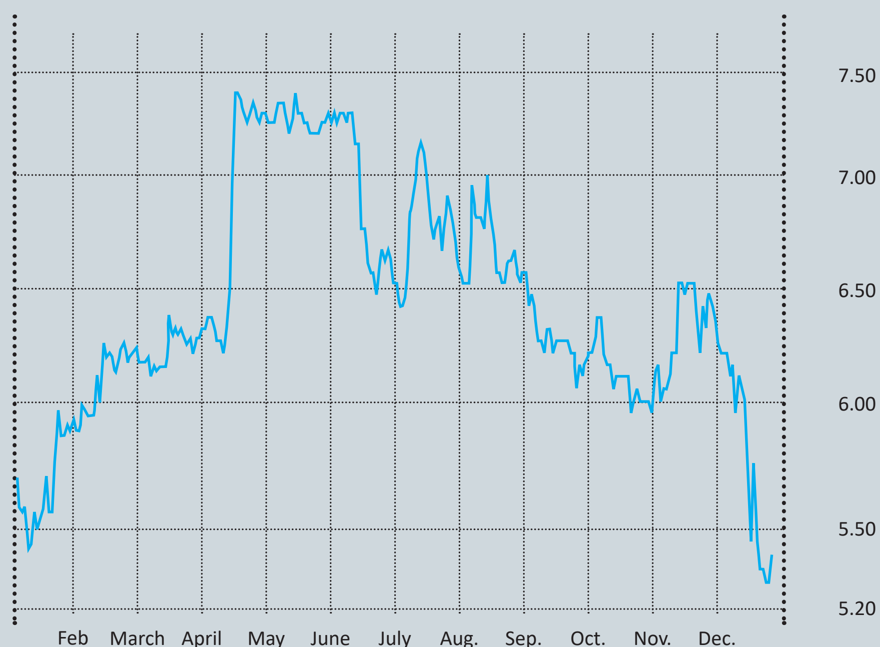
Information about analysts' reports on Softing shares is available at www.softing.com under Investor, News & Publications, Research. The Press & Interviews section contains information about the growth prospects of the Softing Group published in a variety of financial newspapers and magazines such as 4investors, Börsengeflüster, Börse Online, Der Aktionär, Effecten-Spiegel, Börse Global, Börsengeflüster.de, Value-Depesche, Nebenwerte Journal Extra, Nebenwerte Magazin, Frankfurter Börsenbrief, finanzen.net, Plusvisionen and others.

CAPITAL MARKET COMMUNICATIONS

Investor relations are a key concern of the Group. To continuously ensure the necessary attention and attractiveness on the capital markets, Softing in 2023 participated in investor conferences, such as the German Equity Forum held in Frankfurt am Main in November and the Munich Capital Market Conference (MKK), also in November. In the current year 2024, Softing will again take part in selected analyst conferences to provide ongoing support to 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 2, 2023 TO DECEMBER 31, 2023 IN EUR (XETRA)



CORPORATE BOARDS AND DIRECTORS' HOLDINGS

Boards	Shares		Options	
	June 30, 2023 Number	Dec. 31, 2023 Number	June 30, 2023 Number	Dec. 31, 2023 Number
Supervisory Board				
Matthias Weber (chairman from May 6, 2022), business graduate, Baierbrunn	–	–	–	–
Andreas Kratzer (member), certified public accountant, Neuheim, Switzerland	10,155	10,155	–	–
Dr. Klaus Fuchs (member), graduate computer scientist and graduate engineer, Helfant	278,820	278,820	–	–
Executive Board				
Dr.-Ing. Dr. rer. oec. Wolfgang Trier, Munich	163,234	163,234	–	–
Ernst Homolka, Munich	10,900	10,900	–	–

FINANCIAL CALENDAR

March 28, 2024	Consolidated Financial Statements/Annual Report 2023
May 7, 2024	Interim Management Statement Q1/3M 2024
May 8, 2024	General Shareholders' Meeting 2024
August 14, 2024	Half-yearly Report 2024
November 12, 2024	Interim Management Statement Q3/9M 2024
November 13, 2024	Munich Capital Market Conference
November 25–27, 2024	German Equity Forum, Frankfurt/Main

Combined Management Report of Softing AG and the Softing Group for the 2023 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 and markets complex, high-quality software, hardware and complete system solutions. Hardware prototypes are developed by Softing itself; production takes place externally.

Softing's Executive Board is of the opinion that through its Industrial segment the Company 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 segment'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, remote data transmission has taken on a new dimension for the Group in recent years and was brought to market maturity in 2019.

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, fiber optic and WiFi 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, domiciled in Haar near Munich, in the opinion of the Executive Board 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 Industrial Automation and its employees today benefit from a strong Softing brand that is renowned for the excellence of its industrial communications solutions.

The ongoing trend towards all-pervasive digitalization marked by a strong focus on IoT and IIoT ("Industrial Internet of Things") 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 and supports customers in the manufacturing and process industries locally in Italy and the Southern Balkans.

Online Development Inc. (OLDI) and Softing Inc.

Online Development Inc. 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. A leading Original Design Manufacturer (ODM) for almost 30 years in the opinion of the Executive Board, 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. Softing Inc. is a sales company serving the North American market with products for industrial automation and IT infrastructure diagnostics. Softing Inc. thus manages the majority of Softing's product business in North America.

Buxbaum Automation GmbH

The sales office Buxbaum Automation GmbH, Eisenstadt, serves customers in the manufacturing and process industries locally in Austria and some neighboring countries.

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 office installations, industrial automation 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 managing sales and distribution in Asia, Softing Singapore provides technical support and calibration services for the products offered.

Automotive Segment

Softing Automotive Electronics GmbH

Softing Automotive Electronics GmbH, domiciled in Haar near Munich, 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 in the opinion of the Executive Board holds a leading position in the 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.

Softing Engineering & Solutions GmbH

Softing Engineering & Solutions GmbH domiciled in Kirchentellinsfurt 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 if required. 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. The products of Softing Mess-Technik (SMT) also cover the field of mobile and stationary data logging systems.

GlobalmatiX AG, GlobalmatiX Inc. and GlobalmatiX GmbH

GlobalmatiX AG, domiciled in Liechtenstein and represented with sales companies in the USA and Germany, 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. Globalmatix supports its customers in managing their fleets more efficiently. As GlobalmatiX offers not only the necessary hardware, but also ongoing data analysis and data collection, GlobalmatiX generates ongoing service revenue in addition to device revenue as its customer base grows.

Other Companies

Softing Services GmbH

Softing Services GmbH, domiciled in Haar near Munich, 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 Sustainability Report, https://investor.softing.com/corporate-governance-code/sustainability-report.html.

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, most of which were resolved during 2023.

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 political and social upheavals seen in recent years.

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, the Softing Group invested EUR 18.8 million (previous year: EUR 15.9 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 16.7% (previous year: 16.2%). The Softing Group capitalized 30.0% (previous year: 25.1%) of its development costs.

In the past financial year, amortization (EUR 4.2 million) and impairment (EUR 2.0 million) of capitalized development costs added up to EUR 6.2 million (previous year: EUR 4.6 million).

At year-end, 252 employees were engaged in research and development (previous year: 224). Softing AG itself is not engaged in any research and development activities. These take place exclusively at the operating segments. The focus areas in 2023 are shown below:

Industrial Segment

The new 2-wire Advanced Physical Layer (APL) Ethernet communications technology was specially designed for the requirements of the process industry in 2023. In addition to expanding its technology integration products and services, the Company expects this innovation to boost growth due in particular to an all-new product family – APL switches. Softing also invested in edge connectivity (factory automation / machine connectivity) and expanding its products and services for access to asset monitoring (process automation / device connectivity).

IT Networks Segment

Work in the IT Networks segment focused on the WireXpert product family, with product refinements, add-ons and new developments. Development also focused on additional digitalization opportunities and simpler ways for customers to use existing devices for analysis.

Automotive Segment

In the Automotive segment, Softing AG continues to focus on two areas:

In the traditional automotive business, we continued to work on integrating the various product segments with high-level customer solutions in 2023, utilizing the product market teams initiated in 2022. We also worked on the next generation of products for the flexible integration of database systems as well as the expansion of 'remote' use cases, and continued to develop the DTS9 as well as VCI (Vehicle Communication Interfaces). The next generation of the TDX product segment currently under development features highly scalable clout technologies that facilitate the flexible integration of additional customer backend systems. The first successful pilot projects have already been carried out, and the product was launched in the 2023 financial year. Initial customer orders for the projects mentioned above showed how important these developments in recent years are; this has also been reported in the press.

In telematics, we continued to develop the central platform (cloud platform) for the realization of new "Connected Car" applications by further improving and stabilizing the platform's performance.

REPORT ON ECONOMIC POSITION

MACROECONOMIC AND SECTOR-SPECIFIC ENVIRONMENT IN 2023

The global economy performed better than expected in 2023 amid the inflation shock and significant monetary policy tightening, even if economic expansion was moderate. Inflation rates are now falling. In advanced economies, considerable uncertainty about the economic environment is reducing growth, while fiscal stimuli are also coming to an end. In China, economic momentum virtually came to a standstill due to huge problems in the real estate sector, Western sanctions resulting from aggressive military conduct in Southeast Asia, and demographic trends. As a result, China is increasingly mutating into the global economy's brakes instead of being its engine. Overall, global economic growth reached 3.1% in 2023 based on purchasing power parities (PPPs). *(Source: IfW, Kiel Institute Economic Reports, No. 109 and No. 110, www.ifw-kiel.de, as well as adjustments from the publications of ifo Institute, Munich)*

In terms of current disruption to manufacturing output, the situation recently eased on both the supply and demand side (compared to the start of the fourth quarter of 2023). 43% of companies in the German Electrical and Electronic Manufacturers' Association (ZVEI e.V.) were still reporting a lack of orders and 29% a shortage of skilled and unskilled workers, while 21% cited raw material shortages as an issue. After an initial rebound in December, the business climate in the German electrical and electronic manufacturing industry continue to improve in January 2024. All in all, although the current situation is assessed as being exactly the same as in the previous month, general business expectations are rising considerably, with 22% of electrical firms rating their situation as good in January, while 52% said their situation was unchanged and 26% assessed it as poor. Looking ahead to the next six months, 15% of companies in this sector expected business to pick up, with 58% anticipating unchanging volumes and 27% envisaging a decline in activity. Export expectations also rose in January and were very slightly positive once again for the first time in six months, with the balance of companies expecting to make more or fewer deliveries abroad in the next three months increasing by 4.5 percentage points. *(Source: ZVEI Economic Barometer, February 2024 edition, www.zvei.org)*

COURSE OF BUSINESS

The Softing Group's revenue significantly exceeded the EUR 100 million mark for the first time in the 2023 financial year. This is also due to the fact that large order books from 2022 were still being processed in 2023. Revenue amounted to EUR 112.6 million in the year under review (previous year: EUR 98.3 million), an increase of 14.5%. Incoming orders returned to a more normal level of EUR 63.7 million after EUR 155.8 million in the previous year, resulting in an average annual order intake of around EUR 110 million across both financial years. Orders on hand amount to EUR 45.1 million as of December 31, 2023 (previous year: EUR 89.9 million).

EBITDA amounted to EUR 13.9 million in the year under review (previous year: EUR 9.7 million), and the EBITDA margin was 12.3% (previous year: 9.9%). Operating EBIT (EBIT adjusted for capitalized development services) of EUR 5.7 million and amortization of EUR 6.2 million on these as well as effects from purchase price allocation in the amount of EUR 7.8 million) in 2023 totaled EUR 5.6 million (previous year: EUR 3.3 million), thus exceeding the previous year's forecast for operating EBIT of EUR 3.0–3.5 million.

In the 2023 financial year, EBIT was adversely impacted by impairment of indirectly acquired goodwill in the IT Networks segment and GlobalmatiX totaling EUR 6.2 million and associated loss allowances for internally generated software amounting to EUR 2.0 million. Goodwill impairments totaled EUR 120 thousand in the previous year.

The impairment is attributable to the fact that goodwill was recognized at the time of the respective company acquisition on the basis of the expected income from the businesses known or anticipated at the acquisition date. Current planning showed that the present value of expected future cash flows is estimated to be lower than at the acquisition date given the continuous interest rate hikes and a changing business model due to the phase-out of the legacy products in the Psiber GmbH CGUs. At GlobalmatiX AG, the aforementioned impairment losses were attributable to the continuous interest rate hikes and the longer-term market penetration with a changed portfolio of services.

As a result of the aforementioned loss allowances, EBIT deteriorated from EUR 0.8 million in the previous year to EUR –2.7 million in 2023; these were also the main reasons behind the deviation from the forecast issued in the 2022 Annual Report.

Excluding the impairment of goodwill and loss allowances for internally generated software, earnings would have significantly exceeded the target corridor of EUR 1.0 million to EUR 1.5 million at EUR 5.5 million.

The financial result was EUR –0.5 million and primarily included interest expenses on loans taken out (previous year: EUR –1.3 million). The financial result in the previous year was adversely impacted by the EUR 1.1 million decrease in the fair value of an unlisted equity instrument (investment in YOMA Solutions GmbH).

Taxes rose by around EUR 1.8 million due to the increase in annual earnings for the US subsidiary and deferred taxes on own work capitalized.

Overall, this resulted in consolidated profit after interest and taxes of EUR –5.7 million (previous year: EUR –1.2 million).

Segment development was as follows:

Industrial Segment

Demand for industrial products was brisk amid the recovery from the procurement crisis for electronic components. This meant that project backlogs were largely resolved as planned while negative effects on the cost side due to high inflation continued.

The Industrial segment generated revenue of EUR 83.0 million (previous year: EUR 72.0 million). EBITDA totaled EUR 12.5 million (previous year: EUR 7.2 million). Boosted by higher revenue, EBIT grew sharply to a strong EUR 8.8 million after EUR 4.1 million in the previous year. The segment’s operating result rose to EUR 9.8 million after EUR 4.9 million in 2022.

Automotive Segment

New products and services allowed the segment to once again expand its customer base for diagnostic and testing solutions and increase the proportion of business done with software leasing models. We were also able to gain new test bench customers. Overall, the core areas of the Automotive segment continued to a positive contribution to EBIT.

The telematics business continued to be burdened by high expenses for the ongoing development of the platform and for customer acquisition, which is carried out through numerous pilot projects that led to expenses but not yet to income. The EBIT figure of EUR –4.6 million (previous year: EUR –2.4 million) is still negative due to the high market entry investments made in the area of telematics services and the loss allowance of EUR 3.1 million recognized at GlobalmatiX AG described above.

The Automotive segment’s revenue increased by 18.5% overall from EUR 19.2 million to EUR 22.8 million, producing EBITDA of EUR 1.8 million after EUR 1.3 million in the previous year, while operating EBIT improved from EUR –1.9 million to EUR –0.9 million in financial year 2023.

IT Networks Segment

After resolving production problems, Softing launched two new proprietary product lines (CableMaster and LinkXpert) in the second half of the 2023 financial year. These products were available in the necessary quantities for the first time in the second half of 2023. The unavailability of a manufacturing partner meant that deliveries of another product (NetXpert) with considerable revenue potential only resumed in December 2023; this product has been available in the necessary quantities since then. We also experienced slightly lower demand for WireXpert in 2023. A new product line for sales of premium fiber optic cable splicing units also became available in the second half of the year. However, the shift from being a sales organization with third-party products, as was primarily the case when the business was acquired, to a product organization with its own products required a goodwill adjustment of EUR 5.1 million. This adjustment had a significant adverse impact on segment EBIT.

Driven mainly by the lack of availability of high-revenue products, revenue in the IT Networks segment fell slightly from EUR 7.7 million to EUR 7.3 million, with EBITDA of EUR –1.3 million (previous year: EUR –1.2 million), and EBIT of EUR –7.4 million (previous year: EUR –2.3 million) after accounting for the correction of goodwill mentioned previously. The operating EBIT dropped from EUR –2.4 million to EUR –2.6 million.

Course of Business of Softing AG

In the financial year 2023, there was a net loss of EUR 4.2 million (previous year: net profit of EUR 0.2 million). The net loss for the year resulted mainly from lower other operating income and cost increases as well as a surplus of loss absorption over income from profit transfers amounting to EUR 3.3 million.

Results of Operations of the Softing Group

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

In the past financial year, consolidated revenue grew by EUR 14.3 million to EUR 112.6 million, an increase of 14.5%. The Industrial segment showed an increase in revenue of EUR 11.1 million. Own work capitalized (product developments) was EUR 5.7 million, up 44% on the previous year's level. The share of own work capitalized as a percentage of consolidated revenue rose from 4.0% to 5.0% in the 2023 financial year.

Other operating income decreased by EUR 2.0 million from EUR 3.7 million to EUR 1.7 million. This decrease was primarily due to previous year's reclassification of exchange differences previously recognized in equity totaling EUR 2.0 million, which were reclassified to the income statement in 2022. The Group also received grants for participating in a research program amounting to EUR 0.8 million.

The cost of materials increased by EUR 3.6 million to EUR 51.9 million, or 7.3%. This rise mainly reflects the growth in revenue generated by the Group's segments. All told, the cost of materials ratio (cost of materials relative to revenue) was 46.0% (previous year: 49.1%), with gross profit (revenue less cost of materials) increasing at a faster rate from EUR 50.0 million to EUR 60.8 million.

Staff costs rose by 11.5% to EUR 40.1 million due to the increase in headcount for future growth and an inflation-driven rise in labor costs. As of the reporting date, the Softing Group had 432 employees (previous year: 395), which represents growth of around 9%.

Depreciation, amortization and impairment losses on intangible assets, and property, plant and equipment/right-of-use-assets increased from EUR 9.0 million to EUR 16.6 million. This increase was mainly due to the impairment loss on goodwill (EUR 6.2 million) and internally generated software (EUR 2.0 million) adding up to EUR 8.2 million.

The Group's expense items developed as follows:	2023 EUR million	2022 EUR million
Cost of materials	51.9	48.3
Employee Benefits Costs	40.1	36.0
Depreciation, amortization and impairment losses	16.6	9.0
Other operating expenses	14.1	11.9
Operating expenses	**122.7**	**105.2**

Other operating expenses increased by EUR 2.2 million to EUR 14.1 million. This trend in the 2023 financial year is attributable to an increased volume of sales and marketing activities as well as travel. There were also increased expenses for IT security and infrastructure costs, as well as external services.

A key parameter for evaluating and managing results of operations is earnings before interest and taxes (EBIT) of EUR –2.7 million (previous year: EUR 0.8 million), which was below the guidance of EUR 1–1.5 million issued in the previous year. This deviation is mainly due to the impairment of goodwill and internally generated intangible assets, despite significantly better business performance seen in the Industrial segment. Operating EBIT of EUR 5.6 million (previous year: EUR 3.3 million) was significantly above the previous year's guidance of EUR 3–3.5 million because operating EBIT does not include any depreciation, amortization or impairment on internally generated assets and goodwill. This is why the positive business performance, particularly in the Industrial segment, had a stronger impact here.

The interest result and other finance costs amounted to EUR –0.5 million (previous year: EUR –1.3 million). The other finance income/finance costs of EUR 0.0 million (previous year: EUR –1.0 million) in the previous year related to a reduction of the fair value by EUR 1.1 million of a minority interest in Yoma Solutions GmbH.

Taxes rose by EUR 1.8 million. The main reason for this were the significantly higher earnings before taxes generated in the USA. Furthermore, impairment of goodwill and internally generated software of EUR 8.2 million has no effect on calculating taxes.

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.

Income from profit transfer is a key control parameter for Softing AG and constitutes the financial key performance indicator. This changed from EUR –0.3 million to EUR –3.3 million in the past financial year. This was due to a correction of Softing Industrial Automation GmbH's investment in Softing IT Networks GmbH in the amount of EUR 4.1 million, accompanied by the correction of the goodwill of IT Networks GmbH at Group level.

Other operating income decreased from EUR 2.7 million to EUR 0.1 million due to the non-recurring effect of currency gains seen in the previous year.

Staff costs rose from EUR 2.2 million to EUR 2.7 million due to higher variable salary components.

Other operating expenses increased by EUR 0.9 million to EUR 1.1 million. This rise was mainly caused by higher capital market costs and increased currency expenses.

Due to slightly higher costs related to the management of subsidiaries, revenue from affiliated companies in 2023 rose from EUR 3.1 million to EUR 3.2 million.

In the 2023 financial year, Softing AG transferred its shares in GlobalmatiX AG, Liechtenstein, and receivables due from GlobalmatiX AG, Liechtenstein, to Softing North America Holding Inc, essentially at their previous carrying amounts. The market value of these shares was below their previous carrying amount at the time of disposal. The purchase price receivable is reported under investments at its nominal value, taking into account the less strict lower of cost or market principle. This transfer at carrying amounts led to the realization of hidden reserves in the equity investment in Softing North America Holding Inc. This transaction helps to strengthen the equity of Softing AG and increases distributable assets. Write-downs of EUR 12.8 million and investment income of EUR 13.0 million resulting from the transaction are reported in the income statement.

During the year under review, Softing AG also sold its shares in Softing IT Networks GmbH and Softing Singapore Ltd. to Softing Industrial Automation GmbH at their carrying amount. In addition, Softing AG sold its loan to SoftIng Industrial Automation GmbH. At the end of the year, Softing Industrial Automation GmbH carried out an impairment test of the equity investment in Softing IT Networks. The result of this impairment test is included in the income statement of Softing AG as part of the control and profit transfer agreement with Softing Industrial Automation GmbH.

In the reporting period, no provisions for taxes were recognized for obligations arising from corporation tax and trade tax related to the past financial year (previous year: EUR 0.1 million).

The net loss for the year amounts to EUR –4.2 million (previous year: EUR 0.2 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 2023 stood at EUR 54.3 million (previous year: EUR 61.8 million). The decrease is primarily due to the dividend payment made in May 2023 and the consolidated net loss for the year.

The equity ratio reached 52.7% (previous year: 55.9%).

Non-current liabilities amounted to EUR 21.3 million (previous year: EUR 23.2 million). The decrease is mainly due to the scheduled repayment of loans of EUR 2.9 million.

Current liabilities rose by EUR 2.0 million to EUR 27.5 million, due mainly to the increase in short-term borrowings and the increase in contract liabilities and current financial liabilities. The decrease in trade payables in the amount of EUR 2.5 million had an offsetting effect.

Capital Expenditure

In the past financial year, the Softing Group invested EUR 6.5 million (previous year: EUR 5.0 million) in internally and externally generated intangible assets. Investments in other non-current assets amounted to EUR 1.4 million in 2023 (previous year: EUR 1.0 million), not including the increase in right-of-use-assets pursuant to IFRS 16. Please refer to the Research and Development section for information on investments in the specific segments.

Liquidity

Cash flow from operating activities of EUR 9.0 million (previous year: EUR 3.8 million) primarily rose due to the increase in cash flow for the period to EUR 13.5 million (previous year: EUR 6.5 million) and a EUR 4.1 million reduction in receivables; this was offset by the increase in inventories (EUR 4.7 million) and reduction in trade payables (EUR –2.5 million).

Funds used for investing activities amounted to EUR 7.9 million (previous year: EUR 6.1 million), comprising mainly investments in new product development and replacement investments.

Cash flow from financing activities amounted to EUR –3.1 million (previous year: EUR –0.7 million). Repayments of short- and long-term bank loans of EUR 4.0 million were made and new loans of EUR 4.1 million were taken out.

The cash available to the Group amounted to EUR 4.9 million at year-end (previous year: EUR 6.8 million).

Financial Position of Softing AG

Capital Structure

Equity fell by 10.9% from EUR 47.0 million to EUR 41.9 million, primarily due to the dividend payment made in May 2023 as well as the current net loss for the year.

The equity ratio was 61.0% (previous year: 65.0%)

The increase in provisions from EUR 3.2 million to EUR 3.4 million is mainly the result of higher provisions for variable remuneration and higher pension provisions.

Other liabilities fell slightly from EUR 4.5 million to EUR 4.4 million.

Liabilities to banks decreased slightly by EUR 0.3 million due to the scheduled repayment of long-term loans on the one hand and new short-term borrowings on the other.

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. To finance the fixed purchase price of OLDI 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, 2023, these loans were measured at EUR 6.7 million. There is also a bullet loan of EUR 2.5 million that matures in mid-2025.

Funds at year's end were EUR 3.0 million (previous year: EUR 4.3 million). There are unused credit lines in the amount of EUR 1.6 million (previous year: EUR 4.6 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 2023 represented 54.9% of total assets (previous year: 58.3%). This was offset by equity and non-current liabilities together representing 73.4% of equity and liabilities (previous year: 77.0%).

Non-current assets fell by EUR 7.8 million to EUR 56.6 million. As described above, this was mainly due to the adjustment of the goodwill of Softing IT Networks GmbH and GlobalmatiX AG.

Current assets comprise inventories, trade receivables, and cash and cash equivalents. Current assets edged up only slightly from EUR 46.1 million to EUR 46.5 million.

Total assets in the reporting year fell to EUR 103.1 million (previous year: EUR 110.4 million).

Net Assets of Softing AG

The total assets of Softing AG decreased by EUR 3.6 million year-on-year to EUR 68.6 million (previous year: EUR 72.2 million).

The shares in Softing IT Networks GmbH and Softing Singapore Pte Ltd held by Softing AG were transferred to Softing Industrial Automation GmbH at their carrying amounts; a capital increase for the same amounts was carried out at Softing Industrial Automation GmbH at the same time. The shares in GlobalmatiX AG were transferred to the US holding company at slightly more than their carrying amount (EUR 0.2 million). As a result, equity interests in affiliated companies fell by EUR 30.6 million to EUR 22.9 million.

Bank loans of EUR 2.8 million were repaid in the 2023 financial year, and new short-term bank loans of EUR 2.5 million were taken out. 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 again comfortably fulfilled the covenants regarding equity ratio and maximum debt-to-equity ratio.

Loans to affiliated companies increased by EUR 4.3 million to EUR 26.6 million due to a new loan and the conversion of the purchase price of GlobalmatiX AG shares in Softing North America Inc. into a long-term loan. Cash and cash equivalents decreased to EUR 3.0 million due to repayments of loans.

Receivables from affiliated companies were up from EUR 14.6 million to EUR 15.6 million as a result of an increase in trade receivables.

REPORTING ON NON-FINANCIAL PERFORMANCE INDICATORS

Employee expertise, qualifications, motivation and satisfaction are among the most important resources for the Softing Group's sustained success as a technology and development company. The Group therefore attaches particular importance to its employees and their training. The knowledge, skills, continuing development and dedication of its employees are essential ingredients in the Softing Group's past and future success. The Group therefore sees employee turnover as an important non-financial performance indicator and endeavors to keep it below 10% where possible. In the past financial year, employee turnover fell from 13.9% to 10% at the German companies due to a slight improvement of the labor market. The offices abroad showed similar employee turnover. Initiatives have been introduced to improve this key performance indicator further.

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

The course of business of the Softing Group saw an encouraging 14.5% increase in revenues amid a challenging geopolitical environment. The order situation returned to normal levels over the course of the year. On the cost side, however, procurement bottlenecks, higher inflation and non-recurring goodwill impairment caused costs to rise sharply, which meant the Group ultimately generated a net loss for the year. In terms of financial position and net assets, this resulted in a slight fall in equity and a reduction in cash. Nevertheless, the Executive Board believes that the financial position and net assets of the Softing Group proved to be stable in these times of global crises.

The course of business of Softing AG was dominated by income from invoicing subsidiaries for management services performed and negative income from profit and loss transfer agreements. Softing AG also generated investment income totaling EUR 13.0 million from the sale of shares in GlobalmatiX AG to the US holding company. Write-downs of EUR 12.8 million were also recognized prior to the disposal in connection with the investment income. The Group's financial position and net assets were adversely affected by a loss for the year. Together with the dividend, this resulted in a reduction in equity of EUR 4.2 million. According to the Executive Board, the financial position and net assets remain stable.

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.

Industrial Segment

By a process of establishing and expanding strategic partnerships with leading providers in the field of automation, the solution portfolio for data connectivity will be further extended while achieving major improvements to Softing's visibility. The synergy effects for sales and marketing created by partnerships as well as the positioning of the Company as a solution provider also constitute an opportunity for growth in 2024. One key driver for growth remains the trend toward OT/IT convergence and the strategic expansion of a cloud connectivity portfolio, namely components for the edge connectivity market. Another series of products in this area is being launched on the market in 2024 and will help to further round out the products and services on offer. The introduction of a new hardware platform mid-year will enable a gateway delivery model for all future containerized software products, which in turn can be expected to significantly boost the frequency of product launches. In the medium term, the goal is to maintain Softing's position as a leading provider of machine and control connectivity for factory automation, while staying strictly neutral as regards the customer's preferred network architecture (hardware or software, OT or IT, Windows or Linux). In process automation, the comparatively high level of capital spending – with correspondingly long plant and technology lifecycles – can be expected to result in further digitalization of field devices such as sensors and drive elements while favoring marketing opportunities for products that make data available for asset management applications. Softing's outstanding position in the field of technology integration will continue to be leveraged as a driver for business success going forward. Complementing the expansion of its portfolio, the Company also aims to strengthen its sales and marketing organization with a focus on internationalization, targeting dynamic, investment-friendly regions around the world and closer integration with Softing's global branches. Initial and highly successful participation at international trade shows (India, Singapore) in 2023 underscores the international opportunities for growth, which are buttressed by a systematic expansion of both direct and indirect sales distribution capacities, for example in France, India, and Spain.

Further capacity expansions to service departments at locations in Knoxville and Singapore, now offering a global level of support, will meet steadily increasing consulting service needs from automation customers while contributing additional revenues via service level agreements (SLAs).

IT Networks Segment

Over the last few years, Softing IT Networks has refreshed its product portfolio and relocated production for its NetXpert and LinkXpert series from the USA to Germany, the latter also granting greater flexibility in addition to much more efficient and reliable delivery routing. While these activities have significantly strengthened the product portfolio's central segment, the lower portfolio segment has gained the CableMaster 210 and CableMaster FO products, which round off the overall offering here. The strengthening of sales channels for international business as well as the digital presence have been instrumental in raising the international profile of this business unit. In 2024, Softing IT Networks will launch further own-branded products

on the market to continue to accommodate new market trends and standards. Softing IT Networks therefore has a robust opportunity pipeline, due to the stated investments and market activities.

Automotive Segment
Rising global demand for integrated solutions related to automotive testing and flash applications is working to strengthen Softing's market position. As a recognized specialist in all of the necessary fields of expertise, Softing Automotive is able to generate profitable, long-term growth. Softing offers its customers modular, standards-based products as well as integration projects ranging from the application to the embedded device, including onboard. The continuing decentralization of our customers' work processes in the form of working from home and remote working remains an important driver. Efficiency improvements at our customers are achieved with parallel, remote or autonomously operated solutions. Softing will continue to focus on key strategic clients and its existing customer base.

By deploying the GlobalmatiX telematics solution, we are laying the groundwork for the digitalization of our Connected Vehicle concept. This will improve transparency, cost-effectiveness, and customer orientation for the complex return processes in rental, car-sharing, leasing and fleet services. Keyless access to vehicles also means that these can then be rented from vehicle rental locations outside their normal hours of business. The creation of a digital vehicle file ("Car CV") increases the vehicle's resale value while reducing wait times, as the sale process can start before the fleet vehicle has been returned. Minor damage, speedometer readings and servicing data can also be logged remotely and on an ongoing basis. Increasingly, the evaluation of big data applications in real time and at high levels of granularity requires cloud-based platforms-as-a-service, and the demand for these is now also coming from OEMs and their suppliers. Moreover, the GlobalmatiX telematics interface is seeing greater use as an interconnected telematics and data logger interface for Connected Battery, Connected Tire or Connected Diagnostics. The telematics interface samples sensor data at high rates and transfers these data to the cloud database before processing them with artificial intelligence and self-learning to drive business decision-making. Based on "security by design," the GlobalmatiX security patent for Connected Vehicle helps to protect worldwide data transactions between vehicles and the cloud from unauthorized access.

In the 2023 financial year, Softing Engineering & Solutions GmbH was already seeing strong demand, and believes this will continue – due to manufacturer outsourcing, for example – going forward, both for engineering and inspection/testing systems. The current portfolio was also extended in the fourth quarter of 2023 to include test bench solutions for electric truck axles, for example. This is another point of integration for current and future vehicle technologies. Nothing in the portfolio is drive system-dependent, with Softing Engineering & Solutions GmbH serving both the combustion engine market along with all of the other, newer drive technologies.

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.

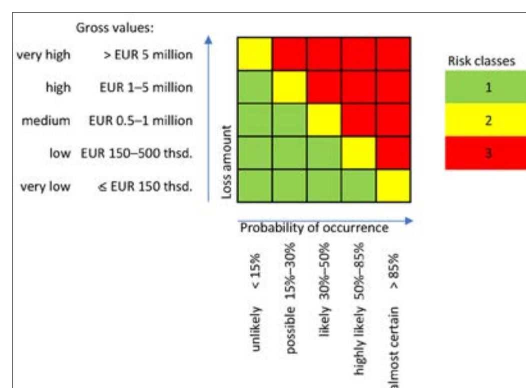
In particular, this concerns risks resulting from market development, the positioning of products and services, contractual and non-contractual liability, and business processes. The Group's business policy is to best exploit existing business opportunities. It is the task of risk policy to carefully 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). Since the fall of 2023, Softing has been using the CRISAM risk management software, which applies modern statistical methods (e.g. Monte Carlo simulation) to calculate the impact of losses and thus meets the stricter requirements of IDW AuS 340. 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 4.9 million are available by way of uncommitted cash and cash equivalents. There are also unused credit lines in the amount of EUR 3.2 million as well as trade receivables which exceed trade payables by EUR 5.5 million.

To be able to assess the risks, they have been divided into several risk classes. The risk class is the product of multiplying the probability of occurrence by the extent of loss:



The Group differentiates between the following risk classes:

a. Class 1: Minor risks are insignificant for the Company and no action needs to be taken to mitigate the risk.
b. Class 2: The extent of loss in moderate risks is limited and there is 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. Class 3: Major risks including potential going-concern risks 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. In case of going-concern risks, measures must be taken immediately to reduce the gross risk.

The Group uses a number of control systems to monitor and control its risks. In addition to the CRISAM software, 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.

Supply Chain Risk

There remains a greater focus on the longer-term economic impacts in 2023 and beyond, which result from economic upheaval caused by the Russian war of destruction, among other things. 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 sees a further risk exacerbating the procurement risk in a conflict between China and Taiwan/USA, which could take the procurement crisis for electronic components to new heights and to which Softing would only be partially able to react.

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. In spite of the measures taken, the risks cannot be avoided. There is a possibility of revenue being shifted to later periods. Supply bottlenecks may also result in higher cost prices for Softing if it has to switch to more expensive products in order to ensure its ability to deliver. We counter this risk with price increases and direct consultation with our customers on the subject of price versus delivery time.

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

Supply chain risk is categorized into risk class 3.

Market and Sales Risks

Geopolitical uncertainty is also increased considerably due to factors such as Russian war of destruction in Ukraine. The sanctions adopted may lead to 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.

However, there is always a risk both of underutilization of capacities and sustaining pressure on realizable revenues due to factors such as revenue being delayed as a result of supply chain issues with customers or weaker demand. 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 assigned to risk class 3. If the risk management measures were not effective, this could result in a going-concern risk.

Development /Product Risks

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. This may lead to the impairment of capitalized goodwill and development costs and have a negative impact on sales and earnings performance in the long term. 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.

The automotive parts supplier industry in particular is currently 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.

In the IT Networks segment, Softing has invested heavily in the development of new products and the expansion of its product range, with new products now being successively launched on the market.

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 because it could result in the impairment of goodwill and capitalized development costs.

Overall, development risk is therefore assigned to risk class 3.

Operational Risks

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.

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 assigned to risk class 2.

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 2023 despite increased risks due to the Ukraine crisis. Most of the Softing Group's customers are well-known and leading industrial companies. Overall, this risk is classified as a small risk and assigned to risk class 1.

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.

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.

Overall, this risk is assessed as a class 2 risk.

Currency Risks

A substantial part of the Group's business activities is located in the USA. In particular, Softing AG has significant foreign currency loans denominated in USD in its single-entity financial statements. This means that currency fluctuations in the USD in particular could have both a positive and a negative impact on the results of operations and net assets of the Group. The Group views this as a moderate risk. The Group only hedges against currency risks in individual cases. Overall, this risk is assigned to risk class 2.

Information Security 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 has taken appropriate measures to protect its IT infrastructure and constantly monitors and reviews their effectiveness. The Group takes the issue of cyber security and the potential widening of hostilities in this area extremely seriously. It has implemented the recommendations issued by authorities, and is currently adjusting them by coordinating and comparing with other companies to determine its own position. Softing has invested substantial sums in cyber security and provides its staff with regular training on the subject. As no company is immune from a cyber attack, it is essential to ensure that resilience and recoverability are built into IT systems and that all employees remain vigilant. Softing achieved TISAX Level 3 Certification for data security in the automotive sector during the first half of 2022. Overall, this risk is assessed as a class 1 risk.

Personnel 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 assigned to risk class 2.

Compliance 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.

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. Despite a variety of political upheavals, the financial position and net assets are expected to improve in 2023. Regarding financial year 2023, 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. Overall, this risk is assigned to risk class 2.

The Executive Board 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.

REPORT ON EXPECTED DEVELOPMENTS

Europe's Economic Engine Is Misfiring

According to the Kiel Institute for the World Economy (IfW), Germany's economy is struggling. While economic output is generally expected to increase in the coming year, the economy is not likely to gain significant momentum. The strong growth in real disposable income in particular will boost private consumption. However, interest rate increases continue to weigh heavily on the construction industry and there are no signs ahead of significant impetus from the world economy, which is under threat from Russia's sustained military aggression. An even more relevant military and economic development is the uncertainty created by China in the South China Sea. The fiscal consolidation triggered by the Federal Constitutional Court's ruling on the supplementary budget for 2021 will also slow economic expansion, as the current federal government is prioritizing an increase in consumptive social spending over investment. There is uncertainty about the exact structuring of the

savings as well as their economic impact. According to the IfW's forecast, the lack of focus on investment will lower the rate of gross domestic product (GDP) growth to just 0.3 percentage points in 2024. Overall, the IfW now expects GDP to rise by 0.9% in the coming year and thus at a slower rate than in its autumn forecast (1.3%). Economic output is then likely to increase by 1.2% in 2025 (autumn forecast: 1.5%). The decline in the current year of 0.3% will be slightly lower than expected in the fall (–0.5%). Inflation has started to fall. The IfW expects inflation rates of 2.3% (2024) and 1.8% (2025) for the next two years after 5.9% in the current year. The low economic momentum is leaving its mark on the labor market. However, demographic change and the associated shortage of skilled labor are counteracting this trend.

Industrial Segment

Despite the persistently volatile economic environment, Softing Industrial Automation GmbH remains in an excellent position both in technological and supply terms to achieve its ambitious growth targets for 2024 as well. 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 continue to arise from the ongoing shortage of skilled workers whereas the procurement situation for components has largely eased.

The outlook for Softing's business in the USA remains mixed in 2024. Opportunities are driven by a product portfolio aimed at a broad range of customers, a continued optimization of sales structures and an improved availability of products. However, the Group expects its revenue and operating result to decrease compared to the record year of 2023, with the currently prevailing economic environment causing a significant degree of uncertainty due to high levels of inflation, the presidential election and the realignment of industry in North America.

Automotive Segment

Many customers continue to seek strategic suppliers of efficiency-enhancing tools and solutions in order to be able to successfully master the technological challenges of the future. There is further sales potential here for the Automotive segment. As a number of new technologies and approaches relating to the "test and flash" of vehicles in particular will be introduced in the coming years, the segment's product portfolio means it is well positioned to respond to this trend.

With supply chains working again and having adopted a new marketing and sales approach, GlobalmatiX will also accelerate growth in 2024. We are continuing to push ahead with the further rollout of projects for major customers and have set up exciting pilot installations which already generated initial orders. Delivery and installation volumes will reach five digits in 2024. Our customers are also continuing to pursue ambitious expansion targets beyond Germany.

IT Networks Segment

The combination of new products, new sales positions and expansion of the distribution area will steadily lead the IT Networks segment towards profit and growth – particularly after a significant improvement in the production situation during 2023. As a result, a product portfolio consisting of three product lines with different specifications and a variety of tiered products will be available from 2024 onwards. In its certification, qualifying

and verification segments, Softing will use this to continue reinforcing its position as a technology leader. As our partners' percentage of web-based sales continues to grow steadily, this opens up further opportunities for Softing IT Networks to place its own products in additional markets.

Outlook for the 2024 Financial Year for the Softing Group

Softing's 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 2024. Based on the Softing Group's positioning and customer feedback and a good level of orders on hand from the previous year, Softing sees good opportunities to generate stable revenue in financial year 2024. We expect a strong improvement in EBIT and consolidated net profit for the year due to the elimination of non-recurring expenses compared to 2023. Softing will again face numerous unavoidable uncertainties in 2024 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. 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 going forward. 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 financial year 2024. For 2024, Softing is generally assuming that capitalization of development costs will decrease slightly due to a high level of investment in new products seen in 2023. 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. However, they will be the foundation for growth in the years to come. We laid the foundations for this in 2023. The limitations triggered by the risks already mentioned continue to apply. The economic upheaval in Germany caused by misguided industrial and energy policies, the ongoing war in Ukraine and other current and impending crises will play a major role in the development of our business in 2024 as well as in the medium term. As the only certainty is that nothing is certain, we are being cautious as a precaution.

The persistently rekindling uncertainty over macroeconomic trends and the effects on important customer segments of Softing AG are difficult to estimate. As a result, there remains a high level of uncertainty in the forecast for future business performance, which 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 2024 financial year.

The Executive Board is still planning for a normal procurement situation for electronic components in 2024. However, any increase in the potential for conflict or war between China and Taiwan over the coming year would exacerbate the problems encountered in procuring electronic components from this region during the coronavirus crisis.

At the Group level, revenue of between EUR 105 million and EUR 113 million is expected due to economic considerations. One factor to bear in mind is the planned decline in revenue and operating EBIT in the Industrial segment due to the US subsidiary OLDI Inc., after business in 2023 was characterized by very large order books originating in 2022. We anticipate strong revenue growth and much improved operating EBIT in the Automotive and IT Networks segments. We also expect increased uncertainty surrounding our forecast due to weakness in the German market and negative signals worldwide across the different segments. In the absence of the non-recurring effect of impairment losses recorded in 2023, we anticipate a significantly improved positive EBIT for the Group. Consolidated EBIT is therefore forecast to be positive in a range of EUR 3.2 million to EUR 4.6 million. The Executive Board expects operating EBIT to come in between EUR 5.0 million and EUR 7.0 million.

In the case of the non-financial performance indicators, it is planned to maintain the attained levels in the 2023 financial year.

Outlook for the 2024 Financial Year for Softing AG

Softing AG is dependent on the results outlined above.

Based on projected earnings, Softing AG is forecasting income from profit and loss transfer agreements and dividends of up to EUR 0.5 million to EUR 1.0 million for the 2024 financial year. Expected earnings before taxes, assuming income from profit and loss transfer agreements and dividends, will range between EUR 0.5 million and EUR 1.0 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-based 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. Other requirements also exist, as follows. 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 2023, the share capital of Softing AG was EUR 9,105,381 denominated in the same number of no-par shares, all granting the same rights, specifically voting rights. No shareholder or shareholder group has special rights.

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

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

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

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

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

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

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

   Mr. Gerhard Hönig notified us on December 4, 2020 that 22.43% of the voting rights have been attributed to him since December 3, 2020. He obtained control by personally assuming the management function at Trier Familienstiftung.
   Voting rights are attributed via
   - Trier Familienstiftung
   - Trier Asset Management GmbH
   - Trier Vermögensverwaltung GmbH & Co. KG

   Mr. Alois Widmann, Vaduz/Liechtenstein, notified us in accordance with Section 33 (1) German Securities Trading Act that his voting share in our company exceeded the threshold of 15% on March 28, 2018, and was 15.92% on that date (1,450,000 voting shares).

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

In 2023, 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 Article 7 of the Articles of Incorporation of Softing AG, the Executive Board of Softing AG comprises one or more persons. Even if the Company's share capital exceeds EUR 3,000,000, the Executive Board may comprise just one person. Deputy members of the Executive Board may be appointed. The Supervisory Board appoints the members of the Executive Board and determines the number of persons serving on the Executive Board. The Supervisory Board may appoint a chairman of the Executive Board and a deputy chairman of the Executive Board.

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

   An average of 9,015,381 shares were outstanding in the 2023 financial year.

   On May 6, 2022, 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 5, 2027 by issuing new no-par bearer shares against contributions in cash and/or in kind (Authorized Capital 2022). The existing authorized capital (Authorized Capital 2018) was cancelled based on a resolution adopted by the General Shareholders' Meeting on May 6, 2022.

   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.

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 2022). 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 6, 2027 in accordance with the resolution of the General Shareholders' Meeting on May 5, 2022. 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 2018) was cancelled based on a resolution adopted by the General Shareholders' Meeting on May 6, 2022.

8. On May 6, 2020, the General Shareholders' Meeting authorized the Executive Board to purchase own shares until May 5, 2025, provided that such purchase is not made for the purpose of trading in treasury shares, and provided that the purchase price of said shares is not more than 10% above or below the share's average closing price at the Frankfurt Stock Exchange during the last ten days preceding the purchase (share repurchase). The closing price shall be determined as the share's closing auction price in electronic trading on the Frankfurt Stock Exchange (XETRA trading) or a system succeeding XETRA trading. The authorization may be exercised once or several times, in whole or in part. It is limited to purchasing shares representing no more than a total of 10% of the Company's share capital. Any treasury shares acquired under this authorization – together with other treasury shares that the Company has already acquired and still holds – may not exceed 10% of the Company's share capital.

9. The 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, 2023.

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

11. There are no compensation agreements of the parent company with members of the Executive Board or employees in the event of 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: https://investor.softing.com/corporate-governance-code/statement-on-cgc-pursuant-to-sec-289f-and-315d-hgb.html

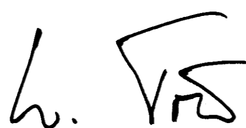
RESPONSIBILITY STATEMENT

"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 20, 2024

Softing AG

The Executive Board



Dr. Wolfgang Trier Ernst Homolka

Consolidated Income Statement

for the Period from January 1 to December 31, 2023

	Note	Jan. 1 – Dec. 31, 2023 EUR (in thsds.)	Jan. 1 – Dec. 31, 2022 EUR (in thsds.)
Revenue	**D1**	**112,595**	**98,311**
Other own work capitalized	D2	5,690	3,948
Other operating income	D3	1,713	3,692
Operating income		**119,998**	**105,951**
Cost of materials/cost of purchased services	D4	–51,857	–48,311
Staff costs	D5	–40,107	–35,986
Depreciation, amortization and impairment of property, plant and equipment, right-of-use assets and intangible assets	D6	–16,643	–8,967
thereof depreciation/amortization/due to purchase price allocation/impairment of goodwill		–7,845	–1,810
thereof depreciation due to accounting for right-of-use-assets		–1,403	–1,317
Other operating expenses	D7	–14,115	–11,925
Operating expenses		**–122,722**	**–105,189**
Profit/loss from operations (EBIT)		**–2,724**	**762**
Interest income	D8	120	49
Interest expense	D8	–505	–282
Interest expense from lease accounting		–139	–128
Other finance income/finance costs	D8	-	–964
Earnings before income taxes		**–3,248**	**–563**
Income taxes	D9	–2,464	–616
Consolidated profit		**–5,712**	**–1,179**
Consolidated profit attributable to			
Shareholders of Softing AG		–5,829	–1,397
Non-controlling interests		117	218
Consolidated profit		**–5,712**	**–1,179**
Earnings per share (diluted = basic)		–0.63	–0.13
Average number of shares outstanding (basic)		9,015,381	9,015,381

Consolidated Statement of Comprehensive Income

for the Period from January 1 to December 31, 2023

	Jan. 1 – Dec. 31, 2023 EUR (in thsds.)	Jan. 1 – Dec. 31, 2022 EUR (in thsds.)
Consolidated profit	**–5,712**	**–1,179**
Items that will not be reclassified to consolidated comprehensive income		
Remeasurement of pensions	190	1,485
Tax effect	–31	–417
Remeasurement from pensions, total	159	1,068
Items that will be reclassified to consolidated comprehensive income:		
Currency translation differences		
Changes in unrealized gains/losses	–818	–1,257
Tax effect	0	555
Total currency translation differences	–818	–702
Other comprehensive income	**–659**	**366**
Consolidated comprehensive income for the period	**–6,371**	**–813**
Consolidated comprehensive income for the period attributable to		
Shareholders of Softing AG	–6,488	–1,031
Non-controlling interests	117	218
Consolidated comprehensive income for the period	**–6,371**	**–813**

Consolidated Statement of Financial Position

as of December 31, 2023

Assets	Note	Dec. 31, 2023 EUR (in thsds.)	Dec. 31, 2022 EUR (in thsds.)
Non-current assets			
Goodwill	C1/C2	10,950	17,398
Other intangible assets	C3/C4	36,445	38,166
Property, plant and equipment	C6	8,134	7,620
Other financial assets	C5	435	435
Deferred tax assets	D9	606	753
Non-current assets, total		**56,570**	**64,372**
Current assets			
Inventories	C7	23,679	18,984
Trade receivables	C8	12,270	16,756
Other current financial assets	C9	341	318
Contract assets	C10	902	524
Current income tax assets	C11	593	324
Cash and cash equivalents	C12	4,859	6,802
Current non-financial assets	C13	3,845	2,368
Current assets, total		**46,489**	**46,076**
Total assets		**103,059**	**110,448**

Equity and liabilities	Note	Dec. 31, 2023 EUR (in thsds.)	Dec. 31, 2022 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	13,875	21,264
Equity, shareholders of Softing AG		53,606	60,995
Non-controlling interests	C14	689	840
Equity, total		**54,295**	**61,835**
Non-current liabilities			
Pensions	C15	891	1,121
Long-term borrowings	C16	6,356	9,258
Other non-current financial liabilities	C16	8,753	8,287
Deferred tax liabilities	D 9	5,314	4,537
Non-current liabilities, total		**21,314**	**23,203**
Current liabilities			
Trade payables	C17	6,750	9,266
Contract liabilities	C10	5,957	4,999
Provisions	C18	79	52
Income tax liabilities	C19	279	334
Short-term borrowings	C20	8,476	5,477
Other current financial liabilities	C21	5,181	4,157
Current non-financial liabilities	C22	728	1,125
Current liabilities, total		**27,450**	**25,410**
Total equity and liabilities		**103,059**	**110,448**

Consolidated Statement of Changes in Equity

for the Period from January 1 to December 31, 2023

	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, 2023	**9,105**	**31,111**	**–485**	**20,664**	**–676**	**1,275**	**21,264**	**60,995**	**840**	**61,835**
Consolidated profit 2023				–5,829			–5,829	–5,829	117	–5,712
Other comprehensive income 2023					159	–823	–659	–659		–659
of which from remeasurements					190		190	190		190
of which currency translation						–818	–818	–818		–818
of which tax effect					–31		–31	–31		–31
Consolidated comprehensive income for the period				**–5,829**	**159**	**–818**	**–6,488**	**–6,488**	**117**	**–6,371**
Dividend payment				–902			–902	–902	–267	–1,169
Purchase of own shares										
Change in minorities										0
Transactions with owners in their capacity as owners				**–902**			**–902**	**–902**		**–1,169**
Balance as of December 31, 2023	**9,105**	**31,111**	**–485**	**13,933**	**–517**	**457**	**13,874**	**53,605**	**690**	**54,295**

	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, 2022	**9,105**	**31,111**	**–485**	**22,961**	**–1,744**	**1,977**	**23,195**	**62,926**	**622**	**63,548**
Consolidated profit 2022				–1,397			–1,397	–1,397	218	–1,179
Other comprehensive income 2022					1,068	–702	366	366		366
of which from remeasurements					1,485		1,485	1,485		1,485
of which currency translation						–1,257	–1,257	–1,257		–1,257
of which tax effect					–417	555	138	138		138
Consolidated comprehensive income for the period				**–1,397**	**1,068**	**–702**	**–1,031**	**–1,031**	**218**	**–813**
Dividend payment				–900			–900	–900		–900
Purchase of own shares										
Change in minorities										0
Transactions with owners in their capacity as owners				**–900**			**–900**	**–900**	**0**	**–900**
Balance as of December 31, 2022	**9,105**	**31,111**	**–485**	**20,664**	**–676**	**1,275**	**21,264**	**60,995**	**840**	**61,835**

Consolidated Statement of Cash Flows

for the Period from January 1 to December 31, 2023

	Jan. 1 – Dec. 31, 2023 EUR (in thsds.)	Jan. 1 – Dec. 31, 2022 EUR (in thsds.)
Cash flows from operating activities		
Profit (before tax)	**–3,249**	**–563**
Depreciation, amortization and impairment losses on fixed assets	16,643	8,967
Other non-cash transactions	94	–1,956
Cash flows for the period	**13,488**	**6,448**
Interest income/finance income	–120	–150
Interest expense/finance costs	505	1,346
Change in other provisions and accrued liabilities	–44	–527
Change in inventories	–4,695	–5,574
Change in trade receivables	4,109	–2,908
Change in financial receivables and other assets	–1,623	110
Change in trade payables	–2,516	2,041
Change in financial and non-financial liabilities and other liabilities	1,803	3,430
Interest received	120	10
Income taxes received	72	66
Income taxes paid	–2,002	–477
Cash flows from operating activities	**9,097**	**3,815**
Cash paid for investments in new internal product developments	–5,690	–3,948
Cash paid for investments in new external product developments	–854	–1,082
Cash paid for investments in other intangible assets	–138	–64
Cash paid for investments in non-current assets	–1,245	–973
Cash flows from investing activities	**–7,927**	**–6,067**
Cash paid for dividends	–1,168	–902
Repayment of lease liabilities	–1,350	–1,227
Cash received from long-term bank line	0	2,601
Cash received from short-term bank line	4,060	1,978
Cash repayment of bank loans	–3,963	–2,811
Interest, lease accounting	–139	–128
Other interest paid	–505	–213
Total interest paid	–644	–341
Cash flows from financing activities	**–3,065**	**–702**
Net change in funds	–1,896	–2,954
Effects of exchange rate changes on cash and cash equivalents	–46	143
Cash and cash equivalents at the beginning of the period	6,801	9,613
Cash and cash equivalents at the end of the period	**4,859**	**6,802**

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

Changes in Intangible Assets and Property, Plant and Equipment

in Financial Year 2023

	Cost					
	Jan. 1, 2023	Additions	Currency differences	Restatements/ reclassifications	Disposals	Dec. 31, 2023
	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)
Intangible assets						
Goodwill	18,814		–271			18,543
Internally generated product developments*	52,103	5,690	–97	812		58,508
Externally generated product developments*	3,998	854		–812		4,040
Other intangible assets	34,517	138	–719		–31	33,905
	109,432	**6,682**	**–1,087**		**–31**	**114,996**
Property, plant and equipment						
Right-of-use assets, operating and office equipment	117	3				120
Right-of-use assets, buildings	7,414	591	–54		–374	7,577
Right-of-use assets, vehicles	393	220		1,114	–120	1,607
Other equipment, furniture and fixtures and office equipment	7,317	1,245	–62	–4	–242	8,254
	15,241	**2,059**	**–116**	**1,110**	**–736**	**17,558**
	124,673	**8,741**	**–1,203**	**1,110**	**–767**	**132,554**

in Financial Year 2022

	Cost					
	Jan. 1, 2022	Additions	Currency differences	Restatements/ reclassifications	Disposals	Dec. 31, 2022
	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)
Intangible assets						
Goodwill	18,360		453			18,813
Internally generated product developments	44,471	3,948	86	4,078	480	52,103
Externally generated product developments	6,990	1,082		–4,075		3,997
Other intangible assets	33,380	64	1,204		131	34,517
	103,201	**5,094**	**1,743**	**3**	**611**	**109,430**
Property, plant and equipment						
Right-of-use assets, operating and office equipment	84	64			30	118
Right-of-use assets, buildings	4,400	3,696	77	406	1,165	7,414
Right-of-use assets, vehicles	448	132		9	195	394
Other equipment, furniture and fixtures and office equipment	6,444	973	86	–3	183	7,317
	11,376	**4,865**	**163**	**412**	**1,573**	**15,243**
	114,577	**9,959**	**1,906**	**415**	**2,184**	**124,673**

Depreciation/amortization/impairment						Carrying amounts
Jan. 1, 2023	Currency differences	Depreciation/ amortization in the financial year	Restatements / transfers	Disposals	Dec. 31, 2023	Dec. 31, 2023
EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)
1,416		6,177			7,593	10,950
35,014		5,057	–519		40,590	17,918
1,652		1,148	519		2,281	1,759
15,785	–385	1,767		30	17,137	16,768
53,867	**–385**	**14,149**		**30**	**67,601**	**47,395**
22		20			42	78
2,921	–41	1,244		374	3,750	3,827
219		138		120	237	1,370
4,460	–48	1,090		107	5,395	2,859
7,622	**–89**	**2,492**		**601**	**9,424**	**8,134**
61,489	**–474**	**16,641**		**631**	**77,025**	**55,529**

Depreciation/amortization/impairment						Carrying amounts
Jan. 1, 2022	Currency differences	Depreciation/ amortization in the financial year	Restatements / transfers	Disposals	Dec. 31, 2022	Dec. 31, 2022
EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)
1,296		120			1,416	17,397
31,394		3,711	–389	480	35,014	17,089
1,107		934	389		1,652	2,345
13,570	551	1,795		131	15,785	18,732
47,367	**551**	**6,560**		**611**	**53,867**	**55,563**
32		20		30	22	96
2,873	39	1,174		1,165	2,921	4,493
291		123		195	219	175
3,422	62	1,089		113	4,460	2,857
6,618	**101**	**2,406**		**1,503**	**7,622**	**7,621**
53,985	**652**	**8,966**		**2,114**	**61,489**	**63,184**

Notes to the Consolidated Financial Statements for the 2023 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 2023 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 20, 2024. 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 effects that led to a global procurement crisis for electronic components have eased during 2023. With the exception of a few products, our manufacturers were able to process orders placed in 2022.

This resulted in an increase in revenue of 14.5% from EUR 98.3 million in 2022 to EUR 112.6 million in the past financial year, marking the first time in its history that Softing generated revenue of more than EUR 100 million. Incoming orders returned to a more normal level of EUR 64.0 million after EUR 155.8 million in the previous year. The orders on hand brought forward into the new financial year amount to EUR 45.1 million and are the basis for a solid revenue target in 2024. For the financial year ending December 31, 2023, the Group is reporting a negative EBIT of EUR 2.7 million. The Group’s operating EBIT (EBIT adjusted for capitalized development services of EUR 5.7 million and amortization of internally generated and third-party product developments of EUR 6.2 million as well as effects from purchase price allocation in the amount of EUR 7.8 million) amounted to EUR 5.6 million (previous year: EUR 3.3 million). As of December 31, 2023, the Group had net current assets in the amount of EUR 19.0 million. As of January 31, 2023, the Softing Group has cash and cash equivalents of EUR 4.9 million, current receivables of EUR 12.3 million and agreed but not yet drawn down credit lines of around EUR 3.2 million at its disposal. This means that the Group has up to EUR 20.4 million in near-cash funds available at short notice to cope with the various continuing economic uncertainties triggered by the volatile global situation.

4. NEW AND AMENDED STANDARDS AND INTERPRETATIONS:

4.1. New and Amended Standards and Interpretations Effective for the First Time

In the past financial year, the Group observed the following new and amended standards and interpretations that became effective on January 1, 2023 and reviewed them as to their applicability:

IFRS 17: Insurance Contracts Including Subsequent Amendments to IFRS 17

On May 18, 2017, the IASB issued IFRS 17 Insurance Contracts, a comprehensive new accounting standard that establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts, and subsequently amended it on June 25, 2020. IFRS 17 supersedes IFRS 4 Insurance Contracts published in 2005. IFRS 17 applies to all types of insurance contracts (i.e. life, non-life, direct insurance and re-insurance), regardless of the type of entity, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide a consistent accounting model for insurance contracts. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. Application of these amendments had no impact on the Group.

Amendments to IAS 1: Disclosure of Accounting Policies

The IASB issued amendments to IAS 1: Disclosure of Accounting Policies on February 12, 2021. An entity is now required to disclose its 'material' accounting policy information in the notes instead of its 'significant' accounting policies. Guidance on applying the definition of materiality was also provided.

In the absence of a definition of the term 'significant' in IFRS, the Board decided to replace it with 'material', which is a defined term. Information on accounting policies may not be material in itself.

In assessing the materiality of accounting policy information, entities need to consider the scope of transactions, other events and the nature of them in the current financial statements. The amendments clarify that events or conditions relating to accounting policy information may themselves be material despite the corresponding accounting policy information being immaterial. The same applies vice versa.

Based on the amendments, an entity is likely to consider accounting policy information to be material in the following situations:

A change of accounting policy results in a material change to the information in the financial statements. A choice of accounting policy is permitted by IFRS.

An entity develops an accounting policy in accordance with IAS 8 in the absence of an IFRS that specifically applies.

Application of accounting policy requires significant judgments or assumptions.

Users of financial statements have difficulty understanding material transactions and other events or conditions because they require complex accounting decisions, e.g., when more than one IFRS is applied to a category of material transactions.

The amended IAS 1 explicitly acknowledges that disclosure of immaterial accounting policy information may be acceptable provided it does not obscure material information.

Application of these amendments had no impact on the Group.

Amendments to IAS 8: Definition of Accounting Estimates

On February 12, 2021, the IASB issued *Amendments to IAS 8: Definition of Accounting Estimates*, in which it introduces a new definition of accounting estimates.

The previously undefined term 'accounting estimates' was defined in the amended standard IAS 8.5 as "monetary amounts in financial statements that are subject to measurement uncertainty". In comparison, estimates that are not accounting estimates should generally relate to inputs used to develop an accounting estimate. The principle of IAS 8.35, which applies in cases of doubt, remains unchanged: When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate.

The IASB also clarified that effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates unless they result from the correction of prior period errors. Application of these amendments had no impact on the Group.

IAS 12: Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction

On May 7, 2021, the IASB issued IAS 12: Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (Amendments to IAS 12). The amendments clarify in particular how companies account for deferred tax on transactions such as leases and decommissioning obligations.

Entities are exempt from recognizing a deferred tax asset or liability in particular circumstances (initial recognition exemption). The amendments set out that the exemption does not apply to transactions that give rise to equal taxable and deductible temporary differences.

In these cases, entities must recognize deferred taxes for such transactions. When a transaction does not give rise to equal taxable and deductible temporary differences, entities are exempt from recognizing a deferred tax asset or liability.

The amendments only apply to transactions that occur on or after the beginning of the earliest comparative period presented. Two exceptions that are relevant in accounting practice exist here. For temporary differences associated with lease liabilities and decommissioning obligations, deferred taxes are recognized at the beginning of the comparative period and the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date is also recognized. Application of these amendments had no impact on the Group.

IFRS 17: Initial Application of IFRS 17 and IFRS 9 – Comparative Information

On December 9, 2021, the IASB issued Initial Application of IFRS 17 and IFRS 9 – Comparative Information (Amendment to IFRS 17). The amendment permits an entity to apply a transition option (classification overlay) for classifying financial assets in the comparative periods presented on initial application of IFRS 17 and IFRS 9. The transition option was added in response to the concerns of a number of stakeholders about possible accounting mismatches that may arise between financial assets and insurance contract liabilities on the initial application of the two standards.

Such accounting mismatches may arise from the differing transition requirements of IFRS 9 and IFRS 17. IFRS 17 requires entities to restate comparative information, while IFRS 9 only allows restatement if doing so does not require the use of hindsight. However, comparative information will not be restated for financial assets that were derecognized prior to initial application of IFRS 9.

An entity applying the classification overlay to a financial asset must present comparative information as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset. The entity must use reasonable and supportable information available at the transition date to determine how the entity expects the financial asset would be classified and measured on initial application of IFRS 17 together with IFRS 9. In applying the classification overlay to a financial asset, an entity is not required to apply the impairment requirements under IFRS 9 for the comparative period. In such cases, the impairment requirements of IAS 39 must be applied instead.

A classification overlay can be applied by entities that apply IFRS 17 and IFRS 9 at the same time and restate comparative information for IFRS 9. In such cases, the transition regulation can only be applied to financial assets derecognized in the comparative period.

If the comparative information is not restated under IFRS 9, the classification overlay can be applied to all financial assets in the comparative period. On application of IFRS 9 before initial application of IFRS 17, an entity can apply classification overlay to the financial assets redesignated in accordance with IFRS 17.C29 if they had not been derecognized in the comparative period.

The amendment sets out that entities applying the classification overlay option must disclose this in the notes. They must also disclose qualitative information that enables users of financial statements to understand the effects of the classification overlay on the presentation for the comparative period. Application of these amendments had no impact on the Group.

IAS 12: International Tax Reform – Pillar Two Model Rules

On May 23, 2023, the IASB issued International Tax Reform – Pillar Two Model Rules (Amendments to IAS 12). The amendments introduce a temporary exception to the accounting for deferred taxes arising from the implementation of the Pillar Two Model Rules, together with extended disclosure requirements for affected entities. Application of these amendments had no impact on the Group.

4.2. Standards Issued but not Yet Effective

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

IFRS 16: Lease Liability in a Sale and Leaseback

On September 22, 2022, the IASB issued Lease Liability in a Sale and Leaseback (Amendments to IFRS 16). The amended standard requires a seller-lessee to subsequently measure lease liabilities arising from a sale and leaseback transaction in a way that it does not recognize any amount of the gain or loss that relates to the right of use it retains.

In a sale and leaseback transaction, one entity (seller-lessee) sells an asset to another entity (buyer-lessor) and leases back that asset. When determining whether the transfer of an asset is accounted for as a sale of that asset, the seller-lessee is required to apply IFRS 15 to assess whether legal ownership of the underlying asset has been transferred. If the transfer of an asset is classified as a sale, the seller-lessee records the leaseback as a lease and recognizes a lease liability and a right-of-use-asset retained for the asset sold. While IFRS 16.100 (a) sets out that the seller-lessee must measure the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the seller-lessee, IFRS 16 does not contain more specific guidance on measuring the lease liability arising from a sale-and-leaseback transaction.

After the commencement date, the seller-lessee must apply paragraphs 29 to 35 of IFRS 16 to the right-of-use asset arising from the leaseback and paragraphs 36 to 46 of IFRS 16 to the lease liability arising from the leaseback. In applying paragraphs 36 to 46 of IFRS 16, the seller-lessee must determine 'lease payments' or 'revised lease payments' in a way that the seller-lessee would not recognize any amount of the gain or loss that relates to the right of use retained by the seller-lessee. Applying the requirements in this paragraph does not prevent the seller-lessee from recognizing in profit or loss any gain or loss relating to the partial or full termination of a lease.

The amendment of IFRS 16 does not provide specific guidance on measuring lease liabilities arising from a sale and leaseback transaction. Initial measurement of the lease liability from a sale and leaseback transaction can lead a seller-lessee to determine 'lease payments' that do not meet the definition of lease payments in Appendix A of IFRS 16. The seller-lessor must therefore develop and apply an accounting policy in accordance with IAS 8 that leads to information that is relevant and reliable.

The amendments are effective for annual reporting periods beginning on or after January 1, 2024. Early application is permissible subject to endorsement by the EU. A seller-lessor is required to apply the amendments retrospectively to sale and leaseback transactions concluded after the date of initial application of IFRS 16.

IAS 1: Classification of Debt with Covenants as Current or Non-current

In January 2020 and October 2022, the IASB issued amendments to IAS 1 Presentation of Financial Statements specifying how an entity shall classify debt as current or non-current when complying with conditions specified in their loan agreements ('covenants'). The amendments in 2022 eliminate ambiguities in the amendments from 2020 relating in particular to covenants to be complied with within twelve months after the reporting period rather than at the reporting date.

IAS 1.72B now clarifies that the classification of debt as current or non-current is merely subject to whether an entity is required to comply with covenants on or before the reporting date. Covenants with which an entity only has to comply after the reporting date are not significant for the classification at the end of the reporting period. In these cases, pursuant to IAS 1.76ZA the entity is required to disclose information in the notes that the liability (still presented as non-current) could become repayable within twelve months after the reporting period in the event of a breach of covenant. If a breach of covenant occurs on or before the reporting date, making the liability immediately repayable at the lender's request, a liability must (continue to) be recognized as non-current only if the borrower has a right at the end of the reporting period to defer settlement for at least twelve months after the reporting period. Otherwise, the liability must be classified as current (IAS 1.69 (d)). Here, too, IAS 1.72A ff. clarifies that the right to defer settlement of a liability is exclusively subject to the entity complying with the conditions at the end of the reporting period. The right must have substance, which is only the case if the lender agreed to defer settlement of the liability for at least twelve months after the reporting period. Later agreement (even if this is given before the financial statements are authorized for issuance) can no longer be considered. The classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability (IAS 1.75A). Where a right to defer settlement exists, a liability is therefore classified as non-current even if it is likely to be settled within the next twelve months. Conversely, an entity that does not have a right to defer settlement at the end of the reporting period must report the liability as current even if it expects to roll over an obligation under an existing loan facility (IAS 1.73).

Both amendments are effective for annual reporting periods beginning on or after January 1, 2024. Uniform early application of both amendments is permissible subject to endorsement by the EU.

IAS 7 and IFRS 7: Supplier Finance Arrangements

On May 25, 2023, the IASB issued amendments to IAS 7 and IFRS 7 which address in particular additional disclosure requirements in connection with supplier finance arrangements (reverse factoring arrangements) and serve to enhance the transparency of such arrangements and their effects on a company's liabilities, cash flows and exposure to liquidity risk. The amendments also clarify characteristics of supplier finance agreements.

The new disclosure requirements complement current requirements in IFRS by adding to disclosure requirements about:

- the terms and conditions of the supplier finance arrangements;
- for the arrangements, as at the beginning and end of the reporting period: the carrying amounts of financial liabilities that are part of the arrangement and the associated line item presented;

- the carrying amount of financial liabilities and line items for which suppliers have already received payment from the finance providers;
- the range of payment due dates for financial liabilities from supplier finance arrangements compared with the due dates of comparable trade payables that are not part of a supplier finance arrangement (in each case at the beginning and end of the reporting period);
- the type and effect of non-cash changes in the carrying amounts of supplier finance arrangement financial liabilities, due for example to exchange rate volatility or business combinations;
- effects on exposure to liquidity risk.

The amendments require an entity to aggregate information about its supplier finance arrangements. However, the entity must disaggregate information about unusual or unique terms and conditions of individual arrangements when they are dissimilar. Explanatory information about payment due dates, when those payment due date ranges are wide, must also be disaggregated.

The amendments are effective for annual reporting periods beginning on or after January 1, 2024. Voluntary early application is permissible subject to endorsement by the EU. An entity is not required to disclose comparative information for any reporting periods presented before the beginning of the annual reporting period in which the amendments first apply. Furthermore, the amendments clarify that entities are not required to provide disclosures according to the new requirements in any interim reporting period during the first annual reporting period in which those amendments apply.

IAS 21: Lack of Exchangeability

On August 15, 2023, the IASB issued amendments to IAS 21 to clarify the accounting when exchangeability is lacking. The amendments fill a gap in IAS 21 by providing explicit requirements on the exchange rate an entity uses when there is no observable exchange rate on the reporting date.

The amended standard now contains guidance to specify when a currency is exchangeable and how to determine the exchange rate when it is not. The standard also clarifies in which cases a currency is not exchangeable as well as the information to be disclosed in this context.

Under the amendments, a currency is considered to be exchangeable into another currency when an entity is able to obtain the other currency within a time frame that allows for a normal administrative delay And through a market or exchange mechanism in which an exchange transaction would create enforceable rights and obligations.

If the conditions are not met, the currency is not exchangeable and the spot exchange rate on the reporting date is estimated. For this, an entity can use an observable exchange rate without adjustment or another estimation technique.

If a currency is not exchangeable, the reporting entity is required to disclose information that enables users of its financial statements to understand how the currency not being exchangeable into the other currency affects, or is expected to affect, the entity's financial performance, financial position and cash flows.

Assuming prompt endorsement by the EU, the amendments to IAS 21 are effective for annual reporting periods beginning on or after January 1, 2025; earlier application is permitted.

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, 2023 include Softing AG and the following subsidiaries, over which Softing AG directly or indirectly exercises control:

Softing Group as of Dec. 31, 2023	Capital share/voting share	
	2023 %	2022 %
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
GlobalmatiX AG Vaduz/Liechtenstein	100	100
GlobalmatiX Inc., Knoxville/USA	100	100
GlobalmatiX GmbH, Haar/Germany	100	0

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 115 thousand in the financial year ended (previous year: EUR 158 thousand) and that at Buxbaum Automation GmbH, Eisenstadt/Austria amounted to EUR 2 thousand (previous year: EUR 60 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. A dividend of EUR 534 thousand was paid by Softing Electronic Science & Technology (Shanghai) Co., of which EUR 267 thousand was attributable to the minority shareholder. No dividend was paid by Buxbaum Automation GmbH, Eisenstadt/Austria.

As of December 31, 2023, there were no changes in the basis of consolidation of Softing AG compared to December 31, 2022.

The Group also held an 6.0% equity interest in Yoma Solutions GmbH in Norderstedt. The fair value remained unchanged compared to the previous year at EUR 435 thousand (previous year: EUR 435 thousand). Equity according to the German Commercial Code in 2023 amounted to EUR –1,573 thousand (previous year: EUR –361 thousand) and the loss for the year was EUR 1,212 thousand (previous year: EUR 1,319 thousand).

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

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

3. PRINCIPLES OF CONSOLIDATION

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

In assessing control, potential voting rights, economic dependence, the interest held compared with that of the other shareholders, and voting patterns at shareholder meetings must be taken into consideration.

Subsidiaries acquired are accounted for using the purchase method. The consideration for the acquisition is equal to the fair value of the transferred assets, the equity instruments issued by the Group and the liabilities assumed from the previous owners of the acquired subsidiary as of the acquisition date. In addition, the consideration paid includes the fair value of any recognized assets or liabilities arising from agreed contingent consideration.

Acquired assets identifiable in the course of a business combination along with liabilities and contingent liabilities assumed are recognized when they are acquired at their fair value at the time of acquisition. For each acquisition of an entity, the Group decides on a case-by-case basis whether the non-controlling interests in the entities acquired are recognized at fair value or in the amount of their proportional share of the net assets of the acquired entity. Historically, the full goodwill method has not been applied.

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

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

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

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

4. INTANGIBLE ASSETS

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

5. DEVELOPMENT COSTS

Development costs for developing new products and for materially refining a product or process are capitalized if the product or process is technically and financially feasible; if there is an intention to complete it; if the development is marketable; if the costs can be reliably determined; and if the Group possesses sufficient resources to complete the development project. All other development costs are immediately recognized as expenses in the income statement. Capitalized development costs for completed projects are reported at cost net of accumulated amortization and impairment. In this context, production costs include labor costs and other directly allocable costs that are necessary to create the development project. The Softing Group amortizes the development costs for new product lines and product versions over their respective useful life of between three and five years using the straight-line method; amortization in the year the product lines or versions

are completed is recognized on a pro-rata basis. Amortization is shown in the consolidated income statement under the item "Depreciation of property, plant and equipment and amortization of intangible assets". In accordance with IAS 38, research costs cannot be capitalized and are immediately recognized as an expense in the consolidated 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 together with Softing Automotive Electronics GmbH.
- 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% (previous year: 1.0%) 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 acceptable. 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-TERM 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. EXERCISE OF JUDGMENT AND ESTIMATE UNCERTAINTIES

The preparation of the consolidated financial statements in accordance with the provisions of the IASB requires forward-looking assumptions to be made and estimates to be used that have an effect on the carrying amounts of recognized assets and liabilities, income, expenses, and contingent liabilities. The forward-looking assumptions and estimates essentially relate to the uniform determination of useful lives throughout the Group, the 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	
	2023	2022	2023	2022	2023	2022
Closing rate (Dec. 31)	1.11	1.07	4.98	4.95	0.93	0.98
Average exchange rate	1.08	1.05	4.95	4.93	0.97	1.02

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, 2023, there were no changes in the basis of consolidation of Softing AG compared to December 31, 2022.

2. GOODWILL

	Dec. 31, 2023 EUR (in thsds.)	Dec. 31, 2022 EUR (in thsds.)
Softing Engineering & Solutions GmbH & Softing Automotive Electronics GmbH	1,055	1,055
Softing Industrial Automation GmbH	384	384
Softing IT Networks GmbH	0	5,061
OLDI Online Development Inc.	7,511	7,781
GlobalmatiX AG	2,000	3,117
Goodwill	**10,950**	**17,398**

Change in the CGUs: Softing Engineering & Solutions GmbH and Softing Automotive Electronics GmbH are both active in the Automotive sector and share some customers, even more so now that Softing Engineering & Solutions GmbH is expanding its business portfolio further and its activities are more closely aligned with those of Softing Automotive Electronics. The Group also believes that this will generate sales synergies, which is why it considers the two companies in the Automotive segment to be a single cash-generating unit. Even a stand-alone approach would not lead to impairment of goodwill.

Due to the change in the EUR/USD exchange rate, the goodwill of OLDI Online Development Inc. decreased by EUR 270 thousand in 2023.

The 2024 detailed planning period was defined on the basis of short-term revenue and margin expectations.

In the medium term between 2025 and 2027, Softing expects the trend towards new technologies to accelerate and investments in product development to pay off. The market for electronic components has also behaved cyclically in the past. Delivery capability improved in almost product areas in 2023, which is also the basis for planning.

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: 10.6% – 13.1% (previous year: 11.5% – 12.5%)
- Risk-free interest rate: 2.31% (previous year: 2.0%)
- Market risk premium: 7.00% (previous year: 7.00%)
- Beta factor relevered (weighted average of a group of comparable companies): 1.24 (previous year: 1.20)

For the USA:

- Discount rates (WACC) before taxes: 13.2% (previous year: 12.5%)
- Risk-free interest rate: 4.14% (previous year: 3.67%)
- Market risk premium: 6.00% (previous year: 6.00%)
- Beta factor relevered (weighted average of a group of comparable companies): 1.24 (previous year: 1.21)

Management has planned the cash flows for a period of 4 years (previous year: 4 years), after which a growth rate of 1.0% (previous year: 1.0%) 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 the CGUs, 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 Group recognized impairment losses on goodwill of EUR 6,177 thousand in 2023 (previous year: EUR 120 thousand), broken down into EUR 5,061 thousand for Softing IT Networks GmbH and EUR 1,117 thousand for GlobalmatiX AG.

The impairment is attributable to the fact that goodwill was recognized at the time of the respective company acquisition on the basis of the expected income from the businesses known or anticipated at the acquisition date. Current planning showed that the present value of expected future cash flows is estimated to be lower than at the acquisition date given the continuous interest rate hikes and a changing business model due to the phase-out of the legacy products in the Psiber GmbH CGUs. At GlobalmatiX AG, the aforementioned impairment losses were attributable to the continuous interest rate hikes and the longer-term market penetration with a changed portfolio of services.

Sensitivity Analysis:
An increase in the interest rate by 100 basis points would lead to further impairment of goodwill in the GlobalmatiX AG cash-generating unit. Likewise, a 5% decrease in the forecast EBIT would lead to a need for further impairment of goodwill.

The sensitivity analysis does not show a need for impairment of the goodwill for the other cash-generating units.

Climate-related matters: The Group continuously monitors legislation related to climate change and in financial year 2022 prepared its first sustainability report. At present, no laws have been adopted that impact negatively on the Group.

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 13,127 thousand (previous year: EUR 11,936 thousand).

In financial year 2023, the discontinuation of a development project at year-end 2023 resulted in need for correction in the amount of EUR 2,000 thousand (previous year: EUR 0 thousand).

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

	2023 EUR (in thsds.)	2022 EUR (in thsds.)
Capitalized development costs	5,690	3,948
Expenses not qualifying for capitalization	13,127	11,936
	18,817	**15,884**

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 was less than 10%. An obligation to transfer an additional EUR 1,495 thousand to the capital reserves of the investee was written into the investment agreement; this payment was made in early 2020. For subsequent measurement of the equity investment the Group decided to recognize the effects of changes in the fair value in profit or loss. There was no change in the fair value of the investment's carrying amount in 2023. The fair value remained at EUR 435 thousand (previous year: EUR 435 thousand).

Significant quantitative inputs for measurement include the growth rate, the assumptions regarding revenue and cost trends, and the discount rate.

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, 2023, approximately 49 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, 2023 EUR (in thsds.)	Dec. 31, 2022 EUR (in thsds.)
Raw materials and consumables	9,148	6,947
Finished goods	14,531	12,037
Inventories	**23,679**	**18,984**

Loss allowances recognized in 2023 total EUR 406 thousand (previous year: EUR 278 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 receiv-ables (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, 2023	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)
Trade receivables (gross)	12,723	424	8.934	2.356	983	26	0
Risk provision (stage 2)	–29		–9	–7	–13	0	0
Risk provision (stage 3)	–424	–424					
Trade receivables (net)	**12,270**	**0**	**8.925**	**2.349**	**970**	**26**	**0**

Changes in expected credit losses on trade receiv-ables are shown in the following table:

As of Jan. 1, 2023 EUR (in thsds.)	Use EUR (in thsds.)	Reversal EUR (in thsds.)	Addition EUR (in thsds.)	As of Dec. 31, 2023 EUR (in thsds.)
251	79		281	453

	Carrying amount	Of which impaired receiv-ables (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, 2022	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)
Trade receivables (gross)	17.007	231	15.464	1.248	63	1	0
Risk provision (stage 2)	–20		–15	–5	0	0	0
Risk provision (stage 3)	–231	–231					
Trade receivables (net)	**16.756**	**0**	**15.448**	**1.244**	**63**	**1**	**0**

Changes in expected credit losses on trade receiv-ables are shown in the following table:

As of Jan. 1, 2022 EUR (in thsds.)	Use EUR (in thsds.)	Reversal EUR (in thsds.)	Addition EUR (in thsds.)	As of Dec. 31, 022 EUR (in thsds.)
255	18		14	251

9. CURRENT OTHER FINANCIAL ASSETS

	Dec. 31, 2023 EUR (in thsds.)	Dec. 31, 2022 EUR (in thsds.)
Creditors with debit balances	185	312
Other financial assets	156	6
	341	**318**

10. CONTRACT ASSETS AND CONTRACT LIABILITIES

	Carrying amount	Of which neither past due nor impaired
Dec. 31, 2023	EUR (in thsds.)	EUR (in thsds.)
Contract assets (gross)	902	902
Risk provision (stage 2)	0	0
Contract liabilities	5,957	5,957
Net amount	**–5,055**	**–5,055**

	Carrying amount	Of which neither past due nor impaired
Dec. 31, 2022	EUR (in thsds.)	EUR (in thsds.)
Contract assets (gross)	525	525
Risk provision (stage 2)	0	0
Contract liabilities	4,999	4,999
Net amount	**–4,474**	**–4,474**

Revenue of EUR 4,395 thousand (previous year: EUR 2,766 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 8,564 thousand (previous year: EUR 7,272 thousand) is allocated to the performance obligations that were partly or entirely unsatisfied at the end of the reporting period. Softing will recognize EUR 7,794 thousand (previous year: EUR 6,295 thousand) of the transaction price in the next reporting period and EUR 770 thousand (previous year: EUR 977 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 mainly concern corporation tax/federal tax (USA) receivables amounting to EUR 391 thousand (previous year: EUR 324 thousand) and Softing Italy with EUR 192 thousand (previous year: EUR 0 thousand). The Group's taxes are described in detail in section D 9.

12. CASH AND CASH EQUIVALENTS

	Dec. 31, 2023 EUR (in thsds.)	Dec. 31, 2022 EUR (in thsds.)
Cash and cash equivalents	**4,859**	**6,802**

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. The 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, 2023 EUR (in thsds.)	Dec. 31, 2022 EUR (in thsds.)
Receivables from employees	0	23
VAT receivables	508	1,051
Prepaid expenses/prepayments	986	863
Research grant receivables	768	0
Geleistete Anzahlungen	1,237	336
Advances paid	261	0
Other non-financial assets	85	93
	3,845	**2,367**

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: 9,015,381). 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 2022) until May 5, 2027. The Executive Board is also authorized to disapply shareholders' statutory pre-emptive right with the approval of the Supervisory Board, as necessary for offsetting factional shares; if the shares are issued against in-kind contributions for the purpose of acquiring companies or equity interests in companies or business units or for the purpose of acquiring receivables from the given entity; if a capital increase against cash contributions does not exceed 10% of the share capital and the issue price of the new shares is not substantially lower than the share price pursuant to Section 186 (3) sentence 4 German Stock Corporation Act. Disapplying shareholders' pre-emptive right under other authorizations pursuant to Section 186 (3) sentence 4 German Stock Corporation Act shall be considered in connection with any exercise of this authorization under the aforementioned statute.

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

The authorized capital as of December 31, 2023, 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 2022). 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 6, 2027 in accordance with the resolution of the General Shareholders' Meeting on May 7, 2022. The new shares will be issued at the respective option or conversion price to be determined in accordance with the above-mentioned authorization resolution. The contingent capital increase will be implemented only in the event that bonds with warrants or convertible bonds are issued and only to the extent that the holders of the bonds with warrants or the convertible bonds make use

of their option or conversion right or the holders of bonds obligated to convert or to exercise the option fulfill this obligation and the contingent capital is needed in accordance with the terms and conditions of the bond with warrants or the convertible bond. The new shares issued on the basis of the exercise of the option or conversion right or the fulfillment of the conversion or option obligation have a share in the profit from the beginning of the financial year in which they arise. The Executive Board is authorized, with the approval of the Supervisory Board, to stipulate the further details of the implementation of the contingent capital increase. Said authority was not exercised to date.

Capital Reserves

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

Treasury Shares

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

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

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

The transactions were announced in a form complying with the requirements of Article 5 (3) of Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 in conjunction with Art. 2 (2) and (3) of Delegated Regulation (EU) 2016/1052, by no later than the end of the seventh day following their execution, and were published, inter alia, on the Company's website at investor.softing.com/de/aktie/aktien rueckkauf.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
			EUR (in thsds.)	%	EUR (in thsds.)
Balance on Dec. 31, 2022	90.000		90	0.99	482
Balance on Dec. 31, 2023	**90,000**		**90**	**0.99**	**482**

No treasury share transactions took place in 2023.

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" 2023/2022.

Retained Earnings

Retained earnings include the accumulated, undistributed profits of the companies included in the consolidated financial statements. A dividend of EUR 0.10 per eligible share (previous year: EUR 0.10) was paid out in the 2023 financial year for 2022. The Executive Board proposes a dividend of EUR 0.13 per share for financial year 2023. This corresponds to a total dividend of 1,172 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.

Non-controlling Interests

The non-controlling interests in the amount of EUR 689 thousand (previous year: EUR 839 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 3,663 thousand (previous year: EUR 3,544 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 –517 thousand as of December 31, 2023 (previous year: EUR –674 thousand).

The pensions under variable commitments increase or decrease in line with the change in the Consumer Price Index for Germany (2020 = 100). It rose from 116.3 points to 121.4 points on average between 2023 and 2024.

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

Basis of calculation	Dec. 31, 2023 %	Dec. 31, 2022 %
Assumed interest rate	3.85	3.2
Salary trend	0.0	0.0
Expected rate of pension increase	2.0	1.1
Anticipated employee turnover rate	0.0	0.0

Development of the obligation	2023 EUR (in thsds.)	2022 EUR (in thsds.)
DBO as of January 1	4,666	6,034
Service cost	122	169
Interest expense	146	68
Pension payments to pensioners	–182	–181
Expected DBO as of December 31	**4,752**	**6,090**
Remeasurements, of which		
Effects from adjusting the assumed interest rate	–198	–1,424
Effects from changes in trend assumptions	0	0
Effects from experience adjustments	0	0
Actual DBO as of December 31	**4,554**	**4,666**

The average remaining life of the obligation is 12.14 years (previous year: 13.15 years).

Calculation of annual income and annual expense	2023 EUR (in thsds.)	2022 EUR (in thsds.)
Interest income	114	40
Interest expense	–147	–68
Service cost	–122	–169
Annual expense	**–155**	**–197**

Development of plan assets	2023 EUR (in thsds.)	2022 EUR (in thsds.)
Plan assets as of January 1	3,544	3,430
Payment from plan assets	–93	–93
Payments into the employer’s plan assets	107	107
Interest earned from plan assets	114	40
Adjustment of plan assets	–9	61
Plan assets as of December 31	**3,663**	**3,544**

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 2024 (previous year: EUR 107 thousand). Payments into plan assets of EUR 107 thousand are also expected in the years up to 2026.

Reconciliation with the statement of financial position	Dec. 31, 2023 EUR (in thsds.)	Dec. 31, 2022 EUR (in thsds.)
Present value of the defined benefit obligations (DBO)	4,554	4,665
Fair value of the external plan assets	3,663	3,544
Provision	**891**	**1,121**

Development of the provision	2023 EUR (in thsds.)	2022 EUR (in thsds.)
Provision as of January 1	1,121	2,605
Service cost	122	168
Net interest expense	33	29
Remeasurements	–189	–1,485
Pension payments	–182	–181
Benefit payment from plan assets	93	93
Payments into plan assets	–107	–107
Provisions as of December 31	**891**	**1,121**

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 DBO 2023	+0.25% pp –2.86%	–0.25% pp 3.01%
Relative effect of interest rate change on DBO DBO 2022	+0.25% pp –3.1%	–0.25% pp 3.3%

	Effect on the obligation	
	Change Assumption	Change Assumption
Relative effect of a change in the pension trend on DBO 2023	0.25% pp +0.96%	–0.25% pp –0.94%
Relative effect of a change in the pension trend on DBO 2022	+0.25% pp +1.0%	–0.25% pp –1.0%

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 200 thousand (previous year: EUR 180 thousand) are expected for the 2024 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 141 thousand (previous year: EUR 114 thousand).

16. LONG-TERM BORROWINGS AND OTHER NON-CURRENT FINANCIAL 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. Softing AG also received a loan of EUR 2,500 thousand in 2022. This loan has a term of three years and is due for repayment in one lump sum at the end of the term. 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 6,356 thousand as of December 31, 2023 (previous year: EUR 9,150 thousand).

There are also long-term loans of EUR 2,500 thousand that mature in 2025 and loans taken out by a subsidiary from a bank in the amount of EUR 6 thousand (previous year: EUR 108 thousand).

Some elements of the Executive Board remuneration were not paid out in recent years due to the COVID-19 crisis, Russia's war of aggression and the related procurement crisis for electronic components, with payment of those elements deferred. An amount of EUR 4,493 thousand (previous year: EUR 4,451 thousand) is therefore included in other non-current liabilities. The increased cash flow attributable to this waiver was used to support contract manufacturers and assist with the related stockpiling.

As of the balance sheet date, the lease liabilities had a carrying amount of EUR 5,546 thousand (previous year: EUR 5,019 thousand), divided into non-current lease liabilities of EUR 4,260 thousand (previous year: EUR 3,737 thousand) and current lease liabilities of EUR 1,286 thousand (previous year: EUR 1,282 thousand).

In financial year 2023, other financial lease liabilities were repaid in the amount of EUR 1,350 thousand (previous year: EUR 1,227 thousand) and an interest portion of EUR 139 thousand (previous year: EUR 128 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 1,499 thousand in financial year 2023 (previous year: EUR 1,374 thousand). As of the balance sheet date, EUR 5,904 thousand (previous year: EUR 5,313 thousand) was recognized for future cash outflows.

Possible future cash outflows of EUR 67 thousand (previous year: EUR 911 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, 2023, there were future cash outflows of EUR 3,915 thousand (previous year: EUR 387 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, 2023, 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 5,271 thousand (previous year: EUR 4,763 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 12 thousand (previous year: EUR 19 thousand) and expenses for leases of low-value assets stood at EUR 1 thousand (previous year: EUR 0 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 6,750 thousand (previous year: EUR 9,267 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 01.01.2023 EUR (in thsds.)	Use EUR (in thsds.)	Reversal EUR (in thsds.)	Addition EUR (in thsds.)	As of Dec. 31, 2023 EUR (in thsds.)
Warranties	52	22	0	33	63
Other	0	0	0	16	16
Total	**52**	**22**	**0**	**49**	**79**

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 279 thousand (previous year: EUR 334 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 8,476 thousand (previous year: EUR 5,477 thousand), which in the financial year relates to the utilization of overdraft lines of credit.

21. OTHER CURRENT FINANCIAL LIABILITIES

	Dec. 31, 2023 EUR (in thsds.)	Dec. 31, 2022 EUR (in thsds.)
Wages and salaries payable	3,506	2,376
Lease liabilities (< 1 year)	1,286	1,282
Other	389	499
	5,181	**4,157**

22. CURRENT NON-FINANCIAL LIABILITIES

	Dec. 31, 2023 EUR (in thsds.)	Dec. 31, 2022 EUR (in thsds.)
Liabilities related to social security	247	94
Other tax liabilities primarily (sales and wage tax)	425	849
Other	56	182
	728	**1,125**

D. NOTES TO THE CONSOLIDATED INCOME STATEMENT

1. REVENUE

Revenue by regions:	2023 EUR (in thsds.)	2022 EUR (in thsds.)
Germany	30,649	28,589
USA	55,468	35,074
Other countries	26,478	34,648
	112,595	**98,311**

Revenue by products and services:	2023 EUR (in thsds.)	2022 EUR (in thsds.)
Products	97,605	86,119
Services	14,990	12,192
	112,595	**98,311**

Revenue recognized at a point in time/over time:	2023 EUR (in thsds.)	2022 EUR (in thsds.)
Point in time	97,605	86,119
Of which products:	97,605	86,119
Of which services:	0	0
Over time	14,990	12,192
Of which products:	0	0
Of which services:	14,990	12,192
	112,595	**98,311**

In 2023, one customer in the Industrial Automation segment who was responsible for revenue of EUR 33,478 thousand (previous year: EUR 17,790 thousand) and 30% (previous year: 18%) of consolidated revenue exceeded the revenue threshold of 10%.

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 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:	2023 EUR (in thsds.)	2022 EUR (in thsds.)
Income from exchange differences	289	3,110
Income from insurance benefits	238	17
Revenue from the reduction of loss allowances	12	6
Recharged costs	0	1
Research grants	845	177
Income from commissions	83	199
Other income	246	182
	1,713	**3,692**

4. COST OF MATERIALS

	2023 EUR (in thsds.)	2022 EUR (in thsds.)
Purchase of components and products	50,726	46,922
Third-party services	1,131	1,389
	51,857	**48,311**

5. STAFF COSTS

	2023 EUR (in thsds,)	2022 EUR (in thsds,)
Current salaries	32,064	28,628
Social security and retirement benefit costs	5,033	4,706
Profit-sharing, royalties	2,736	2,399
Use of company cars by employees	14	10
Other temporary workers	260	243
	40,107	**35,986**

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

Expenses recognized for the statutory pension scheme total EUR 1,607 thousand (previous year: EUR 1,432 thousand). The service cost for pension provisions amounts to EUR 122 thousand (previous year: EUR 168 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 6,178 thousand were recognized on goodwill in financial year 2023 (previous year: EUR 120 thousand). Impairment losses of EUR 2,000 thousand were recognized on internally generated intangible assets.

7. OTHER OPERATING EXPENSES

The other operating expenses are as follows:	2023 EUR (in thsds.)	2022 EUR (in thsds.)
Employee-related costs	586	305
Infrastructure costs	3,475	2,938
Distribution costs	3,208	2,936
Consulting costs	1,129	1,282
Third-party services	1,747	1,819
Capital market costs	342	321
Contributions and fees	132	162
Operating costs	405	386
Exchange differences	614	856
Other product development expenses	1,668	476
Other costs	809	444
	14,115	**11,925**

8. INTEREST INCOME/INTEREST EXPENSE AND OTHER FINANCE INCOME AND COSTS

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

The total interest expense breaks down as follows:	2023 EUR (in thsds.)	2022 EUR (in thsds.)
Other interest expense		
Interest from unwinding of discounts on provisions	146	68
Interest on loans	283	184
Other interest	76	29
Total other interest expense	505	281
Interest from IFRS 16 lease accounting	139	128
	644	**409**

Interest income comprises the following items:	2023 EUR (in thsds.)	2022 EUR (in thsds.)
Interest income from pension provisions	114	39
Other interest	6	10
	120	**49**

The other finance income/finance costs of EUR –964 thousand in the previous year related to currency fluctuations of a USD loan to the American holding company. In the financial year, other finance income/finance costs came to EUR 0 thousand.

9. INCOME TAXES

The income tax expense breaks down as follows:	2023 EUR (in thsds.)		2022 EUR (in thsds.)	
Deferred taxes on temporary differences	–715		389	
Deferred taxes on tax loss carryforwards	–144		–391	
Total deferred tax expense/income		–859		–2
Current tax expense/income financial year	–1,677		–541	
Current tax expense/income previous year	72		–73	
Total current tax expense/income		–1,605		–614
		–2,464		**–616**
Effective tax rate		–75.85%		–109.4%

Since the impairment of goodwill in the amount of EUR 6,177 thousand in financial year 2023 does not effect tax, the effective tax rate is 75.85%.

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:

	2023 %	2022 %
Körperschaftsteuer einschließlich Solidaritätszuschlag	15.83	15.83
Gewerbesteuersatz	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, 2023 EUR (in thsds.)	Dec. 31, 2022 EUR (in thsds.)	Usable until
Softing AG (trade tax)	3,385	3,673	Unlimited
Softing AG (corporation tax)	2,403	2,604	Unlimited
Softing Singapore	7,523	3,442	Unlimited
Softing North America Holding (State)	0	1,109	Unlimited
GlobalmatiX AG	9,096	6,230	Unlimited

Of the total tax loss carryforwards in the amount of EUR 22,407 thousand (previous year: EUR 17,058 thousand), EUR 6,753 thousand (previous year: EUR 8,333 thousand) was recognized on deferred tax assets. No deferred tax assets were recognized for tax loss carryforwards of EUR 15,672 thousand (previous year: EUR 8,725 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.

	2023 EUR (in thsds.)	2022 EUR (in thsds.)
Earnings before taxes	–3.249	–563
Expected tax income/expense (28.08%)	–912	–158
Tax additions and deductions	–21	52
Impairment of goodwill	1.580	34
Different tax rates	808	341
Other deferred taxes, temporary differences, loss carryforwards not recognized	961	270
Taxes, previous years	48	77
Current tax expense shown in the income statement	**2.464**	**616**

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

	2023 EUR (in thsds.)		2022 EUR (in thsds.)	
	Assets	Liabilities	Assets	Liabilities
Intangible assets		5,675		5,068
Pension provision	322		377	
(Of which recognized directly in equity)	(232)		(263)	
Contract assets/trade payables and trade receivables	73	435	60	331
Other provisions	55		71	
Current assets			11	
Future tax benefits from loss carryforwards	952		1,096	
Netting	–796	–796	–862	–862
Gross amount/carrying amount	**606**	**5,314**	**753**	**4,537**

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 Softing Industrial Automation GmbH, 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 and (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, Globalmatix AG as well as Globalmatix Inc. and GlobalmatiX GmbH, 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	
	2023 EUR (in thsds.)	2022 EUR (in thsds.)	2023 EUR (in thsds.)	2022 EUR (in thsds.)	2023 EUR (in thsds.)	2022 EUR (in thsds.)	2023 EUR (in thsds.)	2022 EUR (in thsds.)	2023 EUR (in thsds.)	2022 EUR (in thsds.)	2023 EUR (in thsds.)	2022 EUR (in thsds.)	2023 EUR (in thsds.)	2022 EUR (in thsds.)
Revenues with third parties	82,414	71,290	22,663	18,957	5,721	6,198	1,797	1,865	112,595	98,331	0	0	112,595	98,331
Revenues with other segments	591	639	164	312	1,612	1,543	0	7	2,367	2,501	–2,367	–2,501	0	0
Total revenue	83,005	71,929	22,827	19,270	7,333	7,741	1,797	1,872	114,962	100,812	–2,367	–2,501	112,595	98,311
Depreciation / amortization	–3,704	–3,112	–6,454	–3,712	–6,115	–901	–1,240	–1,125	–17,513	–8,850	871	3	–16,643	–8,847
Impairment of assets	0	0	–3,117	0	–5,061	–120	0	0	–8,178	–120	0	0	–8,178	–120
Operating segment result	9,824	4,914	–896	–1,893	–2,577	–2,353	–847	551	5,504	1,218	140	2,054	5,645	3,273
EBIT	8,817	4,107	–4,606	–2,445	–7,416	–2,266	–763	1,834	–3,969	1,350	1,245	–468	–2,724	762
Segment assets	86,570	54,510	40,007	37,802	11,580	15,299	–24,715	14,190	113,443	121,801	–10,382	–11,353	103,059	110,448
of which IFRS 16	564	748	1,020	257	274	109	3,413	3,649	5,271	4,763	0	0	5,271	4,763
Segment liabilities	16,833	18,851	24,162	14,032	10,433	6,991	50,819	42,529	102,247	82,403	–53,482	–33,791	48,764	48,613
of which IFRS 16	340	464	907	113	146	7	2,867	3,153	4,260	3,737	0	0	4,260	3,737
Capital expenditure	1,571	1,637	4,696	2,857	1,420	1,291	1,003	4,224	8,691	10,009	50	–50	8,714	9,959

Revenue from contracts with customers recognized over time	Industrial		Automotive		IT Networks		Other		Total	
	2023 EUR (in thsds.)	2022 EUR (in thsds.)	2023 EUR (in thsds.)	2022 EUR (in thsds.)	2023 EUR (in thsds.)	2022 EUR (in thsds.)	2023 EUR (in thsds.)	2022 EUR (in thsds.)	2023 EUR (in thsds.)	2022 EUR (in thsds.)
Point in time	80,824	69,359	9,284	8,887	5,700	6,008	1,797	1,865	97,605	86,119
Over time	1,590	1,932	13,379	10,070	21	190	0	0	14,990	12,192
Total	82,414	71,291	22,663	18,957	5,721	6,198	1,797	1,865	112,595	98,311

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 5,645 thousand (previous year: EUR 3,273 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 5,690 thousand (previous year: EUR 3,948 thousand) and amortization of internally generated and third-party product developments of EUR 6,205 thousand (previous year: EUR 4,649 thousand), and depreciation and amortization from purchase price allocation of 7,845 thousand (previous year: EUR 1,810 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	
	2023 EUR (in thsds.)	2022 EUR (in thsds.)	2023 EUR (in thsds.)	2022 EUR (in thsds.)	2023 EUR (in thsds.)	2022 EUR (in thsds.)
Germany	30,694	28,589	22,191	25,779	5,882	7,802
USA	55,454	35,074	16,587	18,218	76	24
Other countries	26,447	34,648	17,187	19,741	2,783	2,133
Total	**112,595**	**98,311**	**55,965**	**63,738**	**8,741**	**9,959**

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, 2022	**12,966**	**1,900**
Cash flows	1,769	–1,335
Acquisitions of leases		3,892
Exchange rate changes		147
Changes in fair value		415
Liabilities from financing activities as of December 31, 2022	**14,735**	**5,019**
Cash flows	97	–1,348
Acquisitions of leases		814
Exchange rate changes		–10
Changes in fair value		1,071
Liabilities from financing activities as of December 31, 2023	**14,832**	**5,546**

Borrowings consist of short-term borrowings of EUR 8,476 thousand (previous year: EUR 5,477 thousand) and long-term borrowings of EUR 6,356 thousand (previous year: EUR 9,258 thousand).

Leases consist of non-current leases of EUR 1,286 thousand (previous year: EUR 1,282 thousand) and long-term borrowings of EUR 4,260 thousand (previous year: EUR 3,737 thousand).

4. EARNINGS PER SHARE IAS 33

		2023	2022
Consolidated profit attributable to shareholders of Softing AG (diluted = basic consolidated profit)	EUR (in thsds.)	–5,829	–1,397
Non-controlling interests	EUR (in thsds.)	117	218
Consolidated profit	**EUR (in thsds.)**	**–5,712**	**–1,179**
Weighted average number of shares			
Basic	Number	9,015,381	9,015,381
Diluted	Number	9,015,381	9,015,381
Basic earnings per share	EUR	–0.63	–0.13
Diluted earnings per share	EUR	–0.63	–0.13

As in the previous year, no options rights exist as of December 31, 2023, which could influence diluted earnings per share in the future.

5. RELATED PARTIES

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

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

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

The dividend payment to the major shareholder amounted to EUR 902 thousand in the 2023 financial year (previous year: EUR 349 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% 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, 2023 (previous year: 163,234).

The Executive Board member Ernst Homolka held 10,900 shares in Softing AG as of December 31, 2023 (previous year: 10,900 shares).

The Supervisory Board member, Dr. Klaus Fuchs, held 278,820 shares in Softing AG as of December 31, 2023 (previous year: 278,820).

The Supervisory Board member, Andreas Kratzer, held 10,155 shares in Softing AG as of December 31, 2023 (previous year: 10,155).

The managing director of GlobalmatiX AG held 1,450,000 shares in Softing AG as of December 31, 2023 (previous year: 1,450,000).

Dividends totalling EUR 191 thousand (previous year: EUR 191 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 2,166 thousand (previous year EUR 1,887 thousand).

Transactions with Related Parties (Persons):
The Supervisory Board member Dr. Fuchs received a total fee of EUR 69 thousand (previous year: EUR 59 thousand) for providing consulting services in connection with the coordination of Softing IT Networks.

Terms of Transactions with Related Parties (Persons):
Group companies acquired assets from xTCU AG in financial year 2023 and 2022 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.

In addition, office and accounting services are procured from a related party.

The transactions were of the following value:

	Value of transactions in EUR thousand		Balances outstanding in EUR thousand	
Purchase of services	**2023**	**2022**	**2023**	**2022**
Other related parties (persons)	147	137	100	83
Company under the control of a related party (person)	449	406	0	86
Sale of goods and purchase of services				
Company under the control of a related party (person)	40	0	0	0

6. CONTINGENT LIABILITIES

As of the balance sheet date, the subsidiaries have provided EUR 14,365 thousand (previous year: EUR 14,794 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

As of the balance sheet date, the Company had incurred purchase commitments in the amount of EUR 18,240 thousand under long-term contracts (previous year: EUR 16,702 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.

8. GOVERNMENT GRANTS

	2023 EUR (in thsds.)	2022 EUR (in thsds.)
As of January 1, 2023	0	0
Received in the financial year	845	185
of which reversed through profit or loss	845	185
As of December 31, 2023	0	0

The Group, as in the previous year, also received grants for a research project in the field of autonomous driving amounting to EUR 76 thousand (previous year: EUR 177 thousand). Further grants under research projects from 2020 and 2021, amounting to EUR 769 thousand, were approved in 2023 and recognized as receivables in profit or loss. Government grants in 2022 were provided by public authorities by way of contributions to current expenses during the COVID-19 pandemic (short-time work allowance). An amount of EUR 0 thousand (previous year: EUR 8 thousand) was deducted directly from personnel expenses.

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, 2023, 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, 2023	Amortized cost	Fair value OCI	Fair value PL	Dec. 31, 2023	
Non-current financial assets							
Other investments	FVTPL	435			435	435	Level 3
Current financial assets							
Trade receivables	AC	12,270	12,270			12,270	Level 2
Current other financial assets	AC	806	806			806	Level 2
Cash and cash equivalents	AC	4,859	4,859			4,859	Level 2
Financial liabilities by class							
Non-current financial liabilities							
Long-term borrowings	FLAC	6,356	6,356			5,923	Level 2
Other non-current financial liabilities		8,753					
of which liabilities from lease accounting	n/a	4,260	n/a				
of which long-term repayment obligation	FLAC	4,493	4,550			4,550	
Current financial liabilities							
Trade payables	FLAC	6,750	6,750			6,750	Level 2
Short-term borrowings	FLAC	8,476	8,476			8,277	Level 2
Other current financial liabilities							
of which liabilities from lease accounting	n/a	1,286	n/a				
of which miscellaneous other current financial liabilities	FLAC	3,955	4,683			3,955	Level 2

Carrying amount by category	Category	Dec. 31, 2023 EUR (in thsds.)
Financial assets at amortized cost	AC	17,935
Financial assets at fair value through profit or loss	FVTPL	435
Financial liabilities at amortized cost	FLAC	30,030

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, 2022	Amortized cost	Fair value OCI	Fair value PL	Dec. 31, 2022	
Non-current financial assets							
Other investments	FVTPL	435			435	435	Level 3
Current financial assets							
Trade receivables	AC	16,765	16,765			16,765	Level 2
Current other financial assets	AC	318	318			318	Level 2
Cash and cash equivalents	AC	6,801	6,801			6,801	Level 2
							Level 2
Financial liabilities by class							
Non-current financial liabilities							
Long-term borrowings	FLAC	9,258	9,258			8,464	Level 2
Other non-current financial liabilities		8,287					
of which liabilities from lease accounting	n/a	3,737	n/a				
of which long-term repayment obligation	FLAC	4,550	4,550			4,550	
Current financial liabilities							
Trade payables	FLAC	9,267	9,267			9,267	Level 2
Short-term borrowings	FLAC	5,477	5,477			5,328	Level 2
Other current financial liabilities		4,157					
of which liabilities from lease accounting	n/a	1,282	n/a				
of which miscellaneous other current financial liabilities	FLAC	2,875	4,000			2,875	Level 2

Carrying amount by category	Category	Dec. 31, 2022 EUR (in thsds.)
Financial assets at amortized cost	AC	23,884
Financial assets at fair value through profit or loss	FVTPL	435
Financial liabilities at amortized cost	FLAC	32,552

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 unquoted equity instruments (equity interest in YOMA Solutions GmbH) was EUR 435 thousand in 2023. The significant unobservable inputs are the growth rate (1% for the terminal value) and the risk-adjusted discount rate of 9.5%, which has to be allocated to Level 3. In 2022, a transaction with equity investors and year-end remeasurement resulted in a change in value of EUR 1,064 thousand.

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

The Group can only enter 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.

Any payment obligations arising from the payment based on the enterprise value are 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 are allocated to Level 2.

The net gains/losses of the respective categories of financial instruments in accordance with IFRS 9 for 2023 and 2022 are shown in the following overview:

Net gains and losses, 2023 (EUR thsds.)		Interest	Impairment	Currency translation gains/losses	Net gain/loss
from financial assets at amortized cost	AC	6	–281	–303	–578
from financial liabilities at amortized cost	FLAC	–359			–359

Net gains and losses, 2022 (EUR thsds.)		Interest	Impairment	Currency translation gains/losses	Net gain/loss
from financial assets at amortized cost	AC	10	6	2,355	2,370
from financial liabilities at amortized cost	FLAC	–213			–213

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 6 thousand in the current period (previous year: EUR 10 thousand), while interest expense on financial liabilities at amortized cost came to EUR –359 thousand (previous year: EUR –213 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, 2023, and December 31, 2022.

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 52.7% (previous year: 55.9%).

The capital of the Softing Group relevant for controlling purposes encompasses subscribed capital, capital reserves, retained earnings and non-controlling interests; it therefore corresponds to the equity of EUR 54,295 thousand (previous year: EUR 61,835 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 combined 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, 2023, and December 31, 2022, 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, 2023, totaled EUR 453 thousand (previous year: EUR 276 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 4,859 thousand (previous year: EUR 6,801 thousand) bear interest of 0.00% (previous year: 0.00%). No material interest rate risks result from subsidiaries' liabilities to banks in the amount of EUR 14,832 thousand (previous year: EUR 14,735 thousand) because these loans in the amount of EUR 9,156 thousand are fixed-interest loans.

An increase of the market interest rate by 50 basis points would have an impact of EUR 28 thousand (previous year: EUR 14 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 thsds. / USD			USD			
Closing rate: USD 1.105			1.22 +10%	0.99 –10%	Difference	Difference
Financial assets/liabilities	**USD**	**USD in EUR**			**+10%**	**–10%**
Trade receivables	3,768	3,410	3,100	3,788	–310	379
Receivables from affiliated companies	27,700	25,068	22,789	27,853	–2,279	2,785
Other current assets	602	545	495	606	–50	61
Cash and cash equivalents	1,529	1,383	1,258	1,537	–126	154
Current liabilities	–7,278	–6,586	–5,988	–7,318	599	–732
	26,320	**23,819**			**–2,165**	**2,647**

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 3.2 million 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 4,859 thousand (previous year: EUR 6,801 thousand), Accounting for 4.7% (previous year: 6.2%) 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. With the exception of the fixed-interest loans, the amounts shown in the table are not discounted cash flows.

Dec. 31, 2023 (EUR thsds.)	Up to 1 year	2–5 years	More than 5 years	Total contractual CF	Total carrying amounts
Financial liabilities					
Loan	8,696	6,456		15,152	14,832
Lease liabilities	1,414	4,175	316	5,905	5,546
Trade payables	6,750			6,795	6,795
Other financial liabilities	5,181	4,493		9,674	9,674

Dec. 31, 2022 (EUR thsds.)	Up to 1 year	2–5 years	More than 5 years	Total contractual CF	Total carrying amounts
Financial liabilities					
Loan	5,699	9,501		15,200	14,735
Lease liabilities	1,281	3,008	729	5,018	5,018
Trade payables	9,267			9,267	9,267
Other financial liabilities	4,154	4,550		8,704	8,704

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 three 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:

	2023	2022
As of the balance sheet date	432	395
Annual average	416	388
Marketing & Sales	117	109
Research & Development	240	220
Administration & General	46	46
Management	13	13

13. TOTAL REMUNERATION OF THE EXECUTIVE BOARD

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

Dr.-Ing. Dr. rer. oec. Wolfgang Trier, Munich, 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	
	2023	2022
Fixed remuneration	877	833
Fringe benefits	51	48
Total	928	881
Discretionary bonus	15	0
One-year variable remuneration	862	601
Multi-year variable remuneration	33	78
Multi-year variable remuneration based on enterprise value	0	0
Total	910	679
Pension expense	77	76
Total remuneration	1.915	1.636

All remuneration components are deemed to have been earned in the financial year. A portion of the total remuneration, including that of previous years, is presented under other non-current financial liabilities at the balance sheet date in the amount of EUR 4,493 thousand (previous year: EUR 4,451 thousand).

In addition, unused vacation days in the amount of EUR 8 thousand from the previous year were settled in the financial year (previous year: EUR 10 thousand).

The obligations from non-reinsured pension expenses for the Executive Board amount to EUR 135 thousand (previous year: EUR 80 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 122 thousand (previous year: EUR 168 thousand) was recognized.

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

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

Pension obligations for former members of the Executive Board as of December 31, 2023 totaled EUR 2,228 thousand (previous year: EUR 2,285 thousand). The total remuneration of former members of the Executive Board amounted to EUR 194 thousand (previous year: EUR 182 thousand).

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

14. TOTAL REMUNERATION OF THE SUPERVISORY BOARD

The following persons were members of the Supervisory Board of Softing AG in the 2023 financial year:

Matthias Weber, business graduate, Baierbrunn, Germany (Chairman)

Andreas Kratzer, certified public accountant, Neuheim, Switzerland (Deputy Chairman)

Dr. Klaus Fuchs, graduate computer scientist und graduate engineer, Helfant, Germany

Mr. Matthias Weber was also a member of the supervisory board of the following companies:

- Salutas Pharma GmbH, Barleben, Germany, chairman of the Supervisory Board
- Lek d.d., Ljublijana, Slovenia, chairman of the Supervisory Board
- Sandoz GmbH, Kundl, Austria, chairman of the Supervisory Board
- Rowex Ltd, Bantry/Ireland, member of the Supervisory Board
- Sandoz Austria GmbH, Austria, member of the Supervisory Board

Mr. Andreas Kratzer is also a member of one other Supervisory Board:

- Fox e-mobility AG, Munich, Germany

Dr. Klaus Fuchs does not hold any offices on other Supervisory Boards.

In addition to being reimbursed for their expenses and any VAT applicable on their remuneration and expenses, each member of the Supervisory Board receives a fixed remuneration of EUR 15,000.00 for each full financial year of service on the Supervisory Board, payable after the end of the financial year. The Chairman receives EUR 25,000.00 and the Deputy Chairman receives EUR 20,000.00.

In addition, each member receives variable remuneration amounting to 0.5% of Group EBIT before variable Supervisory Board remuneration.

The total remuneration is presented under other current financial assets at the balance sheet date in the amount of EUR 60 thousand (previous year: EUR 62 thousand). The total remuneration for the Executive Board and the Supervisory Board amounts to EUR 1,976 thousand (previous year: EUR 1,698 thousand).

15. AUDITOR'S FEES

The following expenditure (including expenses) was incurred in the financial year just ended for services provided by the 2023 auditor, Rödl & Partner GmbH:

	2023 EUR (in thsds.)	2022 EUR (in thsds.)
Audit of annual financial statements	191	159
Other services	6	4
	197	**163**

16. EVENTS AFTER THE REPORTING PERIOD

There are no events after the reporting date to report.

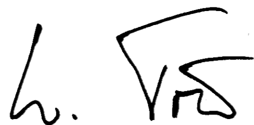
17. STATEMENT PURSUANT TO SECTIONS 289F AND 315D GERMAN COMMERCIAL CODE (HGB)

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 20, 2024

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, 2023, 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, 2023 to December 31, 2023, 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, 2023 to December 31, 2023. In accordance with German law, we have not audited the contents of the disclosures made in the section "Statement on corporate governance" of the combined management report, and the Sustainability Report to which the Company refers in the section "Internal management system".

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, 2023, and of its financial performance for the financial year from January 1, 2023 to December 31, 2023, 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, 2023 to December 31, 2023. 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 14,990 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 evaluated, 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 10,950 thousand (10.62% of total assets and 20.17% 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 identified an impairment of EUR 5,061 thousand in the IT Networks segment and EUR 1,117 thousand at GlobalmatiX AG.

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 assessed 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 17,918 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 5,690 thousand to consolidated profit in financial year 2023. This was offset by amortization and impairment of internally generated intangible assets amounting to EUR 5,057 thousand, of which EUR 2,000 thousand concerned impairment losses. 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 evaluated whether 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 and talked to technical project managers 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 Letter from the CEO,
- the remaining parts of the “annual 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, 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 (i.e. fraudulent financial reporting and misappropriation of assets) 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 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 the risk of not detecting a material misstatement resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and 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 the internal control system 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 actions taken or safeguards applied to eliminate independence threats.

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 (3a) 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 electronic file SOFTING_AG_KA+LB_ESEF_31-12-2023.zip (SHA 256-Hashwert: 460d5cf5cc0fbf7714b1e263b796cc33082b49f95f969da2e02bdbbe2cad7991) 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 [provided] 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 2023 to December 31, 2023 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 [provided] 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 (06.2022)). 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 the Audit Firm (IDW QMS 1 (09.2022)).

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 [provided] 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 4, 2023. We were engaged by the Supervisory Board on December 5, 2023. 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 Company Register – 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 20, 2024

Rödl & Partner GmbH
Wirtschaftsprüfungsgesellschaft

Signed: Ronald Hager
Wirtschaftsprüfer
[German Public Auditor]

Signed: Felix Haendel
Wirtschaftsprüfer
[German Public Auditor]

Report of the Supervisory Board

for Financial Year 2023

The Supervisory Board of Softing AG carried out its duties as provided by law and the Company's Articles of Incorporation in financial year 2023. 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 five in-person and two virtual Supervisory Board meetings were held in the 2023 financial year:

On March 21, March 24, May 4, June 20, July 24, October 13 and December 22.

Given that the Supervisory Board has three members, the Audit Committee comprises the entire Supervisory Board. The Audit Committee is chaired by Mr. Andreas Kratzer.

A total of five Audit Committee meetings were held in the 2023 financial year:

On February 9, February 20, March 9, September 22 and December 22.

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 refinement of the internal auditing and risk management system.

COMPOSITION OF THE SUPERVISORY BOARD AND THE EXECUTIVE BOARD

In the reporting year, the Supervisory Board was comprised of Mr. Matthias Weber (Chairman), Mr. Andreas Kratzer (Deputy Chairman) and Dr. Klaus Fuchs.

The duties of the Audit Committee were performed by the entire Supervisory Board, chaired by Mr. Andreas 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.

MAIN FOCUS OF THE MEETINGS

Some parts of the meetings took place without the Executive Board and were used for internal coordination within the Supervisory Board.

During the preparation phase, the Audit Committee provided regular information on the progress of the work and the results, both within the organization and in direct talks with the auditors.

At the Supervisory Board meeting on March 21, 2023, the Supervisory Board dealt with the Company's performance in the 2022 financial year and the first results for 2023.

The Supervisory Board had already received advance drafts of the audit reports via mail from Mr. Haendel (Rödl & Partner) on March 9, 2023. On March 14, 2023, Mr. Kratzer asked the Supervisory Board's combined questions in a separate consultation with Mr. Haendel and Mr. Homolka. At this meeting, the Supervisory Board asked the auditors, who were present, for further explanations about the audit reports for the Softing Group, Softing AG and the remuneration report.

The invitation to the 2023 General Shareholders' Meeting on May 4 was also approved at this meeting, as well as the Declaration of Compliance with the German Corporate Governance Code (GCGC) and the Statement on Corporate Governance pursuant to Sections 289f and 315d of the German Commercial Code (HGB).

Managing director Mr. Widmann presented the 2023 business outlook for GlobalmatiX AG.

Other topics included a report on changes in controlling, expanding the internal control system, and setting individual targets for the Executive Board in 2023.

At its virtual meeting on March 24, the Supervisory Board adopted the 2022 annual financial statements of Softing AG and approved the 2022 consolidated financial statements.

On May 4, 2023, the General Shareholders' Meeting was followed by the inaugural Supervisory Board meeting due to the reelection of the Supervisory Board. At this inaugural meeting, Mr. Matthias Weber was elected Chairman of the Supervisory Board, and Mr. Andreas Kratzer was appointed Deputy Chairman of the Supervisory Board. There was a recapitulation of the General Shareholders' Meeting. This meeting was concluded with a report of the Executive Board on the status and outlook of the Company's strategy, operations and financial position.

At the virtual meeting held on June 20, 2023, the Executive Board presented data and background information on the business figures for the first five months 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.

At the meeting on July 24, 2023, held at the business premises of GlobalmatiX AG in Vaduz, the Executive Board provided detailed commentary on data and background information on the financial figures for the first six months of 2023, the financial planning for the rest of the year, and the risk report for the first half of the year.

The executive management of GlobalmatiX AG provided a report on the course of business for 2023 so far and the outlook for the second half of the year.

On September 27, Mr. Homolka and his expert colleagues provided Mr. Weber and Mr. Kratzer with detailed reports about ICS and the risk management system.

At the meeting on October 13, 2023, the Executive Board provided detailed commentary on data and background information on the financial figures for the first nine months of 2023 and the financial planning for the rest of the year. This was followed by a status report on current business and the latest outlook for GlobalmatiX AG and IT Networks. The Executive Board also informed the Supervisory Board about two potential acquisition targets and planned changes to the Group's structure. Mr. Kratzer also provided a report on the Audit Committee's first meeting with auditors from Rödl & Partner in anticipation of the 2023 annual financial statements.

At the Supervisory Board meeting held on December 22, 2023, the Executive Board presented to the Supervisory Board a first estimate of the 2023 annual results, its business plan for 2024 and its multi-year planning. After careful review, the Supervisory Board approved the two plans.

The Executive Board explained its approach to the impairment tests for the 2023 annual financial statements. 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. The Supervisory Board and the Executive Board also decided on the update regarding the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act and the update to the Statement on Corporate Governance pursuant to Sections 289f and 315d of the German Commercial Code. Mr. Homolka presented the risk report for the second half of 2023 and answered the Supervisory Board's follow-up questions.

At the Audit Committee's meetings on February 9, 2023, February 20, 2023 and March 9, 2023, the Supervisory Board received a summary of the audit work carried out by audit firm Rödl & Partner for the 2022 annual financial statements.

At the meeting held on September 22, 2023, Rödl & Partner, the audit firm elected at the General Shareholders' Meeting, was engaged as statutory auditor. The focal points of the 2023 preliminary and main audit were also determined, as was the Supervisory Board's approach to assessing the quality of the auditors.

At its meeting on December 22, the Supervisory Board received a summary of the results of this preliminary audit and agreed a course of action for the main audit with Rödl & Partner. In particular, impairment testing and the resulting possible allowances to be recognized were discussed in detail.

All members of the Supervisory Board attended all Supervisory Board meetings in 2023. 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.

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, 2023, 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 20, 2024, 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.

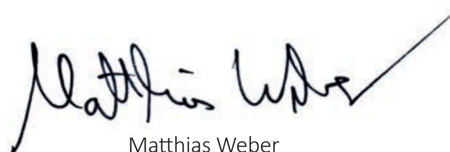
The auditors reported on their audit in general as well as on individual focal points and the significant results of their audit. They answered the questions raised by the members of the Supervisory Board in detail. The Supervisory Board approved the result of the audit. There was no reason to raise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

The Supervisory Board approved the annual financial statements and the consolidated financial statements for 2023 at its meeting on March 20, 2024. 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 a difficult 2023 that was again dominated by global events, and for their achievements in the 2023 financial year.

Haar, Germany, March 20, 2024



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