Annual Report 2022

optimize!
softing

Consolidated Key Figures

		2022	2021	2020	2019	2018
Incoming orders	(EUR million)	155.8	104.8	72.8	95.6	88.1
Revenue	(EUR million)	98.3	84.7	77.6	91.1	83.9
EBIT (operating)	(EUR million)	3.3	3.0	1.6	4.1	3.5
EBITDA (IFRS)	(EUR million)	9.7	9.1	7.8	12.1	9.0
EBIT (IFRS)	(EUR million)	0.8	–0.5	–3.9	4.3	4.1
Consolidated profit (IFRS)	(EUR million)	–1.2	–0.1	–4.6	2.9	3.3
Earnings per share (IFRS)	(EUR)	–0.13	–0.01	–0.50	0.31	0.38
Non-current assets	(EUR million)	64.4	62.5	64.3	70.6	63.0
Current assets	(EUR million)	46.1	40.8	40.9	46.1	36.8
Equity	(EUR million)	61.8	63.5	63.0	69.6	68.4
Equity ratio	(in %)	56.0	61.5	59.9	59.6	68.5
Cash and cash equivalents	(EUR million)	6.8	9.6	10.2	14.9	9.7
Number of employees (annual average)		395	388	399	404	404

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

Softing is growing- by double digits, no less. For us, the biggest success of the past year was almost touching our long-held revenue target of EUR 100 million. Before going further into details, let me say that we are confident of generating further growth this year despite all the uncertainty. The momentum we have gathered will enable us to comfortably break our revenue 'sound barrier' of EUR 100 million, despite continuing supply chain disruption, war in Europe and turmoil in the Chinese market.

The Softing Group's revenue rose by 16% during the 2022 financial year to reach a record high of EUR 98.3 million, an increase of almost EUR 14 million compared to the previous year (EUR 84.7 million). We achieved this despite a large number of unfulfilled orders (backlog) from our customers. The almost 50% surge in incoming orders (exactly: 48.6%) from EUR 104.8 million in the previous year to EUR 155.8 million during the year under review marked an all-time high in the history of the Softing Group. Orders on hand almost tripled to EUR 89.9 million as of December 31, 2022 (previous year: EUR 33.6 million). All three segments were driving this number.

Yet growth on this scale defying the challenging environment comes at a cost. In this case it's a disproportionate rise in material costs relative to revenue. This increase was intensified due to inflation and shortages induced or intensified by the direct and indirect consequences of Russia's war of destruction in Europe. None of this was built into our planning which resulted in a below-average earnings growth. Still, our strategic decision to prioritize building growth momentum after the COVID years proved to be the correct one!

Softing generated EBITDA of EUR 9.7 million (previous year: EUR 9.1 million), which corresponds to an EBITDA margin of 9.9% (previous year: 10.6%). The complete discontinuation of COVID aid and savings from short-time work must be taken into account when comparing these figures against the previous year. EBIT turned positive as a result, moving from minus EUR 0.5 million in the previous year to EUR 0.8 million in 2022. Operating EBIT (EBIT adjusted for capitalized development services of EUR 3.9 million and amortization of EUR 4.6 million on these as well as effects from purchase price allocation in the amount of EUR 1.7 million) rose to EUR 3.3 million in 2022, up from EUR 3.0 million in the previous year.

Demand for industrial products was dynamic in the context of the post-coronavirus recovery, turning supply into a form of art. The Industrial segment remained dramatically affected by the procurement crisis for electronic components. The segment was able to recover later in the year as a result of setting up its own production planning team and selectively purchasing components on the spot market. While many projects were largely executed as planned, all of this reduced our margins, as we were unable to increase prices that had been agreed for the long term. Revenue in the Industrial segment was up 18% to EUR 72.0 million (previous year: EUR 61.0 million), while our EBITDA and EBIT earnings figures stabilized at virtually the same level as the previous year. EBITDA totaled EUR 7.2 million (previous year: EUR 7.3 million), with EBIT amounting to EUR 4.1 million (previous year: EUR 4.2 million). We continued to significantly expand our product range, particularly our data connectivity software products for plant optimization. Strategic partnerships with leading automation providers resulted in increased marketing. We also focused on strengthening the internationalization of our sales and marketing organization.

Demand in the Automotive segment recovered markedly in 2022, enabling us to once again expand the customer base for Softing's diagnostic and testing solutions. We continued to increase the proportion of business done with software leasing models (software as a service) and launched new software products. The market showed a strong interest in our new TDX-V3 software, which boasts a modular system that makes it quick and easy to create customized diagnostic solutions. As this functionality is designed for small-scale production, it is very much tailored to the dynamic electric vehicle market. Softing currently offers arguably the most compelling integrated solutions related to testing and flash applications. During the past year, Softing Automotive won a major project from a premium car manufacturer to equip all of its global production facilities with new programming tools. While this project alone will contribute additional revenue in the double-digit millions over the next few years, the biggest impact on revenue and earnings will become apparent from 2024 onwards, when the product is rolled out on a large scale. We were also able to attract major new test bench customers. We are working close to capacity in several areas, prompting us to recruit significantly more staff for many of our product lines.

In the telematics field, the fleet market, car rental segment and mobility sector picked up considerably following the coronavirus phase, even though supply difficulties often adversely impacted automotive manufacturers. Our customers managed to pass on at least some of their increased costs to their customers. Passing on costs from often overlooked small structural damage to renters represents another potential source of income for car hire companies. At present, such damage often remains undiscovered when the renter returns a vehicle. With the help of GlobalmatiX technology, one major German rental company systematically passed on the cost of detected damage to those responsible for causing it in a test fleet, thus creating a new business case for telematics. Yet customers with GlobalmatiX installations already running into four figures have had good experiences with GlobalmatiX thanks to both its traditional data services and theft detectors, and are using our technology to drive the digitalization of their fleets. Despite some initial success in growing revenue, the EBIT contribution from this part of the business remained markedly negative. This is due to the continuing high expenses associated with acquiring customers across several different pilot projects. From a profitability perspective, it will be essential for these pilot installations to grow into volume as they are successfully completed.

Revenue across the entire Automotive segment increased by 21% from EUR 15.9 million to EUR 19.2 million, producing EBITDA of EUR 1.3 million after EUR 1.9 million in the previous year. Operating EBIT remained virtually unchanged from the previous year at around EUR –1.9 million (previous year: EUR –1.7 million). We are expecting this figure to improve during the current year, with the business set to be clearly profitable from 2024 onwards.

The IT Networks segment completed the market launch of its new CableMaster and LinkXpert series in 2022. However, the unavailability of a supplier meant we were unable to deliver around 1,000 devices ordered in 2022. This created an order backlog for the IT Networks segment, which is something that should not exist given the short-term nature of this business. Revenue fell by around 8% from EUR 8.4 million to EUR 7.7 million as a result, despite significant momentum compared to the previous year. This, combined with rising manufacturing costs, resulted in a loss, with the business generating EBITDA of EUR –1.4 million (previous year: EUR 0.3 million) and EBIT of EUR –2.3 million (previous year: EUR –0.8 million). Taking on a new supplier will enable us to deliver all products in the necessary quantities by the end of the first half of 2023. In addition, hardly any of the orders still awaiting delivery have been canceled. We will also begin marketing two exciting new products during the current year, while the expansion of the European sales network initiated last year will also have its first noticeable impact on revenue.

As always, it is essential for us to assess the political and economic environment when setting our annual targets. Everybody is keeping an eye on Russia's war of destruction in Ukraine, which must be resolved on the battlefield. Putin and his henchmen will only stop pursuing their uncompromising objectives once their military strength has unmistakably collapsed. Hopes that Russian oligarchs could stop Putin are illusory. They are nothing more than the walking purses of a dictatorship, with assets and lives taken from them at will at any time. A similar situation applies in China, where the concentration of power and aggressive rhetoric regarding Taiwan continue to threaten supply chains. The shift away from economically-focused thinking to ideologically-driven power politics is alarming. While Russia is being unmasked as a declining regional power in both military and economic terms, China has the undisputed potential to become a global power. For us, that means focusing our supply chains more on Europe and America and reducing our dependency on this part of the world.

However, these external threats must not cause us to lose sight of undesirable developments on our own doorstep. In Germany, minority groups with no democratic legitimacy are organizing industrial action akin to a general strike. Here's a quick math to it: Verdi, the public sector's trade union, is said to have just under 1.9 million members, while the EVG, the railroad workers' trade union has 180,000 members. If Verdi was a party, it would garner just 3% of votes from around 63 million Germans who are entitled to vote, while the EVG would represent 0.3% of votes. Nevertheless, this aggregated 3.3% "party" made its first coordinated effort to paralyze Germany in the style of a general strike at its own discretion on March 27, 2023. So far, the elected government has said nothing about this, something the current German Chancellor has had plenty of practice in. The damage to the economy and the coercion of the majority is of little interest to our government. The ruling party's priority is "power to the unions", possibly to ease the pain of the losses suffered by an SPD still peppered with Putin's friends. The last reliable pillars of Germany's carbon-free power supply, a few nuclear power station in fine technical condition, will be switched off in mid-April. Security of supply is being compromised and carbon emissions from electricity production are growing. This does not seem to matter to the German government, either. Sentiment takes precedent over facts, and political particularism is the order of the day.

The failure of systemically important banks recently threw the markets into turmoil. Central banks are left with precious little room to operate between inflation and recession, with apparently high levels of risk on the banks' books. One of the few rays of hope is the availability of electronic components, which is so pivotal for Softing. Procurement in this area is easing slightly, with further improvement expected in the second half of 2023. Despite this, complex components such as FPGAs will remain in short supply. A major crisis in the South China Sea is all it will take for the supply of these components, most of which come from Taiwan, to break down. Wherever you look, the economic and political environment remains extremely volatile. As a result, all forecasts are inevitably subject to considerable uncertainty.

While we are aware of the risks, we will not allow ourselves to be distracted from focusing on our customers and realizing the opportunities in the market. This discipline is paying off. The current year began with robust demand and strong revenue. With this experience, and combined with our healthy order book, we are confident that the Group will once again generate double-digit revenue growth in percentage terms in 2023. We want annual revenues to pass the EUR 110 million mark from organic growth. We expect positive EBIT and a slight rise in operating EBIT for the Group, driven by all three segments. However, these figures remain under strain. We anticipate persistently increased cost pressure from both external suppliers and internal wage adjustments due to inflation. As a result, we still cautiously expect operating EBIT to exceed EUR 3.0 million.

Despite the wider environment we are optimistic, as Softing has repeatedly and rapidly adapted to changing circumstances over recent years. This gives our employees the courage and confidence to overcome future challenges. We are looking forward to your sustained support while we continue to consistently seize opportunities in the market!

Sincerely yours,

Dr. Wolfgang Trier
(Chief Executive Officer)

Softing Shares

KEY DATA OF SOFTING SHARES

ISIN/WKN	DE0005178008/517800
Super sector	Information technology (IT)
Sector	Software
Subsector	IT Services
Ticker symbol	SYT
Bloomberg/Reuters	SYT GR/SYTG
Trading segment	Prime Standard, Amtlicher Handel, EU-regulated market
Stock exchanges	XETRA, Frankfurt, Stuttgart, Munic, Hamburg, Düsseldorf, Berlin, Bremen, Tradegate
Initial listing (IPO)	May 16, 2000
Indices	Prime All Share Performance Index
Share class	No-par bearer ordinary share with a notional value of EUR 1.00 per share
Share capital	EUR 9.105.381
Authorized Capital	EUR 4,552,690 until May 8, 2023
Contingent Capital	EUR 4,552,690 until May 8, 2023
Designated sponsors	ICF Bank AG Wertpapierhandelsbank M.M. Warburg & CO (AG & CO.) KGaA
Research coverage	Warburg Research

EQUITY MARKETS WERE DOMINATED BY GEOPOLITICAL CRISES AND A TURNAROUND IN MONETARY POLICY

Softing shares began the year at a price of EUR 6.94 and reached their annual high of EUR 7.72 on January 12, 2022. The ongoing COVID crisis in the first half of the year and the start of the Russian military's war of aggression against Ukraine in February pushed down the share price to EUR 5.44 by early March. The shares recovered relatively quickly, rising to EUR 6.32 by the end of April. By mid-July, Softing shares had shed value again to drop to around EUR 5.50, before surging to a high of EUR 6.90 in mid-August. On November 22, the shares reached their annual low of EUR 5.04. They rebounded only slightly to close the year at EUR 5.30 on December 30. At the December 31, 2022 reporting date, the market capitalization of Softing AG was EUR 48.3 million, well below the previous year's figure of EUR 61.9 million. The share capital of Softing AG remains unchanged at EUR 9,105,381, divided into the same number of no-par-value shares. Softing shares are currently (March 22, 2023) trading at around EUR 6.32.

During the reporting period, the average daily trading volume of Softing shares was 5,550 shares (Xetra and floor trading), up 8.2% on the prior-year figure of 5,130 shares. Softing supports the liquidity of its shares by using two designated sponsors, ICF Bank AG Wertpapierhandelsbank and M.M. Warburg & CO (AG & CO.) KGaA.

EARNINGS PER SHARE

Earnings per share (EPS) were EUR -0.13 in 2022, compared with EUR -0.01 in the previous year. Softing AG calculates earnings per share in accordance with IAS 33 on the basis of the average number of shares outstanding.

GENERAL SHAREHOLDERS' MEETING RESOLVES TO DISTRIBUTE A DIVIDEND

On May 6, 2022, the General Shareholders' Meeting of Softing AG again resolved to distribute a dividend of EUR 0.10 per share based on the earnings generated in the 2021 financial year.

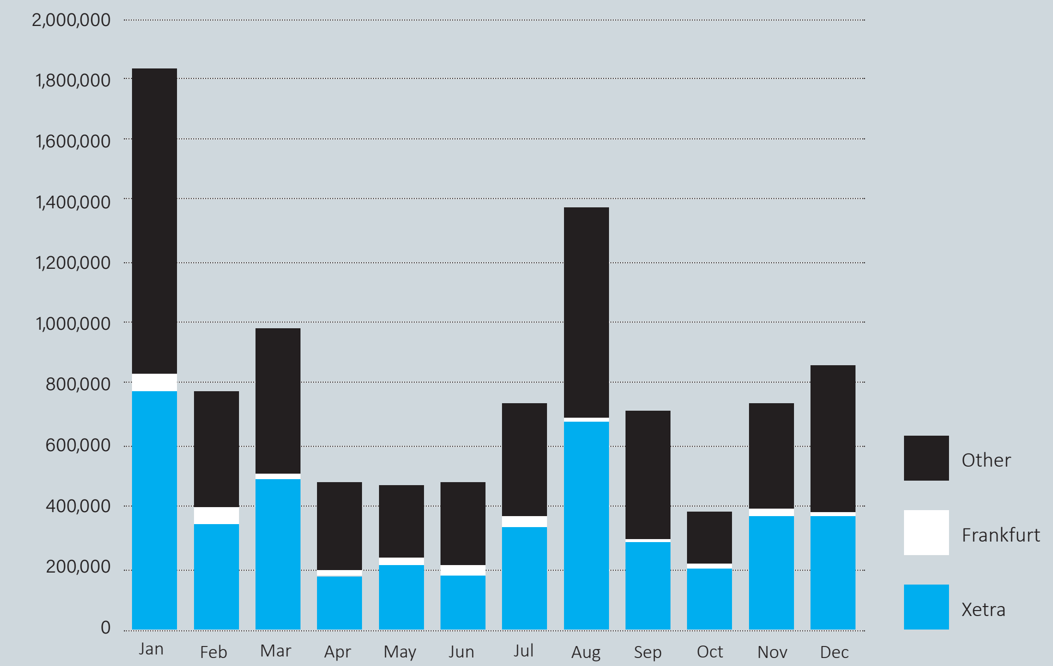
SHAREHOLDER STRUCTURE

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

ANALYST RECOMMENDATIONS

Warburg Research has analyzed the Softing share regularly for years in research reports and has published six studies and updates on the share in 2022. The most recent update of November 16, 2022 continues to recommend buying the share and states a higher price target of EUR 7.30 (previously EUR 7.20).

TRADING VOLUMES OF SOFTING SHARES IN 2022 IN EUR



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

CAPITAL MARKET COMMUNICATIONS

Investor relations are a key concern of the Group. In the first half of 2022, communication with the capital markets met the challenge of raising awareness of the Company and continually enhancing its attractiveness on the capital markets by hosting various roadshows and numerous investor and analyst events, which were held virtually due to the COVID-19 pandemic. Softing also participated in selected investor conferences, such as the German Equity Forum held in Frankfurt am Main in November and the Munich Capital Market Conference (MKK) in May and November. For 2023, we have set ourselves the goal of further increasing our presence and visibility in order to provide continuous support for our investors.

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

SOFTING SHARE PRICE FROM JANUARY 3, 2022 TO DECEMBER 31, 2022 (XETRA)

CORPORATE BOARDS AND DIRECTORS' HOLDINGS

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

FINANCIAL CALENDAR

March 27, 2023	Consolidated Financial Statements / Annual Report 2022
May 3, 2023	Interim Management Statement Q1/3M 2023
May 4, 2023	General Shareholders' Meeting 2023
August 14, 2023	Half-yearly Report 2023
November 14, 2023	Interim Management Statement Q3/9M 2023
November 15, 2023	Munich Capital Market Conference
November 27–29, 2023	German Equity Forum, Frankfurt / Main

Combined Management Report of Softing AG and the Softing Group for the 2022 Financial Year

FUNDAMENTAL INFORMATION ABOUT THE COMPANY AND THE GROUP

BUSINESS MODEL

The Softing Group's Business Model

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

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

Diagnostics, measurement and testing, the core topics covered by Softing's Automotive segment, represent key technologies in automotive electronics as well as such closely related areas in electronics as the commercial vehicle or agricultural machinery industry. The segment's range of products and services encompasses hardware and software, customized solutions as well as on-site consulting and engineering. Softing specializes in the entire life cycle of electronic control units and systems – from development to production all the way to services. Development work in Automotive is focused on standardization. Softing is an active member in the major standards bodies for automotive electronics such as ASAM and ISO. With the acquisition of GlobalmatiX AG, remote data transmission has taken on a new dimension for the Group in recent years and was brought to market maturity in 2019. 2020 saw the start of marketing, and in 2021 GlobalmatiX achieved its first significant marketing successes.

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

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

Presentation of the Segments

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

The Group's Business Model

Industrial Segment

Softing Industrial Automation GmbH

Softing Industrial Automation GmbH, domiciled in Haar, Munich, in the opinion of the Executive Board is a leading provider worldwide of industrial communications solutions and products for the manufacturing and the process industry. The products are tailored to the requirements of system and device manufacturers, machinery and plant engineers or end users, and they are known for being user-friendly and offering functional advantages. Shaped by well over 30 years of expertise and experience in software and embedded engineering, Softing Industrial Automation and its employees today benefit from a strong Softing brand that is renowned for the excellence of its industrial communications solutions.

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

Softing Italia s.r.l.

Softing Italia is a subsidiary of Softing Industrial Automation GmbH and supports customers locally in Italy.

Online Development Inc. (OLDI) und Softing Inc.

Online Development Inc. (OLDI) and Softing Inc. (both domiciled in Knoxville, TN), and the sales office Softing Inc. (Newburyport, MA) are organizationally subsidiaries of Softing North America Holding Inc domiciled in Delaware. A leading Original Design Manufacturer (ODM) for almost 30 years in the opinion of the Executive Board, OLDI offers a portfolio of hardware and software products that supports a large number of industrial market segments. Major brand manufacturers use OLDI's wealth of expertise in industrial data processing and communication to enhance the market launch of both innovative and proven technologies. Serving the North American market, Softing Inc. handles project work with its internal resources while providing local support to product business.

Buxbaum Automation GmbH

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

IT Networks Segment

Softing IT Networks GmbH and
Softing Singapore Pte. Ltd.

Softing IT Networks GmbH, domiciled in Haar, near Munich, Germany, provides IT network diagnostic equipment, which is used in industrial automation, office installations, and data centers. Softing Singapore, domiciled in Singapore, supplies test and measuring devices for copper and glass fiber data networks. This includes both the development and manufacture of ultra-high performance products in this field and accessories to support sales activities. Apart from sales and distribution, the company provides technical support and calibration services for the products offered.

Automotive Segment

Softing Automotive Electronics GmbH

Softing Automotive Electronics GmbH, domiciled in Haar near Munich, Germany, offers products and services for diagnostics and test automation. The comprehensive process-based approach of the Softing solutions enhances quality and reliability in control unit communications. With over 80,000 installations, Softing in the opinion of the Executive

Board holds a leading position in the market for diagnostic and test systems in the field of automotive electronics. Automobile manufacturers and system and control unit suppliers around the world rely on Softing's proven hardware and software tools and solutions. SMT (Softing Mess-Technik) also covers the field of mobile and stationary data logging systems.

Softing Engineering & Solutions GmbH

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

GlobalmatiX AG, GlobalmatiX Inc. and GlobalmatiX GmbH

GlobalmatiX AG, domiciled in Liechtenstein and represented with sales companies in the USA and Germany, is a mobile virtual network operator (MVNO) offering mobile data communications for vehicles and machinery in Europe and North America where such technology is needed in the areas of (semi-)autonomous driving and other connected services for vehicles and machinery. This acquisition enables Softing to extend its capabilities in the megatrends of digitalization and Industrie 4.0 and lays the foundation for new service-focused revenue. GlobalmatiX Inc. took over marketing of GlobalmatiX AG products in North America, GlobalmatiX GmbH in Germany and Europe. Despite constraints triggered by the COVID pandemic in the first half of the year, these companies pressed ahead with building their sales organizations in 2022. The sales contacts created in 2020/2021 create a solid foundation for sales success in 2023 and the coming years. GlobalmatiX won its first major orders with significant quantities in 2021 and 2022. The cumulative build-up of service revenues in the coming years will lay the groundwork for a profitable future.

Other Companies

Softing Services GmbH

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

SoftingRom s.r.l.

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

Softing S.A.R.L

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

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

Softing Services GmbH and Beijing Windhill Technology Co., Ltd. operate a joint venture concerning the marketing of Softing Group products in the Chinese market.

Softing North America Holding Inc., Delaware/USA

Softing North America Holding Inc. is the central holding company for the North American subsidiaries.

Business Model of Softing AG

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

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

INTERNAL MANAGEMENT SYSTEM

The Softing Group uses key performance indicators (KPIs) to manage its business; these KPIs include consolidated revenue; earnings before interest and taxes (EBIT), operating EBIT (EBIT adjusted for capitalized development services and their amortization as well as the effects of purchase price allocation), which is derived from EBIT. Working capital is also managed via selected KPIs. Working capital mainly comprises inventories as well as trade receivables and trade payables. With regard to Corporate Social Responsibility (CSR), reference is made to the disclosures in the Sustainability Report, https://investor.softing.com/corporate-governance-code/sustainability-report.html.

Inventory is analyzed on an ongoing basis and reviewed at regular intervals for parts that are no longer needed and written down as necessary. Short-term sales forecasts are used to manage orders for new goods based on inventory availability. The aim is to have delivery capacity at all times so that our customers can also be supplied with products at short notice. During the COVID-19 pandemic and procurement crisis, there were delays in supply capability, which to some extent are still persisting.

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

There was no increase in bad debts during the COVID-19 pandemic and Russia’s war of destruction in Ukraine.

Trade payables are mostly settled using available cash discounts.

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

Research and Product Development

For years, the Softing Group has invested a large portion of the cash generated by its revenue in research and development. In total, the Softing Group invested EUR 15.9 million (previous year: EUR 17.0 million) in the development of new products and the enhancement of existing ones in connection with customer projects. This corresponds to an investment ratio (ratio of development costs to revenue) of 16.2% (previous year: 20.0%). The Softing Group capitalized 25.1% (previous year: 21.5%) of its development costs.

In the financial year ended, amortization of capitalized development costs amounted to EUR 4.6 million (previous year: EUR 4.5 million). There were no impairment losses (previous year: EUR 0 million).

At year-end, 224 employees were engaged in research and development (previous year: 217). Softing AG itself is not engaged in any research and development activities. These take place exclusively at the operating segments. The focus areas in 2022 are shown below:

SoftIng Industrial

The new Ethernet communications technology (APL) was specially designed for the requirements of the process industry in 2022. In addition to expanding its technology integration products and services, the Company expects this innovation to deliver new growth due in particular to an all-new product family – APL switches. Softing also invested in edge connectivity (factory automation/machine connectivity) and expanding its products and services for access to asset monitoring (process automation/device connectivity).

Softing IT Networks

Work in the IT Networks segment focused on the successor product to WireExpert, which is likely to be introduced to the market in 2023. Development also focused on additional digitalization opportunities and simpler ways for customers to use existing devices for analysis.

Softing Automotive

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

In the traditional automotive business, we continued to work on integrating the various product segments with high-level customer solutions in 2022, while product market teams were also initiated. We also worked on the next generation of products for the flexible integration of database systems as well as the expansion of ‘remote’ use cases, and continued to develop the DTS9 as well as VCI (Vehicle Communication Interfaces). The next generation of the TDX product segment currently under development features highly scalable clout technologies that facilitate the flexible integration of additional customer backend systems. The first successful pilot projects have already been carried out, with a market launch scheduled for the 2023 financial year.

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

REPORT ON ECONOMIC POSITION

MACROECONOMIC AND SECTOR-SPECIFIC ENVIRONMENT

The Kiel Institute for the World Economy (IfW) considers the global environment to be weak, providing no positive momentum for the economy. However, the economic outlook has brightened since the autumn 2022 forecast. While wholesale gas and electricity prices have fallen significantly over the past few months, they remain at a high level. So-called price brakes are intended to cushion the impact of high energy prices for households and businesses. Overall, inflation is set to reach 5.4% in the coming year, far lower than expected in the autumn forecast (8.7%). Although real disposable income and thus private consumption are likely to decline during the current year, this fall will be significantly less severe than anticipated just a few months ago. As a result, the IfW now expects a slight increase in GDP of 0.3% for 2023 (autumn 2022: -0.7%). In 2024, GDP is expected to grow somewhat more strongly again at 1.3% (autumn 2022: 1.7%). The labor market appears robust despite the economic slowdown, partly because companies are still desperately searching for skilled workers. *(Source: IfW, Kiel Institute Economic Outlook World, No. 98, www.ifw-kiel.de)*

According to the experts at Oxford Economics, global machinery sales are likely to have risen by 3% on a price-adjusted basis in 2022, more than originally predicted last September. Lower growth is now expected for 2023, with the continuing rise in borrowing costs, a less favorable external environment, and lower demand expectations in the context of significant global uncertainty likely to dampen future willingness to invest. Nevertheless, these trends differ between individual countries. For the USA, a price-adjusted decline in mechanical engineering revenue of 5% is forecast. The EU-27 is set to see a gentler fall of 1%, partly because the high level of orders on hand at many companies is helping to cushion the downturn in demand. This negative trend in the USA and Europe contrasts with the positive estimates for major Asian machinery manufacturing countries, with real growth of between 3% and 5% predicted for Japan, South Korea and China. The transition to renewable energy sources and greater sustainability, increasing automation, and digitalization are necessitating changes to the technology base, which means new capital goods are required. Furthermore, investment support initiatives such as the EU Recovery and Resilience Facility as well as the Inflation Reduction Act in the USA could partially offset the reduction in private investment. *(Source: VDMA, Economic Bulletin International, February 2, 2023, www.vdma.org)*

According to the German Electrical and Electronic Manufacturers’ Association (Zentralverband Elektrotechnik und Elektroindustrie e. V. – ZVEI), 2022 was a strong year for the German electrical, electronics and digital industry. Production in this sector rose by 3.7% between January and November despite the war in Ukraine, the energy crisis, inflation and ongoing supply chain disruption. The electrical, electronics and digital industry clearly benefits from the two big drivers of electrification and digitalization. Nominal revenue increased by 12% in the past year to a record high of EUR 224 billion. Electronic components recorded the strongest growth (+21%), followed by information and communications technology, batteries, energy technology (all +14%) and automation (+12%). The number of employees most recently stood at almost 895,000, 2.3% higher than in the previous year. 2022 was also another record year for exports, with German electrical exports reaching EUR 246 billion (including re-exports) – a gain of 9%. The most important sales market was the European Union, with electrical supplies totaling EUR 126 billion. According to ZVEI, globalization appears to have reached its peak, with the protectionist economic policies of both China and the USA posing a significant risk. The EU must take decisive countermeasures and conclude more bilateral trading and commodity agreements. The ZVEI is confident about the current year and, as of today, forecasts a small increase in real production that would correspond to consolidation at a very high level. *(Source: "Electro and digital industry makes confident start to new year" [Elektro- und Digitalindustrie startet zuversichtlich ins neue Jahr], January 18, 2023, www.zvei.org)*

COURSE OF BUSINESS

In the 2022 financial year, the Softing Group was able to make up for much of its coronavirus-related revenue and EBIT losses. This is reflected in its 16.1% increase in revenue, a 48.6% rise in incoming orders and EBITDA growth to EUR 9.7 million.

Incoming orders rose from EUR 104.8 million in the previous year to EUR 155.8 million. This is the highest figure in the Softing Group's history. Orders on hand amount to EUR 89.9 million as of December 31, 2022 (previous year: EUR 33.6 million). All of the Group's segments registered significant growth in terms of their incoming orders and order books.

Due to the rise in the volume of incoming orders, the Softing Group recorded revenue growth across all revenue areas, markets and segments except for its IT Networks segment. In 2022, revenue stood at EUR 98.3 million (previous year: EUR 84.7 million), which was EUR 13.6 million (16.1%) higher than the previous year's level.

EBITDA amounted to EUR 9.7 million in the year under review (previous year: EUR 9.1 million), and the EBITDA margin was 9.9% (previous year: 10.6%). Operating EBIT (EBIT adjusted for capitalized development services of EUR 3.9 million and amortization of EUR 4.6 million on these as well as effects from purchase price allocation in the amount of EUR 1.8 million) in 2022 totaled EUR 3.3 million (previous year: EUR 3.0 million), falling short of the previous year's forecast for operating EBIT of EUR 4.0-4.8 million. This was primarily due to the disproportional increase in material costs triggered by inflation and shortages caused by Russia's war of destruction in Ukraine. Price rises on this scale were not envisaged when planning in 2022.

EBIT improved by EUR 1.3 million year-on-year in the 2022 financial year, rising from EUR –0.5 million to EUR 0.8 million. However, it still fell short of the original forecast of EUR 1.5–2.0 million. Again, this deviation was due to the disproportionally strong increase in material costs and other operating expenses.

The financial result was adversely impacted by the EUR 1.1 million decrease in the fair value of an unlisted equity instrument (investment in YOMA GmbH). As a result, the Group generated a negative financial result of EUR –1.3 million (previous year: EUR 0.8 million).

Overall, this resulted in consolidated profit after interest and taxes of EUR –1.2 million (previous year: EUR –0.1 million).

Segment development was as follows:

Industrial Segment

Demand for industrial products developed dynamically in the context of the post-coronavirus recovery, while the segment was less affected by the procurement crisis for electronic components. This meant that projects were largely executed as planned and there were only negative impacts on the cost side.

The Industrial segment generated revenue of EUR 72.0 million (previous year: EUR 61.0 million). EBITDA totaled EUR 7.2 million (previous year: EUR 7.3 million). Higher costs meant this revenue growth was not reflected in EBIT, which fell slightly to EUR 4.1 million (previous year: EUR 4.2 million); operating EBIT contracted from EUR 5.1 million to EUR 4.9 million year-on-year.

Automotive Segment

The 2022 financial year saw a marked recovery in demand despite the war of destruction in Ukraine and persistent supply bottlenecks caused by the coronavirus crisis. New products and services allowed the segment to once again expand its customer base for diagnostic and testing solutions and increase the proportion of business done with software leasing models. We were also able to gain new test bench customers. Overall, the core areas of the Automotive segment made their first positive contribution to EBIT.

In the telematics field, the fleet market, car hire segment and mobility sector picked up considerably following the coronavirus phase, even though supply difficulties often persisted for automotive manufacturers. This caused a sharp rise in deliveries in the car hire segment. Our solutions scale up in an increasingly broad and more international market. However, their EBIT contribution remains strongly negative due to the continuing high expenses associated with acquiring customers across several different pilot projects.

The Automotive segment's revenue increased by 21% overall from EUR 15.9 million to EUR 19.2 million, producing EBITDA of EUR 1.3 million after EUR 0.9 million in the previous year, while operating EBIT remained virtually unchanged from the previous year at around EUR –1.9 million (previous year: EUR –1.7 million). The EBIT figure of EUR –2.4 million is still negative due to the high market entry investments made in the area of telematics services (previous year: EUR –2.5 million).

IT Networks Segment

The COVID-19 crisis and subsequent supply chain disruption caused by Russia's war of destruction in Ukraine delayed the market launch of newly developed products such as the new CableMaster and LinkXpert series. We were unable to carry out product launches planned for 2022 to the extent envisaged and now expect to make the necessary quantities available in the first half of 2023.

In addition, 2022 also saw reduced demand for WireExpert, with the successor product scheduled to launch at the end of 2023. While the main certification business continued to receive stable and rapid supplies, supply chains for other product families were unstable, which meant that deliveries could not be carried out as planned.

Revenue in the IT Networks segment fell by 8% from EUR 8.4 million to EUR 7.7 million, with EBITDA of EUR –1.4 million (previous year: EUR 0.3 million) and EBIT of EUR –2.3 million (previous year: EUR –0.8 million), while operating EBIT dropped from EUR –0.7 million to EUR –2.4 million.

Course Of Business of Softing AG

Due to lower profit transfers from the subsidiaries and impairment losses on equity investments, the net profit for the year of Softing AG, the Group's parent company, fell by EUR 0.2 million to EUR 0.2 million in 2022.

EARNINGS

Results of Operations of the Softing Group

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

In the past financial year, consolidated revenue grew by EUR 13.6 million to EUR 98.3 million, an increase of 16%. The Industrial segment showed an increase in revenue of EUR 11.0 million. Own work capitalized (product developments) was EUR 3.9 million, up 8% on the previous year's level. The share of own work capitalized as a percentage of consolidated revenue fell from 4.3% to 4.0% in the 2022 financial year.

Other operating income increased by EUR 0.9 million, rising from EUR 2.8 million to EUR 3.7 million. This increase was primarily due to the reclassification of exchange differences previously recognized in equity totaling EUR 2.0 million, which were reclassified to the income statement in 2022. The Group also received grants for participating in a research program amounting to EUR 0.2 million. This was offset by a reduction in income from insurance compensation. While the Group received insurance compensation payments of EUR 0.9 million in the previous year for damage caused by the cyber attack in 2021, it did not receive any further compensation payments in the year under review.

The Group's expense items developed as follows:	2022 EUR million	2021 EUR million
Cost of materials	48.3	39.1
Employee Benefits Costs	36.0	33.6
Depreciation, amortization and impairment losses	9.0	9.5
Other operating expenses	11.9	9.5
Operating expenses	**105.2**	**91.7**

The cost of materials increased by EUR 9.2 million to EUR 48.3 million, or 23.5%. This rise mainly reflects the growth in revenue generated by the Group's segments and higher material sourcing expenses owing to the scarcity of components, and higher prices due to inflation with corresponding inventories of own and third-party products compared to the previous year. All told, the cost of materials ratio (cost of materials relative to revenue) was 49.1% (previous year: 46.1%), with gross profit (revenue less cost of materials) increased at a slower rate from EUR 45.6 million to EUR 50.0 million.

Staff costs rose by 7.1% to EUR 36.0 million. This was due to a process of normalization over the course of the coronavirus pandemic (decrease in short-time work, increase in variable remuneration and normalization of amount of vacation). It should be noted that in the previous year the Group received EUR 1.2 million in personnel subsidies from government agencies. No further subsidies were received in financial year2022. As of the reporting date, the Softing Group had 395 employees (previous year: 388).

Depreciation, amortization and impairment losses on intangible assets and property, plant, and equipment/right-of-use-assets decreased from EUR 9.5 million to EUR 9.0 million. This decrease was mainly due to the lower impairment loss on goodwill, which fell from EUR 1.0 million in the previous year to EUR 0.1 million.

Other operating expenses increased by EUR 2.5 million to EUR 11.9 million. This trend is attributable to the post-coronavirus crisis process of normalization, with an increased volume of sales and marketing activities as well as travel seen in financial year 2022. There were also increased expenses for IT security and infrastructure costs, as well as external services.

A key parameter for evaluating and managing results of operations is earnings before interest and taxes (EBIT) of EUR 0.8 million (previous year: EUR –0.5 million) and the operating EBIT derived from it EUR 3.3 million (previous year: EUR 3.0 million).

The interest result and other finance costs amounted to EUR –1.3 million (previous year: EUR 0.8 million). The other finance income/ finance costs of EUR –1.0 million (previous year: EUR 1.1 million) in the financial year related to a reduction of the fair value by EUR 1.1 million of a minority interest in Yoma GmbH. In the previous year these related to currency fluctuations of a USD loan to the American holding company, which was secured by repayment arrangements.

Taxes rose by EUR 0.3 million. This was caused by higher tax payments for Softing AG arising from the non tax-deductible reduction in the fair value of equity investments as well as non-recognition of deferred taxes on tax loss carryforwards in Liechtenstein.

Results of Operations of Softing AG

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

Softing AG does not itself operate directly in the market, instead receiving income from equity investments and from profit and loss transfer agreements.

Income from profit transfer is a key control parameter for Softing AG and constitutes the financial key performance indicator. This changed from EUR 0.3 million to EUR –0.3 million in the past financial year. Due to the impact of the pandemic, it was not possible to issue guidance for the income from profit transfer for the 2022 financial year.

Other operating income increased by EUR 2.2 million to EUR 2.7 million due to higher currency gains.

Staff costs fell from EUR 3.0 million to EUR 2.2 million due to lower variable salary components.

Other operating expenses increased by EUR 0.5 million to EUR 0.9 million. This rise was caused by the recognition of a global valuation allowance of EUR 0.25 million as well as higher capital market costs and increased currency expenses of EUR 0.1 million at the end of the year.

Due to lower costs related to the management of subsidiaries, revenue from affiliated companies in 2022 fell from EUR 3.2 million to EUR 3.1 million.

In the reporting period, provisions for taxes amounting to EUR 0.1 million were recognized for obligations arising from corporation tax and trade tax related to the past financial year.

Net profit for the year amounts to EUR 0.2 million (previous year: EUR 0.4 million).

FINANCIAL POSITION

Financial Position of the Softing Group

Financial Management

As part of the Group’s financial management, the German subsidiaries are included in a cash pooling system managed by Softing AG. Where deemed necessary, the cash flows of companies doing business in foreign currencies are hedged using conventional forwards.

Capital Structure

The equity of the Softing Group at the end of 2022 stood at EUR 61.8 million (previous year: EUR 63.5 million).

The equity ratio reached 56.0% (previous year: 61.5%).

Non-current liabilities amounted to EUR 23.2 million (previous year: EUR 17.0 million). This increase resulted from a new long-term bullet loan of EUR 2.5 million and the reclassification of non-current personnel-related liabilities; it was offset by the reclassification of parts of loans to short-term borrowings.

Current liabilities rose by EUR 2.6 million to EUR 25.4 million, due mainly to the increase in trade payables, contract liabilities and a rise in short-term borrowings; this was offset by the reclassification of current personnel-related liabilities to non-current personnel-related liabilities.

Capital Expenditure

In the past financial year, the Softing Group invested EUR 5.0 million (previous year: EUR 4.8 million) in internally and externally generated intangible assets. Investments in other non-current assets amounted to EUR 1.0 million in 2022 (previous year: EUR 1.1 million), not including the increase in right-of-use-assets pursuant to IFRS 16. Please refer to the Research and Development section for information on investments in the specific segments.

Liquidity

Cash flow from operating activities fell by EUR 7.2 million from EUR 11.1 million to EUR 3.8 million, primarily due to higher inventories (EUR 5.6 million) and an increase in receivables (EUR 2.9 million).

Funds used for investing activities amounted to EUR 6.1 million (previous year: EUR 5.9 million), comprising mainly investments in new product development and replacement investments.

Cash flow from financing activities amounted to EUR –0.7 million (previous year: EUR –5.9 million). Repayments of short- and long-term bank loans of EUR 2.8 million were made and new loans of EUR 4.6 million were taken out.

The cash available to the Group amounted to EUR 6.8 million at year-end (previous year: EUR 9.6 million).

Financial Position Of Softing AG

Capital Structure

Equity fell from EUR 47.6 million to EUR 47.0 million, primarily due to the dividend payment made in May 2022 as well as the current net profit for the year.

The equity ratio was 65.03% (previous year: 68.7%)

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

Other liabilities increased from EUR 3.0 million to EUR 4.5 million, due mainly to the increase in variable remuneration entitlements.

Liabilities to banks rose by EUR 0.7 million due to the repayment of utilized credit facilities and the scheduled repayment of long-term loans on the one hand and new short-term borrowings on the other.

Liquidity

The subsidiaries obtained financing almost exclusively from Softing AG's cash pooling system and its own cash contributions to the operations of subsidiaries not participating in the cash pooling system. Separate bank loans were taken out by subsidiaries only to a minor extent. To finance the fixed purchase price of OLDI and to finance GlobalmatiX AG and product innovations, Softing AG has taken out loans totaling EUR 14.0 million from two German commercial banks in 2019. As of December 31, 2022, these loans were measured at EUR 9.5 million.

Funds at year's end were EUR 4.3 million (previous year: EUR 4.6 million). There are unused credit lines in the amount of EUR 4.6 million (previous year: EUR 4.6 million).

NET ASSETS

Net Assets of the Softing Group

Non-current assets comprise items including intangible assets, goodwill, property, plant, and equipment, and deferred tax assets and at the end of 2022 represented 58.3% of total assets (previous year: 60.5%). This was offset by equity and non-current liabilities together representing 77.0% of equity and liabilities (previous year: 77.9%).

Non-current assets rose slightly by EUR 1.9 million to EUR 64.4 million. This was attributable to the capitalization of a right-of-use asset for a new lease for the Group's headquarters, the capitalization of development costs for product developments, and currency fluctuations from movements in USD.

Current assets comprise inventories, trade receivables, and cash and cash equivalents. Current assets rose from EUR 40.8 million to EUR 46.1 million due to higher levels of inventories and receivables.

Total assets in the reporting year fell to EUR 110.4 million (previous year: EUR 103.4 million).

Net Assets of Softing AG

The total assets of Softing AG rose by EUR 2.9 million year-on-year to EUR 72.2 million (previous year: EUR 69.3 million).

Equity interests in affiliated companies decreased from EUR 31.1 million to EUR 30.6 million due to a permanent impairment of equity interests in affiliated companies.

Bank loans of EUR 2.8 million were repaid in the 2022 financial year. In the course of obtaining these loans, Softing AG agreed to comply with financial covenants entailing an obligation to maintain certain financial ratios. The financial covenants require Softing to maintain a specified equity ratio and not exceed a maximum debt-to-equity ratio. During the financial year, Softing AG again comfortably fulfilled the covenants regarding equity ratio and maximum debt-to-equity ratio.

Loans to affiliated companies increased by EUR 5.4 million to EUR 22.2 million due to a new loan. Cash and cash equivalents decreased to EUR 4.3 million due to repayments of loans.

Receivables from affiliated companies were down from EUR 15.0 million to EUR 14.6 million as a result of a decrease in trade receivables.

REPORTING ON NON-FINANCIAL PERFORMANCE INDICATORS

Employee expertise, qualifications, motivation and satisfaction are among the most important resources for the Softing Group's sustained success as a technology and development company. The Group therefore attaches particular importance to its employees and their training. The knowledge, skills, continuing development and dedication of its employees are essential ingredients in the Softing Group's past and future success. The Group therefore sees employee turnover as an important non-financial performance indicator and endeavors to keep it below 10% where possible. In the past financial year, employee turnover rose from 9.8% to 13.9% at the German companies due to the end of the coronavirus pandemic and developments in the labor market. The offices abroad showed similar employee turnover. Initiatives have been introduced to improve this key performance indicator.

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

The course of business of the Softing Group saw an encouraging 16% increase in revenues amid a challenging geopolitical environment, while the order situation also continued to improve. On the cost side, however, procurement bottlenecks and higher inflation caused costs to rise sharply, which meant the Group still ultimately generated a net loss for the year. In terms of financial position and net assets, this resulted in a slight fall in equity and a reduction in cash. As a result, the Executive Board believes that the financial position and net assets of the Softing Group proved to be stable during the current crises, which are not yet over.

The course of business of Softing AG was marked by the currency gains realized from the repayment of a USD loan receivable totaling EUR 2.4 million as well as write-downs of investments amounting to EUR 1.6 million and losses from profit and loss transfer agreements totaling EUR 0.3 million. According to the Executive Board, the financial position and net assets of Softing AG were stable and were characterized by a net profit for the year of EUR 0.2 million and a reduction in equity caused by the scheduled dividend payment of EUR 0.9 million.

REPORT ON OPPORTUNITIES, RISKS AND FORECASTS

REPORT ON OPPORTUNITIES

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

Industrial Segment

We continued to significantly expand our selection of data connectivity products for plant optimization via strategic partnerships with leading automation providers. These products are expected to contribute to the Company's success this year as marketing efforts are intensified. Online shops and marketplaces will be used for this purpose, with the Company expecting this to expand its access to the market. One key driver of additional growth is OT/IT convergence and the strategic expansion of cloud connectivity solutions known as edge connectivity products. Another series of products in this area is being launched on the market in 2023 and will help to further round out the products and services on offer. The strategic partnership with Siemens is being expanded further, which will boost the distribution and acceptance of Softing products.

The Company will also focus on strengthening its sales and marketing organization with a focus on internationalization and a stronger integration of international Softing offices.

The newly-created Service department will meet the steadily increasing demand from automation customers for consulting services and contribute additional revenues via service level agreements (SLAs).

IT Networks Segment

The continued expansion of the Softing IT Networks portfolio with proprietary products, the launch of market innovations, and work in international standards bodies cements the Softing brand as a leading manufacturer of measuring technology while raising the Company’s profile. The new LinkXpert series opens up another market segment between the unique NetXpert XG qualifier and the proven CableMaster series. The Group also expects the imminent rollout of another certifier to create new opportunities, as the scope of application for the new product is significantly broader than that of the older alternative and can therefore help to attract additional customers. We continue to see opportunities for developing new markets by digitizing sales processes as well as by providing more intensive individual support for our partners.

Automotive Segment

By consistently integrating all software layers from application to embedded devices including onboarding, Softing can offer its customers modular standards-based products and integration projects. This market positioning enables Softing to meet rising global demand for integrated solutions related to testing and flash applications. The continuing decentralization of our customers’ work processes in the form of working from home and remote working remains an important driver. Parallel, remotely or autonomously operated solutions are very important as they facilitate further efficiency improvements. The market is also aware that Softing has access to expertise in all of the necessary fields for the sustainable and profitable growth it is targeting. The Company’s business development efforts will continue to focus on generating opportunities from existing customers and strategic key accounts.

By using the GlobalmatiX telematics solution, we are laying the foundations for the digitalization of our connected car concept. This will simplify complex return processes for rental cars, car sharing models and vehicle subscription providers in a customer-friendly way and make them more cost-effective. Building up a vehicle maintenance history increases the resale value of vehicles. Keyless access also enables vehicles to be rented from vehicle rental stations that are already closed.

Evaluating big fleet data in real time increasingly requires cloud-based platforms that are now being requested as a service by OEMs and their suppliers. As a result, the GlobalmatiX telematics interface is increasingly being used as an interconnected 4G CAN/LIN data logger for connected batteries, connected tires or connected diagnostics. Based on “design by security,” the GlobalmatiX security patent for connected cars helps to protect worldwide data transactions between vehicles and the cloud from unauthorized access. In telematics, the multi-brand capabilities, the modular and customized over-the-air applications for all vehicles, the high data resolution, and the range of applications available from just one box result in numerous possible applications and an very broad spectrum of applications with only low modification costs, creating growth opportunities in various areas.

Softing Engineering & Solutions GmbH has a strategic partnership with a global leader in HIL (hardware in the loop) test benches. Innovative solutions that create maximum customer satisfaction are constantly being developed for premium OEMs and their suppliers generally based in Bavaria and Baden-Württemberg as well as development service providers. The structures for 1:1 vehicle models (FMUs – Functional Mockup Units) developed since 2017 have enabled the Company to gain a second premium customer. Since then, high-voltage FMUs that fully meet our customers’ high standards have also already been delivered. Additional FMUs with the latest technology will also be delivered to customers in the future, which should lead to further growth and follow-up orders.

RISK REPORT

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

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

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

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

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

Risk-bearing capacity is the maximum level of risk which the Company is able to bear without jeopardizing its going-concern status. This entails a comparison of the aggregate risk with the funds available for risk coverage, the so-called cover funds. The latter comprise the resources available within the scope of the Company's net assets, financial position and results of operations which will be drawn upon to cushion the effects in the event of risks being realized. If the ratio of the cover funds to aggregate risk is not sufficient, a Company's existence might be jeopardized in case of various risks materializing at the same time. As of the end of the financial year, the Executive Board assumes that short-term cover funds of EUR 6.8 million are available by way of uncommitted cash and cash equivalents. There are also unused credit lines in the amount of EUR 6.4 million as well as trade receivables which exceed trade payables by EUR 7.5 million.

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

a. Minor risks (relative risk impact of up to 25%) are insignificant for the Company and no action needs to be taken to mitigate the risk. The relative risk impact is the ratio of loss amount multiplied by the probability of risk occurrence to the planned EBIT of a Group company. A risk value below EUR 2 million would be a small risk.

b. Moderate risks (relative risk impact of up to 50%) have a limited extent of loss and a moderate probability of occurrence. There is no immediate need for action. Efficient, effective measures are sufficient to reduce moderate risks or to manage them rapidly in the event of an emergency. A risk value above EUR 2 million and below EUR 5 million would be a moderate risk.

c. Large risks (relative risk impact of more than 50%) cause greater loss and/or have a higher probability of occurrence than moderate risks. These risks should be reduced through appropriate controls or process optimization. Where possible, appropriate measures should be taken to reduce the major gross risk to the moderate or minor level of risk. A risk value above EUR 5 million would be a large risk.

d. Going-concern risks (relative risk impact of more than 75%) could jeopardize the continued existence of an organizational unit or the Softing Group as a whole. Measures must be taken immediately to reduce the gross risk.

The risks are referred to as gross risks before risk mitigation measures.

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

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

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

External Risks

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

As a result, there was a greater focus on the longer-term economic impacts of the pandemic in 2022 and beyond, which result from economic upheaval caused by the Russian war of destruction, among other things. These impacts include a strained supply chain and the associated risk of potential revenue shifts and losses as well as some sharp price increases among the suppliers Softing AG has to deal with. Softing sees a further risk exacerbating the procurement risk in a conflict between China and Taiwan/USA, which could take the procurement crisis for electronic components to new heights and to which Softing would only be partially able to react.

Softing AG is partially addressing the risk of delivery delays by working with new suppliers, replacing specific parts in products and increasing its safety stock wherever possible. In spite of the measures taken, the risks cannot be avoided. There is a possibility of revenue being shifted to later periods. Supply bottlenecks may also result in higher cost prices for Softing if it has to switch to more expensive products in order to ensure its ability to deliver. We counter this risk with price increases and direct consultation with our customers on the subject of price versus delivery time.

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

Geopolitical uncertainty is also increased considerably due to factors such as Russian war of destruction in Ukraine. The sanctions adopted may lead to weaker demand. As the Softing Group's customers are primarily based in Western countries, it does not envisage any direct consequences for the Company; however, any escalation of the conflict could result in energy shortages and an economic downturn that would also impact Softing AG.

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

Overall, this risk is classified as a large risk. If the risk management measures were not effective, this could result in a going-concern risk.

Performance and Operational Risks

In 2022, revenue increased by 16.1% compared to 2021. However, there is always a risk both of underutilization of capacities and sustaining pressure on realizable revenues due to factors such as revenue being delayed as a result of supply chain issues with customers or weaker demand. Softing addresses these risks with stricter cost management measures and flexible working hour models so that it can quickly adapt to any changes in demand. The sales risk is therefore classified as a large risk overall. A loss of major customers would be a going-concern risk.

Development Risks

The situation on the market is characterized by a rapid change of the employed technologies. This means that there is a danger that acquired knowhow may prematurely lose value due to an unexpected market development. This may lead to the impairment of capitalized goodwill and development costs and have a negative impact on sales and earnings performance in the long term. Softing address this risk by actively participating in a large number of national and international working groups, which enables it to recognize technological trends early on and help actively shape them.

The automotive parts supplier industry in particular is currently undergoing a prolonged process of transformation. As in previous years, the Group was unable to avoid the effects of these developments in the reporting year, and therefore continues to invest in new development work (especially in telematics) while keeping a close eye on cost levels to increase profitability over the medium to long term.

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

Should the sector fail to recover over the medium and long term, however, this would create a lasting impact on the level of earnings overall and compromise the development of the Softing Group. While the Group does not believe this to be a likely scenario, The financial repercussions for the Group's results of operations would be considerable if the scenario did occur because it could result in the impairment of goodwill and capitalized development costs.

Overall, development risk is therefore classified as a moderate risk.

Project Risks

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

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

Financial Risks

Credit risks have not played a significant role in the past. The Group's restrictive credit management process allows it to identify imminent insolvencies faster and thus to counteract them in due time. Together, all of these measures again helped to forestall major defaults on receivables in 2022 despite increased risks due to the Ukraine crisis. Most of the Softing Group's customers are well-known and leading industrial companies. Overall, this risk is classified as a small risk.

Use of Financial Instruments

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

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

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

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

Overall, this risk is classified as a moderate risk.

Currency Risks

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

Other Risks

IT Risks

As in all companies, the smooth functioning of business processes depends on the availability of the IT infrastructure. Attacks from the Internet, as well as other IT failures or damage to the IT infrastructure, pose a serious threat to the Company's ability to function. Softing has taken appropriate measures to protect its IT infrastructure and constantly monitors and reviews their effectiveness. This risk is considered a very high risk going forward. The Group takes the issue of cyber security and the potential widening of hostilities in this area extremely seriously. It has implemented the recommendations issued by authorities, and is currently adjusting them By coordinating and comparing with other companies to determine its own position. Softing has invested substantial sums in cyber security and provides its staff with regular training on the subject. As no company is immune from a cyber attack, it is essential to ensure that resilience and recoverability are built into IT systems and that all employees remain vigilant. Softing achieved TISAX Level 3 Certification for data security in the automotive sector during the first half of 2022. Overall, this risk is classified as a small risk.

Personnel Risks

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

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

Legal Risks

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

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

Based on the risk policy and the current assessment of the risks, the risk exposure of both the Group and Softing AG is regarded as manageable. Despite a variety of political upheavals, the financial position and net assets are expected to improve in 2023. Regarding financial year 2023, the Executive Board believes that the Group will be able to bear the residual risks not covered by insurance even in the event of unfavorable developments. Overall, this risk is classified as a small risk.

REPORT ON EXPECTED DEVELOPMENTS

Economic Outlook Brightening Slightly

Over the course of 2023, the downward trend triggered by high inflation is likely to stop gradually as a result of energy prices, which are dropping again from their current extremely high level. This could help to stabilize private consumption and cause total economic output to expand slightly, with the recovery likely to gather more momentum over the course of the forecast period. Overall, gross domestic product is expected to grow by only around 0.2% in 2023 before rising moderately again by 1.6%–1.8% over the following years. While inflation is likely to remain very high at 7.4% in 2023, the anticipated gradual decline in energy prices will return inflation to more moderate levels in 2024. *(Source: IfW, Kiel Institute Economic Outlook World, No. 94, www.ifw-kiel.de)*

Industrial Segment

Despite the persistently volatile economic environment, Softing Industrial Automation GmbH is in an excellent position both in technological and supply terms to achieve its ambitious growth targets for 2023. This optimistic assessment is supported by the structural change and strategic focus in sales and marketing and is further bolstered by the creation of additional synergy effects within the Softing Group. Risks continue to arise from the continuing shortage of skilled workers as well as growing disruption to global supply chains.

The outlook for Softing's business in the USA remains mixed in 2023. Several new products and projects were launched on the market that should increase revenue and enhance profitability. However, the currently prevailing economic environment is causing a significant degree of uncertainty due to high levels of inflation and challenges in terms of logistics and parts availability. Nevertheless, the very high volume of orders offers good opportunities for improving our results of operations.

Automotive Segment

Inflationary effects and the as-yet-unaverted risk of recession will impact global economic development beyond 2023. Although investments are still being made, we are likely to see cost savings programs to compensate for broad increases in factor costs. Companies with higher leverage ratios will act in a cautious and cost-sensitive way to minimize risks and protect their economic efficiency, which is likely to result in sustained yet subdued growth in 2023. We will probably only see a return to widespread and stable global economic growth and a complete easing of tensions once inflation falls and the risk of recession recedes, with a clear trend unlikely to materialize before the second half of 2023.

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

With the chip shortage now also increasingly easing and disrupted supply chains functioning well once again, GlobalmatiX can accelerate its growth in 2023. We are continuing to push ahead with the further commercial rollout of projects for major customers that have already begun, and have set up exciting pilot installations. Delivery and installation volumes will reach five digits in 2023. Our customers are also pursuing ambitious expansion targets beyond Germany.

IT Networks Segment

The competition situation in the certification segment will again make itself felt in Europe and the USA in 2023 until Softing is able to unveil the latest device in its WireXpert series. There are also four more devices that will be available at scale during the course of this year. We are also adding functional enhancements to our existing products, some of them significant. The strong shift in the sales channel towards online retail will open up even more opportunities for Softing IT Networks to place its own products in additional markets.

In its certification, qualifying and verification segments, Softing will further consolidate its position as a technology leader by introducing these new products. While new technologies such as SPE (Single Pair Ethernet) will be apparent as a technology trend in 2023, they will only make a meaningful contribution to the business over the following years.

Outlook for the 2023 Financial Year for the Softing Group

Softing's declared goal remains to further boost the operational excellence of the Group by optimizing market penetration to ensure regional balance in line with our focus. Softing is firmly committed to continuing the pursuit of this goal in 2023, even though the procurement crisis relating to electronic components has not yet been fully resolved. Based on the Softing Group's positioning and customer feedback and a high level of orders on hand from the previous year, Softing sees good opportunities to increase revenue and earnings again in financial year 2023. Softing will again face numerous unavoidable uncertainties in 2023 regarding economic developments in Europe as well as in Asia and North America. Softing would not be able to avoid the impact of downturns in the demand markets. These external risks are taken into account in the forecast as dampening factors.

As a leading technology group, Softing must and will work to actively shape technical change. The speed of change continues to increase substantially in all segments. For this reason, Softing plans to use the expertise that its current portfolio and acquisitions provide for the extensive development of new products and the extensive refinement of existing ones in financial year 2023. For 2023, Softing is generally assuming that capitalization of development costs will remain largely stable due to increased investment in new products. Investment in some product lines will decline due to completions, while new technologies and products will receive a kick-start. We also have opportunities for above-average returns in the existing business, for instance in the process and manufacturing industries, which Softing consolidates in the Industrial segment. Strong growth in our own products in the IT Networks segment is expected to continue thanks to new products. In the Automotive segment, the key factor is landing new projects from major customers, even though these will only have a minimal influence on revenue in the current year. However, they will be the foundation for growth in the years to come. The limitations triggered by the risks already mentioned continue to apply. The war in Ukraine and the resulting crisis in the procurement of electronic components continue to play a major role in the development of the business. However, economic risks also include everything from prolonged inflationary trends and political uncertainty to the threat of war.

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

This specific environment must be seen in addition to the transformation process in the automotive industry and makes it difficult to reliably and realistically assess the forecast for the 2023 financial year.

The Executive Board expects issues surrounding the procurement of electronic components to ease further in the second half of 2023.

At the Group level, revenue is expected to increase to between EUR 110 million and EUR 115 million. We expect positive EBIT and a slight rise in operating EBIT for the Group, driven by the Industrial segment. We continue to anticipate increased cost pressure due to inflation. Consolidated EBIT is therefore forecast to be in a range of EUR 1.0 million to EUR 1.5 million. The Executive Board expects operating EBIT to come in between EUR 3.0 million and EUR 3.5 million.

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

Outlook for the 2023 Financial Year for Softing AG

Softing AG is dependent on the results outlined above.

Based on projected earnings, Softing AG is forecasting income from profit and loss transfer agreements and dividends of up EUR 0.5 million to EUR 1.0 million for the 2023 financial year Expected earnings before taxes, assuming income from profit and loss transfer agreements and dividends, will range between EUR 0.5 million and EUR 1.0 million.

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

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

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

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

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

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

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

Use of IT Systems

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

Specific Risks Related to the Financial Reporting Process

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

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

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

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

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

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

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

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

Caveats

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

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

DISCLOSURES IN ACCORDANCE WITH SECTION 289A HGB AND EXPLANATORY REPORT

1. In 2022, the share capital of Softing AG was EUR 9,105,381 denominated in the same number of no-par shares, all granting the same rights, specifically voting rights. No shareholder or shareholder group has special rights.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

   An average of 9,015,381 shares were outstanding in the 2022 financial year.

   On May 6, 2022, the General Shareholders' Meeting authorized the Executive Board of Softing AG to increase the Company's share capital with the approval of the Supervisory Board by a total of EUR 4,552,690 on one or several occasions up to May 5, 2027 by issuing new no-par bearer shares against contributions in cash and/or in kind (Authorized Capital 2022). The existing authorized capital (Authorized Capital 2018) was cancelled based on a resolution adopted by the General Shareholders' Meeting on May 6, 2022.

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

   Authorized Capital 2018 as of December 31, 2022, was EUR 4,552,690.

7. The Executive Board is authorized to contingently increase the Company's share capital with the approval of the Supervisory Board by up to EUR 4,552,690.00 by issuing up to 4,552,690 new no-par bearer shares (Contingent Capital 2022). The contingent capital increase will serve the granting of option rights or obligations to the holders of warrants arising from bonds with warrants under the terms of the respective options or the granting of conversion rights or obligations to the holders of convertible bonds under the terms of the respective convertible bonds issued by the Company up to May 05, 2027 in accordance with the resolution of the General Shareholders' Meeting on May 06, 2022. The new shares will be issued at the respective option or conversion price to be determined in accordance with the above-mentioned authorization resolution. The contingent capital increase will be implemented only in the event that bonds with warrants or convertible bonds are issued and only to the extent that the holders of the bonds with warrants or the convertible bonds make use of their option or conversion right or the holders of bonds obligated to convert or to exercise the option fulfill this obligation and the contingent capital is needed in accordance with the terms and conditions of the bond with warrants or the convertible bond. The new shares issued on the basis of the exercise of the option or conversion right or the fulfillment of the conversion or option obligation have a share in the profit from the beginning of the financial year in which they arise. The Executive Board is authorized, with the approval of the Supervisory Board, to stipulate

the further details of the implementation of the contingent capital increase. Said authority was not exercised to date. The existing contingent capital (Contingent Capital 2018) was cancelled based on a resolution adopted by the General Shareholders' Meeting on May 6, 2022.

8. On May 06, 2020, the General Shareholders' Meeting authorized the Executive Board to purchase own shares until May 05, 2025, provided that such purchase is not made for the purpose of trading in treasury shares, and provided that the purchase price of said shares is not more than 10% above or below the share's average closing price at the Frankfurt Stock Exchange during the last ten days preceding the purchase (share repurchase). The closing price shall be determined as the share's closing auction price in electronic trading on the Frankfurt Stock Exchange (XETRA trading) or a system succeeding XETRA trading. The authorization may be exercised once or several times, in whole or in part. It is limited to purchasing shares representing no more than a total of 10% of the Company's share capital. Any treasury shares acquired under this authorization – together with other treasury shares that the Company has already acquired and still holds – may not exceed 10% of the Company's share capital.

9. The buyback served to create an acquisition currency that is required in the medium term and that is available at a price which the Company believes to be considerably below fair value. The Company held 90,000 treasury shares as of December 31, 2022.

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

11. There are no compensation agreements of the parent company with members of the Executive Board or employees in the event of a takeover bid.

STATEMENT ON CORPORATE GOVERNANCE

The Executive Board of Softing AG reports on issues of corporate governance in this statement – also on behalf of the Supervisory Board – pursuant to both Principle 22 of the German Corporate Governance Code and Sections 289f (1) and 315d of the German Commercial Code (HGB). The statement applies both to Softing AG as the parent and to the Softing Group in equal measure. For the contents of the statement, please see this link on our website at www.softing.com: https://investor.softing.com/corporate-governance-code/statement-on-cgc-pursuant-to-sec-289f-and-315d-hgb.html.

RESPONSIBILITY STATEMENT

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

Haar, Germany, March 24, 2023
Softing AG

The Executive Board

Dr. Wolfgang Trier　　Ernst Homolka

Consolidated Income Statement

for the Period from January 1 to December 31, 2022

	Note	Jan. 1 – Dec. 31, 2022 EUR (in thsds.)	Jan. 1 – Dec. 31, 2021 EUR (in thsds.)
Revenue	**D1**	**98,311**	**84,690**
Other own work capitalized	D2	3,948	3,653
Other operating income	D3	3,692	2,848
Operating income		**105,951**	**91,191**
Cost of materials / cost of purchased services	D4	–48,311	–39,075
Staff costs	D5	–35,986	–33,608
Depreciation, amortization and impairment of property, plant and equipment, right-of-use assets and intangible assets	D6	–8,967	–9,547
thereof depreciation / amortization / due to purchase price allocation / impairment of goodwill		–1,810	–2,593
thereof depreciation due to accounting for right-of-use-assets		–1,317	–1,248
Other operating expenses	D7	–11,925	–9,437
Operating expenses		**–105,189**	**–91,667**
Profit / loss from operations (EBIT)		**762**	**–476**
Interest income	D8	49	26
Interest expense	D8	–282	–252
Interest expense from lease accounting		–128	–87
Other finance income / finance costs	D8	–964	1,074
Earnings before income taxes		**–563**	**285**
Income taxes	D9	–616	–353
Consolidated profit		**–1,179**	**–68**
Consolidated profit attributable to			
Shareholders of Softing AG		–1,397	–255
Non-controlling interests		218	187
Consolidated profit		**–1,179**	**–68**
Earnings per share (diluted = basic)		–0.13	–0.01
Average number of shares outstanding (basic)		9,015,381	9,015,381

Consolidated Statement of Comprehensive Income

for the Period from January 1 to December 31, 2022

	Jan. 1 – Dec. 31, 2022 EUR (in thsds.)	Jan. 1 – Dec. 31, 2021 EUR (in thsds.)
Consolidated profit	**–1,179**	**–68**
Items that will not be reclassified to consolidated comprehensive income		
Remeasurement of pensions	1,485	396
Tax effect	–417	–111
Remeasurement from pensions, total	1,068	285
Items that will be reclassified to consolidated comprehensive income:		
Currency translation differences		
Changes in unrealized gains / losses	–1,257	527
Tax effect	555	149
Total currency translation differences	–702	676
Other comprehensive income	**366**	**961**
Consolidated comprehensive income for the period	**–813**	**893**
Consolidated comprehensive income for the period attributable to		
Shareholders of Softing AG	–1,031	706
Non-controlling interests	218	187
Consolidated comprehensive income for the period	**–813**	**893**

Consolidated Statement of Financial Position

as of December 31, 2022

Assets	Note	Dec. 31, 2022 EUR (in thsds.)	Dec. 31, 2021 EUR (in thsds.)
Non-current assets			
Goodwill	C1/C2	17,398	17,064
Other intangible assets	C3/C4	38,166	38,770
Property, plant and equipment	C6	7,620	4,758
Other financial assets	C5	435	1,500
Deferred tax assets	D9	753	433
Non-current assets, total		**64,372**	**62,525**
CURRENT ASSETS			
Inventories	C7	18,981	13,409
Trade receivables	C8	16,759	14,066
Current other financial assets	C9	318	1,345
Contract assets	C10	524	307
Current income tax assets	C11	324	538
Cash and cash equivalents	C12	6,802	9,613
Current non-financial assets	C13	2,368	1,558
Current assets, total		**46,076**	**40,836**
Total assets		**110,448**	**103,361**

Equity and liabilities	Note	Dec. 31, 2022 EUR (in thsds.)	Dec. 31, 2021 EUR (in thsds.)
Equity			
Subscribed capital	C14	9,105	9,105
Capital reserves	C14	31,111	31,111
Treasury shares	C14	–485	–485
Retained earnings	C14	21,264	23,196
Equity, shareholders of Softing AG		60,995	62,927
Non-controlling interests	C14	840	621
Equity, total		**61,835**	**63,548**
Non-current liabilities			
Pensions	C15	1,121	2,605
Long-term borrowings	C16	9,258	9,456
Other non-current financial liabilities	C16	8,287	1,074
Deferred tax liabilities	D 9	4,537	3,851
Non-current liabilities, total		**23,203**	**16,986**
Current liabilities			
Trade payables	C17	9,266	7,226
Contract liabilities	C10	4,999	3,471
Provisions	C18	52	164
Income tax liabilities	C19	334	345
Short-term borrowings	C20	5,477	3,510
Other current financial liabilities	C21	4,157	6,945
Current non-financial liabilities	C22	1,125	1,166
Current liabilities, total		**25,410**	**22,827**
Total equity and liabilities		**110,448**	**103,361**

Consolidated Statement of Changes in Equity

for the Period from January 1 to December 31, 2022

	Sub-scribed capital	Capital reserves	Treasury Shares	Retained earnings				Equity, shareholders of Softing AG	Non-controlling interests	Total equity
				Net retained profits and other	Remeasure-ments	Currency translation	Total			
	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)
Balance as of January 1, 20022	**9.105**	**31.111**	**–485**	**22.961**	**–1.744**	**1.977**	**23.195**	**62.926**	**622**	**63.548**
Consolidated profit 2022				–1.397			–1.397	–1.397	218	–1.179
Other comprehensive income 2022					1.068	–702	366	366		366
of which from remeasurements					1.485		1.485	1.485		1.485
of which currency translation						–1.257	–1.257	–1.257		–1.257
of which tax effect					–417	555	138	138		138
Consolidated comprehensive income for the period				**–1.397**	**1.068**	**–702**	**–1.031**	**–1.031**	**218**	**–813**
Dividend payment				–900			–900	–900		–900
Purchase of own shares										
Change in minorities										0
Transactions with owners in their capacity as owners				**–900**			**–900**	**–900**		**–900**
Balance as of December 31, 2022	**9.105**	**31.111**	**–485**	**20.664**	**–676**	**1.275**	**21.264**	**60.995**	**840**	**61.835**

	Sub-scribed capital	Capital reserves	Treasury Shares	Retained earnings				Equity, shareholders of Softing AG	Non-controlling interests	Total equity
				Net retained profits and other	Remeasure-ments	Currency translation	Total			
	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)
Balance as of January 1, 20021	**9.105**	**31.111**	**–485**	**23.577**	**–2.029**	**1.301**	**22.850**	**62.581**	**429**	**63.010**
Consolidated profit 2021				–255			–255	–255	187	–68
Other comprehensive income 2021					285	676	961	961		961
of which from remeasurements					396		396	396		396
of which currency translation						527	527	527		527
of which tax effect					–111	149	38	38		38
Consolidated comprehensive income for the period				**–255**	**285**	**676**	**706**	**706**	**187**	**893**
Dividend payment				–361			–361	–361		–361
Purchase of own shares										
Change in minorities									6	6
Transactions with owners in their capacity as owners				**–361**			**–361**	**–361**	**6**	**–355**
Balance as of December 31, 2021	**9.105**	**31.111**	**–485**	**22.961**	**–1.744**	**1.977**	**23.195**	**62.926**	**622**	**63.548**

Consolidated Statement of Cash Flows

for the Period from January 1 to December 31, 2022

	Jan. 1 – Dec. 31, 2022 EUR (in thsds.)	Jan. 1 – Dec. 31, 2021 EUR (in thsds.)
Cash flows from operating activities		
Profit (before tax)	**–563**	**285**
Depreciation, amortization and impairment losses on fixed assets	8,967	9,547
Other non-cash transactions	–1,956	100
Cash flows for the period	**6,448**	**9,932**
Interest income / finance income	–150	–1,100
Interest expense / finance costs	1,346	294
Change in other provisions and accrued liabilities	–527	–109
Change in inventories	–5,574	262
Change in trade receivables	–2,908	388
Change in financial receivables and other assets	110	–1,112
Change in trade payables	2,041	1,227
Change in financial and non-financial liabilities and other liabilities	3,430	1,869
Interest received	10	26
Income taxes received	66	123
Income taxes paid	–477	–746
Cash flows from operating activities	**3,815**	**11,054**
Cash paid for investments in new internal product developments	–3,948	–3,653
Cash paid for investments in new external product developments	–1,082	–1,156
Cash paid for investments in other intangible assets	–64	–22
Cash paid for investments in non-current assets	–973	–1,080
Cash flows from investing activities	**–6,067**	**–5,911**
Cash paid for dividends	–902	–361
Repayment of lease liabilities	–1,227	–1,227
Cash received from long-term bank line	2,601	0
Cash received from short-term bank line	1,978	0
Cash repayment of bank loans	–2,811	–3,968
Interest, lease accounting	–128	–87
Other interest paid	–213	–207
Total interest paid	–341	–294
Cash flows from financing activities	**–702**	**–5,850**
Net change in funds	–2,954	–709
Effects of exchange rate changes on cash and cash equivalents	143	156
Cash and cash equivalents at the beginning of the period	9,613	10,166
Cash and cash equivalents at the end of the period	**6,802**	**9,613**

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

Changes in Intangible Assets and Property, Plant and Equipment

in Financial Year 2022

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

in Financial Year 2021

	Cost					
	Jan. 1, 2021	Additions	Currency differences	Restatements / reclassifications	Disposals	Dec. 31, 2021
	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)
Intangible assets						
Goodwill	17,796		564			18,360
Internally generated product developments	40,723	3,653	95			44,471
Externally generated product developments	5,835	1,156				6,991
Other intangible assets	31,864	22	1,495		1	33,380
	96,218	**4,831**	**2,154**		**1**	**103,202**
Property, plant and equipment						
Right-of-use assets, operating and office equipment	75	53		–9	36	83
Right-of-use assets, buildings	4,487	286	93	–10	455	4,401
Right-of-use assets, vehicles	492	63		–2	106	447
Other equipment, furniture and fixtures and office equipment	5,336	1,080	101		73	6,444
	10,390	**1,482**	**194**	**–21**	**670**	**11,375**
	106,608	**6,313**	**2,348**	**–21**	**671**	**114,577**

Depreciation / amortization / impairment						Carrying amounts	
Jan. 1, 2022	Currency differences	Depreciation / amortization in the financial year	Restatements / transfers	Disposals	Dec. 31, 2022	Dec. 31, 2022	Dec. 31, 2021
EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)
1,296		120			1,416	17,397	17,064
31,394		3,711	–389	480	35,014	17,089	13,077
1,107		934	389		1,652	2,345	5,884
13,570	551	1,795		131	15,785	18,732	19,810
47,367	**551**	**6,560**		**611**	**53,867**	**55,563**	**55,835**
32		20		30	22	96	52
2,873	39	1,174		1,165	2,921	4,493	1,527
291		123		195	219	175	156
3,422	62	1,089		113	4,460	2,857	3,022
6,618	**101**	**2,406**		**1,503**	**7,622**	**7,621**	**4,757**
53,985	**652**	**8,966**		**2,114**	**61,489**	**63,184**	**60,592**

Depreciation / amortization / impairment						Carrying amounts	
Jan. 1, 2021	Currency differences	Depreciation / amortization in the financial year	Restatements / transfers	Disposals	Dec. 31, 2021	Dec. 31, 2021	Dec. 31, 2020
EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)
296		1,000			1,296	17,064	17,500
27,606		3,788			31,394	13,077	13,117
343		764			1,107	5,884	5,491
11,149	667	1,755		1	13,570	19,810	20,716
39,394	**667**	**7,307**		**1**	**47,367**	**55,835**	**56,824**
45		22		36	31	52	30
2,206	49	1,074		455	2,874	1,527	2,281
245		152		106	291	156	247
2,388	68	993		27	3,422	3,022	2,948
4,884	**117**	**2,241**		**624**	**6,618**	**4,757**	**5,506**
44,278	**784**	**9,548**		**625**	**53,985**	**60,592**	**63,830**

Notes to the Consolidated Financial Statements for the 2022 Financial Year

A. GENERAL INFORMATION

1. BASIS

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

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

The reporting currency is the euro (EUR). All amounts are stated in thousands of euros (EUR thousand) unless indicated otherwise. These financial statements cover the 2022 financial year based on the reporting period from January 1 to December 31 of that same year. Due to rounding, it is possible that individual figures and percentages may not precisely add up to the totals shown.

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

The Executive Board of Softing AG released the consolidated financial statements to the Supervisory Board on March 24, 2023. It is the task of the Supervisory Board to examine the consolidated financial statements and declare whether it approves them.

2. PURPOSE OF THE GROUP

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

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

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

The Executive Board continues to stand by its realistic expectation that the Group has sufficient resources in order to continue to operate for at least a further period of twelve months and that the going concern principle remains appropriate as a basis for its financial reporting. While the deterioration and upheaval in economic conditions directly triggered by the COVID-19 pandemic clearly subsided in Softing's most important global markets during the course of the year, the indirect effects that led to a global procurement crisis for electronic components had a huge adverse impact on economic activity in 2022. Russia's war of destruction against Ukraine caused further procurement upheaval, and it is not currently possible to finally assess when the situation might improve. This resulted in a bizarre situation across the entire Softing Group consisting of record incoming orders on one hand and severely restricted delivery capabilities on the other.

This resulted in an increase in revenue of 16% from EUR 84.7 million in 2021 to EUR 98.3 million in the financial year now ended. Incoming orders of EUR 155.8 million, compared to EUR 104.8 million in the previous year, reached a new high in the Group's history. The orders on hand brought forward into the new financial year amount to EUR 89.9 million and are the basis for solid revenue growth in 2023. This had positive effects on the Group's results of operations and liquidity position in the year under review. For the financial year ending December 31, 2022, the Group is reporting a positive EBIT of EUR 0.8 million. The Group's operating EBIT (EBIT adjusted for capitalized development services of EUR 3.9 million and amortization of internally generated and third-party product developments of EUR 4.6 million as well as effects from purchase price allocation in the amount of EUR 1.8 million) amounted to a positive figure of EUR 3.3 million, despite the procurement crisis and the continued disruptions initially caused by the pandemic. As of December 31, 2022, the Group had net current assets in the amount of EUR 16.3 million. As of January 31, 2023, the Softing Group has cash and cash equivalents of EUR 5.0 million, current receivables of EUR 14.7 million and agreed but not yet drawn down credit lines of around EUR 6.4 million at its disposal. This means that the Group has up to EUR 26.1 million in near cash funds available at short notice to tackle the economic uncertainties during the procurement crisis and the effects of inflation.

4. NEW AND AMENDED STANDARDS AND INTERPRETATIONS

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

In the past financial year, the Group adopted the following new and amended standards and interpretations that became effective on January 1, 2022:

Amendments to IFRS 3: Reference to the Conceptual Framework

The amendments update references in IFRS 3 so that they now refer to the current Conceptual Framework for Financial Reporting issued in 2018. For obligations within the scope of IAS 37, the amendments also require an acquirer to apply IAS 37 to determine whether a present obligation exists at the acquisition date as a result of past events. For a levy within the scope of IFRIC 21, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date.

Finally, the amendments add explicit clarification that an acquirer may not recognize contingent assets acquired in a business combination.

The amendments did not have a material effect on the consolidated financial statements, as no acquisitions took place in the past financial year.

Amendments to IAS 16: Proceeds before Intended Use

The amendments to IAS 16 now explicitly prohibit an entity from deducting any net proceeds from the cost of an item of property, plant and equipment. If goods are produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management, the entity is required to recognize the proceeds from selling any such goods and the cost of those goods in profit or loss in accordance with the applicable standards. It must measure the cost applying the requirements in IAS 2.

Costs of testing whether the asset is functioning properly are still given as an example of directly attributable costs. The amendments now clarify that testing serves to assess whether the technical or physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes.

In addition, the notes to the financial statements are now required to also disclose the amounts of proceeds and cost included in profit or loss that relate to the sale of goods produced while testing that are not an output of the entity's ordinary activities The relevant amounts must be disclosed and also the line items in which they are included. Only when they are presented separately in the statement of comprehensive income is this not required.

The amendments had no effect on the consolidated financial statements, as the Group has no items of property, plant and equipment where goods are produced while testing.

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

Effective January 1, 2022, the Group adopted Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37). This led to a change in the accounting policy for assessing whether an onerous contract exists. In assessing whether a contract is onerous, the Group previously took into account only the incremental costs of fulfilling a contract. Under the amended accounting policy, both the incremental costs incurred to fulfill the contract and other costs that relate directly to fulfilling the contract are now taken into account in assessing whether a contract is onerous.

The amendments to IAS 37 apply prospectively to contracts in place at the date when the amendments are first applied. The Group analyzed all contracts in place as of January 1, 2022 and concluded that no contract would be classified as onerous applying the amended accounting policy. Therefore, the amendments to IAS 37 have no effect on the opening balance of equity as of January 1, 2022.

The following new and amended Standards are not expected to have any material effects on the consolidated financial statements:

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

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. Only such fees may be included that are paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. No comparable proposed amendment exists for IAS 39 Financial Instruments: Recognition and Measurement.

In accordance with the transition requirements, the Group applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the financial year in which it first applies the amendment (date of initial application). This amendment had no effect on the consolidated financial statements, as there were no modifications of the Group's financial instruments during the reporting period.

Further Amendments to IFRS 1:Subsidiary as a First-time Adopter and IAS 41:Taxation in Fair Value Measurements had no effect on the Group, as the Group is not an IFRS first-time adopter and does not hold any assets within the scope of the IAS.

4.2. Standards Issued But Not Yet Effective

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

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

The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences, such as leases or liabilities arising from decommissioning obligations. The amendments are effective for reporting periods beginning on or after January 1, 2023. In the case of leases and decommissioning obligations, the related deferred tax assets and liabilities must be recognized from the beginning of the earliest comparative period presented, with all cumulative effects presented as an adjustment to retained earnings or other components of equity at that date. In the case of all other transactions, the amendments apply to transactions that occur after the beginning of the earliest period presented. Applying the amendments will have no effect on the Group.

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

The amendments to IAS 1 issued in 2020 clarify the requirements for the classification of liabilities as current or non-current and are effective for annual periods beginning on or after January 1, 2023. However, the IASB subsequently proposed further amendments to IAS 1 and the deferral of the effective date to no earlier than January 1, 2024. Due to these ongoing developments, the Group is currently unable to assess the effects on the period of initial application. The developments are being closely monitored.

Amendments to IAS 8:
Definition of Accounting Estimates

In February 2021, the IASB issued amendments to IAS 8 that introduce a new definition of accounting estimates. The amendments clarify the extent to which changes in accounting estimates differ from changes in accounting policies and corrections of errors. They also explain how entities can develop accounting estimates using measurement techniques and inputs.

The amendments are effective for annual periods beginning on or after January 1, 2023 and are required to be applied to changes in accounting policies and changes in accounting estimates that occur on or after the beginning of that annual period. Earlier application is permitted, provided that fact is disclosed. The Group anticipates that the amendments will not have a material effect on the consolidated financial statements.

The following new and amended standards are not expected to have a material effect on the consolidated financial statements, as the Group does not have any significant insurance contracts: IFRS 17 – Insurance Contracts and Amendments to IFRS 17 Insurance Contracts.

B. ACCOUNTING POLICIES

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

1. RECOGNITION OF REVENUE

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

Revenue from the Sale of Products

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

Revenue from Services

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

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

Interest Income

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

2. BASIS OF CONSOLIDATION

The consolidated financial statements as of December 31, 2022 include Softing AG and the following subsidiaries, over which Softing AG directly or indirectly exercises control:

Softing Group as of Dec. 31, 2022	Capital share / voting share	
	2022 %	2021 %
Softing AG, Haar / Germany		
Softing Automotive Electronics GmbH, Haar / Germany	100	100
Softing Services GmbH, Haar / Germany	100	100
Softing Engineering & Solutions GmbH, Kirchentellinsfurt / Germany, formerly Softing Messen und Testen GmbH	100	100
Softing Industrial Automation GmbH, Haar / Germany	100	100
Softing Italia s.r.l., Cesano Boscone / Italy	100	100
SoftingROM s.r.l., Cluj-Napoca / Romania	100	100
Buxbaum Automation GmbH, Eisenstadt / Austria	65	65
Softing Inc., Knoxville / USA	100	100
Softing North America Holding Inc., Delaware / USA	100	100
OLDI Online Development Inc., Knoxville / USA	100	100
Softing IT Networks GmbH, Haar / Germany	100	100
Softing Singapore Pte. Ltd., Singapore	100	100
Softing S.A.R.L., Paris / France	100	100
Softing Electronic Science & Technology (Shanghai) Co., Ltd, Shanghai / China, formerly Shanghai Softing software Co., Ltd.	50	50
Softing Automotive Electronics (Kirchentellinsfurt) GmbH, Kirchentellinsfurt / Germany, formerly Softing Automotive Electronics Services GmbH	0	100
GlobalmatiX AG Vaduz / Liechtenstein	100	100
GlobalmatiX Inc., Knoxville / USA	100	100
GlobalmatiX GmbH, Haar / Germany	100	0

The share of the profits of Softing Electronic Science & Technology (Shanghai) Co., Ltd., Shanghai/China formerly Shanghai Softing software Co., Ltd. attributable to minority interests amounted to EUR 158 thousand in the financial year ended (previous year: EUR 78 thousand) and that at Buxbaum Automation GmbH, Eisenstadt/Austria amounted to EUR 60 thousand (previous year: EUR 109 thousand).

Softing Electronic Science & Technology (Shanghai) Co., Ltd. is included in the group of consolidated affiliated companies because Softing is responsible for the company's economic and financial management. Softing holds two of the three seats on its Board of Directors and Softing Electronic Science & Technology (Shanghai) Co., Ltd. is dependent on the marketing of software products developed by subsidiaries of Softing. No dividends were paid by Softing Electronic Science & Technology (Shanghai) Co., Ltd. and Buxbaum Automation GmbH, Eisenstadt/Austria.

As of December 31, 2022, there were changes in the basis of consolidation of Softing AG compared to December 31, 2021 and 2022. Softing Automotive Electronics Kirchentellinsfurt GmbH, Kirchentellinsfurt, was merged with Softing Automotive Electronics GmbH, Haar, as of January 1, 2022.

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

The Group also held an 8.33% equity interest in Yoma Solutions GmbH in Norderstedt. Due to a further investment by a third party in financial year 2022 and the related capital increase, it became necessary to review the carrying amount of the equity investment. The remeasurement resulted in a reduction in the carrying amount of the equity investment from EUR 1,500 thousand in the previous year to EUR 435 thousand in 2022. The write-down of the carrying amount in the amount of EUR 1,065 thousand was recognized in profit or loss. The new equity interest after the capital increase is 6.0%. Equity according to the German Commercial Code in 2022 amounted to EUR 958 thousand and the loss for the year was EUR 1,414 thousand (previous year: EUR 1,415 thousand).

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

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

3. PRINCIPLES OF CONSOLIDATION

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

Subsidiaries acquired are accounted for using the purchase method. The consideration for the acquisition is equal to the fair value of the transferred assets, the equity instruments issued by the Group and the liabilities assumed from the previous owners of the acquired subsidiary as of the acquisition date. In addition, the consideration paid includes the fair value of any recognized assets or liabilities arising from agreed contingent consideration. Acquired assets identifiable in the course of a business combination along with liabilities and contingent liabilities assumed are recognized when they are acquired at their fair value at the time of acquisition. For each acquisition of an entity, the Group decides on a case-by-case basis whether the non-controlling interests in the entities acquired are recognized at fair value or in the amount of their proportional share of the net assets of the acquired entity. Historically, the full goodwill method has not been applied.

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

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

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

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

4. INTANGIBLE ASSETS

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

5. DEVELOPMENT COSTS

Development costs for developing new products and for materially refining a product or process are capitalized if the product or process is technically and financially feasible; if there is an intention to complete it; if the development is marketable; if the costs can be reliably determined; and if the Group possesses sufficient resources to complete the development project. All other development costs are immediately recognized as expenses in the income statement. Capitalized development costs for completed projects are reported at cost net of accumulated amortization and impairment. In this context, production costs include labor costs and other directly allocable costs that are necessary to create the development project. The Softing Group amortizes the development costs for new product lines and product versions over their respective useful life of between three and five years using the straight-line method; amortization in the year the product lines or versions are completed is recognized on a pro-rata basis. Amortization is shown in the consolidated income statement under the item “Depreciation of property, plant and equipment and amortization of intangible assets”. In accordance with IAS 38, research costs cannot be capitalized and are immediately recognized as an expense in the income statement.

6. GOODWILL

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

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

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

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

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

The value in use of the cash generating unit was determined as follows: Based on the bottom-up planning for the next four financial years as approved by the management of Softing AG, the future cash flows (before interest and taxes) of the cash generating unit were determined. The planning is based on historical data and the best possible estimates of management regarding future developments. (In order to carry out the impairment test, the management estimated the cash generated beyond the planning period, assuming that growth of 1.0% (previous year: 1.0%) is recorded in future years.) The value in use of the underlying cash generating unit was determined by applying the discounted cash flow method. The discount rate used is a pre-tax interest rate based on the Weighted Average Cost of Capital (WACC) concept. These comprise the cost of equity and borrowing weighted at fair value. The costs of capital are determined using Capital Asset Pricing Model (CAPM) and comprise the risk-free interest rate and a risk premium calculated as the difference of the average market return and the risk-free interest rate multiplied by the company-specific risk (beta factor). The beta factor for this is derived from a group of comparable companies. The borrowing costs are composed of a base interest rate and a specific credit spread derived from capital market data. When determining the value in use, discount rates before taxes are taken as a basis for each cash-generating unit.

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

7. OTHER INTANGIBLE ASSETS

Intangible assets acquired for consideration are carried at amortized cost. They are amortized in accordance with their respective useful life using the straight-line method. Software and technology is amortized over a period of three to seven years in accordance with its respective useful life using the straight-line method. Rights and business relations are amortized over a period of five to twenty years. Amortization is shown in the consolidated income statement under the item “Depreciation of property, plant and equipment and amortization of intangible assets”.

8. PROPERTY, PLANT AND EQUIPMENT

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

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

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

9. IMPAIRMENT

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

10. LEASES

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

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

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

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

- The contract refers to an identified asset which is either expressly indicated in the contract or is implicitly specified and can thus be considered to have been identified.

- The Group has the right to obtain substantially all of the economic benefits from the use of the identified asset throughout the period of use, while taking into consideration its rights within the defined scope of the contract.

- The Group has the right to determine the use of the identified asset throughout the period of use.

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

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

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

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

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

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

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

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

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

11. INVENTORIES

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

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

12. FINANCIAL ASSETS – IFRS 9

Financial assets comprise in particular:

- Equity instruments in other companies held by the Group
- Trade receivables
- Other financial assets
- Cash and cash equivalents

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

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

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

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

Financial Assets at Amortized Cost (Debt Instruments)

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

- The business model for managing these financial instruments involves holding them to collect the underlying contractual cash flows, and the contractual cash flows generated consist solely of principal and interest.
- These financial assets are subsequently measured using the effective interest method subject to the impairment rules in IFRS 9.5.5 ff. In the Group it is mainly trade receivables, other financial assets and bank deposits that belong to this category.

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

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

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

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

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

Financial Assets at Fair Value Through Profit or Loss

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

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

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

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

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

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

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

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

Derecognition

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

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

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

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

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

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

Impairment of financial assets

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

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

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

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

Softing generally assumes that a default has occurred when contractual payments are more than 360 days past due. In addition, in individual cases, other internal and external information may be considered that indicates that contractual payments cannot be paid in full. Financial assets are derecognized when there is no reasonable expectation that future payments will be made.

13. CONTRACT ASSETS AND CONTRACT LIABILITIES

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

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

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

Contract assets and contract liabilities are netted at the level of the individual contract. The contract balances at Softing generally have a current remaining term.

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

14. CURRENT ASSETS

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

15. CURRENT AND DEFERRED TAXES

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

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

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

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

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

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

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

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

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

16. PENSION PROVISIONS

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

17. PROVISIONS

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

18. CURRENT AND NON-CURRENT FINANCIAL LIABILITIES

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

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

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

Financial liabilities comprise the statement of financial position items “Short-term and long-term borrowings”, “Trade payables” and “Other current financial liabilities”.

19. SHORT-TERM AND LONG-TERM BORROWINGS

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

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

20. CURRENT NON-FINANCIAL LIABILITIES

Non-financial liabilities are carried at the repayment amount.

21. EXERCISE OF JUDGMENT AND ESTIMATE UNCERTAINTIES

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

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

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

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

22. CURRENCY TRANSLATION

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

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

For Group companies which do not report in EUR, the assets and liabilities are translated into euros at the exchange rate applicable at the balance sheet date, and expenses and income are translated at the annual average exchange rate for the purpose of preparing consolidated financial statements. Equity is translated at historical rates. Currency translation differences arising from currency translation of foreign operations are recognized in other comprehensive income and accumulated in retained earnings. They are shown separately as a currency reserve in the statement of changes in equity.

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

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

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

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

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

	USD / EUR		RON / EUR		CHF / EUR	
	2022	2021	2022	2021	2022	2021
Closing rate (Dec. 31)	1.07	1.13	4.95	4.95	0.98	1.03
Average exchange rate	1.05	1.18	4.93	4.92	1.02	1.12

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

C. NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

1. CHANGES IN THE BASIS OF CONSOLIDATION

As of December 31, 2022, the following changes occurred in the basis of consolidation of Softing AG compared to December 31, 2021:

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

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

2. GOODWILL

	Dec. 31, 2022 EUR (in thsds.)	Dec. 31, 2021 EUR (in thsds.)
Softing Engineering & Solutions GmbH	1,055	1,055
Softing Industrial Automation GmbH	384	384
Softing IT Networks GmbH	5,061	5,181
OLDI Online Development Inc.	7,781	7,327
GlobalmatiX AG	3,117	3,117
Goodwill	**17,398**	**17,064**

Due to the change in the EUR/USD exchange rate, the goodwill of OLDI Online Development Inc. increased by EUR 454 thousand in 2022.

The 2023 detailed planning period was defined on the basis of short-term revenue and margin expectations.

In the medium term between 2024 and 2026, Softing expects the trend towards new technologies to accelerate and investments in product development to pay off. Short-term negative effects such as the procurement crisis in 2022 resulted in delays to deliveries and customer acceptance. The market for electronic components has also behaved cyclically in the past and Softing expects the situation to improve in financial year 2023. This will bolster both Softing AG's ability to deliver and acceptance by its customers, who will, in turn, be able to deliver to their customers again. As a result, the short-term negative and longer-term positive effects of the procurement crisis will level out in the best possible estimate, which means the assumptions regarding the terminal value made as of December 31, 2022 improved for all CGUs. Management continues to carefully monitor the ongoing market environment and planning parameters to ensure that any necessary adjustments to the estimates can be made.

The entities' goodwill was tested for impairment pursuant to IAS 36. The recoverable amount of the CGUs was determined based on a calculation of the entities' value in use. The following parameters were used for the items of goodwill:

For Europe:
- Discount rates (WACC) before taxes: 11.5%–12.5% (previous year: 10.5%–11.5%)
- Risk-free interest rate: 2.0% (previous year: 0.10%)
- Market risk premium: 7.00% (previous year: 8.00%)
- Beta factor relevered (weighted average of a group of comparable companies): 1.20 (previous year: 1.19)

For the USA:
- Discount rates (WACC) before taxes: 12.5% (previous year: 10.0%)
- Risk-free interest rate: 3.67% (previous year: 2.10%)
- Market risk premium: 6.00% (previous year: 6.00%)
- Beta factor relevered (weighted average of a group of comparable companies): 1.21 (previous year: 1.19)

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

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

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

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

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

The recoverable amount of the cash generating unit IT Networks was determined on the basis of the calculation of a value in use, using cash flow forecasts based on cash flow plans approved by management for a period of 4 years.

The predicted cash flows were updated in 2022 due to the economic uncertainty in the construction industry and general market risks. In addition, rises in interest rates impacted on the IT Networks segment. The pre-tax discounting rate before tax applied for the cash flow forecasts is 11.6% (2021: 10.5%). Cash flows after a period of 4 years are extrapolated on the basis of a growth rate of 1.0% (2021: 1.0%). This growth rate corresponds to the assumed long-term average growth rate in the IT Networks business. The impairment test showed that the recoverable amount is slightly below the carrying amount of the cash-generating unit. On the basis of this analysis, the Group reported an impairment loss of EUR 120 thousand in the financial year ended. This impairment loss was recognized in the income statement under depreciation, amortization and impairment losses.

Sensitivity analysis:
An increase in the interest rate by 100 basis points would not lead to a write-down of goodwill in the cash-generating units, neither would a decrease in planned EBIT by 5%. One exception is goodwill in the IT Networks segment, which would be subject to further impairment.

3. DEVELOPMENT COSTS

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

Expenses for research and development (without capitalized development costs) in the financial year just ended totaled EUR 11,936 thousand (previous year: EUR 13,302 thousand).

In financial year 2022, the impairment test of internally generated intangible assets did not reveal any need for correction (previous year: EUR 0 thousand).

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

	2022 EUR (in thsds.)	2021 EUR (in thsds.)
Capitalized development costs	3,948	3,653
Expenses not qualifying for capitalization	11,936	13,302
	15,884	**16,955**

4. OTHER INTANGIBLE ASSETS

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

5. OTHER FINANCIAL ASSETS

At the end of December 2019, Softing acquired a stake in a start-up company by way of a capital increase; this company is allocated to the Automotive segment. The equity interest acquired was less than 10%. An obligation to transfer an additional EUR 1,495 thousand to the capital reserves of the investee was written into the investment agreement; this payment was made in early 2020. For subsequent measurement of the equity investment the Group decided to recognize the effects of changes in the fair value in profit or loss. Due to a further investment by a third party and the related capital increase, it became necessary to review the carrying amount of the equity investment. The remeasurement resulted in a reduction in the fair value of the equity investment from EUR 1,500 thousand in the previous year to EUR 435 thousand in 2022. The reduction of the carrying amount in the amount of EUR 1,065 thousand was recognized in profit or loss.

Other significant quantitative inputs for measurement include the growth rate and the discount rate.

6. PROPERTY, PLANT AND EQUIPMENT

The change in property, plant and equipment is shown in the changes in intangible assets and property, plant and equipment, which is attached to the consolidated financial statements. No impairment losses were recognized in addition to amortization. The Group has entered into leases for several properties, mostly for office space and, to a lesser extent, storage facilities. Other leases have been entered into for vehicles. Rental agreements were concluded with terms of between one and five years and include extension options in some cases.

The rights of use to motor vehicles cover the leased fleet. As of December 31, 2022, approximately 48 leases for vehicles with remaining terms of between one and three years had been concluded.

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

7. INVENTORIES

	Dec. 31, 2022 EUR (in thsds.)	Dec. 31, 2021 EUR (in thsds.)
Raw materials and consumables	6,947	4,386
Finished goods	12,037	9,023
Inventories	**18,984**	**13,409**

Loss allowances recognized in 2022 total EUR 278 thousand (previous year: EUR 285 thousand). As in the previous year, no reversals of impairment losses were recognized in profit or loss. The purchased inventories are subject to reservation of title until the purchase price receivable has been settled.

8. TRADE RECEIVABLES

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

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

Dec. 31, 2022	Carrying amount	Of which impaired receivables (stage 3)	Of which neither past due nor impaired	Of which not impaired and past due within the following time bands			
				Less than 90 days	91 to 180 days	181 to 360 days	More than 360 days
	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)
Trade receivables (gross)	17,007	231	15,464	1,248	63	1	0
Risk provision (stage 2)	–20		–15	–5	0	0	0
Risk provision (stage 3)	–231	–231					
Trade receivables (net)	**16,756**	**0**	**15,448**	**1,244**	**63**	**1**	**0**

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

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

Dec. 31, 2021	Carrying amount	Of which impaired receivables (stage 3)	Of which neither past due nor impaired	Of which not impaired and past due within the following time bands			
				Less than 90 days	91 to 180 days	181 to 360 days	More than 360 days
	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)
Trade receivables (gross)	14,322	236	12,148	1,870	67	0	0
Risk provision (stage 2)	–19		–12	–6	–1		
Risk provision (stage 3)	–236	–236					
Trade receivables (net)	**14,066**	**0**	**12,136**	**1,864**	**66**	**0**	**0**

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

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

9. CURRENT OTHER FINANCIAL ASSETS

	Dec. 31, 2022 EUR (in thsds.)	Dec. 31, 2021 EUR (in thsds.)
Insurance receivables	318	108
Loans, investees	0	1,087
Other financial assets	0	150
	318	**1,345**

10. CONTRACT ASSETS AND CONTRACT LIABILITIES

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

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

Revenue of EUR 2,766 thousand (previous year: EUR 2,338 thousand) from contracts with customers included in contract liabilities at the beginning of the period was recognized in the current period. A transaction price totaling EUR 7,272 thousand (previous year: EUR 5,925 thousand) is allocated to the performance obligations that were partly or entirely unsatisfied at the end of the reporting period. Softing will recognize EUR 6,295 thousand (previous year: EUR 5,075 thousand) of the transaction price in the next reporting period and EUR 977 thousand (previous year: EUR 850 thousand) in subsequent periods. The transaction prices stated are prices for software maintenance agreements and customer-specific engineering work. For performance obligations with a maximum term of one year or where invoicing is based on fixed hourly rates, the transaction price is not stated in accordance with IFRS 15.

11. CURRENT INCOME TAX ASSETS

The current income tax assets concern corporation tax / federal tax (USA) receivables amounting to EUR 324 thousand (previous year: EUR 538 thousand). The Group's taxes are described in detail in section D 9.

12. CASH AND CASH EQUIVALENTS

	Dec. 31, 2022 EUR (in thsds.)	Dec. 31, 2021 EUR (in thsds.)
Cash and cash equivalents	**6,802**	**9,613**

Cash and cash equivalents include cash and bank balances and are measured at their nominal value as of the balance sheet date. Bank balances comprise time deposits and current account funds. The time deposits can be liquidated within three months. Cash and cash equivalents are not impacted significantly by foreign currencies.

A review of the banks' ratings has not revealed any additional risks to cash. The maximum counterparty credit risk corresponds to the carrying amounts.

13. CURRENT NON-FINANCIAL ASSETS

	Dec. 31, 2022 EUR (in thsds.)	Dec. 31, 2021 EUR (in thsds.)
Receivables from employees	23	25
VAT receivables	1,051	302
Prepaid expenses / prepayments	863	564
Advances paid	336	581
Other non-financial assets	93	86
	2,367	**1,558**

14. EQUITY

Subscribed Capital

As of the balance sheet date, the fully paid-in share capital of the Company was EUR 9,105,381 (previous year: EUR 9,105,381 thousand). It is divided into 9,105,381 (previous year: 9,105,381) no-par-value bearer shares with a notional value of EUR 1 each. An average of 9,015,381 shares were outstanding in the reporting year (previous year: 9,015,381). Softing AG holds 90,000 of its own shares in treasury share (previous year: 90,000 shares)

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

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

Authorized Capital

The Executive Board is authorized to increase the Company's share capital with the approval of the Supervisory Board once or several times by up to EUR 4,552,690.00 by issuing up to 4,552,690 new no-par bearer shares against contributions in cash and/or in kind (authorized capital 2022) until May 5, 2027. The Executive Board is also authorized to disapply shareholders' statutory pre-emptive right with the approval of the Supervisory Board, as necessary for offsetting factional shares; if the shares are issued against in-kind contributions for the purpose of acquiring companies or equity interests in companies or business units or for the purpose of acquiring receivables from the given entity; if a capital increase against cash contributions does not exceed 10% of the share capital and the issue price of the new shares is not substantially lower than the share price pursuant to Section 186 (3) sentence 4 German Stock Corporation Act. Disapplying shareholders' pre-emptive right under other authorizations pursuant to Section 186 (3) sentence 4 German Stock Corporation Act shall be considered in connection with any exercise of this authorization under the aforementioned statute.

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

The authorized capital as of December 31, 2022, was EUR 4,552,690 (previous year: EUR 4,552,690).

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

Contingent Capital

The Executive Board is authorized to contingently increase the Company's share capital with the approval of the Supervisory Board by up to EUR 4,552,690.00 by issuing up to 4,552,690 new no-par bearer shares (Contingent Capital 2022). The contingent capital increase will serve the granting of option rights or obligations to the holders of warrants arising from bonds with warrants under the terms of the respective options or the granting of conversion rights or obligations to the holders of convertible bonds under the terms of the respective convertible bonds issued by the Company up to May 5, 2027 in accordance with the resolution of the General Shareholders' Meeting on May 6, 2022. The new shares will be issued at the respective option or conversion price to be determined in accordance with the above-mentioned authorization resolution. The contingent capital increase will be implemented only in the event that bonds with warrants or convertible bonds are issued and only to the extent that the holders of the bonds with warrants or the convertible bonds make use of their option or conversion right or the holders of bonds obligated to convert or to exercise the option fulfill this obligation and the contingent capital is needed in accordance with the terms and conditions of the bond with warrants or the convertible bond. The new shares issued on the basis of the exercise of the option or conversion right or the fulfillment of the conversion or option obligation have a share in the profit from the beginning of the financial year in which they arise. The Executive Board is authorized, with the approval of the Supervisory Board, to stipulate the further details of the implementation of the contingent capital increase. Said authority was not exercised to date.

Capital Reserves

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

Treasury Shares

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

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

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

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

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

	Number of shares	Transaction dates	Proportionate share capital	Interest in share capital	Cost	Average cost per share
			EUR (in thsds.)	%	EUR (in thsds.)	EUR
Balance on Dec. 31, 2021	90,000		90	0.99	482	
Balance on Dec. 31, 2022	**90,000**		**90**	**0.99**	**482**	

No treasury share transactions took place in 2022;

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

The changes in consolidated equity including the changes from acquisitions are presented in the "Consolidated Statement of Changes in Equity" 2022/2021.

Retained Earnings

Retained earnings include the accumulated, undistributed profits of the companies included in the consolidated financial statements. A dividend of EUR 0.10 per share (previous year: EUR 0.04) was paid out in the 2022 financial year for 2021. The Executive Board proposes a dividend of EUR 0.10 per share for financial year 2022. This corresponds to a total dividend of EUR 901 thousand.

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

In the current year, EUR 1,983 thousand (previous year: EUR 531 thousand) from the reversal of a net investment in a foreign operation in connection with a partial repayment of a loan was reclassified from other comprehensive income to the consolidated income statement. Accordingly, the deferred tax liabilities to be reversed in the amount of EUR 555 thousand (previous year: EUR 148 thousand) were reclassified from other comprehensive income to the consolidated income statement. The other comprehensive income is shown in the statement of comprehensive income.

Non-controlling Interests

The non-controlling interests in the amount of EUR 839 thousand (previous year: EUR 621 thousand) concern other shareholders in Austria and China.

15. PENSIONS

This item concerns the partially reinsured and defined benefit pension commitments granted to the three former members and one current member of the Executive Board, which provide for lifelong retirement and widow's benefits, as well as orphans' benefits in the event one or both parents are lost. There is a variable commitment in addition to a fixed commitment. The amount of benefits is determined individually. The liabilities in connection with the pension plans are determined annually by independent experts in accordance with the projected unit credit method. The fair value of the reinsurance cover of EUR 3,544 thousand (previous year: EUR 3,430 thousand) was offset against pension provisions. Actuarial remeasurements were recognized immediately in retained earnings in accordance with IAS 19.120. The cumulative gains and losses reported in this item were EUR –674 thousand as of December 31, 2022 (previous year: EUR –1,743 thousand).

The pensions under variable commitments increase or decrease in line with the change in the Consumer Price Index for Germany (2015 = 100). It rose from 110.5 points to 121.6 points on average between 2022 and 2023.

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

Basis of calculation	Dec. 31, 2022 %	Dec. 31, 2021 %
Assumed interest rate	3.2	1.15
Salary trend	0.0	0.0
Expected rate of pension increase	1.1	1.1
Anticipated employee turnover rate	0.0	0.0

Development of the obligation	2022 EUR (in thsds.)	2021 EUR (in thsds.)
DBO as of January 1	6,034	6,378
Service cost	169	181
Interest expense	68	47
Pension payments to pensioners	–181	–175
Expected DBO as of December 31	**6,090**	**6,431**
Remeasurements, of which		–397
Effects from adjusting the assumed interest rate	–1,424	–396
Effects from changes in trend assumptions	0	0
Effects from experience adjustments	0	–1
Actual DBO as of December 31	**4,666**	**6,034**

The average remaining life of the obligation is 13.15 years (previous year: 15.8 years).

Calculation of annual income and annual expense	2022 EUR (in thsds.)	2021 EUR (in thsds.)
Interest income	40	25
Interest expense	–68	–47
Service cost	–169	–181
Annual expense	**–197**	**–203**

Development of plan assets	2022 EUR (in thsds.)	2021 EUR (in thsds.)
Plan assets as of January 1	3,430	3,318
Payment from plan assets	–93	–75
Payments into the employer’s plan assets	107	107
Interest earned from plan assets	40	25
Adjustment of plan assets	61	55
Plan assets as of December 31	**3,544**	**3,430**

Only reinsurance policies not quoted on an active market are taken out to hedge portions of the obligations arising from pensions. Each of these policies relates directly to the underlying pension commitment. The expected contributions to plan assets amount to EUR 107 thousand in 2023 (previous year: EUR 107 thousand). Payments into plan assets of EUR 107 thousand are also expected in the years up to 2025.

Reconciliation with the statement of financial position	Dec. 31, 2022 EUR (in thsds.)	Dec. 31, 2021 EUR (in thsds.)
Present value of the defined benefit obligations (DBO)	4,665	6,034
Fair value of the external plan assets	3,544	3,430
Provision	**1,121**	**2,605**

Development of the provision	2022 EUR (in thsds.)	2021 EUR (in thsds.)
Provision as of January 1	2,605	3,060
Service cost	168	181
Net interest expense	29	22
Remeasurements	–1,485	–450
Pension payments	–181	–175
Benefit payment from plan assets	93	75
Payments into plan assets	–107	–107
Provisions as of December 31	**1,121**	**2,605**

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

	Effect on the obligation	
	Change Assumption –	Change Assumption +
Relative effect of interest rate change on DBO 2022	0.25% pp 3.3%	0.25% pp –3.1%
Relative effect of interest rate change on DBO 2021	0.25% pp 4.0%	0.25% pp –3.8%

	Effect on the obligation	
	Change Assumption –	Change Assumption +
Relative effect of a change in the pension trend on DBO 2022	0.25% pp –1.0%	0.25% pp 1.0%
Relative effect of a change in the pension trend on DBO 2021	0.25% pp –1.0%	0.25% pp 1.1%

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

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

Pension payments of EUR 180 thousand (previous year: EUR 175 thousand) are expected for the 2023 financial year. Contributions to the plan are expected to be EUR 107 thousand (previous year: EUR 107 thousand), and interest income is expected to be EUR 114 thousand (previous year: EUR 40 thousand).

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

In 2019, the long-term borrowings were renegotiated with the principal banks, the long-term existing debt was extinguished and new loans totaling EUR 14,000 thousand were taken out; these loans were defined as redemption-free for two years and will subsequently be repaid on a straight-line basis/quarterly within five years. Softing AG also received a loan of EUR 2,500 thousand in 2022. This loan has a term of five years and is due for repayment in one lump sum at the end of the term. In the course of obtaining these loans, Softing AG agreed to comply with financial covenants entailing an obligation to maintain certain financial ratios. The financial covenants require Softing to maintain a specified equity ratio and not exceed a maximum debt-to-equity ratio for the Group. During the financial year, Softing AG had no problem fulfilling the covenant regarding equity ratio and debt-to-equity ratio. The non-current portion of these loans amounted to EUR 9,150 thousand as of December 31, 2022 (previous year: EUR 9,450 thousand).

There are also long-term loans of EUR 108 thousand taken out by a subsidiary from a bank (previous year: EUR 6 thousand).

Some elements of the remuneration of the Chairman of the Executive Board were not paid out in recent years due to the COVID-19 crisis, Russia's war of aggression and the related procurement crisis for electronic components, with payment of those elements deferred until the end of 2024. An amount of EUR 4,451 thousand (previous year: EUR 3,790 thousand) is therefore included in other non-current liabilities. The increased cash flow attributable to this waiver was used to support contract manufacturers and assist with the related stockpiling.

As of the balance sheet date, the lease liabilities had a carrying amount of EUR 5,019 thousand (previous year: EUR 1,900 thousand), divided into non-current lease liabilities of EUR 3,737 thousand (previous year: EUR 1,066 thousand) and current lease liabilities of EUR 1,282 thousand (previous year: EUR 834 thousand).

In financial year 2022, other financial lease liabilities were repaid in the amount of EUR 1,227 thousand (previous year: EUR 1,227 thousand) and interest of EUR 128 thousand (previous year: EUR 87 thousand) on leases was paid. Total cash outflow for leases including variable lease payments and payments in connection with current leases, as well as leases of low-value assets, came to EUR 1,374 thousand in financial year 2022 (previous year: EUR 1,329 thousand). As of the balance sheet date, EUR 5,313 thousand (previous year: EUR 1,993 thousand) was recognized for future cash outflows.

Possible future cash outflows of EUR 911 thousand (previous year: EUR 1,241 thousand) were not included in the lease liability because it is not reasonably certain that the lease will be extended (or not terminated). As of December 31, 2022, there were future cash outflows of EUR 387 thousand (previous year: EUR 3,986 thousand) for leases that the Softing Group had entered into as the lessee as of the balance sheet date but which have not yet commenced.

As of December 31, 2022, the Group was bound by current leases for which the corresponding exemption option was utilized. The total obligation as of this date approximates the expense incurred in the financial year.

The right-of-use-assets under leases are recognized under property, plant and equipment with carrying amounts of EUR 4,764 thousand (previous year: EUR 1,736 thousand).

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

In the financial year, expenses for current leases for which the Group made use of the practical expedients amounted to EUR 19 thousand (previous year: EUR 15 thousand) and expenses for leases of low-value assets stood at EUR 0 thousand (previous year: EUR 0 thousand).

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

17. TRADE PAYABLES

The trade payables of EUR 9,267 thousand (previous year: EUR 7,226 thousand) exclusively concern current payables toward non-Group third-parties for supplied goods and services. All trade payables are due and payable within one year.

18. PROVISIONS

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

	As of Jan. 1, 2022 EUR (in thsds.)	Use EUR (in thsds.)	Reversal EUR (in thsds.)	Addition EUR (in thsds.)	As of Dec. 31, 2022 EUR (in thsds.)
Warranties	98	50	0	4	52
Other	66	66	0	0	0
Total	**164**	**116**	**0**	**4**	**52**

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

19. INCOME TAX LIABILITIES

In the financial year just ended, liabilities of EUR 334 thousand (previous year: EUR 345 thousand) were recognized for expected tax payments. The Group's taxes are described in detail in section D9.

20. SHORT-TERM BORROWINGS

Short-term borrowings amount to EUR 5,477 thousand (previous year: EUR 3,510 thousand), which in the financial year relates to the utilization of overdraft lines of credit.

21. OTHER CURRENT FINANCIAL LIABILITIES

	Dec. 31, 2022 EUR (in thsds.)	Dec. 31, 2021 EUR (in thsds.)
Wages and salaries payable	2,376	5,830
Lease liabilities (< 1 year)	1,282	834
Other	499	280
	4,157	**6,945**

22. CURRENT NON-FINANCIAL LIABILITIES

	Dec. 31, 2022 EUR (in thsds.)	Dec. 31, 2021 EUR (in thsds.)
Liabilities related to social security	94	392
Other tax liabilities primarily (sales and wage tax)	849	614
Other	182	160
	1,125	**1,166**

D. NOTES TO THE CONSOLIDATED INCOME STATEMENT

1. REVENUE

Revenue by regions:	2022 EUR (in thsds.)	2021 EUR (in thsds.)
Germany	28,589	25,150
USA	35,074	31,717
Other countries	34,648	27,823
	98,311	**84,690**

Revenue by products and services:	2022 EUR (in thsds.)	2021 EUR (in thsds.)
Products	86,119	72,271
Services	12,192	12,419
	98,311	**84,690**

Revenue recognized at a point in time / over time:	2022 EUR (in thsds.)	2021 EUR (in thsds.)
Point in time	86,119	72,271
Of which products:	86,119	72,271
Of which services:	0	0
Over time	12,192	12,419
Of which products:	0	0
Of which services:	12,192	12,419
	98,311	**84,690**

In 2022, one customer in the Industrial Automation segment who was responsible for revenue of EUR 17,790 thousand (previous year: EUR 16,761 thousand) and 18% (previous year: 20%) of consolidated revenue exceeded the revenue threshold of 10%.

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

2. OTHER OWN WORK CAPITALIZED

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

3. OTHER OPERATING INCOME

The other operating income comprises the following items:	2022 EUR (in thsds.)	2021 EUR (in thsds.)
Income from exchange differences	3,110	934
Income from insurance benefits	17	925
Revenue from the reduction of loss allowances	6	2
Recharged costs	1	1
COVID-19 aid Singapore	0	36
Research grants	177	311
Income from commissions	199	277
Other income	182	362
	3,692	**2,848**

4. COST OF MATERIALS

	2022 EUR (in thsds.)	2021 EUR (in thsds.)
Purchase of components and products	46,922	38,075
Third-party services	1,389	1,000
	48,311	**39,075**

5. STAFF COSTS

	2022 EUR (in thsds.)	2021 EUR (in thsds.)
Current salaries	28,628	26,061
Social security and retirement benefit costs	4,706	4,421
Profit-sharing, royalties	2,399	2,867
Use of company cars by employees	10	–24
Other temporary workers	243	283
	35,986	**33,608**

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

Expenses recognized for the statutory pension scheme total EUR 1,432 thousand (previous year: EUR 1,428 thousand). The service cost for pension provisions amounts to EUR 168 thousand (previous year: EUR 181 thousand).

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

Depreciation, amortization and impairment losses are listed in detail in the statement of changes in non-current assets (appendix to the notes to the consolidated financial statements). Impairment losses of EUR 120 thousand were recognized on goodwill in financial year 2022.

7. OTHER OPERATING EXPENSES

The other operating expenses are as follows:	2022 EUR (in thsds.)	2021 EUR (in thsds.)
Employee-related costs	305	177
Infrastructure costs	2,938	2,572
Distribution costs	2,936	2,041
Consulting costs	1,282	1,135
Third-party services	1,819	1,090
Capital market costs	321	298
Contributions and fees	162	189
Operating costs	386	374
Exchange differences	856	359
Other product development expenses	476	391
Cyberattack expenses	0	350
Other costs	444	461
	11,925	**9,437**

8. INTEREST INCOME / INTEREST EXPENSE

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

The total interest expense breaks down as follows:	2022 EUR (in thsds.)	2021 EUR (in thsds.)
Other interest expense		
Interest from unwinding of discounts on provisions	68	47
Interest on loans	184	193
Other interest	29	13
Total other interest expense	281	253
Interest from IFRS 16 lease accounting	128	87
	409	**340**

Interest income comprises the following items:	2022 EUR (in thsds.)	2021 EUR (in thsds.)
Interest income from pension provisions	39	25
Other interest	10	1
	49	**26**

The other finance income/finance costs of EUR –964 thousand (previous year: EUR 1,074 thousand) relate to currency fluctuations of a USD loan to the American holding company in the amount of EUR 100 thousand. It also includes the loss of EUR 1,064 thousand attributable to changes in the fair value of equity instruments at fair value through profit or loss.

9. INCOME TAXES

The income tax expense breaks down as follows:	2022 EUR (in thsds.)		2021 EUR (in thsds.)	
Deferred taxes on temporary differences	389		260	
Deferred taxes on tax loss carryforwards	–391		67	
Total deferred tax expense / income		–2		327
Current tax expense / income financial year	–541		–680	
Current tax expense / income previous year	–73		0	
Total current tax expense / income		–614	0	–680
		–616		**–353**
Effective tax rate		109.4%		123.9%

As the loss of EUR 1,064 thousand attributable to changes in the fair value of equity instruments at fair value through profit or loss and a goodwill impairment loss of EUR 120 thousand does not affect tax, the effective tax rate is 109.4%. Due to the impairment of goodwill in the amount of EUR 1,000 thousand in financial year 2021, which does not effect tax, the effective tax rate is 123.9%.

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

	2022 %	2021 %
Corporation tax including solidarity surcharge	15.83	15.83
Trade tax rate	12.25	12.25
	28.08	**28.08**

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

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

	Dec. 31, 2022 EUR (in thsds.)	Dec. 31, 2021 EUR (in thsds.)	Usable until
Softing AG (trade tax)	3,673	5,087	Unlimited
Softing AG (corporation tax)	2,604	3,981	Unlimited
Softing Singapore	3,442	2,429	Unlimited
Softing North America Holding (State)	1,109	968	Unlimited
GlobalmatiX AG	6,230	3,539	Unlimited

Of the total tax loss carryforwards in the amount of EUR 17,058 thousand (previous year: EUR 16,004 thousand), EUR 8,333 thousand (previous year: EUR 12,070 thousand) was recognized on deferred tax assets. No deferred tax assets were recognized for tax loss carryforwards of EUR 8,725 thousand (previous year: EUR 3,934 thousand).

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

	2022 EUR (in thsds.)	2021 EUR (in thsds.)
Earnings before taxes	–563	285
Expected tax income / expense (28.08%)	–158	80
Tax additions and deductions	52	312
Impairment of goodwill	34	–280
Different tax rates	341	261
Other deferred taxes, temporary differences, loss carryforwards not recognized	270	–20
Taxes, previous years	77	0
Current tax expense shown in the income statement	**616**	**353**

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

	2022 EUR (in thsds.)		2021 EUR (in thsds.)	
	Assets	Liabilities	Assets	Liabilities
Intangible assets		5,068	0	5,061
Pension provision	377		801	
(Of which recognized directly in equity)	(263)		(680)	
Currency translation (recognized directly in equity)	0			583
Contract assets / trade payables and trade receivables	60	331	47	261
Other provisions	71		97	
Current assets	11		73	
Future tax benefits from loss carryforwards	1,096		1,469	
Netting	–862	–862	–2,054	–2,054
Gross amount / carrying amount	**753**	**4,537**	**433**	**3,851**

E. OTHER DISCLOSURES

1. OPERATING SEGMENTS BY PRODUCT AND COMPANY

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

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

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

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

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

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

Tools and devices for signal and protocol analysis of industrial communication networks; and

OPC servers, OPC middleware and development tools for OPC Clients and Servers (Toolkits);

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

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

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

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

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

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

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

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

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

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

The product portfolio includes diagnostic devices for Ethernet networks in the automation industry and for the diagnosis of copper and optical fiber networks in data centers and office installations.

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

2. SEGMENT REPORTING

Segmentation is primarily along the main product groups and use cases, with these being mainly reflected in the Group companies that manufacture and distribute the respective main products. The activities of the Group are segmented in accordance with IFRS 8 using the management approach. Segmentation is based on the Group's internal reporting and organizational structure, taking into account the different risks and income structures of each individual division. The corporate divisions are shown in the following table in accordance with IFRS 8.

	Industrial		Automotive		IT Networks		Other		Total segments		Other consolidation		Total	
	2022 EUR (in thsds.)	2021 EUR (in thsds.)	2022 EUR (in thsds.)	2021 EUR (in thsds.)	2022 EUR (in thsds.)	2021 EUR (in thsds.)	2022 EUR (in thsds.)	2021 EUR (in thsds.)	2022 EUR (in thsds.)	2021 EUR (in thsds.)	2022 EUR (in thsds.)	2021 EUR (in thsds.)	2022 EUR (in thsds.)	2021 EUR (in thsds.)
Revenues with third parties	71,290	60,465	18,957	15,688	6,198	7,149	1,865	1,388	98,331	84,690	0	0	98,331	84,690
Revenues with other segments	639	499	312	210	1,543	1,242	7	0	2,501	1,950	−2,501	−1,950	0	0
Total revenue	71,929	60,964	19,270	15,897	7,741	8,391	1,872	1,388	100,812	86,640	−2,501	−1,950	98,311	84,690
Depreciation / amortization	−3,112	−3,051	−3,712	−3,430	−901	−1,120	−1,125	−949	−8,850	−8,551	3	3	−8,847	−8,547
Impairment of assets	0	0	0	−1,000	−120	0	0	0	−120	−1,000	0	0	−120	−1,000
Operating segment result	4,914	5,061	−1,893	−1,734	−2,353	−662	551	158	1,218	2,823	2,054	194	3,273	3,017
EBIT	4,107	4,204	−2,445	−2,551	−2,266	−830	1,834	60	1,350	883	−468	−1,357	762	−475
Segment assets	54,510	49,964	37,802	37,087	15,299	13,507	14,190	21,931	121,801	122,489	−11,353	−19,128	110,447	103,362
of which IFRS 16	748	674	257	385	109	186	3,649	492	4,763	1,736	0	0	4,763	1,736
Segment liabilities	18,851	16,172	14,032	9,066	6,991	2,725	42,529	31,679	82,403	59,643	−33,791	−19,830	48,612	39,813
of which IFRS 16	464	393	113	242	7	90	3,153	341	3,737	1,066	0	0	3,737	1,066
Capital expenditure	1,637	1,578	2,857	2,202	1,291	1,779	4,224	753	10,009	6,313	−50	0	9,959	6,313

Revenue from contracts with customers recognized over time	Industrial		Automotive		IT Networks		Other		Total	
	2022 EUR (in thsds.)	2021 EUR (in thsds.)	2022 EUR (in thsds.)	2021 EUR (in thsds.)	2022 EUR (in thsds.)	2021 EUR (in thsds.)	2022 EUR (in thsds.)	2021 EUR (in thsds.)	2022 EUR (in thsds.)	2021 EUR (in thsds.)
Point in time	69,359	56,190	8,887	7,559	6,008	7,134	1,865	1,388	86,119	72,271
Over time	1,932	4,275	10,070	8,129	190	15	0	0	12,192	12,419
Total	71,291	60,465	18,957	15,688	6,198	7,149	1,865	1,388	98,311	84,690

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

Earnings before interest and taxes (EBIT) and the resulting operating EBIT of EUR 3,273 thousand (previous year: EUR 3,017 thousand) are the key parameters for evaluating and managing a segment’s earnings. Operating EBIT corresponds to EBIT shown in the consolidated income statement adjusted for capitalized development costs of EUR 3,948 thousand (previous year: EUR 3,653 thousand) and amortization of internally generated and third-party product developments of EUR 4,649 thousand (previous year: EUR 4,552 thousand), and depreciation and amortization from purchase price allocation of EUR 1,810 thousand (previous year: EUR 2,593 thousand). With the exception of the write-downs, other income and expense items are not regularly reviewed at the segment level by the responsible corporate department, given their secondary importance to the Group, and thus are not presented by segment.

Geographical segments:	Revenue		Fixed assets		Additions to fixed assets	
	2022 EUR (in thsds.)	2021 EUR (in thsds.)	2022 EUR (in thsds.)	2021 EUR (in thsds.)	2022 EUR (in thsds.)	2021 EUR (in thsds.)
Germany	28,589	25,150	25,779	24,600	7,802	3,961
USA	35,074	31,717	18,218	18,251	24	35
Other countries	34,648	27,823	19,741	19,240	2,133	2,317
Total	**98,311**	**84,690**	**63,738**	**62,092**	**9,959**	**6,313**

The regional allocation of revenue is based on customer address.

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

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

3. STATEMENT OF CASH FLOWS

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

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

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

For the reconciliation of the change in liabilities from financing activities, Softing does not divide the corresponding amounts by maturity. The reconciliation was as follows:

Changes in liabilities arising from financing activities	EUR (in thsds.)	EUR (in thsds.)
	Borrowings	**Leases**
Liabilities from financing activities as of January 1, 2021	**16,934**	**2,691**
Cash flows	3,968	–1,227
Acquisitions of leases		403
Exchange rate changes		54
Changes in fair value		–21
Liabilities from financing activities as of December 31, 2021	**12,966**	**1,900**
Cash flows	1,769	–1,335
Acquisitions of leases		3,892
Exchange rate changes		147
Changes in fair value		415
Liabilities from financing activities as of December 31, 2022	**14,735**	**5,019**

Borrowings consist of short-term borrowings of EUR 5,477 thousand (previous year: EUR 3,510 thousand) and long-term borrowings of EUR 9,258 thousand (previous year: EUR 9,456 thousand).

Leases consist of non-current leases of EUR 1,282 thousand (previous year: EUR 835 thousand) and long-term borrowings of EUR 3,737 thousand (previous year: EUR 1,065 thousand).

4. EARNINGS PER SHARE IAS 33

		2022	2021
Consolidated profit attributable to shareholders of Softing AG (diluted = basic consolidated profit)	EUR (in thsds.)	–1,397	–256
Non-controlling interests	EUR (in thsds.)	218	187
Consolidated profit	**TEUR**	**–1,179**	**–69**
Weighted average number of shares			
Basic	Number	9,015,381	9,015,381
Diluted	Number	9,015,381	9,015,381
Basic earnings per share	EUR	–0.13	–0.01
Diluted earnings per share	EUR	–0.13	–0.01

As in the previous year, no options rights exist as of December 31, 2022, which could influence diluted earnings per share in the future.

5. RELATED PARTIES

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

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

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

The dividend payment to the major shareholder amounted to EUR 349 thousand in the 2022 financial year (previous year: EUR 140 thousand).

The key management personnel at Softing in accordance with IAS 24 consists of the Executive Board and the Supervisory Board, and the executive management of GlobalmatiX AG, because that executive management holds 15.92% of the shares in Softing AG and has a material influence on the future strategy of the Company. We refer to chapters E12 and E13 for information regarding the remuneration of the Supervisory Board and the Executive Board.

The Chairman of the Company's Executive Board, Dr. Wolfgang Trier, held 163,234 shares in Softing AG as of December 31, 2022 (previous year: 163,234).

The Executive Board member Ernst Homolka held 10,900 shares in Softing AG as of December 31, 2022 (previous year: 9,400 shares).

The Supervisory Board member, Dr. Klaus Fuchs, held 278,820 shares in Softing AG as of December 31, 2022 (previous year: 278,820).

The Supervisory Board member, Andreas Kratzer, held 10,155 shares in Softing AG as of December 31, 2022 (previous year: 10,155).

The managing director of GlobalmatiX AG held 1,450,000 shares in Softing AG as of December 31, 2022 (previous year: 1,450,000).

Dividends totalling EUR 191 thousand (previous year: EUR 76 thousand) were paid to key management personnel in the financial year under review, in each case based on their equity interest held at the time of dividend payment.

The total remuneration of related parties in key positions amounts to EUR 1,887 thousand (previous year EUR 2,265 thousand).

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

Terms of Transactions with Related Parties (Persons):
Group companies acquired assets from xTCU AG in financial year 2022 and 2021 at arm's length conditions. A person in a key position of the Group is a controlling shareholder of xTCU AG. A contract exists between the Group and xTCU AG for the supply of technical components and development services.

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

The transactions were of the following value:

	Value of transactions in EUR thousand		Balances outstanding in EUR thousand	
Purchase of services	**2022**	**2021**	**2022**	**2021**
Other related parties (persons)	137	51	83	51
Company under the control of a related party (person)	406	322	86	–51
Sale of goods and purchase of services				
Company under the control of a related party (person)	0	420	0	6

6. CONTINGENT LIABILITIES

As of the balance sheet date, the subsidiaries have provided EUR 14,794 thousand (previous year: EUR 14,710 thousand) in guarantees to collateralize loans of Softing AG and overdraft lines of credit of Softing AG. Most of the guarantees were provided in connection with the refinancing carried out in 2019.

7. OTHER FINANCIAL OBLIGATIONS / RECEIVABLES

As of the balance sheet date, the Company had incurred purchase commitments in the amount of EUR 16,702 thousand under long-term contracts (previous year: EUR 8,858 thousand). As in the previous year, there were no purchase commitments for intangible assets and property, plant and equipment as of the balance sheet date. The Group held contingent liabilities in 2021 resulting from an inquiry from the German Federal Financial Supervisory Authority (BaFin) concerning an ad hoc release. The portion for which no provision was recognized yet amounted to up to EUR 200 thousand. Based on legal advice, Softing AG considered that it was in the right in this matter, but it had established a provision in the amount of EUR 100 thousand on grounds of commercial prudence. In the meantime, Softing AG paid the amount of EUR 150 thousand to BAFIN but it will pursue all of the legal options available to it in order to defend itself against this assumption.

8. GOVERNMENT GRANTS

	2022 EUR (in thsds.)	2021 EUR (in thsds.)
As of January 1, 2022	0	860
Received in the financial year	185	604
of which reversed through profit or loss	185	1,464
As of December 31, 2022	0	0

Public grants were provided by public authorities by way of contributions to current expenses during the COVID-19 pandemic (short-time work allowance). An amount of EUR 8 thousand (previous year: EUR 1,154 thousand) was deducted directly from personnel expenses. The Group also received grants for a research project in the field of autonomous driving amounting to EUR 177 thousand (previous year: EUR 310 thousand).

In the previous year, “PPP loans” received by the US subsidiaries under the first government support program during the COVID-19 crisis were recognized, as the conditions attached to the support were met.

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

Fair Values of Financial Instruments

The following table shows both the carrying amounts and the fair values of all financial instruments recognized in the consolidated financial statements that fall within the scope of IFRS 7. Almost all of the fair values correspond to the carrying amounts because, with the exception of cash, the financial instruments recognized almost solely comprise non-derivative current receivables and liabilities. As in the previous year, there were no financial instruments as of December 31, 2022, for which IFRS 7 is not applicable.

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

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

EUR (in thsds.)	Categories acc. to IFRS 9	Carrying amount	Measure-ment acc. to IFRS 9			Fair value	Hierarchy level
Financial assets by class		Dec. 31, 2021	Amortized cost	Fair value OCI	Fair value PL	Dec. 31, 2021	
Non-current financial assets							
Other investments	FVTPL	1,500			1,500	1,500	Level 3
Current financial assets							
Trade receivables	AC	14,066	14,066			14,066	Level 2
Current other financial assets	AC	1,344	1,344			1,344	Level 2
Cash and cash equivalents	AC	9,613	9,613			9,613	Level 2
		0	0			0	Level 2
Financial liabilities by class							
Non-current financial liabilities							
Long-term borrowings	FLAC	9,456	9,456			9,445	Level 2
Other non-current financial liabilities		1,074					
of which liabilities from lease accounting	n/a	1,065	n/a				
of which long-term repayment obligation	FLAC	9	9			9	
Current financial liabilities							
Trade payables	FLAC	7,226	7,226			7,226	Level 2
Short-term borrowings	FLAC	3,510	3,510			3,510	Level 2
Other current financial liabilities		6,945					
of which liabilities from lease accounting	n/a	835	n/a				
of which miscellaneous other current financial liabilities	FLAC	6,110	6,110			6,110	Level 2

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

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

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

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

The fair value of the unquoted equity instruments (equity interest in YOMA) was EUR 435 thousand in 2022. The significant unobservable inputs are the growth rate (1% for the terminal value) and the risk-adjusted discount rate (between 11% and 13%), which has to be allocated to Level 3. In 2022, a transaction with equity investors and year-end remeasurement resulted in a change in value of EUR –1,064 thousand.

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

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

The payment obligation arising from the payment based on the enterprise value in 2022 is calculated using a formula on the basis of a comparison of Softing's market capitalization at the beginning and end of the financial year and is allocated to Level 2.

The net gains/losses of the respective categories of financial instruments in accordance with IFRS 9 for 2022 and 2021 are shown in the following overview:

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

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

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

Interest income from financial assets at amortized cost totaled EUR 10 thousand in the current period, while interest expense on financial liabilities at amortized cost came to EUR 213 thousand. In the previous year, interest income on loans and receivables had amounted to EUR 1 thousand, while interest expense on financial liabilities at amortized cost had stood at EUR 206 thousand.

10. OBJECTIVES AND METHODS OF FINANCIAL RISK MANAGEMENT

Softing AG's capital management aims first and foremost at ensuring that the Company maintains a solid equity ratio to support its business activities. The Group manages its capital structure and makes adjustments, allowing for changes in economic conditions. To maintain or adjust its capital structure, the Group may make repayments of capital to its shareholders or issue new shares. There were no changes in the objectives, guidelines and procedures as of December 31, 2022, and December 31, 2021.

The Group monitors its capital using the equity ratio. But the Executive Board does not define a specific target to that end. The equity ratio in the financial year was 56.0% (previous year: 61.5%).

The capital of Softing AG relevant for controlling purposes encompasses the subscribed capital, the capital reserves, the retained earnings, the equity from unrealized gains and losses and non-controlling interests; it therefore corresponds to the equity of EUR 61,835 thousand (previous year: EUR 63,548 thousand) reported at the balance sheet date. Softing AG funds the development of its business to the greatest extent possible from its own cash flow.

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

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

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

With the exception of the major customers mentioned under D1., there are no material concentrations of risk in the Group.

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

Default Risks

Softing is exposed to default risks if contractual partners fail to meet their obligations. To avoid of risks of this nature, Softing enters into contracts only with contractual partners that have an excellent credit rating. As of the closing dates of December 31, 2022, and December 31, 2021, there was no material counterparty credit risk. While the Executive Board therefore believes the risk of non-fulfillment on the part of its contractual partners to be very low, it cannot completely exclude the risk in the final analysis.

Counterparty credit risks primarily concern trade receivables. Loss allowances are recognized to allow for any discernable counterparty credit risks in connection with individual financial assets. Loss allowances as of December 31, 2022, totaled EUR 276 thousand (previous year: EUR 255 thousand).

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

Interest Rate Risks

Softing is also exposed to interest rate risks. The assets subject to interest rate fluctuations essentially concern cash and cash equivalents and securities classified as current assets. Bank balances totaling EUR 6,801 thousand (previous year: EUR 9,613 thousand) bear interest of 0.00% (previous year: 0.00%). No material interest rate risks result from subsidiaries' liabilities to banks in the amount of EUR 14,735 thousand (previous year: EUR 12,966 thousand) because these loans in the amount of EUR 11,950 thousand are fixed-interest loans.

An increase of the market interest rate by 50 basis points would have an impact of EUR 14 thousand (previous year: EUR 4 thousand) on interest expense relating to the short-term loans.

Foreign Currency Risk

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

The following sensitivities apply with regard to USD:

In EUR thsd./USD			USD			
Closing rate: USD 1.066			1.17 +10%	0.96 –10%	Difference	Difference
Financial assets / liabilities	**USD**	**USD in EUR**			**+10%**	**–10%**
Trade receivables	4,954	4,645	4,223	5,161	–422	516
Receivables from affiliated companies	13,438	12,599	11,453	13,999	–1,145	1,400
Other current assets	496	465	423	517	–42	52
Cash and cash equivalents	3,025	2,836	2,578	3,151	–258	315
Current liabilities	–7,380	–6,920	–6,291	–7,688	629	–769
	14,532	**13,625**			**–1,239**	**1,514**

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

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

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

The Group possesses sufficient liquidity and unused credit lines in the amount of EUR 6,421 thousand to meet its obligations over the next four years in line with its strategic plans. For disclosures on maturities, please see section C.

Cash and cash equivalents at year's end were EUR 6,801 thousand (previous year: EUR 9,613 thousand), accounting for 6.2% (previous year: 9.3%) of the Group's total assets.

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

Dec. 31, 2022 (EUR thsd.)	Up to 1 year	2–5 years	More than 5 years	Total contractual CF	Total carrying amounts
Financial liabilities					
Loan	5,699	9,501		15,200	14,735
Lease liabilities	1,281	3,008	729	5,018	5,018
Trade payables	9,267			9,257	9,257
Other financial liabilities	4,154	4,550		8,704	8,704

Dec. 31, 2021 (EUR thsd.)	Up to 1 year	2–5 years	More than 5 years	Total contractual CF	Total carrying amounts
Financial liabilities					
Loan	3,661	9,688		13,492	12,966
Lease liabilities	834	1,066		1,900	1,900
Trade payables	7,226			7,226	7,226
Other financial liabilities	6,945			6,945	6,945

11. HEDGING RELATIONSHIPS AND DERIVATIVES

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

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

Derivatives Not Designated as Hedging Instruments
The Softing Group uses forward exchange contracts to hedge a portion of the transaction risks. These forward exchange contracts are not designated as

cash flow hedges. The period for which these forward exchange contracts are entered into corresponds to the period for which a foreign currency risk applies in relation to the hedge, generally up to 3 months. Forward exchange contract are also entered into on a revolving basis.

12. PERSONNEL

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

	2022	2021
As of the balance sheet date	395	388
Annual average	388	388
Marketing & Sales	109	115
Research & Development	220	217
Administration & General	46	45
Management	13	11

13. TOTAL REMUNERATION OF THE EXECUTIVE BOARD

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

Dr.-Ing. Dr. rer. oec. Wolfgang Trier, Munich, Germany, Chairman of the Executive Board

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

Benefits granted EUR (in thsds.)	Total	
	2022	2021
Fixed remuneration	833	787
Fringe benefits	48	80
Total	881	867
Discretionary bonus	0	100
One-year variable remuneration	601	259
Multi-year variable remuneration	78	399
One-year variable remuneration based on enterprise value	0	534
Total	679	1,292
Pension expense	76	76
Total remuneration	1,636	2,235

All remuneration components are deemed to have been earned in the financial year. A portion of the total remuneration, including that of previous years, is presented under other non-current financial liabilities at the balance sheet date in the amount of EUR 4,451 thousand (previous year: EUR 3,919 thousand).

In addition, unused vacation days in the amount of EUR 10 thousand from the previous year were settled in the financial year (previous year: EUR 16 thousand).

The obligations from non-reinsured pension expenses for the Executive Board amount to EUR 80 thousand (previous year: EUR 1,115 thousand).

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

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

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

Furthermore, service cost of EUR 168 thousand (previous year: EUR 181 thousand) was recognized.

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

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

Pension obligations for former members of the Executive Board as of December 31, 2022 totaled EUR 2,285 thousand (previous year: EUR 2,773 thousand). The total remuneration of former members of the Executive Board amounted to EUR 182 thousand (previous year: EUR 175 thousand).

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

14. TOTAL REMUNERATION OF THE SUPERVISORY BOARD

The following persons were members of the Supervisory Board of Softing AG in the 2022 financial year:

Dr. Horst Schiessl, attorney at law, Munich, Germany (chairman, until May 6, 2022)

Matthias Weber, business graduate, Baierbrunn, Germany (chairman, from May 6, 2022)

Andreas Kratzer, certified public accountant, Neuheim, Switzerland (deputy chairman)

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

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

Mr. Matthias Weber was also a member of the Supervisory Board of the following companies:
Salutas Pharma GmbH, Barleben, Germany, chairman of the Supervisory Board
Lek d.d., Ljublijana, Slovenia, chairman of the Supervisory Board
Sandoz GmbH, Kundl, Austria, member of the Supervisory Board
Rowex Ltd, Bantry/Ireland, member of the Supervisory Board

Mr. Andreas Kratzer is also a member of one other Supervisory Board:
Fox e-mobility AG, Munich, Germany

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

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

The total remuneration is presented under other current financial assets at the balance sheet date in the amount of EUR 62 thousand (previous year: EUR 45 thousand). The total remuneration for the Executive Board and the Supervisory Board amounts to EUR 1,698 thousand (previous year: EUR 2,265 thousand).

15. AUDITOR'S FEES

The following expenditure (including expenses) was incurred in the financial year just ended for services provided by the 2022 auditor, Rödl & Partner GmbH:

	2022 EUR (in thsds.)	2021 EUR (in thsds.)
Audit of annual financial statements	159	122
Other services	4	71
	163	**193**

16. EVENTS AFTER THE REPORTING PERIOD

There are no events after the reporting date to report.

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

The declaration pursuant to Section 289f and 315d of the German Commercial Code was issued by the Executive Board and the Supervisory Board of Softing AG and has been made permanently available to shareholders on the Internet at www.softing.com.

Haar, Germany, March 24, 2023

Softing AG

The Executive Board

Dr. Wolfgang Trier Ernst Homolka

Independent auditor's report

TO SOFTING AG, HAAR

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

Audit Opinions

We have audited the consolidated financial statements of Softing AG, Haar, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2022, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1, 2022 to December 31, 2022, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report of Softing AG, Haar, for the financial year from January 1, 2022 to December 31, 2022. In accordance with German law, we have not audited the contents of the disclosures made in the section "Statement on corporate governance" of the combined management report, and the Sustainability Report to which the Company refers in the section "Internal management system".

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

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2022, and of its financial performance for the financial year from January 1, 2022 to December 31, 2022, and

- the accompanying combined management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the combined management report does not extend to the contents of the aforementioned components of the combined management reports, whose contents we have not audited.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the combined management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the combined management report in accordance with Section 317 HGB and the EU Audit Regulation (No. 537/2014; hereinafter referred to as "EU Audit Regulation"), and generally accepted German standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany [Institut der Wirtschaftsprüfer] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the combined management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1, 2022 to December 31, 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

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

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

In the consolidated financial statements of Softing AG, revenue of EUR 5,290 thousand from the development of customer projects arising from the fulfillment of service obligations over time is reported. Provided that the criteria of IFRS 15 have been met, the revenue is recognized in accordance with the stage of completion, with the estimate of the stage of completion being based on the ratio of costs actually incurred in relation to the contract to the planned total costs ("cost-to-cost method"). In particular, estimating the planned total costs and appropriately allocating personnel expenses to the projects require the management to use estimates and assumptions.

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

- Our audit approach

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

- Reference to related disclosures

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

RECOVERABILITY OF GOODWILL

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

In the consolidated financial statements of the Company, goodwill amounting to a total of EUR 17,398 thousand (15.8% of total assets and 28.1% of equity) is reported. Goodwill is tested for impairment by the Company once a year or when there are indications of impairment to determine any possible need for write-downs. The impairment test is carried out at the level of the groups of cash-generating units to which the relevant goodwill has been allocated. The carrying amount of the relevant goodwill is compared with the corresponding recoverable amount in the context of the impairment test. The calculation of the recoverable amount generally employs the value in use. The present value of the future cash flows from the respective group of cash-generating units normally serves as the basis of valuation. Present values are calculated using discounted cash flow models. For this purpose, the medium-term business plan adopted by the Group forms the starting point which is extrapolated based on assumptions about long-term rates of growth. Expectations relating to future market developments and assumptions about the development of macroeconomic factors are also taken into account. The discount rate used is the weighted average cost of capital for the relevant group of cash-generating units. The impairment test determined that a write-down of EUR 120 thousand was necessary.

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

- Our audit approach

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

- Reference to related disclosures

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

DEVELOPMENT COSTS FOR INTERNALLY GENERATED PRODUCT DEVELOPMENTS

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

In the consolidated financial statements of the Company, an amount of EUR 17,089 thousand for internally generated product developments is reported under the "Other intangible assets" item in the statement of financial position. This amount relates to development costs for new products and significant further developments (hereinafter "product developments"), which were capitalized in accordance with IAS 38. The development costs include directly allocable costs. The criteria of IAS 38.57 determine whether internally generated product developments are eligible for capitalization – specifically the technical feasibility of completing the intangible asset, how the intangible asset will generate probable future economic benefits and the ability to measure reliably the expenditure attributable to the intangible asset during its development – and provide considerable scope for judgment. The asset is generally amortized over 5 years once the Company begins consuming the economic benefits from that asset. Own work capitalized contributed EUR 3,653 thousand to consolidated profit in the financial year. This was offset by amortization of internally generated intangible assets amounting to EUR 3,788 thousand. In our view, this matter was of particular significance for our audit because the capitalization, recoverability and amortization of development costs are based to a large extent on management estimates and assumptions and are therefore subject to corresponding uncertainties.

- Our audit approach

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

We also assessed the methodology used to calculate the costs eligible for capitalization. We determined that the process for capitalizing development costs is appropriately designed evaluated the established controls. We assessed the amount of the capitalized development costs and the recoverability of the product developments on the basis of appropriate evidence (sales forecasts, impairment tests). In so doing, we also inspected project records and talked to technical project managers in order to satisfy ourselves of the respective percentage of completion.

- Reference to related disclosures

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

Other Information

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

- the statements in accordance with Section 297 (2) sentence 4 HGB and Section 315 (1) sentence 5 HGB on the consolidated financial statements and the combined management report,
- the Report of the Supervisory Board, the Letter from the CEO,
- the remaining parts of the "annual report",
- but not the consolidated financial statements, not the audited content of the combined management report, and not our auditor's report thereon.

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the aforementioned other information and, in so doing, to consider whether the other information

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

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

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

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

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

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

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the combined management report.

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

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

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

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

- identify and assess the risks of material misstatement of the consolidated financial statements and of the combined management report, whether due to fraud error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting a material misstatement resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw

attention in the auditor's report to the related disclosures in the consolidated financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the combined management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

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

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

OTHER LEGAL AND REGULATORY REQUIREMENTS

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

Opinion

We have performed an assurance engagement in accordance with Section 317 (3a) HGB to obtain reasonable assurance about whether the reproduction of the consolidated financial statements and the combined management report (hereinafter the "ESEF documents") contained in the attached electronic file SOFTING_AG_KA+LB_ESEF_31-12-2022.zip (SHA 256 hash value: 3d410dca5f17d157264a0ba5ec70c7e2d92bb34df872193fe0f64af974f3e1f6) and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance only extends to the conversion of the information contained in the consolidated financial statements and the combined management report into the ESEF format and therefore relates neither to the information contained in this reproduction nor any other information contained in the above-mentioned electronic file.

In our opinion, the reproduction of the consolidated financial statements and the combined management report contained in the above-mentioned electronic file and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format. We do not express any opinion on the information contained in this reproduction nor on any other information contained in the above-mentioned file beyond this reasonable assurance opinion and our audit opinion on the accompanying consolidated financial statements and the accompanying combined management report for the financial year from January 1 2022 to December 31, 2022 contained in the "Report on the Audit of the Consolidated Financial Statements and the Combined Management Report" above.

Basis for the Reasonable Assurance Conclusion

We conducted our assurance work on the reproduction of the consolidated financial statements and the combined management report contained in the above-mentioned electronic file in accordance with Section 317 (3a) HGB, and the IDW Assurance Standard: Assurance in accordance with Section 317 (3a) HGB on the Electronic Reproduction of Financial Statements and Management Reports Prepared for Publication Purposes (IDW PS 410 (06.2022)). Accordingly, our responsibilities are further described below in the "Auditor's Responsibilities for the Assurance Engagement on the ESEF Documents" section. Our audit firm has applied the IDW Standard on Quality Management: Requirements for Quality Management in Audit Firms (IDW QS 1).

Owing to the conversion process selected by the Company concerning the information in the notes in iXBRL format (block tagging), the consolidated financial statements converted into the ESEF format are not machine-readable in a fully meaningful respect. There is significant legal uncertainty regarding the legal conformity of the executive directors' interpretation that meaningful machine-readability of the structured information in the notes is not explicitly required by Commission Delegated Regulation (EU) 2019/815 for the block tagging of notes, which thus also constitutes an inherent uncertainty of our audit.

Responsibilities of the Executive Directors and the Supervisory Board for the ESEF Documents

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

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

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

Auditor's Responsibilities for the Assurance Engagement on the ESEF Documents

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

- Identify and assess the risks of material non-compliance with the requirements of Section 328 (1) HGB, whether due to fraud or error, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance conclusion.
- Obtain an understanding of internal control relevant to the assurance engagement on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance conclusion on the effectiveness of these controls.
- Evaluate the technical validity of the ESEF documents, i.e. whether the electronic file SOFTING_AG_KA+ LB_ESEF_31-12-2022.zip (SHA 256 hash value: 3d410dca5f17d157264a0ba5ec70c7e2d92bb34df872193fe0f64af974f3e1f6) containing the ESEF documents meets the requirements of Commission Delegated Regulation (EU) 2019/815 as applicable on the reporting date on the technical specification for this electronic file.
- Evaluate whether the ESEF documents enable an XHTML reproduction with content equivalent to the audited consolidated financial statements and the audited combined management report.
- Evaluate whether tagging the ESEF documents with Inline XBRL technology (iXBRL) in accordance with the requirements of Articles 4 and 6 of the Delegated Regulation (EU) 2019/815, in the version applicable at the date of the consolidated financial statements provides an appropriate and complete machine-readable XBRL copy of the XHTML reproduction.

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the General Shareholders' Meeting on May 6, 2022. We were engaged by the Supervisory Board on November 3, 2022. We have been the group auditor of the Softing AG, Haar, without interruption since the financial year 2019.

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

OTHER MATTER – USE OF THE AUDITOR'S REPORT

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

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

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

Munich, Germany, March 24, 2023

Rödl & Partner GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

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

Report of the Supervisory Board

for Financial Year 2022

The Supervisory Board of Softing AG carried out its duties as provided by law and the Company's Articles of Incorporation in financial year 2022. The Supervisory Board regularly advised the Executive Board in matters of management and diligently monitored its actions. The Supervisory Board was informed regularly about the situation of Softing AG and the Softing Group and monitored and accompanied the work of the Executive Board as well as compliance with applicable legal provisions and the Company's internal guidelines. The Executive Board informed the Supervisory Board in writing and orally about the business policies, fundamental questions of future business activities, the economic situation and future strategic development, the risk situation and risk management as well as significant business transactions, and discussed these matters with the Supervisory Board. The Supervisory Board was involved in decisions of material significance at all times.

A total of 6 in-person Supervisory Board meetings were held in the 2022 financial year:

on March 18, May 6, June 20, July 29, September 23 and December 19.

Given that the Supervisory Board has three members, the Audit Committee comprises the entire Supervisory Board. The Audit Committee is chaired by Mr. Andreas Kratzer. A total of 2 Audit Committee meetings were held in the 2022 financial year:

on September 23 and December 14.

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

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

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

COMPOSITION OF THE SUPERVISORY BOARD AND THE EXECUTIVE BOARD

In the reporting year, the Supervisory Board was comprised of Dr. Horst Schiessl (Chairman) until May 6, 2022, Mr. Matthias Weber (Chairman) from May 6, 2022, Mr. Andreas Kratzer (Deputy Chairman) and Dr. Klaus Fuchs.

The duties of the Audit Committee were performed by the entire Supervisory Board, chaired by Mr. Andreas Kratzer. The full Supervisory Board was responsible for all other tasks and decisions. In the year under review, the Executive Board consisted of Dr. Dr. Wolfgang Trier and Ernst Homolka.

MAIN FOCUS OF THE MEETINGS

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

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

At the Supervisory Board meeting on March 18, 2022, the Supervisory Board dealt with the Company's performance in the 2021 financial year and the first results for 2022. Another key item on the agenda at the Supervisory Board meeting was the adoption of the annual financial statements and the approval of the consolidated financial statements, both as of December 31, 2021, after the auditor, who was present, had reported on the completed audit and extensively answered questions by the Supervisory Board. The Supervisory Board concurred with the Executive Board's proposal for the appropriation of profits. At this meeting, the Supervisory Board also carried out the efficiency review recommended by the German Corporate Governance Code. The Supervisory Board came to the conclusion that its work was efficient. It also approved the Agenda for the 2022 General Shareholders' Meeting. Due to the COVID-19 pandemic, the Supervisory Board and Executive Board had decided to hold a virtual General Shareholders' Meeting again. The Supervisory Board and the Executive Board also decided on the update regarding the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act and the update to the statement on corporate governance pursuant to Sections 289f and 315d of the German Commercial Code. In March 2022, the Supervisory Board and the Executive Board worked closely together to prepare the first remuneration report pursuant to Section 162 of the German Stock Corporation Act, bearing in mind the remuneration system decided upon at the General Shareholders' Meeting on May 5, 2021. In addition, the statutory auditor was engaged to audit the remuneration report. The audit led to "no reservations".

In the Supervisory Board meeting on May 6, 2022 after the General Shareholders' Meeting there was a recapitulation of the virtual General Shareholders' Meeting. It was followed by the inaugural meeting due to the election of Mr. Matthias Weber to the Supervisory Board. At this inaugural meeting, Mr. Matthias Weber was elected Chairman of the Supervisory Board. This meeting was concluded with a report of the Executive Board on the status and outlook of the Company's strategy, operations and financial position.

On June 20, 2022, the Executive Board presented data and background information on the business figures for the first five months and the financial planning at the Supervisory Board meeting. The Supervisory Board obtained a detailed report from the Executive Board on the development of business in the past first months, and the performance of GlobalmatiX AG was presented by the executive management.

At the meeting on July 29, 2022, the Executive Board provided detailed commentary on data and background information on the financial figures for the first six months of 2022 and the financial planning for the rest of the year. This was followed by discussions regarding the changes in interest rates and the further liquidity planning. The evolving economic impact of the shortage of electronic components on products was another topic addressed at this meeting. Other items on the agenda included the updated forecast for the second half of 2022 and the extension of Mr. Ernst Homolka's appointment until April 30, 2026. The extension of his contract was accompanied by its amendment to reflect the Executive Board remuneration system adopted at the 2021 General Shareholders' Meeting.

The meeting on October 24, 2022 was held at Softing Automotive in Kirchentellinsfurt and was combined with discussions with the local management and a tour of the facility. At this meeting, the Executive Board and the Supervisory Board remembered long-serving Supervisory Board Chairman Dr. Horst Schiessl, who passed away in August 2022 following a serious illness. In the further course of the meeting, the Executive Board provided detailed commentary on data and background information on the financial figures for the first nine months of 2022 and the financial planning for the rest of the year. This was followed by a status report on current business and the latest outlook at GlobalmatiX AG.

At the Supervisory Board meeting held on December 19, 2022, the Executive Board presented to the Supervisory Board a first estimate of the 2022 annual results, its business plan for 2023 and its multi-year planning. After careful review, the Supervisory Board approved the two plans. This was followed by the report on the performance of the GlobalmatiX acquisition given with the members of GlobalmatiX AG being present. Mr. Homolka presented the risk report for the second half of 2022 and answered the Supervisory Board's follow-up questions. The annual review of the remuneration system for the Executive Board was performed. This was followed by a discussion of the further portfolio strategy and strategic orientation of the individual segments. At this meeting, the Supervisory Board's internal efficiency review was carried out and a resolution passed regarding the amendment of the profile of skills and expertise in light of sustainability aspects.

At the Audit Committee meetings on September 23, 2022 and December 14, 2022, Rödl & Partner, the audit firm elected at the General Shareholders' Meeting, was engaged as statutory auditor. The focal points of the preliminary and main audit were also determined, as was the Supervisory Board's approach to assessing the quality of the auditors.

All members of the Supervisory Board personally attended all Supervisory Board meetings in 2022. There was no conflict of interest of members of the Supervisory Board in the financial year just ended. The independence of the financial experts on the Supervisory Board was monitored on an ongoing basis and is assured.

ANNUAL FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

The annual financial statements of Softing AG were prepared in accordance with the German Commercial Code and the consolidated financial statements and the Group management report were prepared in accordance with International Financial Reporting Standards (IFRSs). The annual financial statements and the management report of Softing AG, and the consolidated financial statements and the Group management report as of December 31, 2021, were audited as required by law by Rödl & Partner GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Munich, Germany, the auditors appointed by the General Shareholders' Meeting.

The auditors issued an unqualified auditor's opinion each for the annual financial statements and the consolidated financial statements. The auditors performed an audit in accordance with Section 317 (4) German Commercial Code and came to the conclusion that the Executive Board established a monitoring system which fulfills the legal requirements for the early detection of risks jeopardizing the Company's existence as a going concern and that the Executive Board took appropriate measures to detect developments at an early stage and avert risks.

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

The annual financial statements and the audit reports of the auditors were made available in time to all members of the Supervisory Board. At its financials meeting on March 24, 2023, the Supervisory Board examined the annual financial statements and the management report of Softing AG as well as the consolidated financial statements and the Group management report presented by the Executive Board including the audit report prepared by the auditors of the financial statements. The auditors and the Executive Board participated in the meeting.

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

The Supervisory Board approved the annual financial statements and the consolidated financial statements for 2022 at its meeting on March 24, 2023. The annual financial statements are therefore formally adopted. The Supervisory Board agreed with the appropriation of the net retained profits proposed by the Executive Board.

THANK YOU

The Supervisory Board would like to thank the Executive Board and all employees for their extraordinary efforts for Softing during a difficult 2022 that was dominated by global events, and for their achievements in the past financial year.

Haar, Germany, March 24, 2023

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Chairman

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