

# ANNUAL REPORT 2019

# ABOUT SNP

SNP accelerates and automates the secure transformation of IT landscapes and data structures with its proprietary software so that companies can adjust to the ever faster changes in the market with agility.

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# ANNUAL FINANCIAL STATEMENTS

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# LETTER OF THE CEO

Dear shareholders,

Dear readers,

SNP celebrated its 25th anniversary in 2019. Many developments during this period – both within the business and corporate sector and elsewhere – unfolded quickly and often suddenly. Digitalization played a major role in this. Ever since our company's foundation, our mission was clear (and remains so, more or less unchanged, right up to the present day): We aim to enable our customers to derive the benefits of software-based migration of large amounts of data in business applications!

Today, the level of demand for our software and our services has reached an all-time high. Allow me to illustrate the ingredients of our company's success as well as our efforts to ensure that this success continues.

25 years ago, transformation projects were already an important issue for companies. Even then, SNP helped its customers to migrate large amounts of data quickly and securely. While in those days our project partners were mainly IT and specialized departments – which were rarely involved in their companies' overall change process – the relevance of IT for business processes is now also a topic for the boardroom. Worldwide, there is currently hardly any company whose executive bodies are not focusing on data storage in the cloud, use of artificial Intelligence or new data protection regulations or the move to SAP S/4HANA.

The increased level of demand for SNP software and services underlines the major potential of our business model and also reflects the considerable trust demonstrated by major international customers.

Unlike many traditional IT consulting firms in the ERP world, SNP relies on an automated approach: With our self-developed data transformation platform CrystalBridge® and our SNP BLUEFIELD™ approach, we have developed genuine unique selling points.

What is more, on the basis of profound industry and technological expertise over the past few years SNP has become the world's leading provider of software to cope with complex digital transformation processes. Our approach enables significantly faster and more secure restructuring and modernization of IT landscapes as well as the migration of data to new systems or cloud environments. This offers our customers clear qualitative benefits while also reducing their investment of time and expense.

## **THE GLOBAL MARKET FOR SNP IS GROWING WITH STRONG MOMENTUM**

The level of momentum in the market environment for IT data transformations remains unbroken. This also reflects the fact that, in order to maintain their competitiveness, companies are required to make the necessary adjustments to their IT landscapes even, or in fact all the more so, during periods of economic weakness. The large order which we have won for a global SAP project with a Swiss energy and high-tech company exemplifies this trend.

We have also already successfully implemented a large number of projects in the area of SAP S/4HANA – including a prestigious pilot project for the Volkswagen Group which will now serve as the basis for further S/4HANA projects throughout VW.

Customers often use these initial and introductory projects in order to gain experience in implementing the necessary data transformations. This approach makes sense from the customer's point of view. After all, the consolidation and changeover of ERP systems are increasingly important within the scope of group-wide overall IT strategies. The global players subsequently often allocate significantly larger long-term budgets for their implementation.



Dr. Andreas Schneider-Neureither, CEO

## **2019 WAS A SUCCESSFUL YEAR FOR SNP**

We have used the past few years above all to increase our market relevance. Group revenue is an important yardstick here. In 2019, SNP increased its revenue to around € 145 million. This represents around 11% growth year-over-year and an increase of more than 150% by comparison with 2015.

In order to cover the increased level of demand for our services and our software, we have significantly expanded our SNP team: our roughly 400 employees at the end of 2015 have now grown into a workforce of around 1,400. At the same time, we have pushed forward with the internationalization of the SNP Group and are now present in all of the world's commercially relevant regions. In 2015, non-German-speaking countries accounted for 25% or around € 14 million of the company's overall revenue. In 2019, the figures are 43% and around € 62 million.

In terms of our products, we have transformed our software into a software suite, and with SNP BLUEFIELD™ we have developed a migration concept which significantly reduces the costs and the amount of time required for SAP S/4HANA transformations. BLUEFIELD™ enables companies to achieve in six months or less what previously might take several years. What traditional methods are obliged to distribute between a large number of sequential projects, we implement in a single project by means of a one-step approach – regardless of the level of complexity.

## **OUTLOOK**

We look back at a successful 2019 fiscal year during which we increased our revenue again and considerably expanded our margins. We generally continue to see possibilities for positive development, also for the current year - though the consequences of the COVID-19 pandemic are very difficult to assess at this time.



Der Vorstand der SNP SE (v. l. n. r.):  
Frank Hohenadel, Michael Eberhardt, Dr. Andreas Schneider-Neureither, Prof. Dr. Heiner Diefenbach.

"We are the the world's leading provider of software to cope with complex IT landscape and data structure transformations. Our approach enables significantly faster and more secure restructuring and modernization of IT landscapes. This offers our customers clear qualitative benefits while also reducing their investment of time and expense."

The long-term drivers of our growth remain intact. We currently see no immediate impact on our business, and order entry has likewise developed positively in the first quarter of 2020. Not least, it can be assumed that after the acute phase of the crisis has ended, the digitalization of entire business models and correspondingly broad global transformations will have an even greater priority than before our share of the world market for corporate transformations is still relatively small. This is attributable, on the one hand, to the size of this market and, on the other, to the still evident dominance of the IT consulting firms and their consultant-heavy business models. However, the IT consulting industry has recognized that we are living in a highly complex world which is continuing to undergo rapid change. That is also true of the consultant industry. The technological challenges of tomorrow cannot be resolved with yesterday's solutions.

With IBM Rapid Move for SAP S/4HANA, IBM has introduced a new approach which offers a more intelligent and faster digital transformation path. Together with our SNP BLUEFIELD™ approach, IBM's customers can significantly accelerate their transition to S/4 HANA and the integration of new technologies. We are currently planning further partnerships with other globally active IT service companies.

Our clearly defined goal is to establish SNP long-term as the world's leading company for software-based data transformation!

We are currently hugely expanding our partner relationships for this purpose. A strong and established partner channel will help us to convince even more companies of the benefits of our software and to develop innovative partnership-based concepts for our customers. We will extensively communicate our unique selling points to the market, in order to exploit our growth potential and to significantly scale up and increase our software and license revenue. On this basis, our prioritized margin goal remains a structural increase in our profitability in the medium term.

Our high order entry figure confirms the appropriateness of our strategy and the performance capacity of our company: at € 201 million, the order entry figure in the year 2019 is 52% higher than in the previous year. The strong order situation will have a positive impact on our revenue and earnings growth.

We intend to not only maintain, but even increase this growth momentum. We will only achieve this goal with highly motivated and satisfied employees, and I would like to take this opportunity to express my thanks and appreciation to them.

Every anniversary – including our anniversary in 2019 – always involves two different perspectives: looking back and looking forward. We are now clearly looking forward!

We are experiencing a very exciting period and are registering strong growth in the level of interest in our products and services. Our Transformation World event which we hold every year in Heidelberg is now seen as the most important expert-level congress for IT and business transformation in the German-speaking world. At SAPPHIRE in Orlando, the world's leading SAP trade fair, our BLUEFIELD campaign was a huge success.

For 25 years now, we have worked on faster implementation of complex IT transformations by means of software solutions and tailored consulting services, while minimizing cost and risk. Our technology and our experience enable us to allay the concerns of many decision-makers as to whether it is possible to estimate the costs and the amount of time required for a transformation project.

For 25 years, SNP has distinguished itself with the strength of its expertise. On behalf of the entire management team, I would like to thank our customers as well as all of our shareholders for the trust which they have placed in us. The entire SNP team will continue to do everything possible in order to continue to justify this trust over the next 25 years and beyond.



Dr. Andreas Schneider-Neureither, CEO







# STRATEGY

# SNP GROUP



1994  
FOUNDED

HEIDELBERG  
HEADQUARTERS

1,400  
EMPLOYEES

>30  
LOCATIONS

13  
COUNTRIES

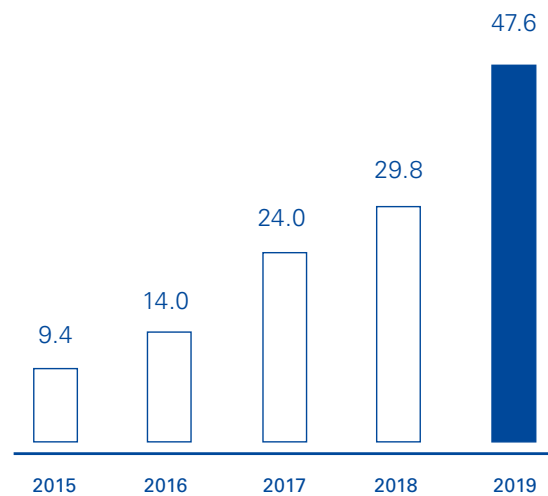
# OUR MARKET

The market for digital transformation has been growing at an above average rate for years. Companies around the world are being confronted with constant updates to their IT landscapes, continuous increases in data usage, changing business models and the challenges of integrating new technology. These factors will become even more present in the next few years. According to experts, the market is likely to grow to a volume of over \$ 1 billion by 2026. This represents a growth rate of more than 18% per year and demonstrates the huge momentum of this industry.

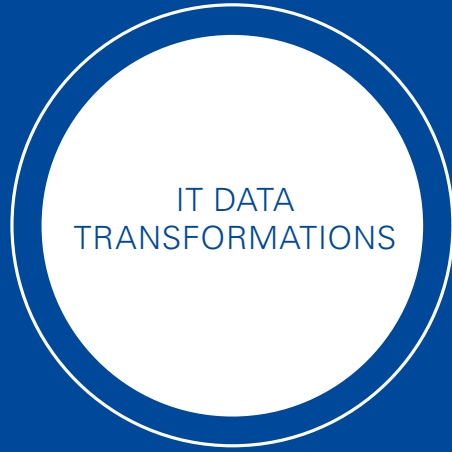
SNP is ready for this development and has been successfully pushing its internationalization in the past few years. Global demand for our software is higher than ever. Software revenue in 2015 was around € 9 million. By 2019, it grew to around € 48 million!

## DEVELOPMENT OF SNP SOFTWARE SALES

In Mio. €



BUSINESS  
TRANSFORMATIONS



IT  
TRANSFORMATIONS

# OUR POTENTIAL

Traditional IT consulting services have barely used automated software. Due to the increasing complexity of IT transformations, it is clear that this traditional approach will reach its limits in the next few years. The market is increasingly starting to notice that IT data transformations without automation software will not succeed for much longer. This is where our strategy comes in: We aim to reduce risks to a minimum and facilitate transformations that focus entirely on opportunities.

## BUSINESS IN CONSTANT CHANGE

### BUSINESS DEVELOPMENT

- Mergers & acquisitions
- Carve-outs and splits
- Restructuring

### TECHNOLOGY DEVELOPMENT

- Cloud platforms
- Transition to SAP S/4HANA

### DATA DEVELOPMENT

- Increasing data volumes
- Data dependencies

## CHALLENGES

These changes pose challenges for IT and data structures:

- System downtimes
- Data volumes
- Data integrity
- Structure complexity
- Complex legacy structure

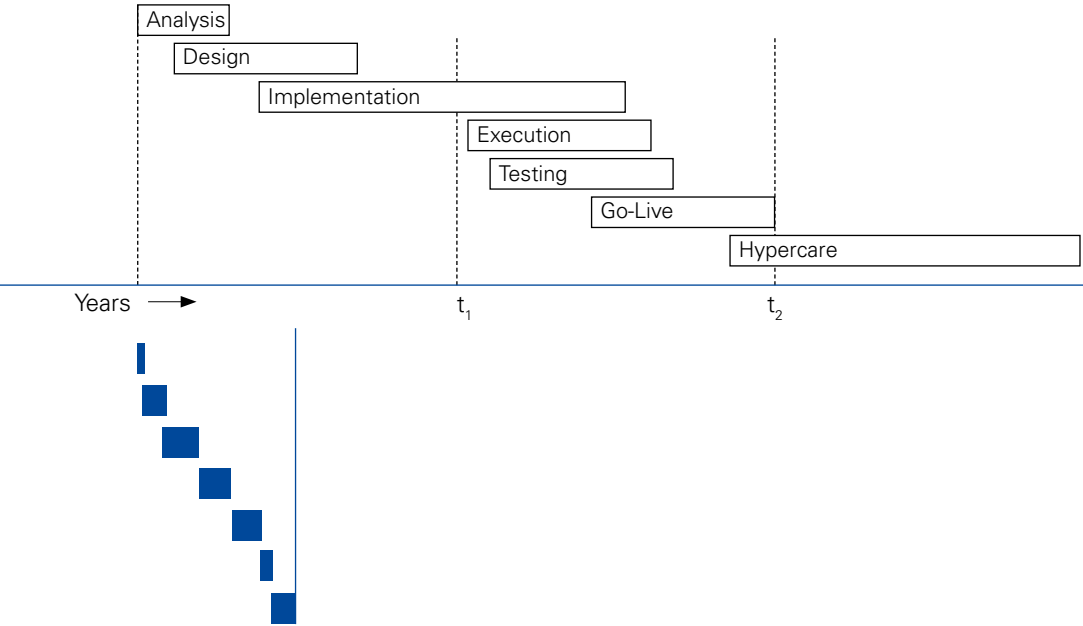


# OUR SOLUTION

At the core of many digital processes are complex ERP systems (enterprise resource planning), in which corporate management data is stored. Wherever digital transformations happen, these ERP systems and their stored data have to be changed, restructured, archived and reassembled. This creates a lot of opportunities and prepares companies for the future. There are still risks associated with any transformation. As a result, many companies see IT transformation

projects as more of a risk than an opportunity. To resolve this issue, we started to develop our software to make the transformation process faster, more secure and as error-free as possible. Since then we have been able to successfully realize 12,500 projects.

THE TRADITIONAL WAY



# CrystalBridge®

S/4HANA



MERGE



MODERNIZE



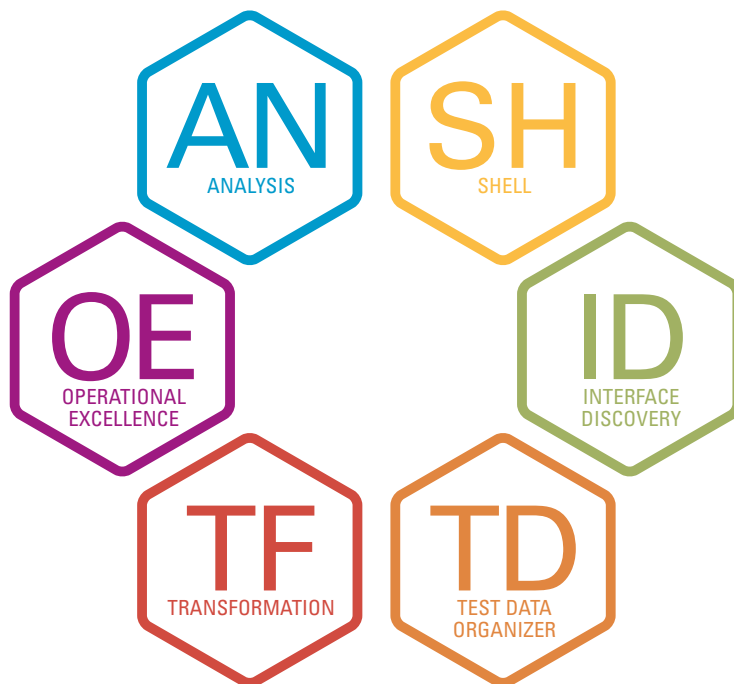
HARMONIZE



MOVE



## Mission Control



- Fact-based project planning, simulation and implementation of the optimal roadmap
- Reduced manual effort and costs through software
- Predefined transformation scenarios
- Integrated quality checks in the software for continuous monitoring and assurance
- More than 12,500 successfully completed transformations



# The Data Transformation Platform

CARVE-OUT



TEST DATA



ASSESSMENT



INTERFACE  
MANAGEMENT

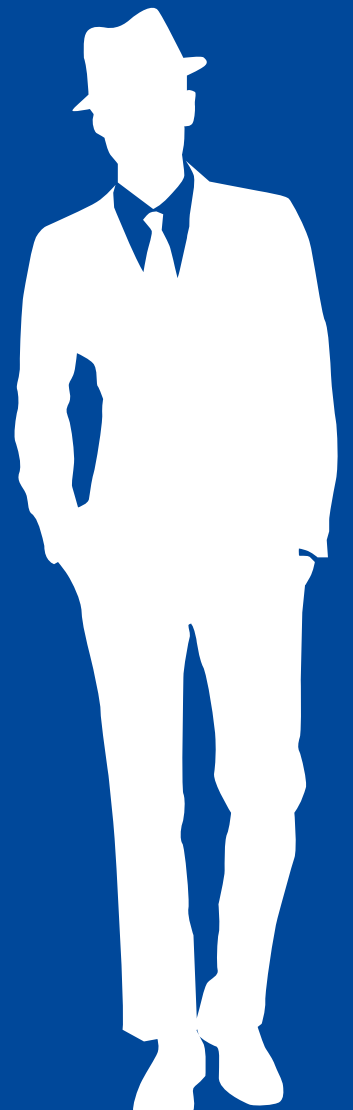


## Periodic Table

AN 01 <b>Es</b> ENTERPRISE STRUCTURE	AN 02 <b>Dp</b> DATA PROFILING	AN 03 <b>Ao</b> APPLICATION OVERVIEW	AN 04 <b>Md</b> MASTER DATA	AN 05 <b>Cu</b> CUSTOMIZING	AN 06 <b>Re</b> REPOSITORY
AN 07 <b>Nr</b> NUMBER RANGE	AN 08 <b>Hc</b> HARD-CODED VALUE	AN 09 <b>Ia</b> INTERFACE ANALYSIS	ID 01 <b>If</b> INTERFACE SCAN	ID 02 <b>Ca</b> CUSTOM API	ID 03 <b>Sm</b> SOLMAN INTEGRATION ADD-ON
TD 01 <b>Dr</b> DATA REFRESH	TD 02 <b>Ds</b> DATA SCRAMBLING	TF 01 <b>Cm</b> CLIENT MIGRATION	TF 02 <b>Tc</b> TRANSFORMATION COCKPIT	TF 03 <b>Co</b> TRANSFORMATION CONTENT	TF 04 <b>Do</b> DOWNTIME OPTIMIZATION
TF 05 <b>Dc</b> DATA CONSISTENCY VERIFICATION	TF 06 <b>At</b> AUTOMATED TESTING	SH 01 <b>Et</b> EMPTY TARGET SYSTEM	OE 01 <b>Pr</b> PREDICTION	OE 02 <b>Si</b> SIMULATION	
P 01 JIVS <b>Da</b> DATA ARCHIVING	P 02 IBM <b>Pa</b> PROCESS ANALYSIS				



# GLOBAL PARTNER NETWORK



# OUR OPPORTUNITY

In recent years, we have continuously improved our software, increased the degree of automation in transformation projects, and at the same time made our software significantly easier to use. With our data transformation platform CrystalBridge® we are on the verge of a market-wide deployment of this technology, which we will use our partner network to keep promoting in the future. We took the first steps in the past fiscal year. Our first prominent cooperations have shown that the market is open to new approaches. As a result, we have been able to set up groundbreaking partnership agreements with leading IT consulting firms and clients in the industry.

With IBM Rapid Move for SAP S/4HANA, IBM has introduced a new approach which offers a more intelligent and faster digital transformation path. Together with our SNP BLUEFIELD™ approach, IBM customers can significantly accelerate their transition to S/4HANA and the integration of new technologies. We are currently planning further partnerships with other globally active IT service companies.

## CHALLENGES IN S/4HANA MIGRATION

60% of companies, the biggest challenge is establishing the suitable migration strategy (Greenfield, Brownfield, selective).

51% of companies are finding the complexity of hybrid system landscapes difficult (cloud, on-premises, SAP, non-SAP).

1/3 of companies find it challenging to find a partner for effective migration.

17% have difficulty evaluating tools for minimizing downtime



12,500  
Projects

BLUEFIELD™

With our software and best practices from over 12,500 successfully completed projects, we have the solution.



“A strong and established partner channel will help us to convince even more companies of the benefits our software provides. We will extensively communicate our unique selling points to the market, in order to exploit our growth potential and to significantly scale up and increase our software and license revenue.”

Dr. Andreas Schneider-Neureither, CEO

## OUR GOAL

Our goal is to generate the largest part of our revenue in the software business segment in the future. To facilitate this, we will continuously expand our partner network and provide them with training opportunities and comprehensive service. At the same time, we will increase our own consultant services and contribute to the increasing automation of IT transformation projects.

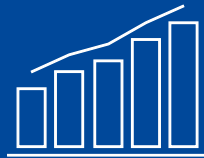
For the 2020 fiscal year, SNP expects Group revenue of between € 175 million and € 185 million. The EBIT margin is forecast to be between 6.5% and 8.5%.\*

## EBIT MARGIN

6.5% – 8.5%

\* The full forecast can be found in the forecast report of the management report.





TO THE SHAREHOLDERS



The Board of Directors of SNP SE (f. l. t. r.):  
Dr. Michael Drill, Dr. Karl Benedikt Biesinger, Dr. Klaus Kleinfeld, Dr. Andreas Schneider-Neureither,  
Rainer Zinow and Gerhard A. Burkhardt



# REPORT OF THE BOARD OF DIRECTORS

Dear Shareholders,

In the following report, the Board of Directors outlines its core activities in the 2019 fiscal year. The company is managed by the Board of Directors ("monistic system"), which determines the basic standards for its business activities and oversees their implementation by the Managing Directors. The core management, oversight and discussion issues covered in plenary meetings, the audit of the annual and consolidated financial statements, relationships with associates and changes to the company's organs are outlined below.

## **SCORE ASPECTS OF THE BOARD OF DIRECTORS' ADVISORY AND MONITORING ACTIVITIES**

In the 2019 fiscal year, the Board of Directors considered the company's business and financial position, the personnel changes to the Board of Directors and the Managing Directors as well as the company's long-term strategic focus.

Other key topics in 2019 included:

- Audit and approval of the 2018 consolidated financial statements and annual financial statements
- Determination of the agenda for the 2019 Annual General Meeting
- Regular business reviews
- Resolution of a share buyback program

The Board of Directors consulted the financial reports and documents of the company in relation to these issues.

## **BOARD OF DIRECTORS**

The Board of Directors performed the duties assigned to it according to the law as well as the company's articles of incorporation and bylaws. It directed the company, determined the basic standards for its business activities, and oversaw their implementation by the Managing Directors.

For this purpose, in its face-to-face and telephone meetings, the Board of Directors discussed and made resolutions on the company's business policy, all relevant aspects of corporate development and corporate planning, the company's economic position – including its financial position and financial performance – and key decisions for the Group. All of the members of the Board of Directors attended these meetings. The Managing Directors informed the Board of Directors regularly, promptly and comprehensively about the implementation of the resolutions and all significant business transactions.

The Board of Directors discussed in detail all business transactions that are significant for the company, based on the reports provided by the Managing Directors and their own ideas. The Board of Directors reviewed all explanations on the basis of the documents submitted. The Managing Directors outlined deviations in the company's business performance from the Board's guidelines to the Board of Directors. The Board of Directors was involved in all important decisions at an early stage. Furthermore, the Chairman of the Board of Directors and other members of the Board of Directors were and are in regular verbal or written contact with the Managing Directors.

## MEETINGS

During the 2019 fiscal year, the Board of Directors held five meetings at which members were physically in attendance. Beyond these meetings, the members also discussed additional projects of particular significance for the company via telephone. Additional resolutions were passed by means of three written circulars.

At the Board of Directors meeting on March 15, 2019, the Board of Directors discussed in detail with the auditor and approved the 2018 annual financial statements and consolidated financial statements, including the management reports as well as the audit reports. Furthermore, the Supervisory Board discussed the agenda for the 2019 Annual General Meeting and the corresponding proposed resolutions, including the proposals put forward to the Annual General Meeting for the creation of a new authorized capital, the reappointment of Rödl & Partner GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft as auditors, and a proposal to refrain from distributing dividends to shareholders in an appropriation of profit. The final agenda for the Annual General Meeting was approved by written circular on April 24, 2019.

At the meeting on October 10, 2019, the Board of Directors was provided with a presentation of the company's long-term strategic focus. In addition, the core aspects of a Group-wide employee stock option program were developed. This program was launched in early 2020.

The budget planning for 2020 was discussed at the meeting on December 5, 2019; approval was granted at the meeting on January 21, 2020.

## COMPOSITION OF THE BOARD OF DIRECTORS AND THE MANAGING DIRECTORS

In the 2019 fiscal year, there were personnel changes in both the Board of Directors and the Managing Directors:

Dr. Klaus Kleinfeld and Dr. Karl Biesinger were elected as members of the Board of Directors at the Annual General Meeting on June 6, 2019. Following the end of the Annual General Meeting, at the first joint meeting of the Board of Directors held on June 6, 2019 Dr. Klaus Kleinfeld was unanimously appointed as the Deputy Chairman of the Board of Directors. As a merely precautionary measure, Dr. Andreas Schneider-Neureither's position as the Chairman of the Supervisory Board was confirmed.

The meeting on June 6, 2019 also resolved to appoint additional Managing Directors: With effect as of July 1, 2019, Frank Hohenadel was appointed as Managing Director responsible for human resources and Chief Human Resources Officer (CHRO). Also with effect as of July 1, 2019, Michael Eberhardt was appointed as Managing Director responsible for sales, field marketing and services/consulting and Chief Operating Officer (COO). The decision to add a COO to the Managing Directors had already been made in August of the previous year.

On October 21, 2019, the Board of Directors appointed Prof. Dr. Heiner Diefenbach Chief Financial Officer (CFO) of the company. He assumed the tasks and responsibilities of Dr. Uwe Schwellbach with effect as of January 1, 2020. Dr. Uwe Schwellbach left the company at his own request on December 31, 2019. The Board of Directors would like to thank him for his service and to wish him all the best for his professional and personal future.

## AUDIT OF THE 2019 ANNUAL FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

The annual financial statements and the consolidated financial statements as of December 31, 2019, as well as the management report and the Group management report, including the accounting records, have been audited by the auditor selected by the Annual General Meeting of the company, Rödl & Partner GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, and were awarded an unqualified auditor's opinion on March 24, 2020.

The financial statement-related documents and drafts of the audit reports were made available to all members of the Board of Directors in a timely manner ahead of the meeting of the Board of Directors on the financial statements, which was held on March 19, 2020, and they carefully reviewed them. These documents were discussed in detail in the presence of the auditor. The auditor informed the Board of Directors that there were no weaknesses in the internal control system or the risk management system. The Board of Directors was convinced that the auditor's report complied with legal requirements.

In light of the coronavirus pandemic spreading across the world at the time of the meeting on the financial statements, the Board of Directors proposed and adopted adjustments to the risks and forecast report of the Group management report at the meeting on March 19, 2020. The Managing Directors and the Board of Directors voted on the proposal on the appropriation of earnings.

Accordingly, the Managing Directors took these proposals into account as part of the subsequently updated documents made available for the preparation of the annual financial statements and management report as well as the consolidated financial statements and the Group management report for the 2019 fiscal year.

The Board of Directors approved by written circular and accordingly adopted the annual financial statements and consolidated financial statements of SNP Schneider-Neureither & Partner SE, which were prepared by the Managing Directors.

## THANKS TO THE MANAGING DIRECTORS AND THE EMPLOYEES

We would like to express our gratitude and appreciation to the Managing Directors, managers, and all employees for their personal involvement, their achievements and their ongoing commitment.

Heidelberg, Germany, March 24, 2020

For the Board of Directors

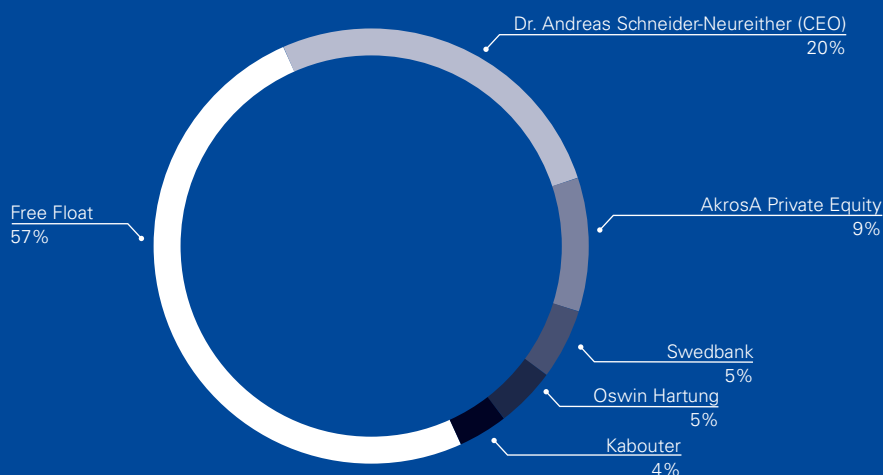


Dr. Andreas Schneider-Neureither  
Chairman

# SNP IN THE CAPITAL MARKETS



## SHAREHOLDERS STRUCTURE



## KEY SHARE DATA

Security identification number	720 370
Symbol	SHF
Market segment	Prime Standard
Class	No-par-value shares
Shares as of December 31, 2019	6,602,447 (share capital: 6,602,447 €)
Indices	SDAX (admission on March 23, 2020), CDAX, DAXsector All Software, DAXsubsector All IT-Services, Prime All-Share, Prime Standard Index



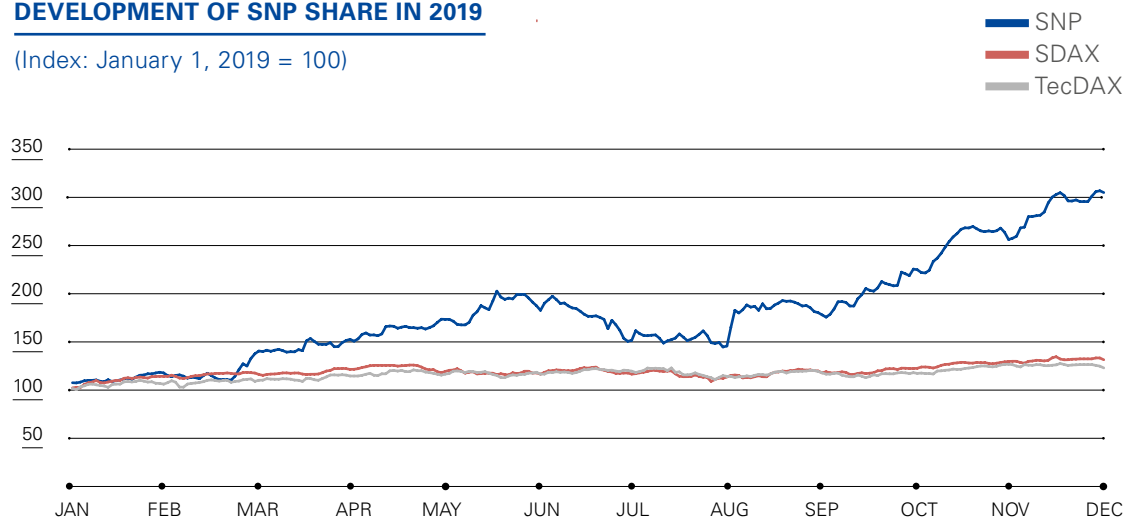
## SHARE PERFORMANCE INDICATORS

		2019	2018	2017	2016
Market capitalization as of end of year	(€ mn)	<b>326.82</b>	107.22	175.18	203.30
Closing price	(€)	<b>49.50</b>	16.24	32.00	40.85
High	(€)	<b>49.50</b>	36.50	49.20	42.30
Low	(€)	<b>15.70</b>	15.84	28.30	21.90



## DEVELOPMENT OF SNP SHARE IN 2019

(Index: January 1, 2019 = 100)



Further information on the SNP share can be found at  
<https://www.snpgroup.com/en/stock-information>

Further information on investor relations can be found at  
<https://www.snpgroup.com/en/investor-relations>

## SHARE BUYBACK PROGRAM

In August 2019, based on the authorization granted by the Annual General Meeting on May 12, 2016, the Board of Directors of SNP SE resolved a multi-year share buyback program beginning on September 1, 2019 and with a term ending no later than May 11, 2021. During this period, treasury shares in the company with a value of up to € 32 million (excluding incidental purchase costs), but no more than

638,362 shares, are to be repurchased exclusively via the stock market. In 2019, a total of 34,000 shares were repurchased for an average purchase price of € 32.19, amounting to a total of € 1.1 million. The company will publish information on specific transactions as well as the daily trading volume via the following link:

<https://www.snpgroup.com/en/stock-information>



## FINANCIAL CALENDER

Annual report 2019	March 30, 2020
Q1 2020	April 30, 2020
AGM	June 30, 2020
Q2 2020	August 7, 2020
Q3 2020	October 30, 2020

## ANALYSTS

- Berenberg
- Bankhaus Metzler
- MainFirst Bank
- SRH AlsterResearch
- M.M. Warburg

# Corporate Governance Report 2019

## **Corporate Governance Report with Declaration of Conformity and Declaration on Company Management Pursuant to Section 289f and Section 315d of the German Commercial Code (HGB) for 2019**

Effective implementation of corporate governance principles is a key element of the corporate policy of SNP Schneider-Neureither & Partner SE (SNP SE). Transparent and responsible corporate management is a critical precondition for the achievement of the company's goals and for a long-term increase in its enterprise value. The Board of Directors and the Managing Directors closely cooperate in the interests of the entire company in order to ensure efficient corporate management and control with the aim of sustainably creating value through good corporate governance.

In the following, the Board of Directors and the Managing Directors report on corporate governance at SNP SE in accordance with Section 3.10 of the German Corporate Governance Code. This chapter also includes the declaration on company management pursuant to Art. 9 (1) clause c (ii) of the SE Regulation, Section 22 (6) of the SE Implementation Act (SEAG) in conjunction with Section 289 f and Section 315 d of the German Commercial Code (HGB).

Pursuant to Art. 9 (1) clause c (ii) of the SE Regulation, Section 22 (6) SEAG in conjunction with Section 161 of the German Stock Corporation Act (AktG), the Board of Directors of a listed German SE is obliged to issue a declaration at least once a year as to whether the company has complied and continues to comply with the German Corporate Governance Code and which recommendations of the Code it has not implemented and why not. On March 19, 2020, the Board of Directors of SNP SE issued the following declaration:

### **Declaration of conformity pursuant to Section 161 AktG for the year 2019:**

The Board of Directors of SNP SE declares pursuant to Art. 9 (1) clause c (ii) of the SE Regulation, Section 22 (6) SEAG in conjunction with Section 161 AktG that since the issuance of its most recent declaration of conformity on March 15, 2019, SNP Schneider-Neureither & Partner SE has complied and will continue to comply with the recommendations of

the Government Commission on the German Corporate Governance Code (the Code) (as of February 7, 2017), while taking into consideration the specific details of the monistic system of SNP SE as outlined in Section 1 – with the exceptions indicated in Section 2 – or, where it has not complied with these recommendations, why not.

### **1. Specific details of the monistic corporate governance system**

In accordance with Art. 43–45 of the SE Regulation in conjunction with Sections 20 et seq. SEAG, the monistic system is characterized by the fact that a uniform management body, the Board of Directors, is responsible for the management of the SE (cf. para. 5 of the preamble to the Code). The Board of Directors directs the company, determines the basic standards for its activities and oversees their implementation by the Managing Directors. The Managing Directors conduct the company's business, represent the company in and out of court and are bound by instructions issued by the Board of Directors.

In principle, SNP SE will relate the sections of the Code applicable to the Supervisory Board to the Board of Directors of SNP SE and the sections of the Code applicable to the Executive Board to its Managing Directors. The following exceptions apply in relation to the statutory framework for the monistic system:

- In deviation from Section 2.2.1 clause 1 of the Code, the Board of Directors is required to present the annual financial statements and the consolidated financial statements to the Annual General Meeting, Section 48 (2) clause 2 SEAG.
- In deviation from Sections 2.3.1 clause 1 and 3.7 (3) of the Code, the Board of Directors is responsible for convening the Annual General Meeting, Sections 48 and 22 (2) SEAG.
- The tasks of the Executive Board prescribed in Sections 4.1.1 (management of the company) and 4.1.2 in conjunction with Section 3.2 main clause 1 (development of the company's strategic focus) of the Code are incumbent upon the Board of Directors, Section 22 (1) SEAG.

- The responsibilities of the Executive Board prescribed in Sections 2.3.2 clause 2 (voting proxy bound by instructions), 3.7 (1) (statement regarding a takeover offer) and (2) (conduct in case of a takeover offer) as well as 3.10 (corporate governance report), 4.1.3 (compliance) and 4.1.4 (risk management and control) of the Code are incumbent upon the Board of Directors of SNP SE, Section 22 (6) SEAG.
- In deviation from Sections 5.1.2 (2) clauses 1 and 2 of the Code, unlike members of the Executive Board, Managing Directors are not subject to any fixed and maximum permitted period of appointment, Section 40 (1) clause 1 SEAG.
- In deviation from Sections 5.4.2 clause 2 and 5.4.4 of the Code, members of the Board of Directors may be appointed as Managing Directors provided that the majority of the Board of Directors still is comprised of non-Managing Directors, Section 40 (1) clause 2 SEAG.

## 2. Exceptions to the recommendations of the Code

- In deviation from Section 3.8 (3) of the Code, the members of the Board of Directors have a D&O insurance policy without a deductible. The Board of Directors considers that a deductible is not required for members of the Board of Directors since the commitment and responsibility with which the members of the Board of Directors perform their duties will not be improved through the agreement of a deductible. The existing D&O insurance policies for the members of the Board of Directors of SNP SE therefore do not include any deductibles.
- Contrary to Sections 5.3.1, 5.3.2 and 5.3.3 of the Code, the Board of Directors did not establish any committees and performed all tasks in their entirety in the 2019 fiscal year. Due to its size, the Board of Directors opted not to establish any committees in the past and adjudged joint responsibility for all issues to be decided upon. Considering that the Board of Directors has been comprised of six members since the 2019 Annual General Meeting, a finance committee was established with effect as of January 21, 2020.

- Pursuant to Section 5.4.1 (2) of the Code, the Board of Directors should state concrete goals for its composition, taking into consideration the specific situation of the company's international activities, potential conflicts of interest, a fixed retirement age for Supervisory Board members, a limit to be determined for the length of membership in the Supervisory Board as well as diversity. Contrary to the Code's recommendation, the Board of Directors has not set any further targets for its composition.

The Board of Directors does not see any advantage in being bound by specific targets. Instead, the Board of Directors should always retain the flexibility of being able to take into account individual circumstances in its proposals to the responsible election bodies and the candidates with the best possible qualifications.

Heidelberg, Germany, March 24, 2020

For the Board of Directors



Dr. Andreas Schneider-Neureither

The declaration of conformity is permanently available to the public on the company's website:

<https://www.snpgroup.com/de/corporate-governance>

## Management and Control Structure

The company is managed by the Board of Directors (“monistic system”), which determines the basic standards for its business activities and oversees their implementation by the Managing Directors. The tasks, competencies and responsibilities of each of these two organs are clearly governed and separated in terms of personnel. The mode of operation, competencies and staffing of the Board of Directors and Managing Directors of SNP SE are discussed in more detail below.

## Inclusion of Diversity and International Focus

The Board of Directors and the Managing Directors of SNP SE comply with the recommendations of the German Corporate Governance Code, the requirements of which include that the makeup of the Board of Management and the Managing Directors and the staffing of management positions in the company should reflect the company’s international activities as well as diversity and, in particular, an appropriate proportion of women.

The Board of Directors has not set any specific targets beyond 0% for themselves, for the Managing Directors, or for women at the lower management level.

## Compliance

Trust is one of our basic values and assumes integrity, honesty and incorruptibility. Compliance with all statutory provisions and internal rules applicable to SNP SE and its subsidiaries on the part of the company’s management and employees is a firm part of our corporate culture. Our code of conduct represents the heart of our compliance management system and encapsulates our key behavioral principles, the requirements for compliance with contractual and statutory obligations, for anti-corruption measures, for the protection of business and commercial secrets and for data protection. All of our employees are obliged to comply with our code of conduct.

In view of its internationalization and growth strategy and the associated strong expansion of its operational activities, the SNP Group is continuously working to further develop its Group-wide compliance management system so as to be

able to initiate and implement measures focusing on the company’s risk situation and to evaluate their effectiveness. For this purpose, since 2019 all of the company’s employees at its German locations have been able to report legal violations within the company in a protected fashion using a digital whistleblower system and may opt to do so anonymously. This digital reporting system will be gradually expanded to include further country units from 2020. No reports were received via this notification system in 2019.

Mandatory training is another key element for the avoidance of compliance violations. A training program for all of the company’s employees will be rolled out for this purpose from 2020. Employees who are classified as particularly relevant due to the nature of their work have already received training in this area.

## Description of the Working Methods of the Board of Directors and Managing Directors

The fundamental principle of responsible corporate management and control for SNP SE is ensuring the efficient and trusting cooperation of the Board of Directors and Managing Directors, while accounting for the impartiality and independence of the members. Offices in statutory Supervisory Boards or comparable domestic and foreign supervisory bodies of commercial enterprises that are held by the members of the Board of Directors or Managing Directors can be found in the “Memberships of other supervisory or similar bodies” overview; no member of the two committees held more than three Supervisory Board offices in listed corporations not belonging to the Group.

In the 2019 fiscal year, no conflicts of interest appeared that required immediate disclosure to the Board of Directors. The Board of Directors and Managing Directors of SNP SE deliberated on the company’s strategic positioning, its further development and a series of individual topics and approved the necessary resolutions in the 2019 fiscal year.

## Board of Directors

According to its articles of incorporation, the Board of Directors is comprised of at least three members, who are selected by the Annual General Meeting without being bound by



election proposals. Pursuant to the resolution passed by the Annual General Meeting on May 31, 2017, the company's Board of Directors consists of the following members: Dr. Andreas Schneider-Neureither, Dr. Michael Drill, Gerhard Burkhardt and Rainer Zinow. Moreover, at the Annual General Meeting held on June 6, 2019 Dr. Klaus Kleinfeld and Dr. Karl Biesinger were elected as further members of the Board of Directors.

According to the company's articles of incorporation, the term of office of each member of the Board of Directors will expire as of the end of the Annual General Meeting which resolves to grant discharge for the fifth fiscal year following the start of this member's term of office; but no later than six years after the date of this member's appointment. The fiscal year in which this member's term of office begins is not included. Members of the Board of Directors may be reappointed.

As the central body in the monistic management system, the Board of Directors manages the affairs of the SE, determines the basic standards for their activities and oversees their implementation. As for the executive board of a stock corporation, the Board of Directors is responsible for keeping the accounts and for the establishment of a suitable monitoring system for early risk detection. It will engage the auditor to audit the annual financial statements and the consolidated financial statements pursuant to Section 290 of the HGB.

The Board of Directors shall meet at least once every three months. The Board of Directors passes resolutions on the basis of a majority of the members present or represented. In the event of a tied vote, the chairman of the Board of Directors shall have the deciding vote.

The remuneration of the members of the Board of Directors must be proportionate to their tasks and to the position of the SE; this remuneration will be approved through a resolution passed by the Annual General Meeting. Dr. Andreas Schneider-Neureither is simultaneously both a member of the Board of Directors and a Managing Director. For this reason, he receives no remuneration as a member of the Board of Directors.

## Managing Directors

The Managing Directors have joint responsibility to conduct the business of the company with the goal of sustainable added value. They implement the guidelines and requirements set out by the Board of Directors. The body currently consists of four members and has a chairperson. The Managing Directors inform the Board of Directors regularly, promptly and comprehensively about all corporate issues relating to planning, business development, the risk situation, risk management and compliance. They mention areas in which the company's business performance deviated from the established plans and targets alongside reasons for the deviations.

The Managing Directors are required to disclose conflicts of interest to the Board of Directors immediately and inform the other Managing Directors. They may take on secondary activities, particularly Supervisory Board positions and similar offices outside of the SNP Group, only with the prior consent of the Board of Directors. In the past fiscal year, there were no conflicts of interest among the Managing Directors of SNP SE.

According to the company's articles of incorporation, the Board of Directors appoints one or more Managing Directors. Members of the Board of Directors may be appointed as Managing Directors, provided that the majority of the Board of Directors still is comprised of non-Managing Directors.

Managing Directors may be recalled by means of a resolution passed by the Board of Directors on the basis of a simple majority. Managing Directors who are members of the Board of Directors may only be recalled for cause or in case of the termination of their employment contract. In relation to the remuneration of the Managing Directors and the non-competence clause that applies for them, the same provisions apply as for the executive board of a stock corporation in accordance with Sections 87 to 89 AktG. The Managing Directors will be liable for any damage the SE suffers as a result of a violation of their duties prescribed by law or in the company's articles of incorporation or any other duties.

## MEMBERSHIPS OF OTHER SUPERVISORY OR SIMILAR BODIES

MEMBERS OF THE BOARD OF DIRECTORS/ MANAGING DIRECTORS AS OF DECEMBER 31, 2019	Memberships in Other Supervisory Boards and Other Similar Bodies
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<p><b>Dr. Andreas Schneider-Neureither</b> Chairman of the Board of Directors / Chairman of the Managing Directors (CEO)</p> <p>Elected for the period up to the end of the Annual General Meeting which resolves on the grant of discharge for the 2021 fiscal year.</p> <p>Graduate physicist</p>	<p>Casadomus AG Supervisory Board</p> <p>VHV-Gruppe Supervisory Board</p> <p>Sauti Kuu GmbH Supervisory Board</p>
<p><b>Dr. Klaus Kleinfeld</b> Deputy Chairman of the Board of Directors</p> <p>Elected for the period up to the end of the Annual General Meeting which resolves on the grant of discharge for the 2023 fiscal year.</p> <p>Internationally active investor and entrepreneur</p>	<p>Ma'aden Saudi Arabian Mining Co. Supervisory Board</p> <p>Fero Labs Supervisory Board</p> <p>NEOM Supervisory Board</p>
<p><b>Dr. Michael R. Drill</b> Member of the Board of Directors</p> <p>Elected for the period up to the end of the Annual General Meeting which resolves on the grant of discharge for the 2021 fiscal year.</p> <p>Investment banker</p>	<p>Lincoln International AG Chief Executive Officer</p> <p>Shareholder Value Beteiligungen AG Supervisory Board</p> <p>Lincoln International SAS Supervisory Board</p>
<p><b>Gerhard A. Burkhardt</b> Member of the Board of Directors</p> <p>Elected for the period up to the end of the Annual General Meeting which resolves on the grant of discharge for the 2021 fiscal year.</p> <p>Chief Executive Officer BBG Bundesbaugenossenschaft eG</p>	<p>Casadomus AG Supervisory Board Chairman</p> <p>Haufe-Lexware Real Estate AG Supervisory Board</p> <p>GWE Gesellschaft für Wohnen im Eigentum AG Supervisory Board</p> <p>Familienheim Rhein-Neckar eG Supervisory Board Chairman</p> <p>Wohnbau Lützen GmbH Supervisory Board Chairman</p> <p>FF Planen und Bauen GmbH Managing Director</p> <p>BfW Bank für Wohnungswirtschaft AG Supervisory Board Chairman</p>

## Corporate Governance

MEMBERS OF THE BOARD OF DIRECTORS/ MANAGING DIRECTORS AS OF DECEMBER 31, 2019	Memberships in Other Supervisory Boards and Other Similar Bodies
<p><b>Rainer Zinow</b> Member of the Board of Directors</p> <p>Gewählt bis Ablauf der ordentlichen Hauptversammlung, die über die Entlastung für das Geschäftsjahr 2021 beschließt.</p> <p>Graduate in business administration Senior Vice President, SAP SE</p>	No further offices
<p><b>Dr. Karl Benedikt Biesinger</b> Member of the Board of Directors</p> <p>Elected for the period up to the end of the Annual General Meeting which resolves on the grant of discharge for the 2023 fiscal year.</p> <p>Lawyer</p>	Witt Solar AG Supervisory Board Chairman
<p><b>Michael Eberhardt</b> Managing Director (COO)</p> <p>Mechanical engineer</p>	No further offices
<p><b>Frank Hohenadel</b> Managing Director (CHRO)</p> <p>Computer scientist</p>	No further offices
<p><b>Prof. Dr. Heiner Diefenbach</b> Managing Director (CFO since January 1, 2020)</p> <p>Industrial engineer</p>	Hexagon AG Supervisory Board Chairman
<p><b>Dr. Uwe Schwellbach</b> Managing Director (CFO until December 31, 2019)</p> <p>Graduate economist</p>	Schwellbach GmbH Managing Director
	PelopsCar GmbH i.L. Managing Director
	Lindau Institute AG Supervisory Board Chairman

## RESPONSIBILITIES OF THE MANAGING DIRECTORS

MANAGING DIRECTORS AS OF DECEMBER 31, 2019	Responsibilities and Departments
<b>Dr. Andreas Schneider-Neureither</b> Chairman of the Managing Directors (CEO)  CEO since 1998, appointed for an unlimited period of time.	Corporate Strategy Corporate Development Corporate Marketing Products IT Compliance & Legal (since October 2019) Investor Relations (since October 2019)
<b>Michael Eberhardt</b> Managing Director (COO)  COO since July 1, 2019, appointed for an unlimited period of time.	Field Marketing Sales Delivery Quality Assurance
<b>Frank Hohenadel</b> Managing Director (CHRO)  CHRO since July 1, 2019, appointed for an unlimited period of time.	Human Resources Training Internal Communication
<b>Prof. Dr. Heiner Diefenbach</b> Managing Director (CFO)*  CFO since January 1, 2020, appointed for an unlimited period of time.	Finance & Controlling Shared Services

\* Dr. Uwe Schwellbach served as a Managing Director and CFO until December 31, 2019. Until he left the company, he was responsible for Finance & Controlling as well as Shared Services; until October 2019 he was also responsible for Compliance & Legal as well as Investor Relations and, until June 2019, Human Resources.

## SHAREHOLDINGS OF THE BOARD OF DIRECTORS AND MANAGING DIRECTORS

	SHAREHOLDINGS AS OF DECEMBER 31, 2018		SHAREHOLDINGS AS OF DECEMBER 31, 2018	
	Shares	Percentage	Shares	Percentage
<b>Dr. Andreas Schneider-Neureither</b>	1,445,560	21.9%	1,348,796	20.4%
<b>Dr. Klaus Kleinfeld</b>	No information <sup>1</sup>	No information <sup>1</sup>	<sup>2</sup>	<sup>2</sup>
<b>Dr. Michael Drill</b>	18,000	0.3%	20,000	0.3%
<b>Gerhard Burkhardt</b>	7,044	0.1%	7,044	0.1%
<b>Rainer Zinow</b>	0	0	0	0
<b>Dr. Karl Benedikt Biesinger</b>	No information <sup>1</sup>	No information <sup>1</sup>	2,564	0.0%
<b>Michael Eberhardt</b>	No information <sup>3</sup>	No information <sup>3</sup>	3,545	0.1%
<b>Frank Hohenadel</b>	No information <sup>3</sup>	No information <sup>3</sup>	1,000	0.0%
<b>Dr. Uwe Schwellbach<sup>4</sup></b>	0	0	0	0

<sup>1</sup> Not a member of the Board of Directors at this time.

<sup>2</sup> Dr. Klaus Kleinfeld is a member of the investor group AkrosA Private Equity GmbH & Co. KG which built up a 9.17% stake in SNP SE in the course of the capital increase in 2018 (voting right notification as of December 13, 2018).

<sup>3</sup> Not a Managing Director at this time.

<sup>4</sup> Dr. Uwe Schwellbach resigned from his position as a Managing Director (CFO) of the company on December 31, 2019.

## **Disclosures on Risk Management**

The business activities of SNP SE are subject to a variety of risks that are inseparably linked to its entrepreneurial activity. Good corporate governance includes dealing with these risks responsibly. In order to identify risks at an early stage, to evaluate them and to deal with them systematically, SNP SE employs effective management and control systems that are combined into a uniform risk management system. A detailed description of risk management is contained in the report on opportunities and risks in the 2019 Group management report.

## **Further Information on Corporate Governance at SNP**

Comprehensive information on the activity of the Board of Directors and cooperation between the Board of Directors and Managing Directors can also be found in the report of the Board of Directors in this Annual Report.

SNP's consolidated financial statements and interim reports are prepared according to the principles of the International Financial Reporting Standards (IFRS), while the annual financial statements of SNP SE are prepared according to the provisions of the German Commercial Code (HGB). The Annual General Meeting held on June 6, 2019, elected Rödl & Partner GmbH, Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft, Stuttgart, as the auditor for SNP SE and the SNP Group for the 2019 fiscal year.



# 02 GROUP MANAGEMENT REPORT

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# GROUP MANAGEMENT REPORT, FISCAL YEAR 2019

## FUNDAMENTAL INFORMATION ABOUT THE GROUP

### BUSINESS MODEL AND ORGANIZATION

#### SNP – The Transformation Company

With its own solutions, SNP supports organizations in adapting their business models and seizing the opportunities of digitalization. SNP software and services facilitate the implementation of business or technical modifications to business applications and enable its customers to implement these modifications automatically.

The unique BLUEFIELD™ approach and the worldleading data transformation platform CrystalBridge® have laid the foundations for an industry standard for automated business transformations. Changes in IT systems are automatically analyzed, implemented and tracked. This offers quality advantages and significantly reduces the time, costs and risks involved in complex transformation projects while adhering to the highest compliance and security standards.

We serve multinational companies in every sector. SNP was founded in 1994 and has been publicly traded since 2000. As of August 2014, the company is listed on the Prime Standard segment of the Frankfurt Stock Exchange (ISIN DE0007203705). Since 2017, the company has operated as a European stock corporation (Societas Europaea/SE).

#### The Challenge for Modern Companies: IT Agility

Agile and flexible IT landscapes are increasingly becoming a decisive factor for entrepreneurial success. The modernization required of antiquated IT environments is forcing companies to invest in unifying their heterogeneous and complex IT infrastructures. Change is an ongoing management responsibility, and the ability to change is a core competency of successful companies. We see our task as building and sustaining an IT landscape that helps create value. At the core of our work is a cross-industry software standard that supports and promotes permanent change on an ongoing and reliable basis.

## IT Transformations and Their Impact on ERP Systems

From an economic perspective, transformation projects are among the most critical, complex and expensive projects that can affect the organization of companies and their business processes. At the same time, almost all companies in all sectors are forced to make these changes in order to keep pace with the digitalization trend. The change and adaptation of enterprise resource planning (ERP) systems is the SNP Group's principal activity.

An ERP system handles the administration of corporate resources and business processes. SAP, Oracle and Microsoft are among the most significant providers of such ERP systems. ERP systems are complex programs and are often heavily modified to accommodate their users. They combine essential and sensitive parts of a company, such as procurement, logistics, accounting and human resources administration.

The primary task of ERP transformations is to model data completely and correctly – including the data's history – in a new IT system, to integrate data into this environment or to extract data from it. The data being worked with frequently involves critical business transactions or highly sensitive data, for example from the area of financial accounting or personnel systems. As a result, the loss of such data could have serious consequences for the entire company. With its integrated range of software products and software-related consulting services, the SNP Group has created fitting solutions that optimally support companies in managing their IT transformations.

IT landscapes that can be easily adapted to reflect technological change are increasingly becoming key factors in our customers' success. Our software and services allow our customers to modernize their outdated and heterogeneous IT landscape and to transition to a homogenized IT landscape.



## Catalyst of Business Transformations

Business transformations include corporate mergers, acquisitions, spin-offs, carve-outs and sales. IT transformations include consolidations, combinations, data alignment and upgrades, e.g. SAP S/4HANA. Moreover, many ERP landscapes have increased in complexity over time so that enhancements or changes to existing ERP systems are no longer sufficient. Instead, ERP landscapes must be completely redesigned.

### The Standardized Software Approach of SNP: Quick, Flexible, Efficient and Safe

In the course of a transformation project, large amounts of data must be analyzed and processed. The length of time that a transformation takes may have an impact on a company's success. Critical factors include the seamless integration of legacy data into the new layout and the minimization of system downtimes during the transformation. In the traditional approach to data transfers, manual processes play an important role, resulting in significant personnel costs. We take a different software-based approach that allows us to automate significant steps in the transformation process while preserving a company's legacy data. The products and services provided by the SNP Group help companies adapt their IT landscape to changes quickly and flexibly, ensuring efficiency in terms of both time and money.

### SNP BLUEFIELD™ – The Path to SAP S/4HANA

On the basis of its CrystalBridge® data transformation platform, SNP has developed an intelligent and rapid migration approach for the transition to SAP S/4HANA: SNP BLUEFIELD™.

As well as long-term strategic planning, the choice of a migration approach has a considerable impact on the success and the duration of a transformation project. Two traditional approaches are available for the implementation of SAP S/4HANA: Greenfield (new implementation) and Brownfield (conversion). In case of Greenfield, companies

use preconfigured industry solutions for their migration. With Brownfield, companies merely transfer their old SAP ECC system to SAP S/4HANA.

With its BLUEFIELD™ method, SNP has developed a migration approach which combines the best features of Greenfield and Brownfield: All of the investments made in solutions and data can be integrated and adopted, while the move to the cloud can be realized through a single go-live. Companies which opt for BLUEFIELD™ benefit from significant quality, cost and time advantages.

## THE SNP-PORTFOLIO

The SNP Group's portfolio consists of two different business segments: "Software" and "Service".

### Service Business Segment

In the Service business segment, we primarily offer consulting and training services for corporate transformation processes. These mainly comprise the services which we offer in the context of IT transformation projects, with the goal of changing and adapting enterprise resource planning (ERP) systems. This covers all of the aspects and consulting services which are needed or requested by the customer in the SAP environment in particular, for the purpose of IT data transformations.

Projects are implemented using the CrystalBridge® data transformation platform and the SNP BLUEFIELD™ migration approach. ERP systems can thus be transformed using customized software and migrated data. This reduces the error rate while decisively improving the quality of the transformation.

We also offer complementary consulting and training services covering traditional SAP consulting and implementation as well as hosting, cloud and application management services (AMS).



## SOFTWARE BUSINESS SEGMENT

### CrystalBridge®: SNP's Data Transformation Platform

Within the scope of the consolidation of the company's product portfolio, as well as SNP Transformation Backbone® all of SNP's other software has been integrated within the CrystalBridge® data transformation platform. CrystalBridge® is a highly automated and software-based data transformation platform for the analysis, planning and implementation of complex IT data transformations in an ERP environment. This platform offers customers planning reliability and project transparency. It visualizes entire SAP landscapes, produces optimal road maps in real time and simulates the effects which the planned changes will have on the systems in advance of the actual transformation. CrystalBridge® covers the full range of business scenarios by means of standardized modules and supports end-to-end data transformation.

### ANALYSIS

The Analysis module provides a deep cross-organizational view of SAP systems and thus yields a detailed analysis of organizational objects, data volumes and configurations as well as system structures by means of an interactive approach. A tailored transformation strategy is defined together with the customer on the basis of the results.

### SHELL

With the Shell module, an empty copy of the source system is built as an initial target system. Application data will not be copied unless the customer individually requests this for specific data. The customer will thus no longer require lengthy deletion processes for a mirrored system copy, so that the target system can be developed more rapidly and less storage space is required.

### TRANSFORMATION

The Transformation module controls data migration and implements the migration according to predefined rules. Data is removed from the source environment in a tailored and consistent fashion and transferred to the new target system. The near-zero-downtime methodology reduces downtimes to a minimum and enables the system to continue to operate with hardly any interruptions. Following the migration process, automated data consistency tests and checks are done, which simplifies and speeds up test cycles.

## INTERFACE DISCOVERY

The Interface Discovery module provides continuous transparency for all of the communication paths from, to and within SAP systems. Customers are aware at all times which of their systems are being accessed, and where, and can make targeted interventions where necessary. CrystalBridge always provides customers with the right answers to the key issues of security, compliance as well as impending changes to IT architecture. These improve the reaction speed and resolve problems as soon as they emerge.

## TEST DATA ORGANIZER

The Test Data Organizer module provides up-to-date and anonymized test data with the highest level of quality. The necessary tests can be implemented at an earlier stage in the project, thus significantly shortening the time-intensive test phases for migration projects. Pseudonymization of data protects sensitive personal information.

### The Advantages of CrystalBridge:

#### ■ Standardization

Less time required and significantly lower level of risk thanks to predefined transformation rules.

#### ■ Automation

Minimal downtimes for operating systems ensure continuous operation.

#### ■ Experience

A large number of data transformation and migration projects successfully completed.

#### ■ Security

Customer-specific project planning and simulation.

#### ■ Simplification

Implementation of parallel data transformation projects through a single go-live.

#### ■ Flexibility

Customer-specific go-live on a flexible date.

#### ■ Precision

Tailored data selection according to the customer's requirements for the target environment.

#### ■ Cloud

Transformation includes transfer to SNP's cloud or partner clouds.

## Software and Licensing Models

In its Software business segment, SNP mainly generates revenue on the basis of software licenses and maintenance income. The licenses are offered in the form of perpetual and subscription licenses. Customers can acquire subscription licenses both for a limited period of project or program use and for permanent use on the basis of an annual subscription. In case of perpetual licenses which can be purchased for individual scenarios, annual maintenance fees are charged. In general, the calculation of the licensing prices for perpetual and subscription licenses is based on the number of SAP users, the number of the customer's system landscapes affected as well as the size of the database.

The software licenses are designed for business scenarios which are required for implementation of the customer's requirements. For this purpose, SNP provides the necessary modules in its CrystalBridge® data transformation platform for optimal and flexible coverage of these scenarios. The licensing packages available for this purpose may also be customized in line with the customer's requirements. In such cases, the software license will be calculated on the basis of the above-mentioned parameters, the software modules used and corresponding module-specific parameters. CrystalBridge® includes components which are offered as software as a service (SaaS) as well as components provided as an on-premise version.

## COMPETITIVE STRENGTHS

We believe that our competitive strengths lie in:

### Extensive IT Transformation Project Experience

We have a long-standing successful track record and extensive experience in our line of business: We have been helping our customers to implement complex IT transformation projects for 25 years now. We have delivered several thousand global transformation projects involving highly complex data and processes on time, including major and time-critical mergers and acquisitions, as well as carve-out projects, across the globe.

### **Technical Advantage Offered by a Standardized Software Approach**

Nowadays, transformation projects are among the greatest challenges facing companies and their IT departments. In the course of a transformation project, large amounts of data have to be analyzed and processed. This tends to result in substantial personnel expenses, the intensive use of management resources and operational downtime affecting ERP systems. With our standardized software approach, we ensure that IT transformation projects are implemented as part of a one-step process – significantly reducing, or even eliminating the need for, any downtime while ensuring a full backup of the historical legacy data. This produces clear quality and cost advantages for our customers. The reduction of downtimes affecting the productive IT systems, in particular, is a decisive unique selling point. In addition, our software-based approach reduces the error rate during a transformation project and also ensures that the original system can be restored at any time over the course of a project.

### **Cooperation with Leading Global IT Consulting Firms**

We work very closely with globally active strategy consultants and system integrators. Various partnership and framework agreements demonstrate the growing acceptance of our software-based approach to handling complex digital transformation processes. Since the number of complex IT transformation projects and the related shortage of skilled professionals to implement impending projects are set to grow in the future, globally active strategy consultants and system integrators in particular are increasingly turning to IT companies which offer alternative technological approaches.

### **Strong Consulting Basis**

Our strong international presence and our worldwide consulting capacities in Europe, the US, South America and Asia mean that we can assign the necessary personnel resources to upcoming major projects at any time and anywhere in the world. This also allows us to benefit from short-term peaks in transformation projects and retain our ability to deliver. As far as the ability to deliver is concerned, we are one of the leading providers of technical system landscape optimization approaches featuring a unique software-based solution.

### **RESEARCH AND DEVELOPMENT**

The research and development strategy has been to actively pursue new product ideas, enhancements and solutions. By integrating research and development (R&D) with sales, the company is able to promptly detect changes in the market and to develop market-driven and market-relevant product innovations.

In the 2019 fiscal year, the research and development costs reached a volume of € 29.5 million (previous year: € 16.6 million); the corresponding share of revenue was 20.3% (previous year: 12.7%) No development costs were capitalized in the 2019 fiscal year (previous year: € 0 thousand).

As of December 31, 2019, 118 employees worked in SNP's development department (December 31, 2018: 99). This represents 9% of the Group's total workforce (December 31, 2018: 8%).

## EMPLOYEES

### Training and education

Qualified and motivated employees contribute significantly to the success of SNP. The standards of the software and IT consulting industry require SNP employees to have a high level of education. Since the competition for qualified IT specialists – particularly in the ERP environment – continues unabated, SNP is working hard to maintain its reputation as a reliable and fair employer. In addition, the company enables all employees to participate in comprehensive training and continuing education programs. The programs have internal and external training components that impart both technical and soft skills. In addition, SNP promotes a variety of sports-related and healthy activities.

### Development in headcount

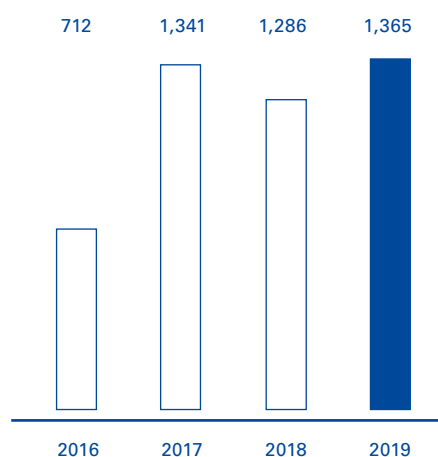
As of December 31, 2019, the Group's number of employees increased by around 6% on the previous year, from 1,286 to 1,365. Despite the higher volume of personnel, nominal personnel expenses rose only slightly year-over-year by 1.7% to € 84.6 million (previous year: € 83.2 million). Accordingly, the personnel expense ratio (ratio of personnel expenses to revenue) declined from 63.5% in the previous year to 58.2%.

As of December 31, 2019, the workforce included four Managing Directors (previous year: two Managing Directors), 21 managers (previous year: 20) and 33 trainees, students and interns (previous year: 27). There were no employees in partial early retirement in the 2019 fiscal year (previous year: 0). The average number of employees during the reporting period, excluding the aforementioned group of individuals, was 1,230 (previous year: 1,289 employees).

You will find further information on the Group's employees in our "Corporate Social Responsibility Report", which may be downloaded from our website:

<https://www.snpgroup.com/en/corporate-governance>.

### EMPLOYEES END OF YEAR



### DISTRIBUTION OF WORKFORCE WORLDWIDE

	2019		2018	
	absolute	as %	absolute	as %
DACH	532	40%	528	41%
EEMEA (East Europe, Middle East, Africa)	372	27%	319	25%
Latin Amerika	259	19%	246	19%
JAPAC (Asia-Pacific- Japan)	98	7%	100	8%
USA	73	5%	64	5%
UK	31	2%	29	2%
<b>Total</b>	<b>1,365</b>	<b>100%</b>	<b>1,286</b>	<b>100%</b>

## ECONOMIC REPORT

### Global Economic Situation

In early 2018, economic activity picked up in almost every world region, and a global economic growth rate of 3.9% was predicted for both 2019 and 2020. In April 2019, the International Monetary Fund (IMF) revised its forecast for the first time and forecast a significant slowdown in world growth. According to the IMF, global economic growth of 3.6% was ultimately realized in 2018 (2017: almost 4%); the forecast made at this time for 2019 pointed to world growth of 3.3%<sup>1</sup>.

In October 2019, the IMF's experts revised their assessment of the pace of global growth: Due to the increasing trade restrictions, the growing uncertainty relating to trade and geopolitics, the macroeconomic pressures in several emerging economies as well as structural factors such as low productivity growth and an aging population in the advanced economies, the IMF's new growth forecast for 2019 envisaged was fixed at 3.0%<sup>2</sup>. In January 2020, the IMF once again updated its macroeconomic assessment in its World Economic Outlook. It expected global economic activity to remain under pressure in the second half of 2019 in view of the uncertainty associated with global trade policy, geopolitical tensions and the pressure in some emerging markets. Global growth in 2019 is expected to amount to 2.9%<sup>3</sup>.

In the Eurozone, in North America and in smaller advanced Asian economies, growth in 2019 will be significantly weaker than in the previous two years. To a significant extent, this lower rate of growth reflects a general decrease in industrial output which is attributable to weaker foreign demand, including China. The slowdown in global automotive production is particularly significant for Germany.

## IT Transformation Market

The market for mergers & acquisitions, one of the key factors driving IT data transformations, remains capital-intensive despite a declining volume trend: According to the Institute of Merger, Acquisitions and Alliances (IMAA), the volume of mergers & acquisitions comprising entire companies or parts of companies amounted to around USD 3,888 billion worldwide in 2019. Compared to the previous year, this represents a decrease of 11% (2018: USD 4,134 billion). On the other hand, the decline in the number of M&A deals was less strong: According to IMAA's statistics, 49,386 transactions occurred worldwide in 2019; this represents a decrease of 7% on the previous year (2018: 52,912)<sup>4</sup>.

The ERP product SAP S/4HANA is one of the key reasons why increasing numbers of companies are implementing their digital transformation by means of process changes and a cloud strategy. This reflects the fact that SAP SE will provide mainstream maintenance for the core applications of the SAP Business Suite 7 up to the end of 2027; optimal extended maintenance is offered until the end of 2030<sup>5</sup>.

According to a current Lündendonk study, to date companies have only migrated to or newly implemented SAP's successor product SAP S/4HANA to a limited extent: Most companies consulted in the German-speaking world (52%) are in the process of preparing preliminary studies or business cases as a framework for a rollout strategy for their entire company or for certain functional areas only.

<sup>1</sup> International Monetary Fund (IMF); World Economic Outlook Update, April 2019, (<https://www.imf.org/en/Publications/WEO/Issues/2019/03/28/world-economic-outlook-april-2019>)

<sup>2</sup> International Monetary Fund (IMF); World Economic Outlook Update, October 2019, (<https://www.imf.org/en/Publications/WEO/Issues/2019/10/01/world-economic-outlook-october-2019>)

<sup>3</sup> International Monetary Fund (IMF); World Economic Outlook Update, January 2020, (<https://www.imf.org/en/Publications/WEO/Issues/2020/01/20/weo-update-january2020>)

<sup>4</sup> Mergers & Acquisitions Worldwide (<https://imaa-institute.org/mergers-and-acquisitions-statistics/>)

<sup>5</sup> <https://news.sap.com/germany/2020/02/wartung-s4hana-sap-business-suite-7/#ftn>

Another 30% of companies have already completed the preliminary study phase and are currently developing their rollout strategy<sup>6</sup>.

Within the scope of their impending ERP transitions, companies hope above all to satisfy the demands of digitalization and the changed market conditions. In addition, an increased level of automation and an acceleration of processes are expected. According to Lünendonk, companies are concerned with basic issues such as more uniform data and higher data quality.

### Impact on SNP

In 2018, the world's ten leading IT consulting firms generated revenue of approximately € 250 billion. As a leading world provider of software to cope with complex digital transformation processes, SNP addresses a segment of this capital- and personnel-intensive IT consulting market. For IT consulting firms, technical data migration is a highly challenging and increasingly critical element of a large-scale consulting project. Unlike in the case of traditional IT consulting in the ERP environment, SNP employs an automated approach using proprietary software.

Customers' readiness to transform their existing ERP systems continued to grow in 2019. SNP benefited from this trend in the 2019 fiscal year. The share of total revenue provided by software revenue reached a new all-time high in the 2019 fiscal year.

## SIGNIFICANT EVENTS

### Realignment in the USA

At the turn of the year 2018/2019, we hired a new CEO for our North America region. The key strategic objectives in the USA include stepping up the company's collaboration with major partner companies, expanding the sales team and increasing both revenue and earnings.

### Acceleration of Internationalization Strategy

An additional location was established in Australia in the first quarter of 2019. Our objective is to serve the Asia-Pacific region even better. This is one of our most strategically important markets. The SNP Group is thus now present in virtually all relevant global markets.

### The 2019 Annual General Meeting

With an overwhelming majority of votes, the Annual General Meeting ratified the by-elections to the Board of Directors and elected Dr. Klaus Kleinfeld and Dr. Karl Biesinger as new members of the board. The Annual General Meeting, held on June 6, 2019, also agreed to all other proposed resolutions and discharged the Managing Directors and the members of the Board of Directors. Following the Annual General Meeting, Dr. Klaus Kleinfeld was appointed as the Deputy Chairman of the Board of Directors. The Annual General Meeting also voted in favor of the creation of new authorized capital in a total amount of up to € 3,301,223; authorization was granted for the legally permissible period of five years.

### Legal Restructuring: SNP Deutschland GmbH

With retroactive effect as of January 1, 2019, in early July 2019 SNP Business Landscape Management GmbH and SNP Applications EMEA GmbH were merged with SNP Transformations Deutschland GmbH; the combined company carries the new name SNP Deutschland GmbH. In addition, in late July/early August 2019, the sales operations of SNP Applications DACH GmbH were transferred to SNP Deutschland GmbH with retroactive effect as of July 1, 2019. These measures have been implemented within the scope of the "ONE DE" project, with the objectives of combining potential, fulfilling customers' require-

<sup>6</sup> Lünendonk study 2019 "Mit S/4HANA in die digitale Zukunft Status, Ziele und Trends bei der Einführung von S/4HANA im deutschsprachigen Raum" ("The Digital Future with S/4HANA: Status, Targets and Trends for the Introduction of S/4HANA in the German-Speaking World") (<https://www.luenendonk.de/produkt/studien-publikationen/luenendonk-studie-2019-mit-s-4hana-in-die-digitale-zukunft/>)

ments in a more targeted manner and distributing products and services more efficiently.

### **SNP is a Founding Partner of the “SAP S/4HANA Selective Data Transition Engagement” SAP Working Group**

SNP SE is an active founding partner of the “SAP S/4HANA Selective Data Transition Engagement” working group established by SAP SE. This helps companies with the changeover to SAP S/4HANA in those cases where a new implementation is no more appropriate than a system conversion. As a part of the working group chaired by SAP, SNP will use its products and services to provide support for corporations through approaches which combine the characteristics of a conventional new implementation with those of a system conversion. This working group will add a valid third option for the SAP S/4HANA Movement program; the SNP BLUEFIELD™ approach was developed for this purpose.

### **Major Order for Global SAP® Project from Swiss Energy and High-Tech Company**

In May 2019, SNP secured an order for the division of the SAP system landscape of a prominent Swiss energy and high-tech company. The order volume for Software and Services is at the lower end of the double-digit million range. This Swiss company announced the sale of one of its business units last year. The implementation of the transaction inevitably requires a division of the underlying commercial SAP systems. SNP won the contract thanks to its software-supported analytical method, the performance capacity of its transformation software and its broad experience in implementing transactions. The implementation of this project began in June 2019.

### **Changes to the Company’s Managing Directors**

At the start of the second half of the year, SNP added two experienced senior executives to its team of Managing Directors: With effect as of July 1, 2019, Michael Eberhardt took charge as the company’s Chief Operating Officer (COO). Frank Hohenadel took over as Chief Human Resources Officer (CHRO) on the same date. They were

both appointed Managing Directors of SNP SE. In October 2019 the Board of Directors appointed Prof. Dr. Heiner Diefenbach Chief Financial Officer (CFO) of the company with effect as of January 1, 2020, when he will assume the tasks and responsibilities of Dr. Uwe Schwellbach. As of January 1, 2020, the company thus has the following four Managing Directors: Dr. Andreas Schneider-Neureither (CEO), Prof. Dr. Heiner Diefenbach (CFO), Michael Eberhardt (COO) and Frank Hohenadel (CHRO).

### **Major Order from U.S.-Based Leader in IT and Consulting for Global Use of SNP Software**

In August 2019, SNP and a world-leading IT and consulting firm based in the USA signed an agreement on the use of SNP software for implementation of the company’s transformation projects. The IT and consulting firm has committed to purchase SNP software licenses for data transformation with a minimum value of USD 30 million in the period up to 2022.

### **Share Buyback Program**

In August 2019, based on the authorization granted by the Annual General Meeting on May 12, 2016, the Board of Directors of SNP SE resolved a multi-year share buyback program beginning on September 1, 2019 and with a term ending no later than May 11, 2021. During this period, treasury shares in the company with a value of up to € 32 million (excluding incidental purchase costs), but no more than 638,362 shares, are to be repurchased exclusively via the stock market. In 2019, a total of 34,000 shares were repurchased for a purchase price of € 1.1 million. The company will publish information on specific transactions as well as the daily trading volume via the following link:

<https://www.snpgroup.com/en/stock-information>

### **Partnership with Google Cloud**

In September 2019, a partnership was signed with Google Cloud; Google has licensed both the digital transformation platform CrystalBridge® and the SNP BLUEFIELD™ method. This suite will enable its SAP customers to implement rapid and secure data migration to their cloud system. On



the basis of the extensive license agreement, Google's customers will be able to transfer their SAP applications to Google Cloud while making the changeover to S/4HANA at the same time.

### **T-Systems and SNP Agree on a Partnership for Software Use**

In November 2019, T-Systems and SNP signed an agreement on their strategic partnership as well as use of the BLUEFIELD™ approach and SNP software. This agreement has a three-year term. The goal of this strategic partnership is to provide existing T-Systems customers with a highly automated and flexible path to SAP S/4HANA®. The CrystalBridge® data transformation platform is employed.

### **"Transformation World" Registers New Visitor Record**

This year's "Transformation World," the most important expert-level congress for IT and business transformations in the German-speaking world, was held in November 2019. This two-day IT conference with more than 600 participants included keynotes, expert contributions and practically relevant workshops on future topics and trends in the field of IT and business transformations and covered the digital transformation process in business, administration and society at large. SNP has now hosted this congress on six occasions.

### **SNP Assists MAHLE with its Transition to S/4HANA**

In November 2019, MAHLE GmbH commissioned SNP with the transformation and modernization of its global SAP and non-SAP systems. MAHLE aims to establish a secure and flexible IT landscape in an ERP environment which is easy to maintain. The agreement signed with SNP has a term which expires in late 2025. The subject matter of this agreement is a software package as well as related services. A total of eight SAP systems are to be migrated to a central SAP S/4HANA system, and data is also to be migrated from 20 non-SAP systems.

## **KEY PERFORMANCE INDICATORS**

In order for SNP SE to achieve a sustainable increase in the company's value, its efforts are focused on further profitable growth and continuously strengthening the financial capacity of the SNP Group. An internal management system comprising financial and non-financial key performance indicators ensures that these strategic objectives are met. In line with its internal management system, the company's management concentrates on the following key financial performance indicators: Group revenue, revenue in the Service and Software business segments, Group EBIT and Group EBIT margin. Order entry is included as a non-financial key performance indicator. On the basis of a materiality analysis, the key performance indicators which were used in addition in previous years (all non-IFRS key performance indicators, EBITDA, EBITDA margin as well as utilization and order backlog) are not applied.

## **OVERALL SUMMARY OF TARGET ACHIEVEMENT BY THE MANAGING DIRECTORS**

### **SNP Achieves Overall Forecast**

With one exception, the company achieved or even significantly exceeded its key performance indicator targets. Due to a very strong second half of the year, only the Service business segment deviated negatively from the original forecast: Here, the volume of revenue achieved was around 4% lower than this business segment's revenue in the previous year, mainly due to negative currency effects; the forecast was missed by around 10%.

The high-margin Software business segment was a key factor driving this overall growth. Here, SNP achieved particularly strong revenue growth of 60% and reached a volume of around € 48 million. The software business's share of overall revenue in 2019 thus rose to approximately 33% (previous year: 22%). The forecast was exceeded by around 7 percentage points or around € 10 million.

The order entry figure developed significantly more strongly over the course of the year than had been expected at the start of the year; at around € 201 million, this is 52%

higher than the previous year's figure and approximately 23% higher than the mean value in the predicted range.

Operating earnings were in line with the forecast.

### ORDER BACKLOG AND ORDER ENTRY

Order entry as of December 31, 2019 totaled € 201.3 million, approximately 52% higher than the comparable amount in the previous year (€ 132.3 million). The significantly above-target order entry figure is mainly attributable to the company's very strong performance in the DACH region (Germany, Austria and Switzerland) as well as its successful partner and software strategy.

The DACH region accounts for around € 115 million of the order entry volume. Compared to the previous year, this represents an increase of 96% (previous year: € 58.7 million). The DACH region's share of the global order entry volume thus amounts to approximately 57% (previous year: 45%).

€ 77.8 million or 39% of the order entry is allocable to the Software business segment (previous year: € 34.6 million or 26%); the Service business segment accounts for € 123.5 million or 61% of the order entry figure.

The order entry volume associated with impending SAP S/4HANA projects increased disproportionately strongly: Following a figure of € 8.8 million in 2018, the result of € 27.8 million in 2019 represents an increase of around 216%.

The order backlog as of December 31, 2019 was € 92.7 million; this corresponds to an increase of approximately 65% over the comparable previous year's figure of € 56.3 million.

### DEVELOPMENT OF THE EARNINGS POSITION

The following section covering the earnings position provides an analysis of the Group's earnings based on IFRS key performance indicators. We classify our business activities in terms of the following regions: DACH, UK (United Kingdom), EEMEA (Eastern Europe, Middle East, Africa), North America, Latin America and JAPAC (Asia-Pacific Japan). In addition, we classify our business activities in terms of our Software and Service business segments.

### TARGET ACHIEVEMENT AND DEVELOPMENT OF KEY PERFORMANCE INDICATORS

	Earnings 2018	Forecast 2019 <sup>1</sup>	Earnings 2019
Order entry	€ 132.3 mn	€ 158 mn to € 163 mn	€ 201.3 mn
Group revenue	€ 131.0 mn	€ 145 mn to € 150 mn	€ 145.2 mn
Revenue in Services business segment	€ 101.2 mn	Around 74% of target revenue	€ 97.6 mn; around 67% of overall revenue
Revenue in Software business segment	€ 29.8 mn	Around 26% of target revenue	€ 47.6 mn; around 33% of overall revenue
EBIT margin (Group)	-2.0%	In the lower to mid-single-digit percentage range	4.8%
EBIT margin (Service business segment)	-5.2%	Largely balanced	3.7%
EBIT margin (Software business segment)	30.3%	in the lower to mid-double-digit percentage range	27.4%

<sup>1</sup> As reported in the 2018 Annual Report.

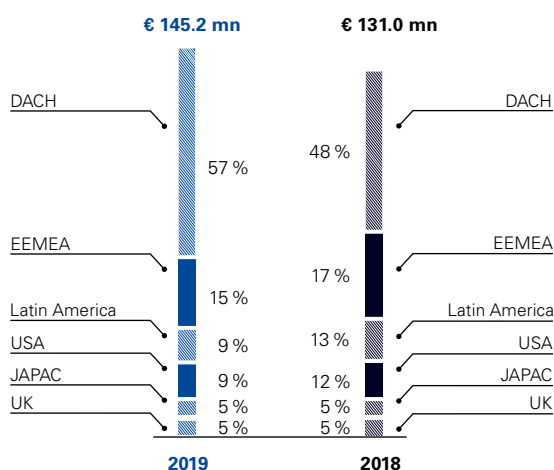
## Revenue Performance

The SNP Group's revenue increased from € 131.0 million in 2018 to € 145.2 million in 2019, which represents growth of € 14.2 million or 11%. This increase includes a negative currency effect in the amount of € 4.2 million. On a currency-adjusted basis, the volume of growth was € 18.4 million or 14%. This trend was driven by the Software business segment. Here, SNP achieved a particularly strong growth rate of 60% and reached a volume of € 47.6 million. On the other hand, due to the negative currency effects outlined above revenue in the Service business segment declined by 4% to € 97.6 million.

## Revenue Distribution by Region

In the DACH region, the SNP Group generated revenue of € 83.0 million (previous year: € 63.5 million). This corresponds to a total revenue share of 57% (previous year: 48%) and a growth rate of 31%. The disproportionately strong growth rate in this region is mainly attributable to a high level of software revenue generated with end customers and partner companies. The EEMEA and UK regions contributed € 28.6 million (previous year: € 28.2 million); this corresponds to a share of 20% (previous year: 22%) of total revenue.

### REVENUE DISTRIBUTION BY REGION



The Latin America region provided a revenue contribution of € 13.4 million (previous year: € 16.8 million); this represents a revenue share of approximately 9% (previous year: 13%). The decline in this region is mainly attributable to exchange rate changes in Argentina in particular. In 2019 as a whole, this resulted in a € -5.3 million change in the volume of sales. The € 13.6 million revenue contribution provided by the U.S. region is 12% below the previous year's level (previous year: € 15.5 million). The decline in revenue in the USA is mainly attributable to the scheduled completion of a major project which was not immediately followed by follow-up orders of a similar size. Measured in terms of total revenue, the USA thus contributed approximately 9% of Group revenue (previous year: 12%). The JAPAC region generated revenue of € 6.6 million (previous year: € 6.9 million). This corresponds to 5% of Group revenue (previous year: 5%).

## Revenue Distribution by Business Segment

In the 2019 fiscal year, the **Service business segment**, which primarily includes consulting services, contributed € 97.6 million (previous year: € 101.2 million) to revenue. This corresponds to an overall revenue share of around 67% and represents a decrease of € -3.6 million, or 4%, over the previous year. As well as effects associated with exchange rate changes (€ -2.9 million), this decline reflects our customers' noticeable restraint in commissioning IT projects in advance of impending S/4 changeover projects in the first six months of the year. Demand for S/4 changeover projects picked up in the second half of the year but was unable to fully compensate for the decline in the first half of the year.

Revenue of € 47.6 million (previous year: € 29.8 million) came from the **Software business segment (incl. maintenance and cloud)**. This represents an increase of € 17.7 million, or 59.7%, over the previous year. In this business segment, licensing and cloud fees have increased by € 15.8 million, or 75%, to € 37.0 million (previous year: € 21.2 million); maintenance fees have risen by around € 0.2 million, or 2%, to € 8.2 million (previous year: € 8.1 million). The significant increase in licensing and cloud fees is mainly attributable to the growth in the volume of business with our partner companies.

For the first time, SNP is also reporting revenue generated through software as a service (SaaS); in the period under review, this amounts to € 2.3 million. On grounds of improved transparency, portions of the revenue generated by the companies Innoplexia GmbH and ERST GmbH were allocated to the Software business segment as SaaS revenue for the first time from the 2019 fiscal year onwards, in accordance with IFRS 8.12.

Revenue with higher-margin SNP in-house products (including the revenue reported under software as a service for the first time) increased significantly to € 40.0 million (previous year: € 18.1 million). In the same period, revenue in the amount of € 7.5 million (previous year: € 8.7 million) was registered with third-party products.

### Earnings Performance

SNP achieved an EBITDA figure of € 15.1 million (previous year: € 2.3 million) in the 2019 fiscal year. This represents a significant EBITDA increase year-over-year of € 12.9 million. Of this increase, € 4.0 million is attributable to the first-time application of the accounting rule IFRS 16. Amortization on rights of use capitalized for the first time has thus increased by € 4.0 million. In the previous year, this was posted under other operating expenses, mainly as rental and leasing expenses. The EBITDA margin accordingly amounts to 10.4% (previous year: 1.8%). Adjusted for IFRS 16 amortization, it is 7.7% (previous year: 1.8%). In the same period, the EBIT figure amounted to € 7.0 million (previous year: € -2.5 million). Operating earnings improved by € 9.6 million. The EBIT margin is thus 4.8% (previous year: -1.9%). The disproportionately strong rate of growth in the higher-margin Software business segment was the key factor in this margin improvement.

In terms of the different business segments, the Service business segment registered an EBIT figure of € 3.6 million (previous year: € -5.1 million), while the Software business segment accounts for an EBIT amount of € 13.0 million (previous year: € 9.0 million). This corresponds to an EBIT margin of 3.7% (previous year: -5.2%) for the Service business segment and an EBIT margin of 30.3% (previous year 27.4%) for the Software business

segment. The disproportionately strong growth rate in the higher-margin Software business segment as well as the disproportionately weak trend for overall expense by comparison with the company's revenue performance were the key factors in this margin improvement for the Group. Specific activities such as finance, accounting and human resources, as well as IT services, are activities that are managed and supervised at Group level. They are not included in the segment earnings.

Order entry in the SNP Group totaled € 201.3 million in 2019. The Service business segment accounts for € 123.5 million (previous year: € 97.7 million) of this amount and the Software business segment for € 77.8 million (previous year: € 34.6 million). The order backlog at the end of 2019 amounts to € 93.1 million throughout the Group – the Service business segment accounts for € 54.1 million (previous year: € 42.6 million) of this amount and the Software business segment for € 39.0 million (previous year: € 13.7 million).

Overall expense developed as outlined below:

Personnel expenses increased by € 1.4 million or 2% to € 84.6 million in the past fiscal year. In view of the above-average revenue growth in excess of 10%, this is a moderate increase. This is attributable to the disproportionately strong rise in the share of overall revenue accounted for by the less personnel-intensive Software business segment. The personnel expense ratio (ratio of personnel expenses to revenue) declined accordingly from 63.5% in the previous year to 58.2%. The personnel expense trend is mainly attributable to regular salary adjustments. As of end of the reporting period on December 31, 2019, the company had 1,365 employees (previous year: 1,286). On the other hand, the average number of employees declined due to the relatively low number of employees at the start of the year.

Costs of purchased services and the cost of materials decreased by € 3.3 million year-over-year to € 17.9 million. This corresponds to a decline of 15% and is attributable to reduced use of third-party software as well as the decrease in external consulting capacities.

Depreciation and amortization increased by € 3.3 million year-over-year to € 8.2 million. This significant increase is attributable to the first-time application of IFRS 16. SNP has applied the accounting rule IFRS 16 since January 1, 2019, subject to a modified retrospective approach. Accordingly, at the start of the year leases and rental agreements were capitalized in the form of rights of use for the first time, in the amount of € 14.7 million. The additional first-time capitalization of rights of use less amortization of rights of use in the first half of the year resulted in a final volume of € 21.4 million as of December 31, 2019. The amortization amount on rights of use totals € 4.0 million in 2019.

Other operating expenses increased by € 1.3 million to € 30.5 million. The first-time application of IFRS 16 has resulted in a decrease of € 4.6 million. Adjusted for this effect, other operating expenses have increased by € 5.9 million. This has mainly resulted due to increased marketing and advertising expenses as well as additional consulting services.

Other operating income decreased by € 3.2 million to € 2.5 million. This decline is mainly attributable to a one-time effect in the previous year, the reversal of liabilities for variable purchase price components in the amount of € 3.5 million. In addition, exchange rate gains were € 0.4 million lower than in the previous year.

Other financial expenses of € 1.6 million were offset during the reporting period by other financial income of € 0.2 million. This gave rise to a negative net financial result of € -1.4 million (previous year: € -1.1 million), resulting in earnings before taxes of € 5.6 million (previous year: € -3.6 million). With income tax expense of € 3.4 million (previous year: income of € 2.0 million), net income of € 2.3 million (previous year: net loss of € -1.6 million) resulted in the 2019 fiscal year.

This corresponds to a net margin of 1.6% (previous year: -1.2%). Accordingly, diluted and basic earnings per share amounted to € 0.35 (previous year: € -0.26).

With regard to tax expenses, the net profit for 2019 was negatively affected by the partial non-recognition of current losses and valuation allowances for deferred taxes on tax loss carryforwards in the USA (+€ 0.8 million) and expenses and income not affecting taxes (+€ 0.6 million).

## NET ASSETS AND FINANCIAL POSITION

Total equity and liabilities have increased by € 21.7 million compared with December 31, 2018, to € 174.0 million. This growth is mainly attributable to the development of noncurrent assets. While current assets increased only slightly, by € 0.5 million to € 76.7 million, at € 97.3 million noncurrent assets were overall € 21.7 million higher than in the previous year.

The current assets trend was mainly shaped by two countervailing effects: On the one hand, cash and cash equivalents decreased by € 20.8 million to € 19.1 million (see development of cash flow and the liquidity position). On the other hand, trade receivables and other receivables as well as contract assets rose by € 22.5 million to € 54.3 million. As well as an increase in contract assets, this growth is attributable to the higher revenue volume in particular.

The increase in noncurrent assets is primarily associated with the first-time application of IFRS 16. Accordingly, on January 1, 2019 leases and rental agreements were capitalized in the form of rights of use for the first time, in the amount of € 14.7 million. Taking into consideration additional capitalized rights of use and after amortization in 2019, as of December 31, 2019 € 21.4 million was capitalized for rights of use. Intangible assets and property, plant and equipment changed only slightly in overall terms. Replacements of capital assets and new investments have mainly resulted from operating and office equipment and hardware within the scope of property, plant and equipment and SAP software licenses (S/4), including work performed and capitalized in the intangible assets category.

On the equity and liabilities side, current liabilities increased from € 36.2 million as of December 31, 2018, to € 49.8 million as of December 31, 2019. This change is mainly attributable to the € 7.9 million increase in financial liabilities to € 13.3 million. The financial liabilities are characterized by countervailing effects. Liabilities due to promissory note loans have increased by € 5.0 million due to a reclassification from noncurrent to current liabilities. The first-time application of IFRS 16 also increased the volume of liabilities, as a result of which current leasing liabilities have risen by € 4.6 million. On the other hand, purchase price liabilities for acquisitions decreased by € -1.7 million due to purchase price payments. This contrasted with reclassifications from the noncurrent purchase price liabilities. Other nonfinancial liabilities increased by € 2.7 million to € 18.7 million. In particular, this was due to higher employee-related liabilities.

Compared with December 31, 2018, noncurrent liabilities increased by € 7.4 million to € 53.6 million. This growth is mainly attributable to the € 6.5 million rise in financial liabilities to € 49.3 million. This includes the increase in noncurrent leasing liabilities in the amount of € 14.0 million due to the first-time application of IFRS 16. The off-balance sheet liabilities have decreased significantly on account of the entry of the current and noncurrent leasing liabilities on the liabilities side of the statement of financial position, due to the first-time application of IFRS 16. The reclassification of liabilities due to promissory note loans in the amount of € 5.0 million from noncurrent financial liabilities to current financial liabilities had a countervailing effect. The remaining noncurrent liabilities in connection with promissory note loans thus amount to € 34.8 million.

The Group's equity increased from € 69.4 million to € 70.6 million in the 2019 fiscal year. This is attributable to retained earnings which have increased by € 2.3 million to € 9.9 million due to net income, while subscribed capital and the capital reserves remained unchanged. Other components of equity changed only slightly. The deduction made for

treasury shares increased by comparison with the previous year due to the repurchase of 34,000 shares to € -1.5 million, compared to € -0.4 million as of December 31, 2018. Since equity increased less strongly than total assets overall, the equity ratio decreased from 45.7% to 41.2%.

### Dividend Proposal

The Annual General Meeting of SNP SE, which took place in Wiesloch on June 6, 2019, approved all of the points on the agenda by a substantial majority. Among other items, the shareholders accepted the Board of Directors' proposal on the appropriation of profit and approved the distribution of a dividend of € 0.00 per share. In the previous year, the dividend likewise came to € 0.00 per share.

### SELECTED KEY FIGURES ON FINANCIAL POSITION

€ mn	2019	2018
Cash and cash equivalents on December 31	19.173	39.974
Change in cash and cash equivalents	-20.837	6.097
Cash inflows from operating activities	-5.089	3.326
Cash inflows from investing activities	-8.160	-12.034
Cash inflows from financing activities	-7.315	15.492
Impact of the effects of changes in foreign exchange rate on cash and bank balances	-0.273	-0.687

### Management of Financial, Liquidity and Capital Structure

SNP SE has a central financial management system for global liquidity control. This financial management also involves, at the same time, analyzing interest rate and exchange rate changes and their impact on the company's financial position and financial performance, as well as taking measures to hedge against these risks. The key objective of this financial management system is to ensure a minimum level of liquidity for the Group, in order to safeguard its solvency at all times. Cash and cash equivalents are monitored throughout the Group. SNP safeguards its flexibility and independence through its high volume of cash and cash equivalents. SNP is able to draw upon additional liquidity potential in case of need through further standard credit lines.

In the past few years, cash and cash equivalents have primarily been used for operating activities, the investment needs associated with growth, the acquisition of companies and for the payment of dividends. SNP assumes that its liquidity holdings together with its financial reserves in the form of various unused credit lines will be sufficient to cover its operating financing requirements in 2020 and – together with the expected cash flows from operating activities – will cover debt repayment and our planned short- and medium-term investments.

Maintenance of a strong financial profile is the overriding goal for management of our capital structure. The focus here is on a high equity ratio, in order to bolster the confidence of our investors, lenders and customers. SNP thus concentrates on a capital structure that enables it to cover its future potential financing requirements via the capital markets on reasonable terms. This ensures a high level of independence, security and financial flexibility.

In February 2017, SNP issued promissory note loans with a total volume of € 40 million. The volume is spread across fixed and variable tranches in terms of three to seven years. € 5 million of these promissory note loans is to be repaid after 3 years, € 26 million after 5 years and € 9 million after 7 years. The average yield at the time of issuance of the promissory note loans amounted to 1.41% per annum. The promissory note loans include standard financial covenants that were complied with in the 2019 fiscal year. Moreover, the company assumes that it will continue to comply with the agreed financial covenants in the future.

### **Development of Cash Flow and the Liquidity Position**

Operating cash flow totaled € -5.1 million in the 2019 fiscal year (previous year: € +3.3 million). This development is mainly attributable to the increase in inventories and trade receivables as well as the contract assets associated with the significant revenue growth. The resulting negative effect in the amount of € -24.7 million was only partially compensated for: Positive net income (€ +2.3 million) and a decrease in trade payables (€ +7.8 million) in particular had a countervailing impact.

The negative cash flow from investing activities in the amount of € -8.2 million (previous year: € -12.0 million) is due not only to payments for investments in property, plant and equipment of € 2.2 million and for intangible assets of € 1.7 million but also, above all, to the cash outflow relating to purchase price installments for companies acquired in the previous years (€ 4.6 million in total). This contrasts with proceeds from the disposal of items of property, plant and equipment in the amount of € 0.3 million.

The negative cash flow from financing activities of € -7.3 million (previous year: positive cash flow of € 15.5 million) mainly resulted from the payment made for the settlement of leasing liabilities (€ -6.3 million). Moreover, expense in the amount of € -1.1 million was incurred for the purchase of treasury shares in 2019.

The effects of changes in foreign exchange rates on cash and bank balances amount to € -0.3 million (previous year: € -0.7 million).

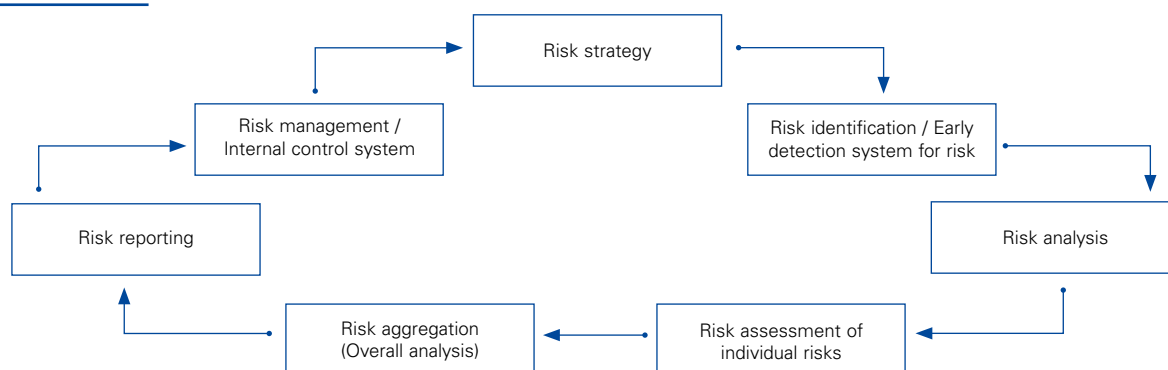
Overall cash flow during the reporting period came to € -20.8 million (previous year: € +6.1 million). Taking into account the changes presented here, the level of cash and cash equivalents decreased to € 19.2 million as of December 31, 2019. As of December 31, 2018, cash and cash equivalents amounted to € 40.0 million. Overall, SNP SE remains very solidly positioned financially.

## **RISKS AND OPPORTUNITIES REPORT**

### **Risk Management System**

In its business activities, the SNP Group is subject to a variety of risks that are inseparably linked to its entrepreneurial activity. Risks refer to the possibility of events occurring with unfavorable consequences for SNP's economic situation. SNP employs effective management and control systems to identify risks at an early stage, to evaluate them and to deal with them systematically. They are combined into a uniform Group-wide risk management system, which is presented below. SNP's risk management system essentially consists of the following three

## RISK MANAGEMENT CYCLE



components: its risk management policy, a standardized risk identification and treatment method and the responsible departments within its organizational structure, which are entrusted with the implementation of its risk management approach. All risks are systematically identified, evaluated and monitored. Risk assessment and aggregation rules have been defined for this purpose. Risks are normally balanced out by appropriate opportunities. However, the risk management system does not address the opportunities.

No major changes were made to the risk management system during the reporting period relative to the previous year.

The risk management policy stipulates a risk management process as in the following "Risk management cycle" diagram.

The local subsidiaries' risk managers for each division and the risk managers for overarching cross-border functions, handle the primary risk identification process. This is accompanied by the implementation of an initial risk assessment. A central department reviews and analyzes the individual risks so as to be able to identify possible tendencies and reciprocal effects. The risk analysis also reviews whether compliance aspects have been appropriately represented. The individual analysis of risks is mainly implemented for the purpose of their quantification. The probability of realization of the risk and the possible effect on SNP's business activities are significant aspects. A three-point scale is created for each (low/moderate/high). The damage potential is determined for each risk on the basis of these two parameters. This may be classified as a "slight risk," a "moderate risk," or a "high-level risk." The "Risk assessment dimensions" figure shows the risks broken down based on the amount of the loss and probability of occurrence.

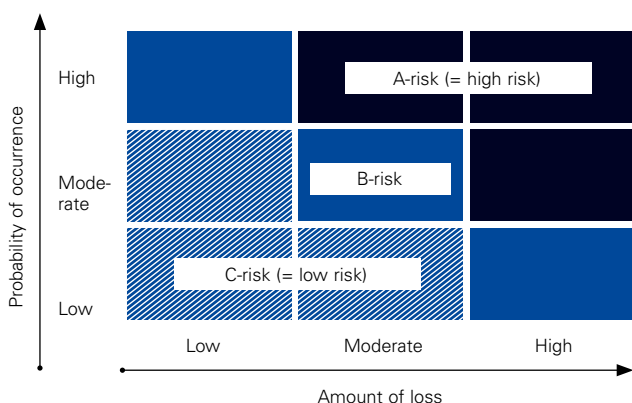
## RISK ASSESSMENT DIMENSIONS

Classification by potential loss	Amount of loss in €	Probability of occurrence
Low	< 1,000,000	Less than once a year
Moderate	1,000,000 – 2,500,000	Once to twice a year
High	> 2,500,000	More than twice a year



This is the basis for a risk matrix for the assessment of risks in terms of high-level, moderate or slight risks.

#### RISK MATRIX



An overall analysis of the risk position is compiled in the risk aggregation. All risks are documented here and assigned to the appropriate risk areas. The risk reporting is derived from the aggregated overview, with an assessment of the situation for each of the individual areas. Twelve areas were selected for the year 2019 in the period under review. These are outlined in further detail in the risk report. Measures are implemented for each area – and also for individual risks – which are intended to be proportionate to the potential level of damage. The risk managers are responsible for implementation of these measures. The effectiveness of countermeasures, reduction strategies and SNP’s internal control system are monitored and safeguarded by means of the management measures.

#### Risk Management Systems (Report and Explanations Pursuant to Section 315 (2) (1) and Section 289 (2) (1) of the HGB)

SNP strives for sustainable growth and a steady increase in the value of the company. This strategy is reflected in its risk policy. The basis of risk management is the monitoring and evaluation of financial, economic and market-related risks.

In order to ensure the early detection of risks on a Group-wide, systematic basis, SNP has installed a “monitoring system for the early detection of risks that may threaten the survival of the company,” in accordance with Section 91 (2) of the German Stock Corporation Act (AktG).

This early detection system for risk ensures that the SNP Group can always adjust promptly to changes in its environment. The constant refinement of the risk management system is an important step that allows the company to respond promptly to changing conditions that may directly or indirectly affect the financial position and financial performance of SNP SE.

#### Risk Management System Regarding Significant Risks Threatening the Company’s Survival

The risk management system for significant risks threatening the company’s survival is integrated within the SNP Group’s value-oriented management and planning system. It is an important component of the overall planning, controlling and reporting process in all relevant legal entities, business fields and core functions. Its purpose is to systematically identify, evaluate, monitor and document all significant risks threatening the company’s survival. The Board of Directors establishes guidelines for risk management. These guidelines serve as the basis for risk management by the risk management officer. The risk management officer ensures that the specialized departments identify risks proactively and promptly, evaluate them both quantitatively and qualitatively and develop suitable measures to avoid or compensate for risks. Using a systematic risk inventory, the employees responsible revise and reassess the risks at least once per fiscal year. In addition to routine reporting, there is a Group internal

reporting requirement for risks that may occur unexpectedly. Each risk is assigned to a risk group. When providing notifications and reassessments of risks, the amount of the loss and probability of occurrence must be indicated in accordance with guideline provisions. The task of the employees responsible is to develop and, if necessary, to introduce measures corresponding to the evaluation of risks that are suited to avoiding, reducing or protecting against these risks. Significant risks and countermeasures that have been introduced are monitored regularly during the year. The Managing Directors and the Board of Directors are regularly informed about material identified risks.

#### **Internal Control and Risk Management System Regarding Accounting**

The internal control and risk management system regarding the accounting process is designed to ensure the correctness and effectiveness of accounting and financial reporting. Due to its inherent limits, it is possible that the internal control system for financial reporting may not prevent or uncover all potentially misleading statements.

The Group accounting department regularly checks whether Group-wide accounting and evaluation principles are continuously updated and followed, internal Group transactions are fully recorded and properly eliminated, significant accounting issues subject to mandatory disclosure arising from agreements are identified and properly depicted, processes are in place ensuring the completeness of financial reporting, processes are in place to enforce the separation of functions and the double-check principle during the preparation of financial statements, and rules exist governing authorization and access to relevant IT accounting systems.

However, the internal control and risk management system for the accounting process cannot absolutely guarantee the avoidance of any accounting inaccuracies.

SNP is satisfied that the effectiveness of the Group's accounting-related control system was safeguarded as of December 31, 2019.

#### **Monitoring of the Internal Control and Risk Management System**

The Board of Directors oversees the monitoring of the internal control and risk management system. The auditor examines the fundamental suitability of the early detection system for risk integrated into the risk management system to identify at an early stage any risks that pose a threat to the company's survival. In addition, he reports to the Board of Directors about any potential weaknesses in the internal control and risk management system.

#### **RISKS**

During the reporting period, there were no significant changes in risks relative to the previous year. In particular, no significant risks that might endanger the company's existence in terms of their probability of occurrence and potential damage caused arose for which no adequate measures have been taken to avoid or compensate for risks. In view of its stronger focus on the growth area of partner sales, SNP has initiated measures with the goal of increased standardization and the development of a knowledge management system. SNP has also implemented measures in order to protect its intellectual property rights which result from this focus.

#### **Economic and Political Risks**

The uncertainty affecting the global economy and the financial markets, social and political instability caused by factors such as internal state conflicts, terror attacks, civil unrest, war, international conflicts, pandemics, trade conflicts with China as well as the final Brexit outcome following the end of the transitional phase on December 31, 2020 might adversely affect our business activities or have a negative impact on our business activities, our financial position and financial performance and our cash flows.

At the moment, we believe that the economic impact of political risks in those countries in which we are active/have locations is low to our business.

On the other hand, we see valid economic risks for the global economy on account of coronavirus (CoVID19). This may cause our customers to postpone or cancel planned IT projects, with corresponding negative consequences for our business activities, our financial position and financial performance and our cash flows. At the moment, however, the negative effects of this development on the company cannot be reliably predicted, nor is it clear to what extent measures can be taken to reduce or offset the potential negative developments. Having said this, the order entry situation at the time of reporting appears to have improved slightly compared with the previous year.

Possible restrictions on travel and mobility as well as illness-related employee absences could lead to additional strains on our financial position and performance and our cash flow. However, the SNP Group's business model operates largely independently of travel, mobility and direct customer contact, since consulting and other services can be digitalized and thus offered and implemented regardless of location.

SNP's customers are primarily large companies and multinational corporations. Business cycles influence the business and investment behavior of these companies. Therefore, global economic and business development can affect the success of the business. Cost reduction measures and investment freezes for IT projects on the part of customers can lead to project delays and/or cancellations. SNP tries to mitigate this market risk through regional diversification.

However, the diversification effect has limited impact during a global crisis. Therefore, company management tries to counter these risks by monitoring the market so that it will be able to respond to serious changes, if necessary, by promptly adjusting the business and its cost structure.

In addition, over the course of the year, SNP is subject to the typical business cycles for the IT sector. This usually means a very strong demand in the fourth quarter. Since the company's capacities, particularly in Service business segment, are largely fixed over the entire year in order to

accommodate expected peak demand, heightened risk exists here if short-term changes in investment behavior should occur. SNP tries to reduce these risks by employing freelancers. In the year under review, expense in the amount of € 11.2 million (previous year: € 14.0 million) was incurred for the use of external service providers in projects. SNP likewise seeks to reduce risks and their negative effects by continuously increasing the proportion of maintenance fees and recurring fees and thus revenue that can be more easily planned for. In 2019, maintenance fees increased by € 0.2 million or approximately 2% to € 8.2 million (previous year: increase of € 3.2 million).

Similarly, it cannot be ruled out that in the Software business segment, scheduled software sales may fall through over the short term or purchase decisions by customers may be postponed, influencing the company's target achievement. SNP tries to reduce this risk through greater diversification of software products, by strengthening its license models providing recurring revenue and through stronger marketing of all of its software products. In the 2019 fiscal year, revenue from SNP's in-house products amounted to € 40.0 million (previous year: € 18.1 million).

SNP classifies the economic and political risks for its Service and Software business segments as a moderate risk, with a moderate probability of occurrence.

### **Risks of Technology Development**

With its portfolio of products and services, SNP offers specific solutions for the transformation of ERP landscapes. Therefore, it focuses on a niche market. The possibility exists that another provider may offer better or less expensive solutions so that SNP loses market share or is driven from the market entirely. SNP counters this risk by developing new products and by continuously refining and improving existing products. In 2019, research and development costs as a percentage of revenue were 20.3% (previous year: 12.7%). Given the complexity of SNP products and processes, the company has managed to achieve an innovation lead until now that generally limits the possibility of imitation.

The earnings position of SNP largely depends on its success in adapting its products to changes in the market and achieving a rapid amortization on new products and services. Revenue and earnings may be adversely affected if technologies do not function properly, do not encounter the expected market acceptance or are not launched in the market at the right time.

By integrating sales and the Service business segment with research and development (R&D), the company has so far been able to detect changes in the market promptly and to develop market-driven and therefore also market-relevant product innovations.

SNP classifies the technological risks for the Service and Software business segments as a moderate risk with a moderate probability of occurrence.

### **Operational Risks**

The implementation of projects in the ERP transformation market is frequently associated with a considerable deployment of resources by customers and is subject to a variety of risks that are sometimes beyond their control. These risks include a lack of resources and system availability as well as the reorganization of existing projects. Our products and consulting services are used in very sensitive areas affecting our customers' ERP systems. Product errors or mistakes made in transformation projects have the potential to cause significant damage, such as a temporary loss of production. These errors or mistakes can be caused by employees with inadequate qualifications and training, carelessness or in cases in which the customer was not sufficiently consulted. In order to minimize project risks, the SNP Group and its customers choose to use a modular approach, dividing projects into separate subprojects. In addition, numerous test runs are planned during projects to prevent potential errors. SNP also conducts regular training sessions for employees, performs quality controls as part of its projects and assigns employees to projects based on their knowledge in order to ensure the high quality of its work.

The remaining risks through conventional liability scenarios are mitigated by insurance coverage.

SNP classifies the operational risks for its Service and Software business segments as a moderate risk with a moderate probability of occurrence.

### **Risks of Dependence on SAP SE**

The success of SNP products and consulting services is currently strongly linked to the acceptance and market penetration of the standard ERP software of SAP SE. The risk exists that SAP SE solutions may be supplanted by competing products.

However, the danger of a sudden collapse of the fundamentals for the market is regarded as minimal. Given the high investment of time and expense associated with a new installation of standard enterprise software, management anticipates that it will have sufficient time to realign its product offerings in response to changes in the market.

The SNP Group is constantly developing its product portfolio and increasingly orienting it toward solutions for the entire ERP market. In the process, the company is tapping into additional potential revenue sources, while simultaneously reducing its dependence on SAP SE.

SNP classifies the risks of dependence on SAP SE for its Service and Software business segments as a slight risk with a moderate probability of occurrence.

### **Growth Risks**

SNP SE continues to position itself for organic and inorganic growth. Company acquisitions may lead to a significant increase in SNP's value. However, the risk exists that it may not be possible to successfully integrate an acquired company into the SNP Group.

Furthermore, acquired companies or business areas may not develop as expected following their integration. In this case, the depreciation and amortization of such assets could impair earnings. Similarly, the risk exists that certain markets or sectors may offer only limited growth potential,

contrary to expectations. SNP usually protects itself against this risk by arranging variable purchase price components or purchase price retentions that are linked to future performance indicators. In addition, SNP generally does not initially acquire all of the shares in companies in order to preserve liquidity and hedge-related risks.

SNP classifies the growth-related risks for its Service and Software business segments as a moderate risk with a moderate probability of occurrence.

### **Personnel Risks**

SNP employees and their skills are of fundamental importance to the success of the company. Therefore, the loss of important employees in strategic positions is a significant risk factor. Furthermore, competition for qualified IT specialists continues unabated and could lead to shortages.

In order to mitigate this risk, SNP strives to offer a motivational work environment that enables existing employees to develop their abilities and realize their full potential.

This includes a range of individual continuing education opportunities and attractive incentive programs as well as employee profit-sharing schemes. In addition, the company continually attempts to identify, hire and retain suitable employees. Further measures include university marketing programs and the routine measurement of employee satisfaction.

Moreover, SNP trains young professionals in customized training programs on a regular basis. As of December 31, 2019, SNP employed 48 students and trainees (previous year: 27).

Risks apply in relation to the operational capability of our employees not least due to health risks such as coronavirus (CoVID19). SNP is monitoring its spread and its impact and will take appropriate countermeasures in line with the situation.

At the time of reporting, SNP has taken a number of measures to counter the risk. For instance, arrangements have been made for home-based work, and business travel has been sharply curtailed. The company also informs its employees on a regular basis and recommends corresponding actions that are adapted to the individual situation.

However, insuring against overall personnel risk is possible only to a limited extent. SNP classifies the personnel risks for its Service and Software business segments as a moderate risk with a moderate probability of occurrence.

### **Insurance Risks**

SNP has hedged against potential losses and liability risks by taking out appropriate insurance coverage. However, additional liability obligations or damages could arise that are unknown at the current time or could be economically disproportionate to the amount of the insurance protection. The scope of insurance coverage is continuously reviewed in light of the probability that certain risks may occur and adjusted, if necessary.

SNP classifies the insurance risks for its Service and Software business segments as a moderate risk with a low probability of occurrence.

### **Legal Risks**

Legal risks primarily involve matters of company law, labor law, commercial and trademark law, contract law, product liability law, data protection law, capital market law and cases of changes to relevant existing laws and their interpretations. A violation of an existing provision may occur as a result of ignorance or negligence. SNP uses external service providers and experts to minimize most of these risks. Moreover, in 2017, SNP initiated the development of an internal legal department with its own in-house legal experts. Legal disputes can lead to significant costs and damage to the company's image even if the company's legal position is vindicated. As of December 31, 2019, significant legal risks from lawsuits and third-party claims did not exist. The negative effects expected to arise from unresolved employment law disputes have been taken

into account in the “provisions” and “other liabilities” line items.

SNP classifies the legal risks for its Service and Software business segments as a moderate risk with a moderate probability of occurrence.

### **Sales Risks**

SNP’s software products are sold by SNP’s in-house sales team as well as through partners such as system integrators and consultants. The success of marketing by the in-house sales team or these partners is determined particularly by specific market conditions, such as the availability of competing products, the general demand for standard software products for transformation projects and further products as well as the company’s own product positioning in the market.

Marketing via third parties also carries the general risk that the relevant products are not sold with the commitment that SNP expects. Another risk is that distributors may terminate partnerships against the wishes of SNP. This could lead to medium-term substitution problems and to significantly higher sales expenses. As well as a strong in-house sales team, SNP seeks to reduce this risk by carefully selecting strategic partners and extensive partner enablement initiatives. In addition, strategic partners are required to complete a qualification process.

As of December 31, 2019, the number of sales employees came to 82 (December 31, 2018: 76).

SNP classifies the sales risks for its Service and Software business segments as a moderate risk with a moderate probability of occurrence.

### **Risk of Dependence on Individual Customers and Industries**

A heavy reliance on individual customers and industries can put considerable pressure on earnings if orders are lost, because it means that the company does not have enough options available to compensate for these losses. In the view of the management, dependence on individual

customers and industries for the Service and Software business segments is a relatively low risk.

In the 2019 fiscal year, as in the previous year, no customer generated revenue that exceeded 10% of total revenue.

SNP SE has also established a position for itself that does not rely on one particular industry thanks to a very loyal customer base that is constantly growing and includes a large number of renowned major companies. We classify the risk of dependence on individual industries in the Service and Software business segments as a moderate risk with a low probability of occurrence.

### **IT Risks**

SNP runs its own IT systems and works on its customers’ IT systems when performing its business activities. The failure of these IT systems or the loss and theft of data or IP caused, for example, by malware, virtual attacks or destruction, could have material adverse impacts on our business activities, or on our financial and earnings position and our cash flows. SNP takes a whole range of measures to protect against IT risks. These include, among other things, systematically bringing our security mechanisms into line with the relevant IT security standards, taking numerous technical security precautions or conducting security training sessions for our employees. We cannot rule a scenario in which IT risks materialize out entirely. However, we classify IT risks in the Service and Software business segments as a moderate risk with a moderate probability of occurrence.

### **Financial Risks**

#### **■ Credit Risk (Default Risk)**

A credit risk arises if a customer or counterparty to a financial instrument fails to meet its contractual obligations. SNP is constantly working on improving receivables management and intensively monitors the creditworthiness of its major customers. In order to reduce the default risk, the company requires deposits for individual projects, regardless of their respective significance, and invoices for milestones reached. As a result, credit risks exist only for the remaining amount owed.

SNP classifies the credit risk for its Service and Software business segments as a low risk with a moderate probability of occurrence.

#### ■ Liquidity Risk / Interest Rate Risk

SNP has a large amount of cash and cash equivalents, which are available on a daily basis or relate exclusively to investments in term deposits, overnight money or similar conservative products with maturities of up to one year. Consequently, the interest rate risk associated with such financial investments is negligible. Given the low or even negative rate of interest accruing to the specified forms of investment, SNP is exposed to the risk of a loss in purchasing power from the liquid funds it is holding in case of a concurrently high rate of price inflation (inflation rate). The default risk posed by business partners, with whom SNP has made deposits or concluded derivative financial contracts, is minimized by regular credit checks of the relevant institutions. Derivative contracts were not concluded in the 2019 fiscal year.

SNP is financed through its equity as well as external funds. As of December 31, 2019, its equity ratio amounts to 41% (previous year: 46%), while interest-bearing external funds account for 23% of total assets (previous year: 26%). The vast majority of the interest-bearing external funds relate to borrower's note loans that were issued in February 2017 with a total nominal value of € 40.0 million and varying maturities (3, 5 and 7 years). Borrower's note loans with a nominal volume of € 25 million include not only a basic interest rate, but also a variable interest rate component corresponding to the 6-month Euribor. If the 6-month Euribor is below 0%, the variable interest rate is fixed at 0%. If the 6-month Euribor rises to over 0%, then SNP is exposed to an interest rate risk. SNP keeps a close eye on market interest rate developments, the options available for, and cost development of, hedging measures and takes corresponding measures to safeguard against these risks as and when required.

The borrower's note loan contracts concluded in February 2017 for a total nominal value of € 40.0 million feature mandatory financial covenants, as is common practice in

the industry, based on the figures reported in the consolidated financial statements as part of a two-tier system. If the first-level financial covenants are breached, the breach increases the interest rate by 0.5 percentage points in the following fiscal year. If the second-level covenants are breached, then the issuer of the borrower's note loan has a contractual termination right. In this respect, SNP is subject to an interest rate risk and to the risk of termination and the associated liquidity risk. SNP monitors and forecasts the financial covenants on a regular basis in order to take any suitable countermeasures when required.

In the context of a high volume of cash and cash equivalents (€ 19.1 million as of December 31, 2019, previous year: € 40.0 million) and a solid financing structure, the management classifies the liquidity risk for the Services and Software business segments as a moderate risk with a moderate probability of occurrence.

#### ■ Currency Risk

The euro is the Group's functional currency and the reporting currency of the consolidated financial statements. A result of the Group's increasing internationalization outside the eurozone is that its operating business and financial transactions in foreign currencies involve fluctuations in currency exchange rates. Operating business and financial transactions must be converted into our Group reporting currency, the euro. Exchange rate risks, which arise from orders from, and loans to, subsidiaries outside the eurozone, relate primarily to the absolute amount of the key figures reported in euros. The realization of currency risks might have a significant impact on our business activities, our financial and earnings position and our cash flows. For this purpose, SNP considers the needs-based use of derivative financial instruments to avert potential foreign currency risks. No financial derivatives were being used as of December 31, 2019.

SNP classifies the currency risk for its Service and Software business segments as a moderate risk with a moderate probability of occurrence.

### ■ Risk of Goodwill and Impairment

The “goodwill” balance sheet item comes to € 54.2 million as of December 31, 2019 (previous year: € 53.7 million). Goodwill is the result of various business combinations in the past and is measured at cost upon first-time recognition. Cost is calculated as the excess cost resulting from the business combinations over the Group’s share of the fair value of acquired identifiable assets, liabilities and contingent liabilities. Goodwill is tested for impairment at least once a year. Impairment tests are also implemented if issues or changes in circumstances indicate the possibility of impairment. For the purpose of impairment testing, the goodwill acquired from a merger is assigned, from the acquisition date, to cash-generating units of the Group that are expected to benefit from Group synergies. The impairment is determined by calculating the recoverable amount of the cash-generating unit to which the goodwill relates. If the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognized. Goodwill was assigned to the Service business segment for the purpose of impairment testing.

There is a risk that, in the event of negative developments, the recoverable amount of the Service business segment will be less than the carrying amount. Resulting goodwill impairments could put considerable pressure on earnings.

SNP classifies the risk of goodwill impairments in its Service business segment as a moderate risk with a low probability of occurrence, assuming that business developments progress as planned.

### OPPORTUNITIES

As one of the leading companies for software-based IT data transformation, we aim to implement, and forge ahead further with, our growth strategy in a sustainable and profitable manner. Within this context, we are focusing on expanding our market presence and increasing the value of the company. The SNP Group’s overarching goal is to become the global standard for software-based data

transformation. To achieve this goal, we are focusing on the following strategic opportunities:

#### **Opportunities Resulting From the Promise of Increased Benefits for our Customers**

We aim to increase the value and benefits that we promise our customers. In order to achieve this, we address IT challenges at a strategic level and take IT, compliance and risk aspects relating to our customers into account in the process. This allows us to offer our customers tailored solutions for security, compliance and governance, helping us to boost the potential benefit and added value that the use of our technology and solutions can offer. We also intend to further develop and enhance new products and solutions for the planning and implementation of IT transformation projects, allowing our customers to further increase the level of transparency of, and their degree of control over, their IT landscapes, in order to achieve significant improvements in the agility of their IT landscapes and to significantly minimize any operational downtime.

#### **Opportunities Resulting from Increase in Software License Revenue**

Our software is the technological core of our business model. We are focusing on increasing our software license revenue and maintenance fees, as these factors represent a significant success factor and a key benchmark in the software industry. Through technological innovations and improvements, we increase the benefits to the customer while also tapping into new sources of income. As far as our segment reporting is concerned, a much higher EBIT margin can be achieved in the Software business segment than in the Service business segment.

This is why we are constantly improving our software and making permanent changes to adapt it to reflect the sales opportunities in our markets. We intend to enhance the benefits and uniqueness of our projects at a strategic level, while at the same time taking IT, compliance and risk aspects into account so that we can increase our license



revenue and maintenance fees in the medium to long term using a value-oriented price model.

### **Opportunities Resulting from Internationalization**

Our aim is to use our software and service portfolio to set a global standard for IT data transformations. We have used our internationalization strategy, which focuses first and foremost on inorganic growth, to achieve access to international markets over the last few years. We are now present on almost all of the relevant global markets for the benefit of our customers – in early 2019, we opened an office in Australia to address the growing market potential in this region, too.

We intend to strengthen our international market position in the long run and increase our revenue in the USA, Asia and South America, in particular. This is why we are planning to boost the level of investment in these locations in the short and medium term, particularly with regard to employee development and training, and to increase economies of scale in marketing and sales. We have also developed business plans that are tailored to suit each individual region, on the one hand to allow us to address the needs of our customers and partners in the individual countries in a more targeted manner, and on the other to achieve a sustainable increase in our revenue in these regions.

### **Opportunities due to the Development of our Partner Network**

Our partner strategy is a three-pillar strategy: (1.) We establish strong networks with customers at management level ("C Level"), (2.) we intensify our collaboration with strategy consultants and system integrators, and (3.) we continue to develop our strong relationship with SAP on an ongoing basis.

1. We are investing in establishing relationships with industry-specific networks, M&A communities, individuals that offer trusted access to major companies and supervisory boards, as well as interest groups in the fields of entertainment, sport, politics, charitable organizations and art. The aim is to achieve reliable access to the

decision-making level at major international companies and, using this as a basis, to be able to position the strategic value of SNP's solutions for major companies, in particular, as part of a holistic approach.

2. We are intensifying our collaboration with strategy consultants and system integrators. These efforts are aimed at allowing us to step up our cooperation with major strategy consultants in the fields of M&A and due diligence. Medium-sized partners with strong technical industry and process expertise are another focal area. In both cases, our aim is to use SNP solutions to make a decisive value contribution for the customers of these partner companies.

3. Close, strong collaboration with SAP SE is one of the main drivers behind the expansion of our business in the future. We are developing supplementary technical solutions for our customers to accelerate their transition to SAP S/4HANA and their move to the cloud.

### **Opportunities Resulting from Acquisitions**

New acquisitions give rise to additional market and sales opportunities for SNP to augment its strategic range of products and solutions, to penetrate new sales markets, to gain technical expertise and to expand capacity. In the past, SNP has successfully taken over several companies, which now are helping improve its market penetration.

### **Opportunities Thanks to Innovative Migration Approach for SAP S/4HANA and Cloud Transformation Projects**

The further development of the SNP BLUEFIELD™ transformation approach based on SNP software allows us to offer our customers a flexible and alternative SAP S/4HANA migration approach compared with conventional Brownfield and Greenfield approaches. This is why, alongside our partnership with IBM, we have entered into additional global partnerships that allow us to offer the BLUEFIELD™ solution together and join forces in our

sales activities, too. The vendor-neutral SNP BLUEFIELD™ approach is equally capable of moving companies and their IT systems into the cloud.

### **Opportunities Resulting from Nearshore Approach**

In order to achieve further cost optimization, while at the same time boosting project profitability, we are increasingly pursuing a global nearshore strategy, primarily when it comes to recruiting consultancy capacities. As a key component of the integration strategies used for those companies that have been acquired in recent years, this helps to offset staff shortages, particularly in projects requiring the intensive use of personnel resources, and to cushion the blow of order peaks. As far as our segment reporting is concerned, this will help us to increase the EBIT margin in our Service business segment.

### **Overall Statement on the Risk and Opportunity Situation**

Overall risks are limited and calculable. Based on available information, in the view of the Managing Directors, there are currently and in the foreseeable future no significant individual risks the occurrence of which is expected to endanger the existence of the Group or a significant Group company.

Given current business fundamentals and the company's solid financial structure, management does not believe that the totality of individual risks poses a threat to the ongoing survival of the SNP Group. No risks endangering the survival of the company occurred during the 2019 fiscal year.

We want to make targeted use of the opportunities that present themselves, allowing us to drive SNP's further growth.

## **FORECAST REPORT**

### **Expected Global Economic Development**

Global growth – which the experts at the International Monetary Fund (IMF) estimate at 2.9% for 2019 – will increase to 3.3% in 2020 and by an additional 3.4% in 2021. Despite the slightly lower forecasts by comparison with its previous study, the IMF assumes that the trend has now bottomed out. Several indicators point to the start of a recovery for manufacturing industry following an extended downward spiral. This upward trend is supported, in particular, by monetary policy which remains accommodating as well as favorable overall financing terms. A further positive factor is the markets having come to terms with the fact that, following three interest rate cuts in 2019, the U.S. Federal Reserve will in all probability opt not to relax interest rates any further. The provisional phase 1 trade agreement reached between the USA and China and the related easing of tensions were also emphasized as a positive factor. In addition, concerns over a hard no-deal Brexit have now faded away.

The IMF forecast still does not take impacts resulting from the outbreak of the coronavirus into account, although an adjustment of global growth prospects for 2020 must be assumed due to the fast spread of the virus.

However, downward risks continue to apply, including growing geopolitical tensions, particularly between the United States and Iran as well as a possible further deterioration of relations between the United States and its trading partners and, as a result, worsening economic tensions. The realization of these risks might result in a rapid deterioration in growth and mean that global growth falls below the predicted base line.

For the industrialized nations, the consequences of this combination of risks on the one hand and signs of recovery on the other are mixed. Growth in the USA will continue to weaken in this year and the next. By way of grounds, the IMF points to the reduced stimulus effects of government spending programs as well as the expected lack of any

ECONOMIC DEVELOPMENT – GDP GROWTH BY COMPARISON WITH PREVIOUS YEAR<sup>8</sup>

	2018	2019f	2020f
<b>Worldwide</b>	<b>3.6</b>	<b>2.9</b>	<b>3.3</b>
Industrialized nations	2.2	1.7	1.6
Emerging markets and developing countries	4.5	3.7	4.4
<b>Europe</b>			
Eurozone	1.9	1.2	1.3
Germany	1.5	0.5	1.1
UK	1.3	1.3	1.4
European emerging markets and developing countries	3.1	1.8	2.6
<b>North- und Latin America</b>			
USA	2.9	2.3	2.0
Latin America and Caribbean	1.1	0.1	1.6
<b>Asia-Pacific</b>			
China	6.6	6.1	6.0
Asien emerging markets and developing countries	6.4	5.6	5.8

f = Forecast

further interest rate cuts. On the other hand, the eurozone will register slightly stronger growth than in 2019. Here, the economy will benefit from increased foreign demand. According to the IMF's experts, the economy will grow by 1.3% this year and 1.4% in 2021. However, due to the weakness of manufacturing industry – where the IMF continues to assume a contraction trend – the German economy will this year register a lower growth rate of 1.1%<sup>7</sup>.

### Expected Development of the IT Transformation Market

There are signs of a shift in the areas of focus in the market for M&A transactions: According to the FINANCE M&A panel<sup>9</sup> of October 2019, typical factors in the past few years are declining in significance, e.g. an acceleration of growth and expansion into new markets. Instead, cost cutting and economies of scale are increasingly important.

However, there are signs of a change of focus not just in relation to the M&A factors. The panel's evaluation also shows that German companies are adopting a tougher approach to getting rid of the underperformers in their

group portfolios: Two out of three of the M&A experts consulted expect to see a slight or even strong increase in spin-offs over the next two years.

For a third of the companies belonging to the German -Speaking SAP User Group (DSAG) in Germany, Austria and Switzerland, the overall budget for IT investments will remain unchanged in 2020; however, it is set to increase for almost half of the DSAG companies. The same is true of investments in SAP-based IT – 49% of the companies consulted intend to increase their volume of SAP investment. These are the findings of the 2020 DSAG investment report<sup>10</sup>.

<sup>7</sup> International Monetary Fund (IMF); World Economic Outlook Update, January 2020, (<https://www.imf.org/en/Publications/WEO/Issues/2020/01/20/weo-update-january2020>)

<sup>8</sup> Ibid

<sup>9</sup> FINANCE M&A panel survey October 2019 results, ([https://www.finance-magazin.de/fileadmin/user\\_upload/FINANCE\\_MA\\_Panel\\_Oktober\\_2019.pdf](https://www.finance-magazin.de/fileadmin/user_upload/FINANCE_MA_Panel_Oktober_2019.pdf))

Together with the international corporate law firm CMS, FINANCE magazine has anonymously consulted leading employees in the M&A departments of German companies as well as investment bankers and M&A advisers regarding their assessment of the current market position.

<sup>10</sup> DSAG-Investitionsreport 2020 – Wachablösung zu S/4HANA vollzogen, (<https://www.dsag.de/pressemitteilungen/wachablosung-zu-s4hana-vollzogen>)

In terms of the concrete changeover to S/4HANA, the DSAG investment report points to a positive trend: Over the past three years, the number of companies already using S/4HANA has increased hugely for the first time, from 3 to 10%. Moreover, the proportion of companies intending to make the transition during 2020 increased to 9% (in both 2018 and 2019, the figure was 5%). This development clearly shows that S/4HANA finally arrived on the market in 2019 and that its rate of adoption will continue to rise over the next three years: 40% of these companies are planning to change over to S/4HANA during the next three years.

According to Lünendonk, the consulted companies' schedules for their S/4HANA changeover vary considerably: More than 70% of the companies consulted will not embark on their rollout of S/4HANA before 2022; two thirds of companies assume that they will already have completed their rollout of S/4 in the period from 2023 to 2025. In the context of the lack of skilled IT professionals and the thousands of S/4 implementation projects which will take place in Germany alone all at the same time, Lünendonk envisages a project backlog from 2022 at the latest due to the still hesitant rate of implementation of S/4HANA projects.

### **Impact on SNP**

With our results for 2019, SNP has achieved a dynamic performance which is underpinned by the successful implementation of our growth and partner strategy. In view of the growing acceptance of our software-based approach to coping with complex digital transformation processes and the future increase in the number of complex IT transformation projects, we will continue to pursue the path which we have already embarked upon. Our goal is to convince further customers and partners of our approach and to increase our market share. Overall, we aim to significantly increase our overall revenue as well as the proportion accounted for by our software revenue by comparison with the previous year.

The company's outlook for the 2020 fiscal year is subject to possible later changes depending on further developments relating to the outbreak of the coronavirus. For now,

we are holding to the established plan, as there has not yet been any significant need to make adjustments. This approach is founded on the continued very stable level of order entry for 2020 as well as the fact that there have not yet been any larger order cancellations. The opportunities and risks that may result from developments that deviate from the original plan are presented in detail in the report on opportunities and risks. The opportunities and risks that may result from developments that deviate from the original plan are presented in detail in the report on opportunities and risks.

In view of the rapid spread of the coronavirus and the difficulty of assessing its consequences on the development of the global economy at the time of reporting, we are working intensively on various growth scenarios and associated measures that are necessary on the cost side.

### **GOALS AND OUTLOOK**

Due to the company's successful implementation of its intensified partner strategy and the further improvement in its market reputation in the year under review, the management assumes higher sales in both the Service business segment and the Software business segment. In particular, the increased contribution to total sales of software license revenue and related economies of scale should result in wider operating margins over the medium to long term.

The performance of the SNP Group is largely independent of the development of the overall economy since SNP is generally less affected by a potential economic downturn as a result of its positioning as a specialized provider of ERP transformations. This is due to the fact that companies also need to adjust their IT landscapes during periods of economic weakness in order to remain competitive.

As in previous years, it is assumed that, in the current fiscal year, revenue will not be evenly distributed over the quarters and that the second half of the year will be stronger. On the basis of a significantly improved order entry figure by comparison with the previous year, an increase in the level of utilization in the Service business segment as of the end of 2019 and an increasingly accep-

ted partner strategy, for the 2020 fiscal year the management expects Group revenue of between € 175 million and € 185 million. Revenue in each of the company's two business segments, Service and Software, will be significantly higher than in the previous year. The Group EBIT margin is forecast to be between 6.5% and 8.5%. The current corporate planning thus also envisages a Group EBIT figure which will be considerably higher than in the previous year.

The order entry volume will continue to pick up in 2020 and is expected to be significantly higher than in the previous year.

In addition, the SNP Group continues to pursue the prioritized mid-term goal of a structural increase in its profitability.

## OVERALL STATEMENT ON FUTURE DEVELOPMENT

In view of the company's promising strategic positioning and the unchanged strong market and order situation, we anticipate a stable business trend in the 2020 fiscal year. We are convinced that SNP is on the right track and will continue on its dynamic growth path.

We assume that our forecast for 2020 is a realistic representation of the company's underlying trend. However, depending on further developments related to the outbreak of the coronavirus, there might be changes in the outlook for 2020 as described in this report.

## OTHER DISCLOSURES

### DISCLOSURES RELATED TO TAKEOVER LAW

The disclosures as of December 31, 2019, which are required according to Art. 9 (1) clause c) (ii) of the SE Regulation and Section 22 (6) of the SEAG in conjunction with Section 289a and Section 315a (1) of the HGB, are provided below. Those elements of Section 289a (1) and Section 315a (1) of the HGB that are not fulfilled at SNP Schneider-Neureither & Partner SE are not mentioned.

### Composition of Issued Share Capital (Section 289a (1) (1) No. 1 and Section 315a (1) (1) No. 1 of the HGB)

As of December 31, 2019, the share capital of SNP Schneider-Neureither & Partner SE amounted to € 6,602,447.00, consisting of 6,602,447 ordinary non-parvalue shares with a calculated share of capital of € 1.00 per share. Each share entitles the holder to one vote. As of December 31, 2019, the company held 55,882 treasury shares.

### Direct or Indirect Investments Exceeding 10% of Capital (Section 289a (1) (1) No. 3 and Section 315a (1) (1) No. 3 of the HGB)

■ Dr. Andreas Schneider-Neureither (CEO): 20.43% of the total voting rights as of December 31, 2019 according to the statement of August 31, 2019 and further transactions pursuant to Art. 19 MAR.

0.66% of the voting rights are directly attributable to Dr. Schneider-Neureither pursuant to Section 33 of the WpHG. 19.77% of the voting rights are indirectly attributable to Dr. Schneider-Neureither pursuant to Section 34 of the WpHG. Of this amount, Dr. Schneider-Neureither holds 3% or more voting rights in SNP Schneider-Neureither & Partner SE via the following entities controlled by him: Schneider-Neureither GmbH, SN Verwaltungs GmbH & Co. KG, SN Holding GmbH and SN Assets GmbH.

### Statutory Provisions and Provisions of the Articles of Incorporation on the Appointment and Dismissal of Managing Directors and the Amendment of the Articles of Incorporation (Section 289a (1) (1) No. 6 and Section 315a (1) (1) No. 6 of the HGB)

With regard to the appointment and dismissal of Managing Directors, reference is made to the applicable statutory provisions in Section 40 of the SEAG. In addition, Section 12 (1) of the articles of incorporation of SNP SE stipulates that the Board of Directors shall appoint one or more Managing Directors. Managing Directors may be recalled by way of a resolution of the Board of Directors by a simple majority of the votes cast. Pursuant to Section 12 (5) of the

articles of incorporation of SNP SE, Managing Directors who are members of the Board of Directors may be recalled only for cause within the meaning of Section 84 (3) of the AktG or in case of the termination of the employment contract. In accordance with Art. 9 (1) clause c) (ii) of the SE Regulation, the amendment of the articles of incorporation is provided for in Sections 133 and 179 of the AktG. The Board of Directors is authorized to approve changes to the articles of incorporation that involve only wording (Section 8 (3) of the articles of incorporation of SNP SE).

**Powers of the Board of Directors to Issue or Repurchase Shares (Section 289a (1) (1) No. 7 and Section 315a (1) (1) No. 7 of the HGB)**

■ **2019 Authorized Capital**

By virtue of its resolution passed on June 6, 2019, the Annual General Meeting has authorized the Board of Directors to increase the company's share capital in the period up to June 5, 2024 once or several times in partial amounts, by up to a total of € 3,301,223, against cash or in-kind contributions through the issuance of new no-par-value shares (2019 Authorized Capital). In the event of cash contributions, the new shares may be taken over by one or more banks or companies within the meaning of Section 186 (5) (1) of the AktG with the obligation to offer them to shareholders for purchase (indirect subscription right).

The Board of Directors is authorized to exclude the subscription rights of the shareholders

1. in order to exclude fractional amounts from the shareholders' subscription right;
2. in case of capital increases against cash contributions in order to issue the new shares at an issue price that is not significantly lower than the market price (Sections 203 (1) and (2), 186 (3) (4) of the AktG) and provided that the number of shares issued does not exceed 10% of the share capital at the time the authorization becomes effective or – if this value is lower – at the time it is exercised (10% limit);

3. for capital increases against contributions in kind, particularly for the purpose of directly or indirectly acquiring companies, operations or investments in companies or industrial property rights, licenses, patents, or other product rights or other assets;
4. to the extent it is necessary, to ensure that the holders of warrants, convertible bonds or warrant-linked bonds issued by the company and its subsidiaries can be granted subscription rights for new shares to the extent that they will or would be entitled if they exercised their options or conversion rights.

SNP SE has not made any use of this authorization to date.

■ **2015 Contingent Capital**

On May 21, 2015, the Annual General Meeting agreed a contingent share capital increase by up to € 1,869,030.00, divided into up to 1,869,030 no-par-value shares (2015 Contingent Capital). The contingent capital increase will be executed only to the extent that the owners or creditors of warrant or conversion rights or warrant-linked bonds or convertible bonds issued for cash contributions and subject to conversion obligations that were issued or guaranteed until May 20, 2020, by the company by virtue of the authorization of the Board of Directors and the resolution of the Annual General Meeting on May 21, 2015, exercise their warrant or conversion rights or fulfill their conversion obligations if applicable, or if the company exercises an option to grant shares in the company in full or in part instead of paying the amount of money due, provided that a cash contribution is not granted or the company's treasury shares are not used for this purpose. The new shares will be issued in accordance with the aforementioned authorization at option and conversion prices to be determined. The new shares participate in profits from the beginning of the fiscal year in which they arise. The Board of Directors is authorized to determine further details regarding the execution of the contingent capital increase.

SNP SE has not made any use of this authorization to date.

#### ■ Share Buyback

On May 12, 2016, the Annual General Meeting authorized the company to acquire for the coming five years treasury shares up to a total of 10% of the outstanding share capital at the time of the resolution. On this basis, in August 2019 the Board of Directors resolved a multi-year share buyback program beginning on September 1, 2019 and with a term ending no later than May 11, 2021. In the period up to December 31, 2019, 34,000 shares had been repurchased via the stock market.

#### **Key Agreements of the Company Subject to Change of Control Following a Takeover Bid and the Resulting Consequences (Section 289a (1) (1) No. 8 and Section 315a (1) (1) No. 8 of the HGB)**

SNP SE's key financing agreements with its lenders include the usual conditions in the event of a change of control; in case of a change of control, these provide for a right of termination and a right to require early repayment.

## REMUNERATION REPORT

The remuneration report describes the structure and level of remuneration of the Managing Directors and the Board of Directors. It takes into account the legal requirements and recommendations of the German Corporate Governance Code. This remuneration report is an integral part of the audited Group management report.

### Managing Directors

The remuneration of the Managing Directors, which is determined by the Board of Directors, consists of nonperformance-based and performance-based parts. The nonperformance-based parts consist of a fixed base salary, fringe benefits and pension commitments as well as the company pension scheme. The performance-based components are based on the company's business performance.

The fixed component is paid out as a salary on a monthly basis as nonperformance-based basic remuneration. In addition, the Managing Directors receive noncash fringe benefits, which primarily consist of insurance premiums and the private use of a company car. As a remuneration component, all Managing Directors are equally entitled to these fringe benefits.

The annual variable remuneration is based on the company's business performance, specifically its operating earnings (EBIT). The bonus is capped. If hitting targets results in a bonus calculation below a certain lower limit, this leads to a complete loss of the variable bonus for the fiscal year.

In view of the desired sustainability of the company's development, the variable compensation components of the Managing Directors generally have a multi-year assessment basis. In the contracts of the Managing Directors, this requirement is generally met by means of a long-term incentive (LTI). This is determined on the basis of average revenue and EBIT growth as well as the free cash flow and market capitalization.

As a further fringe benefit, both the members of the Board of Directors and the Managing Directors are reimbursed their travel expenses for business trips, the costs of entertaining business partners and other business-related outlays, as documented.

On March 19, 2020, the Board of Directors set the remuneration of the Managing Directors for the 2019 fiscal year.

### Remuneration of the Managing Directors in the 2019 Fiscal Year

The total remuneration granted to the Managing Directors in the 2019 fiscal year amounted to € 1,361 thousand (previous year: € 647 thousand). The following tables itemize the remuneration of each individual Managing Director in the 2019 fiscal year and in the previous year.



**Table 1: Remuneration of the Managing  
Directors (Benefits Granted)****DR. ANDREAS SCHNEIDER-NEUREITHER**

in € thousand	<b>2018 Initial value</b>	<b>2019 Initial value</b>	<b>2019 Minimum</b>	<b>2019 Maximum</b>
Fixed remuneration	240	295	295	295
Fringe benefits	6	10	10	10
<b>Total</b>	<b>246</b>	<b>305</b>	<b>305</b>	<b>305</b>
Annual variable remuneration	200	265	0	530
Multiyear variable remuneration	-	175	0	700
<b>Total</b>	<b>200</b>	<b>440</b>	<b>0</b>	<b>1,230</b>
Pension expenses	19	19	19	19
<b>Total</b>	<b>464</b>	<b>764</b>	<b>324</b>	<b>1,554</b>

**MICHAEL EBERHARDT**

in € thousand	<b>2018 Initial value</b>	<b>2019 Initial value</b>	<b>2019 Minimum</b>	<b>2019 Maximum</b>
Fixed remuneration	-	150	150	150
Fringe benefits	-	16	16	16
<b>Total</b>	<b>-</b>	<b>166</b>	<b>166</b>	<b>166</b>
Annual variable remuneration	-	150	75	300
Multiyear variable remuneration	-	80	0	320
<b>Total</b>	<b>-</b>	<b>230</b>	<b>75</b>	<b>620</b>
Pension expenses	-	1	1	1
<b>Total</b>	<b>-</b>	<b>397</b>	<b>242</b>	<b>787</b>

**FRANK HOHENADEL**

in € thousand	<b>2018 Initial value</b>	<b>2019 Initial value</b>	<b>2019 Minimum</b>	<b>2019 Maximum</b>
Fixed remuneration	-	100	100	100
Fringe benefits	-	12	12	12
<b>Total</b>	<b>-</b>	<b>112</b>	<b>112</b>	<b>112</b>
Annual variable remuneration	-	50	50	100
Multiyear variable remuneration	-	28	0	110
<b>Total</b>	<b>-</b>	<b>78</b>	<b>50</b>	<b>210</b>
Pension expenses	-	1	1	1
<b>Total</b>	<b>-</b>	<b>191</b>	<b>163</b>	<b>323</b>

**DR. UWE SCHWELLBACH**

in € thousand	<b>2018 Initial value</b>	<b>2019 Initial value</b>	<b>2019 Minimum</b>	<b>2019 Maximum</b>
Fixed remuneration	55	200	200	200
Fringe benefits	8	40	40	40
<b>Total</b>	<b>63</b>	<b>240</b>	<b>240</b>	<b>240</b>
Annual variable remuneration	50	100	0	200
Multiyear variable remuneration	-	75	0	300
Compensation payment	-	210	210	210
<b>Total</b>	<b>50</b>	<b>385</b>	<b>210</b>	<b>710</b>
Pension expenses	-	2	2	2
<b>Total</b>	<b>113</b>	<b>627</b>	<b>452</b>	<b>952</b>

**Table 2: Remuneration of the Managing Directors (Benefits Received)\***

in € thousand	Dr. Andreas Schneider-Neureither		Dr. Uwe Schwellbach		Michael Eberhardt		Frank Hohenadel	
	2019	2018	2019	2018	2019	2018	2019	2018
Fixed remuneration	295	240	200	55	150	-	100	-
Fringe benefits	10	6	40	8	16	-	12	-
<b>Total</b>	<b>305</b>	<b>246</b>	<b>240</b>	<b>63</b>	<b>166</b>	<b>-</b>	<b>112</b>	<b>-</b>
Annual variable remuneration	-	162	50	-	-	-	-	-
Multiyear variable remuneration	-	-	-	-	-	-	-	-
Special Bonus	200	-	69	-	-	-	-	-
<b>Total</b>	<b>200</b>	<b>162</b>	<b>119</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Pension expenses	19	19	2	-	1	-	1	-
<b>Total</b>	<b>524</b>	<b>427</b>	<b>361</b>	<b>63</b>	<b>167</b>	<b>-</b>	<b>113</b>	<b>-</b>

\*In regard to the overall remuneration provided for 2019, it should be noted that Henry Göttler was dismissed as a Managing Director with effect as of March 16, 2018. Thereafter, he was kept on subject to the same terms until December 31, 2019. Because he left prematurely on December 31, 2018, he received the base salary until December 31, 2019, as a severance payment in the form of a one-time payment of € 194 thousand in January 2019.

In addition to general insurance benefits and pension commitments, the company has arranged Directors and Officers (D&O) liability insurance on behalf of the Managing Directors. The annual insurance premium of € 8 thousand also includes the D&O insurance for the members of the Board of Directors and senior executives.

The D&O insurance of SNP Transformations, Inc. provides protection for senior executives in the USA. The annual insurance premium is € 11 thousand. It likewise provides proportionate protection for the CEO of SNP SE, who is also the Chairman of the Board of SNP Transformations, Inc.

The total amount of the specified D&O insurance amounts to an annual insurance premium of € 3 thousand. The table includes the pro rata insurance premium paid per person for the period of activity.

The remuneration of the Managing Directors is once again disclosed in the 2019 fiscal year in individualized form on the basis of the uniform model tables recommended by the German Corporate Governance Code. The essential feature of these model tables is the separate disclosure of the benefits granted (benefits granted) and the actual allocations (benefits received). In terms of benefits, the target figures

(payment upon 100% target attainment) and the attainable minimum and maximum figures are also stated.

### Related Party Transactions and Disclosures

Business with related parties of the Group is presented separately in the notes to the consolidated financial statements.

### Principles of the Remuneration System for the Board of Directors

The remuneration of the members of the Board of Directors is based on their individual responsibility and scope of activity. In accordance with the resolution of the Annual General Meeting on May 12, 2016, the remuneration of the members of the Board of Directors was approved by the Annual General Meeting. Each member of the Board of Directors received a fixed annual remuneration of € 20 thousand in the 2018 fiscal year. The Chairman receives a fixed annual remuneration of € 30 thousand, while the Deputy Chairman receives a fixed annual remuneration of € 25 thousand. Furthermore, each Board of Directors member received – in addition to the reimbursement of documented, required expenses – an attendance fee of € 1 thousand for

each board meeting. If a member of the Board of Directors simultaneously serves as a Managing Director, according to the articles of incorporation, their remuneration as a member of the Board of Directors is withheld. This includes both the fixed annual remuneration as well as the attendance fee.

The company arranges a loss and liability insurance policy to cover the members of the Board of Directors in the performance of their duties. This policy provides coverage of € 6,000 thousand for each individual insurance claim and for total insurance claims in a given period. No deductible is arranged

### Remuneration of the Board of Directors in the 2019 Fiscal Year

The total remuneration granted to the members of the Board of Directors in the 2019 fiscal year amounted to € 173 thousand (previous year: € 89 thousand). There were no loan receivables due from the members of the Board of Directors. The following table shows individual remuneration per member of the Board of Directors.

#### THE 2019 FISCAL YEAR

In € thousand	Fixed amount	Attendance fee	Other expenses <sup>1</sup>	D&O insurance	Total remuneration
Dr. Klaus Kleinfeld	14	4	58	0	76
Dr. Michael Drill	22	5	1	0	28
Gerhard A. Burkhardt	20	5	1	0	26
Rainer Zinow	20	5	1	0	26
Dr. Karl Benedikt Biesinger	11	4	1	0	16
<b>Total</b>	<b>87</b>	<b>23</b>	<b>62</b>	<b>0</b>	<b>172</b>

#### THE 2018 FISCAL YEAR

In € thousand	Fixed amount	Attendance fee	Other expenses <sup>1</sup>	D&O insurance	Total remuneration
Dr. Michael Drill	25	6	1	0	32
Gerhard A. Burkhardt	20	7	1	0	28
Rainer Zinow	20	7	1	0	28
<b>Total</b>	<b>65</b>	<b>20</b>	<b>3</b>	<b>1</b>	<b>88</b>

<sup>1</sup> Reimbursement of travel expenses.

### **Declaration on Company Management Pursuant to Section 315d of the German Commercial Code (HGB)**

The declaration on company management pursuant to Section 315d of the German Commercial Code (HGB) comprises the declaration of conformity pursuant to Section 161 of the German Stock Corporation Act (AktG) ("Declaration of Conformity"), relevant disclosures on corporate governance practices as well as a description of the working methods of the Managing Directors and the Board of Directors.

The Corporate Governance Report, which forms part of this Annual Report, includes the declaration on company management. The Corporate Governance Report is also available on the Internet at <http://www.snpgroup.com/en/corporate-governance>.

### **Group Non-financial Declaration**

The separate Group non-financial report in accordance with Sections 289b and 315b of the HGB can be viewed as part of the sustainability report on the SNP SE website at [www.snpgroup.com](http://www.snpgroup.com) (under Investor Relations – Corporate Governance – Separate Group Non-financial Report). It is not part of the management report.

Heidelberg, Germany, March 24, 2020

Managing Directors



Dr. Andreas Schneider-Neureither



Prof. Dr. Heiner Diefenbach



Michael Eberhardt



Frank Hohenadel

## 03 CONSOLIDATED — FINANCIAL STATEMENTS

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# Consolidated financial statements

## CONSOLIDATED BALANCE SHEET

as of December 31, 2019

ASSETS			
in € thousand			
	Notes	Dec. 31, 2019	Dec. 31, 2018
<b>Current assets</b>			
Cash and cash equivalents	13.	19,137	39,974
Other financial assets	14.	703	1,520
Trade receivables and other receivables	15.	33,318	26,938
Contract asset values	16.	20,987	4,881
Inventories	17.	374	371
Other non-financial assets	18.	2,134	2,125
Tax receivables	30.	86	386
		<b>76,739</b>	<b>76,195</b>
<b>Non-current assets</b>			
Goodwill	9.	54,194	53,733
Other intangible assets	19.	7,889	7,980
Property, plant and equipment	20.	5,513	6,066
Rights of use <sup>1</sup>	21.	21,428	0
Other financial assets	14.	869	711
Investments accounted for under the equity method	22.	25	0
Trade receivables and other receivables	15.	137	409
Contract values	16.	1,966	0
Other non-financial assets	18.	60	35
Deferred taxes	30.	5,207	6,637
		<b>97,288</b>	<b>75,571</b>
		<b>174,027</b>	<b>151,766</b>
<b>EQUITY AND LIABILITIES</b>			
in € thousand			
	Notes	Dec. 31, 2019	Dec. 31, 2018
<b>Current liabilities</b>			
Trade payables and other liabilities	23.	10,239	8,959
Contract liabilities	16.	6,440	4,580
Tax liabilities	30.	1,116	915
Financial liabilities	24.	13,277	5,353
Other non-financial liabilities	26.	18,672	16,002
Provisions	27.	115	399
		<b>49,859</b>	<b>36,208</b>
<b>Non-current liabilities</b>			
Trade payables and other liabilities	23.	0	273
Contract liabilities	16.	0	5
Financial liabilities	24.	49,309	42,794
Provisions for pensions	29.	2,891	2,062
Other provisions	27.	603	0
Deferred taxes	30.	763	1,015
		<b>53,566</b>	<b>46,149</b>
<b>Equity</b>			
Subscribed capital	31.	6,602	6,602
Capital reserve	33.	59,968	59,968
Retained earnings	33.	9,922	7,605
Other components of the equity		-4,467	-4,495
Treasury shares	32.	-1,509	-415
		<b>70,516</b>	<b>69,265</b>
<b>Equity attributable to shareholders</b>			
Non-controlling interests	34.	86	144
		<b>70,602</b>	<b>69,409</b>
		<b>174,027</b>	<b>151,766</b>

The following notes are an integral part of the consolidated financial statements.

<sup>1</sup> In accordance with the transition options that we have adopted as per IFRS 16, prior periods have not been adjusted in line with the new accounting and measurement methods.

**CONSOLIDATED INCOME STATEMENT**

for the period from January 1 to December 31, 2019

in € thousand	Notes	2019	2018
<b>Revenue</b>		<b>145,185</b>	<b>130,983</b>
Service	9.	97,610	101,199
Software	9.	47,575	29,784
Capitalized own services		939	0
Other operating income	37.	2,459	5,657
Cost of material	38.	-17,929	-21,209
Personnel costs	39.	-84,606	-83,219
Other operating expenses	40.	-30,495	-29,212
Impairments on receivables and contract assets		-42	-300
Other taxes		-376	-399
<b>EBITDA</b>		<b>15,135</b>	<b>2,301</b>
Depreciation and impairments on intangible assets and property, plant and equipment		-8,133	-4,850
<b>EBIT</b>		<b>7,002</b>	<b>-2,549</b>
Other financial income		203	115
Other financial expenses		-1,577	-1,209
<b>Net financial income</b>		<b>-1,374</b>	<b>-1,094</b>
<b>EBT</b>		<b>5,628</b>	<b>-3,643</b>
Income taxes	30.	-3,371	2,020
<b>Consolidated income/net loss</b>		<b>2,257</b>	<b>-1,623</b>
Thereof:			
Profit attributable to non-controlling shareholders		-61	-206
Profit attributable to shareholders of SNP Schneider-Neureither & Partner SE		2,318	-1,417
<b>Earnings per share (€)</b>	11.		
- Undiluted		0.35	-0.26
- Diluted		0.35	-0.26
<b>Weighted average number of shares</b>	11.		
- Undiluted		6,572,767	5,493,314
- Diluted		6,572,767	5,493,314

The following notes are an integral part of the consolidated financial statements.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the period from January 1 to December 31, 2019

in € thousand	2019	2018
<b>Net income for the period</b>	<b>2,257</b>	<b>-1,623</b>
<b>Items that may be reclassified to profit or loss in the future</b>		
Currency translation differences	628	-2,720
Deferred taxes on currency translation differences	0	0
	<b>628</b>	<b>-2,720</b>
<b>Items that will not be reclassified to profit or loss</b>		
Change from the revaluation of defined benefit pension plans	-742	-102
Deferred taxes on revaluation of defined benefit pension plans	144	14
	<b>-598</b>	<b>-88</b>
<b>Income and expenses directly recognized in equity</b>	<b>30</b>	<b>-2,808</b>
<b>Total comprehensive income</b>	<b>2,287</b>	<b>-4,431</b>
Profit attributable to non-controlling shareholders	-58	-197
<b>Profit attributable to shareholders of SNP Schneider-Neureither &amp; Partner SE in total comprehensive income</b>	<b>2,345</b>	<b>-4,234</b>

The following notes are an integral part of the consolidated financial statements.



**CONSOLIDATED CASH FLOW STATEMENT**

for the period from January 1 to December 31, 2019

in € thousand	2019	2018
<b>Profit after tax</b>	<b>2,257</b>	<b>-1,623</b>
Depreciation	8,133	4,850
Change in provisions for pensions	828	531
Other non-cash income/expenses	559	-6,985
Changes in trade receivables, contract assets, other current assets, other non-current assets	-24,673	3,669
Changes in trade payables, contract liabilities, other provisions, tax liabilities, other current liabilities	7,807	2,884
<b>Cash flow from operating activities (1)</b>	<b>-5,089</b>	<b>3,326</b>
Payments for investments in property, plant and equipment	-2,194	-2,786
Payments for investments in intangible assets	-1,671	-129
Payments for investments in at-equity investments	-25	0
Proceeds from the disposal of items of intangible assets and property, plant and equipment	288	332
Payments resulting from the acquisition of consolidated companies and other business units	-4,558	-9,451
<b>Cash flow from investing activities (2)</b>	<b>-8,160</b>	<b>-12,034</b>
Proceeds from capital increase	0	16,970
Payments for the purchase of treasury shares	-1,094	0
Proceeds from loans taken out	242	111
Payments for the settlement of loans and other financial liabilities	-148	-1,589
Payments resulting from the settlement of lease liabilities	-6,315	0
<b>Cash flow from financing activities (3)</b>	<b>-7,315</b>	<b>15,492</b>
Changes in cash and cash equivalents due to foreign exchange rates (4)	-273	-687
<b>Cash change in cash and cash equivalents (1) + (2) + (3) + (4)</b>	<b>-20,837</b>	<b>6,097</b>
Cash and cash equivalents at the beginning of the fiscal year	39,974	33,877
<b>Cash and cash equivalents as of December 31</b>	<b>19,137</b>	<b>39,974</b>
<b>Composition of cash and cash equivalents:</b>	<b>2019</b>	<b>2018</b>
Cash and cash equivalents	19,137	39,974
<b>Cash and cash equivalents as of December 31</b>	<b>19,137</b>	<b>39,974</b>

The following notes are an integral part of the consolidated financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the period from January 1 to December 31, 2019

in € thousand	Subscribed Capital	Capital reserve	Retained earnings
<b>As of January 1, 2018</b>	<b>5,474</b>	<b>54,260</b>	<b>-384</b>
Capital increase	1,128	16,369	
Withdrawal from capital reserve		-10,661	10,661
Total comprehensive income			-1,417
<i>thereof hyperinflation</i>			-164
Acquisition minorities			-1,255
<b>As of December 31, 2018</b>	<b>6,602</b>	<b>59,968</b>	<b>7,605</b>
Purchase of own shares			
Total comprehensive income			2,317
<i>thereof hyperinflation</i>			-90
<b>As of December 31, 2019</b>	<b>6,602</b>	<b>59,968</b>	<b>9,922</b>

The following notes are an integral part of the consolidated financial statements.

## Other components of equity

Currency conversion	Revaluation of performance-oriented obligations	Other components of equity Total	Treasury shares	Shareholders of SNP SE attributable capital	Non-controlling shares	Total equity
-1,284	-394	-1,678	-415	57,257	276	57,533
				17,497		17,497
		0		0		0
-2,729	-88	-2,817		-4,234	-197	-4,431
3,980		3,980		3,816		3,816
				-1,255	65	-1,190
<b>-4,013</b>	<b>-482</b>	<b>-4,495</b>	<b>-415</b>	<b>69,265</b>	<b>144</b>	<b>69,409</b>
			-1,094	-1,094		-1,094
626	-598	28		2,345	-58	2,287
2,539		2,539		2,349		2,349
<b>-3,387</b>	<b>-1,080</b>	<b>-4,467</b>	<b>-1,509</b>	<b>70,516</b>	<b>86</b>	<b>70,602</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2019

## 1. BASIC INFORMATION ON THE COMPANY

SNP Schneider-Neureither & Partner SE arose through a transformation from Schneider-Neureither & Partner AG. The transformation into a European stock corporation (Societas Europaea / SE) was entered into the commercial register on December 6, 2017. The company is based in Heidelberg, Germany. The company is entered into the commercial register of the Mannheim District Court under HRB 729172.

The shares of SNP Schneider-Neureither & Partner SE are traded on the Prime Standard of the Frankfurt Stock Exchange under security identification number ISIN DE0007203705.

SNP Schneider-Neureither & Partner SE (hereinafter referred to as SNP) is a software-oriented business consulting firm that specializes in the delivery of services in the area of data processing, whereby proprietary software developments are used, particularly in the area of digital transformation management. SNP helps companies adapt their business models and successfully utilize opportunities for digitalization by means of proprietary solutions. Our software and services make it easy to implement business or technical changes in business applications and enable customers to automate this process.

With its unique BLUEFIELD™ approach and its world-leading data transformation platform CrystalBridge®, the company has established the foundations for setting an industry standard for automated data transformation. SNP specializes in the automated analysis, implementation and monitoring of changes to IT systems. This approach significantly boosts quality while reducing costs, risks and the time required for the implementation of complex transformation projects, while adhering to the highest compliance and security standards.

The consolidated financial statements of SNP Schneider-Neureither & Partner SE, Heidelberg, for the fiscal year ended December 31, 2019, were approved for publication by resolution of the Board of Directors on March 24, 2020.

## 2. GENERAL INFORMATION

The consolidated financial statements of SNP Schneider-Neureither & Partner SE and its subsidiaries were prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU, and Section 315e (1) of the HGB.

The IFRS include the IFRS newly released by the International Accounting Standards Board (IASB), the International Accounting Standards (IAS), the Interpretations of the International Financial Reporting Interpretations Committee (IFRIC or IFRS IC) and the Standing Interpretations Committee (SIC), as adopted by the EU. At the same time, the consolidated financial statements satisfy the commercial law requirements according to Section 315e (1) of the HGB.

The consolidated financial statements were prepared in euros (€), the functional currency of the parent company. Unless otherwise stated, all amounts in the notes to the consolidated financial statements are provided in thousands of euros (€ thousand). Due to rounding-off, slight discrepancies are possible in this report for total amounts as well as percentage figures.

The income statement was prepared according to the nature of expense method. SNP Schneider-Neureither & Partner SE exercised the option of presenting the income statement and the statement of comprehensive income separately.

The consolidated financial statements have been prepared on a historical cost basis, with the exception of defined benefit pension plans and cash-settled share-based payment transactions. The plan assets of defined benefit pension plans and the remuneration plans, payable in cash, for the cash-settled share-based payment transactions are measured at fair value.

### 3. APPLICATION OF NEW ACCOUNTING RULES

The following standards and interpretations of the International Accounting Standards Board (IASB) that have come into force have been adopted by the European Union (EU) and taken into consideration in the preparation of the consolidated financial statements as of December 31, 2019:

- IFRS 16 Leases
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to IFRS 9 Prepayment Features with Negative Compensation
- Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures
- Amendments to IAS 19 Plan Amendment, Curtailment or Settlement
- Annual Improvements to the IFRS Standards 2015-2017 Cycle (Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23)

The application of these new or revised standards and interpretations has only affected the consolidated financial statements within the scope of the first-time application of IFRS 16.

#### IFRS 16 Leases

The IASB issued IFRS 16 "Leases" on January 13, 2016. This standard replaces the previous leasing accounting standard IAS 17 (Leases) and the related interpretations IFRIC 4, SIC 15 and SIC 27. The new standard on leases is applicable for us from January 1, 2019. The changeover to IFRS 16 has been implemented at SNP in accordance with the transitional provisions according to the modified retrospective method, with recognition of the cumulative changeover effect as of January 1, 2019 in retained earnings. The reference data for the previous year have not been adjusted.

For lessees, IFRS 16 introduces a uniform method for lease accounting in the statement of financial position: For all leases in the statement of financial position, assets

must be recognized for the rights of use for the leased assets, while liabilities must be recognized for the payment obligations entered into. The new lease accounting rules affect SNP as a lessee, in particular, for leases of real estate and vehicles. The leasing accounting rules applicable for lessors are not relevant for SNP, since SNP does not act as a lessor.

The lease liabilities recognizable for leases where SNP is a lessee must be reported at the present value of the outstanding lease payments, in accordance with IFRS 16. The weighted average incremental borrowing rate of interest applied for discounting of the leases applicable as of January 1 was 3.9%. The right of use for the leased asset as an asset has also been capitalized at the present value of the outstanding lease payments. For the determination of the remaining term of the leases as of first-time application, the probability of the exercise of purchase, extension and termination options has been assessed on the basis of the information currently available. These assessments were discretionary.

The carrying amounts of the rights of use and the lease liabilities for leases classified as finance leases according to IAS 17 were maintained as of first-time application.

SNP has made use of the following practical expedients provided for in IFRS 16:

- Rights of use and corresponding liabilities resulting from current or low-value leases are not recognized in the statement of financial position.
- Leases of intangible assets within the scope of IAS 38 are not treated in accordance with IFRS 16.
- Leasing and non-leasing components have not been separated for rights of use to assets, with the exception of those for land, land rights and buildings, including buildings on third-party land.

In addition, the following simplifications have been opted for in connection with the transition to IFRS 16:

- Existing leases which were previously considered to be leases according to IAS 17 and the related interpretations will in the future be treated as leases within the scope of IFRS 16. IFRS 16 will accordingly not be applied to agreements which have not previously been identified as leases according to IAS 17 and the related interpretations.
- Directly allocable costs as of the conclusion of the agreement will not be taken into consideration as of the first-time application of IFRS 16 for existing operating leases.
- The term of existing leases has been determined retrospectively for existing operating leases.
- Existing operating leases with a remaining term of not more than 12 months have been treated as current leases.
- No impairment testing has been implemented for existing operating leases at the transition date. Instead, the IAS 37 classification of whether or not this is an onerous contract was relied on.

On the basis of the obligations resulting from operating leases as of December 31, 2018, the following reconciliation has resulted in respect of the opening balance of the lease liabilities as of January 1, 2019:

<i>in € thousand</i>	
<b>Operating lease liabilities as of Dec. 31, 2018</b>	<b>15,009</b>
<i>Less current leases recognized as expense on a straight-line basis</i>	-252
<i>Less leases of low-value assets recognized as expense on a straight-line basis</i>	-176
<i>Less leases of intangible assets</i>	-1,093
<i>Plus adjustments due to different assessments of extension and termination options</i>	6,481
<i>Miscellaneous</i>	51
<b>Gross adjustment of lease liabilities as of Jan. 1, 2019</b>	<b>20,020</b>
<i>Discounting</i>	-2,026
<b>Net adjustment of lease liabilities as of Jan. 1, 2019</b>	<b>17,994</b>
<i>Present value of liabilities resulting from finance leases as of Dec. 31, 2018</i>	754
<b>Lease liability recognized as of Jan. 1, 2019</b>	<b>18,748</b>

Overall, the following adjustments have been made as of January 1, 2019, due to the first-time application of IFRS 16 in the consolidated statement of financial position<sup>1</sup>:

<i>in € thousand</i>	<b>Carrying amount according to IAS 17 Dec. 31, 2018</b>	<b>Remeasurement<sup>2</sup></b>	<b>Reclassification</b>	<b>Carrying amount according to IFRS 16 Jan. 1, 2019</b>
<b>ASSETS</b>				
Property, plant and equipment	6,066		-758	5,308
Rights of use	0	17,994	758	18,752
<b>PASSIVA</b>				
Current financial liabilities	5,353	2,904		8,257
of which leasing obligations	395	2,904		3,299
Noncurrent financial liabilities	42,794	15,090		57,884
of which leasing obligations	359	15,090		15,449

<sup>1</sup> The above summary exclusively comprises the items in the statement of financial position affected by the changes resulting from the first-time application of IFRS 16.

<sup>2</sup> The figures indicated in the 2019 half-year financial report have been adjusted due to new information regarding the assessment of extension and termination options.

#### 4. NEW ACCOUNTING RULES WHICH HAVE NOT YET TAKEN EFFECT

The following standards and interpretations (of relevance to the Group) have been issued but have not yet taken effect as of the date of publication of the consolidated financial statements. The Group intends to apply these standards as of the date that they come into effect, where appropriate.

- IFRS 17 – Insurance Contracts<sup>2,4</sup>
- Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture<sup>3,4</sup>
- Amendments to IFRS 3 – Definition of a Business<sup>1,4</sup>
- Amendments to IAS 1 and IAS 8 – Definition of Material<sup>1</sup>
- Conceptual Framework for Financial Reporting – Amendments to References to the Conceptual Framework in IFRS Standards<sup>1</sup>
- Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest Rate Benchmark Reform<sup>1</sup> SNP Schneider-Neureither & Partner SE is examining the future impact of the enumerated standards, amendments and interpretations on the consolidated financial statements. It is currently assumed that they will not have a material impact on the Group's financial position and financial performance.

<sup>1</sup> Applicable for fiscal years beginning on or after January 1, 2020.

<sup>2</sup> Applicable for fiscal years beginning on or after January 1, 2021.

<sup>3</sup> Date of initial application postponed indefinitely.

<sup>4</sup> EU endorsement not yet given.

#### 5. SCOPE OF CONSOLIDATION

Aside from SNP Schneider-Neureither & Partner SE (Dossenheimer Landstrasse 100, 69121 Heidelberg, Germany) as the parent company, the scope of consolidation includes the following subsidiaries in which SNP Schneider-Neureither & Partner SE holds the majority of the voting rights directly or indirectly.

Company name	Company headquarters	Share ownership in %
SNP Deutschland GmbH (previously SNP Transformations Deutschland GmbH)	Heidelberg, Germany (previous year: Thale, Germany)	100
SNP Applications DACH GmbH	Heidelberg, Germany	100
SNP GmbH	Heidelberg, Germany	100
SNP Austria GmbH	Pasching, Austria	100
SNP (Schweiz) AG	Steinhausen, Switzerland	100
SNP Resources AG	Steinhausen, Switzerland	100
SNP Transformations, Inc.	Jersey City, New Jersey, USA	100
SNP Schneider-Neureither & Partner ZA (Pty) Limited	Johannesburg, South Africa	100
Hartung Consult GmbH	Berlin, Germany	100
Hartung Informational System Co., Ltd.	Shanghai, China	100
Qingdao SNP Data Technology Co., Ltd. <sup>2</sup>	Qingdao, China	100
SNP Transformations SEA Pte. Ltd.	Singapore	81
SNP Transformations Malaysia Sdn. Bhd.	Kuala Lumpur, Malaysia	81
Harlex Management Ltd.	London, U.K.	100
Harlex Consulting Ltd.	London, U.K.	100
SNP Poland Sp. z o.o.	Suchy Las, Poland	100
Innoplexia GmbH	Heidelberg, Germany	100
ADP Consultores S.R.L.	Buenos Aires, Argentina	100
ADP Consultores Limitada	Santiago de Chile, Chile	100
ADP Consultores S.A.S.	Bogotá, Colombia	100
ERST European Retail Systems Technology GmbH	Hamburg, Germany	100
SNP Australia Pty Ltd. <sup>1</sup>	Sydney, Australia	100

<sup>1</sup> SNP Australia Pty Ltd. was established in January 2019.

<sup>2</sup> Qingdao SNP Data Technology Co., Ltd. was established in May 2019.

SNP Applications Singapore Private Limited, Singapore, and Schneider Neureither & Partner Iberica, S.L., Madrid, were removed from the consolidated group during the first six months of 2019.

SNP Business Landscape Management GmbH and SNP Applications EMEA GmbH were merged with SNP Deutschland GmbH with effect as of January 1, 2019.

The exemption rule pursuant to Section 264 (3) of the HGB has been used for the following companies included in the consolidated financial statements:

- SNP Deutschland GmbH, Heidelberg
- SNP Applications DACH GmbH, Heidelberg
- SNP GmbH, Heidelberg
- Hartung Consult GmbH, Berlin
- Innoplexia GmbH, Heidelberg
- ERST European Retail Systems Technology GmbH, Hamburg

## 6. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements are based on the annual financial statements of SNP Schneider-Neureither & Partner SE and its consolidated subsidiaries and are prepared according to uniform Group-wide accounting methods. Subsidiaries are fully consolidated from the acquisition date, i.e., from the time the Group achieves control. Their inclusion in the consolidated financial statements ends as soon as the parent company no longer has control.

Capital is consolidated according to the purchase method. As of the acquisition date, the consideration transferred, including noncontrolling interests in the acquired company, is offset against the balance of the acquired identifiable assets and the assumed liabilities. Any remaining positive difference is recognized as goodwill. Any negative difference remaining following a reassessment is recognized as profit.

The fiscal year of SNP Schneider-Neureither & Partner SE and its subsidiaries ends on December 31.

All intragroup assets and liabilities, equity, expenses and income, gains and losses and cash flows from intragroup transactions are eliminated in full. Intragroup losses are eliminated in the same way as intragroup gains, but only if there is no indication of impairment.

Noncontrolling interests are parts of the profit or loss for the period, other comprehensive income and of the net assets attributable to interests neither directly nor indirectly assigned to SNP SE. Noncontrolling interests in earnings and equity are shown separately in the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of financial position. Changes in the parent company's ownership interest in a subsidiary that do not lead to a loss of control are accounted for as equity transactions.

## Associates

The Group's investments in an associate are accounted for using the equity method. An associate is a company over which the Group exerts significant influence.

According to the equity method, investments in an associate are recorded in the statement of financial position at cost plus post-acquisition changes in the Group's share of the net assets of the associate. The goodwill attributable to an associate is included in the carrying amount of the equity interest and is neither amortized nor subjected to a separate impairment test.

The income statement includes the Group's share of the associate's profit or loss for the period. The Group records its share of the changes shown directly in the equity of the associate and presents it in the statement of changes in equity, as required. Unrealized gains and losses from transactions between the Group and the associate are eliminated in relation to the investment in the associate.



The Group's share of the profit/loss of an associate is presented in the income statement. This involves the profit/loss attributable to equity holders of the associate and therefore is the profit/loss after taxes and noncontrolling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared as of the same reporting date as the financial statements of the Group. Adjustments to Group-wide accounting methods are made, as required.

Following the application of the equity method, the Group determines whether it is necessary to record an impairment loss for its shares in an associate. On every reporting date for financial statements, the Group determines whether objective grounds exist to state that the equity interest in an associate could be impaired. If this is the case, the difference between the recoverable amount of the investment in an associate and the carrying amount is recorded as an impairment loss, through profit or loss, for the result from investments accounted for using the equity method.

## 7. CURRENCY TRANSLATION AND HYPERINFLATION

The consolidated financial statements are prepared in euros, the functional currency of the parent company and the reporting currency. Each company within the Group determines its own functional currency. The items contained in the financial statements of the respective companies are measured using this functional currency. Foreign currency transactions are initially translated at the spot rate between the functional currency and the foreign currency on the date of the transaction. As of the reporting date, monetary assets and liabilities denominated in a foreign currency are translated into the functional currency at the closing rate. All exchange rate differences are recognized through profit or loss for the period.

The assets and liabilities of these subsidiaries are translated into the reporting currency of SNP Schneider-Neureither & Partner SE at the closing rate on the reporting date. Income and expenses are translated at the weighted average exchange rate for the reporting month in question. The resulting differences are recognized as a separate component of equity under "Other components of equity."

We are applying the financial reporting for hyperinflationary economies, IAS 29, to our subsidiary in Argentina, namely by adjusting this subsidiary's annual financial statements – prepared on a historical cost basis – for the current period while taking into account the change in the general purchasing power of the local currency based on relevant price indices as of the reporting date. The consumer price index IPC (Índice de precios al consumidor) is used for this purpose. The index value applied as of the reporting date was 283.4442 (December 31, 2018: 184.2552 / January 1, 2018: 124.7956). The adjusted annual financial statements of our subsidiary in Argentina are translated at the closing rate on the reporting date. The adjustments apply to all of the items in the financial statements which have not yet been expressed in the unit of measurement applicable as of the reporting date. The biggest effects resulting from this accounting method are as follows:

- Revenue: decrease of € 2.3 million  
(previous year: € 3.2 million)
- Expenses and other income and taxes: profit increase of € 2.5 million (previous year: € 3.2 million)
- EBIT: profit increase of € 0.2 million  
(previous year: € 0.0 million)
- Goodwill: increase of € 2.0 million  
(previous year: € 3.5 million)
- Equity: increase in other reserves of € 2.5 million  
(previous year: € 4.0 million)
- Profit or loss resulting from the net financial position: loss in the amount of € 0.3 million  
(previous year: € 0.2 million)

The following table shows the companies that have a functional currency other than the euro. The euro exchange rates applied are also shown:

Company	Country	Currency	Closing rates		Average rates	
			2019	2018	2019	2018
SNP (Schweiz) AG	Switzerland	CHF	1.0854	1.1269	1.11267	1.15488
SNP Resources AG	Switzerland	CHF	1.0854	1.1269	1.11267	1.15488
SNP Transformations, Inc.	USA	USD	1.1234	1.1450	1.1196	1.18149
SNP Schneider-Neureither & Partner ZA (Pty) Limited	South Africa	ZAR	15.7773	16.4594	16.17309	15.61336
Hartung Informational System Co., Ltd.	China	CNY	7.8205	7.8751	7.73388	7.80735
Qingdao SNP Data Technology Co., Ltd.	China	CNY	7.8205	*	7.73388	*
SNP Transformations SEA Pte. Ltd.	Singapore	SGD	1.5111	1.5591	1.52721	1.59285
SNP Transformations Malaysia Sdn. Bhd.	Malaysia	MYR	4.5953	4.7317	4.63716	4.76418
Harlex Management Ltd.	United Kingdom	GBP	0.8508	0.8945	0.87731	0.88475
Harlex Consulting Ltd.	United Kingdom	GBP	0.8508	0.8945	0.87731	0.88475
SNP Poland Sp. z o.o.	Poland	PLN	4.2568	4.3014	4.29753	4.26057
ADP Consultores S.R.L.	Argentina	ARS	67.0397	43.0014	**	**
ADP Consultores Limitada	Chile	CLP	832.3500	795.8900	786.86006	756.64482
ADP Consultores S.A.S.	Colombia	COP	3,681.5390	3,720.9640	3,669.9201	3,487.4998
SNP Australia Pty Ltd.*	Australia	AUD	1.5995	*	1.6106	*

\* Qingdao SNP Data Technology Co., Ltd. and SNP Australia Pty Ltd. were established in 2019. The previous-year figures are not relevant for these companies.

\*\* The average exchange rate of the Argentine peso against the euro does not apply here due to the application of IAS 29.

## 8. USE OF ESTIMATES

The preparation of the consolidated financial statements requires estimates and assumptions made by the Managing Directors that affect the amounts of assets, liabilities, income and expenses disclosed in the consolidated financial statements and the disclosure of contingent liabilities. Actual results may deviate from these estimates.

The most important assumptions about the future and other key sources of uncertainty regarding estimates as of the reporting date, as a result of which a significant risk exists that a material adjustment to the carrying amounts of assets and liabilities could be necessary, are discussed below.

## Realization of Revenue

Progress in customer-specific projects is measured by means of the input-based cost-to-cost method. Under this method, the total anticipated cost of the project, its resulting percentage of completion, the revenue it is expected to generate as well as other factors must be estimated. The underlying assumptions and estimates inherent in the determination of the degree of completion affect the amount and timing of revenue recognition so that it is subject to uncertainty. If sufficient information is not available, revenue is recognized only in the amount of the costs that have been incurred.

We are required to determine the following factors for accounting for our multi-component contracts:

- Which contracts with a specific customer must be reported as an overall contract;
- Which performance obligations for an overall contract may be individually identified and must therefore be separately reported;
- How the overall fee for an overall contract should be broken down into its performance obligations.

The assessment of whether various contracts with a given customer must be reported as an overall contract entails significant discretionary judgments, since we must evaluate whether these contracts were jointly negotiated or are otherwise linked with one another. The timing and amount of revenue recognition may differ, depending on whether two contracts are reported separately or as an overall contract.

### Measurement of Trade Receivables

SNP takes into account impairments of trade receivables by recognizing decreases in revenue as well as allowances for doubtful accounts in accordance with the simplified impairment model provided by IFRS 9. This involves taking the expected credit losses into account via an impairment matrix. Specific valuation allowances are also recognized if necessary. The assessment of whether a receivable can be collected entails discretionary judgments and requires assumptions regarding bad debt losses that may be subject to significant changes. Discretionary judgments are necessary where we assess the available information as regards the financial situation of a specific customer to determine whether a bad debt loss is probable, the amount of this bad debt loss can be reliably estimated and an allowance is thus necessary for this customer. The determination of the expected credit losses for remaining receivables on the basis of past experience also entails discretionary judgments, since past trends may not be representative of future development. Changes in our estimates in relation to the allowances for doubtful accounts may have a significant impact on our reported assets and expenses. In addition, our operating result

might be adversely affected if the actual bad debt losses are significantly higher than we had assumed.

### Leases

In order to determine the terms of leases, the management takes into consideration all facts and circumstances which offer an economic incentive to exercise extension options or not to exercise termination options. Periods for which extension or termination options apply will only be included in the term of the agreement where an extension or non-exercise of a termination option is reasonably probable.

The following rules for the determination of the terms of leases apply in connection with leasing of office space:

- In the event that the exercise of a termination option or the non-exercise of an extension option will result in significant economic disadvantages for the Group, as a rule it will be reasonably probable that the Group will not terminate, or will extend, the agreement.
- In case of leasehold improvements which have a significant residual value, as a rule it will be reasonably probable that the Group will extend, or will not terminate, the agreement.
- In addition, other factors such as historical lease terms as well as costs and interruptions of business which the Group will incur if a leasing asset must be replaced will likewise be taken into consideration.

The original assessment will be reevaluated in case of a significant event or a significant change in circumstances which is liable to influence the previous assessment, where the lessee has control over this.

### Accounting for Income Taxes

Due to the international nature of our business activity, we are subject to changes in tax legislation in our Group's various jurisdictions. Moreover, our ordinary business activities include transactions whose ultimate tax consequences are uncertain due to different interpretations of tax legislation. In addition, the income taxes paid by us are subject to ongoing tax audits carried out by German and foreign tax authorities. Discretionary judgments are therefore necessary in order to determine our global income tax liabilities. We assess the development of tax uncertainties on the basis of current tax legislation and our interpretations. Changes in the assumptions that form the basis of these estimates and results that differ from these assumptions may give rise to significant adjustments to the carrying amount of our income tax liabilities. The assessment of whether a deferred tax asset is impaired requires discretionary judgments on the part of the management, since we must estimate future taxable income in order to determine whether use of this deferred tax asset is probable. For the assessment of our ability to use our deferred tax assets, we consider all of the available information, including taxable income realized in the past, as well as the predicted taxable income in the periods in which these deferred tax assets are expected to be realized. Our assessment of future taxable income is based on assumptions regarding the future market conditions and the future profits of SAP. Changes in these assumptions and results that differ from these assumptions may give rise to significant adjustments to the carrying amount of our deferred tax assets.

### Accounting for Business Combinations

Within the scope of accounting for business combinations, discretionary judgments are necessary within the scope of the assessment as to whether an intangible asset can be identified and should be recognized separately from goodwill. In addition, an estimate of the fair values of the identifiable acquired assets and assumed liabilities as of the date of acquisition entails significant discretionary judgments on the part of the management. The necessary assessments are based on the informa-

tion that is available as of the date of acquisition, as well as the expectations and assumptions that the management deems appropriate. These discretionary judgments, estimates and assumptions may have a significant impact on our financial position and financial performance due to the following reasons, for example:

- The fair values assigned to the assets subject to depreciation will affect the value of the depreciation recognized in the operating result in the periods following the acquisition.
- Subsequent adverse changes to the estimated fair values of assets might result in additional expenses due to impairments.
- Subsequent changes in the estimated fair values of liabilities and provisions may result in additional expenses (in the case of an increase in the estimated fair values) or additional income (in case of a decrease in the estimated fair values).

### Subsequent Accounting for Goodwill and Other Intangible Assets

Discretionary judgments are necessary:

- for the determination of the economic useful life of an intangible asset, since here, we estimate the period in which this intangible asset is likely to provide us with an economic benefit;
- for the determination of the method of amortization, since according to the IFRS, assets must undergo amortization on a straight-line basis unless we can reliably determine consumption of the future economic benefit.

The amortization period and the amortization method both affect the expenses for amortization recognized in the individual periods. The assessment of impairments of our goodwill and intangible assets is highly dependent on the management's assumptions regarding future cash flows and economic risks that entail significant discretionary judgments and assumptions as regards future developments. These may be influenced by a large number of factors, e.g.,

- changes to business strategy
- internal forecasts
- estimates of our weighted average cost of capital (WACC)

Changes to the underlying assumptions for our assessments of impairments of our goodwill and intangible assets may result in significant adjustments to the carrying amount of our recognized goodwill and intangible assets as well as to the impairment losses recognized through profit or loss.

## 9. KEY ACCOUNTING POLICIES

In order to improve the clarity and informational value of the financial statements, individual items in the statement of financial position and in the income statement have been aggregated and disclosed separately in the Notes.

### Cash and Cash Equivalents

Cash and cash equivalents include short-term, highly liquid assets that can be converted into cash within three months and are subject to only insignificant risks of fluctuations in value.

### Financial Instruments

A financial instrument is an agreement which simultaneously creates a financial asset for one company and a financial liability or equity instrument for another.

At SNP, financial instruments are reported under the following items on the statement of financial position: cash and cash equivalents, other financial assets, trade receivables and other receivables, trade payables and other liabilities and financial liabilities.

Financial assets and financial liabilities are recognized in the consolidated statement of financial position when SNP becomes a contractual party to a financial instrument. Financial assets are derecognized when there are no longer any contractual rights to payments from the financial assets. By way of example, receivables are derecog-

nized when their non-collectability is determined with definitive effect. Financial liabilities are derecognized when the contractual obligations are settled, canceled or have expired. Financial instruments are initially recognized at fair value less transaction costs, except in case of financial instruments measured at fair value through profit or loss. Trade receivables without a significant financing component are stated at the transaction price in accordance with IFRS 15.

IFRS 9 includes three classification categories for financial assets: **“measured at amortized cost”**, **“measured at fair value through profit or loss”** and **“measured at fair value through other comprehensive income”**. Financial assets are first of all assigned to the classification categories and measured on the basis of the contractual cash flows. Financial assets whose cash flows consist exclusively of payments of interest and principal are categorized depending on the business model.

The category “financial assets measured at amortized cost” is the most significant for the purposes of the consolidated financial statements. SNP measures financial assets at amortized cost if the two following conditions are satisfied:

- The financial asset is held as part of a business model that aims only to hold financial assets in order to collect the contractual cash flows and
- the contractual terms of the financial asset result in cash flows that are solely payments of principal and interest on the principal amount outstanding arising on specified dates.

All of the Group’s financial assets meet these criteria and are measured at amortized cost.

Financial assets measured at amortized cost are measured in accordance with the effective interest method in subsequent periods and are to be checked for impairment. Gains and losses are recognized in profit or loss if the asset is derecognized, modified or impaired.

Financial assets “measured at fair value through profit or loss” include all financial assets whose cash flows do not relate exclusively to payments of principal and interest. This includes derivative financial instruments, for example. The Group did not carry out any derivative transactions in the reporting year or in the previous year.

Financial assets “measured at fair value through other comprehensive income” include all assets whose contractual conditions result in cash flows that are solely payments of principal and interest on the principal amount outstanding arising on specified dates, provided that these assets are held not only with the intention of collecting the contractual cash flows that are expected to arise during their term, but also with the intention of generating cash flows from their disposal. This category includes fixed-rate bonds, for instance. The Group did not hold any assets in this category in the reporting year or in the previous year.

*Impairments for expected credit losses relating to trade receivables and contract assets*

We have applied the simplified impairment model provided by IFRS 9 since January 1, 2018 and thus recognize any losses resulting from trade receivables and contract assets expected over the entire term. For the purposes of the impairment matrix, we have assigned our local subsidiaries to various risk classes, mainly on the basis of the information available regarding the country risk classification for their home country. We then assess the default risk for trade receivables on the basis of the historical default risks as well as information available in relation to the country risk classification. On the basis of our analyses, historical default rates generally serve in this respect as a reasonable approximation of the default risks envisaged in the future. Outstanding receivables are continuously monitored at a local level in order to determine whether there are any objective indications that the credit standing of our trade receivables and contract assets is impaired. Information e.g. regarding significant financial

difficulties for the customer or non-compliance with a payment plan will indicate the impairment of trade receivables and contract assets. If these aspects apply, the impairment is adjusted accordingly, meaning the receivables are considered to have been lost (risk class 6) and a 100% write-down is recognized. Our consolidated income statement includes expenses resulting from expected credit losses due to the application of the impairment matrix as well as customers with impaired credit standing separately under “Impairments on receivables and contract assets.” Outstanding debts are written off in part or entirely if we assume that their realization is improbable. For example, this may be the case if the insolvency proceedings for the customer have been completed or all of the options for the recovery of claims have been exhausted.

We apply the general impairment rules under IFRS 9 for bank balances, debt instruments and loans, as well as other financial receivables not classified at fair value through profit or loss. We exclusively invest financial resources with well-known financial institutions in order to minimize the default risk. By virtue of the historical default data, we do not envisage any significant credit risk in this respect. On account of the small number of individual items, impairments for other financial assets have been determined on the basis of the specific credit risk.

Financial liabilities are generally measured at “amortized cost”. As a general rule, they include all financial liabilities insofar as these are not liabilities held for trading. At the time of initial recognition, they tend to be measured at fair value, which generally corresponds to the value of the consideration received and includes directly allocable transaction costs. These liabilities are subsequently measured at amortized cost through profit or loss using the effective interest method. At SNP, for example, promissory note loans, which are reported under financial liabilities, are measured at amortized cost.

As well as financial liabilities held for trading (including derivatives), financial liabilities measured at fair value through profit or loss include financial liabilities for which the option to measure changes in fair value through profit or loss has been exercised (fair value option), subject to the conditions stipulated in IFRS 9. They are also measured at the value of the consideration received, as the fair value, upon initial recognition. The latter is also the measurement standard for these liabilities in the context of subsequent measurement. The Group did not have any financial liabilities measured at fair value through profit or loss in the reporting year or in the previous year.

#### *Fair Value of Financial Assets and Liabilities*

The fair value of financial instruments that are traded on active markets is determined by the quoted market price on the reporting date.

A financial instrument is regarded as being traded on an active market if quoted prices are easily and routinely available from an exchange, trader, broker, industry group, price calculation service or regulatory authority and these prices represent current and regularly occurring market transactions between independent third parties. The fair value is determined by a price agreed upon by a willing buyer and a willing seller in a transaction subject to conventional market conditions. The fair value of these financial instruments has the highest degree of reliability (level 1).

The fair value of financial instruments that are not traded on any active market (e.g., over-the-counter derivatives) is determined using measurement methods. The application of these measurement methods maximizes the use of inputs observed in the market, while avoiding the use of company-specific estimates as much as possible. If all material inputs for determining the fair value of a financial instrument in the market are observable, its measurement satisfies level 2 criteria in terms of reliability.

If one or more material inputs do not involve observable market data, the financial instrument belongs to the lowest level of reliability regarding its subsequent measurement (level 3).

The measurement methods applied to determine the fair value of financial instruments include:

- quoted market prices or dealer prices for similar financial instruments
- the discounted cash flow method

The carrying amount of cash and cash equivalents, receivables and current liabilities corresponds to their fair value in view of the short-term maturities of these instruments.

## Inventories

Inventories are measured at the lower of cost / production cost and net realizable value.

## Goodwill

Goodwill resulting from mergers is measured upon initial recognition at cost, which is calculated as the excess of the cost of the merger over the Group's share of the fair value of acquired identifiable assets, liabilities and contingent liabilities. After initial recognition, goodwill is measured at cost less cumulative impairment losses. Goodwill is tested for impairment at least once annually or if issues or changes in circumstances indicate the possibility of impairment.

For the purpose of impairment testing, the goodwill acquired from a merger must be assigned, from the acquisition date, to cash-generating units of the Group that are expected to benefit from merger-related synergies. This applies regardless of whether other Group assets or liabilities have already been assigned to these units. Each unit to which goodwill has been assigned represents the lowest level within the Group at which goodwill is monitored for internal management purposes.

The impairment is determined by calculating the recoverable amount of the cash-generating unit to which the goodwill relates. If the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognized.

Goodwill of € 54,194 thousand (previous year: € 53,733 thousand) was largely assigned to the Service business segment for the purpose of impairment testing. On grounds of improved transparency, significant portions of the business generated by the companies Innoplexia GmbH and ERST GmbH were allocated to the Software business segment for the first time from the 2019 fiscal year onwards, in accordance with IFRS 8.12. Likewise, the goodwill for the two companies established within the scope of these acquisitions have been allocated to the Software business segment. Goodwill is attributable to the cash-generating units as follows:

in € thousand	2019	2018
Service	51,113	53,733
Software	3,081	0
<b>Total</b>	<b>54,194</b>	<b>53,733</b>

The business segments represent the smallest cash-generating units in the Group for which goodwill is monitored as part of internal management. The impairment test is based on the value in use, which is determined by discounting the planned cash flows resulting from the continuation of the individual units. Cash flow planning is based on the current operating results and a three-year business plan. Cash flows in subsequent years are updated using a constant growth rate of 1.00% (previous year: 1.00%). These cash flow forecasts are discounted to the value in use at a pretax rate of 10.9% (previous year: 9.36%). Business planning takes into account both current information and historical developments. No impairment losses were required either in the reporting year or in the previous year.

As part of a sensitivity analysis for the cash-generating units, the planned segment revenue was reduced by 10%, the weighted cost of capital before tax was increased by 1.0 percentage point or the EBIT margin was reduced by 1.0 percentage point. Goodwill impairment is likewise not required on this basis.



There is estimate uncertainty regarding the following assumptions underlying the calculation of the value in use of each unit:

- EBIT-margin
- Discount rate
- Growth rate

The EBIT margins are calculated on the basis of the expected average values, applying the findings of the three previous fiscal years. The calculation also takes into account working capital effects.

The discount rates represent current market assessments regarding the specific risks relevant to the cash-generating units, including the interest effect and the specific risks of the assets. The calculation of the discount rate takes into account the specific circumstances of the Group and the business segment being tested for impairment and is based on its weighted average cost of capital (WACC). The weighted average cost of capital (WACC) was derived from the capital asset pricing model (CAPM). Data from a financial services provider was used in part to derive the beta factor in a peer-group analysis (peer companies in the same industry) in order to take into account the business segment-specific risk. Other parameters are the market risk premium and the basic interest rate. The weighted average cost of capital reflects both debt and equity.

The growth rates are based on industry-related expected values.

From our point of view, no realistic change in the key assumptions will mean that the carrying amount for either of our business segments exceeds its recoverable amount.

In reporting year 2019, there were negative currency translation effects with regard to goodwill of € -1,526 thousand (previous year: € -5,907 thousand) in accordance with IAS 21. In addition, a positive effect in the amount of € 1,987 thousand has resulted from the application of IAS 29 (previous year: € 3,515 thousand).

## Intangible Assets

Individually acquired intangible assets are measured at cost upon initial recognition. Borrowing costs are recognized as expenses unless they are capitalized as part of the acquisition or production costs of a qualifying asset.

After initial recognition, intangible assets are carried at cost less cumulative amortization and cumulative impairment losses.

It should be determined whether intangible assets have a finite or indefinite useful life. Intangible assets with finite useful lives are amortized over their economically useful lives using the straight-line method and tested for impairment whenever there are indications that they could be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each fiscal year. If the expected useful life or the expected consumption pattern of the asset has changed, another amortization period or another amortization method is selected. Such changes are treated as changes in estimates.

Amortization is based on useful lives of three to ten years.

There are currently no intangible assets with indefinite useful lives.

## Research and Development Costs

In accordance with IAS 38, research costs are recognized as expenses, while development costs are capitalized if other criteria are met. If it is not possible to clearly distinguish between the research and development phases of an internal project, all of the costs associated with this project should be treated as research costs. In the 2019 fiscal year, research and development expenses totaling € 29,485 thousand (previous year: € 16,626 thousand) were recognized as expenses, since a clear distinction between the research and development phases was not possible. This corresponds to 20.3% of revenue (previous year: 12.7%).

In the 2019 fiscal year, software costs and externally awarded development work in the amount of € 529 thousand as well as work performed in the amount of € 939 thousand which was mainly required for the completion of an internal software project have been capitalized as advance payments.

## Property, Plant and Equipment

Property, plant and equipment are measured at acquisition or production costs, less depreciation and impairments. Borrowing costs are recognized as expenses unless they are capitalized as part of the acquisition or production costs of a qualifying asset. Property, plant and equipment essentially comprise office equipment, vehicles and computers and are depreciated on a straight-line basis over an economic useful life of one to twenty years.

On every reporting date, the Group evaluates whether there are indications that an asset could be impaired. If such indications exist, the Group estimates the recoverable amount. The recoverable amount of an asset or a cash-generating unit is the higher of fair value less selling costs and the value in use.

If the carrying amount of an asset exceeds its recoverable amount, the asset is regarded as impaired and written down to its recoverable amount.

## Leasing

A lease is an agreement which transfers the right of use to an asset (the leased asset) for an agreed period in return for consideration.

Until December 31, 2018, a lease was defined as an agreement under which the lessor transfers to the lessee the right of use for an asset for a specific period, in return for a payment or a series of payments. According to IAS 17, beneficial ownership of leased assets was allocated to the lessee where the lessee assumed substantially all the risks and rewards of ownership (finance lease). Insofar as beneficial ownership was allocable to the Group as a lessee, this was capitalized at the start of use either at fair value or at the present value of the minimum lease payments if this was less than the fair value. A lease liability was recognized in the financial liabilities item in the same amount. Subsequent measurement was implemented using the effective interest method at amortized cost. The depreciation methods and useful lives matched those of comparable acquired assets. All other leases have been classified as operating leases. The corresponding payments have been recognized as expense on a straight-line basis over the term of the lease.

Since January 1, 2019, for all of the leases in its statement of financial position the Group as a lessee has in principle recognized assets for the rights of use for the leased assets and liabilities for the payment obligations entered into at present values. The lease liabilities comprise the following lease payments:

- Fixed lease payments, less incentive payments received;
- Variable lease payments which are based on an index or rate, initially measured according to the index or rate at the start of the lease;
- Expected payments from the lessee due to residual value guarantees;
- Exercise prices of purchase options if the lessee is reasonably certain to exercise these; and
- Payments of penalties for early termination of the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The lease liability will be measured upon initial recognition at the present value of the lease payments not yet made at the start of the lease, discounted by the interest rate implicit in the lease. If this interest rate cannot be readily determined, the Group will apply the incremental borrowing rate of interest, i.e. the interest rate that the relevant lessee would be required to pay if it needed to raise funds in order to purchase an asset of comparable value, in a comparable economic environment, for a comparable term, with comparable collateral and subject to comparable conditions.

The Group determines the incremental borrowing rate of interest as follows: Since the Group is unable to use any recently provided third-party funding as a starting point, the Group applies a risk-free interest rate and adjusts this in line with the lessee's credit risk. Further adjustments are made for the lease term, the country-specific risk and the lease currency.

Lease liabilities are reported in the consolidated statement of financial position in the financial liabilities item.

The lease liability is subsequently measured by adding the interest on the lease liability (on the basis of the effective interest method) to the carrying amount and deducting the lease payments made from the carrying amount.

The Group remeasures the lease liability and adjusts the corresponding right of use in the following cases:

- The lease term has changed or a significant event or a significant change in circumstances results in a change in the assessment regarding the exercise of a purchase option. In this case, the lease liability will be remeasured by discounting the adjusted lease payments on the basis of an updated interest rate.
- The lease payments change due to index or rate changes or due to a change in the expected payment on account of a residual value guarantee. In these cases, the lease liability will be remeasured by discounting the adjusted lease payments on the basis of an unchanged discount rate (unless the change in the lease payments is attributable to a change in a variable interest rate, in which case an updated discount rate must be used).

In addition, the lease liability and the right of use will be adjusted in case of changes to the contractual framework (contract modifications).

Rights of use are measured at cost which comprises the following:

- Lease liability;
- Lease payments made at or before the commencement date, less any lease incentives received;
- Initial direct costs; and
- Dismantlement obligations.

Rights of use are subsequently measured at cost less cumulative depreciation and impairment. Rights of use are depreciated on a straight-line basis over the term of the lease. However, the depreciation period corresponds to the useful life of the leased asset if this is shorter than the lease term or it is assumed that ownership of the leased asset will be transferred to the lessee at the end of the useful life (e.g. through the exercise of a purchase option).

Rights of use are shown in the consolidated statement of financial position as a separate item.

The practical expedients are made use of for low-value leased assets and for short-term leases (twelve months or less) and the payments are recognized as expense in the income statement, on a straight-line basis over the term of the lease. In addition, the new rules have not been applied to leases of intangible assets. In case of agreements which comprise both leasing components and non-leasing components – with the exception of real estate leases – these components have not been separated.

A series of leases – particularly for real estate – include extension and termination options. Such contract terms offer the Group the greatest possible operational flexibility. Lease terms are therefore determined on the basis of significant assumptions and estimates. For more detailed information, please see Point 8 "Use of Estimates."

The Group does not enter into any agreements as a lessor.

Please also refer to the disclosures on the first-time application of IFRS 16 under Point 3.

## **LIABILITIES**

### **Financial Liabilities**

See comments in the "Financial instruments" section.

### **Provisions for Pensions**

Provisions for pensions are recognized according to the project unit credit method in accordance with IAS 19 "Employee Benefits." This method considers not only the pensions and vested benefits known on the reporting date, but also expected future increases in pensions and salaries in the estimation of the relevant independent variables. The calculation is based on actuarial studies taking into account biometric data. The amounts recognized in the statement of financial position include the actuarial gains and losses arising from changes in inventories and deviations between the assumptions made and actual developments. Actuarial gains and losses are offset without effect on profit or loss. IAS 19 (2011) was applied for the first time in 2013. The expense incurred from the allocation of pension provisions in the amount of the current service cost is reported under personnel costs, while the interest component contained therein is recognized in net finance costs.

Under defined contribution plans, contributions are immediately offset as an expense. Since there are no other obligations aside from these contributions, no provisions are required.

### **Other Provisions**

A provision is recognized if the Group has a current (legal or constructive) obligation arising from a past event for which an outflow of resources with economic benefits is probable to settle the obligation and a reliable estimate of the amount of the obligation is possible. The expense involved in making the provision is disclosed in the income

statement after deducting any highly probable reimbursement. If the interest effect is material, the provisions are discounted. In case of a discount, the increase in provisions over time is recognized as interest expense.

### **Share-Based Payment Arrangements**

Share-based payment arrangements are recognized in accordance with IFRS 2. The long-term incentive scheme (LTI) established by the Group for Managing Directors with effect as of January 1, 2019 and the virtual share plan which was created for beneficiary managers in the 2019 fiscal year is a cash-settled share-based payment transaction. The resulting expenses and liabilities by way of settlement of these obligations are recognized over the expected vesting period. This amount is remeasured on each balance sheet date and is valued by means of an option pricing model. Fair value changes are recognized through profit or loss. The resulting expense is shown in the personnel expenses item, the liability as employee-related provisions or liabilities.

### **Treasury Shares**

If the Group acquires treasury shares, they are deducted from equity. The purchase, sale, issuance or redemption of treasury shares is not recognized in profit or loss. During a sale of treasury shares, in the amount of the proceeds from the resale, the previous acquisition cost is first posted against the deduction entry in equity. Any proceeds in excess of this acquisition cost are transferred to capital reserves.

In the period up to February 21, 2013, SNP Schneider-Neureither & Partner SE bought back a total of 7,294 treasury shares. Following the allocation of bonus shares (capital increase from company funds resolved by the Annual General Meeting on May 16, 2013), the number of treasury shares held in 2018 was 21,882. In the 2019 fiscal year, a further 34,000 treasury shares were repurchased. The number of treasury shares currently held is 55,882. The acquisition cost of € 1,509,086.65 has been disclosed as a negative item in equity in accordance with IAS 32.33.

## TAXES

### Current Tax Assets and Tax Liabilities

Current tax assets and tax liabilities for both the current period and previous periods are measured in the amount of an expected refund from the tax authorities or payment to the tax authorities. Current income taxes are calculated on the basis of the country-specific rules on the determination of profits for tax purposes.

Other taxes, such as transfer taxes and taxes on assets and capital, are separately recognized as operating expenses.

### Deferred Taxes

In accordance with IAS 12 "Income Taxes," deferred taxes are recognized for all temporary differences between the carrying amounts in the consolidated statement of financial position and the tax valuations of assets and liabilities (liability method) and for tax loss carryforwards. Deferred tax assets for accounting and measurement differences and for tax loss carryforwards that have been accumulated and can be carried forward have been recognized only to the extent that it can be assumed with sufficient probability that these differences will lead to the recognition of a corresponding benefit in the foreseeable future. As a general rule, the next four fiscal years are considered to be the foreseeable future. Deferred tax assets and liabilities are not discounted. Deferred tax assets and liabilities are recognized in the consolidated statement of financial position as noncurrent assets and liabilities.

No deferred tax liabilities are recognized on retained profits of subsidiaries and associates, as the direct parent company can influence/control the time at which the temporary differences are reversed and it is likely that they will not be reversed in the near future. For all deductible differences resulting from shares in subsidiaries and associates, deferred tax assets are only recognized to the extent that the temporary differences are likely to be reversed in the foreseeable future and taxable results will be available for use.

Allowances are recognized on the carrying amount of deferred tax assets where realization of the expected benefits resulting from the deferred taxes is not probable and the Group will not derive any benefit due to a lack of offsetting options. Deferred tax assets are recognized on the basis of the relevant companies' budgetary accounting. This budgetary accounting is revised annually and requires a large number of assessments. These assessments may be revised due to changes in the market and the competitive environment, the respective company's customer structure and the general economic situation. Due to regular reassessment, the deferred tax assets item may be subject to significant fluctuations.

Deferred tax assets and liabilities are measured at the tax rates that apply to the period in which the asset is expected to be realized or the liability is expected to be settled. The tax rates (and tax laws) apply that are in effect or that have been announced as of the reporting date.

Deferred taxes relating to items recognized directly in equity are recognized in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset against one another in case of a legally enforceable offsetting right and if these deferred tax assets and deferred tax liabilities relate to income taxes that are levied by the same tax authority for the same taxable entity or for different taxable entities that intend to settle on a net basis.

## Realization of Revenue

Revenue is recognized according to the five-step revenue recognition model prescribed by IFRS 15, which comprises the following steps:

- Identification of the contract with the customer
- Identification of separate performance obligations
- Determination of the transaction price
- Breakdown of the transaction price in terms of the separate performance obligations
- Revenue recognition upon fulfillment of a performance obligation

SNP generates revenue when control over distinct services and products passes to the customer, i.e. when the customer is able to direct the use of and obtain substantially all of the remaining benefits from the transferred services and products. This is subject to the proviso that a contract featuring enforceable rights and obligations has been concluded and, among other things, that the consideration is likely to be received.

Our revenue is generated from the following typical performance obligations:

### Services

- Consulting services
- Data center services
- Training and other services

### Software

- Cloud
- Licenses
  - Licenses for proprietary developments
    - Licenses for commercial transactions (reselling)
- Maintenance
- Software-as-a-service (SaaS)

Consulting fees mainly relate to the installation of software products, the implementation of transformation projects, projects associated with SAP Solution Manager and traditional IT consulting.

Cloud revenue is generated by the provision of IT infrastructure, generally comprising storage space, computing power and application software, as a service.

Software licensing fees result from the license fees that we realize through the sale or licensing of software to customers for use on their own hardware.

The maintenance fees generally relate to standardized support services. These include unspecified future software updates, upgrades and enhancements, as well as technical product support services for on-premise software.

Software as a service is a license and sales model through which we offer software applications over the Internet, i.e. as a service. We report the related revenue as software as a service revenue in the Software business segment.

We recognize the various products and services whose delivery or performance is promised in our customer contracts as separate performance obligations insofar as they are distinct.

Products and services that are not distinct are combined into one performance obligation.

The transaction price is determined in line with the contractual terms and conditions. These largely provide for a fixed price. Variable fees and significant financing components are generally not agreed in contracts with customers.

The transaction price for a customer contract is broken down into the individual performance obligations based on their individual sale prices. The individual sale prices are the prices at which the deliveries and services are generally also offered by us individually. If no company-specific standard prices or third-party sale prices can be determined due to a lack of individual transactions or a lack of uniform pricing, a reasonable estimate of the individual sale price is made using the expected cost plus a margin approach.

The part of the transaction price allocated to a distinct performance obligation is recognized as revenue once the corresponding performance obligation has been satisfied by way of a transfer of the promised goods or services. The revenue is recognized either over time or at a specific point in time in line with the transfer of control to the customer. This will apply if one of the following criteria is fulfilled:

- The benefit from the company's service flows to the customer, who simultaneously uses the service while it is being rendered.
- As a result of the company's service, an asset is created or improved and the customer gains control over the asset while it is being created or improved.
- As a result of the company's service, an asset is created that offers no alternative options for use by the company, and the company has a legal claim to payment for the already rendered services

Revenue in the Services business is recognized over a period of time. Profit is recognized based on the percentage of completion, in accordance with the input-based cost-to-cost method. This is calculated as the ratio of the order hours incurred up until the reporting date to the total order hours as estimated on the reporting date. An expected loss is expensed immediately. Invoicing is based on the contractual terms and conditions.

Revenue in the cloud business and from maintenance contracts is realized on a straight-line basis over a certain period in line with the provision of the associated benefits.

Licensing fees are generally realized at a specific point in time. Project-related licenses are realized over the project term in line with their use.

The management believes that the methods selected best reflect the development of the provision of benefits to the customer.

Customers are invoiced close to the time of the provision of benefits based on contractually defined milestones and advance payments are collected. The payment terms vary depending on the region involved, but generally provide for payment within 30 to 90 days.

### **Recognition of Expenses**

Operating expenses are recognized through profit or loss at the time when the service is used or when the expenses are incurred.

### **Net Financial Result**

As well as interest income from loans granted and claims from finance leasing, financial income also includes other income directly associated with financing or an investment in financial assets.

Besides interest expenses from loans and lease liabilities, financial expenses include other expenses directly associated with financing or an investment in financial assets, where their recognition in equity is not required. Interest expenses are recognized in the income statement according to the effective interest method. Borrowing costs are not capitalized.

## 10. ACQUISITIONS / BUSINESS COMBINATIONS

No acquisitions or business combinations were implemented in the 2019 fiscal year.

## 11. EARNINGS PER SHARE

		2019	2018
Earnings attributable to SNP SE shareholders in € thousand		2,318	-1,417
Weighted average number of shares (basic)	Shares	6,572,767	5,493,314
Weighted average number of shares (diluted)	Shares	6,572,767	5,493,314
Basic earnings per share	€ / share	0.35	-0.26
Diluted earnings per share	€ / share	0.35	-0.26

## 12. SEGMENT REPORTING

Segment reporting was prepared in accordance with IFRS 8. Based on the Group's internal reporting and organizational structure, the presentation of individual information from the consolidated financial statements is subdivided according to segment.

Segmentation into operational areas is based on the internal organizational and reporting structure according to segment.

The Software business segment includes the "software licensing", "maintenance" and "cloud solutions" performance obligations. Key services include the development and marketing of the in-house data transformation platform

in € thousand	Service	Software	Total
<b>External revenue</b>			
2019	97,610	47,575	145,185
2018 <sup>1</sup>	98,485	32,498	130,983
<b>Segment earnings (EBIT)</b>			
2019	3,447	13,028	16,475
Margin	3.5%	27.4%	11.3%
2018 <sup>1</sup>	-5,113	8,895	3,782
Marge	-5.2%	27.4%	2.9%
<b>Depreciation, amortization and write-downs included in the segment earnings<sup>2</sup></b>			
2019	5,239	1,791	7,030
2018	2,556	908	3,464

<sup>1</sup> The previous-year figures have been adjusted in line with the reclassification of software as a service. See below.

<sup>2</sup> Including impairment on property, plant and equipment of € 145 thousand in the 2019 fiscal year

Reconciliation in € thousand	2019	2018
<b>Result</b>		
Total reportable segment	16,475	3,782
Expenses not allocated to the segments	-9,473	-6,331
<i>of which depreciation, amortization and write-downs</i>	-1,103	-1,386
<b>EBIT</b>	<b>7,002</b>	<b>-2,549</b>
Net financial result	-1,374	-1,094
<b>Earnings before taxes (EBT)</b>	<b>5,628</b>	<b>-3,643</b>



## Reporting by Region

in € thousand	Revenue (external)		Noncurrent assets		Investments	
	2019	2018	2019	2018	2019	2018
DACH	82,985	63,500	30,949	20,777	3,090	2,069
EEMEA (Eastern Europe, Middle East, Africa) <sup>1</sup>	21,059	21,284	24,658	22,129	223	835
Latin America <sup>2</sup>	13,415	16,791	12,476	12,222	75	59
JAPAC (Asia-Pacific-Japan) <sup>3</sup>	6,587	7,022	4,352	3,355	136	70
USA <sup>4</sup>	13,609	15,505	9,691	2,903	342	344
UK <sup>5</sup>	7,530	6,881	6,897	6,393	0	0
<b>Gesamt</b>	<b>145,185</b>	<b>130,983</b>	<b>89,024</b>	<b>67,779</b>	<b>3,866</b>	<b>3,377</b>

<sup>1</sup> In the previous year, EMEA including UK; the previous-year figures have been adjusted.

<sup>2</sup> In the previous year South America.

<sup>3</sup> In the previous year Asia.

<sup>4</sup> In the previous year North America.

<sup>5</sup> In the previous year, included in EMEA.

CrystalBridge® with its software module combinations. In addition, sales of third-party software are also included in this business segment. For the first time, SNP is also reporting revenue generated through software as a service (SaaS); in the period under review, this amounts to € 2.3 million. On grounds of improved transparency, portions of the revenue generated by the companies Innoplexia GmbH and ERST GmbH were allocated to the Software business segment as SaaS revenue for the first time from the 2019 fiscal year onwards, in accordance with IFRS 8.12. The corresponding previous-year figures have been adjusted in the above table. Out of the total revenue in the Software business segment, € 26,023 thousand (previous year: € 21,983 thousand) was realized over time and € 21,804 thousand (previous year: € 7,801 thousand) at a specific point in time.

In the Service business segment (previous year: Professional Services), we primarily offer consulting and training services for corporate transformation processes. These mainly comprise the services which we offer in the context of IT transformation projects, with the goal of changing and adapting enterprise resource planning (ERP) systems. This covers all of the aspects and consulting services that are needed or requested by the customer in the SAP environment in particular, for the purpose of IT data transformations. We also offer complementary consulting and training services covering traditional SAP consulting and implemen-

tation as well as hosting, cloud and application management services (AMS). The revenue achieved in the Service business segment is exclusively recognized over a period of time.

Segment data is determined from financial controlling data and is based on IFRS figures. The EBIT (earnings before interest and taxes) indicators are used for the purpose of the company's internal management.

Transfer prices between business segments are determined based on customary arm's length conditions between third parties. Segment income, segment expenses and segment earnings include transfers between business segments. These transfers are eliminated during consolidation.

Specific activities such as finance, accounting and human resources as well as internal IT services are exclusively managed and supervised at Group level. These are shown in the reconciliation as other costs.

Since 2019, noncurrent assets include rights of use for the first time, due to the first-time application of IFRS 16. The investments do not include the additions to the rights of use, since this does not involve any direct outflows of funds.

# NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## 13. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include both bank deposits and cash in hand.

## 14. OTHER FINANCIAL ASSETS

Loans and other financial receivables consist of loans to employees and third parties, checks due in more than three months and other receivables. No impairments have been recognized on other financial assets.

in € thousand	2019			2018		
	Current	Noncurrent	Total	Current	Noncurrent	Total
Loans and other financial receivables	703	277	980	1,520	123	1,643
Rent deposits	0	592	592	0	588	588
<b>Total</b>	<b>703</b>	<b>869</b>	<b>1,572</b>	<b>1,520</b>	<b>711</b>	<b>2,231</b>

## 15. TRADE RECEIVABLES AND OTHER RECEIVABLES

Trade receivables are comprised as follows:

in € thousand	2019			2018		
	Current	Noncurrent	Total	Current	Noncurrent	Total
Gross carrying amount for trade receivables	33,473	137	33,610	27,122	409	27,531
Impairments on trade receivables	-155	0	-155	-184	0	-184
<b>Total</b>	<b>33,318</b>	<b>137</b>	<b>33,455</b>	<b>26,938</b>	<b>409</b>	<b>27,347</b>

Trade receivables are non-interest bearing and are reported at amortized cost.

## 16. CONTRACT ASSETS AND CONTRACT LIABILITIES

The following table shows the development of the contract assets and contract liabilities from customer contracts:

Contract assets in € thousand	2019	2018
<b>As of Jan. 1</b>	<b>4,881</b>	<b>6,580</b>
Current changes	18,073	-1,686
Impairments on contract assets	-1	-13
<b>As of Dec. 31</b>	<b>22,953</b>	<b>4,881</b>

<b>Contract liabilities</b> in € thousand	<b>2019</b>	<b>2018</b>
<b>As of Jan. 1</b>	<b>4,585</b>	<b>2,336</b>
Revenue recognized during the reporting year	-4,555	-2,302
Additions	6,410	4,551
<b>As of Dec. 31</b>	<b>6,440</b>	<b>4,585</b>

The changes in the total contract amounts in the 2019 fiscal year are largely the result of ongoing business operations and the associated changes in project progress and settlement. In the current reporting period, an amount of € 4,555 thousand (previous year: € 2,302 thousand) that had been included in contract liabilities at the beginning of the period was recognized in revenue from contracts with customers. We expect more than 95% (previous year: 90%) of the contract liabilities recognized on December 31, 2019 to be recognized as revenue in the next reporting period.

A total transaction price of € 92,700 thousand (previous year: € 56,300 thousand) is allocated to those performance obligations that had not been satisfied (in full) as of December 31, 2019. The management expects 80 – 90% of this amount to be recognized as revenue in the 2020 fiscal year and the rest in subsequent periods.

## 17. INVENTORIES

These inventories are software licenses that have been acquired with the intention to resell them. Inventories in the amount of € 740 thousand (previous year: € 0 thousand) were expensed in the current reporting period.

## 18. OTHER NONFINANCIAL ASSETS

Prepaid expenses mainly comprise advance payments made within the scope of lease, support and license agreements.

in € thousand	2019			2018		
	Current	Noncurrent	Total	Current	Noncurrent	Total
Prepaid Expenses	1,236	60	1,296	1,241	30	1,271
Receivables from current tax assets	568	0	568	617	0	617
Miscellaneous other assets	330	0	330	267	5	272
<b>Total</b>	<b>2,134</b>	<b>60</b>	<b>2,194</b>	<b>2,125</b>	<b>35</b>	<b>2,160</b>

## 19. INTANGIBLE ASSETS

Intangible assets have developed as follows:

in € thousand	Concessions, industrial property rights and similar rights and licenses to such rights and values	Goodwill	Capitalized own services	Advance payments on intangible assets	Total
<b>Acquisition-/ production costs</b>					
<b>As of Jan. 1, 2018</b>	<b>14,960</b>	<b>56,125</b>	<b>430</b>	<b>0</b>	<b>71,515</b>
Additions	129	0	0	0	129
Disposals	-453	0	0	0	-453
Reclassifications	13	0	0	0	13
Exchange rate differences	-355	-2,392	0	0	-2,747
<b>As of Dec. 31, 2018 / Jan 1, 2019</b>	<b>14,294</b>	<b>53,733</b>	<b>430</b>	<b>0</b>	<b>68,457</b>
Additions	54	0	0	1,617	1,671
Disposals	-163	0	0	0	-163
Exchange rate differences	-10	460	0	0	451
<b>As of Dec. 31, 2019</b>	<b>14,175</b>	<b>54,194</b>	<b>430</b>	<b>1,617</b>	<b>70,416</b>
<b>Depreciation and impairments cumulated</b>					
<b>As of Jan. 1, 2018</b>	<b>4,488</b>	<b>0</b>	<b>15</b>	<b>0</b>	<b>4,503</b>
Depreciation, amortization and write-downs	2,643	0	62	0	2,705
Disposals	-450	0	0	0	-450
Reclassifications	5	0	0	0	5
Exchange rate differences	-19	0	0	0	-19
<b>As of Dec. 31, 2018 / Jan. 1, 2019</b>	<b>6,667</b>	<b>0</b>	<b>77</b>	<b>0</b>	<b>6,744</b>
Depreciation, amortization and write-downs	1,736	0	61	0	1,797
Disposals	-163	0	0	0	-163
Exchange rate differences	-45	0	0	0	-45
<b>As of Dec. 31, 2019</b>	<b>8,195</b>	<b>0</b>	<b>138</b>	<b>0</b>	<b>8,333</b>
<b>Carrying value Dec. 31, 2018</b>	<b>7,627</b>	<b>53,733</b>	<b>353</b>	<b>0</b>	<b>61,713</b>
<b>Carrying value Dec. 31, 2019</b>	<b>5,980</b>	<b>54,194</b>	<b>292</b>	<b>1,617</b>	<b>62,083</b>

The advance payments made for intangible assets include costs for the creation of a software package for internal use. These costs will be reclassified as licenses upon completion of this software. The software is expected to be completed in the first quarter of 2020.

There are no restrictions on ownership or disposal.

## 20. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment have developed as follows:

in € thousand	Land, land rights and buildings on third-party land	Other equipment, operating and office equipment	Total
<b>Acquisition-/ production costs</b>			
<b>As of Jan. 1, 2018</b>	<b>616</b>	<b>8,479</b>	<b>9,095</b>
Additions	311	2,936	3,247
Disposals	-10	-1,257	-1,267
Reclassifications	-35	22	-13
Exchange rate differences	10	13	23
<b>As of Dec. 31, 2018</b>	<b>892</b>	<b>10,193</b>	<b>11,085</b>
Adjustments due to IFRS 16	0	-1,500	-1,500
<b>As of Jan. 1, 2019</b>	<b>892</b>	<b>8,693</b>	<b>9,585</b>
Additions	245	1,950	2,195
Disposals	0	-722	-722
Exchange rate differences	48	84	132
<b>As of Dec. 31, 2019</b>	<b>1,185</b>	<b>10,005</b>	<b>11,190</b>
<b>Cumulative depreciation and impairment</b>			
<b>As of Jan. 1, 2018</b>	<b>93</b>	<b>3,816</b>	<b>3,909</b>
Depreciation, amortization and write-downs	114	2,031	2,145
Disposals	-5	-1,006	-1,011
Reclassifications	-12	7	-5
Exchange rate differences	-7	-12	-19
<b>As of Dec. 31, 2018</b>	<b>183</b>	<b>4,836</b>	<b>5,019</b>
Adjustments due to IFRS 16	0	-742	-742
<b>As of Jan. 1, 2019</b>	<b>183</b>	<b>4,094</b>	<b>4,277</b>
Depreciation, amortization and write-downs	118	1,685	1,803
Impairments	145	0	145
Disposals	0	-640	-640
Exchange rate differences	36	56	92
<b>As of Dec. 31, 2019</b>	<b>482</b>	<b>5,195</b>	<b>5,677</b>
<b>Carrying value Dec. 31, 2018</b>	<b>709</b>	<b>5,357</b>	<b>6,066</b>
<b>Carrying value Dec. 31, 2019</b>	<b>703</b>	<b>4,810</b>	<b>5,513</b>

As of January 1, 2019, the assets resulting from finance leases were reclassified as rights of use.

The impairments comprise capitalized leasehold improvements that have been impaired due to the relinquishment of the relevant location.

There are no restrictions on ownership or disposal.

## 21. LEASES

The Group rents office premises as well as assets in the “Other equipment, operating and office equipment” category. This includes vehicles in particular. Office premises are rented at all of SNP’s locations. This mainly comprises office space and rented parking spaces. The relevant agreements have terms of between one and ten years. The lease conditions are individually negotiated and include a large number of different conditions.

### Rights of Use

The following rights of use were recognized as of December 31, 2019:

in € thousand	Land, land rights and buildings on third-party land	Other equipment, operating and office equipment	Total
<b>As of Dec. 31, 2018</b>	<b>0</b>	<b>0</b>	<b>0</b>
First-time application IFRS 16	17,444	550	17,994
Reclassification from property, plant and equipment	0	758	758
<b>As of Jan. 1, 2019</b>	<b>17,444</b>	<b>1,308</b>	<b>18,752</b>
Depreciation, amortization and write-downs	-3,433	-955	-4,388
Additions	5,040	2,034	7,074
Remeasurement	-37	-37	-74
Disposals	0	-6	-6
Exchange rate differences	41	29	70
<b>As of Dec. 31, 2019</b>	<b>19,055</b>	<b>2,373</b>	<b>21,428</b>

### Leasing Liabilities

Please see Point 24 for information on the Group’s leasing liabilities, Point 35 for comments on its liquidity risk and Point 42 for an overview of the development of financial liabilities.

### Amounts Recognized in the Income Statement

The income statement for the 2019 fiscal year is as follows:

in € thousand	
<b>2019 - leases according to IFRS 16</b>	
<i>Amortization of rights of use</i>	4,388
<i>Interest expenses on leasing liabilities</i>	695
<i>Expenses resulting from short-term leases</i>	514
<i>Expenses resulting from leases of low-value assets</i>	62
<b>2018 - leases according to IAS 17</b>	
<i>Amortization of rights of use</i>	447
<i>Interest expenses on leasing liabilities</i>	23
<i>Leasing expenses</i>	5,885

As of December 31, 2019, the Group had obligations under short-term leases for which the relevant option has been exercised. The total obligation on this date roughly matches the expense for the past fiscal year.

The total cash outflow resulting from leases for the 2019 fiscal year was € 6,891 thousand.

As of December 31, 2019, possible future outflows of funds in the amount of € 1,266 thousand (undiscounted) were not included in the leasing liability since an extension of the leases is not reasonably certain.

For further information on leases, please see Chapter 3 on the first-time application of IFRS 16, Chapter 9 on the key accounting policies and Chapter 8 on the use of estimates.

## 22. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

In the 2012 fiscal year, an equity investment of 24% of the share capital of Composite Design Transformation GmbH, Walldorf, was acquired. The objective of this company is IT consulting. In the 2012 fiscal year, the value of the investment was written down to € 1.00. Based on current information, there have been no changes in the measurement of the fair value of the investment.

With its acquisition of Hartung Consult GmbH in January 2016, SNP SE has acquired 40.02% of the shares in Polygon Solutions GmbH, Lünen. The objective of this company is IT consulting. In the 2018 fiscal year, the value of the investment was written down to € 1.00, since management does not expect it to provide any positive long-term future earnings contributions and no appropriate sale price is realizable. Based on current information, there have been no changes in the measurement of the fair value of the investment.

Bluefield Foundation GmbH was established on July 19, 2019. SNP holds 100% of the shares in this company. Due to this company's shareholders' agreement, control is not exercised over the company within the meaning of IFRS 10. However, members of the Board of Directors exercise significant influence. The foundation's initial capital amounts to € 25 thousand.

No further risks are associated with the investments. From the Group's perspective, these investments are classified as immaterial.

## 23. TRADE PAYABLES AND OTHER LIABILITIES

Trade payables and other liabilities are comprised as follows:

in € thousand	2019			2018		
	Current	Noncurrent	Total	Current	Noncurrent	Total
Trade payables	10,239	0	10,239	8,945	0	8,945
Other liabilities	0	0	0	14	273	287
<b>Total</b>	<b>10,239</b>	<b>0</b>	<b>10,239</b>	<b>8,959</b>	<b>273</b>	<b>9,232</b>

In the 2018 fiscal year, the other liabilities mainly comprised deferred items for rent-free periods. These were reversed due to the first-time application of IFRS 16.

## 24. FINANCIAL LIABILITIES

in € thousand	2019			2018		
	Current	Noncurrent	Total	Current	Noncurrent	Total
Liabilities to banks	5,476	34,829	40,305	425	39,682	40,107
Purchase price obligations	2,791	0	2,791	4,533	2,606	7,139
Leasing obligations	5,010	14,387	19,397	395	359	754
Other financial liabilities	0	93	93	0	146	146
<b>Total</b>	<b>13,277</b>	<b>49,309</b>	<b>62,586</b>	<b>5,353</b>	<b>42,793</b>	<b>48,146</b>

In February 2017, SNP Schneider-Neureither & Partner SE reached an agreement with investors on the issuance of promissory note loans with a total volume of € 40.0 million. The volume is spread across fixed and variable interest-bearing tranches in terms of three to seven years. The average yield at the time of issuance of the promissory note loans amounted to 1.41% per annum.

The promissory note loans were recognized in the statement of financial position, less the brokerage commission and plus deferred interest, at € 39.6 million. As of December 31, 2019, the carrying value is € 40.1 million (previous year: € 40.0 million).

These purchase price obligations have mainly resulted from future payment obligations within the scope of company acquisitions in 2017 and 2018.

In January 2019, leasing obligations in the amount of € 17,994 thousand were reported due to the first-time application of IFRS 16. See also the comments under Point 3.

No collateral is provided for financial liabilities. Instead, standard covenants are agreed that include termination options. The financial figures serving as the basis for these covenants were all fulfilled in 2019.

## 25. CONTINGENT LIABILITIES

As well as the provisions shown in the statement of financial position, contingent liabilities amount to € 3.5 million. There is a contingent liability with an upper limit of € 3.5 million, based on a conditional purchase price clause, in connection with the acquisition of the South American Adecon Group in 2017. The likelihood that the company will be asked to pay the conditional purchase price is considered to be very low given the developments in 2019 and projections for the coming years.

## 26. OTHER NONFINANCIAL LIABILITIES

in € thousand	2019			2018		
	Current	Noncurrent	Total	Current	Noncurrent	Total
Employee-related liabilities	14,504	0	14,504	12,629	0	12,629
Other taxes	2,441	0	2,441	2,705	0	2,705
Other nonfinancial liabilities	1,727	0	1,727	668	0	668
<b>Total</b>	<b>18,672</b>	<b>0</b>	<b>18,672</b>	<b>16,002</b>	<b>0</b>	<b>16,002</b>

Employee-related liabilities mainly relate to vacation and bonus obligations as well as obligations for employee-related social security contributions.



## 27. OTHER PROVISIONS

Other provisions developed as follows in the 2019 fiscal year.

in € thousand	As of Jan. 1, 2019	Utilization	Reversal	Addition	As of Dec. 31, 2019
Archiving costs	48	0	-22	0	26
Legal costs	182	0	-93	0	89
Employee-related provisions	169	-169	0	603	603
<b>Total</b>	<b>399</b>	<b>-169</b>	<b>-115</b>	<b>603</b>	<b>718</b>

The employee-related provisions are noncurrent provisions under the LTI scheme and the virtual share plan.

## 28. CASH-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

In 2019, an agreement providing for virtual shares was signed with a total of 24 employees as part of their variable remuneration. Overall, 17,329 virtual shares resulted on the basis of a prescribed exercise price. The employees will be paid half of the value of these shares in 2020 and the other half in 2021. Their value will be calculated on the basis of the number of shares, multiplied by the 2019 closing price for the payment in 2020 and multiplied by the 2020 closing price for the payment in 2021. The entitlements under this scheme will be vested throughout this period.

Volatility has been calculated on the basis of the moving averages over the year as a whole for the yields on the SNP share in 2019.

### Fair values and assumptions at the end of 2019

Weighted average fair value as of Dec. 31, 2019	49.50
Option pricing model	Binomial model
Risk-free interest rate	-0.67%
Expected volatility	46.1%
Remaining term as of Dec. 31, 2019	1 year

A total amount of € 611 thousand has been recognized as personnel expenses for the grant of the virtual shares. An employee-related liability was established in the amount of € 414 thousand for the payment in 2020. An employee-related provision was established in the amount of € 197 thousand for the payment in 2021.

In 2019, the Board of Directors agreed a long-term incentive scheme (LTI scheme) 2019 - 2020 with the Managing Directors. A sub-target of the LTI scheme, with a weighting of 25%, is tied to the share price trend. The right to payment has been calculated as follows:

If the share price, calculated on the basis of the weighted average over the past 30 trading days (Xetra), in 2020 exceeds the initial value at the start of 2019 by 50%, then this sub-target will have been fulfilled 100%. The actual price fluctuation will be compared with the price fluctuation on the basis of 100% target attainment, in order to determine the actual level of target attainment. The entitlements under this scheme will be vested throughout this period.

### Fair values and assumptions at the end of 2019

Weighted average fair value as of Dec. 31, 2019	49.59
Option pricing model	Binomialmodell
Risk-free interest rate	-0.67%
Expected volatility	46.1%
Remaining term as of Dec. 31, 2019	1 Jahr

Volatility has been calculated on the basis of the moving averages over the year as a whole for the yields on the SNP share in 2019.

Overall in 2019, a pro rata amount of € 300 thousand was recognized as personnel expenses for the sub-target of the LTI scheme 2019 - 2020 tied to the share price trend. As of December 31, 2019, the provision established in this respect amounted to € 300 thousand.

## 29. PROVISIONS FOR PENSIONS

Pension provisions are comprised of provisions for severance payments at SNP Austria GmbH, which by law must be established for employees in Austria, and commitments made to one of the Managing Directors and to the Chief Financial Officer of the parent who left in 2011. In addition, SNP SE and SNP Deutschland GmbH have established further pension provisions resulting from a company acquisition. Since the 2018 fiscal year, pension provisions have also existed for SNP (Schweiz) AG. Pension payments are currently being made only at SNP Deutschland GmbH.

Reinsurance policies are in place at SNP SE and SNP (Schweiz) AG that are pledged on behalf on the beneficiaries.

The consolidated financial statements include the following amounts from defined benefit plans for post-employment benefits:

in € thousand	2019	2018
Defined benefit obligation (DBO)	4,925	3,448
Fair value of plan assets	2,034	1,386
<b>Net carrying amount of defined benefit plans</b>	<b>2,891</b>	<b>2,062</b>

The cost for defined benefit plans breaks down as follows:

in € thousand	2019	2018
Current service cost	147	827
Net interest cost*	32	40
<b>Expenses for defined benefit plans recognized in the consolidated income statement</b>	<b>179</b>	<b>867</b>
Actuarial gains (-)/ losses	733	100
Loss on plan assets (not including interest income)	4	3
<b>Remeasurement of defined benefit plans recognized in the consolidated statement of comprehensive income</b>	<b>737</b>	<b>103</b>
<b>Cost for defined benefit plans</b>	<b>916</b>	<b>970</b>

\* Disclosed in the income statement under "other financial expenses."

The following table presents the development of the DBO in detail:

in € thousand	2019	2018
<b>DBO at the beginning of the fiscal year</b>	<b>3,448</b>	<b>1,692</b>
Current service cost	147	827
Interest expense	49	99
<b>Remeasurement</b>		
- Actuarial gains (-) / losses due to changes in demographic assumptions	0	13
- Actuarial gains (-) / losses due to changes in financial assumptions	719	21
Benefit payments	482	796
Foreign currency effects	80	0
<b>DBO at the end of the fiscal year</b>	<b>4,925</b>	<b>3,448</b>

The following table shows the detailed reconciliation of changes in the fair value of plan assets:

In € thousand	2019	2018
<b>Fair value of plan assets at the beginning of the fiscal year</b>	<b>1,386</b>	<b>161</b>
Interest income	17	59
<b>Remeasurement</b>		
- Gains (+)/ losses (-) from plan assets without amounts contained in net interest expense and income	-18	-68
Employer contributions	511	1,127
Employee contributions	77	107
Foreign currency effects	61	0
<b>Fair value of plan assets at the end of the fiscal year</b>	<b>2,034</b>	<b>1,386</b>

	2019	2018
Discount rate	0.3 bis 0.9%	0.9 bis 1.9%
Salary trends	0% bis 3.6%	0% bis 3.0%
Pension trends	0% bis 2.0%	0% bis 3.0%
Average Turnover *)	0%	0%

\*) Depending on years of service

The calculation is based on actuarial studies prepared annually taking into account biometric data.

### Sensitivity Analysis:

A change in the fundamental assumptions above, with other assumptions remaining unchanged, would have increased or reduced the DBO as of December 31, 2019, as follows:

in € thousand	Defined benefit obligation			
	Increase		Decrease	
	2019	2018	2019	2018
<b>Basic assumption</b>				
Discount rate (1% change)	-449	-327	555	404
Future pension trend (1% change)	250	177	-211	-151
Future income trend (1% change)	150	119	-135	-109
Future income trend (-10% change)	112	68	-	-

As of December 31, 2019, the weighted average term of the defined benefit obligations was approximately 18 years (previous year: 18 years).

The employer contributions to plan assets expected for 2019 and the subsequent nine years amount to € 112 thousand per year.

The benefit payments expected in the next few years involve provisions for severance payments for employees of SNP Austria GmbH and pension payments for employees of SNP Deutschland GmbH. The actual payments depend on other criteria being fulfilled. An average annual payment of € 112 thousand is expected for the next ten years.

### 30. CURRENT TAX ASSETS, TAX LIABILITIES AND DEFERRED TAXES

Current tax assets and tax liabilities involve receivables and payables from current income taxes.

### Income Taxes

Income taxes are comprised as follows:

in T€	2019	2018
<b>Expenses for current taxes</b>		
Current income taxes, year under review	1	1,312
Current income taxes for prior periods	1,930	260
	<u>1,931</u>	<u>1,572</u>
<b>Expense (previous year: income) from deferred taxes</b>		
Change in timing differences, year under review	76	571
Change in timing differences, prior periods	197	-134
Change in tax assets from tax loss carryforwards	1,167	-4,029
	<u>1,440</u>	<u>-3,592</u>
	<u>3,371</u>	<u>-2,020</u>

As of the reporting date, the expected tax burden on taxable income is 30.0%, as in the previous year. This is comprised as follows:

Trade tax at a rate of assessment of 401.8%	14.1%
Corporate tax	15.0%
Solidarity surcharge (5.5% of the corporate tax amount)	0.8%
Applicable tax rate	29.9%
Rounded rate	30.0%

The deferred taxes recognized directly in equity under other components of equity can be seen in the statement of comprehensive income and are presented below:

in € thousand	2019			2018		
	Before taxes	Taxes	After taxes	Before taxes	Taxes	After taxes
Remeasurement of defined benefit obligations	-742	144	-598	-102	14	-88

## Tax Reconciliation

The following table shows the reconciliation of the expected tax expense and the tax expense actually reported:

in € thousand	2019	2018
<b>Earnings before taxes (EBT)</b>	<b>5,628</b>	<b>-3,643</b>
Expected tax income/expense at a rate of 30%	1,688	-1,093
Effect of different tax rates	-245	-57
Effects of changes in tax rates	40	-28
Non-period current income taxes	1	260
Non-period deferred taxes	197	-134
Foreign withholding tax	45	39
Expenses/income not affecting taxes	579	-498
Addition to valuation allowance on loss carryforwards	256	0
Reversal of impairments on loss carryforwards	0	-769
Waiver of capitalization of loss carryforwards in current year	733	204
Use of loss carryforwards not capitalized in current year	0	-19
Other factors	77	75
<b>Actual income taxes</b>	<b>3,371</b>	<b>-2,020</b>

Deferred tax assets and deferred tax liabilities from temporary differences between the carrying amounts and the tax valuations of assets and liabilities are presented in the table below:

in € thousand	Dec. 31, 2019	Dec. 31, 2018
<b>Deferred tax liabilities</b>		
Intangible assets	-1,019	-1,250
Property, plant and equipment	-217	-157
Rights of Use	-3,692	0
Receivables/contract assets	-260	-929
Other nonfinancial assets	-3,397	-6
Noncurrent financial liability	-65	-95
Liabilities/contract liabilities	0	-172
Other current liabilities	0	-12
Deferred tax liabilities	-8,650	-2,621
Offsetting	7,887	1,606
<b>Total deferred tax liabilities</b>	<b>-763</b>	<b>-1,015</b>

in € thousand	Dec. 31, 2019	Dec. 31, 2018
<b>Deferred tax assets</b>		
Intangible assets	573	546
Property, plant and equipment	11	148
Tax loss carryforwards	5,026	5,921
Other tax benefits	98	0
Receivables/contract assets	1,920	123
Liabilities/contract liabilities	543	0
Other nonfinancial assets	0	14
Other financial assets	1	48
Cash and cash equivalents	0	98
Pension obligations	601	444
Noncurrent financial liabilities	2,614	147
Current financial liabilities	1,176	0
Other nonfinancial liabilities	531	754
Deferred tax assets	13,094	8,243
Offsetting	-7,887	-1,606
<b>Total deferred tax assets</b>	<b>5,207</b>	<b>6,637</b>

The capitalization of deferred taxes on tax loss carryforwards in the 2019 fiscal year relates to the parent company (€ 2,650 thousand) as well as the German subsidiary Innoplexia GmbH (€ 227 thousand) and the foreign entities SNP Transformations Inc., Jersey City, NJ, USA (€ 1,805 thousand), Hartung Informational System Co., Ltd. Shanghai, China (€ 76 thousand), SNP Transformations SEA Pte. Ltd. Singapore (€ 81 thousand) and ADP Consultores Limitada, Santiago de Chile, Chile, (€ 187 thousand). The loss carryforwards in Germany, Chile, Singapore and the USA can be used without any time limit. In China, the tax losses can be carried forward over a period of five years from when they occur. These tax loss carryforwards decreased in the 2019 fiscal year. Plans assume positive taxable income in subsequent years. Therefore, it is expected that the tax loss carryforwards will be further reduced in the coming years. As regards the use of the tax benefits recognized due to loss carryforwards, because of the positive order outlook, in the future, the Group's individual companies are expected to generate sufficient taxable income. The subsidiaries in the USA and Singapore, as well as the domestic company Innoplexia GmbH, have a history of tax losses. Due to the clearly positive revenue forecasts and the strengthened management and governance structure for the overall Group, the new appointments to local management functions, the recently introduced and increased use of nearshoring for project

execution, as well as sales measures and the planned expansion of the SAP S4/HANA project volume, the company expects to see taxable income that will match the tax loss carryforwards reported for the foreseeable future. The other tax benefits (€ 98 thousand) relate to ADP Consultores S.R.L., Buenos Aires, Argentina, the inflation-based adjustment made for tax purposes that must be offset against taxable profits in subsequent years. A corresponding share of the taxable profit was deducted in the 2019 reporting year.

An asset item for tax loss carryforwards will only be capitalized insofar as it appears probable within a planning horizon of four years that taxable income will be available that can be offset in the future. Overall, no deferred tax assets have been established for the tax loss carryforwards in the amount of € 4,329 thousand (previous year: € 2,804 thousand) that arose in previous years and in the year under review.

The non-capitalized tax loss carryforwards are subject to the following expiry dates:

in € thousand	Dec. 31, 2019	Dec. 31, 2018
5 – 10 years	165	25
Unlimited	4,164	2,779
	<b>4,329</b>	<b>2,804</b>

### 31. SUBSCRIBED CAPITAL

As of December 31, 2019, the share capital of the company amounted to € 6,602,447.00 (previous year: € 6,602,447.00) and was comprised of 6,602,447 (previous year: 6,602,447) ordinary no-par-value bearer shares of SNP Schneider-Neureither & Partner SE, each with a nominal value of € 1.00.

### 32. AUTHORIZED CAPITAL

The Annual General Meeting held on June 6, 2019 has authorized the Board of Directors to increase the company's share capital in the period up to June 5, 2024 once or several times in partial amounts, by up to a total of € 3,301,223.00, against cash or in-kind contributions through the issuance of new no-par-value shares (2019 Authorized

Capital). In the event of cash contributions, the new shares may be taken over by one or more banks or companies within the meaning of Section 186 (5) (1) of the AktG with the obligation to offer them to shareholders for purchase (indirect subscription right). The Board of Directors is authorized to bar the subscription rights of shareholders in order to remove fractional shares from the subscription rights of shareholders; in case of capital increases against cash contributions in order to issue the new shares at an issue price that is not significantly lower than the market price (Sections 203 (1) and (2), 186 (3) (4) of the AktG) and provided that the number of shares issued does not exceed 10% of the share capital at the time the authorization becomes effective or – if this value is lower – at the time it is exercised (10% limit); for capital increases against contributions in kind, particularly for the purpose of directly or indirectly acquiring companies, operations or investments in companies or industrial property rights, licenses, patents, or other product rights or other assets; to the extent it is necessary, to ensure that the holders of warrants, convertible bonds or warrant-linked bonds issued by the company and its subsidiaries can be granted subscription rights for new shares to the extent that they will or would be entitled if they exercised their options or conversion rights. SNP SE has not made any use of this authorization to date.

### Contingent Capital

The share capital is conditionally increased by up to € 1,869,030.00, divided into up to 1,869,030 no-par-value shares (2015 Contingent Capital). The contingent capital increase will be executed only to the extent that the owners or creditors of warrant or conversion rights or warrant-linked bonds or convertible bonds issued for cash contributions and subject to conversion obligations that were issued or guaranteed until May 20, 2020, by the company by virtue of the authorization of the then Supervisory Board and the resolution of the Annual General Meeting on May 21, 2015, exercise their warrant or conversion rights or fulfill their conversion obligations if applicable, or if the company exercises an option to grant shares in the company in full or in part instead of paying the amount of money due, provided that a cash contribution is not granted or the company's treasury shares are not used for this purpose. The new shares will be issued

in accordance with the aforementioned authorization at option and conversion prices to be determined. The new shares participate in profits from the beginning of the fiscal year in which they arise. The Board of Directors is authorized to determine further details regarding the execution of the contingent capital increase. No use was made of this in the 2019 fiscal year.

### Treasury Shares

In the period from 2011 to 2013, the company purchased a total of 21,882 shares at a cost of € 414,650.19. As of December 31, 2019, the company continues to hold these shares.

On May 12, 2016, the Annual General Meeting authorized the company to acquire for the coming five years treasury shares up to a total of 10% of the outstanding share capital at the time of the resolution. In August 2019, the Board of Directors resolved a multi-year share buyback program beginning on September 1, 2019 and with a term ending no later than May 11, 2021. During this period, a maximum of 638,362 treasury shares will be repurchased via the stock exchange. This corresponds to 9.67% of the company's share capital. As part of this buyback program, a total of 34,000 shares were acquired at a price of € 1,094,436.46 in the 2019 fiscal year.

The acquisition cost of € 1,509,086.65 for the total of 55,882 shares has been disclosed as a negative item in equity in accordance with IAS 32.33.

Acquired treasury shares have been recognized at cost and deducted from subscribed capital.

The security identification number for the shares is 720 370, ISIN: DE0007203705.

### 33. RETAINED EARNINGS AND CAPITAL RESERVES

Please see the consolidated statement of changes in equity for changes in retained earnings.

The capital reserves have not changed by comparison with the previous year and continue to amount to € 59,968,250.67.

### 34. NONCONTROLLING INTERESTS

The item involves 19% minority interests in the subsidiaries SNP Transformations SEA Pte. Ltd. and SNP Transformations Sdn. Bhd., which were consolidated for the first time in the 2016 fiscal year.

The following disclosures relate to all of the companies in which the Group holds minority interests. The disclosures involve information prior to the elimination performed among other companies of the Group.

	in € thousand
Revenue	2,976
Profit	-319
Profit attributable to noncontrolling interests	-61
Other comprehensive income	-11
Comprehensive income	-330
Comprehensive income attributable to noncontrolling interests	-57
Current assets	2,003
Noncurrent assets	1,005
Current liabilities	965
Noncurrent liabilities	1,444
Net assets	599
Net assets attributable to noncontrolling interests	86
Cash flow from operating activities	-64
Cash flow from investing activities	-84
Cash flow from financing activities	-117
Net increase in cash and cash equivalents	-265
Dividends paid during the year to noncontrolling interests	0

## 35. FINANCIAL INSTRUMENTS

### Objectives and Methods of Financial Risk Management

In the 2019 fiscal year, SNP used cash and cash equivalents not only to invest in new and replacement property, plant and equipment and intangible assets, as well as acquiring treasury shares in order to, first and foremost, settle purchase price installments resulting from earlier company acquisitions and for the settlement of lease liabilities. These investments and repayments were financed by means of the high volume of cash and cash equivalents from previous years.

The management monitors and manages the Group's financing and capital structure on an ongoing basis. For this it uses parameters such as the debt-to-equity ratio and the equity ratio. The Group can adjust dividend payments to shareholders in order to maintain or adjust its capital structure. As of December 31, 2019, and December 31, 2018, no changes were made to the objectives, policies or procedures for monitoring financing and managing the capital structure.

No derivatives were made use of in the 2019 and 2018 fiscal years.

The possible risks arising from financial instruments included interest rate-related cash flow risks as well as

liquidity, foreign currency and credit risks. The Group monitors these risks on an ongoing basis and compares individual risks to total risk exposure in order to determine risk concentrations. If necessary, the Group's management decides on strategies and procedures to manage individual types of risks, as presented below.

### Credit Risk

The Group enters into transactions with creditworthy third parties. All customers wishing to conduct business with the company on a credit basis are subject to a credit check. In addition, the receivables portfolio is continuously monitored so that the Group is not exposed to any significant default risks. No credit is granted without prior review and approval according to the current regulations put in place by the Managing Directors. The Group has no significant risk concentrations.

For cash and cash equivalents, receivables and other financial assets of the Group, the maximum credit risk in case of default by a counterparty corresponds to the carrying amount of these instruments.

We apply the IFRS 9 simplified impairment model in order to determine the impairments for trade receivables and contract assets. See also comments under Point 9.

The following table shows the credit and default risk based on an impairment matrix as of December 31, 2019:

Classification	Loss rate in %	Carrying amounts in € thousand	Impairments in € thousand
Risk class 1 (Europe [excl. Poland], USA, Australia and Singapore)	0.02	45,558	9
Risk class 2 (Chile and China)	0.39	2,269	9
Risk class 3 (Poland and Malaysia)	0.42	4,980	22
Risk class 4 (Colombia)	0.30	335	1
Risk class 5 (Argentina)	0.30	3,317	10
Risk class 6 (Loss)	100.00	118	118
<b>Total</b>		<b>56,577</b>	<b>169</b>



The following table shows the credit and default risk based on an impairment matrix as of December 31, 2018:

Classification	Loss rate in %	Carrying amounts in € thousand	Impairments in € thousand
Risk class 1 (Europe (excl. [excl. Poland], USA and Singapore)	0.14	20,839	29
Risk class 2 (Chile)	0.11	1,460	2
Risk class 3 (Poland, China and Malaysia)	0.65	6,239	41
Risk class 4 (Colombia)	0.30	448	1
Risk class 5 (Argentina)	0.30	3,325	10
Risk class 6 (Loss)	100.00	114	114
<b>Total</b>		<b>32,425</b>	<b>197</b>

The following table shows the development of impairments in relation to trade receivables and contract assets:

in € thousand	Trade receivables	Contract assets	Total
<b>As of Jan. 1, 2018</b>	<b>107</b>	<b>0</b>	<b>107</b>
Net revaluation of allowances	77	13	90
<b>As of Dec. 31, 2019</b>	<b>184</b>	<b>13</b>	<b>197</b>
Amounts written off	-98	0	-98
Net revaluation of allowances	69	1	70
<b>As of Dec. 31, 2019</b>	<b>155</b>	<b>14</b>	<b>169</b>

The following significant changes to the gross carrying amounts of trade receivables contributed to the changes to impairment losses in 2019:

- Significantly higher carrying amounts in risk class 1 by € 45,558 thousand (previous year: € 20,839 thousand), which contrast with a reduced loss rate of 0.02% (previous year: 0.14%).
- China has been classified as risk class 2 (previous year: risk class 3) due to the country's improved rating.
- Lower average loss rates due to lower volume of bad debt losses on account of customers' financial difficulties.

## Liquidity Risk

The Group monitors the risk of a possible liquidity squeeze through ongoing cash flow planning and monitoring. The key goal is to ensure a minimum level of liquidity in order to safeguard solvency at all times. A high volume of cash therefore serves as a strategic reserve, which helps to keep SNP flexible, solvent and independent. As well as effective management of capital employed and liquid assets, SNP has reduced the liquidity risk that results from normal business activity and fulfillment of financial obligations by establishing appropriate lines of credit with various credit institutions, which it may draw upon in case of need.

Cash flows from the Group's financial liabilities had the following maturity dates:

<b>Dec. 31, 2019</b>					
in € thousand	<b>Up to 1 year</b>	<b>1 to 2 years</b>	<b>3 to 5 years</b>	<b>More than 5 years</b>	<b>Total</b>
Promissory note loans	5,540	513	35,748	0	41,801
Liabilities to banks	158	24	21	0	203
Trade payables	10,239	0	0	0	10,239
Leasing liabilities	5,644	4,118	6,015	5,509	21,286
Purchase price obligations	2,804	0	0	0	2,804
Other financial liabilities	0	93	0	0	93
	<b>24,385</b>	<b>4,748</b>	<b>41,784</b>	<b>5,509</b>	<b>76,426</b>

<b>Dec. 31, 2018</b>					
in € thousand	<b>Up to 1 year</b>	<b>1 to 2 years</b>	<b>3 to 5 years</b>	<b>More than 5 years</b>	<b>Total</b>
Promissory note loans	321	4,975	25,792	8,915	40,003
Liabilities to banks	104	0	0	0	104
Trade payables	8,959	273	0	0	9,232
Leasing liabilities	395	359	0	0	754
Purchase price obligations	4,533	2,606	0	0	7,139
Other financial liabilities	0	146	0	0	146
	<b>14,312</b>	<b>8,359</b>	<b>25,792</b>	<b>8,915</b>	<b>57,378</b>

Financial liabilities that can be repaid at any time are assigned to the earliest possible time period.

## Fair value

Our financial instruments are exclusively classified at amortized cost. The following table shows the carrying amounts and fair values of all financial instruments recognized in the consolidated financial statements:

in € thousand		Dec. 31, 2019		Dec. 31, 2018	
Financial assets	IFRS 9 category	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	Amortized cost	19,137	19,137	39,974	39,974
Trade receivables	Amortized cost	33,455	33,455	27,347	27,347
Other financial assets	Amortized cost	1,572	1,572	2,232	2,232
<b>Total</b>		<b>54,164</b>	<b>54,164</b>	<b>69,553</b>	<b>69,553</b>

in € thousand		Dec. 31, 2019		Dec. 31, 2018	
Financial liabilities	IFRS 9 category	Carrying amount	Fair value	Carrying amount	Fair value
Trade payables	Amortized cost	10,239	10,239	9,232	9,232
Financial liabilities	Amortized cost	40,305	41,480	40,108	39,294
Purchase price obligations	Amortized cost	2,791	2,791	7,139	7,139
Leasing liabilities		19,397	19,397	754	754
Other financial liabilities	Amortized cost	93	93	146	146
<b>Total</b>		<b>72,825</b>	<b>74,000</b>	<b>57,379</b>	<b>56,565</b>

The fair value of financial liabilities is measured on the basis of the yield curve, while taking credit spreads into consideration. They have therefore been assigned to level 2 in the valuation hierarchy.

Leasing liabilities increased due to the first-time application of IFRS 16.

## Market Price Risk

Interest rate risk management

The Group is financed in part through its operating cash flow. In order to finance organic and inorganic growth, SNP has also borrowed interest-bearing capital in the form of a

bank loan and promissory note loans. The bank loan has a fixed basic interest rate. The yield on the various tranches of the promissory note loans consists of fixed and variable interest. The variable interest is based on Euribor. The variable portion of the promissory note loans amounts to € 25 million, as in the previous year. Therefore, changes in market interest rates can lead to higher interest expense. If the six-month Euribor is positive, an increase of 50 basis points of the six-month Euribor will increase interest expense by € 0.1 million (previous year: € 0.1 million). The sensitivity analysis assumes that all other variables (except for the market interest rate) will remain unchanged. Management continuously monitors the development of market interest rates and the necessity of appropriate hedging measures.

## Currency Risk

The Group companies conduct their operating business in the respective functional currency so that the corresponding foreign exchange risk is regarded as minimal. Currency risks result primarily from intragroup business relationships.

### Currency Risk Management

The euro is the Group's functional currency and the reporting currency of the consolidated financial statements. A result of the Group's increasing internationalization outside the eurozone is that its operating business and financial transactions involve fluctuations in currency exchange rates. Exchange rate risks, which arise from orders from, and loans to, subsidiaries outside the eurozone, relate primarily to the absolute amount of the key figures reported in euros. Management continuously monitors the development of exchange rates and the necessity of appropriate hedging measures.

A sensitivity analysis has been carried out in order to be able to quantify the possible effects of exchange rate fluctuations on Group earnings. This shows the change in Group earnings in the event that the respective functional currency of the Group companies increases or decreases in value by 10% in relation to the foreign currency and all of the other parameters remain the same:

in € thousand	2019		2018	
	The euro loses in compari- son to the currency	The euro gains in compari- son to the currency	The euro loses in compari- son to the currency	The euro gains in compari- son to the currency
CHF	118	-144	43	-53
GBP	41	-50	318	418
PLN	50	-61	93	-114
USD	-284	348	5	-7
SGD	-29	35	59	-72
MYR	97	118	-5	6
CNY	-26	31	0	0
ARS	-41	50	-3	4
CLP	-86	105	-45	55
COP	-17	20	-2	3
ZAR	0	0	0	0
AUD	-18	22	0	0

Due to the inclusion of subsidiaries, the Group also reports assets and liabilities outside the eurozone which are denominated in local currencies. Fluctuations in currency exchange rates may result in changes in value at the conversion of these assets into euros. The changes in these net assets are reflected in the Group's equity through other comprehensive income.

### Share Price Risk

As part of the presentation of market risks, IFRS 7 also requires disclosures about how hypothetical changes in risk variables affect the prices of financial instruments. Stock exchange prices are a particular concern as risk variables. As of December 31, 2019, and December 31, 2018, the Group held no significant financial instruments with related share price risks.

A sensitivity analysis has not been carried out due to the insignificant share price risk.

**36. CAPITAL MANAGEMENT**

	Dec. 31, 2019		Dec. 31, 2018		Delta as %
	in € thousand	As % of the total volume of equity and liabilities	in € thousand	As % of the total volume of equity and liabilities	Total
Equity	70,602	41	69,409	46	2
Current liabilities	49,859	29	36,208	24	38
Noncurrent liabilities	53,566	31	46,149	30	16
Liabilities	103,425	59	82,357	54	26
<b>Total equity and liabilities</b>	<b>174,027</b>	<b>100</b>	<b>151,766</b>	<b>100</b>	<b>15</b>

The Group pursues the goal of safeguarding its long-term corporate survival and preserving the interests of shareholders, employees and all others who read the financial statements.

The management of the capital structure is based on changes in the macroeconomic environment and risks from the assets being held.

The Group's strategy is directed toward the continuous and sustainable increase in the company's value.

Due to the first-time application of IFRS 16, the equity ratio has decreased to 40.6% as of December 31, 2019 (previous year: 45.7%).

# NOTES TO THE CONSOLIDATED INCOME STATEMENT

## 37. OTHER OPERATING INCOME

Other operating income breaks down as follows:

in € thousand	2019	2018
Exchange rate differences	792	1,210
Reversal of provisions and derecognition of liabilities	564	158
Advertising subsidies	298	57
Proceeds from the disposal of assets	270	205
Insurance compensation	84	28
Dissolution of earnout	0	3,480
Reversal of impairments for trade receivables	0	21
Miscellaneous	451	498
<b>Total</b>	<b>2,459</b>	<b>5,657</b>

Contingent purchase prices were agreed in connection with the acquisition of the South American ADP Group in 2017. The realization of these purchase prices depends on a defined minimum EBIT margin and minimum revenue being attained in the years 2018 to 2020.

Given the developments in 2019 and considering the projections and economic conditions in South America, it is considered improbable that the requirements for the realization of the contingent purchase price obligation will be fulfilled.

## 38. COST OF MATERIALS

This involves costs for purchasing external consultants to carry out projects (cost of purchased services) and for purchasing third-party licenses for resale.

## 39. PERSONNEL COSTS

Personnel costs include costs for defined contribution pension plans of € 424 thousand (previous year: € 382 thousand), not including insurance contributions to statutory pension plans. Contributions to statutory pension plans amounted to € 5,427 thousand (previous year: € 4,912 thousand).

Personnel costs include severance expenses of € 609 thousand (previous year: € 1,375 thousand).

The average number of employees in the Group changed as follows:

in € thousand	2019	2018
Fulltime	1,230	1,289

## 40. OTHER OPERATING EXPENSES

Other operating expenses break down as follows:

in € thousand	2019	2018
Advertising, representation	5,205	3,434
Travel costs	5,031	5,500
Services	4,492	2,846
Other personnel costs	3,123	2,140
Vehicles	2,302	2,758
Occupancy costs, energy	2,248	1,633
Foreign exchange losses	1,870	1,692
Rent, leases	1,672	4,978
Legal and consulting costs	1,229	1,091
Communications	1,065	1,077
Insurance policies, contributions	591	594
Office supplies	565	276
Write-downs of receivables	236	34
Payment transaction costs	136	98
Board of Directors	116	90
Expense associated with the disposal of assets	62	130
Commissions	61	201
Other	491	640
<b>Total</b>	<b>30,495</b>	<b>29,212</b>

Due to the first-time application of IFRS 16, rent and lease costs have been reported partly under depreciation and partly under interest expense. The costs shown here comprise expenses resulting from short-term leases, leases of low-value assets and leases of intangible assets. See also the comments in Chapter 21.

#### 41. NET FINANCIAL INCOME

Net financial income is as follows:

in € thousand	2019	2018
<b>Other financial income</b>		
Term deposit investment	4	7
Pension obligations	17	59
Reversal of impairments	151	0
Other interest income	32	49
<b>Total</b>	<b>204</b>	<b>115</b>

in € thousand	2019	2018
<b>Other financial expenses</b>		
Bank interest	31	28
Interest for promissory note loans	668	664
Pension obligations	49	99
Leases	695	23
Compounding on purchase price obligations	38	175
Impairment losses	0	150
Other interest expenses	96	70
<b>Total</b>	<b>1,577</b>	<b>1,209</b>

Interest income from financial assets measured at amortized cost amounts to € 36 thousand (previous year: € 56 thousand).

Interest expense from financial liabilities measured at amortized cost amounts to € 833 thousand (previous year: € 937 thousand).

## OTHER NOTES

### 42. STATEMENT OF CASH FLOWS

The cash flow from operating activities includes the following items: interest paid of € 602 thousand (previous year: € 686 thousand), interest received of € 35 thousand (previous year: € 49 thousand), income taxes paid of € 1,625 thousand (previous year: € 1,526 thousand) and income taxes received of € 130 thousand (previous year: € 248 thousand).

Cash flow from investing activities includes payments for company acquisitions of € 4,558 thousand (previous year: € 9,395 thousand). These relate to payments for the company acquisitions made in 2017 and 2018.

Following the introduction of IFRS 16, the cash flow from financing activities includes payments made for the settlement of lease liabilities for the first time. In the previous year, the cash flow from operating activities included repayments of finance leases in the amount of € 506 thousand.

Noncash expenses and income include changes in deferred taxes of € 1,440 thousand (previous year: € -3,592 thousand), reversals of earn-out obligations in the amount of € 0 thousand (previous year: € -3,480 thousand), remeasurement of defined benefit obligations in the amount of € -742 thousand (previous year: € -514 thousand) and other items of € -139 thousand (previous year: € 189 thousand).

Financial liabilities developed as follows:

in € thousand	Promissory note loans	Other loans	Leasing liabilities	Total
<b>As of Jan. 1, 2018</b>	<b>39,908</b>	<b>1,364</b>	<b>633</b>	<b>41,905</b>
Borrowed	0	111	0	111
New leasing additions	0	0	671	671
Repaid	0	-1,083	-506	-1,589
Other payments	-569	5	-23	-587
Noncash deferrals	665	0	0	665
Exchange rate fluctuations	0	-147	-21	-168
<b>As of Dec 31, 2018</b>	<b>40,004</b>	<b>250</b>	<b>754</b>	<b>41,008</b>
Borrowed	0	242	0	242
First-time application IFRS 16	0	0	17,994	17,994
New leasing additions	0	0	7,020	7,020
Repaid	0	-148	-6,315	-6,463
Other payments	-570	0	-101	-671
Noncash deferrals	667	0	0	667
Exchange rate fluctuations	0	-47	45	-2
<b>As of Dec. 31, 2019</b>	<b>40,101</b>	<b>297</b>	<b>19,397</b>	<b>59,795</b>

Other payments comprise, in particular, payments of interest and fees.

Noncash deferrals mainly consist of deferred interest expenses.



#### **43. MEMBERS OF THE BOARD OF DIRECTORS AND THE MANAGING DIRECTORS**

Since the transformation of SNP Schneider-Neureither & Partner AG into a European stock corporation (Societas Europaea/SE) in 2017, the company has been managed by its Board of Directors which determines the basic standards for its business activities and oversees their implementation by the Managing Directors.

As of June 5, 2019, the Board of Directors consisted of the following members: Dr. Andreas Schneider-Neureither, Dr. Michael Drill, Gerhard Burkhardt and Rainer Zinow. Pursuant to the resolution passed by the Annual General Meeting on June 6, 2019, the Board of Directors consists of the following members: Dr. Andreas Schneider-Neureither (Chairman), Dr. Klaus Kleinfeld (Deputy Chairman), Dr. Michael Drill, Gerhard Burkhardt, Rainer Zinow and Dr. Karl Benedikt Biesinger.

Since the company's conversion into an SE, Dr. Andreas Schneider-Neureither has been the Chairman of the Managing Directors. Until March 16, 2018, Henry Göttler also served as a Managing Director. In the period from September 21, 2018 to December 31, 2019, Dr. Uwe Schwellbach (CFO) also served as a Managing Director. Since July 1, 2019, Michael Eberhardt (COO) and Frank Hohenadel (CHRO) have served as additional Managing Directors. Since January 1, 2020, Dr. Heiner Diefenbach has served as an additional Managing Director (CFO).

#### **44. RELATED PARTY TRANSACTIONS AND DISCLOSURES**

According to IAS 24 "Related Party Disclosures," transactions with persons or companies that may be influenced by the reporting company or could influence the company must be disclosed unless they have not already been included as a consolidated company in the consolidated financial statements.

#### **Advances or Loans to Managing Directors or Contingent Liabilities Incurred on Behalf of These Persons**

As of December 31, 2019, no loans, credits or advances were granted to any Managing Directors. Furthermore, SNP SE did not incur any contingent liabilities on behalf of Managing Directors in the reporting year.

#### **Provisions for Pension Commitments to Managing Directors**

SNP SE has made provisions for the pension commitments to Dr. Andreas Schneider-Neureither and Ms. Petra Neureither (CFO until May 19, 2011) totaling € 318 thousand (previous year: € 226 thousand), in accordance with IFRS. A reinsurance policy was arranged for the pension obligations.

#### **Other Transactions**

SNP SE has signed several rental agreements for office space and parking spaces for cars. These agreements have been concluded between the Chairman of the Board of Directors (who is also a Managing Director) and related parties. The invoicing of services is done at arm's-length conditions as with third parties. In the 2019 fiscal year, related expenses were € 423 thousand (previous year: € 434 thousand); as of December 31, 2019, there were no outstanding liabilities. In June 2019, SNP Transformations, Inc. signed a rental agreement with a related party for the use of premises over a period of 10 years. Advance payments in the amount of USD 3 million have been made for this rental agreement.

A legal consulting agreement has been concluded between SNP SE and a member of the Board of Directors as well as related parties. The invoicing of services is done at arm's-length conditions as with third parties. In the 2019 fiscal year, related expenses were € 321 thousand; as of December 31, 2019, there was one outstanding liability in the amount of € 92 thousand.

On the basis of employment contracts between SNP SE and two children of members of the Board of Directors, salary payments were made including benefits in kind and

fringe benefits. In the 2019 fiscal year, related expenses were € 92 thousand; as of December 31, 2019, there were no outstanding liabilities or receivables.

All transactions have been entered into at arm's length conditions as with third parties.

You will find detailed information on the remuneration of our Managing Directors and the members of the Board of Directors in the remuneration report, which is contained within the management report.

#### **45. RISKS RESULTING FROM LEGAL DISPUTES**

As part of its ordinary business activities, SNP is confronted with lawsuits and court proceedings. As of the balance sheet date of December 31, 2019, the pending legal disputes mainly relate to employment law matters.

The employment law proceedings primarily relate to disputes over termination of employment. SNP reviews these cases in great detail and conducts the proceedings in line with the compliance requirements and taking the litigation risk into account. The legal consequence could include legal defense costs and potentially compensation claims.

As of December 31, 2019, in particular one legal dispute was pending in which compensation claims have been asserted. In these proceedings, SNP is the defendant in a legal dispute involving two former employees whose contracts were terminated after only a short period. The volume of the claim has not yet been determined. The plaintiffs estimate an amount in euros that could run into the upper six-digits. The defendant believes that the claim is unfounded and is vehemently defending against it. It is expected that evidence will be taken and a hearing will take place during 2020. Provisions had been set up by the balance sheet date in the amount of the expected future burden.

The company is also a defendant in proceedings relating to a previous consultancy agreement. The matter in dispute is mainly the date of termination and therefore the issue of outstanding remuneration. Should the plaintiff prevail, the company would be obliged to pay an amount in euros that could run into the upper six-digits for further consulting services over a period of several years. The company is of the view that this consultancy agreement ended through its termination in 2019 and is therefore defending itself in these proceedings.

At present, we do not believe that the outcome of the lawsuits and proceedings pending on December 31, 2019, viewed either individually or as a whole, will have any material detrimental impact on our business activities, or on our financial and earnings position and our cash flows.

#### **46. AUDITING AND CONSULTING FEES**

In the fiscal year, fees for the auditor for the consolidated financial statements amounted to € 142 thousand (previous year: € 160 thousand), for other assurance services to € 26 thousand (previous year: € 224 thousand) and for other consulting services to € 0 thousand (previous year: € 1 thousand).

#### **47. SUBSEQUENT EVENTS**

Promissory note loans with a total volume of € 5 million will fall due in March 2020. SNP SE has secured funding by means of an amortizing loan as well as an agreement providing for a credit line with effect from the same date.

The German Stock Exchange has announced that SNP SE will be admitted to the SDAX with effect as of March 23, 2020. According to the regular review, the SNP share fulfills the Prime Standard's strict transparency requirements as well as the size criteria for market capitalization and trading volume that are relevant for admission to a share index.

The coronavirus crisis is another significant event that has occurred since the reporting date. It is not currently possible to assess the effects of the coronavirus on the company's financial position and financial performance.

#### 48. CORPORATE GOVERNANCE

The Managing Directors and the Board of Directors have issued a declaration on the German Corporate Governance Code. This has been made available on the company's website at <https://www.snpgroup.com/en/corporate-governance>.

Heidelberg, Germany, March 24, 2020

The Managing Directors



Dr. Andreas Schneider-Neureither



Michael Eberhardt



Dr. Heiner Diefenbach



Frank Hohenadel

#### RESPONSIBILITY STATEMENT

We certify to the best of our knowledge that in accordance with applicable accounting principles, the consolidated financial statements give a true and fair view of the Group's financial position and financial performance and that the business performance, including the result of operations and the position of the Group, are presented in the Group management report in a way that gives a true and fair view, and that significant opportunities and risks for the expected performance of the Group are described.

Heidelberg, Germany, March 24, 2020

The Managing Directors



Dr. Andreas Schneider-Neureither



Michael Eberhardt



Dr. Heiner Diefenbach



Frank Hohenadel

# INDEPENDENT AUDITOR'S REPORT

To SNP Schneider-Neureither & Partner SE,  
Heidelberg

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

### **Audit Opinions**

We have audited the consolidated financial statements of SNP Schneider-Neureither & Partner SE, Heidelberg, and its subsidiaries (the Group) – comprising the consolidated statement of financial position as of December 31, 2019, the Group income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the fiscal year from January 1, 2019 to December 31, 2019, as well as the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we audited the Group management report of SNP Schneider-Neureither & Partner SE, Heidelberg, for the fiscal year from January 1, 2019 to December 31, 2019. In accordance with German law, we have not examined the content of the sections “Declaration on Company Management” in the Group management report with reference to the Corporate Governance Report as part of the Annual Report or the “Group Non-financial Declaration” in the Group management report.

In our opinion, based on the findings of the audit,

- the enclosed consolidated financial statements comply in all material respects with the IFRS as adopted by the EU and the supplementary requirements of German commercial law pursuant to Section 315e (1) of the German Commercial Code (HGB), and give a true and fair view of the net assets and financial position of the Group as of December 31, 2019, and of its results of operations for the fiscal year from January 1, 2019 to December 31, 2019, in accordance with these requirements, and
- the attached Group management report as a whole conveys an accurate view of the condition of the Group. This Group management report is consistent with

the consolidated financial statements, complies with German legal requirements and accurately presents the opportunities and risks of future development in all material respects. Our audit opinion on the Group management report does not extend to the content of the above-mentioned sections “Declaration on Company Management” and “Group Non-financial Declaration”.

In accordance with Section 322 (3) (1) of the HGB, we declare that our audit has not led to any objections regarding the correctness of the consolidated financial statements or the Group management report.

### **Basis for the Audit Opinions**

We have conducted our audit of the consolidated financial statements and the Group management report in accordance with Section 317 of the HGB and the EU Audit Regulation (EU 537/2014; hereinafter “EUAR”) and in consideration of German generally accepted standards for the audit of financial statements, as promulgated by the Institute of Public Auditors in Germany (IDW). Our responsibility according to these requirements and principles is described in greater detail in the section “Responsibility of the auditor for the audit of the consolidated financial statements and the Group management report” of our audit report. We are independent of the Group companies in accordance with the requirements of European Union law and of German commercial law and the rules of professional conduct, and we have fulfilled our other ethical responsibilities under German professional standards in accordance with these requirements. In addition, pursuant to Article 10 (2) (f) EU Audit Regulation, we hereby declare that we did not provide any of the prohibited non-audit services referred to in Article 5 (1) EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and suitable to serve as the basis for our audit opinions on the consolidated financial statements and the Group management report.

## Key Audit Topics in the Audit of the Consolidated Financial Statements

Key audit topics are such matters that, in our dutiful judgment, were the most significant in our audit of the consolidated financial statements for the fiscal year from January 1, 2019 to December 31, 2019. These matters were considered in the context of our overall audit of the consolidated financial statements and in the formation of our audit opinion; we do not issue any separate audit opinion on these matters.

From our point of view, the following issues were the most significant.

### Recoverability of Goodwill

#### Reasons for designation as a particularly important audit subject

Goodwill amounted to € 54.2 million as of December 31, 2019. This corresponds to 31.1% of total assets.

Goodwill is tested for impairment at the level of the Service cash-generating unit. The evaluation of the recoverability of goodwill is complex and is based on a series of discretionary factors. The most significant assumptions involve the expected future revenues, the planned earnings margin and the applied discount rate.

The impairment tests performed did not reveal any need for impairment. There is a risk, with regard to the consolidated financial statements, that the goodwill in the Service cash-generating unit is not recoverable.

#### Our Approach to the Audit

We have validated the planning process and the material assumptions applied based on the explanations of those responsible for planning. Using the available information, we have assessed whether the material target values contained in the budget and the underlying assumptions are appropriate. We compared the expected future cash flows for the Service cash-generating unit against the available projections.

Furthermore, we are satisfied with the reliability of the company's budgeting through a retrospective comparison of the target values (e.g. income and profit margin) from previous years with the actual performance values. We, along with our specialists, have validated the assumptions and parameters used to determine the applied discount rate, particularly the market risk premium and beta factor, and retraced the calculation method. Furthermore, we have conducted our own sensitivity analyses in order to be able to assess any potential impairment risk given a conceivable change in material measurement assumptions.

We assessed the calculation method used in the impairment test and verified the calculation of the discounted cash flow surpluses in arithmetical terms.

### Recognition of Revenue From Service

For information on the accounting policies applied and the impairment tests performed, we refer to the disclosures in the notes to the consolidated financial statements under "8. Use of Estimates" and "9. Key Accounting Policies."

#### Reasons for designation as a particularly important audit subject

The company reports revenue from Service of € 97.6 million in the consolidated income statement. Revenue from Service accounts for 67.2% of the Group's total revenue.

Customer requirements vary in the Service area. These requirements result in a variety of contract rules. The recognition of consulting fees depends on complex contractual agreements, resulting in different times of recognition. Revenue for the long-term consulting business is recognized in accordance with IFRS 15 "Revenue from Contracts with Customers."

According to IFRS 15, the contractually agreed performance obligations must be identified for services to a customer. Where there are economic interdependencies, it must first be examined whether several contracts with a customer are to be combined into one contract (multi-component contract). The assessment is discretionary.

For the performance obligations identified in combined contracts, the allocation of the consideration is discretionary. In this respect, there is a risk of incorrect allocation and correspondingly incorrect revenue recognition.

SNP Schneider-Neureither & Partner SE recognizes sales revenue in the Service segment both in connection with specific times and with broader time periods.

Sales revenues from customer-specific consulting projects, which are fulfilled over a certain period of time, are realized according to the percentage-of-completion method. This is determined according to an input-oriented method, in that the consulting hours already performed are always set in relation to the total estimated total project hours required to fulfill the performance obligation. In the company's opinion, this method best reflects the progress of the work or the transfer of assets to the customer.

The recognition of revenue from customer-specific consulting projects over time is complex and discretionary in nature. Estimation uncertainties exist in particular with regard to the total project hours to be estimated to determine the degree of completion achieved. There is also the risk that expenses are recorded for the wrong projects.

There is a risk for the consolidated financial statements that the accrual of revenues from customer-specific consulting projects for specific periods is incorrect as of the balance sheet date and that revenues are therefore recognized in the wrong period.

#### **Our Approach to the Audit**

Based on our understanding of the process and the evaluation of the structure and implementation of the internal controls implemented regarding the accurate recording of contract-related personnel expenses and other expenses in the internal contract accounts, we have examined their effectiveness. These controls ensure that only project-related hours and expenses are recorded in and billed to the respective contract accounts. In addition, we gained a process understanding of the estimation of total project hours and validated the design, implementation and effectiveness of the internal controls established.

Using a combination of mathematical and statistical processes and carefully selected contracts, we assessed the need to combine contracts and the identification of individual performance obligations. On this basis, we also reviewed the allocation of the transaction price to the individual performance obligations using the individual sales prices we reconstructed. For the ongoing client-specific consulting projects included in the selection, we assessed the underlying contractual agreements to determine whether the recognition of revenue in connection with these is based on timeframes and the percentage of completion. For these project orders, we subsequently assessed the percentage of completion on which the revenue recognition is based by tracking the total actual hours recorded, the estimated total project hours and the expected order revenues in the client's calculation.

For some of the completed long-term transformation project orders selected both by deliberate means and statistical sampling methods, we consulted the acceptance records to evaluate whether the licensing and consulting fees had been recognized in the proper period.

#### **Reference to Related Disclosures**

For information on recognition of the revenue mentioned, please refer to the information provided under "8. Use of Estimates" and "16. Contract Assets and Contract Liabilities".

#### **Recognition of Revenue From Software Licenses**

##### **Reasons for designation as a particularly important audit subject**

In the consolidated income statement, the company reports revenue from software licenses of € 40.0 million for its own software products. Revenue from software licenses accounts for 27.6% of the Group's total revenue.

The correct recognition of revenue in the consolidated financial statements is of particular importance to the Group's economic position. The recognition of revenue from software licensing transactions depends on complex contractual agreements, resulting in different times of

recognition. The company sells its own software products in standalone licensing transactions that do not entail the company entering into any additional performance obligations or multi-component transactions. In cases involving licensing as a standalone service, the corresponding licensing fees are billed on the basis of a specific date and are recognized when the delivery obligation is satisfied in accordance with IFRS 15 „Revenue from Contracts with Customers“, as the customer only has a right of use insofar as the licensed software product exists at the time the license is granted.

In addition, project-related software licenses in particular are granted to customers as part of transformation contracts. These are granted for a fixed term corresponding to the duration of the transformation project. Project-based licensing forms part of a standardized performance obligation because it is performed in connection with consulting services to be provided in the context of transformation projects. In such cases, the revenue is recognized uniformly on a percentage-of-completion basis, as the projects feature customer-specific benefits and there are enforceable payment claims for services already rendered. In cases involving these customer-specific project orders, the percentage of completion and, by extension, the amount of revenue that can be recognized are determined by comparing the hours worked on the project against the total hours expected to be spent on the project. The recognition of revenue from customer-specific consulting projects over time is complex and discretionary in nature. Estimation uncertainties exist in particular with regard to the total project hours to be estimated to determine the degree of completion achieved. There is also the risk that expenses are recorded for the wrong projects.

There is a risk, with regard to the consolidated financial statements, that the revenue from the software licensing transactions may not have been recognized in the correct period or at the correct amount.

### **Our Approach to the Audit**

First, we assessed the processes in place to assess the requirements for recognition of revenue at a given time or in a given time period in the software licensing business.

In the case of project licenses, we examined the effectiveness of the internal control system with regard to project management based on our understanding of the process and the evaluation of the structure and implementation of the internal controls implemented in relation to the accurate recording of contract-related personnel expenses and other expenses in the internal contract accounts. The project management controls ensure that only project-related hours and expenses are recorded in the respective contract accounts.

Using a combination of orders selected both by deliberate means and by statistical sampling methods, we evaluated the underlying contractual agreements to determine whether the software licensing transactions are a standalone service licensing fees generated at a specific time, or whether the licensing transaction forms part of a standardized performance obligation in the context of transformation projects. In the latter case, we verified whether customer projects not yet completed had their revenue recognized on the basis of the percentage of completion. We also performed spot checks on those project orders that have not yet been completed to evaluate the percentage of completion on which the revenue recognition is based by reviewing and verifying the total actual hours recorded, the estimated total project hours and the expected order revenue in the client's calculation.

Using contracts that were deliberately selected on a risk-oriented basis, we assessed the underlying contractual agreements to determine whether the obligations from the software license transactions have been fulfilled by the company and whether software license revenues have been recognized in the appropriate period or in the appropriate amount.

### Reference to Related Disclosures

For information on recognition of the revenue mentioned, please refer to the information provided under "8. Use of Estimates" and "16. Contract Assets and Contract Liabilities".

### Other Information

The legal representatives are responsible for other information. Other information includes:

- The declaration on corporate governance in accordance with Section 289f HGB in conjunction with Section 315d HGB, which is referred to in the section "Declaration on Company Management" in the Group management report,
- the corporate governance report according to No. 3.10 of the German Corporate Governance Code, which is referenced in the section "Declaration on Corporate Governance" in the Group management report,
- the Group Non-financial Declaration in accordance with Section 289b HGB in conjunction with Section 315b HGB, to which reference is made in the section "Group Non-financial Declaration" in the Group management report,
- the assurance statement for the consolidated financial statements according to Section 297 (2) (4) of the HGB and the assurance statement for the Group management report according to Section 315 (1) (5) of the HGB,
- the remaining parts of the annual report, except for the audited consolidated financial statements, the Group management report and our audit report.

Our audit opinions on the consolidated financial statements and the Group management report do not extend to other information. Accordingly, we are not issuing an audit opinion or any other kind of audit finding regarding such information.

In connection with our audit of the consolidated financial statements, we have the responsibility to read the other information and, in the process, to determine whether the other information

- indicates material discrepancies from the consolidated financial statements, the Group management report or the insights gained during the audit or
- otherwise appears to display material misrepresentations.

If, on the basis of the work we perform on the other information obtained prior to the date of this audit opinion, we conclude that this other information contains significant misstatements, we are obliged to report this. We have no matters to report in this regard.

### Responsibility of the Managing Directors and the Board of Directors for the Consolidated Financial Statements and the Group Management Report

The Managing Directors are responsible for the preparation of the consolidated financial statements which, in all material respects, comply with IFRS, as adopted by the EU, and the supplementary requirements of German commercial law pursuant to Section 315e (1) of the HGB, and for ensuring that the consolidated financial statements give a true and fair view of the financial position and financial performance of the Group in accordance with these requirements. Furthermore, the Managing Directors are responsible for such internal controls as they deem necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Managing Directors are responsible for assessing the Group's ability to continue as a going concern. In addition, they have the responsibility to report any relevant matters in connection with continued operation as a going concern. They are also responsible for applying the going concern accounting principle unless the intention is to liquidate the Group or to cease operations, or there is no realistic alternative to doing so.



Moreover, the Managing Directors are responsible for the preparation of the Group management report which conveys an overall accurate view of the condition of the Group, is consistent in all material respects with the consolidated financial statements, complies with German statutory requirements and accurately represents the opportunities and risks of future development. Furthermore, the Managing Directors are responsible for taking precautions and implementing measures (systems) they have deemed necessary in order to enable the preparation of a Group management report in accordance with applicable German statutory requirements and in order to provide sufficient suitable evidence for the statements in the Group management report.

The Board of Directors is responsible for overseeing the Group's accounting process for the preparation of the consolidated financial statements and the Group management report.

### **Responsibility of the Auditor for the Audit of the Consolidated Financial Statements and the Group Management Report**

Our objective is to obtain sufficient assurance regarding whether the consolidated financial statements as a whole are free of material misrepresentations – whether deliberate or unintentional – and whether the Group management report conveys an overall accurate view of the condition of the Group, is consistent in all material respects with the consolidated financial statements and the insights gained during the audit, complies with German legal requirements and accurately represents the opportunities and risks of future development as well as to issue an audit report that contains our audit opinions on the consolidated financial statements and the Group management report.

Sufficient assurance is a high degree of assurance, but no guarantee, that an audit conducted in accordance with Section 317 of the HGB and the EUAR and German generally accepted standards for the audit of financial statements, as promulgated by the Institute of Public Auditors

in Germany (IDW), will always uncover material misrepresentations. Misrepresentations can result from fraud or errors and are viewed as material if it may reasonably be expected that they – individually or collectively – could influence the economic decisions of the addressees made on the basis of these consolidated financial statements and Group management report.

We exercise dutiful judgment during the audit and maintain a critical attitude. In addition:

- We identify and evaluate the risks of material misrepresentations, whether deliberate or unintentional, in the consolidated financial statements and in the Group management report, plan and conduct audit procedures in response to these risks, and obtain audit evidence that is sufficient and suitable to serve as the basis for our audit opinions. The risk that material misrepresentations are not uncovered is higher in the case of fraud than errors since fraud can involve conspiracy to deceive, falsifications, deliberate omissions, misrepresentations or the disabling of internal controls.
- We gain an understanding of the internal control system relevant to the audit of the consolidated financial statements and the relevant precautions and measures for the audit of the Group management report in order to plan audit procedures that are appropriate under the given circumstances, but not with the aim of issuing an audit opinion on the effectiveness of these systems.
- We evaluate the appropriateness of the accounting policies applied by the legal representatives as well as the justifiability of the estimated values presented by the legal representatives and related disclosures.
- We draw conclusions about the appropriateness of the going concern accounting principle applied by the legal representatives as well as, on the basis of the audit evidence obtained, whether a material uncertainty exists in connection with events or circumstances that could cast significant doubt on the Group's ability to continue as a going concern. Should we conclude that a significant uncertainty exists, we are obligated to draw attention in the audit report to the related disclosures in the consolidated financial statements and in the Group

management report or, if these disclosures are unsuitable, to modify our respective audit opinion. Our findings are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Group to cease operating as a going concern.

- We evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that gives a true and fair view of the financial position and financial performance of the Group in accordance with the IFRS, as adopted by the EU, and the supplementary requirements of German commercial law pursuant to Section 315e (1) of the HGB.
- We obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements and the Group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- We evaluate the consistency of the Group management report with the consolidated financial statements, its consistency with the law and the view it conveys of the condition of the Group.
- We conduct audit procedures regarding the forward-looking statements made by the legal representatives in the Group management report. On the basis of sufficient, suitable audit evidence, we retrace in particular the significant assumptions underlying the forward-looking statements of the legal representatives and evaluate the proper derivation of the forward-looking statements from these assumptions. We do not issue an independent audit opinion on forward-looking statements and their underlying assumptions. There is a substantial unavoidable risk that future events may deviate significantly from the forward-looking statements.

We discuss the planned scope and schedule for the audit as well as significant audit findings with those responsible for supervision, including any deficiencies in the internal control system that we identify during our audit, among other issues.

We issue a statement to those responsible for supervision that we have adhered to the relevant requirements for independence and discuss with them all relationships and any other matters that can reasonably be assumed to influence our independence and measures taken to preserve our independence.

Of the matters discussed with the individuals responsible for supervision, we determine which of those matters were of most significance during the audit of the consolidated financial statements for the current period, making them key audit topics. We describe these topics in the audit report unless laws or other legal requirements prevent their public disclosure.

## **OTHER STATUTORY AND OTHER LEGAL REQUIREMENTS**

### **Other Disclosures According to Article 10 of the EUAR**

We were elected as the group auditor by the Annual General Meeting on June 6, 2019. We were commissioned by the Board of Directors on September 17, 2019. We have operated as the group auditor of SNP Schneider-Neureither & Partner SE, Heidelberg, without interruption since the 2017 fiscal year.

We state that the audit opinions contained in this audit report are consistent with the supplemental report to the Board of Directors according to Article 11 of the EUAR (audit report).

### **Auditor Responsible**

The German public auditor responsible for the audit is Jörg Müller.

Stuttgart, March 24, 2020

Rödl & Partner GmbH  
Auditing company  
Tax advisory company

Peter Künkele  
German public auditor

Jörg Müller  
German public auditor

# Annual Financial Statements

SNP Schneider-Neureither & Partner SE, Heidelberg

## BALANCE SHEET (HGB)

as of December 31, 2019

ASSETS (€)		Financial Year	Previous Year
<b>A. Fixed assets</b>			
<b>I. Intangible assets</b>			
1. Concessions, industrial property rights and similar rights and values such as licenses to such rights and values	411,007.80		693,671.00
2. Payments on account	1,617,476.59		0.00
		2,028,484.39	693,671.00
<b>II. Fixed assets</b>			
1. Land, rights equivalent to property and buildings including buildings on third-party land	201,663.00		74,691.00
2. Other fixed assets and office equipment	1,681,531.88		1,371,298.66
		1,883,194.88	1,445,989.66
<b>III. Financial assets</b>			
1. Shares in affiliated companies	91,394,324.75		86,487,359.43
2. Loans in affiliated companies	2,662,503.90		0.00
3. Participations	25,001.00		1.00
		94,081,829.65	86,487,360.43
		97,993,508.92	88,627,021.09
<b>B. Current assets</b>			
<b>I. Inventories</b>			
1. Work in progress	0.00		56,160.37
2. Goods	371,250.00		371,250.00
		371,250.00	427,410.37
<b>II. Receivables and other assets</b>			
1. Trade receivables	13,439,829.90		423,666.29
2. Receivables from affiliated companies	19,095,146.95		11,961,514.93
3. Other assets	614,647.42		731,895.00
		33,149,624.27	13,117,076.22
<b>III. Cash reserves and bank balances</b>		3,126,568.85	20,419,574.17
<b>C. Deferred items</b>		426,524.76	803,369.38
		<b>135,067,476.80</b>	<b>123,394,451.23</b>

<b>LIABILITIES (€)</b>		<b>Financial Year</b>	<b>Previous Year</b>
<b>A. Equity</b>			
<b>I. Subscribed capital</b>			
1. Subscribed capital	6,602,447.00		6,602,447.00
2. Own shares	(55,882.00)		(21,882.00)
		6,546,565.00	6,580,565.00
<b>II. Capital reserves</b>		62,357,138.08	62,357,138.08
<b>III. Revenue reserves</b>			
1. Statutory reserves	19,100.00		19,100.00
2. Other reserves	0.00		52,888.55
		19,100.00	71,988.55
<b>IV. Retained earnings</b>		8,948,440.94	0.00
		77,871,244.02	69,009,691.63
<b>B. Provisions</b>			
1. Provisions for pensions and similar obligations	437,399.63		352,568.69
2. Tax provisions	370,163.00		203,484.00
3. Other provisions	2,390,197.42		1,660,476.22
		3,197,760.05	2,216,528.91
<b>C. Liabilities</b>			
1. Liabilities to financial institutions	40,320,333.00		40,320,333.00
2. Payments received on orders	0.00		27,200.00
3. Trade payables	3,047,184.51		2,082,128.98
4. Liabilities to affiliated companies	7,014,727.43		1,131,205.63
5. Other liabilities	3,570,373.01		8,556,085.22
		53,952,617.95	52,116,952.83
<b>D. Deferred items</b>		45,854.78	51,277.86
		<b>135,067,476.80</b>	<b>123,394,451.23</b>

SNP Schneider-Neureither & Partner SE, Heidelberg

## PROFIT AND LOSS ACCOUNT (HGB)

for the period from January 1 to December 31, 2019

in €		Financial Year	Previous Year
<b>1. Sales revenue</b>		33,198,745.38	24,561,416.01
<b>2. Decrease in inventories of unfinished goods</b>		-56,160.37	-4,544,649.94
<b>3. Other capitalized own services</b>		267,390.00	0.00
<b>4. Other operating income</b>			
- Of which expenses from foreign currency conversion: € 372,074.93 (previous year: € 759,994.30)		1,376,437.20	1,423,636.59
<b>5. Material costs</b>			
Costs for purchased goods		-503,733.45	-4,827,164.27
<b>6. Personnel costs</b>			
a) Wages and salaries	-10,885,364.97		-9,682,946.37
b) Social security and expenses for pensions and related employee benefits			
- Of which expenses for pensions: € 195,446.18 (previous year: € 74,221.56)	-1,720,087.45		-1,492,111.13
		-12,605,452.42	-11,175,057.50
<b>7. Depreciation of intangible assets and fixed assets</b>		-806,727.96	-1,236,095.04
<b>8. Other operating expenses</b>			
- Of which expenses from foreign currency conversion: € 743,820.21 (previous year: € 600,394.83)		-17,743,994.56	-15,815,564.26
<b>9. Income from participations</b>			
- Of which from affiliated companies: € 4,924,695.22 (previous year: € 0.00)		4,924,695.22	0.00
<b>10. Received profits due to a profit transfer agreement</b>		3,009,255.79	1,380,684.24
<b>11. Income from loans of financial assets</b>			
- Of which from affiliated companies: € 55,485.42 (previous year: € 16,756.00)		55,485.42	16,756.00
<b>12. Other interest and similar income</b>			
- Of which from affiliated companies: € 77,233.48 (previous year: € 52,270.41)		103,000.86	88,534.33
<b>13. Depreciation of financial assets</b>		-52.71	-50,000.00
<b>14. Expenditure for loss assumption</b>		0.00	-2,045.56
<b>15. Interest and similar expenses</b>			
- Of which from affiliated companies: € 15,044.75 (previous year: € 0.00)		-676,467.87	-789,970.18
<b>16. Taxes on income</b>		-579,164.68	-244,633.33
<b>17. Income/loss after taxes</b>		<b>9,963,255.85</b>	<b>-11,214,152.91</b>
18. Other taxes		-7,267.00	-13,536.00
<b>19. Net income</b>		<b>9,955,988.85</b>	<b>-11,227,688.91</b>
20. Profit carries forward from previous year		0.00	567,031.24
21. Withdrawal from capital reserves		0.00	10,660,657.67
22. Withdrawals for acquisition of own shares		1,007,547.91	0.00
<b>23. Net profit</b>		<b>8,948,440.94</b>	<b>0.00</b>

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## CONTACT

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This Annual Report is also available in German. The legally binding document is the original German version, which shall prevail in any case of doubt.



## **LEGAL NOTICE**

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