stratec

THE ELEMENTS OF OUR SUCCESS

Annual Report 2018

MISSION STATEMENT

As the innovative and technological market leader for automation and instrumentation solutions in in-vitro diagnostics, we seek to offer our worldwide partners first class solutions and thereby share responsibility towards their customers and patients.

Our success is based on the talents and skills of our employees and their commitment to always perform the extraordinary. Their performance allows for the successful and sustainable development of our company in the interest of all its stakeholders.

Our partnerships are built on mutual trust, continuity and professionalism and with our partners we share a common mission to develop safe, innovative, market-leading products that consistently fulfill customer expectations.

For STRATEC, partnership means responsibility, passion and commitment, to both our customers and our products, that goes well beyond the duration of the product life cycle.

ANNUAL REPORT 2018

STRATEC GROUP AT A GLANCE

Group Key Figures

Sales, earnings, and dividend

	2018	2017[3]	Change
Sales (in € thousand)	187,820	207,478	-9.5 %
Gross R&D expenses (in € thousand)	37,876	29,396	+28.8 %
Gross R&D expenses as % of sales	20.2	14.2	+600 bps
Adjusted EBITDA (in € thousand)[1]	36,190	43,405	-16.6 %
Adjusted EBITDA in % of sales[1]	19.3	20.9	-160 bps
Adjusted EBIT (in € thousand)[1]	26,157	36,369	-28.1 %
Adjusted EBIT as % of sales[1]	13.9	17.5	-360 bps
Adjusted Consolidated net income (in € thousand)[1, 4]	20,238	28,855	-29.9 %
Adjusted diluted earnings per share (in €)[1, 4]	1.68	2.41	-30.3 %
Diluted earnings per share IFRS (in €)[4]	0.92	2.22	-58.6%
Dividend per share (in €)	0.82[2]	0.80	+2.5 %

[1] Adjusted to exclude amortization resulting from purchase price allocations in the context of acquisitions, associated integration expenses, and other extraordinary effects.
[2] Subject to approval by the Annual General Meeting on May 29, 2019.
[3] Not retrospectively restated to reflect IFRS 9 and IFRS 15 (modified retrospective approach). Retrospectively restated to reflect the the classification of the nucleic acid preparation business as a discontinued operation in accordance with IFRS 5.
[4] Results from continuing operations.

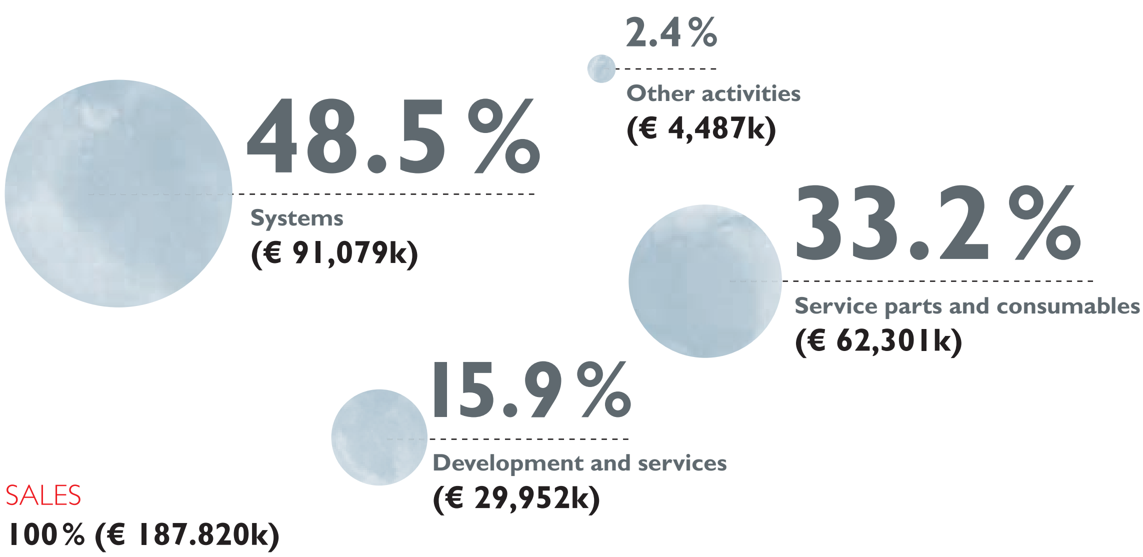
bps = basis points

Balance sheet

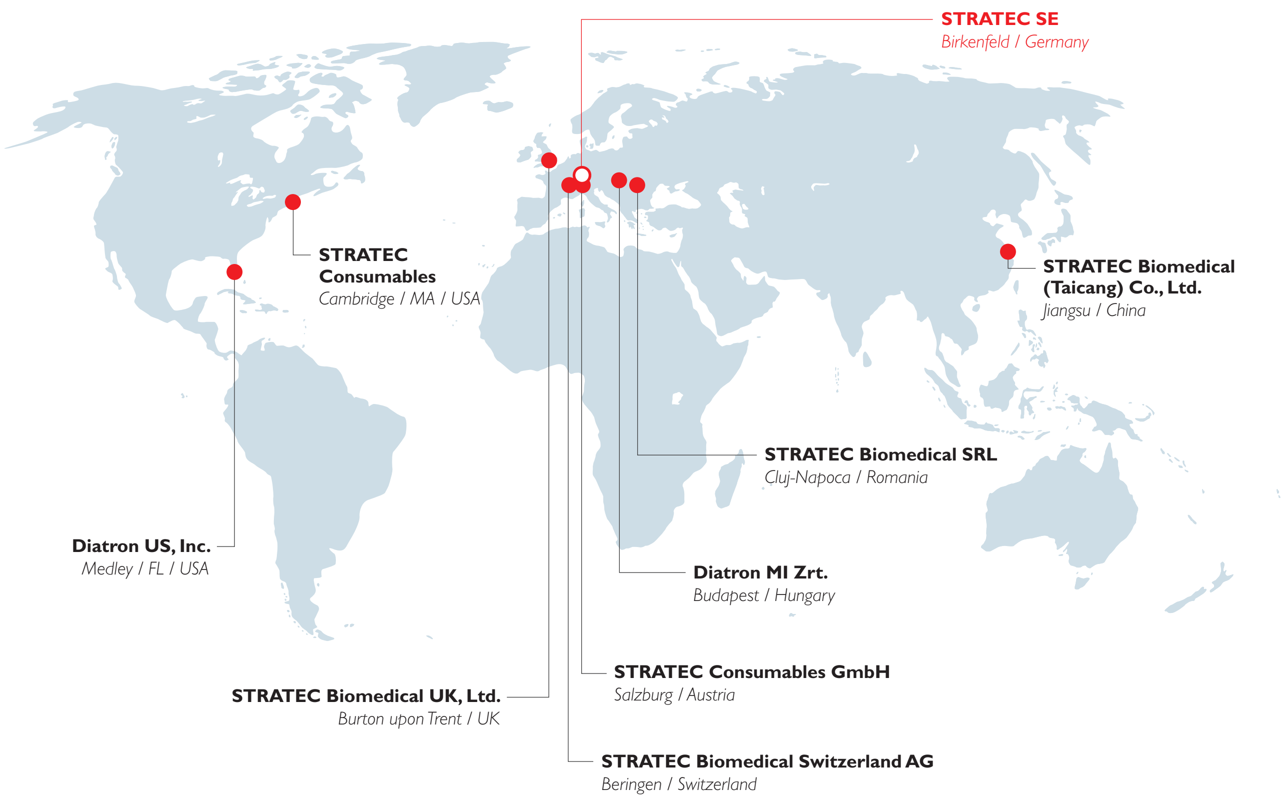
	12.31.2018	12.31.2017	Change
Shareholders' equity (in € thousand)	152,204	157,837	-3.6 %
Total assets (in € thousand)	275,285	263,776	+4.4 %
Equity ratio (in %)	55.3	59.8	-450 bps

bps = basis points

Sales by operating division 2018



Locations of the STRATEC Group



LETTER FROM THE BOARD OF MANAGEMENT

Dear Shareholders, Partners and Friends of STRATEC,

Our sales and earnings performance in 2018 fell below our original expectations. Despite the extremely healthy outlook, we found ourselves battling an unprecedented combination of various postponements and delays. As a result, STRATEC recorded an organic sales decline of 5.9% in fiscal year 2018.

It typically takes five to six years from the first idea until new products are manufactured in notable quantities. In spite of the aforementioned operational challenges, this is why we continued to make substantial investments in the medium- and long-term development of new technologies and products, particularly within existing cooperations with partners and customers. This combination of intensified development work and a temporary slowdown in growth momentum, often referred to as negative scaling, put additional pressure on our earnings figures. The adjusted EBIT margin amounted to 13.9% after 17.5% in the previous year, although this was slightly above the range of the revised forecast from October 2018.

The muted development in 2018 sits in stark contrast to the positive medium- to long-term growth prospects for the STRATEC Group. This is reflected in particular in our full development pipeline, which we again expanded in 2018 with the agreement of additional major development partnerships. Against the backdrop of demographic change, new technologies, more extensive applications and the expansion of healthcare systems in the emerging economies, the outlook for growth in our customers' target markets remains positive as well. We are also seeing a continued trend among our customers towards outsourcing the development and production of automation solutions to specialist partners such as STRATEC. In light of the significant product launches that are scheduled and the fact that the sales planned for 2018 were merely postponed to subsequent periods, we are confident of an immediate return to significantly positive sales and earnings growth in 2019.

Our positive business outlook is also reflected in the further growth in our workforce in 2018. Using targeted measures, we succeeded in recruiting additional highly qualified employees for our Research & Development department in particular, thereby increasing our workforce by 13.1% year-on-year to 1,228.

In 2018, we also implemented and pressed ahead with important measures aimed at aligning the structures of the STRATEC Group even more closely to the expected future growth. Examples include the transformation of our legal form into a European stock corporation (Societas Europaea, SE) and the ongoing construction work to significantly expand the buildings at the Birkenfeld location.

One particular development we would like to highlight is the successful launch of our new ERP system. In light of the considerable difficulties reported by other companies when it comes to rolling out new enterprise software, the people responsible at STRATEC can be very proud of what they have accomplished. Even the implementation partner praised the exceptional achievement of introducing the ERP system successfully and on time while simultaneously implementing complex development software (PLM, software for managing development and production throughout the entire product lifecycle). The discipline and commitment of the employees involved, a rigorous focus on the prescribed standards and the exemplary communication between the teams across multiple locations and departments were all factors in the successful

Marcus Wolfinger (51)
Chairman of the Board of Management

Dr. Claus Vielsack (51)
Member of the Board of Management, Product Development

Dr. Robert Siegle (51)
Member of the Board of Management, Finances and Human Resources

launch. Furthermore, by prefabricating products in the fourth quarter of 2018 and subsequently catching up in the first quarter of 2019, we guaranteed a near-seamless transition between two ERP systems even though this required a production shutdown from mid-December 2018 to the end of January 2019. Like at the STRATEC locations that already went live with the new ERP system in the previous year, the tasks for the months ahead will be to ensure the uniform implementation of the accompanying specifications and address the outstanding inefficiencies.

In light of our confidence in an immediate return to sales and earnings growth in 2019 and our balance sheet situation, which remains extremely solid, we intend to propose a dividend distribution to our shareholders of € 0.82 per share (previous year: € 0.80 per share). This would mark the fifteenth consecutive dividend increase since the first dividend payment in 2004.

We would like to express our particular gratitude to our employees this year, as it would not have been possible to realize the increased number of future-oriented projects without their high degree of commitment. Our creative, motivated and dedicated employees remain the cornerstone of our sustained business success. Our responsibility towards our employees, customers, shareholders and partners who depend on the high quality of our products will continue to define our business activities in 2019 and beyond.

We are sincerely grateful for your confidence and interest in our company, and we look forward to the continued exciting and positive development of our company.

Birkenfeld, April 2019

The Management Board of STRATEC SE

Marcus Wolfinger *Dr. Robert Siegle* *Dr. Claus Vielsack*

REPORT OF THE SUPERVISORY BOARD

Dear Shareholders,

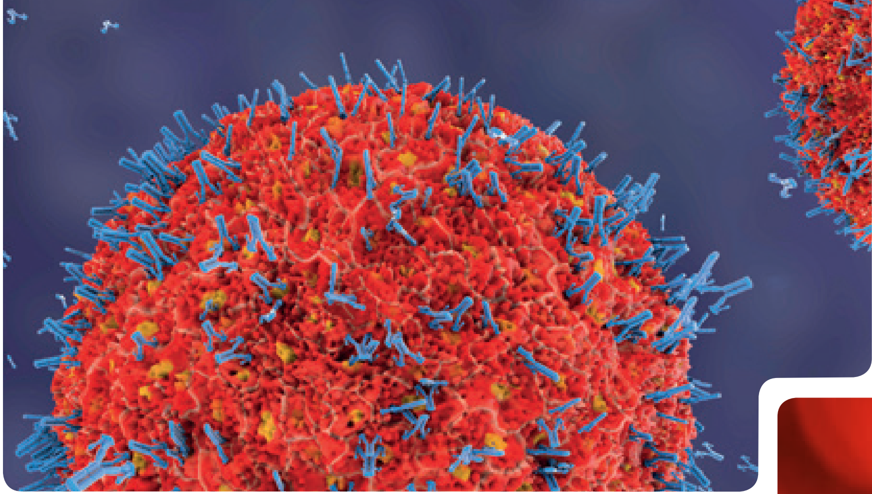
The Supervisory Board of STRATEC Biomedical AG and STRATEC SE would like to inform you of its work in the past fiscal year.

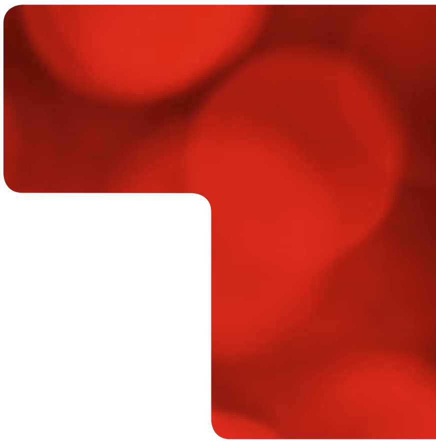
Collaboration of the Supervisory Board and Board of Management
In fiscal year 2018, the Supervisory Board of STRATEC SE once again addressed the company's situation and its prospects in great detail. It worked together with the Board of Management on a basis of trust, advised the Board of Management, and exercised its own supervisory function. The Supervisory Board performed the duties required by law, the Articles of Association, and its Code of Procedure at all times in full awareness of its responsibility. With only a few exceptions, it also complied with the recommendations of the German Corporate Governance Code. The Supervisory Board was directly involved in all decisions or measures of fundamental significance, particularly those involving corporate strategy, group-related matters, and the net asset, financial and earnings position of the company and the Group, as well as those transactions requiring its approval in the Code of Procedure in force for the Board of Management. The Board of Management provided the Supervisory Board with regular, timely and comprehensive written and oral information concerning all issues of relevance to the company.

Outside the framework of Supervisory Board meetings, individual members were also available to discuss specific topics with the Board of Management in various one-to-one talks held in person or by telephone.

Supervisory Board meetings, attendance at meetings, and key focal points
The Supervisory Board held a total of eight meetings, including four in the form of conference calls, in fiscal year 2018. All Supervisory Board members participated in the Supervisory Board meetings, as did all members of the Board of Management, unless the meetings did not address matters relating to the Board of Management or addressed internal Supervisory Board matters.

At its meetings on April 9, 2018, July 12, 2018, October 25, 2018, and December 13, 2018, the Supervisory Board dealt in particular with the risk report, compliance management, the Group's sales and earnings performance, its financial position, the status of the respective development projects, and the company's contract negotiations. Other key focal points were discussions on the subsidiaries, the organizational structure, the implications of new legislative requirements, and the long-term corporate strategy. The Board of Management's explanations regarding progress with the project for the cross-location introduction of a new ERP system, started in spring 2017, were also the subject of several meetings, as was the conversion of STRATEC Biomedical AG into a European company (Societas Europaea, SE; hereinafter referred to as 'the SE conversion').





At its first meeting of the reporting period, held on March 9, 2018, the Supervisory Board discussed and decided on the extension of an appointment to the Board of Management. It also determined the level of target achievement and the discretionary component for individual members of the Board of Management for the bonus payment for fiscal year 2017 in accordance with the individual additional agreements (mid-term compensation agreement). Furthermore, it set new target agreements for individual members of the Board of Management for fiscal year 2018. The Supervisory Board also approved the corporate governance declaration and corporate governance report. In addition, it voted in favor of extending Hermann Leistner's appointment to the Administrative Board and his advisory contract at STRATEC Biomedical Switzerland AG.

Following in-depth examination, at its meeting on April 9, 2018, the Supervisory Board approved the annual financial statements and the management report as well as the consolidated financial statements and the group management report with the non-financial group declaration of STRATEC Biomedical AG for fiscal year 2017. This meeting also focused on the proposed resolutions for the company's Annual General Meeting including the proposed appropriation of profit for fiscal year 2017 and the proposal regarding the SE conversion with the re-election of the Supervisory Board.

Immediately after the Annual General Meeting on May 30, 2018 that approved the SE conversion with 99.97% of the votes cast, the Supervisory Board held a meeting. Subject to entry of the SE conversion in the commercial register, the Annual General Meeting elected Fred K. Brückner, Prof. Stefanie Remmele and Rainer Baule to the first Supervisory Board of STRATEC SE. Thereafter, subject to entry of the SE conversion in the commercial register, the Supervisory Board elected Fred K. Brückner as Chairman and Rainer Baule as Deputy Chairman and financial expert pursuant to Article 100 (5) of the German Stock Corporation Act (AktG) of the Supervisory Board of the company then trading as STRATEC SE.

The Supervisory Board meeting on July 12, 2018 focused on recurring matters, in particular the progress of the SE conversion. At this meeting, the Supervisory Board and the Board of Management discussed the status of negotiations with the special negotiating body of employees from the EU companies in detail.

At part of its meeting on October 25, 2018, the Supervisory Board listened to the Board of Management's statements on the current status of the measures taken to improve earnings.

At its meeting on November 12, 2018, the Supervisory Board dealt with the reappointment of all members of the Board of Management, required in the context of the SE conversion, and the employment contracts.

Once all entry requirements were met, the SE conversion was entered and became effective on November 27, 2018. The term of office of the Supervisory Board of STRATEC Biomedical AG ended on this date. The term of office of the Supervisory Board of STRATEC SE started on this date with the same members.

The next meeting of the Supervisory Board of STRATEC SE was held on November 30, 2018. At this meeting, the Supervisory Board addressed the German Corporate Governance Code in its version dated February 7, 2017. To monitor compliance with the German Corporate Governance Code, the Supervisory Board reviewed the implementation of the recommendations at STRATEC SE and the efficiency of its own work. As a result of this, the Supervisory Board and Board of Management renewed the declaration of conformity pursuant to Article 161 AktG on this date. This is permanently available to shareholders on the company's website. Furthermore, after the periods for exercising stock options had elapsed, the Supervisory Board approved the adjustment and amendment to the company's Articles of Association to account for the shares issued for subscription in 2018 in connection with existing stock option programs.

At the final meeting of the reporting period, held on December 13, 2018, the Supervisory Board adopted the budget and annual financing plan for fiscal year 2019.

Formation of Supervisory Board committees
As it has only three members, the Supervisory Board has not formed committees and thus deviates from the recommendation in the German Corporate Governance Code.

Review of potential conflicts of interest and independence of Supervisory Board members
No conflicts of interest requiring immediate disclosure to the Supervisory Board and immediate notification of the Annual General Meeting arose among members of the Board of Management or the Supervisory Board. No material transactions were performed with any member of the Board of Management or with any person or company closely related to such. All members of the Supervisory Board are to be regarded as independent as defined by paragraph 5.4.2 of the German Corporate Governance Code.

Changes in the composition of the Board of Management and Supervisory Board
The terms of office of the serving Board of Management and Supervisory Board members ended when the SE conversion was entered and came into effect on November 27, 2018.

On May 30, 2018, the Annual General Meeting elected the serving members of the Supervisory Board of STRATEC Biomedical AG Fred K. Brückner, Prof. Stefanie Remmele and Rainer Baule to the first Supervisory Board of STRATEC SE. The term of office of all members of the first Supervisory Board of STRATEC SE expires at the end of the Annual General Meeting on May 29, 2019.

In addition, the Supervisory Board appointed the serving members of the Board of Management of STRATEC Biomedical AG Marcus Wolfinger, Dr. Robert Siegle and Dr. Claus Vielsack as members of the Board of Management of STRATEC SE until November 10, 2023.

Consequently, after the SE conversion, the members of the Board of Management and Supervisory Board are the same people who were previously on the bodies of STRATEC Biomedical AG; there were no staff changes in this respect in the past fiscal year.

Audit of annual and consolidated financial statements
The Annual General Meeting elected Ebner Stolz GmbH & Co. KG Wirtschaftsprüfergesellschaft Steuerberatungsgesellschaft, Stuttgart, as auditor and group auditor for fiscal year 2018 on May 30, 2018 at the suggestion of the Supervisory Board. Ebner Stolz has audited the annual and consolidated financial statements of STRATEC SE since fiscal year 2015. During that time, Ms. Linda Ruoss has been the auditor responsible for the audit of the financial statements.

At its meeting on April 8, 2019, the Supervisory Board dealt in detail with the annual financial statements and the management report as well as the consolidated financial statements and the group management report, the latter with the non-financial group declaration, of STRATEC SE for fiscal year 2018. Both sets of financial statements had previously been audited and provided with unqualified audit opinions by the auditor. Furthermore, in its assessment of the risk management system, the auditor also confirmed that the Board of Management had taken the measures required by the German Stock Corporation Act for the early identification of any risks to the company's continued existence.

The annual financial statements and the management report, the consolidated financial statements and the group management report, the proposal submitted by the Board of Management in respect of the appropriation of profit, and the auditor's audit reports were made available to the Supervisory Board for review. Representatives of the auditor attended the discussion of the annual and consolidated financial statements at the Supervisory Board meeting on April 8, 2019 and outlined the key audit findings.

The audit of the annual financial statements and the management report as well as the consolidated financial statements and the group management report of STRATEC SE by the Supervisory Board did not result in any objections being raised. The Supervisory Board concurred with the findings of the audit conducted by the auditor in accordance with legal requirements and approved the annual financial statements and the management report, as well as the consolidated financial statements and the group management report. The annual financial statements are thus adopted.

Furthermore, the Supervisory Board discussed the proposed appropriation of profit, which envisages the distribution of a dividend of € 0.82 per share with dividend entitlement, in detail with the Board of Management and approved this proposal.

Thanks

The Supervisory Board would like to thank the members of the Board of Management and all employees of STRATEC SE and its subsidiaries worldwide for the contribution they made in fiscal year 2018.

Birkenfeld, April 2019

On behalf of the Supervisory Board

Fred K. Brückner

Fred K. Brückner
Chairman

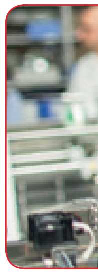
Fred K. Brückner (76)
Chairman of the Supervisory Board

Prof. Dr. Stefanie Remmele (41)
Member of the Supervisory Board

Rainer Baule (70)
Deputy Chairman of the Supervisory Board

THE ELEMENTS OF OUR SUCCESS

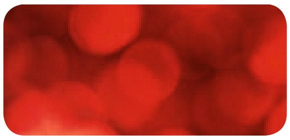
THE STRATEC SUCCESS STRATEGY



Solutions for Our Partners

Companies use many strategies to optimize their revenue and ensure future income. Conventional sales measures amongst others include product combinations, where one product is sold on a subsidized basis and another product (oftentimes a consumable) generates the profit.

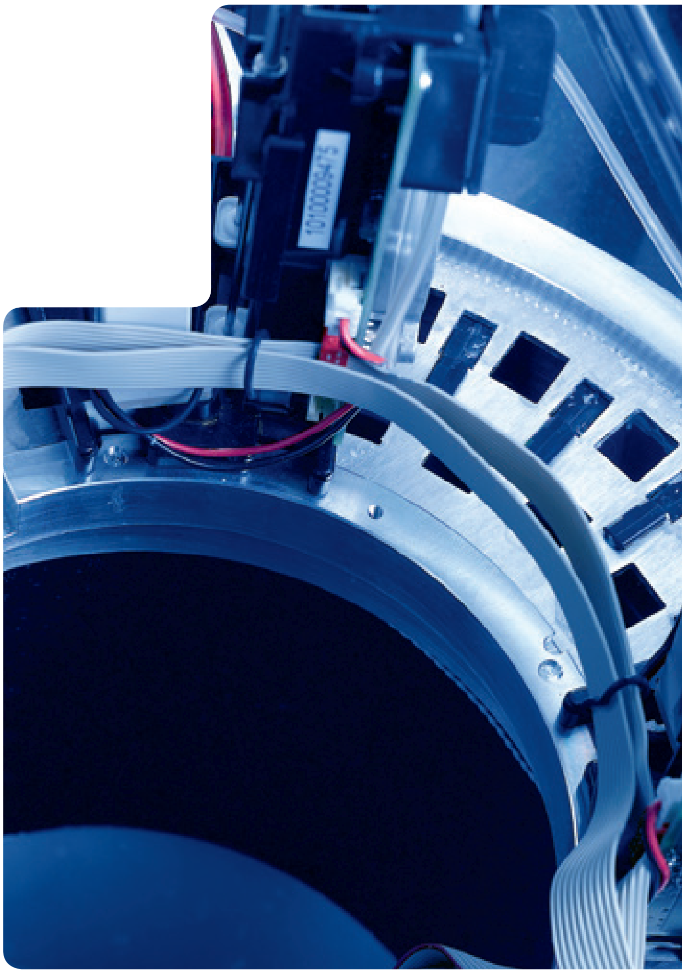
Manufacturers of wet razors and the associated razor blades are an often quoted example here. They sell the handles of their razors practically for nothing – by contrast, the razor blades bear the costs of the subsidized handles and also generate the desired margin. In addition, the customized fitting of the blades, for instance, ensures that other manufacturers cannot substitute the consumable product. Furthermore, this strategy strengthens customer retention.



This sales strategy is also often used in STRATEC's industrial environment. Along with the prior mentioned advantages, it also provides investment security for STRATEC's partners, which are mainly companies in the in-vitro diagnostics (IVD) industry. In addition, end customers such as laboratories and blood banks avoid high initial investments for buying diagnostic equipment.

Within the IVD industry and at other companies involved in performing laboratory tests – operating for instance in the life sciences sector – STRATEC has noticed a substantial shift of focus towards the tests be carried out and associated test reagents. Furthermore, increasing specialization is apparent in the automation sector, for example in individual process steps (such as optical readout), technologies (such as next-gen sequencing) or specific throughput classes (such as ultra-high throughput).

OUT-SOUR-CING



Outsourcing: Yes or No

As in other industries, IVD companies are increasingly facing the question of outsourcing their development and production. This applies to complete systems, individual modules, components, software and complex consumables alike.

One good example here is the automotive industry – where in all likelihood, no manufacturer would consider developing or even producing air-conditioning systems itself for price, technology or reliability reasons.

Away from the 'Extended Workbench'

STRATEC benefits significantly from this trend towards outsourcing. Away from the 'extended workbench' and towards the transfer of responsibility for the entire product lifecycle. However, dialogue with external observers shows that binary decisions (complete outsourcing vs. no outsourcing) of STRATEC partners are often incorrectly assumed. In fact, almost all of the twenty largest companies in the IVD industry practice the described outsourcing to a partial extent – often with horizontal or vertical distinction. As a result, these companies maintain their own development capacity and primarily align it towards features that set them apart from competitors.

STRATEC can position itself optimally as a development and production partner here, with a special focus on in-vitro diagnostics and life sciences companies. Its product range covers fully automatic analyzer systems, individual modules and components, complex consumables and integrated laboratory software for diagnostic and medical applications.

Along with development and series production, STRATEC has an extensive, patent-protected technology pool that is continuously expanded. STRATEC's partners are responsible for marketing these products, along with their test reagents, to laboratories, blood banks and research institutions.

FREE CHOICE

Complete System or Module

Because STRATEC offers its partners not only fully automatic complete systems but also individual modules and components, companies that develop their own automation solutions can also benefit from STRATEC's decades of expertise. This may also include companies outside of in-vitro diagnostics, especially if they also operate in highly regulated markets, like companies from the pharmaceutical or food industry.

A partnership with STRATEC in the modules and components area offers major benefits. STRATEC's partners can focus fully on their core strengths and make optimum use of their development and production resources, which are often available only to a limited extent.

In-House or External Development?

In-house development of technologies involves high risks due to ever-increasing customer requirements in terms of usability, workflow efficiency, ease of maintenance and regulatory stipulations. By contrast, STRATEC technologies have been established on the highly regulated in-vitro diagnostics market for many years and have a high degree of maturity. Compared with new developments of core technologies, this means considerable cost savings for partners without tying up development sources at the modular level.

Turning to available, proven technologies additionally involves much shorter development times for the entire system – and leads to faster market availability of the product. Cost efficiency is also an important decision-making factor. By selling its solutions to multiple partners and through its modular structure, STRATEC achieves significant economies of scale. Furthermore, the modules give partners maximum scope regarding system architecture and design by virtue of their high level of integration and streamlined product design.

On the following pages, we set out three examples of the host of modules and components developed by STRATEC whose innovative design addresses problems with all manner of process steps within an analyzer system and provides significant advantages for partners and end users.

'By cooperating with STRATEC, our partners gain fast access to our proprietary solutions and receive valuable advice on the design of systems, modules and components at an early stage. Along with reduced development times and lower development costs, our partners can focus fully on their core strength. At the same time, the workflow efficiency enhanced by our solutions, the optimized cost structure and the high level of user-friendliness make the products more attractive and competitive.'

Dr. Claus Vielsack, Member of the Board of Management, Product Development

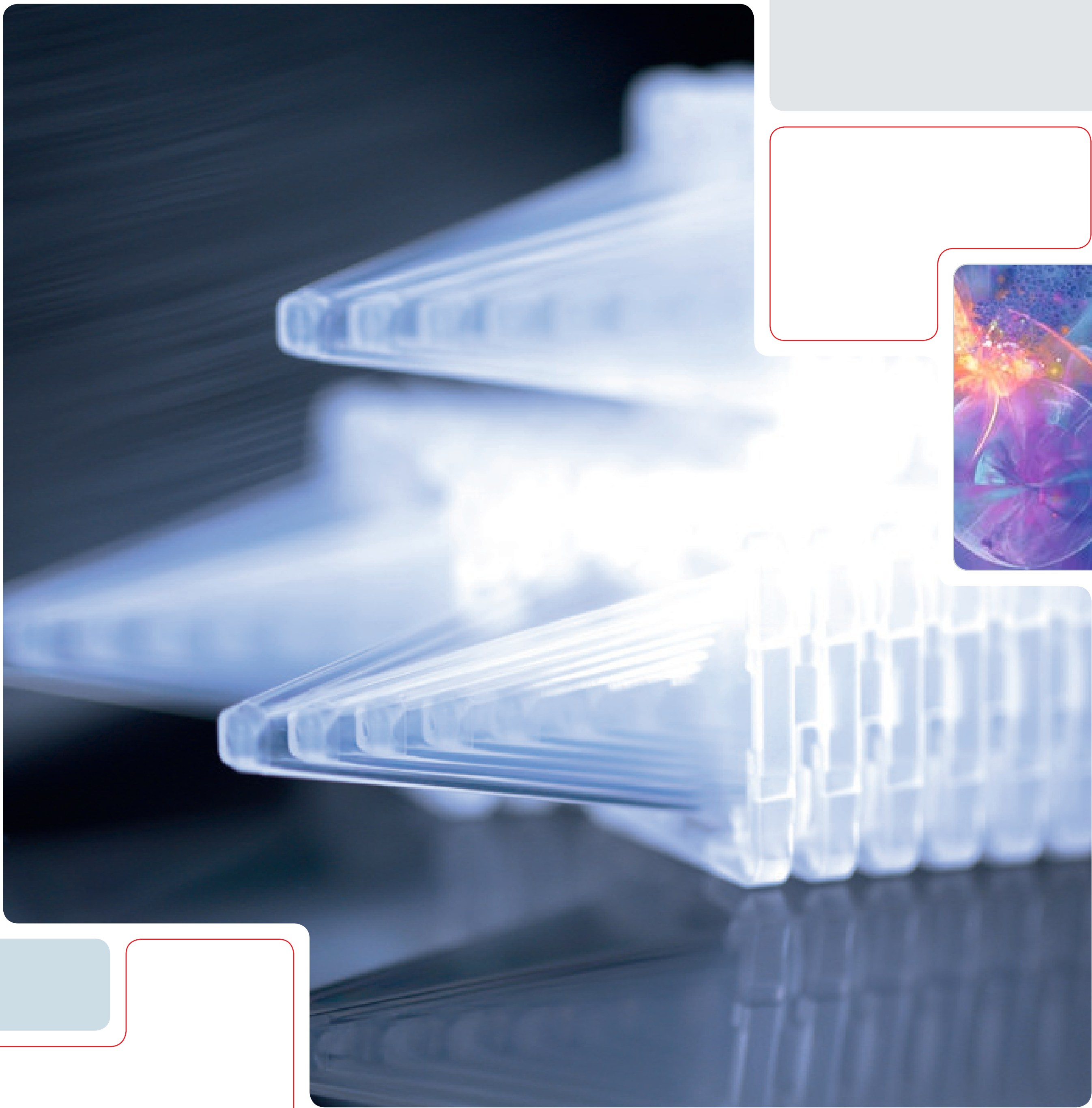
SOME SORT, WE STACK

The Problem of Cuvette Supply

An in-vitro diagnostic test performed in a fully automated analyzer system usually takes place in a small reaction vessel, known as a cuvette. The sample (e.g. serum, blood or urea) is combined with the reagents appropriate to the test in the cuvette.

As sample material is transferred to the cuvette, a new cuvette must be used for each test in order to prevent contamination. The quantity of cuvettes required reflects the throughput of the device. To optimize handling by the end user (e.g. laboratory), cuvettes are delivered as bulk material. They are then loaded into the analyzer system via a drawer without presorting. As a result, a complex feeding and sorting system of screw and vibrating conveyors must be put in place within the system in order to transport the cuvette to the specified position and achieve the required orientation.

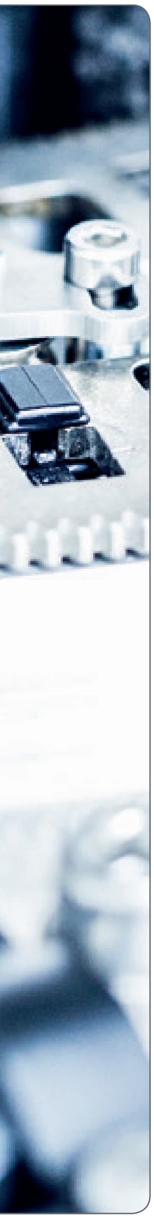
These feeding and sorting systems take up a substantial proportion of the available space in the overall system, thus negatively affecting the footprint of the analyzer system. In addition, they are susceptible to faults because tilting of the cuvettes can cause blockages. Often, these cuvette jams lead to service calls and drive up the costs per analyzer system. Another disadvantage is the occurrence of damage such as scratches or even abrasion by particles that settle in the cuvette. Both these things can negatively affect the measurement result.



The Solution – A New Innovative System

With the Stackable Cuvette and the Cuvette Stacker, STRATEC has developed a unique cuvette system that is adapted ideally to the needs of development partners and end users. The Stackable Cuvette is pre-oriented and – as its name suggests – stacked. End users can insert up to 10 stacks of 50 cuvettes each into the system. Accordingly, the maintenance-intensive and error-prone sorting system is replaced by a reliable storage and feeding system. In turn, this has a positive effect on the service costs of STRATEC's development partners.

Eliminating complex mechanical sorting systems also significantly reduces the risk of damage to the cuvette. In addition, since it takes up less space, the Cuvette Stacker enables a substantially reduced 'footprint'. Given the limited availability of space in laboratories, this is a further major advantage for end customers.



Optimized Design for Optimum Measurement Results

The Stackable Cuvette developed by STRATEC also stands out by virtue of a four-fold symmetric design and an exceptionally thin wall. The thinness of the wall enables optimum temperature transfer during temperature-sensitive reaction steps. The pyramidal design is ideally adapted to the use of a wide range of volumes. Because there is little dead volume on account of the shape, small volumes can also be processed optimally.

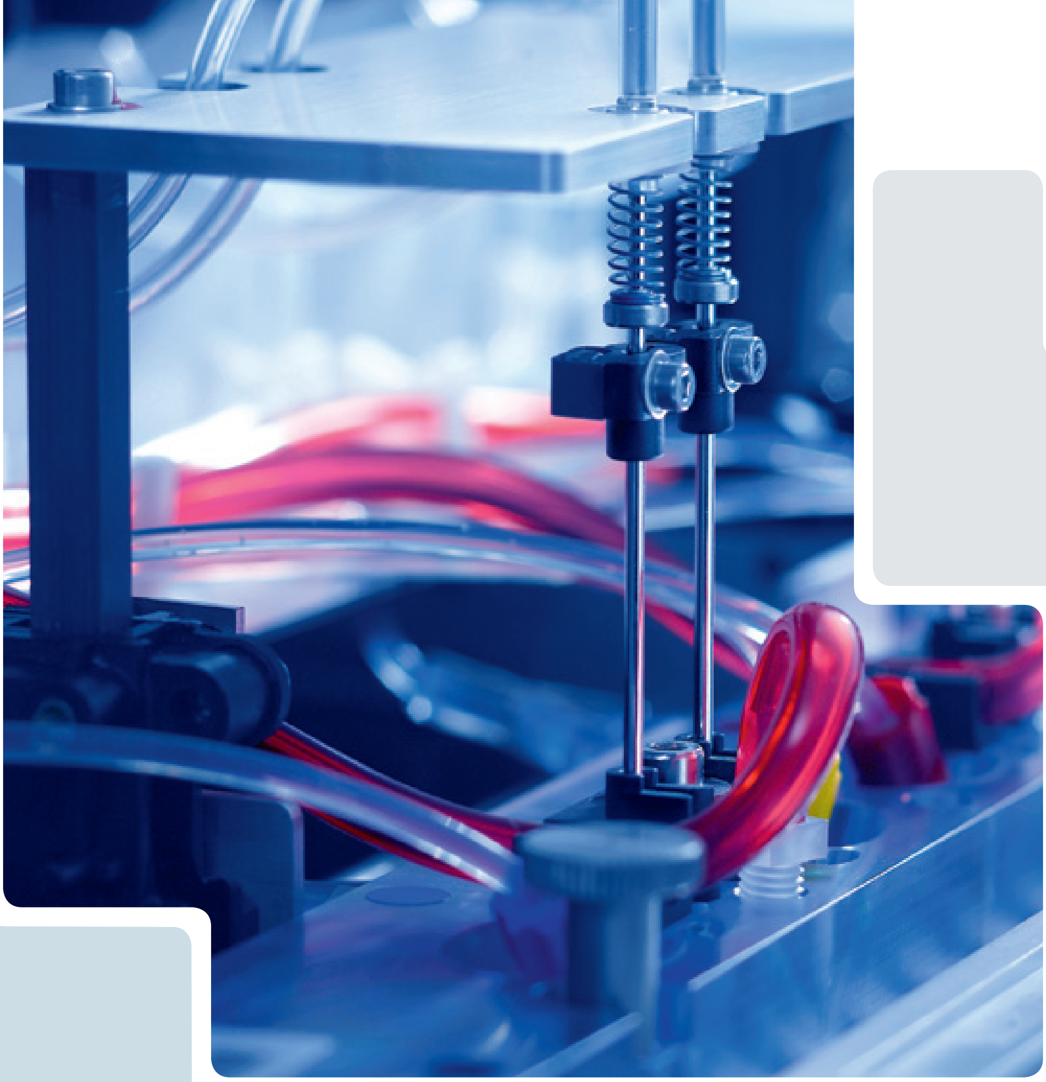
STRATEC has applied its experience of handling small reaction vessels to this innovative new consumable with a feeding system. This has resulted in the development of a consumable that is perfectly adapted to the interface with the analyzer system and the complex requirements of modern reaction vessels.

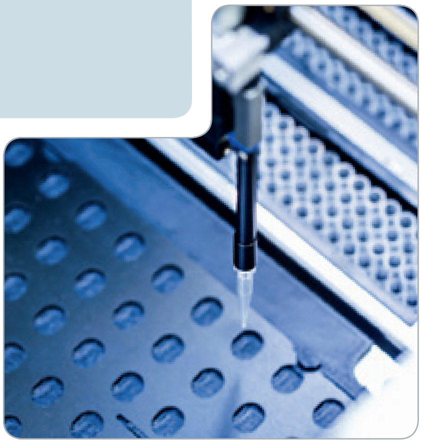
REAGENT MANAGEMENT MADE EASY

Because Liquids are Different

Handling of liquids is a key process in nearly every fully automated analyzer system in the field of in-vitro diagnostics. Often, liquids are transferred to the location where they are needed via a complex system of pumps and tubes. This restricts the flexibility of the liquid system and can negatively affect the overall throughput of the device.

In addition, the nature of the liquids subjects the system to highly specific requirements. For instance, these liquids can be extremely light-sensitive or may decompose as a result of contact with the atmosphere.





Dispense Cartridge

With the Dispense Cartridge, STRATEC has come up with an innovative product that provides an ideal solution to the increased requirements involved in handling liquids. The Dispense Cartridge combines two performance characteristics in just one single module. It provides the optimum primary packaging for sensitive liquids ('Cartridge') while also acting as a dispense unit ('Dispenser').

The liquids are stored inside the Dispense Cartridge in a highly complex bottle; a hybrid packaging made up of various layers. The external rigid layer enables bottle handling without squeezing the liquid. Inside, there are three flexible layers that collapse during emptying. This ensures that the liquid does not come into contact with the surrounding atmosphere. In turn, this has a positive impact on the stability of the reagents after opening the Dispense Cartridge (on-board stability). The greater the level of on-board stability, the less the end user needs to intervene – for instance to replace the bottle.

At the same time, a virtually airless system is formed that provides an optimum barrier to oxygen and watervapor. Furthermore, the opaque bottle separates light-sensitive reagents from their surroundings. Therefore, the bottle design is perfectly adapted to the demands of sensitive reagents.

Just One Click

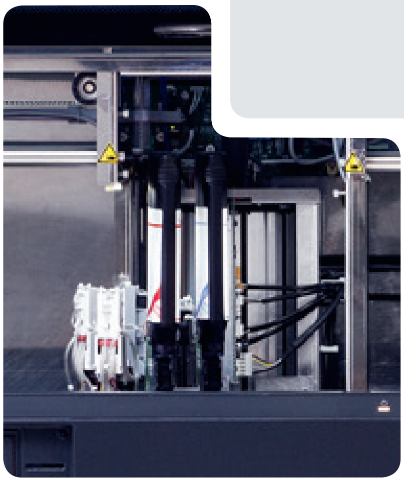
The Dispense Cartridge is loaded into the analyzer system via a simple click-in mechanism. The liquid (e.g. a reagent) is transferred directly to the location where it is needed (e.g. in a cuvette) via the Dispense Cartridge, with no complex feeding system. This ensures maximum flexibility in reagent selection and design. Various reagents can be quickly fed into the analyzer system by simply replacing the bottles via the same loading point.

Consequently, the end user can also simply remove the Dispense Cartridge from the analyzer system at the end of the day and store it overnight under optimum conditions. Reinsertion on the following working day ensures that the analyzes can be easily continued.

What is more, complex, maintenance-intensive and error-prone pump and tube systems are no longer required, helping to reduce service costs significantly.

Reliable Documentation with RFID

STRATEC's Dispense Cartridge is equipped with the latest read/write RFID technology. Important information on batch, residual volume and shelf-life are automatically stored and updated. This enables intelligent reagent management. In addition, the special design prevents manipulation and eliminates errors by the end user.



A CLEVER COMBINATION

Maximum Flexibility

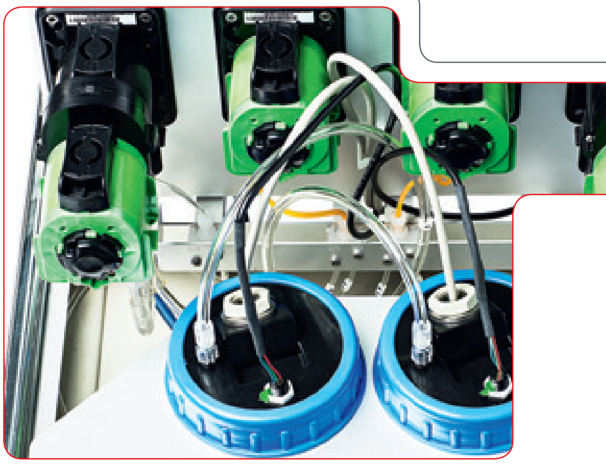
Peristaltic pumps, also known as tube pumps, are used in in-vitro diagnostics primarily to siphon off solutions, for example a sample reagent solution. Essentially, the pump consists of a tube and a component designed in such a way that chambers are formed in the tube. These chambers move in the direction of flow, conveying the liquid through the tube.

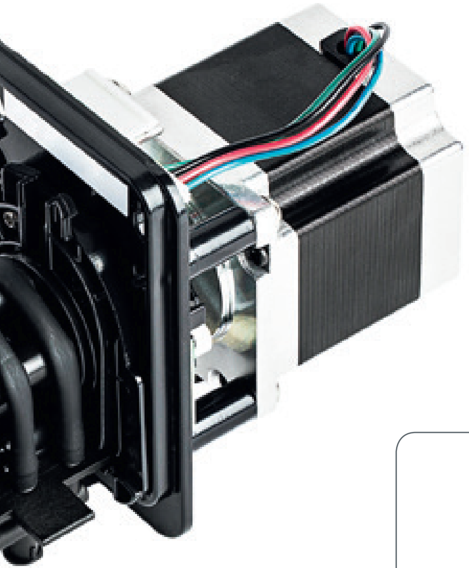
STRATEC's Peristaltic Pump has several special features that are particularly relevant in the field of in-vitro diagnostics. For instance, the pump allows maximum flexibility through a wide variety of tube configuration options. Up to three tubes fit into a cassette and can pump separately or in combination. Three tubes can be combined into one or, conversely, act as a manifold. In addition, up to three cassettes can be joined together and operated by a motor. Configuration with a gear box is also possible in order to enable mixed applications.

Manual Replacement is Time-Efficient and Cost-Efficient

The tubes of a peristaltic pump are subject to high levels of mechanical stress and therefore need to be replaced regularly. Besides planned downtimes, unplanned downtimes in particular involve major inconvenience – in terms of lost time as well as costs.

A special locking system enables replacement directly on-site by the end user. Therefore, it is no longer necessary to deploy a service technician, thus service costs can be reduced significantly. This is a major advantage for our partners, especially given the growing awareness of the total costs of a system.





'As an innovative and technological market leader for automation and instrumentation solutions in in-vitro diagnostics, STRATEC remains committed to offer first-class solutions to our partners worldwide. We are thus sharing our partners' responsibility to their customers and patients. We can be sure of this because of our employees, of which more than half work in research and development. Through the continuous development of new technologies and targeted corporate acquisitions, STRATEC has constantly expanded its product range in recent years, aligning it even more closely with the needs of partners and end customers.'

Dr. Claus Vielsack, Member of the Board of Management, Product Development

ANNUAL REPORT 2018

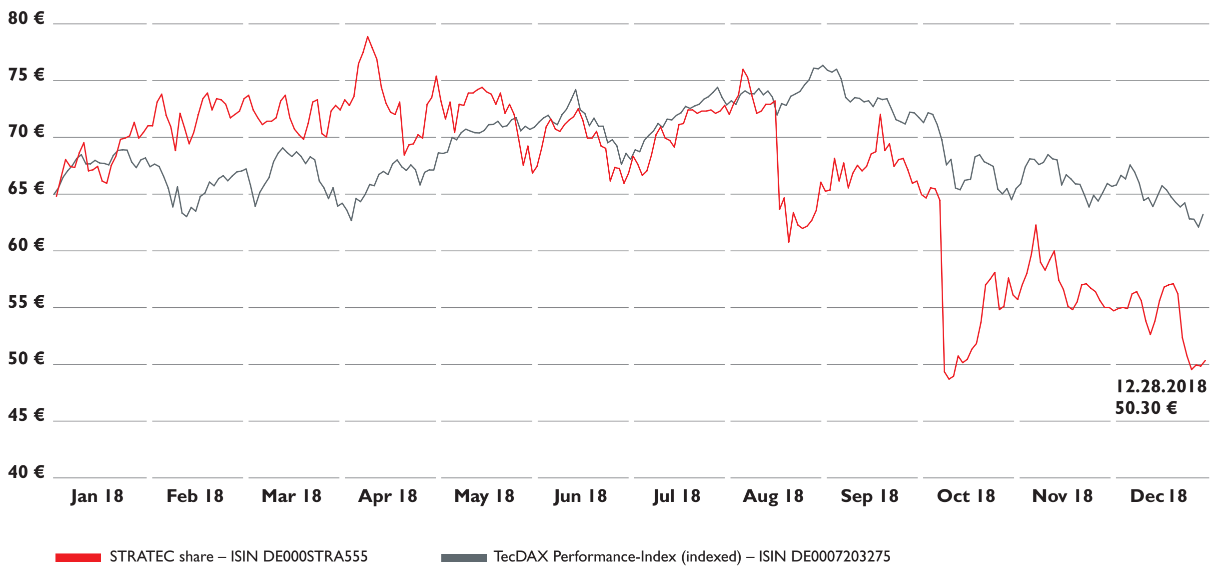
of STRATEC SE
(previously: STRATEC Biomedical AG)

STRATEC SHARE

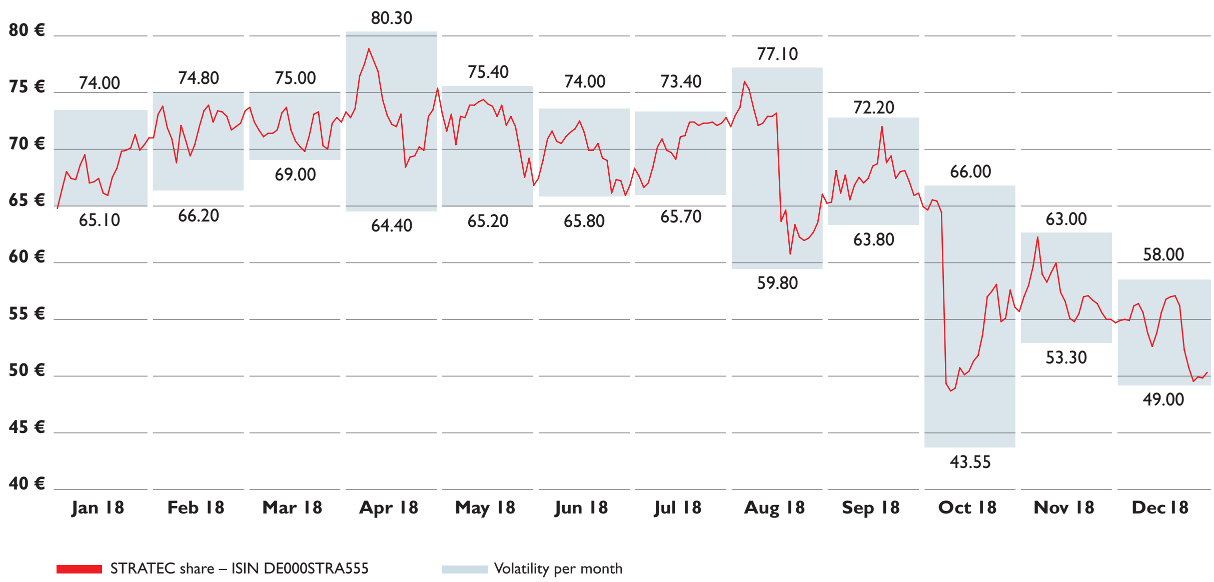
2018 – a politically driven year on the stock markets

The key prevailing topics in the stock exchange year were the trade conflict between the USA and China, the ongoing uncertainties as a result of the Brexit negotiations and the budget dispute between Italy and the EU Commission. Increasing nervousness was driven not only by these political issues, but further increasing interest rates in the USA, something regarded as poisonous for stock exchanges. Against the backdrop of the nascent uncertainties and fears, prices slid and the annual performance of the most important stock markets was negative across the board. In this context, the DAX – Germany's lead index – declined 22.3 % over the year as a whole. The TecDAX – Germany's technology index – by contrast, closed with a negative annual performance of 3.1 %.

STRATEC share – performance in 2018 (€)



STRATEC share – monthly highs and lows in 2018 (€)



Listing and stock market turnover

STRATEC's shares are listed in the Regulated Market of the Frankfurt Stock Exchange (marketplaces: Xetra and Frankfurt) and meet the transparency requirements of the Prime Standard. Its shares are also traded on the regional stock markets in Berlin, Düsseldorf, Hamburg, Hanover, Munich, and Stuttgart, as well as on Tradegate, the electronic over-the-counter trading system at the Tradegate Exchange.

Measured in terms of simple order book turnover, STRATEC shares worth € 148.8 million changed hands on the aforementioned marketplaces (excluding Tradegate) in 2018 (previous year: € 187.6 million). The Xetra and Frankfurt marketplaces alone accounted for 90.6% of these volumes (previous year: 88.0%).

The company's shares have also witnessed brisk trading on multilateral trading systems, which are gaining increasing market share from the regulated marketplaces with which they compete. A multilateral trading system is a trading platform set up and operated by a financial services provider, securities companies, or market operators. This kind of system brings together buy and sell orders for shares and other financial instruments in accordance with specific regulations and thus generates contract agreements.

Trading data for STRATEC's share (status: December 31)

	2018	2017	2016	2015	2014
Year-end price previous year (€)	64.84	45.79	61.00	45.75	30.25
Annual low (€)	43.55	44.52	41.30	41.00	30.06
Annual high (€)	80.30	70.33	62.85	61.00	53.10
Year-end price (€)	50.30	64.84	45.79	61.00	45.75
Performance (%)	-22.4	+41.6	-24.9	+33.3	+51.2
Market capitalization (€ million)	602.1	773.0	543.1	723.0	540.0
Trading volumes (€ million)	148.8	187.6	120.7	141.0	131.1
Average daily trading volumes (€)	593,010	744,490	473,151	555,065	520,199
Average daily trading volumes (shares)	9,252	13,504	9,775	11,687	13,200

Annual general meeting resolves another record dividend and conversion into a European company

On May 30, 2018, STRATEC's Board of Management and Supervisory Board welcomed more than 300 shareholders, voting proxies, and guests to the company's Annual General Meeting held at CongressCentrum Pforzheim. A total of 81.75 % of the company's share capital was represented at the Annual General Meeting (previous year: 77.00 %).

Items submitted to the shareholders for resolution were

- the appropriation of net profit,
- the approval of the actions of the Board of Management and Supervisory Board,
- the election of the auditor,
- the reduction of Conditional Capital VI/2013 and the authorization to grant share options and create a new Conditional Capital VIII/2018 to service the share option rights and the related changes to the Articles of Association, and
- the conversion of STRATEC Biomedical AG into a European company (Societas Europaea, SE) and the related election of the first STRATEC SE Supervisory Board.

At the meeting, which lasted around three hours, shareholders approved all the agenda items submitted for resolution with the necessary majority in each case.

These resolutions included increasing the dividend for the fourteenth consecutive year. At € 9.5 million, corresponding to € 0.80 per share, the total distribution reached a new record level. In 2017, the company had distributed a total of € 9.1 million, or € 0.77 per share, to its shareholders.

In addition, the shareholders elected the previous members of the Supervisory Board Fred K. Brückner, Prof. Dr. Stefanie Remmele and Rainer Baule in the first Supervisory Board of STRATEC SE.

Following the Annual General Meeting, all voting results and shareholder presence statistics were published on the company's website. The next Annual General Meeting will be held at CongressCentrum Pforzheim on May 29, 2019.

Fifteenth consecutive dividend increase proposed

STRATEC pursues a continuity-based dividend policy which aims to enable shareholders to suitably and sustainably participate in the company's performance. Consistent with this approach, STRATEC's Board of Management and Supervisory Board will be proposing a dividend payment of € 0.82 per share for approval by the Annual General Meeting on May 29, 2019. This corresponds to a total distribution of € 9.8 million and a dividend yield of 1.6% based on the closing price of € 50.30 on December 28, 2018. Subject to adoption of the corresponding resolution by the Annual General Meeting, the dividend is expected to be paid on June 4, 2019.

Shareholder structure remains stable

The largest shareholders in the company are still its founder, Hermann Leistner, his family, and their investment companies, which hold a combined stake of 41.08%. A further 0.04% of the shares are held by the company itself, while 58.88% of the shares are attributable to large numbers of retail and institutional investors both in Germany and abroad.

Key figures for STRATEC's share (status: December 31)

	2018	2017	2016	2015	2014
Number of shares issued (million)	12.0	11.9	11.9	11.9	11.8
Number of shares with dividend entitlement (million)	12.0	11.9	11.9	11.9	11.8
Cash dividend per share (€)	0.82[1]	0.80	0.77	0.75	0.70
Distribution total (€ million)	9.8[1]	9.5	9.1	8.9	8.3
Dividend yield (%)	1.6[1]	1.2	1.7	1.2	1.5

[1] Subject to approval by the Annual General Meeting on May 29, 2019

Further information about STRATEC's share

ISIN	DE000STRA555
WKN	STRA55
Ticker	SBS
Reuters Instrument Code	SBSG.DE
Bloomberg Ticker	SBS:GR
Transparency level	Prime Standard
Market segment	Regulated Market

Currency	€
Share class	Registered ordinary shares with no par value
Share capital (€)	11,969,245.00
Share capital (number of shares)	11,969,245
IPO	August 25, 1998
Trading places	Xetra; Frankfurt and further regional stock exchanges in Germany
Designated sponsors	HSBC Trinkaus & Burkhardt AG Oddo Seydler Bank AG

Investor relations

STRATEC maintains an ongoing dialog with existing and potential investors, analysts, and business and financial journalists. When communicating with market participants, the company adheres to the principle that all information should be provided simultaneously, openly, and transparently. Its active and ongoing reporting aims to enable all capital market players to form their own realistic assessment of the company's performance. The financial calendar keeps interested parties regularly informed about important dates with sufficient advance notice.

Furthermore, we also regularly inform capital market participants about the company's strategic development and business performance by publishing financial reports, ad-hoc announcements, and press releases.

One core component of STRATEC's investor relations activities involves holding conference calls upon the publication of results and occurrence of other major events at the company. These calls are also made available on the company's website. As well as holding numerous one-to-one meetings, at capital market conferences the company gives presentations and thus informs investors and analysts from Germany and abroad about the company's current situation and its business performance. At present, a total of six institutions regularly report on STRATEC in extensive studies and brief analyses: Berenberg Bank, Deutsche Bank, Kepler Cheuvreux, Landesbank Baden-Württemberg, Metzler Capital Markets, and Warburg Research.

The latest information about STRATEC and its share can be found on the company's website www.stratec.com.

Financial calendar

04.11.2019	Annual Financial Report 2018
05.24.2019	Quarterly Statement Q1|2019
05.29.2019	Annual General Meeting, Pforzheim, Germany
08.22.2019	Half-Yearly Financial Report H1|2019
11.07.2019	Quarterly Statement 9M|2019
11.26.2019	German Equity Forum, Frankfurt/Main, Germany

Subject to change

GROUP MANAGEMENT REPORT

for the 2018 Financial Year of STRATEC SE
(previously: STRATEC Biomedical AG)

A. THE STRATEC GROUP

Business model and strategic alignment

Basic features of business model

STRATEC (hereinafter also 'the STRATEC Group') designs and manufactures fully automated analyzer systems for its partners in the fields of in-vitro diagnostics (investigation of samples taken from the human body, such as blood or tissue) and life sciences. Furthermore, the company offers integrated laboratory software and complex consumables for diagnostics applications.

STRATEC's partners predominantly operate in markets in which a relatively small number of companies determine industry trends and developments. This being so, it is crucial for STRATEC to position itself as a partner to these global players and to gain their trust with its reliability and performance. The experience, expertise, and power of development STRATEC has built up since its foundation in 1979 have enabled it to grow into a major player in various market niches. STRATEC aims to further boost this position and enable all parties involved to generate sustainable growth by offering a well-balanced mix of cost efficiency, expertise, and innovation.

The core competence of the STRATEC Group involves compiling and implementing concepts and requirements in the automation and instrumentation of biochemical processes using hardware and software solutions. STRATEC also has comprehensive knowledge of quality and documentation requirements, particularly for the approval of medical technology solutions by the relevant national and international authorities. STRATEC accompanies its customers in an advisory capacity from the very outset. Drawing on its longstanding experience, it offers valuable tips when it comes to compiling specifications and determining suitable system alignments. These include tips on user-friendliness, a factor which promotes acceptance of the resultant system among end customers. Due to its existing technology pool and its experience in the approval process, STRATEC is also able to shorten the development times for its partners.

By continually developing new technologies and making targeted company acquisitions, the STRATEC Group has consistently extended its product range in recent years and thus aligned itself ever more closely to the needs of its customers and partners – generally global leaders in the fields of diagnostics and research. That is why in addition to pure instrumentation the STRATEC Group covers virtually the entire value chain for complex analyzer system solutions and for integrating these into laboratory structures. The value chain ranges from compiling initial system specifications to approval processes through to serial production, including the development of complex consumables and complementary middleware laboratory software. One core principle of STRATEC's philosophy is to ensure that the company, while continuously extending its technology, product and service portfolio, should never allow any situation to arise in which it competes with its partners.

Given the breadth of its product range and the innovative strength of its R&D employees, STRATEC is able to react swiftly to any changes in the market. STRATEC continues to observe an ongoing trend towards consolidation in laboratory structures in its most important markets, for example. The increasing focus on small numbers of large central laboratories will not only increase demand for high throughput appliances but also create a need to perform time-critical tests close to patients (point-of-care). For point-of-care applications in particular, a large share of the complexity is shifted away from the instrument to so-called smart consumables, such as polymer chips. Due to its ever broader product portfolio, STRATEC is now very well positioned to benefit from the growth opportunities presented by this polarization in the market.

Production and locations

In manufacturing its products, STRATEC has to meet especially strict quality requirements, compliance with which is regularly audited by internal specialists, customers, and external authorities. Analyzer systems are manufactured in accordance with the highest standards at the locations in Beringen (Switzerland), Birkenfeld (Germany) and Budapest (Hungary). The location in Anif (Austria) manufactures polymer-based smart consumables in a controlled ISO Class 7 production environment.

Furthermore, production activities at the Birkenfeld location were reorganized in 2015. Production capacities at the Swiss location in Beringen were expanded in a multistage process in 2016 and 2017. As a result of these measures, STRATEC now has sufficient capacities in its production departments to guarantee the highly efficient production of existing and future appliance lines in accordance with internal and external requirements.

Given its high quality standards, STRATEC has deliberately decided to base its production in Germany, Switzerland, Hungary, and Austria and also sees this as the basis for the company's ability to comply with all necessary regulations and standards. Overall, STRATEC is represented with its solutions and qualified contact partners at its subsidiaries at ten locations on three continents. To do justice to the rising standards resulting from its further growth and uphold its ability to offer customers the entire value chain within a smooth process organization structure, the company adopted and implemented further optimization measures in 2018 as well. Among others, these included increasing the volume of select modules manufactured at the location in Budapest. Previously procured externally, these modules can be manufactured more cost-efficiently on an in-house basis. The share of modules manufactured internally is set to show a further substantial increase in 2019.

As its development departments are currently working at full capacity, STRATEC expects its workforce to expand further in the years ahead, particularly in the field of research and development. To account for this growth, in the 2018 financial year the company began work on converting and substantially expanding the buildings at its Birkenfeld location. The first construction stage is scheduled for completion in mid-2019 and the second in mid-2020. Once the new surfaces, totaling around 15,000 m² have been built, the company will have significantly more space for research and development, prototype manufacturing, warehousing, and administration.

Moreover, in the 2018 year under report STRATEC reached further major milestones in terms of launching a uniform ERP system across the Group. The implementation of the new system at the Anif and Budapest locations was completed in January 2018. The Birkenfeld and Beringen locations then followed and went live in January 2019.

To enable the Group to focus even more closely on its core competencies, in the 2018 financial year STRATEC also decided to sell its nucleic acid purification business and initiated a suitable disposal process. The sale of the nucleic acid purification business (STRATEC Molecular GmbH) was executed after the balance sheet date in March 2019.

Core corporate strategy

At core, STRATEC's corporate strategy involves supporting its customers in implementing their growth strategies in the fields of in-vitro diagnostics and life sciences. By acting as a competent partner, offering expertise, and supplying innovative and safe product solutions, STRATEC provides customers with a basis for building a successful end customer business.

The objective is to enable both our customers and STRATEC itself to generate growth that is sustainably ahead of the long-term market average. The company is focusing on rapidly growing areas of application and segments within in-vitro diagnostics and healthcare research. Examples worth mentioning here are molecular diagnostics, immunohematology, and specialized and highly sensitive immunoassay processes. To be able to maintain its strong market position with regard to its competitors and partners on a long-term basis, one key priority for STRATEC is to secure and further boost its expertise and technology portfolio with patents and industrial property rights. Sustainability-related topics, such as environmental concerns and social welfare, are playing an increasingly important role at STRATEC, as is also the case at its customers and suppliers. These topics form a major component of our strategy.

Quality management

Most of STRATEC's products are supplied to partners operating in strictly regulated markets. Quality management therefore is another important aspect of STRATEC's business model and forms the basis for the success both of the company and of its partners.

STRATEC is committed to permanently improving the quality of its processes and services. Most of its products are subject not only to the strict requirements of the German Medical Products Act, but also to numerous national and international regulations that have to be complied with when entering the respective markets.

To satisfy these requirements, STRATEC has established a high-performance, certified quality management system. This accounts for the ever growing body of regulatory requirements in international markets and the ever more extensive number of requirements on national level. At the same time, it is the prerequisite for ensuring consistently high product quality.

Among others, the tasks performed by the Quality Management and Regulatory Affairs department include ensuring that the products comply with all necessary regulatory requirements for medical products, supplier evaluation and qualification, and continuously improving the quality management system.

Comprehensibly defined processes throughout the entire value chain – from the first development steps through to serial production – play a crucial role in safeguarding the company's sustainable success in the market. These processes are a means to meet the requirements both of customers and of the regulatory authorities. The process model is divided into core processes, which are in turn subdivided into sub-processes. All defined processes are checked by 'process owners' – employees who are responsible for implementing the processes laid down in the relevant descriptions. One advantage of this process-oriented approach is the permanent control it makes possible via the interconnections between individual processes in the process model and their combination and interaction.

The allocation of key figures enables processes to be measured and serves as a basis for permanently enhancing the system. At the same time, a flexible quality management system facilitates compliance with necessary international requirements and enables new markets to be rapidly and efficiently accessed together with STRATEC's OEM partners.

STRATEC's complaint handling system supports the service and vigilance process and partners' risk management with cross-departmental error analyses and risk assessments. Furthermore, the company actively involves its partners in the relevant control steps within the change process.

The Quality Management and Regulatory Affairs department is in close contact with STRATEC's partners and also supports these in submitting, monitoring, and checking worldwide product approvals and communicating with international authorities. On the product side, quality management is responsible for determining statistics and performing trend analyses to identify sources of errors and take preventive measures.

The design and manufacture of an analyzer system also involves regular audits by customers, the authorities, certification bodies and internal company departments at our development and production locations. These are prepared and accompanied by our quality management team.

STRATEC is committed to and certified under the following standards:

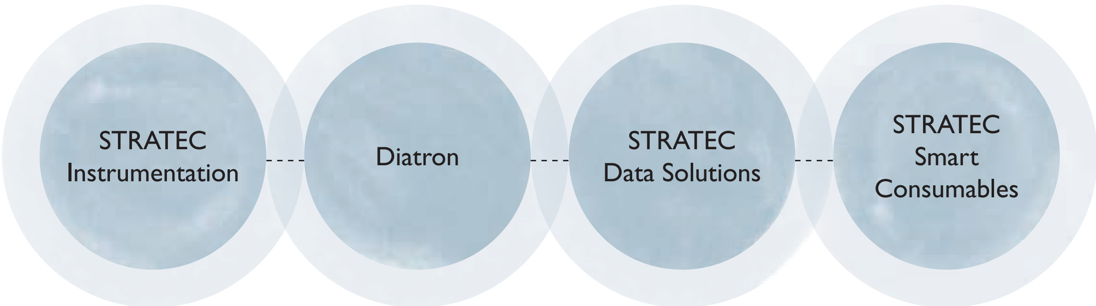
- EN ISO 9001
- EN ISO 13485
- TCP / Taiwan GMP
- FDA QSR Compliant Development and Manufacturing Processes
- FDA Registered Establishment
- CSA/UL/NEMKO registered

Consistent with the motto 'one world – one company – one quality', STRATEC has set itself the target of largely harmonizing its quality management system. Due account is taken of the specific needs of individual locations resulting from their different focuses (product types, development, production, etc.). STRATEC employees at the various locations form teams of experts for individual specialisms to promote the sharing of information within the company, support one another with their skills and experience, and ensure a coordinated approach.

Group structure

In terms of its organizational structure, the STRATEC Group aligns and optimizes its operations in four business units.

The primary objective here is to be able to react to customers' requirements in an efficient and coordinated manner and to offer the Group's solutions and products from across the respective business units. Not only that, by fostering group-wide communications and ensuring flat hierarchies, STRATEC aims to be able to react swiftly and across all of its locations to any developments in the market or changes in the regulatory framework. The company's strategic alignment, with its organizational structure focusing on four business units, can be presented as follows:



STRATEC Instrumentation

The instruments designed and manufactured by STRATEC and marketed to its partners can be found worldwide.

Even though the instrumentation comes from STRATEC, in virtually all cases it is the partner's brand name that is displayed on the system itself. While the specifications are in most cases jointly defined by the partners, the subsequent development stage of two to four years is characterized by parallel development processes. During this time, STRATEC focuses on developing the automation solution, the corresponding software, consumables and quality management, as well as on preparing system approval. New requirements on the part of partners, such as connectivity or smart consumables, form a key basis for STRATEC's permanently evolving technology portfolio. This means that customers can focus all their energies on developing their reagent menus, as well as on their market expertise, access to end customers, and support measures. Throughout the development stage, however, the various activities often running in parallel have to be closely coordinated. As soon as the first prototypes are complete, work already begins on integrating the reagents into the automation process. This complex process, which is performed with close cooperation between the two partners, is one of the key foundations for the functionality of the resultant systems.

One key success factor for the STRATEC Group involves providing its customers with the solutions they need in the fields of automation, software development, and sample preparation for them to implement their own objectives. Alongside patents and internally developed technologies, it is the company's wide variety of expertise in different scientific and technological disciplines that offers the basis for the shared success it aims to achieve with its partners. STRATEC can look back on 40 years of development and production activity. Equally relevant to the subsequent success of jointly developed products is the in-depth understanding which STRATEC's partners have of end customers' requirements and thus of the market, as are the measures they take with their own service and sales activities to ensure suitably prepared market access. In view of this, STRATEC focuses on business-to-business and OEM relationships and does not maintain any significant proprietary sales network to its end customers. The product specialists at STRATEC's partners are individually supported in their activities. This particularly takes the form of training, but in exceptional cases also involves providing specific services on location.

STRATEC is continually extending its range of products and services and its value chain. This way, it aims to take responsibility for major parts of the development, approval, and production of system solutions, and thus to assume a major share of the associated risks. One core principle of the company's philosophy is nevertheless only to cover those sections of the value chain which allow it to operate without entering into competition with its partners.

Within the Instrumentation segment, a basic distinction is made between two approaches towards developing systems and cooperating with partners.

Partnering business

With this type of development, STRATEC targets both existing and new customers. The company works together with its partner to define the specifications for a new analyzer system for the customer at a very early stage of planning. The cooperation between the company and its partner is very close throughout the entire development phase, which usually lasts between 24 and 48 months. STRATEC is responsible for developing hardware and software and draws here on its constantly growing pool of proprietary innovative technologies, patents, rights, and know-how. This way, the development work is faster, more cost-effective and involves fewer risks, an approach from which both partners benefit. This gives rise to systems that are more reliable and require less maintenance. In close cooperation with the partner, the reagents menu is integrated into the automation processes. As soon as the system has been fully developed and approved by the regulatory authorities together with the reagents and software package, it is launched onto the market and serial production begins. In this stage, the partner focuses on marketing and selling the product to end customers, generally laboratories, blood banks, and research institutes, and also provides subsequent customer support and other services. STRATEC provides an ongoing supply of maintenance and service parts and discusses ongoing improvements in the system with the customer, particularly with regard to the next generation of software applications, user-friendliness and activities to extend the reagents menu.

System developments in the partnering business place certain minimum requirements in a customer. On the one hand, a suitable development budget has to be available for allocation, on the other hand the partner must have appropriate distribution channels enabling it to exploit turnover potential and thus make the project interesting for both partners. By analogy with the printing industry, which works with low-margin printers and high-margin ink cartridges, the partner generates its return on capital employed by selling the tests. STRATEC earns its share from the sale of appliances and service parts (maintenance and replacement parts) to the partner. The success achieved by its partners enables STRATEC to generate the growth targeted for this business field. In view of this, in its serial production activities the company attaches great value to providing customers with those instruments they need to ensure the best possible cost-input ratio. This approach is reflected in particular at the production locations in Switzerland, Germany and Hungary, where highly qualified employees implement production and testing processes that are subject to close regulatory definition and monitoring and are performed in an audited and certified environment. The selection of the right partners and products plays a crucial role in determining STRATEC's growth in this area.

Platform development

A STRATEC platform is a system developed internally by the company. It is not designed in cooperation with a specific partner but, given its general design scheme, is suitable for marketing to several customers. This merely involves the platform being adapted to the specific requirements of customer reagents and corporate design schemes. These platforms are particularly suited to partners aiming to enter a market very rapidly – and thus draw on a platform solution – or who on account of their size and market access are not yet able to place the volume of systems needed to amortize the high level of development expenses. STRATEC chiefly develops such platforms for areas with potential for generating multiplier effects.

In developing proprietary technologies and solutions, STRATEC aims to ensure a calculable balance between innovation and sales potential. Here in turn, it is important to develop the right applications that offer market players relevant additional benefits or to cooperate with the right partners to gain early market presence with applicable solutions when it comes to developing next-generation technologies.

STRATEC Data Solutions

As well as software solutions integrated into instruments, STRATEC Data Solutions (previously: STRATEC Data Management) also offers its partners flexible application options for deploying and controlling instruments, work processes and test volumes mainly for use in laboratories. Among other functionalities, these software solutions facilitate the interlinking of various systems, enable work volumes to be managed, and provide access to the test results for evaluation by specialist staff. These middleware software solutions optimize and accelerate laboratory work processes and enable instrument capacity utilization rates to be optimized. They also assist laboratories in complying with regulatory requirements.

STRATEC Data Solutions offers its OEM software solutions both as standard versions and as individually customized versions. All-round project management enables us to work closely with the partner to ensure that the solution satisfies customer requirements and also complies with the extensive regulatory framework.

In strategic terms, the development and sale of middleware software should be viewed as an extension to the company's value chain and as a door opener to customers who often also require instrumentation and automation solutions in the fields of diagnostics and research.

STRATEC Smart Consumables

The STRATEC Smart Consumables (previously: STRATEC Consumables) business unit develops and produces polymer-based 'smart' consumables. These includes polymer chips and single-molecule arrays in the field of micro-fluids. This area represents a key component of STRATEC's technology and product spectrum and has extended the company's product range to include an important part of the value chain. This reduces customers' project risks and the associated project supervision input. STRATEC is able to offer substantial added value to its customers, particularly by assuming responsibility across the various interfaces involved. Not only that, important aspects of test process development and the corresponding automation components can be harmonized far more closely.

The change in conventional consumables into complex smart consumables is making it possible to 'outsource' various test process steps in a targeted manner to the consumable. For low test volumes, this 'loss' of process steps makes it possible to significantly reduce the size, complexity, and cost of instruments. That is a crucial factor, particularly for point-of-care applications. Furthermore, by offering greater flexibility it opens up new possibilities to develop test processes.

The Smart Consumables business unit has diverse skills and applications in the fields of nano-structuring and micro-structuring, various coating technologies, polymer science applications, and the automated and industrial production of smart consumables. The business unit can build on its longstanding experience in the high-precision production of optical storage media. Consumables are developed in close cooperation with the relevant partners and in line with their requirements for the development of reagents and instrumentation.

Until 2017, the Smart Consumables business unit also included the nucleic acid purification business. Since 2018, this business has been reported as an operation held for sale and therefore no longer forms part of the Smart Consumables business unit.

Diatron

The Diatron business unit designs and manufactures analyzer systems for use in human and to a minor extent veterinary diagnostics, as well as complementary products such as consumables and services. Diatron's customers include prestigious diagnostics and life science companies with global operations. The system solutions for human diagnostics which Diatron predominantly manufactures in Hungary are used in the fields of hematology and clinical chemistry. Diatron mainly distributes its solutions as an OEM provider and via distributors, of which a small share is directly marketed under the Diatron brand. Its platform-based development approach and its market access based on OEM partnerships are similar to the approach taken in the Instrumentation business unit.

Diatron's OEM portfolio consists in particular of analyzer systems, system components, consumables and tests in the low throughput segment. Throughput is the term used to describe the frequency of tests which can be performed in a given period, typically a single laboratory shift. By contrast, the Instrumentation business unit generally focuses on medium to high throughput ranges. The extension in the value chain in the field of decentralized laboratory solutions – typically small to medium-sized hospitals, group practices, and laboratories – therefore represents a far-reaching addition to the expertise and product portfolio at STRATEC Instrumentation.

Management of the STRATEC Group

Given its size and the dovetailing of its business fields, the STRATEC Group is managed by reference to a matrix organizational structure. The business fields are grouped in business units across locations and together reflect STRATEC's value chain.

The business units receive targets set by the Group's Board of Management, on which basis they are managed and also report in the course of the financial year. These targets are chiefly of a quantitative nature and relate to sales and profitability. In addition, legal units and divisions are provided with targets that include qualitative, quantitative, and strategic elements. These are based on factors such as risk management, employee management, and customer relationships, as well as M&A activities.

In view of the company's growth and not least to do justice to our claim of being a reliable partner and an attractive employer, traditional management figures such as sales, EBIT, EBITDA, liquidity, key development, production, and marketing figures, and product quality are increasingly being supplemented by sustainability-related topics such as environmental and social aspects.

Alongside ongoing organizational adjustments to the company's structure in line with its growth, the objective of the company's management is to uphold its sustainable sales growth in excess of average growth rates in the in-vitro diagnostics industry while simultaneously improving the company's profitability, safeguarding its liquidity position at all times, and detecting and averting any erroneous developments in good time.

In addition to quantitative reporting structures, regular assessments of current project developments and risks are additionally reported by individual location managers and project directors to the respective heads of department or the Board of Management.

Central support and administration functions are pooled at corporate headquarters and work closely together with employees in the relevant specialist departments at the subsidiaries.

Furthermore, the regular exchange of information in conference calls and meetings with the management of subsidiaries ensures that all matters relating to the Group's current business performance are discussed. These measures also include regular visits on location.

A further management instrument is the variable compensation paid to local managers at the subsidiaries, the heads of business units, employees in senior or key positions, and sales employees. This variable compensation is largely dependent on the key figures achieved, especially operating earnings, but also on strategic objectives. This raises awareness of cost structures and efficiency enhancements, and thus of the company's long-term business performance, among employees in those company divisions not able to directly influence sales.

The most important performance indicators referred to in managing the company are sales, the adjusted EBIT(DA) margin, and the number of employees. More detailed information about these key management figures can be found in the Business Report and the Outlook.

Market

IVD-instrumentation market

The global market for instrumentation solutions (including services and software) in the field of in-vitro diagnostics (IVD) currently has sales volumes of just under 13 billion US dollars. This market is expected to reach a volume of almost 15 billion US dollars by 2023. It should be noted that less than half of instrumentation solutions are currently developed by outsourcing partners such as STRATEC (IVD OEM market). The remaining share of system solutions continues to be designed by the largest diagnostics companies themselves (IVD in-house market). Due to ever stricter regulatory requirements, improved cost efficiency, and shorter development times, STRATEC nevertheless expects the global share of system solutions designed and manufactured by outsourcing partners to increase further in the years ahead.

The instrumentation market relevant to the STRATEC Group has estimated annual sales volumes of around 1.5 billion to 2.0 billion US dollars for in-vitro diagnostics (IVD) alone. This figure is derived from relevant throughput segments and areas of application. The areas of application relevant to STRATEC particularly include the immunoassay, immunohematology, molecular diagnostic, clinical chemistry, and hematology applications. Alongside these areas, there are also interesting niche markets, both within and outside IVD, in which STRATEC is performing targeted projects or concluding development cooperations with established or innovative partners.

Increasing regulation of diagnostics industry

The increasing regulation of the diagnostics industry continues to generate growing demand for automated process solutions. Manual and semi-automated processes are increasingly being superseded by fully automated methods. Due to the routine processes involved and the lower error rate compared with manual processes, such methods offer a high degree of security, great precision, and highly reproducible results. Not only that, fully automated methods enable the tiniest volumes of liquids to be processed. In recent years, ever more countries have begun introducing their own control mechanisms and requirements for IVD products and processes. To meet these increasingly strict requirements around the world, many laboratories are opting for automated solutions. Automated instrument solutions are in turn subject to a high degree of regulation, and this presents a barrier to new players entering the market. STRATEC's long track record of dealing with these regulatory requirements, broad pool of technology, and longstanding experience mean that it is very strongly positioned in this market.

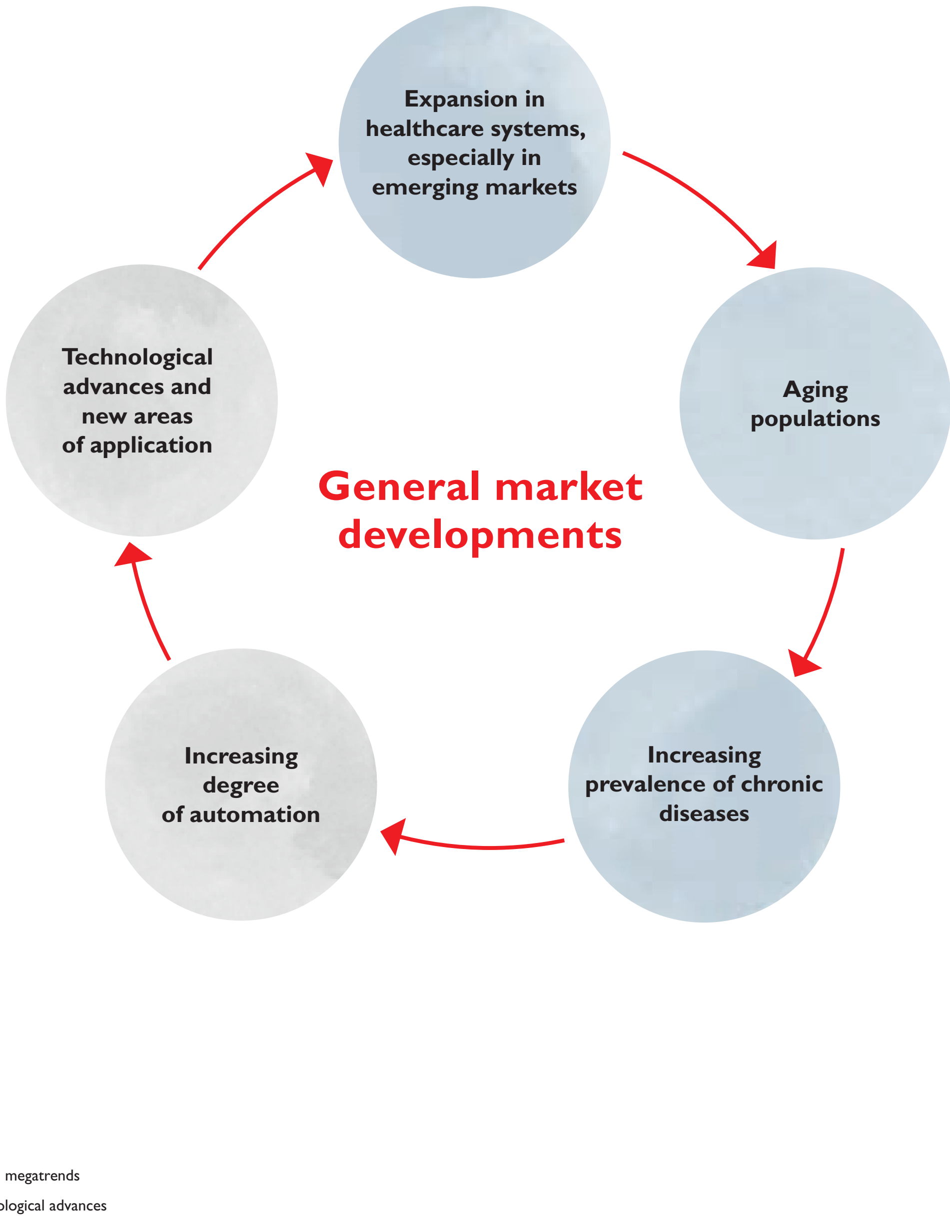
Alongside increasing regulation, STRATEC also benefits from the fact that there is a shortage of qualified laboratory personnel in many countries. This factor increases demand for automated systems that are easy to use and do not require highly qualified laboratory staff.

Outsourcing

STRATEC is benefiting not only from increasing regulatory efforts on the part of the relevant authorities, but also in particular from the growing trend towards outsourcing in the diagnostics industry. Alongside market access, the core competence of large diagnostics groups largely involves developing and providing reagents. These are used to perform the diagnostic tests in fully automated systems. Acting as an OEM partner, STRATEC designs and manufactures the system with all of its hardware and software components. Here, the customers assign almost all of the responsibility for the system, and thus also a large share of the related risk, to STRATEC. Working in close cooperation, a system is developed that is based on jointly compiled specifications and automates all of the analytical process steps. Within this cooperation, STRATEC performs various activities along the entire value chain – from development of the specifications through to approval of the resultant products by the relevant authorities. The partners benefit from STRATEC's extensive technology portfolio and its far-reaching experience in product approval processes, as well as from the resultant cost benefits and shorter development times.

When it comes to the growing trend towards outsourcing in diagnostics, comparisons are often made with the automotive industry, where automakers have long outsourced the development and production of complex components and modules to specialist partner companies. A very similar trend is observable in the diagnostics industry.

General market developments
Alongside the specific developments outlined above for the in-vitro diagnostics instrumentation market, the overall in-vitro diagnostics market – our partners' target market – is also viewed as a growth market. Key growth drivers particularly include global megatrends and ongoing technological advances:



Further growth in the volume of investments channeled into expanding national healthcare systems is leading to an increase in the number of people worldwide with access to healthcare services. Higher numbers of patients are resulting in greater demand for the products and services offered by the diagnostics industry. Together with rising life expectancies, the increasing prevalence of diseases such as cancer, diabetes or cardiovascular diseases will also lead to growing demand in healthcare systems and consequently for in-vitro diagnostics products. Not only that, rapid technological advances in recent years have significantly expanded the areas of application in in-vitro diagnostics. The technological progress currently underway gives reason to expect the launch and increased market penetration of new and innovative tests in the years ahead as well. Areas worth mentioning in this respect are the tests newly available in oncology, personalized medicine, and prenatal medicine.

Veterinary diagnostics
As well as human diagnostics systems, the Diatron business unit also offers systems for use in veterinary diagnostics.

Turnover in the global veterinary diagnostics market totaled around 2.6 billion US dollars in 2018. Average annual growth (CAGR) of around 9% is expected in the years from 2018 to 2023. Veterinary diagnostics has taken over numerous technologies and methods from human diagnostics. A range of key standard diagnostics applications in the fields of immunodiagnostics, molecular diagnostics, hematology and clinical chemistry is thus available for the veterinary supervision of domestic and farm animals.

Life sciences
Life sciences is taken here to comprise academic research and pharmaceuticals research, with the latter area accounting for by far the larger share of the market. The global life sciences instrumentation market had a volume of around USD 51 billion in 2016 and is expected to reach around USD 75 billion by 2022.

The Consumables business unit in particular has numerous customers in the field of life sciences. Furthermore, the field of translational research, which involves translating the results of basic research into clinical applications, is also increasingly significant to STRATEC.

Research and development

The STRATEC Group's long story of sustainable success is based on its development of innovative technologies that satisfy the requirements of strictly regulated markets and those of its partners in terms of safety, reliability and user-friendliness. For the development of complex systems, consumables, and laboratory software, STRATEC's development teams comprise numerous employees from various areas of activity who are supplemented by developers from our partners. As a general rule, the interdisciplinary teams of experts draw on employees from various areas of activity. In the field of research, where new technologies, processes and software solutions are developed, feasibility and market studies are performed or referred to at an early stage already. These enable qualified assessments to be made while at the same time minimizing any associated risks.

At a research and prototype laboratory at the Anif location, STRATEC is working in cooperation with the University of Salzburg to link state-of-the-art plastic and coating technology with biotechnological processes. This involves manufacturing and testing biochip prototypes intended for inclusion in customer products at a later date.

In the development projects category, the underlying processes, the achievement of development milestones, and ultimate targets are all stipulated in detail. The development activities follow precisely defined technical specifications and project plans and involve milestones and target data. In the context of analyzer system development, different appliance generations are supplied to the partner and then accepted once the respective development milestones have been met. These range from the first development appliance status ('bread boards') via prototypes through to validation and pre-serial appliances on which the tests are validated and whose results are referred to by the relevant authorities when approving the appliances. In the final development stage, the customer then accepts the serial appliance and related service components.

Within STRATEC, development activities are based on the following aspects:

- **Development of new systems for customers and system platform development**
  STRATEC's growth is largely driven by its constantly growing range of new OEM products. These therefore remain a key focus of development activities. Here, STRATEC can offer an extensive range of technologies and services to its customers.

  As already outlined in Section 'Group structure – STRATEC Instrumentation', in its development of new systems STRATEC distinguishes between platform development and the partnering business. In platform development, STRATEC works in a way similar to the automobile industry by developing a platform or module concept internally and then in the second stage adapting this to individual customer needs. In its partnering business, by contrast, STRATEC works closely with the customer from a very early stage of development and, based on a library concept, develops a system precisely tailored to the customer's needs.

- **Support for existing systems and product lifecycle management**
  Strict regulatory requirements and the resultant expense required to obtain approval are leading to longer system lifecycles, which generally amount to well over ten years. To facilitate such long lifecycles for systems on the market, permanent system modernization is required. This factor is accounted for above all in software development and verification activities. This is one of the main reasons for the disproportionate growth in these areas and the associated number of employees within STRATEC's development division.

- **Development of new technologies**
  To boost its competitiveness and leading position as an independent system provider, STRATEC not only observes ongoing changes in its customers' needs in terms of technologies and processes, but also constantly analyzes innovations and developments in the relevant markets. The insights thereby gained are correspondingly factored into the development of new technologies. One key focus here is on gaining early experience with processes resulting from research, and in particular with technologies and processes which harbor potential for routine applications in in-vitro diagnostics.

- **Development of platform technologies**
  A further focus of STRATEC's development activities involves further developing and enhancing platform technologies for relevant systems. These platform technologies are of key significance. After all, they are not only one of the main factors determining the performance of our systems, but also account for the greatest cost item in their production. They also form the basis for the continually growing technology pool, which significantly reduces the times and costs involved in our partners' market launches of these kinds of systems.

- **Development of (smart) consumables**
  STRATEC also develops the consumables used with a given analyzer system. This development work is also based on proprietary industrial property rights. The products range from simple consumables through to complex, so-called smart consumables. These complex consumables present part of the test process that is otherwise often performed within the instrument. They may be developed and manufactured together with an analyzer system or on a standalone basis to meet the individual requirements of our partners.

The overall package of proprietary platform technologies, a good understanding of potential opportunities available from research and in the in-vitro diagnostics environment, and the tools and processes optimized for use in this area enable STRATEC to offer all-round solutions with comparatively attractive development periods. Not least as a result of these factors, STRATEC retains control of key industrial property rights for the systems thereby developed. This secures the company's long-term cooperation with its partners and customers.

Within the STRATEC Group a total of 662 employees were allocable to research and development at the balance sheet date on December 31, 2018 (previous year: 545 employees). This corresponds to around 54% of the total workforce.

B. BUSINESS REPORT

Macroeconomic and sector-specific framework

Macroeconomic framework

The Economic Outlook published by the OECD in November 2018 forecast global gross domestic product (GDP) growth of 3.7% for 2018, implying a slight acceleration compared with the previous year's figure of 3.6%. This growth continues to be driven in particular by political measures and a sharp rise in employment totals. By contrast, capital expenditure and trade grew less strongly than expected. The OECD also pointed to greater divergence in growth rates in individual countries and sectors compared with 2017.

While the US economy was expected to generate increasingly dynamic growth compared with the previous year, the OECD predicted slowing growth rates both for the euro area and for China. For the US, the OECD forecast GDP growth of 2.9% in 2018 (compared with 2.2% in 2017). The euro area was set to grow by 1.9% in 2018 (as against 2.5% in 2017), with Germany generating growth of around 1.6% (compared with 2.5% in 2017). China was expected to report growth of 6.6% (as against 6.9% in 2017).

In general, the OECD assumes that global economic growth peaked in 2018 and therefore expects to see slightly lower momentum in 2019 and 2020. The reasons it gives for this expectation includes less expansive economic policy, the increasingly negative effects of trade tensions, more restrictive financial frameworks, and higher oil prices. Overall, the OECD has forecast global GDP growth of 3.5% for both 2019 and 2020.

In January 2019, the International Monetary Fund (IMF) also issued a further slight reduction in its outlook for global economic growth compared with its previous forecast in October 2018. It substantiated this renewed adjustment by referring in particular to worse than expected developments in Germany, Italy, and Turkey. The IMF therefore currently expects to see global GDP growth of 3.5% in 2019 and 3.6% in 2020.

Given its long-term project and product lifecycles, STRATEC and the decisions its customers take concerning joint development projects are only affected by macroeconomic fluctuations to a limited extent. Having said this, the macroeconomic climate nevertheless plays a major role in STRATEC's entrepreneurial activity and is therefore extensively factored into the company's assessments and planning.

Taken alone, the UK is an important market for STRATEC's customers. Having said this, the implications arising in the wake of any potential Brexit are difficult to assess. They are nevertheless viewed as being of subordinate significance for the STRATEC Group as a whole. The company only has a very low volume of supplier relationships in the UK. Potential supply difficulties due to import restrictions have been countered with stocking measures.

The subsidiary STRATEC Biomedical UK, Ltd. develops software solutions in the UK. Here too, the possibility of Brexit only harbors low risks from a current perspective, as these development activities are closely dovetailed with those at other subsidiaries. If need be, they could therefore be supplemented or substituted. STRATEC does not expect its partners' turnover figures in the UK end customer market to suffer to any significant extent from the implications of Brexit.

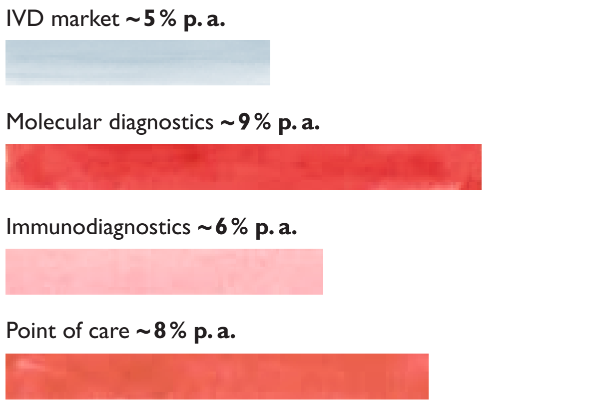
Consistent with expectations, the US market – still the most important individual market for STRATEC's customers – has continued to perform positively. Overall, developments in the US healthcare market have been positive for STRATEC in recent years. The number of people with insurance cover has risen significantly. Not only that, the ongoing rise in regulatory requirements and reduction in the amounts refunded for some diagnostic tests have supported demand for secure and cost-efficient automation solutions. To date, the overall rise in global trading restrictions and import duties imposed on some products have not had any notable impact on the STRATEC Group's business performance.

Currently, North America, Europe, and Japan account for around 75% of the total IVD market. In the years ahead, emerging markets such as China, India, and Saudi Arabia in particular will report growing test volumes as the governments in these countries are investing heavily in healthcare systems. Demand for new tests and processes remains high, with particularly strong demand for cost-effective solutions.

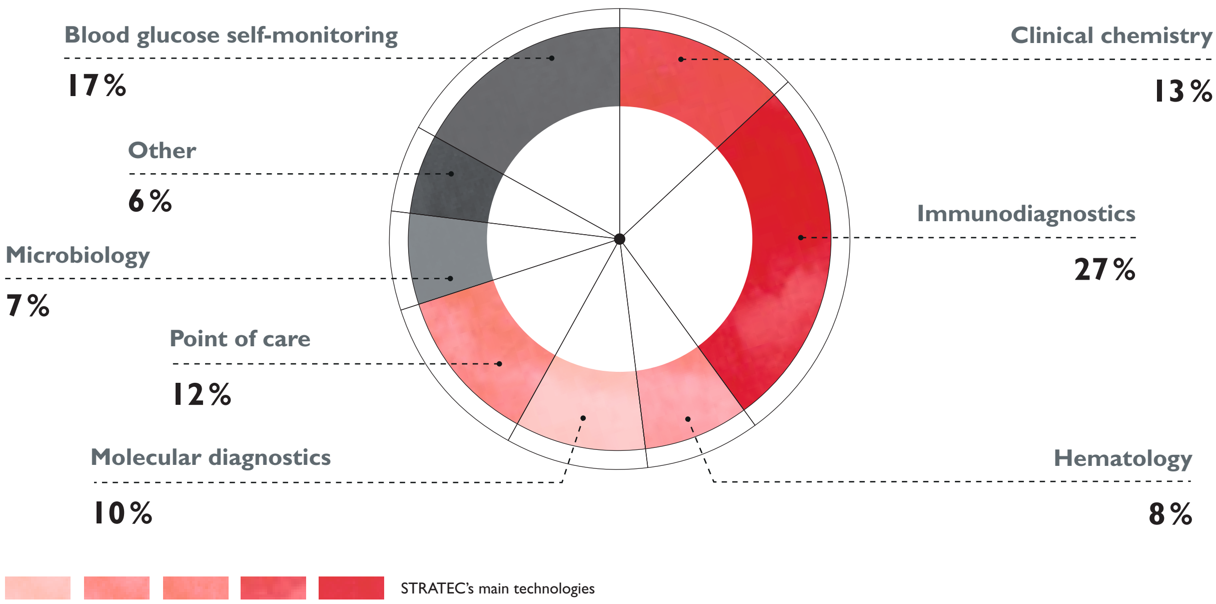
Sector-specific framework

Based on various estimates, in-vitro diagnostics (IVD) is set to remain a growth market, with average annual global growth rates of around 5% through to 2023. By 2023, the IVD market should have an estimated volume of 88 billion US dollars, as against around 68 billion US dollars in 2018. The various segments within IVD will report different growth rates. STRATEC particularly operates in those segments which are expected to generate high growth rates. These include molecular diagnostics, for example, where growth is expected to average around 9% p.a. between 2018 and 2023. Other segments, such as blood glucose self-monitoring, are not growing as fast and are not among STRATEC's areas of activity. Today, STRATEC offers products and solutions in numerous key areas of the IVD market. Consistently aging populations, increased prevalence of chronic diseases based on our current lifestyles, and the ever growing significance of personalized treatment – these are key market growth drivers. Over and above that, the research being performed on innovative technologies, such as specific biomarkers, will create new opportunities for future market growth.

Compound annual growth rate 2018 to 2023:



IVD market by technologies



Due not least to the increasing complexity of IVD tests, it is difficult for any company to develop proprietary products in all technology and market segments. In view of this, diagnostics groups frequently procure specific technologies to maintain their technological leadership and survive in the market. As a result, a process of consolidation has been apparent in the IVD market for years now and is expected to continue in future as well.

At the same time, the constant rise in regulation recently seen in the diagnostics industry also represents an increasingly high barrier to potential competitors to STRATEC entering the market. There are only very few comparable companies with the ability to offer a comparable range of products and services from compiling specifications, through development, approval, and production of the respective instruments and solutions. The competitive situation therefore remains very limited and, alongside in-house development departments, is restricted to a handful of specialist companies. With the companies acquired in recent years, STRATEC has further extended the range of products and services it can offer to customers and accessed new market segments. This has further improved the company's competitive situation.

Overall, the markets served by STRATEC's customers are viewed as growth markets for the years ahead as well. This growth will be driven in particular by the following factors:

POLITICAL

- Development and expansion in healthcare systems, especially in developing and emerging economies
- Expansion in global infrastructure leading to improved access to medical care

TECHNOLOGICAL

- Fast-growing niche markets due to new medical findings and new diagnostics possibilities
- Increasing degree of automation
- Development of new tests and treatment options, such as personalized medicine

SOCIAL

- Demographic change towards an increasingly elderly population with growing diagnostics requirements
- Rising life expectancy and resultant need for diagnostics
- Increased prevalence of chronic and infectious diseases

Business performance

STRATEC generated sales of € 187.8 million in the 2018 financial year, compared with € 207.5 million in the previous year. This corresponds to an organic sales decline of 5.9%.The subdued organic sales performance was due in particular to postponements of market launches originally planned for 2018, as well as to lower sales volumes with systems already established in the market. Furthermore, in the financial year under report STRATEC also witnessed lower sales with service parts and consumables, as well as with development and services. Nominal sales fell by 9.5%, with 2.2 percentage points of this decrease being due to the first-time application of IFRS 15 and 1.4 percentage points to currency items.

The adjusted EBIT margin decreased by 360 basis points to 13.9% in the year under report, as against 17.5% in the previous year.The lower level of profitability was attributable in particular to negative benefits of scale, as well as to higher volumes of expenses incurred to process the company's full development pipeline.

In the 2018 financial year, the company's already well-filled development pipeline was extended with, among other items, the agreement of a further large-scale development cooperation with a global diagnostics company.

STRATEC's liquidity and financing position was at all times secured.The company has a long-term master loan agreement with a total volume of up to € 70 million.

In the 2017 financial year, STRATEC issued guidance for the development in its sales and adjusted EBIT margin in the 2018 financial year. At that time, the company forecast organic sales growth at least in a medium single-digit percentage range and an adjusted EBIT margin of around 17%. Due to the aforementioned factors, the company did not meet either of these targets. STRATEC met the adjusted targets published by ad-hoc announcement in October 2018, namely of a reduction in its organic sales in a low to medium single-digit percentage range and an adjusted EBIT margin of around 11% to 13%.

The workforce grew by 13.1% to 1,228 employees as of December 31, 2018, up from 1,086 at the previous year's balance sheet date. This increase was due in particular to the company's ongoing significant need for highly qualified employees in connection with its high current volumes of development activities.

Even though STRATEC's sales and earnings performance fell short of expectations in 2018, the Board of Management continues to view the company's future prospects as positive.

Position

STRATEC applied the new accounting requirements set out in IFRS 9 (Financial Instruments) and IFRS 15 (Revenue from Contracts with Customers) as of January 1, 2018. In both cases, the requirements were applied for the first time on a retrospective basis and without adjusting the previous year's figures ('modified retrospective approach'). This makes it more difficult in some cases to compare the company's key earnings, financial and asset figures with the equivalent figures for the previous year. Reference is therefore also made to the more detailed analysis of the implications of first-time application of IFRS 9 and IFRS 15 provided in the relevant disclosures in the notes to the consolidated financial statements.

Earnings position

Overview of key figures in the consolidated statement of comprehensive income

€ 000s	2018	2017	Change
Sales	187,820	207,478	-9.5%
Gross profit	53,481	64,747	-17.4%
Gross margin	28.5%	31.2%	-270 bps
Adjusted EBITDA	36,190	43,405	-16.6%
Adjusted EBITDA margin	19.3%	20.9%	-160 bps
Adjusted EBIT	26,157	36,369	-28.1%
Adjusted EBIT margin	13.9%	17.5%	-360 bps
Adjusted consolidated net income from continuing operations (EAT)	20,238	28,855	-29.9%

bps = basis points

Sales

STRATEC witnessed a 5.9 % reduction in organic sales to € 187.8 million in the 2018 financial year (previous year: € 207.5 million). This subdued organic sales performance was due in particular to postponements of market launches originally planned for 2018, as well as to lower sales volumes with systems already established in the market. Furthermore, in the financial year under report STRATEC also reported lower sales with service parts and consumables, as well as with development and services. Nominal sales fell by 9.5 %, with 2.2 percentage points of this decrease being due to the first-time application of IFRS 15 and 1.4 percentage points to currency items.

STRATEC divides its sales into four operating divisions.

Sales in **Systems,** the largest operating division, fell year-on-year by 10.7% to € 91.1 million. The sales performance of this division was negatively affected in particular by delayed market launches and lower sales volumes with systems already established in the market.

Sales in the **Service Parts & Consumables** operating division decreased by 6.8 % to € 62.3 million.

In the **Development and Services** operating division, numerous development projects were at different stages of development in the 2018 financial year. STRATEC received milestone payments for reaching development milestones; however, these fell short of the strong figure reported for the previous year. As a result, sales in this division fell by 20.1 % to € 30.0 million. First-time application of IFRS 15 also had a significantly negative impact on the sales performance.

By contrast, sales in the **Other Activities** division surged by 317.4 % to € 4.5 million, up from € 1.1 million in the previous year.

Consolidated sales by operating division (€ 000s)

	2018	2017	Change
Systems	91,079	102,034	-10.7 %
Service Parts & Consumables	62,301	66,877	-6.8 %
Development and Services	29,952	37,492	-20.1 %
Other Activities	4,487	1,075	+317.4 %
Consolidated sales	187,820	207,478	-9.5 %

Development in share of sales by operating division

	2018	2017	2016
Sales in € million	187.8	207.5	184.9
Systems share of sales in %	48.5	49.2	55.0
Service Parts & Consumables share of sales in %	33.2	32.2	29.0
Development and Services share of sales in %	15.9	18.1	15.4
Other Activities share of sales in %	2.4	0.5	0.6
Analyzer systems supplied (total number)	7,024	7,921	7,297

Gross profit and gross margin

Given the reduction in sales volumes and the increase in expenses incurred due to the high current volumes of development activities, gross profit fell by 17.4 % to € 53.5 million in the 2018 financial year (previous year: € 64.7 million). This corresponds to a gross margin of 28.5 %, compared with 31.2 % in the previous year.

Research and development expenses

Gross development expenses rose from € 29.4 million to € 37.9 million in 2018. Of this total, € 7.3 million related to capitalized internally generated intangible assets (previous year: € 2.9 million). This consistently high volume of expenses with highly qualified development personnel forms the basis for the company's further growth.

Sales-related expenses

Sales-related expenses rose year-on-year by 10.6 % from € 12.3 million to € 13.6 million.

General administration expenses

General administration expenses fell by 10.9 % from € 18.3 million in the previous year to € 16.3 million in the 2018 financial year.

Other operating income and expenses

The net balance of other operating income and expenses came to € 4.8 million, compared with € 9.4 million in the previous year. This reduction was due in particular to positive measurement items relating to a company shareholding in the previous year. Other operating expenses rose slightly from € 3.8 million to € 4.1 million.

Earnings performance

Adjusted EBIT amounted to € 26.2 million in the 2018 financial year, compared with € 36.4 million in the previous year. This corresponds to an adjusted EBIT margin of 13.9 %, as against 17.5 % in the previous year's period. The negative development in the full-year margin was due in particular to negative benefits of scale, as well as to the higher volume of expenses incurred to implement numerous development projects.

Adjusted consolidated net income from continuing operations decreased from € 28.9 million in the previous year to € 20.2 million in the 2018 financial year. Adjusted EPS from continuing operations came to € 1.70 (previous year: € 2.43).

Development in EBIT and EBIT margin (€ 000s)

	2018	2017	Change
Adjusted EBIT	26,157	36,369	-28.1 %
Adjusted EBIT margin	13.9 %	17.5 %	-360 bps

bps = basis points

Segments

The business activities of the STRATEC Group are divided into three reporting segments.

In its **Instrumentation** segment, STRATEC pools its business with designing and manufacturing fully automated analyzer systems for its clinical diagnostics and biotechnology customers.

The **Diatron** segment comprises the business with systems, system components, consumables and tests in the low throughput hematology and clinical chemistry segment.

The **Smart Consumables** (previously: STRATEC Consumables) segment includes the business with developing and manufacturing smart consumables in the fields of diagnostics, life sciences, and medical technology.

In its **Other Activities** segment, STRATEC reports on the development of workflow software for networking several analyzer systems and the development and sale of scientific materials and technologies.

Instrumentation segment

Sales in the Instrumentation segment decreased by 12.2 % to € 131.3 million in the financial year under report. Sales here were negatively affected in particular by delayed market launches and lower sales volumes with systems already established in the market. Adjusted EBIT fell to € 21.0 million, as against € 30.6 million in the previous year. That corresponds to an adjusted EBIT margin of 16.0 %, compared with 20.4 % one year earlier.

Diatron segment

The Diatron segment generated sales of € 35.3 million in the 2018 financial year compared with € 37.0 million in the previous year. This reduction was due in particular to delayed product launches. As a result, it was not possible to compensate for the decline in sales with several systems at the end of their respective lifecycles. Despite the reduction in sales, Diatron increased its adjusted EBIT margin from 12.2 % in 2017 to 13.3 % in 2018.

Smart Consumables segment

Sales in the Smart Consumables segment grew year-on-year by 7.2 % from € 15.6 million to € 16.8 million. Adjusted EBIT came to € 0.2 million, compared with € 0.8 million in the previous year.

Other Activities segment

Sales in Other Activities fell from € 5.2 million in the previous year to € 4.4 million. This segment generated adjusted EBIT of € 0.3 million (previous year: € 0.4 million).

Overview of developments in reporting segments (€ 000s)

	2018	2017
Instrumentation		
Sales	131,323	149,645
EBITDA	27,595	40,237
EBIT	19,060	33,521
Adjusted EBIT	20,993	30,601
Diatron		
Sales	35,341	37,027
EBITDA	5,236	5,034
EBIT	-1,677	-2,051
Adjusted EBIT	4,685	4,523
Smart Consumables		
Sales	16,765	15,644
EBITDA	2,323	2,102
EBIT	-2,651	-2,081
Adjusted EBIT	199	827
Other Activities		
Sales	4,391	5,162
EBITDA	378	508
EBIT	278	418
Adjusted EBIT	278	418

Reconciliation of adjusted EBIT and consolidated net income

In the interests of comparability, key earnings figures have been adjusted to exclude amortization resulting from purchase price allocations in the context of acquisitions, associated integration expenses, and other non-recurring items. The reconciliation of the adjusted earnings figures with the earnings figures reported in the consolidated statement of comprehensive income is presented in the following tables:

Reconciliation of adjusted EBIT (€ 000s)

	2018
Adjusted EBIT	26,157
Adjustments:	
PPA amortization	-9,267
Transaction-related expenses and associated restructuring expenses	-1,653
Impairment losses recognized on intangible assets	-642
Other positive one-off items	416
EBIT	15,011

Reconciliation of adjusted consolidated net income (€ 000s)

	2018
Adjusted consolidated net income	20,238
Adjusted earnings per share in € (basic)	1.70
Adjustments:	
PPA amortization	-9,267
Transaction-related expenses and associated restructuring expenses	-1,653
Impairment losses recognized on intangible assets	-642
Other positive one-off items	416
Current tax expenses	529
Deferred tax income	1,488
Consolidated net income	11,109
Earnings per share in € (basic)	0.93

Financial position

Liquidity analysis

The cash flow statement of the STRATEC Group shows the origin and utilization of the cash flows generated within the financial year. A distinction is made between the cash flow from operating activities and the cash flows from investing and financing activities. The cash flow statement records the changes in individual line items in the income statement and the balance sheet.

Overview of key figures in consolidated cash flow statement (€ 000s)

	2018	2017	2016
Cash flow from operating activities	11,950	29,981	16,256
Cash flow from investing activities	-10,792	-15,640	-86,728
Cash flow from financing activities	-927	-15,978	40,606
Cash-effective change in cash and cash equivalents	231	-1,637	-29,866

The **inflow of funds from operating activities** fell from € 30.0 million in the previous year to € 12.0 million, a development chiefly due to the year-on-year reduction in consolidated net income and the increase in net working capital.

The **outflow of funds for investing activities** totaled € 10.8 million (previous year: € 15.6 million) and mainly comprised € 11.0 million for investments in property, plant and equipment, € 8.4 million for investments in intangible assets, and € 8.6 million from the disposal of financial assets.

The **outflow of funds for financing activities** fell to € 0.9 million, as against € 16.0 million in the previous year. The company received € 7.0 million from net new financial liabilities, while the dividend adopted for the 2017 financial year led to an outflow of € 9.5 million.

The **cash-effective change in cash and cash equivalents** amounted to € 0.2 million in 2018 (previous year: € -1.6 million).

Following adjustment for exchange rate movements, the total of all inflows and outflows of funds in the financial year under report resulted in **cash and cash equivalents at the end of the period** of € 24.1 million (previous year: € 24.1 million).

Furthermore, STRATEC has credit lines of € 70.0 million, of which € 58.0 million had been drawn down.

Investment and depreciation policies
In the 2018 financial year, STRATEC invested € 11.0 million in property, plant and equipment (previous year: € 9.3 million) and € 8.4 million in intangible assets (previous year: € 6.4 million). Major investments in property, plant and equipment included the investments in the first stage of construction work for the conversion and substantial expansion of the buildings at the Birkenfeld location. The investments in intangible assets mainly involved capitalized development work.

Investments in property, plant and equipment and intangible assets corresponded to a total of 10.3% of sales (previous year: 7.6%) and thus significantly exceeded the depreciation and amortization of € 12.2 million adjusted for assets measured within the purchase price allocation. These investments thus secure the company's long-term value and expansion. They will enable STRATEC to uphold its position as an innovation leader and continue making a valuable contribution to technological advances in the field of medical technology.

Key figures on financial position (€ 000s)

Key figure	Definition	12.31. 2018	12.31. 2017	Change
Cash and cash equivalents	Cash holdings and credit balances at banks	23,816	24,137	-1.3%
Net working capital	Current assets ./. cash and cash equivalents ./. current debt	64,323	64,145	+0.3%
Operating cash flow per share	Operating cash flow / number of shares (basic)	1.00	2.52	-60.3%
Capex ratio	Investments in property, plant and equipment ./. consolidated sales	5.9%	4.4%	-190 bps

bps = basis points

Asset position

Total assets grew year-on-year by 2.6% to € 275.3 million as of December 31, 2018 (previous year: € 263.8 million). This growth was chiefly driven by increases in inventories and property, plant and equipment. The increase in inventories was due, among other factors, to a substantial rise in the volume of unfinished products and contract assets resulting from project delays and the first-time application of IFRS 15. Overall, first-time application of IFRS 15 accounted for € 8.0 million of the increase in total assets.

The growth in inventories to € 58.5 million (previous year: € 27.8 million) was particularly related to higher stock volumes at the end of the year in preparation for the implementation of a new ERP system, which was introduced at the Birkenfeld and Beringen locations in January 2019, as well as to items resulting from the first-time application of IFRS 15.

The increase in property, plant and equipment was due to the positive balance of investments made, amounting to € 11.0 million (previous year: € 9.3 million), and depreciation of € 6.8 million (previous year: € 9.3 million).

Structure of consolidated balance sheet: assets (€ 000s)

	2018	2017	2016
Intangible assets	98,262	110,726	118,776
Non-current assets (excluding intangible assets)	49,836	36,069	33,266
Current assets	127,187	116,981	105,925
Consolidated total assets	275,285	263,776	257,967

Given a dividend distribution of € 9.5 million and the first-time application of IFRS 15, the shareholders' equity reported in the balance sheet amounted to € 152.2 million as of December 31, 2018, as against € 157.8 million at the previous year's balance sheet date. At 55.3%, the equity ratio remained at a solid level (previous year: 59.8%).

Structure of consolidated balance sheet: equity and debt (€ 000s)

	2018	2017	2016
Shareholders' equity	152,204	157,837	142,341
Non-current debt	84,033	77,240	21,429
Current debt	39,048	28,699	94,197
Consolidated equity and debt	275,285	263,776	257,967

Non-current debt increased from € 77.2 million in the previous year to € 84.0 million in the 2018 financial year. This change was due on the one hand to the higher current volume of investments given the conversion and expansion of buildings at the Birkenfeld location and on the other hand to the impact of first-time application of IFRS 15.

Current debt rose from € 28.7 million to € 39.0 million, with the predominant share of this increase resulting from the impact of first-time application of IFRS 15.

Key figures on asset position (€ 000s)

	2018	2017	2016
Total assets	275,285	263,776	257,967
Shareholders' equity	152,204	157,837	142,341
Equity ratio in %	55.3	59.8	55.2
Financial liabilities	76,920	72,941	75,828
Financial liabilities as % of total assets	27.9	27.7	29.4
Debt/equity ratio in %	80.9	67.1	81.2

Non-financial performance indicators

Employees and their interests

STRATEC's sustainable success is driven by the performance of its highly qualified and motivated employees, who work in partnership with global players, often market leaders, to develop innovative technologies and solutions that enable the company's partners to shape their markets with reliable, safe, and user-friendly products.

This awareness that their internally developed solutions are contributing to further advances in global diagnostics is a further motivation for STRATEC's team.

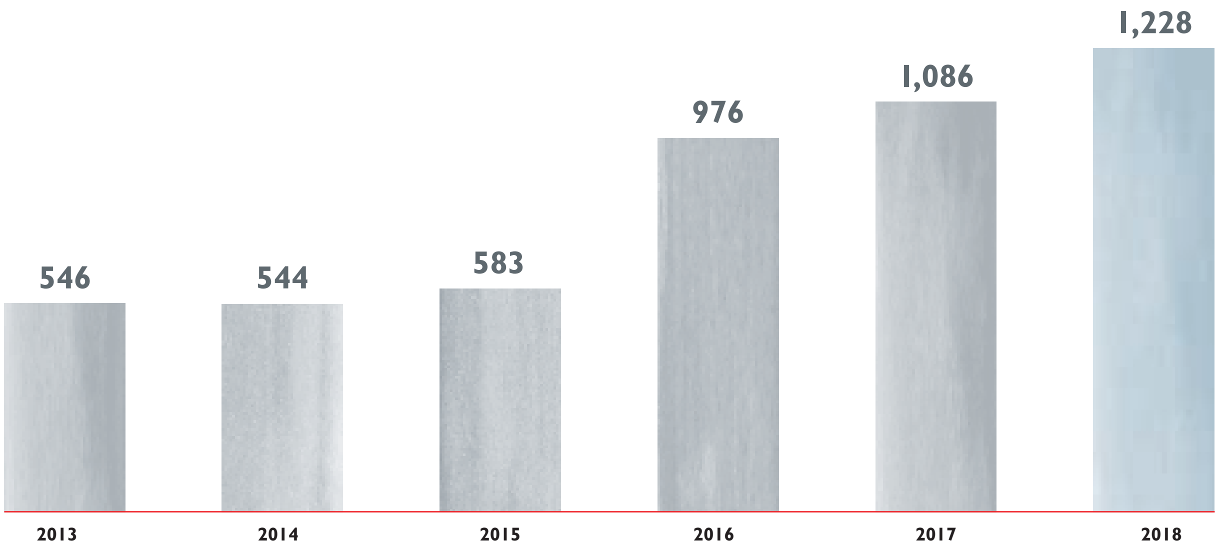
One of STRATEC's primary objectives is to provide its workforce, which has grown consistently in recent years, with a modern and attractive working environment by offering new career challenges and ensuring professional dealings with colleagues and partners. This in turn should motivate employees to continue giving of their very best and help retain them at the company on a permanent basis.

Number of employees

Consistent with high ongoing volumes of current development work, the STRATEC Group once again significantly expanded its workforce in 2018. The company had 1,228 employees as of December 31, 2018, corresponding to a 13.1 % increase compared with the previous year.

Fluctuations within the financial year were offset by deploying temporary employees.

Number of employees



Development in employee totals

Employees at balance sheet date

	2018	2017	Change
Total employees	1,228	1,086	+13.1%
Permanent employees	1,158	995	+16.4%
Temporary employees	70	91	–23.1%
Employees in Germany	524	470	+11.5%
Employees abroad	704	616	+14.3%
Trainees and interns	36	42	–14.3%
Employees working in R&D and development support	662	545	+21.5%
Share of female employees	28.0%	25.5%	+250 bps

2018 2017

bps = basis points

One of STRATEC's core activities and competencies involves developing complex technological systems that combine biochemical processes with highly integrated hardware and software. This is reflected, among other factors, in the fact that 662 of our employees, corresponding to a 54% share of all employees, work in research and development. This share is expected to remain high in the years ahead as well. Given the interdisciplinary nature of the work involved, many employees in this area contribute both technical and scientific expertise.

Women made up 28.0% of STRATEC's workforce at the balance sheet date on December 31, 2018. The share of female employees thus rose significantly compared with the previous year (December 31, 2017: 25.5%).

STRATEC offers its employees individual opportunities for further development and promotes a culture of employees working independently under their own responsibility. This is seen as providing a basis for the positive development in the workforce and for the high level of motivation shown by STRATEC employees.

Personnel expenses amounted to € 64.8 million in the 2018 financial year.

Attractiveness as employer
STRATEC is making every effort to position itself as an attractive employer both for its existing and for its future employees. One key task for human resources therefore involves offering existing and future specialists an interesting and attractive working environment at STRATEC. We act early to present STRATEC as an attractive employer to young people by taking part in careers' fairs in order to raise awareness of the wide variety of activities on offer at the company and also offer work placements and student internships.

The cooperation with Pforzheim University, where STRATEC on the one hand partly finances an endowed professorship in the field of 'Quality Management and Regulatory Affairs' in medical technology and on the other hand acts as a sponsor to Rennschmiede Pforzheim e.V., also helps raise awareness of STRATEC among many students at an early stage.

Occupational health and safety
STRATEC safeguards the safety of its employees at their respective workplaces with a forward-looking occupational health and safety program. The aim here is to offer a working environment that is free of the risk of injury or disease. A safety officer is responsible for implementing measures aimed at guaranteeing work safety. All locations have first aid and evacuation assistants who are provided with regular training. A fire protection officer has also been appointed and trained. Work-related accidents are recorded and accident log entries documented to enable suitable measures to be taken.

Profit participation
To retain its employees in the medium and long term, STRATEC grants stock options to select employees. Furthermore, the company granted bonus shares to its employees on several occasions in the past, thus enabling them to participate in the company's success and thus boost their commitment to the company.

Further information about employees and their interests can be found in the Non-Financial Group Declaration in this report.

C. OUTLOOK

Since being founded 40 years ago, STRATEC has attached great value to sustained growth, focusing on continually developing new proprietary technologies to help attract promising and longstanding customer projects. The company leverages innovative solutions which allows its partners to service their markets with high quality products. Growth prospects for customer target markets, in particular in the area of in-vitro diagnostics, remain positive. In addition, STRATEC is benefiting from the increasing trend in the in-vitro diagnostics industry towards outsourcing the development and production of automation solutions to specialized partners such as STRATEC. Thanks to this, as well as to a full development pipeline, the company's business outlook remains positive.

In light of an array of market launches and current customer order forecasts, STRATEC is anticipating sales growth adjusted for exchange rate effects of at least 12% (basis: € 187.8 million) in fiscal year 2019. Based on developments in the first weeks of the current financial year, strong sales growth can already be expected for the first quarter.

In terms of profitability, STRATEC expects an adjusted EBIT margin of around 14% to 15% in fiscal year 2019 (2018: 13.9%).

In light of ongoing construction measures aimed at significantly expanding capacity at the company headquarters in Birkenfeld, alongside investments in a myriad of development projects, STRATEC anticipates the investment ratio to remain above average in 2019. Investments in property, plant and equipment and intangible assets amounting to around 12% to 14% of sales are planned for 2019 (previous year: 10.3%). However, the investment ratio will likely decline considerably from 2020 onwards once the construction measures have been completed.

Subject to shareholder approval at this year's Annual General Meeting, it is intended to distribute a dividend of around € 9.8 million (€ 0.82 per share) to STRATEC SE shareholders.

Depending on whether it is possible to recruit sufficient qualified employees, it is planned to increase the number of employees approximately in line with the sales trend so as to do justice to the ongoing high demand for development services.

The STRATEC financial guidance is based on planning which takes account of the special features of the business model as well as a range of internal and external factors, weighting them according to their significance. Here, order intake and forecasts from our customers and their order behavior as well as stocking services parts are given a high weighting, as are the number of projects in development and negotiation. Further opportunities based on external growth are not factored in. Given the long-term nature of its business relationships, macroeconomic developments are of subordinate significance for STRATEC. The macroeconomic factor is therefore weighted less prominently in the company's forecasts.

D. OPPORTUNITIES AND RISKS

All players operating in highly dynamic industrial sectors, such as in-vitro diagnostics or life sciences, regularly have to deal with changing conditions. These changes may stem from new research and development findings or newly developed technologies. Often, they relate to the regulatory framework set by the regulatory authorities. All such changes generally create both opportunities and risks for the market players involved.

Within its opportunity and risk management activities, the STRATEC Group assesses and continually monitors both opportunities and risks. The growth achieved by the company in recent years was based on entrepreneurial decisions that involved weighing up the associated opportunities and risks. To facilitate ongoing, sustainable growth in future as well and prepare in good time for changes in the underlying framework, the company reviews and adapts its opportunity and risk management activities on a regular basis.

As the business models of the individual segments, which focus almost exclusively on the OEM business, are highly similar and the resultant opportunities and risks are largely identical or even overlap, no distinction has been made between the individual business units in the following presentation of opportunities and risks.

Opportunities

Market growth

At present, the products offered by or in development at STRATEC are largely used in in-vitro diagnostics (IVD). Having said this, the number of systems deployed in research laboratories in the life science sector is also not insignificant. Within the IVD sector, which is expected to show annual growth of around 4% to 6% through to 2021, there are some segments that are forecast to generate growth above the sector average in the years ahead. STRATEC has focused on some of these segments with its development projects. The segments of molecular diagnostics and immunoassays are particularly noteworthy in this respect.

Furthermore, in the medium term geopolitical, infrastructure and demographic developments should also help ensure that ever more people around the world have access to higher numbers of diagnostics tests. The resultant ongoing rise in test volumes should generate sustainable growth in the IVD market.

Opportunities due to new projects and customers

In the years ahead, STRATEC's customers will be launching several new products onto the market that should provide a foundation for the future growth of the STRATEC Group. Before entering into new development and supply agreements, STRATEC evaluates the potential projects in terms of their opportunity/risk profiles and the customer's future potential to place the resultant products in target markets. On this basis, the company expects to be able to generate further growth with new products.

Growth opportunities due to outsourcing

Demand for instrumentation solutions from independent providers such as STRATEC is still on the increase, a development due not least to the fact that many diagnostics companies are increasingly focusing on developing their reagents and thus do not or no longer view instrument development as forming part of their core businesses. Outside the diagnostics industry, there are also areas where similarly specific product qualities are called for and where similar underlying conditions apply. Research laboratories are particularly worthy of mention in this respect. Not only that, pharmaceuticals development processes also require precisely these conditions. As a result, STRATEC continues to benefit from above-average opportunities of participating in these positive developments, and in particular from the trend towards outsourcing. The emergence of new areas of research that move over time from pure research to diagnostics processes and pharmaceuticals products will further increase demand for laboratory automation solutions.

Consolidation

The increasing consolidation within the IVD market presents STRATEC with the opportunity to generate higher sales figures with established systems due to its established partners gaining greater market access. In recent years, various diagnostics groups have been seen to enter cooperations or take over competitors in order to offer their customers broader product portfolios or enter new markets. This enables STRATEC's systems to be sold to a broader customer base. At the same time, consolidation nevertheless also involves the risk that the merger of customer product portfolios may result in the discontinuation by customers of individual product series.

Increasing market regulation

Increasing regulation of the IVD market is creating ever greater demand for standardized automation solutions. Standards in terms of the precision and reliability of IVD tests have been rising for years now and automated solutions offer clear benefits in this respect when compared with manual processes. As a company that operates in highly regulated markets, such as instrumentation and automation and the development and production of consumables for in-vitro diagnostics, STRATEC requires extensive expertise to meet the requirements and regulations in force in individual countries. Not only that, the test and process structures, which involve close interaction between specialisms as varied as mechanics, software, electronics, and biochemical reactions, require the utmost precision and calibration. The corresponding quality assurance and process documentation steps are further foundations for functional development. Successfully combining all these qualities in a complex and reliable, but also user-friendly product, is currently only possible for a small number of companies that are in most cases highly specialized. As a result, the number of service providers able to cover all areas of the value chain from development through to serial production is very limited. With its broad technology pool, STRATEC is one of the few companies able to do justice to these requirements. The increasing complexity of instrumentation and consumables makes it necessary for companies to permanently develop further and research new technologies. On the other hand, it also acts as an ever higher barrier to market entry.

Technological opportunities

As a market, in-vitro diagnostics is highly dependent on the financing provided to healthcare systems. Approval by the authorities and financing commitments for individual diagnostics tests from health insurance companies or bodies is therefore a highly complex process. As a general rule, technological advances or entirely new applications therefore cannot be introduced at short notice. In view of this, STRATEC is largely relying on the further development of proven technologies and process enhancements. Having said this, STRATEC nevertheless also cooperates and conducts its own research in the field of new technologies. Together with partners, various development projects are currently underway that are thought to have the potential to sustainably influence their target markets due to new areas of application or technological advances.

Specifically, STRATEC is also pursuing point-of-care projects. Here, STRATEC is benefiting from the trend towards smaller systems working with complex consumables.

Risks

Given its business model, which is based on very long periods of cooperation with customers, STRATEC is exposed to some risk factors to a notably lesser extent than is customary at many other companies that are dependent on macroeconomic cycles, or on technological and demand trends. As a general rule, customers' long-term planning for the development of an analyzer system is dependent on their market presence and the lifecycles of existing products, but not on macroeconomic cycles and economic crises. The period required for planning, specification and development ranges from around two to four years, while the lifecycle of a system launched onto the market lasts some 15 to 20 years. A further five to eight years often pass before the final support and service activities are discontinued. The total project lifecycle thus often amounts to more than 25 years.

The company is nevertheless exposed to risks in connection with its operating business, the environment in which it operates, and its customer relationships. STRATEC evaluates these risks by reference to their estimated probability of occurrence and their potential implications for the company's earnings, assets, financial position, and reputation.

The evaluation of the probability of the risks occurring is based on the following criteria:

Assessment of probability of occurrence

0%–25%	Very unlikely
25%–50%	Unlikely
50%–75%	Likely
75%–100%	Very likely

The evaluation of the potential financial implications is based on the following criteria:

Estimated damages in event of risk materializing

Degree of implication	Definition of damages
Low	€ 0 million–€ 1.0 million
Medium	> € 1.0 million–€ 8.5 million
High	> € 8.5 million–€ 30 million
Very high	> € 30 million

Overview of risks and their implications

	Probability of occurrence	Potential implications short-term (up to 1 year)	medium-term (1–3 years)
Key customer project loss risks	Very unlikely	Medium	Very high
Project risks	Unlikely	Medium	Medium
Production risks	Very unlikely	Medium	Low
Patent infringement risks	Very unlikely	Medium	Medium
Supplier risks	Unlikely	Medium	Low
Competitive risks	Unlikely	Low	Medium
Currency risks	Likely	Medium	Medium
Liquidity risks	Unlikely	Medium	Medium
Interest rate risks	Likely	Low	Medium
Product liability risks	Very unlikely	Medium	High
Personnel risks	Unlikely	Medium	Medium

Individual risks are addressed in detail in the following section:

Dependency on key customers/ risk of key customer project loss

One main component of STRATEC's business model is its focus on cooperations with OEM partners who are among the market or technology leaders in their respective fields. By definition, this only applies to a limited number of potential partners, a factor that can result in a high degree of dependency in some cases. The resultant concentration of sales on a limited number of key customers and projects (key customer risk) may – in in the event of volatilities in sales of analyzer systems resulting, for example, from customers reducing their stocks – lead to fluctuations in STRATEC's performance. The termination of one or several projects by a customer may also lead to a loss of planned sales that cannot be offset, or only in part. The STRATEC Group will continue to work with existing and new partners in the field of new technologies in order to generate sustainable growth in this area as well and further minimize any 'cluster risks'.

Project risks

STRATEC generates a major share of its sales with development projects that may be influenced by numerous factors. Although negative implications resulting from potential damages are already accounted for and secured when structuring the respective project contracts, certain risks cannot always be excluded. STRATEC is thus exposed to the risk of a partner cancelling a project once it has started and thus losing the planned short and medium-term sales. Furthermore, project delays may arise that lead, among other consequences, to a postponement in sales. Moreover, it is important for STRATEC to make sure that the costs of a project remain within the stipulated budget. In general, both STRATEC and the respective customer have a great interest in the project succeeding and as a general rule therefore allocate the resources necessary for a development project to succeed. Finally, active project management by experienced project managers also helps to minimize project risks.

Production risks

STRATEC is exposed to production risks in connection with its production of analyzer systems at its production sites. Above all, these risks relate to factors that could potentially lead to temporary downtime or delays in production, such as a loss of personnel, damage to production equipment or infrastructure due to external factors, or a lack of production material resulting from supply bottlenecks. Certain risks are mitigated by emergency plans, which provide for stocking measures or the relocation of production activities to other sites.

Patent infringement risks

The STRATEC Group draws on internal and external supervision to ensure that no third-party industrial property rights are violated. Furthermore, the company has protected its own expertise directly or indirectly with numerous international patents and industrial property right registrations.

Supplier risks

The STRATEC Group has reacted to the increase in development expenses, particularly for high complexity and throughput systems, by introducing strict project controlling procedures coupled with an effective target cost management system. The complexity of production processes means that, for reasons of economy and to safeguard quality levels, the STRATEC Group focuses on a small number of suppliers. The high cost of supervising logistics activities, such as securing procurement prices in the long term, and of monitoring quality standards, necessitates this degree of concentration in terms of suppliers. This risk is knowingly entered into in a controlled manner, but is nevertheless minimized with an individual catalog of measures tailored to the respective situations, such as close supplier supervision, maintaining inventory stocks, and forward-looking logistics planning together with clear contract structures and regular supplier audits.

Competitive risks

Broadly speaking, STRATEC's competitors can currently be limited to two groups. On the one hand, there are internal development groups maintained by the diagnostics companies themselves. For a variety of reasons, many diagnostics companies have moved in recent years to outsource these development services to specialist companies such as STRATEC. This move is motivated, among other factors, by the lower costs generally achievable due to the shorter development times resulting from specialization and due to the technology pool available at the company. On the other hand, STRATEC's competitors also include companies focusing on the development of automation solutions in highly regulated markets. As this specialization requires highly in-depth expertise, the market entry period for potential competitors is relatively long and arduous. The number of competitors is therefore still comparatively low. As far as STRATEC is aware, the company has gained, rather than lost market share in recent years.

Liquidity risks

STRATEC monitors its liquidity risks on a centralized basis and uses rolling liquidity planning to safeguard its ability to meet its payment obligations and uphold its financial flexibility. The master loan agreement concluded in the first quarter of 2017 created a credit framework of € 70 million for the next five years. This allows the company to flexibly offset any potential fluctuations in its liquidity. Here, STRATEC upholds the flexibility it needs by maintaining liquidity reserves in the form of payment funds. Based on its current liquidity planning, its available reserves, and its expected operating cash flows, the company currently does not expect any shortage of liquidity. Given STRATEC's current financial position, the risk of any liquidity default is assessed as very low.

Foreign currency risks

In recent years, STRATEC has concluded an increasing number of development and supply contracts in US dollars. Part of the US dollar revenues was therefore hedged in the 2018 financial year. Given volatility and the uncertainty as to future developments in the currency markets, the hedging ratio at STRATEC can also be expected to rise. Sales and costs in currencies other than the US dollar and euro only play a subordinate role

Interest rate risks

STRATEC took up a significant volume of debt financing for the first time in the 2017 financial year and has been exposed to interest rate risks since then. The company closely monitors developments on the international financial markets and plans to hedge its interest rates. The potential implications of interest rate risks are currently classified as low.

Product liability risks

STRATEC's analyzer systems are deployed in highly regulated markets. Erroneous diagnoses could have drastic implications for the individuals affected. Before any system is put to use in a laboratory, various tests and validation phases take place to ensure that strict process and safety requirements are fully met. These are supplemented by several levels of process monitoring during the sample handling process, such as technical, chemistry-inherent, or software-based supervisory mechanisms. In practice, suppliers and manufacturers of diagnostics products are nevertheless exposed to liability risks, not all of which can be excluded even by complying with legal requirements and performing extensive quality checks.

Although STRATEC would not be the primary addressee for potential liability claims, the company covers itself against liability risks by concluding suitable product liability insurance policies. The possibility of the existing insurance cover being insufficient for potential liability claims nevertheless cannot be excluded.

Personnel risks

At STRATEC, personnel risks relate in particular to the attraction and retention of well-qualified specialist and management staff. The company's success is determined to a significant extent by its employees' competence, motivation, and willingness to perform. This being so, STRATEC aims to offer its employees an attractive and highly varied working environment and to actively promote their further development.

Demand for qualified personnel remains high, especially in technical fields. In attracting staff, STRATEC has to compete with other regional and international companies. The company counters this risk by upholding and extending its image as an attractive employer and by establishing contacts with young specialists at an early stage, for example at careers fairs. Furthermore, various activities, such as those in the field of software development, are performed across several locations to enable use to be made of the resources available at the respective locations. The availability of various professional skills at other locations is thus put to targeted use to avert any shortage of suitable personnel.

Other risks

The managers responsible for the early warning risk identification system have identified the following points as potential challenges which should be averted to avoid risks materializing:

- Use of suitable IT tools to integrate customer information from the market and other IT systems
- Implications resulting from displacement of market shares of current and potential STRATEC customers
- Risk that customers will be unable to place the expected numbers of units on the market and that this may result in potential write-downs of capitalized development expenses
- Postponement of market launches by STRATEC customers in various geographical markets
- Supply capacity risks for components relevant for regulatory approval or for highly complex proprietary components.

Overall assessment of risk situation at the STRATEC Group

The risk management system and ongoing reporting mean that STRATEC's Board of Management has an overview of risks consistent with the respective areas and their relevance to the business. These risks have not changed materially compared with the previous year.

Based on the overall assessment of risks, the Board of Management currently cannot discern any risks that could threaten the company's ongoing existence or have any materially negative impact on its asset, financial, or earnings position.

Risk management system

RISK MANAGEMENT SYSTEM

INTERNAL CONTROL SYSTEM

STRATEC has established an internal control system to protect the company's assets and information and ensure compliance with the relevant legal requirements and the company's business policy.

The internal control system is based on:

- Internal guidelines
- Requirements and processes
- Relevant legislation

CORPORATE COMPLIANCE

STRATEC has pooled its group-wide codes of conduct, ethical principles, and other guidelines in its Corporate Compliance Policy. This is binding for all employees and is regularly supplemented by updated risk analyses.

This policy is based on:

- Relevant legislation
- Norms
- Internal instructions

EARLY WARNING RISK IDENTIFICATION SYSTEM

An early warning risk identification system is established in the risk management system at the STRATEC Group. This has been implemented in a risk handbook enabling potential areas of risk to be assessed. It serves to analyze and assess risks at the company and in its environment.

Consistent with § 91 (2) AktG, the system in place at the STRATEC Group offers an all-round instrument for monitoring elementary processes and identifying potential risks at an early stage:

- Stock Corporation Act
- Risk Handbook
- Internal instructions

Internal control system

STRATEC has an internal control system (IKS) which contains audit processes also in respect of its (group) financial reporting process, lays down suitable structures and work processes, and is implemented within the company's organizational structures. The objective of the IKS system is to detect and, as far as possible, exclude any risk of errors and damages resulting from the company's own personnel or from criminal third parties. In general, the IKS encompasses the following measures:

- Execution of internal and external audits on the basis of checklists
- Detection of regulatory omissions and infringements based on a structured, risk-oriented approach
- Compiling of audit reports for forwarding to the Board of Management
- Auditing the implementation of corrective measures.

This sustainably secures and increases the efficiency of the company's operating processes. Furthermore, it also enhances awareness of control-related topics at the company.

Internal control system and risk management system in respect of the group financial reporting process

The (group) financial reporting process is designed to ensure that the Group's financial reports provide a true and fair view of the net asset, financial and earnings position of the STRATEC Group in accordance with the relevant laws and norms. It should nevertheless be noted that no internal control system, regardless of its specific structure, can provide absolute certainty that material accounting misstatements have been avoided or detected.

STRATEC's internal control system is further required to ensure the uniform, correct and prompt accounting treatment of all business transactions to ensure compliance with legal norms, accounting requirements and the company's internal accounting guidelines, which are binding for all of the companies included in the consolidated financial statements.

The following key measures have been introduced to limit risks as far as possible and to detect any misstatements or erroneous disclosures in the consolidated financial statements, or any fraudulent actions:

- Regular supervisory measures integrated into, but independent of processes, such as the segregation of duties, compliance with the dual control principle, and the implementation of access restrictions and payment guidelines
- Ensuring uniform accounting treatment by way of group-wide standards
- Inspection and analysis of local financial statements.

STRATEC's internal control system is also responsible for ensuring that individual companies within the STRATEC Group prepare their financial statements in accordance with the relevant requirements, while also complying with group-wide standards. Local companies are supported throughout this financial reporting process by trained contact partners at the parent company. These partners also perform a quality check function for the financial data thereby taken over and assist the companies with any complex questions thereby arising. The consolidated accounts are prepared centrally and in line with uniform recognition and measurement requirements based on the data from the subsidiaries included in the scope of consolidation. The specialist managers responsible check the processes in place to monitor compliance with the relevant requirements when this data is included in the consolidated financial statements. The company also draws on expertise from external consulting companies when preparing its consolidated financial statements. As a publicly listed company, STRATEC monitors and analyzes all changes in legislation, IFRS accounting standards and other pronouncements in terms of their relevance and implications for the consolidated financial statements so as to enable these to be implemented promptly.

Corporate compliance

STRATEC's Compliance Policy is binding for all employees and is updated at set intervals to account for the regularly updated risk analysis. At STRATEC, an understanding of corporate compliance is viewed as a key cornerstone of day-to-day business operations both within the company and in its external dealings. In this respect, compliance with a variety of legal systems and statutory regulations is just as important as compliance with ethical principles.

These guidelines have been communicated in training sessions and one-to-one meetings to all employees, managers, and members of the Board of Management.

An awareness and understanding of the applicable requirements is the only way to ensure overall compliance by all of the persons involved and only this way can the company ensure that its international business dealings are compliant with the necessary standards.

To standardize the compliance culture throughout the company, regular training is also provided to local compliance officers at all of STRATEC's subsidiaries. Corporate Compliance Summits are also held to enable managers to share their experiences. The aim here is to maintain a uniform compliance management system across the Group and support local officers in implementing the relevant requirements.

As well as providing training to new employees, the company also holds regular training sessions within the departments in order to familiarize all employees with our understanding of compliance.

STRATEC's Corporate Compliance Policy includes the following elements.

- Preventing corruption, i.e. upholding the integrity necessary in business dealings, and in particular the prohibition of any illegitimate exercising of influence
- Regular training of employees and information material on the intranet and bulletin boards
- Compliance with all requirements set by law and the respective authorities, as well as with internal requirements
- The obligation to ensure fair, respectful working conditions at the company
- The provision of assistance to enable employees to avoid conflicts of interest between private and business matters
- Compliance with the requirements of capital market, antitrust, and tax laws
- Copyright and license conformity
- Respectful and professional conduct at the company.

STRATEC's compliance system is continually extended to address topics of current relevance and further optimized. This enables managers on various levels to detect specific risks and, by taking suitable measures, to reduce or avert these risks entirely. These processes are supplemented by regular meetings between managers and the relevant compliance officer. These one-to-one talks enable potential conflicts or questionable matters to be identified and clarified at an early stage. The compliance officer reports the findings of his or her talks with managers directly to the Board of Management. The Board of Management meets its reporting obligations towards the Supervisory Board.

Due to legislative amendments in connection with potential corrections of tax returns (§ 153 of the German Fiscal Code [AO], Application Decree published by the Federal Ministry of Finance on § 153 of the German Fiscal Code dated 05.23.2016) and the associated requirement for an effective tax control system, in the year under report STRATEC significantly optimized its tax control system (Tax CMS) and integrated this into its existing corporate compliance system. This ensures that tax-related risks are regularly monitored within the group. It should enable potential risks to be identified and analyzed in good time with the aim of minimizing such risks or averting them entirely.

STRATEC expects all its employees to adhere to its compliance requirements and thus ensure that all decisions and actions taken in their areas of responsibility are consistent with the Corporate Compliance Policy.

Early warning risk identification system

The early warning risk identification system in place at STRATEC is consistent with the legal requirements set out in § 91 (2) of the German Stock Corporation Act (AktG). The main risk categories thereby analyzed are general operating risks, market risks, and project risks. These include, for example, risks in connection with investments, logistics risks, IT risks, personnel risks, financial risks, sales market risks, and legal risks. The managers responsible for risks compile reports on their respective areas of responsibility at fixed intervals. These are qualified and quantified on the basis of a systematic approach. The resultant reports are assessed by a Risk Committee comprising members of an operating division and of the Finance department, and evaluated by the Board of Management. Exceptional developments require immediate ad-hoc report. At the various levels of aggregation, the decision makers and directors and officers are provided with a risk handbook to serve as a controlling instrument. The risk handbook is intended to provide an adequate framework that enables users to implement the steps and measures necessary to meet internal and legal requirements.

This enables any risks to the company's continued existence to be identified at an early stage and the conceivable consequences of such risks, including those arising over time, to be viewed and assessed alongside any change in their probability of occurrence. Risk analysis and reporting also account for the individual companies within the STRATEC Group, as well as for any interdependencies between group companies. To manage risks, the company generally deploys the following measures:

- Increased allocation of resources
- Shorter monitoring intervals
- Increased management attention
- Agreement of measures to eliminate risks.

The risk management system at STRATEC SE is safeguarded by integrating the shareholdings into the Group's risk management system. Alongside structured reporting and the collection of key financial figures at weekly, monthly and quarterly intervals, the development, production, marketing and sales departments are also required to immediately report any material events.

Risk report in respect of use of financial instruments

STRATEC's financial strategy is based on the availability of the funds needed to finance its targeted organic and potential acquisitions-driven growth.

The STRATEC Group is financed by the cash flows generated from its operating activities and by a medium-term financing facility provided by three banks bank in the context of a master loan agreement.

The principal objectives of the STRATEC Group's financial management involve a basically conservative financing policy aimed at guaranteeing permanent availability of the liquidity required, for example for new development and research projects or for external growth, as well as effective risk management. These objectives are chiefly met by planning and managing liquidity and by optimizing financing costs. Furthermore, STRATEC has a dividend policy that is based on continuity and the Group's long-term, sustainable business performance, with a distribution quota of 40% to 60% of consolidated net income. At the same time, STRATEC will continue to focus on exploiting external and internal growth opportunities, which may also involve temporarily deviating from this quota.

Financial risks basically arise from currency and interest rate fluctuations. As already mentioned (see Section 'Risks – Foreign currency risks'), currency risks in procurement and sales markets are increasing within the STRATEC Group. To counter this risk, the Group is therefore making targeted use of derivative hedging instruments.

A financial instrument is a contract simultaneously resulting in a financial asset at one company and in a financial liability or equity instrument at another company. For financial assets, a distinction is made between:

- Primary financial instruments, such as trade receivables or payables, or financial receivables and liabilities
- Derivative financial instruments not involving a hedging relationship with a hedged item
- Derivative financial instruments, such as hedges used to hedge risks resulting from movements in exchange or interest rates.

Financial instruments are held for the exclusive purpose of hedging underlying transactions and not for trading or speculative purposes.

The managers responsible for cash management review the expediency of currency hedging transactions at regular intervals. The risks resulting from exchange rate movements, and thus the volumes of corresponding hedging transactions concluded, are expected to increase further. Financial derivatives are generally deployed in cases where it is necessary to hedge risks in the operating business or currency holding risks. The conclusion of such transactions is governed by very strict standards laid down in the Code of Procedure for the Board of Management and was agreed with the Supervisory Board. In the 2018 financial year, parts of the cash flows expected in US dollars were hedged with futures contracts.

Interest rate risks are countered on the basis of the internal requirements of the risk management system. Depending on the internal risk assessment, these also involve covering such risks by means of derivative financial instruments. Derivative financial instruments to optimize interest rates may be deployed in cases where financing needs render such measures opportune and where they relate to a general transaction. STRATEC did not conclude any interest rate derivatives in the 2018 financial year.

Further details can be found in Section G. 'Financial instruments' and H. 'Risk management' in the notes to the consolidated financial statements.

E. COMPENSATION REPORT

The Compensation Report of STRATEC SE sets out the basis for determining the compensation of the Board of Management and Supervisory Board, including its amount and structure. The Compensation Report is based on the requirements of § 314 (1) No. 6a) Sentences 5 to 8 and No. 6b) and § 315a (2) of the German Commercial Code (HGB).

Basic features of the compensation system for the Board of Management

The Supervisory Board lays down the compensation of individual members of the Board of Management, as well as determining and regularly reviewing the compensation system. In determining compensation, the Supervisory Board takes particular account both of the duties and performance of the individual member, as well as of the economic situation and future development of STRATEC. The compensation system for the Board of Management, which still corresponds to the system approved by a majority of shareholders at the Annual General Meeting on June 6, 2013, comprises fixed compensation for each financial year, variable compensation for each financial year, variable compensation based on the financial year and the two following years, and long-term share-based compensation.

Fixed compensation for each financial year

This component comprises a basic amount paid out as a monthly salary, as well as ancillary benefits, such as the use of a suitable car, insurance benefits, and individual contractual arrangements concerning retirement, invalidity and surviving dependant pensions. Furthermore, the private use of bonus miles and other benefits gained in a professional context is also expressly permitted to an appropriate extent.

Variable compensation for each financial year (short-term incentive)

This component includes target achievement and extended components. The target achievement component is measured in terms of a given percentage of consolidated earnings before interest, taxes, depreciation and amortization (consolidated EBITDA) in accordance with International Financial Reporting Standards (IFRS) and net of a fixed basic amount. The extended component is determined by the Supervisory Board to honor any outstanding performance on the part of the Board of Management (appreciation bonus). The target achievement component is paid out following the Annual General Meeting of STRATEC SE for the 2018 financial year. Members of the Board of Management are entitled to a mutually agreed monthly prepayment of this component. Payment of the extended component is made directly after the Supervisory Board resolution approving the granting of such.

Variable compensation based on the financial year and the two following years (mid-term compensation arrangement or mid-term incentive)

This component consists in equal shares of a linked component, an individual component, and a supplementary component. The linked component consists of two sub-components. The targets determined for the linked components are based on percentage increases in consolidated sales and consolidated EBITDA. The individual components are based on various individual targets agreed between the Supervisory Board and the individual member of the Board of Management. Target achievement for the mid-term incentive (MTI) scheme is further based in terms of its timing on achievement of the targets set for the current financial year and the two following years and on a target bonus, i.e. the amount to be paid out in the event of 100% target achievement for all components. The mid-term incentive is paid out following the Annual General Meeting of STRATEC SE for the next year but one, i.e. the mid-term incentive granted for 2016 (and 2017 and 2018 respectively) is paid out in 2019 (and 2020 and 2021 respectively). However, prepayments based on the respective achievement of individual and interim targets may be made, subject to agreement between the Board of Management and the Supervisory Board, at the end of each financial year. To date, no use has been made of this prepayment option.

Long-term share-based compensation (long-term incentive)

In the financial years from 2015 to 2017, this exclusively comprised contractual agreements in which payments are based on the long-term share price performance without any physical or real stocks being actually supplied (stock appreciation rights – SARs). Since the 2018 financial year, this has been modified to the extent that the long-term incentive no longer consists solely of stock appreciation rights (SARs) but once again also includes stock options at a ratio of stock appreciation rights (75%) to stock options (25%). Detailed disclosures concerning the structure of stock option programs can be found in Section C. 'Notes to the consolidated balance sheet (9) Shareholders' equity – Stock option programs' in the notes to the consolidated financial statements.

The stock appreciation rights (SARs) have the following basic structure:

The rights refer to a payment to be made by the company to the member of the Board of Management, with the amount of payment being determined by reference to the share price performance of STRATEC SE (reference share) as documented in XETRA trading on the Frankfurt Stock Exchange over a predefined period.

The SARs should have a minimum term of five years calculated from the issue date, although initial payment of the value of the SARs may be requested at the earliest after a 'minimum waiting period' of two years. Any such payment prior to the expiry of the term of the rights (premature payment request) leads to a corresponding reduction in the terms of the rights. Should the term expire on a date within 30 stock market trading days prior to publication of figures for the quarterly or annual financial statements, the term is extended through to the first stock market trading day after the expiry of this timeframe.

Any premature payment request must be addressed to the Supervisory Board Chairman in writing and may not be issued within the aforementioned timeframe. Other than this, it is also not permitted to submit a premature payment request to the extent that the requirements of insider trading law or predefined compliance requirements do not permit dealings with shares in STRATEC SE at the given point in time.

Unless otherwise laid down by the Supervisory Board, the payment claim is determined on the basis of the increase in the XETRA closing price of a reference share through to the end of the term (based on a 30-day average price plus dividends) compared with the XETRA closing price at the issue date (reference price). In this respect, the annual increase in the reference share price – without reference to the share price performance within the term – must amount to at least eight percent (exercise hurdle). Should the term of the rights not correspond to a full year, the share price increase must be determined on a time-apportioned basis.

The amount of payment claim following expiry of the minimum waiting period or at the end of the term – assuming that the exercise hurdle is met – is calculated, unless otherwise stipulated by the Supervisory Board, as the difference between the reference price determined at the beginning of the term multiplied by the number of rights less the reference price determined at the end of the (abridged) term also multiplied by the number of rights.

The payment itself is made with the next salary payment made to the member of the Board of Management, and at the latest within two weeks of the end of the (abridged) term. For payment amounts of more than € 100,000.00, STRATEC SE may request that the payment be made in two equal installments after six and twelve months respectively, with an obligation to pay interest should this option be drawn on.

Compensation for activity at affiliate companies

Members of the Board of Management assuming supervisory board, managing director, or similar positions at affiliate companies generally do not receive separate compensation from the respective company for doing so. Any such compensation nevertheless paid by the affiliate companies is imputed to the aforementioned amounts.

Caps (CAP)

Variable compensation components are subject to requirements limiting them both individually and in combination in terms of their value and the degree of target achievement. Compensation based on the target components within the 'short-term incentive', 'mid-term incentive', and 'long-term incentive' schemes, for example, is limited to a maximum of 2.0 times basic salary plus certain ancillary benefits and pension commitments. Furthermore, the Supervisory Board also has the powers granted by law to limit compensation.

Individual compensation of Board of Management reported in accordance with the German Commercial Code (HGB)

The individual members of the Board of Management received the compensation set out below for their activities on the Board of Management in the 2018 financial year.

Individual compensation of Board of Management (€ 000s)

	Marcus Wolfinger		Dr. Robert Siegle		Dr. Claus Vielsack		Total	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Non-performance-related components								
• Basic amount	272	272	239	239	210	210	721	721
• Other [1]	23	17	11	11	11	9	45	37
Performance-related components								
• MTI compensation claim [2]	165	173	136	109	104	109	405	391
• Other performance-related components	282	355	219	270	184	226	685	851
Total	**742**	**817**	**605**	**629**	**509**	**554**	**1,856**	**2,000**
Components with long-term incentive nature								
• Stock options [3]	79	0	39	0	39	0	157	0
• Stock appreciation rights (SARs) [4]	243	218	121	109	121	109	485	436

[1] The ‘Other’ disclosure includes non-cash benefits due to the use of company vehicles and insurance benefits (excluding contributions made to retirement pensions, healthcare, nursing care, and D&O insurance).
[2] The amount disclosed refers to the mid-term incentive agreement for 2016 (2015), which covers 2016, 2017, and 2018 (2015, 2016, and 2017) and is due for payment in 2019 (2018).
[3] The amount disclosed corresponds to the fair value upon issue of the stock options granted which was calculated in accordance with IFRS 2 (Share-based Payment) although these were in some cases not yet vested as of the balance sheet date.
[4] The amount disclosed corresponds to the fair value upon issue of the stock appreciation rights (SARs) calculated in accordance with IFRS 2 (Share-based Payment).

In the financial years from 2015 to 2017, the individual members of the Board of Management only participated in the stock option program with regard to stock options already granted. Since the 2018 financial year, the individual members of the Board of Management have participated in the stock option program once again.

In the 2018 financial year, Marcus Wolfinger was granted 5,000 stock options at an average exercise price of € 56.50, Dr. Robert Siegle 2,500 stock options at an average exercise price of € 56.50, and Dr. Claus Vielsack 2,500 stock options at an average exercise price of € 56.50.

In the 2018 financial year, Marcus Wolfinger exercised 12,500 stock options (previous year: 12,500) at an average exercise price of € 31.63 (previous year: € 30.75), Dr. Robert Siegle exercised 12,500 stock options (previous year: 12,500) at an average exercise price of € 31.63 (previous year: € 30.75), and Dr. Claus Vielsack exercised 2,500 stock options granted to him prior to his appointment to the Board of Management (previous year: 3,000) at an average exercise price of € 31.71 (previous year: € 34.74).

As of December 31, 2018, Marcus Wolfinger had 45,000 stock options outstanding (previous year: 52,500) at an average exercise price of € 32.93 (previous year: € 30.37) and a weighted remaining contract term of 29.9 months (previous year: 31.8). As of December 31, 2018, Dr. Robert Siegle had 27,500 stock options outstanding (previous year: 37,500) at an average exercise price of € 32.05 (previous year: € 30.28) and a weighted remaining contract term of 28.0 months (previous year: 29.8). Similarly, as of December 31, 2018 Dr. Claus Vielsack had 12,500 stock options (previous year: 10,000), of which 12,500 stock options granted to him since his appointment to the Board of Management (previous year: 10,000), and outstanding at an average exercise price of € 36.80 (previous year: € 31.87) and a weighted remaining contract term of 27.4 months (previous year: 39.5).

As of December 31, 2018 Marcus Wolfinger had 40,000 stock options (previous year: 32,500) which were exercisable at an average exercise price of € 29.98 (previous year: € 29.45), while Dr. Robert Siegle had 25,000 stock options (previous year: 27,500) exercisable at an average exercise price of € 29.60 (previous year: € 29.70) aand Dr. Claus Vielsack had 10,000 stock options granted to him in the period since his appointment to the Board of Management (previous year: 0) which were exercisable at an average exercise price of € 31.87.

The following amounts were recognized as expenses for stock options in the 2018 financial year: € 9k for Marcus Wolfinger (previous year: € 28k), € 5k for Dr. Robert Siegle (previous year: € 16k), and € 5k for Dr. Claus Vielsack (previous year: € 9k).

The stock appreciation rights (SARs) of individual members of the Board of Management showed the following specific developments in the 2018 financial year:

Stock appreciation rights (SARs) of Board of Management

Disclosures in totals, €, or months	Reference price [1] €	Fair value [2] €	Total at 01.01. No.	Added Disposed No.	Total at 12.31. No.	Of which exercisable No.	Fair value 12.31. € 000s	Remaining term [3] 12.31. Months
Marcus Wolfinger								
SARs T1 2016 dated 04.01.2016	43.07	11.36	20,000	-20,000	0	n/a	n/a	n/a
SARs T I 2017 dated 01.23.2017	45.05	10.90	20,000	0	20,000	0	292	36.8
SARs T I 2018 dated 10.25.2018	57.60	16.18	0	15,000	15,000	0	180	57.8
Dr. Robert Siegle								
SARs T1 2016 dated 04.01.2016	43.07	11.36	10,000	-10,000	0	n/a	n/a	n/a
SARs T I 2017 dated 01.23.2017	45.05	10.90	10,000	0	10,000	0	146	36.8
SARs T I 2018 dated 10.25.2018	57.60	16.18	0	7,500	7,500	0	90	57.8
Dr. Claus Vielsack								
SARs T1 2016 dated 04.01.2016	43.07	11.36	10,000	-10,000	0	n/a	n/a	n/a
SARs T I 2017 dated 01.23.2017	45.05	10.90	10,000	0	10,000	0	146	36.8
SARs T I 2018 dated 10.25.2018	57.60	16.18	0	7,500	7,500	0	90	57.8
Total / average	**50.43**	**13.16**	**80,000**	**30,000 -40,000**	**70,000**	**0**	**944**	**46.4**

[1] The amount disclosed corresponds to the XETRA closing price of the reference share at the issue date.
[2] The amount disclosed corresponds to the fair value **upon issue or payment** of each stock appreciation right (SAR), calculated in accordance with IFRS 2 (Share-based Payment).
[3] The amount disclosed corresponds to the remaining terms of the stock appreciation rights (SARs) based on their overall terms.

No stock appreciation rights were forfeited or lapsed in the 2018 financial year.

The following amounts were recognized as expenses for stock appreciation rights (SARs) in the 2018 financial year: € 85k for Marcus Wolfinger (previous year: € 762k), € 43k for Dr. Robert Siegle (previous year: € 381k), and € 43k for Dr. Claus Vielsack (previous year: € 381k).

Regulations governing regular termination of activity on Board of Management

The following regulations were in place as of the balance sheet date for members of the Board of Management upon the regular termination of their activity:

Pension provision

Members of the Board of Management receive pension provision from STRATEC SE when they have reached pensionable age, i.e. between the age of 60 and the age of 67, and have concluded their activity as members of the Board of Management. Members have the option of receiving a one-off lump sum or ongoing pension payments for the rest of their lives. Pension claims remain valid, without reduction if specific conditions are met, in cases where members terminate their employment with the company before reaching pensionable age. STRATEC SE finances the pension claims both directly and indirectly. Alongside the aforementioned benefits, the company has also agreed lifelong surviving dependants' provision with Marcus Wolfinger. In the 2018 financial year, the company recognized expenses of € 123k for Marcus Wolfinger (previous year: € 94k), € 101k for Dr. Robert Siegle (previous year: € 78k), and € 44k for Dr. Claus Vielsack (previous year: € 44k) in connection with the benefits thereby committed. The present values of the capital claims acquired in connection with the benefits thereby committed as of December 31, 2018 amounted to € 869k for Marcus Wolfinger (previous year: € 675k), € 567k for Dr. Robert Siegle (previous year: € 402k), and € 162k for Dr. Claus Vielsack (previous year: € 109k). The actual benefits may turn out higher or lower than presented here.

Retrospective prohibition on competition

For the duration of the 24-month retrospective prohibition on competition, each member of the Board of Management receives compensation amounting to 75% of his most recent contractually agreed total compensation for the first twelve months and 50% of the same amount for the subsequent twelve months. The amounts payable in connection with the prohibition on competition are disbursed on a monthly basis. STRATEC SE may waive compliance with the retrospective prohibition on competition on a conditional basis. The nominal amounts of compensation payable for the retrospective prohibition on competition are € 836k for Marcus Wolfinger (previous year: € 826k), € 611k for Dr. Robert Siegle (previous year: € 629k), and € 503k for Dr. Claus Vielsack (previous year: € 534k). It can be assumed that actual compensation payments for the retrospective prohibition on competition will differ from the amounts presented here. This is due in particular to the currently indeterminable nature of the respective dates and amounts of compensation involved.

Stock appreciation rights (SARs)

The stock appreciation rights (SARs) granted to members of the Board of Management remain fully valid, including the right to request premature payment, through to the end of their term.

Regulations governing premature termination of activity on Board of Management

The following regulations were in place as of the balance sheet date for members of the Board of Management upon the premature termination of their activity:

Severance payments

Contracts with members of the Board of Management are concluded for fixed terms. In the event of the contract being terminated prematurely, on the basis of mutual agreement, and without compelling reason justifying immediate termination, severance payments amounting to a maximum of two full-year compensation packages based on the most recent full compensation package for the previous financial year are payable. Should the contract be terminated due to change of control pursuant to § 315a (1) No. 9 of the German Commercial Code (HGB), the member of the Board of Management receives unchanged compensation in accordance with the relevant requirements of the German Corporate Governance Code.

Retrospective prohibition on competition

For the duration of the retrospective prohibition on competition corresponding application is made of the provisions governing the retrospective prohibition on competition upon the regular termination of activity on the Board of Management.

Permanent inability to work and fatality

Should a member of the Board of Management become permanently unable to work during the term of the employment contract, this contract is terminated three months after the end of the month in which the permanent inability to work is ascertained. Compensation is based on the provisions governing regular termination of activity on the Board of Management. Should a member of the Board of Management die during the term of the employment contract, then his surviving dependants are entitled to continued payment of the fixed compensation, including variable compensation but excluding the appreciation bonus, for the month in which the member died and the following six months, nevertheless limited to the expiry of the employment contract irrespective of the death of the respective member.

Stock appreciation rights (SARs)

Should the employment contract with a member of the Board of Management be terminated prematurely, the stock appreciation rights (SARs) granted to the respective member of the Board of Management as of the date of his departure are settled on the basis of the average XETRA closing price in the 30 stock market trading days preceding the date of departure and in accordance with the conditions applicable to the rights at the end of their term. Any existing exercise hurdles in the form of specified percentage or absolute share price increases are calculated on a time-apportioned basis.

Basic features of the compensation system for the Supervisory Board

The compensation of the Supervisory Board is governed by § 13 of the Articles of Association of STRATEC AG and takes due account of the responsibility and scope of activity of Supervisory Board members, as well as of the economic position and performance of the company.

Each member of the Supervisory Board receives fixed compensation of € 25,000.00 for each financial year. The Supervisory Board Chairman receives twice and the Deputy Chairman receives one and a half times this amount of fixed compensation. Supervisory Board members only belonging to the Supervisory Board for part of a given financial year receive one twelfth of the fixed compensation for each month of activity commenced.

Furthermore, each member of the Supervisory Board receives a meeting allowance of € 750.00 for each meeting of the Supervisory Board attended in person. Where several meetings are held on the same day, the meeting allowance is paid only once. The meeting allowance is limited to a maximum of six meetings each financial year.

Fixed compensation and the meeting allowance are due for payment upon the conclusion of the respective financial year.

Furthermore, the company reimburses each member of the Supervisory Board for the necessary, appropriate volume of expenses incurred for him or her to perform his or her duties, as well as for any sales tax attributable to compensation or the reimbursement of expenses.

Members of the Supervisory Board may be included in a pecuniary loss liability insurance policy concluded by the company at its own expense, at an appropriate amount, and in its interest. The company assumes the resultant premiums.

Individual Supervisory Board compensation

The individual members of the Supervisory Board received the following compensation for their Supervisory Board activities in the 2018 financial year.

Individual compensation of Supervisory Board (€ 000s)

	Fred K. Brückner		Rainer Baule [1]		Prof. Dr. Stefanie Remmele		Wolfgang Wehmeyer [2]		Total	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Fixed compensation	50	50	38	22	25	25	0	19	113	116
Meeting allowance	4	4	3	3	4	4	0	2	11	13
Total	**54**	**54**	**41**	**25**	**29**	**29**	**0**	**21**	**124**	**129**

[1] Supervisory Board member since June 14, 2017
[2] Supervisory Board member until June 14, 2017

F. TAKEOVER-RELEVANT DISCLOSURES[1]

Composition of share capital

The company's share capital amounted to € 11,969,245 as of December 31, 2018 and was divided into 11,969,245 individual registered shares. This total includes 4,995 treasury stock shares as of December 31, 2018. All shares involve the same rights and obligations and each share confers one vote.

Restrictions on voting rights or the transferability of shares

Restrictions on share voting rights may result in particular from the requirements of the German Stock Corporation Act (AktG). In specific circumstances set out in § 136 AktG, for example, shareholders are subject to a prohibition on voting, while pursuant to § 71b AktG the company is not entitled to exercise any voting rights for treasury stock shares. We are not aware of any contractual restrictions relating to voting rights or the transferability of shares.

Pursuant to § 67 (2) AktG, only those shareholders registered as such in the Share Register are deemed shareholders from the company's perspective. According to § 4 (4.2) of the Articles of Association, to be entered in the Share Register shareholders must submit their name, address and date of birth if they are natural persons and their company names, commercial address and legal domicile if they are legal entities, as well as the number of shares they hold and their electronic mail address, should they have one, in both cases. Shareholders are required to inform the company without delay of any change in their address. Entries by a shareholder acting under its own name and relating to shares owned by another party are only permitted and effective from the company's perspective when the fact that the shares belong to another party and the name and address of the owner are entered in the Share Register. The same applies when the party thereby entered or the owner transfer their ownership of the shares to another party following such entry. Pursuant to § 67 (4) AktG, the company is entitled to request information from the party entered in the Share Register concerning the extent to which it actually owns the share for which it is entered as bearer in the Share Register and, should this not be the case, to convey the information necessary to maintain the Share Register to the party on behalf of which it holds the shares. Should such request for information not meet with any response then, pursuant to § 67 (2) AktG, no voting rights may be exercised for the shares concerned.

Direct or indirect capital shareholdings exceeding 10 % of voting rights

Based on the notifications available to us pursuant to § 33 of the German Securities Trading Act (WpHG), as of December 31, 2018 no shareholder directly held more than 10 % of the voting rights in the company. We have received notifications from Bettina Siegle, Tanja van Dinter, Ralf Leistner, Hermann Leistner, Doris Leistner, Herdor Beteiligungs GmbH, and Herdor GmbH & Co. KG (all in Germany) that, due to the allocation of voting rights, they each hold more than 25 % of the voting rights in the company.

The Board of Management is not aware of any other direct or indirect capital shareholdings exceeding 10 % of voting rights.

Bearers of shares with special rights conferring powers of control

There are no shares in the company with special rights conferring powers of control.

Type of voting right control when employees hold shareholdings in the capital and do not directly exercise their control rights

Any shares granted by the company to its employees within the framework of its employee share program or as share-based compensation are transferred directly to the employees. Like other shareholders, the employees benefiting from such programs can exercise the voting and control rights resulting from their employee shares in accordance with statutory requirements and the provisions of the Articles of Association.

[1] pursuant to § 315a (1) No. 1 to 9 HGB) and explanatory notes

Statutory requirements and provisions of the Articles of Association in respect of the appointment and dismissal of members of the Board of Management and amendments to the Articles of Association

The appointment and dismissal of members of the Board of Management are governed by Article 9 of the SE Regulation, § 84 and § 85 of the German Stock Corporation Act (AktG) and § 5 of the company's Articles of Association. Pursuant to § 84 (1) AktG, the Supervisory Board appoints members of the Board of Management for a maximum term of five years and may also dismiss members; repeated appointments and extensions in terms in office, in each case by a maximum of five years, are permitted. Pursuant to § 5 (5.1) of the Articles of Association, the Board of Management comprises one or several persons. § 5 (5.2) stipulates that the Supervisory Board determines the number of members of the Board of Management. Pursuant to § 84 (2) AktG and § 5 (5.2) of the Articles of Association, the Supervisory Board may appoint a Chairman and – pursuant to § 5 (5.2) – a Deputy Chairman of the Board of Management.

Consistent with Article 9 of the SE Regulation and § 179 AktG, amendments to the Articles of Association require a resolution by the Annual General Meeting. § 12 (12.2) of the Articles of Association allows the Supervisory Board to make amendments only affecting the respective wording. Furthermore, the Supervisory Board is authorized by resolutions adopted by the Annual General Meetings on May 20, 2009, June 6, 2013, May 22, 2015, and May 30, 2018 to amend § 4 of the Articles of Association in line with the execution of Authorized Capital 2015/I and in accordance with utilization of Conditional Capital V/2009, Conditional Capital VI/2013, Conditional Capital VII/2015, and Conditional Capital VIII/2018 or upon the expiry of the authorization period governing the utilization of conditional capitals.

Pursuant to § 179 (2) AktG in conjunction with § 15 (15.3) of the Articles of Association, all resolutions adopted by the Annual General Meeting to amend the Articles generally require a simple majority of the votes cast and, unless otherwise mandatorily stipulated in legal requirements, a simple majority of the share capital represented upon the adoption of the resolution. Legal requirements call for larger majorities of three quarters of the share capital represented upon the adoption of the resolution in several cases, such as for any amendment in the object of the company's activities (§ 179 (2) Sentence 2 AktG), for specific capital-related measures, and for the exclusion of subscription rights.

Powers of the Board of Management to issue or buy back shares

Pursuant to § 4 (4.5) of the Articles of Association, STRATEC SE had authorized capital of € 5.5 million as of December 31, 2018.

The Annual General Meeting held on May 22, 2015 created authorized capital (Authorized Capital 2015/I). The Board of Management is authorized, subject to approval by the Supervisory Board, to increase the company's share capital by a total of up to € 5.5 million by issuing new shares in return for contributions in cash or in kind on one or several occasions up to May 21, 2020. Shareholders must generally be granted subscription rights. In certain circumstances set out in the Articles of Association, however, the Board of Management is entitled to exclude subscription rights for a total of amount of up to 20% of the share capital existing upon the authorization taking effect or – if lower – of the share capital existing upon the authorization being acted on. To date, no use has been made of this authorization.

Pursuant to § 4 (4.6) and § 4 (4.7) of its Articles of Association, STRATEC SE had conditional capitals amounting to up to € 1.800,300 in total as of December 31, 2018:

Conditional Capital V/2009 (amounting to up to € 13,800) serves to grant subscription rights (stock option rights) through to May 19, 2014 in accordance with the resolution adopted by the Annual General Meeting on May 20, 2009. The conditional capital increase is only executed to the extent that the bearers of stock options actually exercise their subscription rights. The new shares have profit participation rights from the beginning of the financial year in which they are issued.

Conditional Capital VI/2013 (amounting to up to € 176,500) serves to grant subscription rights (stock option rights) through to June 5, 2018 in accordance with the resolution adopted by the Annual General Meeting on June 6, 2013. The conditional capital increase is only executed to the extent that the bearers of stock options actually exercise their subscription rights. The new shares have profit participation rights from the beginning of the financial year in which they are issued.

Conditional Capital VIII/2018 (amounting to up to € 810,000) serves to grant subscription rights (stock option rights) through to May 29, 2023 in accordance with the resolution adopted by the Annual General Meeting on May 30, 2018. The conditional capital increase is only executed to the extent that the bearers of stock options actually exercise their subscription rights. The new shares have profit participation rights from the beginning of the financial year in which they are issued.

Conditional Capital VII/2015 (amounting to up to € 800,000) serves exclusively to grant new shares to the bearers or creditors of convertible or warrant bonds issued in accordance with the resolution adopted by the Annual General Meeting on May 22, 2015 in the period through to May 21, 2020 by the company or by a domestic or foreign company in which STRATEC SE directly or indirectly holds a majority of the voting rights and capital. Shares are issued in accordance with the aforementioned resolution and with the resolutions to be adopted by the Board of Management and the Supervisory Board in respect of the conversion and option prices to be set in each case. The conditional capital increase is only executed to the extent that the bearers or creditors of the convertible or warrant bonds actually exercise their rights to convert their conversion or option rights into shares in the company or that the conversion obligations relating to such bonds are met. To the extent that they arise due to the exercising of conversion or subscription rights through to the beginning of the company's Annual General Meeting, the new shares have profit participation rights from the beginning of the previous financial year and otherwise from the beginning of the financial year in which they arise due to the exercising of conversion or subscription rights. To date, no use has been made of this authorization.

In the cases governed by law in § 71 of the German Stock Corporation Act (AktG), STRATEC SE is authorized to buy back shares and to sell any shares thereby bought back. Furthermore, by resolution adopted by the Annual General Meeting on May 22, 2015 the company is authorized until May 21, 2020 to acquire treasury stock on one or several occasions and in total or in partial amounts up to a total of 10% of current share capital for every purpose permitted within the statutory limitation and consistent with the conditions stipulated in greater detail in Agenda Item 9 of the Annual General Meeting on May 22, 2015. The authorization may not be drawn on to trade in treasury stock. Together with the treasury stock already acquired and still possessed by the company, the treasury stock acquired may not at any time exceed 10% of the respective share capital. The shares should be usable for one or several of the purposes set out in greater detail in Agenda Item 9 of the Annual General Meeting on May 22, 2015, which in some cases also permit the exclusion of subscription rights. To date, the company has not made any use of the authorization to buy back treasury stock.

Material company agreements subject to change of control as a result of a takeover bid

Individual agreements include change of control provisions that entitle the contractual partner to terminate the agreement in the event of a change of control over the company or that grant other special rights potentially detrimental to the company or make the continuation of the contract dependent on approval by the contractual partner.

Compensation agreements reached by the company with members of the Board of Management for the event of a takeover bid

Members of the company's Board of Management have special resignation rights in the event of a change of control over the company. They are thus entitled within six months from the change of control taking effect to stand down from their positions with a notice period of three months to the end of the month and to terminate their employment contracts on an exceptional basis with a notice period of three months to the end of the month. Should this special termination right be exercised, then the member's position on the Board of Management and employment relationship both end prematurely upon expiry of the three-month notice period. A change of control pertains when one shareholder holds at least 30% of the shares in the company, whether directly or indirectly (allocation pursuant to German Securities Trading Act [WpHG] and German Securities Takeover Act [WpÜG]), or if the company becomes a dependent company due, for example, to the conclusion of a corporate agreement or to contribution of the company. The member of the Board of Management receives compensation amounting to 150% of the severance pay cap agreed for mutually agreed premature termination of activity on the Board of Management. This amounts to a maximum of two annual compensation packages.

G. (GROUP) CORPORATE GOVERNANCE DECLARATION

STRATEC has published the declaration on corporate governance (at the Group) required by § 289f and § 315d of the German Commercial Code (HGB) respectively, including the declaration on the German Corporate Governance Code required by § 161 of the German Stock Corporation Act (AktG), together with its corporate governance report in the Investors section of its website (www.stratec.com).

H. NON-FINANCIAL GROUP DECLARATION

Introduction

This Non-Financial Group Declaration has been compiled in accordance with the relevant requirements of the German Commercial Code (HGB). The disclosures called for by the European CSR Directive, namely information on the topics of environmental, employee, and social concerns, respect for human rights, and measures to combat corruption and bribery, have been reported in full. Information about STRATEC's business model (The STRATEC Group) and additional non-financial risks (Opportunity and Risk Report) relevant to the factors presented in this report can be found in the Management Report. Unless otherwise indicated, the data provided in this Non-Financial Group Declaration refers to all companies included in the scope of consolidation. STRATEC has based its CSR on the German Sustainability Code (DNK) and the GRI standards of the Global Reporting Initiative.

Corporate Social Responsibility

Since its foundation 40 years ago, a responsible mindset and sustainable operations have been one of the foundations enabling STRATEC to grow from a small startup into what is now a company with global operations. Sustainability-related topics represent an important and ever growing aspect of the responsibility that has steadily been factored into the company's strategy and adapted in line with changing market and environmental conditions. STRATEC bases its business activities on three dimensions that account for the core elements of the company's corporate social responsibility (CSR):

- ECONOMIC OPERATIONS
  for long-term growth
- ECOLOGICAL RESPONSIBILITY
  for tomorrow's world
- SOCIAL RESPONSIBILITY
  towards people

Economic operations

We see economic operations as a core element of our company's long-term business success. Our strategic objective is to generate growth that is sustainable, ecological, socially responsible, and permanently higher than the sector average. At the same time, as an innovation leader STRATEC aims to make a valuable contribution towards further technological advances in various areas of life sciences and diagnostics.

Ecological responsibility

STRATEC has implemented extensive measures enabling it to meet its ecological responsibility. STRATEC's business activities are performed in compliance with current environmental legislation, local laws and ordinances, and recommended guidelines.

The company ensures that resources are put to economical use in all relevant processes – from forward-looking, resource-efficient product design through to environmentally-friendly waste disposal. STRATEC's objective here is to detect savings potential and render this measurable by working with defined key figures.

Social responsibility
STRATEC's success is driven by its employees with their individual skills, wealth of ideas, and outstanding motivation. It is their work and the resultant innovations that facilitate the company's successful and sustainable development. As a group of companies with operations worldwide and more than 1,200 employees, STRATEC is aware of its social and ecological responsibilities.

Environmental concerns

Ecological responsibility enjoys high priority at the STRATEC Group and forms a fundamental aspect of our quality management – from forward-looking resource-efficient product design to using renewable energies through to environmentally-friendly waste disposal.

STRATEC aims to ensure that resources are put to the most efficient possible use and to reduce its carbon dioxide emissions by working with renewable energies. Moreover, the company is pursuing the objective of achieving a high share of recyclable materials and packaging.

Furthermore, to enhance its energy efficiency and reduce energy consumption, STRATEC successfully conducted an energy audit pursuant to DIN EN 16247-1 for the first time in 2015. When implementing conversion and extension measures, the company endeavors to install air conditioning and heating facilities that are particularly efficient in terms of their energy consumption. The energy audit is performed at regular four-year intervals. The next such audit is therefore scheduled for the 2019 financial year.

STRATEC only consumes a relatively low volume of raw materials and chemical substances, as the main focus of its business activities involves designing and manufacturing system and software solutions. Given the low volume of commodities and chemical substances consumed, the fact that its production activities are not energy-intensive, and the environmental protection measures applied, the environmental risks associated with STRATEC's business activities are therefore to be assessed as relatively low. The STRATEC Group has not reported any environmentally relevant incidents in the past years. Key risks to the company's own business activities are interruptions to operations due to extreme weather events in connection with global climate change.

Energy consumption and emissions
The emissions within the STRATEC Group are mostly attributable to the consumption of energy in the form of electricity and gas and to the vehicle pool. As well as vehicles for general use, the vehicle pool also includes company vehicles that are in some cases assigned to employees for private use.

Apart from the locations in Anif (Austria) and Budapest (Hungary), production activities at STRATEC mainly focus on prototype construction, final assembly, and product testing. This means that both production-related energy consumption and emissions are comparatively low.

Since 2017, STRATEC has based its recording of greenhouse gas emissions on the internationally recognized Greenhouse Gas Protocol (GHG). Consistent with this approach, the company divides its emissions into direct emissions (Scope 1) and indirect emissions (Scope 2). The direct emission data reported thus refers to the gas consumed at STRATEC's locations and the fuel consumed by the vehicle pool. Energy-related indirect emissions result from energy generation at external suppliers. Scope 3 emissions, which arise for example upon the production of upstream products, are currently not recorded.

Carbon dioxide emissions in tonnes[1,2]

	2018	**2017**
Gas consumption (Scope 1)	452.0	412.9
Vehicle park (Scope 1)	321.7	291.8
Electricity consumption (Scope 2)	1,426.8	1,311.5
Total	**2,200.4**	**2,016.2**
per 1,000 employees	1,885.9	1,944.5

[1] Data partly based on estimates, as not all data was yet available for some subsidiaries due to the respective invoicing periods
[2] Previous year's figures adjusted due to partial use of estimates in previous year

Group-wide carbon dioxide emissions per 1,000 employees as a result of gas and electricity consumption and the vehicle park fell by 3.0% to 1,885.9 tonnes in 2018.

Energy generation
To reduce its carbon dioxide emissions, STRATEC is relying on renewable energies at its Birkenfeld (DE) and Beringen (CH) locations. In Birkenfeld, a photovoltaics system with a nominal capacity of 130 kilowatt peak (kWp) has been supplying renewable energy since December 2011. Since its first full year of operations, this system has produced an average of 138,598 kilowatt hours (kWh) of green energy a year, thus enabling around 70 tonnes of carbon dioxide emissions to be avoided each year compared with conventional energy generation. Since the launch of operations, the system has generated 971 megawatt hours (MWh) of green energy.

A photovoltaics system with a nominal capacity of 95 kWp was also installed at the location in Beringen (CH) in 2016. In 2018, this system generated 77,342 kWh of green energy.

Together, the two systems generated 221,091 kWh of renewable energies in the financial year. This corresponds to an increase of 6.8% compared with the previous year.

Photovoltaics system total yield (kWh)

	2018	2017
Birkenfeld (DE)	143,749	138,947
Beringen (CH)	77,342	68,140
Total	**221,091**	**207,087**

Waste and recycling

Careful and correct waste separation is a matter of course for STRATEC, as is the suitable disposal of hazardous goods. STRATEC has therefore introduced the 4R method to minimize environmental pollution or avoid this altogether:

- REDUCTION
- REUSE
- RECYCLING
- REPLACE

STRATEC distinguishes several categories of waste to facilitate optimal classification of their environmental relevance. Since 2015, uncritical waste has been separated into municipal waste, cardboard packaging/paper, metal, and timber waste. Waste materials with electronic components, chemicals, and oils are disposed of separately, as is laboratory waste, such as blood samples. For the disposal and recycling of its waste, STRATEC works together closely with specialist waste disposal companies.

In its supply chain as well, STRATEC attaches great value to avoiding waste by working with recyclable materials. To this end, STRATEC has obliged its suppliers to use recyclable packaging. Any exceptions to this requirement have to be explicitly approved by the company. STRATEC also makes use of reusable shuttle containers which are returned to suppliers for renewed use following receipt of a delivery.

Year-on-year, group-wide waste volumes only rose to a minor extent, namely by 1.3% to 196.3 tonnes in 2018. Per 1,000 employees, however, waste volumes decreased significantly from 186.9 tonnes to 168.3 tonnes. This was due on the one hand to lower sales volumes in the financial year and on the other to the aforementioned measures to reduce waste – and in particular to the increasing use made of recyclable packaging.

Waste volumes in year-on-year comparison in tonnes[1,2]

	2018	2017
Waste volumes	196.3	193.7
per 1,000 employees	168.3	186.9

[1] Data partly based on estimates, as not all data was yet available for some subsidiaries due to the respective invoicing periods
[2] Previous year's figures adjusted due to partial use of estimates in previous year

Water and wastewater

Apart from the production site in Hungary, STRATEC's production processes only use a relatively low volume of water. Moreover, this water does not remain in the finished products. The volume of wastewater thus corresponds to the volume of water used at all locations with the exception here too of the Hungarian location, which fills a notable volume of reagents and other liquids. The group-wide volume of water consumed per 1,000 employees remained virtually unchanged at 14,717 m³ compared with 14,636 m³ in the previous year.

Water consumption in cubic meters[1,2]

	2018	2017
Water consumption	17,171	15,175
per 1,000 employees	14,717	14,636

[1] Data partly based on estimates, as not all data was yet available for some subsidiaries due to the respective invoicing periods
[2] Previous year's figures adjusted due to partial use of estimates in previous year

Product-related environmental protection
During appliance development, STRATEC already ensures that its products have a lean and resource-efficient design scheme and that they are made of forward-looking, recyclable materials.

- **'Smart design' reduces material input**
  When developing product designs, resource input is minimized by working with light construction and limiting the design scheme to the most important components. This has the beneficial side-effect of reducing the cost of materials.

- **Recyclable materials**
  When using stainless steel and aluminum, STRATEC avoids coatings wherever possible, as these mostly involve harmful or critical substances. STRATEC frequently uses thermoplastics as materials due to their good properties in terms of thermal usability. Due to potential contamination, these plastics may not be recycled.

- **Development of consumables**
  When developing consumables, such as pipette tips, reagent vessels or reaction cuvettes, STRATEC generally only uses thermoplastics with good thermal properties and only containing a minimum share of contaminants. Due to potential contamination, however, these plastics may also not be recycled.

- **Development of flat modules**
  In developing flat modules (printed circuit board assemblies – PCBAs), STRATEC ensures that the PCB surface area selected is very small and that the circuit design is optimized in such a way that only two or four copper layers are required. Furthermore, to avoid separate assembly printing the desired information is included in the copper layer. This increases efficiency in module production, reduces the use of machinery, accelerates the galvanic processes, and thus results in a more sustainable approach to using raw materials.

- **Recycling of used consumables**
  When disposing of used consumables, STRATEC ensures that liquid wastes are strictly separated in order to optimize incineration. For all appliances, the residual liquids are sucked out before the plastic components are disposed of as solid waste.

When selecting materials and technologies and procuring components, STRATEC ensures strict compliance with EU Directive 2011/65/EU. This RoHS (Restriction of Hazardous Substances) Directive serves to limit the use of specific hazardous substances in electrical and electronics appliances.

In designing and manufacturing appliances, STRATEC has complied with the necessary substance restrictions since the entry into force of the previous directive 2002/95/EC, which has now been replaced by the new requirements. This means that STRATEC's products already conformed to the RoHS Directive even before this required mandatory application in in-vitro diagnostics. STRATEC identifies further materials limitations in the context of 2011/65/EU, such as those published in the form of delegated legislation, and factors these into its product design, change management, and procurement processes.

STRATEC pursues an analogous proactive approach to materials compliance with regard to European Regulation No. 1907/2006 (REACH Regulation; Registration, Evaluation, Authorisation and Restriction of Chemicals). This way, the company ensures that the materials used to construct appliances do not pose any risk to the people processing, using, or disposing of them and also safeguards the long-term approval, availability, and usability of the appliances on the market.

Employee concerns

STRATEC's employees – with their individual skills, wealth of ideas, and outstanding motivation – are the source of the company's success. STRATEC therefore attaches great importance to personnel development, occupational health and safety, and health-related topics. STRATEC has set itself the long-term objective of continually extending its personnel development opportunities and permanently enhancing its occupational health and safety and health promotion activities. A further self-evident aspect of STRATEC's approach involves positioning the company in the labor market as an open, tolerant, and flexible company, and thus as an attractive employer.

Further training
The wealth of new ideas and willingness to perform on the part of our employees are the driving force for developing new, innovative technologies. STRATEC therefore accords high priority to promoting its employees. The company offers its employees individually tailored further development programs which include training for all employees on general topics as well as training courses tailored to the functions and tasks performed in individual departments. Managers also receive regular training on personnel management. This training program was extended to employees in other management tiers in 2018.

As well as being recommended or instructed to take part in training by their managers, employees may themselves also apply to participate in specific training sessions or courses. Further training is a fixed item at the regular feedback meetings between employees and their managers.

Occupational health and safety

Occupational health and safety is one key element of STRATEC's responsibility towards its employees. The company's top safety objective is to ensure a working environment that is free of injury and illness, and one that benefits all employees, suppliers, partners, and customers.

STRATEC achieves this by ensuring forward-looking occupational health and safety management. To this end, the company has appointed a safety engineer who is responsible for the topic of occupational safety and a further officer who is responsible for company healthcare management. The company regularly offers special health protection programs for first-aiders and evacuation assistants, as well as occupational health and training sessions. Work-related accidents are recorded and accident logbook entries are documented to enable suitable measures to be taken to further enhance workplace safety.

The Corporate Compliance Policy obliges all STRATEC Group employees to adhere to the occupational health and safety guidelines and adopt the company's basic approach to these areas. Employees are also required to immediately report any potential safety risks.

In terms of health promotion, the company implements preventative measures, programs, and courses, such as voluntary annual eye checks, various sports programs, advice on healthy nutrition, and ways to relax and cope with stress. Not only that, medical checks tailored to employees' specific workplaces are also offered, as are special vaccinations for employees.

Work-related accidents

	2018	2017
Work-related accidents	17	12
per 1,000 employees	14.6	11.6
Accidents on way to work	9	6
per 1,000 employees	7.7	5.8
Total	26	18
per 1,000 employees	**22.3**	**17.4**

The total number of work-related accidents and accidents on the way to work per 1,000 employees rose from 17.4 to 22.3 in the 2018, but nevertheless remains low. Due to a conversion in the data collection method at some subsidiaries in the financial year under report, however, the previous year's figures are only comparable to a limited extent with the 2018 figures. To maintain a low number of accidents in future as well, individual accidents are analyzed and suitable measures to taken to minimize the risk of such accidents recurring.

Sickness quota

	2018	2017
Sickness quota in %	3.9	3.7

The group-wide sickness quota, i.e. the number of working days missed due to sickness as a proportion of planned working time, rose year-on-year by 20 basis points to 3.9% in the 2018 financial year. The development in the sickness quota is particularly dependent on season factors, such as the intensity, frequency, and duration of any influenza outbreaks.

Working hour regulations, family and work

STRATEC offers its employees flexible working hours and flexitime arrangements. Part-time models are also available and particularly benefit employees with children. This makes it easier for them to return to work and may lead to full-time employment at a later date. Throughout the STRATEC Group, employees who find themselves in unforeseeable situations are supported by being granted individual working hour models.

Diversity

Innovation driven by diversity – STRATEC views a diverse workforce as a great source of added value. A wide range of personal and cultural diversity is seen as a force driving innovation and enabling the company to respond more closely and swiftly to technological changes and customers' needs. Maintaining an open and tolerant corporate culture is therefore a matter of course for STRATEC. It also makes it easier for the company to attract highly qualified employees, particularly at times when specialists are in short supply.

STRATEC treats all employees equally and provides them with the same career opportunities irrespective of their age, disability, origin, religious affiliation, gender, sexual orientation, or any other factors not relevant in this regard. The Corporate Compliance Policy obliges all employees worldwide to behave with respect and in compliance with legal requirements towards their employees, colleagues, business partners, customers, and the authorities.

In practice, diversity is lived on a top-down basis
STRATEC is aware that its managers have a key role to play in promoting diversity and inclusivity. In view of this, diversity is actively promoted in practice by STRATEC's Board of Management.

One key focus here as well is on raising the share of management positions held by women. To this end, in 2017 the company set targets for the share of women on the first and second management tiers below the Board of Management. These targets amount to 20% for each tier and are to be met by June 30, 2020. The target for the first management tier below the Board of Management was already met as of December 31, 2018. To increase the share of women in the second management tier as well, the company took a number of additional measures in 2018. Specifically, these include designing a training program for first and second management tiers aimed at further raising awareness of diversity and inclusivity among all of the Group's managers. Furthermore, a management training program specifically designed for women was implemented in 2018.

Percentage of female employees

	2018	2017
Female employees in %	28.0	25.5

The female share of the STRATEC Group's workforce rose from 25.5% in the previous year to 28.0% in the 2018 financial year.

With regard to the diversity concept for the composition of the Board of Management and Supervisory Board, reference is made to the Corporate Governance Declaration, which is available at the company's website at www.stratec.com > Corporate Governance.

Social commitment

As a company with global operations but regional roots, STRATEC is aware of its social responsibility on both global and local levels. STRATEC therefore supports both regional and global charities, healthcare and education organizations, and associations. In 2018, STRATEC supported these kinds of organizations with a total of € 100,530.

Furthermore, STRATEC supports its employees in their commitment to charitable organizations or voluntary activities. The company offers leave to employees for the time they need to donate blood or thrombocytes, as well as for training sessions and deployment at aid organizations.

Not only that, the company maintains an open and constructive dialog with a wide variety of stakeholders in the fields of politics, business, science, and society at all of our locations. This dialog is intended to improve the competitiveness of the individual regions and to inform local populations about activities and developments which affect them. This dialog with stakeholders is conducted, for example, by way of press releases, social media, regional and national newspapers, membership in industry associations, and endowed professorships at and cooperations with universities.

Donations and benefit payments in €

	2018	2017
Donations / benefit payments	100,530	97,250

Measures to combat corruption and bribery

Any incidence of corruption or bribery within the STRATEC Group may have severe implications for the company's reputation and for its existing and future business relationships. Corruption also has enormously negative implications for society as a whole, as well as for political integrity, and general prosperity.

Measures to prevent corruption and bribery therefore form an integral component of STRATEC's understanding of compliance and have also been summarized in the Corporate Compliance Policy which requires application throughout the Group. This policy is binding for all employees. In this respect, compliance with a variety of legal systems and statutory regulations is just as important as compliance with ethical principles. Core elements of STRATEC's Corporate Compliance Policy:

- Preventing corruption, i.e. upholding the integrity necessary in business dealings, and in particular the prohibition of any illegitimate exercising of influence
- Regular training of employees and information material on the intranet and bulletin boards
- Compliance with all requirements set by law and the respective authorities
- The obligation to ensure fair, respectful working conditions at the company
- The provision of assistance to enable employees to avoid conflicts of interest between private and business matters
- Compliance with the requirements of capital market, antitrust, and tax laws
- Copyright and license conformity
- Respectful and professional conduct at the company.

To reinforce the company-wide compliance culture, back in the 2016 financial year STRATEC already devised a new and uniform design for its compliance and rolled this out with group-wide compliance training sessions at all subsidiaries.

STRATEC's compliance system is subject to permanent enhancement and optimization. Consistent with this approach, one-to-one meetings are held at regular intervals between all managers and the relevant compliance officer. These talks are intended to identify any potential risks at an early stage, continually raise awareness of compliance among the management teams, and address any current topics. This enables STRATEC's management teams to detect specific risks, avoid risks by analyzing situations and developing suitable strategies, comply with operational imperatives, and take any necessary measures. Managers are also obliged to provide their employees with regular compliance training. The provision of such training is monitored and documented, enabling the company to act early to detect and remedy any omissions on the part of managers in this respect. The compliance officer reports the findings of his or her talks with managers directly to the Board of Management. The Board of Management meets its reporting obligations towards the Supervisory Board.

Further measures aimed at continually optimizing the group-wide compliance management system were taken once again in the 2018 financial year. In the first quarter of 2018, for example, STRATEC held a Compliance Summit to which all of the local compliance officers at its subsidiaries were invited. One key focus at the summit involved checking all existing local compliance management systems to ascertain their conformity with the defined group-wide guidelines. The summit enabled the officers to share their experiences in detail while also providing a further communications platform for compliance-related topics.

STRATEC expects all of its employees to adhere to compliance requirements and to ensure that all decisions and actions taken in their areas of responsibility are consistent with relevant legal requirements and the Corporate Compliance Policy and also serve the company's best interests.

An anonymous whistleblower system enabling employees or other parties to notify the company of any breaches of regulations or legal requirements has been in place since 2017.

Respecting human rights

STRATEC is committed to the Human Rights' Charter of the United Nations and the guidelines of the UN Global Compact. It provides employees throughout the Group with a high degree of social security and performance-based compensation. The group-wide Corporate Compliance Policy ensures that all employees worldwide behave with respect and in compliance with legal requirements within the STRATEC Group and in their dealings with employees, colleagues, business partners, customers, and the authorities. The company's approach towards human rights and employee rights is laid down in guidelines that are mandatory throughout the Group.

Even though STRATEC's suppliers predominantly operate in western industrial economies, it is not possible to fully exclude the risk of human rights' breaches, particular in the upstream supply chain. STRATEC therefore expects its suppliers to meet the same standards in terms of safeguarding and complying with human rights.

To this end, all module suppliers in the Instrumentation business unit have been contractually obliged to abide by STRATEC's generally valid Code of Conduct, which is based on the guidelines of the UN Global Compact, the conventions of the ILO, the UN Declaration of Universal Human Rights and Children's Rights, and the OECD Guidelines for companies with international operations. Compliance with the Code of Conduct is also reviewed in the context of regular audits.

STRATEC has set itself the aim of contractually obliging all production-relevant suppliers to the Instrumentation business unit and to the subsidiaries acquired in 2016 (Diatron and STRATEC Consumables) to comply with its generally valid Code of Conduct by the end of 2019.

No breaches of human rights were identified within the STRATEC Group or its supply chain in the 2018 financial year or the preceding financial years.

Birkenfeld, April 5, 2019

STRATEC SE

The Board of Management

Marcus Wolfinger

Marcus Wolfinger

Robert Siegle

Dr. Robert Siegle

Vielsack

Dr. Claus Vielsack

CONSOLIDATED FINANCIAL STATEMENTS

for the 2018 Financial Year of STRATEC SE
(previously: STRATEC Biomedical AG)

CONSOLIDATED BALANCE SHEET
as of December 31, 2018

Assets

€ 000s	Note	12.31.2018	12.31.2017
Non-current assets			
Intangible assets	(01)		
• Goodwill		41,245	42,018
• Other intangible assets		57,017	68,708
		98,262	**110,726**
Property, plant and equipment	(02)	39,510	35,701
Non-current financial assets	(07)	459	240
Non-current other receivables and assets	(08)	1,109	0
Non-current contract assets	(04)	8,557	0
Deferred taxes	(11)	201	128
		148,098	**146,795**
Current assets			
Inventories	(03)		
• Raw materials and supplies		23,729	15,380
• Unfinished products, contract fulfilment costs		21,946	6,367
• Finished products and merchandise		12,855	6,133
		58,530	**27,880**
Receivables and other assets			
• Trade receivables	(05)	34,750	39,126
• Receivables from construction contracts	(04)	0	7,210
• Receivables from associates	(06)	22	24
• Current financial assets	(07)	810	12,498
• Current other receivables and assets	(08)	5,747	4,563
• Current contract assets	(04)	1,132	0
• Income tax receivables	(08)	1,418	1,543
		43,879	**64,964**
Cash and cash equivalents	(28)	23,816	24,137
Assets held for sale	(17)	962	0
		127,187	**116,981**
Total assets		**275,285**	**263,776**

Shareholders' equity and dept

€ 000s	Note	12.31.2018	12.31.2017
Shareholders' equity	(09)		
Share capital		11,969	11,921
Capital reserve		24,119	22,417
Revenue reserves		116,347	121,058
Treasury stock		-89	-89
Other equity		-142	2,530
		152,204	**157,837**
Non-current debt			
Non-current financial liabilities	(12)	68,933	62,581
Other non-current liabilities	(14)	417	222
Non-current contract liabilities	(15)	3,342	0
Provisions for pensions	(10)	3,811	3,402
Deferred taxes	(11)	7,530	11,035
		84,033	**77,240**
Current debt			
Current financial liabilities	(12)	7,987	10,360
Trade payables	(13)	6,457	6,928
Other current liabilities	(14)	5,835	8,204
Current contract liabilities	(15)	12,722	0
Provisions	(16)	1,348	1,031
Income tax liabilities	(16)	3,796	2,176
Liabilities directly associated with assets held for sale	(17)	903	0
		39,048	**28,699**
Total shareholders' equity and debt		**275,285**	**263,776**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the Period from January 1 to December 31, 2018

€ 000s	Note	2018	2017
Sales	(18)	187,820	207,478
Cost of sales	(19)	-134,339	-142,731
Gross profit		**53,481**	**64,747**
Research and development expenses	(20)	-9,236	-9,899
Sales-related expenses	(21)	-13,639	-12,299
General administration expenses	(22)	-16,282	-18,264
Other operating expenses	(23)	-4,118	-3,838
Other operating income	(23)	4,805	9,360
Earnings before interest and taxes		**15,011**	**29,807**
Financial income		34	109
Financial expenses		-662	-816
Other financial income/expenses		-293	-106
Net financial expenses	(24)	**-921**	**-813**
Earnings before taxes		**14,090**	**28,994**
Taxes on income	(11)		
a) Current tax expenses		-4,217	-6,484
b) Deferred tax income		1,237	4,079
Earnings from continuing operations		**11,110**	**26,589**
Earnings from discontinued operation	(25)	-2,141	-954
Consolidated net income		**8,969**	**25,635**
Items that may not be reclassified to profit or loss			
Remeasurements of defined benefit pension plans		-118	-86
Changes in value of financial investments		-2,544	0
Items that may be subsequently reclassified to profit or loss			
Currency translation differences from translation of foreign operations		-28	-4,478
Changes in value of financial investments		0	1,485
Other comprehensive income (OCI)		**-2,690**	**-3,079**
Comprehensive income		**6,279**	**22,556**
Basic earnings per share in €	(26)	**0.75**	**2.16**
From continuing operations		0.93	2.24
From discontinued operation		-0.18	-0.08
No. of shares used as basis (basic)		11,939,717	11,881,254
Diluted earnings per share in €	(26)	**0.75**	**2.14**
From continuing operations		0.92	2.22
From discontinued operation		-0.18	-0.08
No. of shares used as basis (diluted)		12,033,844	11,984,437

CONSOLIDATED CASH FLOW STATEMENT
for the 2018 Financial Year

€ 000s	Note	2018	2017
Operations			
Consolidated net income (after taxes)		8,969	25,635
Depreciation and amortization		21,646	18,488
Current income tax expenses	(11)	4,217	6,484
Income taxes paid less income taxes received		-2,339	-2,131
Financial income	(24)	-34	-109
Financial expenses	(24)	662	816
Interest paid		-602	-1,044
Interest received		19	109
Other non-cash expenses		2,139	2,772
Other non-cash income		-1,931	-7,100
Change in net pension provisions through profit or loss		-30	161
Change in deferred taxes through profit or loss	(11)	-1,282	-4,092
Profit (-) / loss (+) on disposals of non-current assets		267	13
Increase (-) / decrease (+) in inventories, trade receivables and other assets		-23,125	-11,723
Increase (+) / decrease (-) in trade payables and other liabilities		3,374	1,702
Cash flow from operating activities		**11,950**	**29,981**
Investments			
Incoming payments from disposals of non-current assets			
• Property, plant and equipment		45	22
• Financial assets		8,601	5
Outgoing payments for investments in non-current assets			
• Intangible assets		-8,425	-6,354
• Property, plant and equipment		-11,013	-9,312
• Financial assets		0	-1
Cash flow from investing activities		**-10,792**	**-15,640**
Financing			
Incoming funds from taking up of financial liabilities		9,000	27,500
Outgoing payments for repayment of financial liabilities		-1,971	-36,159
Incoming payments from issue of shares for employee stock option programs		1,577	1,810
Dividend payments		-9,533	-9,129
Cash flow from financing activities		**-927**	**-15,978**
Cash-effective change in cash and cash equivalents		**231**	**-1,637**
Cash and cash equivalents at start of period		24,137	26,500
Impact of exchange rate movements		-273	-726
Cash and cash equivalents at end of period	(28)	**24,095**	**24,137**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the 2018 Financial Year

€ 000s	Note	Share capital	Capital reserve
December 31, 2016	(09)	**11,861**	**20,437**
Equity transactions with owners			
• Dividend payments			
• Issue of subscription shares from stock option programs, less costs of capital issue after taxes		60	1,750
Allocations due to stock option programs			140
Allocations due to employee participation program			90
Comprehensive income			
December 31, 2017	(09)	**11,921**	**22,417**
Changes in accounting methods			
• Due to introduction of IFRS 9			
• Due to introduction of IFRS 15			
January 1, 2018		**11,921**	**22,417**
Equity transactions with owners			
• Dividend payment			
• Issue of subscription shares from stock option programs, less costs of capital issue after taxes		48	1,529
Allocations due to stock option programs			173
Comprehensive income			
Change in scope of consolidation			
Transfer due to disposal			
IFRS 5 reclassifications			
December 31, 2018	(09)	**11,969**	**24,119**

	Revenue reserves		Other equity					
						Currency translation		
	Accumulated net income	Free revenue reserves	Treasury stock	Fair value reserve	Pension plans		IFRS 5	Group equity
	85,160	**19,392**	**-118**	**1,040**	**-683**	**5,252**	**0**	**142,341**
	-9,129							**-9,129**
								1,810
								140
			29					**119**
	25,635			1,485	-86	-4,478		**22,556**
	101,666	**19,392**	**-89**	**2,525**	**-769**	**774**	**0**	**157,837**
	-94							**-94**
	-1,509			-2,525				**-4,034**
	100,063	**19,392**	**-89**	**0**	**-769**	**774**	**0**	**153,709**
	-9,533							**-9,533**
								1,577
								173
	8,969			-2,544	-118	-28		**6,279**
								0
	-2,544			2,544				**0**
						827	-827	**0**
	96,955	**19,392**	**-89**	**0**	**-887**	**1,573**	**-827**	**152,205**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the 2018 Financial Year of STRATEC SE
(previously: STRATEC Biomedical AG)

A. GENERAL DISCLOSURES

General information

STRATEC SE, with its legal domicile in Gewerbestrasse 35 – 37, 75217 Birkenfeld, Germany, designs and manufactures fully automated systems for its partners in the fields of clinical diagnostics and biotechnology. Furthermore, the STRATEC Group (hereinafter also 'STRATEC') provides sample preparation solutions, integrated laboratory software, and complex consumables for diagnostics and medical applications. In this, the company covers the entire value chain – from development and design through to production and quality assurance. The partners market the systems, software and consumables, in general together with their own reagents, as system solutions to laboratories, blood banks and research institutes around the world. STRATEC develops its products on the basis of its own patented technologies.

The transformation of STRATEC Biomedical AG into a European stock corporation (Societas Europaea, SE), took effect by entry (HRB 732007) in the Commercial Register in Mannheim, Germany, on November 27, 2018. The company has since been designated 'STRATEC SE'.

The Board of Management of STRATEC SE prepared the consolidated financial statements on April 5, 2019 and forwarded these to the Supervisory Board. The Supervisory Board of STRATEC SE will adopt a resolution concerning the approval of the consolidated financial statements at its meeting on April 8, 2019. The consolidated financial statements and group management report as of December 31, 2018 will be published in the electronic Federal Official Gazette (Bundesanzeiger).

Declaration of conformity

The consolidated financial statements compiled by STRATEC SE as the topmost parent company as of December 31, 2018 have been prepared with due application of § 315e (1) of the German Commercial Code (HGB) in accordance with the requirements of the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), London, and the Interpretations of the International Financial Reporting Interpretations Committee (IFRS IC) valid and endorsed by the European Union as of the balance sheet date, as well as with the supplementary requirements of German commercial law.

Basis of preparation

The consolidated financial statements have been compiled in thousand euros (€ 000s). Unless otherwise stated, the amounts reported in the notes to the consolidated financial statements are denominated in thousand euros (€ 000s). Due to numbers being rounded up or down and presented in € 000s, individual figures in the consolidated financial statements of STRATEC SE may not add up exactly to the total stated and percentage figures may not correlate exactly with the absolute figures to which they refer.

The financial year for the consolidated financial statements corresponds to the calendar year. The financial statements of all companies included in the consolidated financial statements have been prepared as of the balance sheet date for the consolidated financial statements and based on uniform accounting policies.

The consolidated statement of comprehensive income has been prepared using the cost of sales method.

In the interests of clarity, individual items have been aggregated in the consolidated balance sheet, the consolidated statement of comprehensive income, the consolidated cash flow statement, and the consolidated statement of changes in equity. These are explained in the notes to the consolidated financial statements. The consolidated balance sheet has been structured in line with the maturities of the respective assets and liabilities. All assets and liabilities maturing or due to be sold within the next twelve months are classified as current. Assets and liabilities earmarked for realization in the company's usual course of business are also classified as current, even when their maturities exceed twelve months. Liabilities for which STRATEC has an unconditional right to defer settlement by at least twelve months after the balance sheet date are classified as non-current. Pursuant to IAS 1.56, deferred taxes must generally be recognized as non-current items.

Unless stated otherwise below, the accounting policies applied have not changed since the previous year. Changes compared with the previous year resulted on the one hand from the application of new standards and on the other from the amended statement in the consolidated statement of comprehensive income referred to in Section D. 'Notes to the consolidated statement of comprehensive income (19) Cost of sales and (22) General administration expenses'.

Accounting standards requiring mandatory application for the first time in the current financial year

The following accounting standards and interpretations required mandatory application for the first time in the 2018 financial year.

Standard	Title	Effective date[1]	EU endorsement
New and amended standards and interpretations			
IFRS 9	Financial Instruments	01.01.2018	11.22.2016
IFRS 15	Revenue from Contracts with Customers	01.01.2018	09.22.2016
IFRS 15	Clarifications to Revenue from Contracts with Customers	01.01.2018	10.31.2017
IFRS 2	Amendments: Classification and Measurement of Share-based Payment Transactions	01.01.2018	02.26.2018
IFRS 4	Amendments: Applying IFRS 9 (Financial Instruments) with IFRS 4 (Insurance Contracts)	01.01.2018	11.03.2017
Diverse	Annual Improvements to IFRS, 2014-2016 Cycle	01.01.2018	02.07.2018
IAS 40	Amendments: Transfers of Investment Property	01.01.2018	03.14.2018
IFRIC 22	Interpretation on Foreign Currency Transactions and Advance Consideration	01.01.2018	03.28.2018

[1] For companies like STRATEC whose financial year corresponds to the calendar year

The application of these standards and interpretations in the 2018 financial year was consistent with the respective transition requirements. Unless explicitly required by individual standards and interpretations and explained separately below, the respective requirements have generally been applied retrospectively, i.e. the information has been presented as if the new accounting methods had always been applied in the past. In these cases – and where called for by the respective standard – the comparative figures have been adjusted accordingly.

STRATEC applied IFRS 9 (Financial Instruments) and IFRS 15 (Revenue from Contracts with Customers) for the first time as of January 1, 2018. Both standards were applied for the first time on a retrospective basis without any adjustment to the previous year's figures as of January 1, 2018 ('modified retrospective approach'). The conversion effects arising upon first-time application have been cumulatively recognized in equity, while the previous year's period has been presented in accordance with the previous accounting requirements. Furthermore, for the reporting period from January 1 to December 31, 2018 the adjustment amount compared with application of the previous requirements has to be stated for each individual line item thereby affected in the financial statements, with suitable explanations being provided where necessary.

The specific effects of first-time application are presented and explained below.

Effects of first-time application of IFRS 9[2] and IFRS 15[3] on revenue reserves and other equity

The reconciliation of revenue reserves is as follows:

	€ 000s
Revenue reserves including consolidated net income at 12.31.2017	121,058
IFRS 9 effects	-94
- of which effects before taxes	-130
- of which deferred taxes	36
IFRS 15 effects	-1,509
- of which effects before taxes on income	-2,981
- of which deferred taxes	1,472
Revenue reserves including consolidated net income at 01.01.2018	**119,455**

[2] Financial Instruments
[3] Revenue from Contracts with Customers

The reconciliation of other equity (fair value reserve) is as follows:

	€ 000s
Fair value reserve at 12.31.2017	2,525
Reclassification to revenue reserves	-2,525
- of which reclassification before taxes	-2,560
- of which deferred taxes	36
Rücklage Zeitwert 01.01.2018	**0**

IFRS 9 (Financial Instruments)

At STRATEC, conversion to the new standard resulted in the implications presented below. These mainly relate to the accounting treatment of the shares held in a listed company. Through to December 31, 2017, these shares were allocated to the 'Available-for-sale financial assets' category in accordance with IAS 39 (Financial Instruments: Recognition and Measurement). Given the abolition of this category under IFRS 9 (Financial Instruments), these shares had to be reclassified as of the financial year beginning on January 1, 2018. At the reporting date on January 1, 2018 the shares constituted equity instruments (as defined in IAS 32 [Financial Instruments: Presentation]) which at this time did not meet the requirements for classification as 'held for trading'. As a result, the shares are within the scope of IFRS 9.4.1.4 in conjunction with IFRS 9.5.7.5. In view of the facts and circumstances upon first-time application of IFRS 9 (Financial Instruments) on January 1, 2018, pursuant to IFRS 9.7.2.8 (b) in conjunction with IFRS 9.B7.2.1 STRATEC therefore (for the first time) had the option of designating the shares for recognition through profit or loss or recognition in equity for the 2018 financial year and subsequent financial years. In principle, IFRS 9.B5.7.1 also provided the possibility of exercising this option for each individual share.

STRATEC decided to designate all of these shares for subsequent measurement in equity as of January 1, 2018. This decision meant that, pursuant to IFRS 9.B.5.7.1 and unlike the previous measurement practice under IAS 39 (Financial Instruments: Recognition and Measurement), the sale of these shares in June 2018 did not have any impact on profit or loss. Furthermore, as these shares were traded in USD and represent a non-monetary asset, the resultant foreign currency items require recognition pursuant to IAS 21 (Effects of Changes in Foreign Exchange Rates) in conjunction with IFRS 9.B5.7.3. Accordingly, currency translation items were also recognized in equity in the 2018 financial year.

Moreover, with regard to the shares first-time application of IFRS 15 (Revenue from Contracts with Customers) led to the reclassification of amounts of € 2,560k before taxes on income and € 2,525k after taxes on income. Still recognized in accumulated OCI as of December 31, 2017, these amounts were reclassified to revenue reserves as of January 1, 2018.

Furthermore, the first-time application of IFRS 9 (Financial Instruments) also had implications in connection with the introduction of the 'expected credit loss model'. Here, STRATEC has drawn on the simplified approach provided for in IFRS 9.5.5.15 for trade receivables and contract assets and bases the relevant allowances on lifetime expected credit losses. Pursuant to IFRS 9.B5.5.35, particular account was taken of the fact that STRATEC generally has trade credit insurance. The allowance additionally stated for expected credit losses was determined as amounting to € 130k as of January 1, 2018. This amount was recognized – taking due account of deferred taxes – in equity in the revenue reserves.

The following table presents the reconciliation of categories and the carrying amounts of financial instruments resulting from first-time application of IFRS 9 (Financial Instruments):

€ 000s	Category IAS 39	Category IFRS 9	Carrying amount IAS 39 12.31.2017	Carrying amount IFRS 9 01.01.2018	Differential amounts due to IFRS 9	Differential amounts due to IFRS 15
Non-current assets						
Financial assets						
• Investments in associates	AfS	n/a	158	n/a	0	0
• Other financial assets	LaR	AC	82	82	0	0
Current assets						
Trade receivables	LaR	AC	39,126	41,290	-130	2,294
Receivables from construction contracts	LaR	n/a	7,210	n/a	0	-7,210
Receivables from associates	LaR	AC	24	24	0	0
Financial assets						
• Available-for-sale financial instruments	AfS	FVOCI	11,140	11,140		
• Assets held for trading	FAHfT	FVTPL	974	974		
• Loans and receivables	LaR	AC	384	384	0	0
Cash and cash equivalents	LaR	AC	24,137	24,137	0	0
Non-current debt						
Financial liabilities	FLAC	AC	61,581	61,581	0	0
Current debt						
Financial liabilities	FLAC	AC	9,371	9,371	0	0
Trade payables	FLAC	AC	6,928	6,928	0	0

IAS 39 abbreviations
LaR = Loans and receivables, AfS = Available-for-sale financial assets, FVTPL = Financial assets measured at fair value through profit or loss, FVHfT = Financial assets held for trading, FLAC = Financial liabilities measured at amortized cost
IFRS 9 abbreviations
AC = Measured at (amortized) cost, FVTPL = Measured at fair value through profit or loss, FVOCI = Measured at fair value through other comprehensive income, n/a = Not allocated to any measurement category

IFRS 15 (Revenue from Contracts with Customers)

STRATEC applied IFRS 15 (Revenue from Contracts with Customers) for the first time as of January 1, 2018. Published in May 2014, IFRS 15 (Revenue from Contracts with Customers) is intended to unite the numerous regulations governing revenue recognition in various standards and interpretations into a single standard. The new standard provides for a uniform, principle-based five-step model applicable to all contracts with customers. Accordingly, a company is required to recognize as revenue that amount which it expects to receive as consideration for transferring goods to or performing services for a customer. The company recognizes revenue (sales) at the point in time or over the period of time at/over which control over the goods or services is transferred to the customer.

One key implication of IFRS 15 (Revenue from Contracts with Customers) within STRATEC's business model relates to development cooperations in which the development work is completed at a specific point in time pursuant to IFRS 15 (Revenue from Contracts with Customers). In these cases, sales are recognized pursuant to IFRS 15 (Revenue from Contracts with Customers) at the time at which the development work is transferred. Under the previous accounting requirements, sales in the development stage were generally recognized in accordance with the percentage of completion pursuant to IAS 18.21. Where conditional milestone payments dependent on development work were agreed, sales were only recognized pursuant to IAS 18 (Revenue) once the conditions underlying the milestones were met. Reference is made here to the information provided in Section B. 'Accounting policies applied – Recognition of sales, cost of sales, research and development expenses, accounting in accordance with IAS 11 (Construction Contracts) and IAS 18 (Revenue) until December 31, 2017. Compared with IAS 18 (Revenue), under IFRS 15 (Revenue from Contracts with Customers) the sales resulting from these milestones are recognized at a later point in time (time at which development work is completed) rather than during the development work already (time at which milestones are reached). Through to completion of the development work, any milestone payments received are recognized as contract liabilities. For development cooperations in which sales were recognized under the previous accounting requirements sales in accordance with IAS 11 (Construction Contracts) and under IFRS 15 sales are now (generally) recognized over time, the new requirements have not resulted in any material implications compared with the previous requirements. The volume of sales recognized is in both cases limited to the volume of contract costs incurred. Upon completion of the development work, the volume of sales recognized may differ to the previous accounting requirements under IAS 11 (Construction Contracts) due to the allocation of consideration (transaction price allocation) for other contractually promised service obligations to the development performance obligation in accordance with IFRS 15 (Revenue from Contracts with Customers). Under IFRS 15 (Revenue from Contracts with Customers), any transaction price exceeding the consideration promised for the development work is recognized as a contract asset.

STRATEC has introduced IFRS 15 (Revenue from Contracts with Customers) retrospectively and recognized the cumulative adjustment amounts ('modified retrospective method'). For this, the cumulative effect of first-time application of the standard as of January 1, 2018 has been recognized as an adjustment to the revenue reserves stated in the opening balance sheet. Furthermore, STRATEC has also exercised the option of applying IFRS 15 (Revenue from Contracts with Customers) retrospectively to contracts not completed at the time of first-time application on January 1, 2018. A contract is viewed as completed in this respect when STRATEC has transferred all contractually promised goods and services identified in accordance with IAS 11 (Construction Contracts), IAS 18 (Revenue), and associated interpretations. For those contracts with customers which are not completed according to these requirements, a cumulative effect from first-time application of the standard was recognized as an adjustment to the revenue reserves and corresponding other balance sheet items stated in the opening balance sheet as of the date of first-time application (January 1, 2018). STRATEC has drawn on the simplified approach provided for in IFRS 15.C7A (b) in conjunction with IFRS 15.C5 (c). This means that the implications of any contract modifications pursuant to IFRS 15 (Revenue from Contracts with Customers) are presented in aggregate form.

First-time application of IFRS 15 (Revenue from Contracts with Customers) resulted in the following adjustments and implications at STRATEC:

1. Development cooperations with development services not completed as of December 31, 2017 and due to be completed at a point in time pursuant to IFRS 15 (Revenue from Contracts with Customers)

First-time application of IFRS 15 (Revenue from Contracts with Customers) led to an effect of € -792k in revenue reserves after deferred taxes. The revenues recognized through to December 31, 2017 were adjusted, with a corresponding charge to revenue reserves, by recognizing contract liabilities (€ 9,741k) and derecognizing prepayments received (€ -839k), trade receivables (€ -359k), and receivables from construction contracts (€ -2,481k). Conversely, the cost of sales incurred through to December 31, 2017 was recognized as inventories (€ 9,386k), intangible assets (€ 221k), and contract fulfilment costs (€ 1,074k) and charged to revenue reserves. The net effect of these adjustments resulted in the recognition of deferred tax assets of € 267k.

2. Development cooperations with development services not completed as of December 31, 2017 and due to be completed over time pursuant to IFRS 15 (Revenue from Contracts with Customers)

First-time application of IFRS 15 (Revenue from Contracts with Customers) led to an effect of € -1,053k in revenue reserves after deferred taxes. The revenues recognized through to December 31, 2017 were adjusted, with a corresponding charge to revenue reserves, by derecognizing inventories (€ -483), and trade receivables (€ -947k). Furthermore, receivables of € 1,105k from construction contracts were reclassified as contract assets. The net effect of these adjustments resulted in the recognition of deferred tax assets of € 377k.

3. Other contracts with service obligations not completed as of December 31, 2017

First-time application of IFRS 15 (Revenue from Contracts with Customers) led to an effect of € -2,189k in revenue reserves after deferred taxes. The revenues recognized or not recognized through to December 31, 2017 were adjusted, with a corresponding charge to revenue reserves, by respectively recognizing or derecognizing contract assets (€ 2,510k), contract liabilities (€ 316k), trade receivables (€ -25k), and intangible assets (€ -5,185k). Furthermore, receivables of € 3,406k from construction contracts were reclassified as trade receivables. The net effect of these adjustments resulted in the recognition of deferred tax assets of € 828k.

The following table presents the adjustments and implications in detail:

€ 000s	12.31.2017	Difference due to IFRS 15 Instru-mentation	Smart Consumables	Other segments	IFRS 9	01.01.2018 Carrying amount
Non-current assets						
Other intangible assets	68,708	-4,964	0	0	0	63,744
Other receivables and assets	0	0	1,074	0	0	1,074
Contract assets	0	3,053	0	187	0	3,240
Current assets						
Inventories						
• Unfinished products, unfinished services[1]	6,367	6,861	1,760	282	0	15,270
Receivables and other assets						
• Trade receivables	39,126	3,190	-870	-25	-130	41,290
• Receivables from construction contracts	7,210	-7,210	0	0	0	0
Contract assets	0	242	0	132	0	374
Total assets	263,776	1,172	1,964	576	-130	267,358
Shareholders' equity						
Revenue reserves	121,058	-268	-1,223	-18	-94	119,455
Other equity	2,530	-2,525	0	0	0	5
Non-current debt						
Contract liabilities	0	0	2,196	493	0	2,689
Deferred taxes	11,035	-1,058	-409	-5	-36	9,528
Current debt						
Other liabilities	8,204	-889	0	-1,199	0	6,116
Contract liabilities	0	5,912	1,400	1,305	0	8,618
Total shareholders' equity and debt	**263,776**	**1,172**	**1,964**	**576**	**-130**	**267,358**

[1] Where applicable, also includes contract fulfilment costs (IFRS 15. 95 et seq.).

Reconciliation items due to initial application of IFRS 9 (Financial Instruments) and IFRS 15 (Revenue from Contracts with Customers)

€ 000s	12.31.2018 before adjustment	IFRS 9	IFRS 15	12.31.2018 after adjustment
Non-current assets				
Goodwill	41,245	0	0	41,245
Other intangible assets	60,846	0	-3,829	57,017
Property, plant and equipment	39,510	0	0	39,510
Financial assets	459	0	0	459
Other receivables and assets	0	0	1,109	1,109
Contract assets	0	0	8,557	8,557
Deferred taxes	82	0	119	201

€ 000s	12.31.2018 before adjustment	IFRS 9	IFRS 15	12.31.2018 before adjustment
Current assets				
Inventories				
• Raw materials and supplies	23,729	0	0	23,729
• Unfinished products, unfinished services[1]	9,143	0	12,803	21,946
• Finished products and merchandise	12,855	0	0	12,855
Receivables and other assets				
• Trade receivables	36,457	-120	-1,587	34,750
• Receivables from construction contracts	10,180	0	-10,180	0
• Receivables from associates	22	0	0	22
Financial assets	810	0	0	810
Other receivables and assets	5,747	0	0	5,747
Contract assets	0	0	1,132	1,132
Income tax receivables	1,418	0	0	1,418
Cash and cash equivalents	23,816	0	0	23,816
Assets held for sale	962	0	0	962
Total assets	267,281	-120	8,125	275,285
Shareholders' equity				
Share capital	11,969	0	0	11,969
Capital reserve	24,119	0	0	24,119
Revenue reserves	120,209	-87	-3,775	116,347
Treasury stock	-89	0	0	-89
Other equity	-144	0	2	-142
Non-current debt				
Financial liabilities	68,933	0	0	68,933
Other liabilities	417	0	0	417
Contract liabilities	0	0	3,342	3,342
Pension provisions	3,811	0	0	3,811
Deferred taxes	8,774	-33	-1,211	7,530
Current debt				
Financial liabilities	7,987	0	0	7,987
Trade payables	6,457	0	0	6,457
Liabilities to associates	0	0	0	0
Other liabilities	8,791	0	-2,956	5,385
Contract liabilities	0	0	12,722	12,722
Provisions	1,348	0	0	1,348
Income tax liabilities	3,796	0	0	3,796
Liabilities directly associated with assets held for sale	903	0	0	903
Total shareholders' equity and debt	267,281	-120	8,125	275,285

[1] Where applicable, also includes contract fulfilment costs (IFRS 15. 95 et seq.).

€ 000s	01.01.-12.31.2018 before adjustment	IFRS 9	IFRS 15	01.01.-12.31.2018 before adjustment
Sales	192,403	0	-4,583	187,820
Cost of sales	-139,329	0	4,990	-134,339
Gross profit	**53,074**	**0**	**407**	**53,481**
Research and development expenses	-9,236	0	0	-9,236
Sales-related expenses	-13,649	10	0	-13,639
General administration expenses	-16,282	0	0	-16,282
Other operating expenses	-4,118	0	0	-4,118
Other operating income	4,811	0	-6	4,805
Earnings before interest and taxes	**14,600**	**10**	**401**	**15,011**
Financial income	34	0	0	34
Financial expenses	-662	0	0	-662
Other financial income/expenses	-276	-17	0	-293
Net financial expenses	**-904**	**-17**	**0**	**-921**
Earnings before taxes	**13,696**	**-7**	**401**	**14,090**
Current tax expenses	-4,217	0	0	-4,217
Current tax income	1,346	0	-109	1,237
Earnings from continuing operations	**10,825**	**-7**	**292**	**11,110**
Earnings from discontinued operations	-2,141	0	0	-2,141
Consolidated net income	**8,684**	**-7**	**292**	**8,969**
Items that may not be reclassified to profit or loss				
Remeasurements of defined benefit pension plans	-118	0	0	-118
Changes in value of financial investments	0	-2,544	0	-2,544
Items that may subsequently be reclassified to profit or loss				
Currency translation differences from translation of foreign operations	-31	0	3	-28
Changes in value of financial investments	-2,525	2,525	0	0
Other comprehensive income	**-2,674**	**-19**	**3**	**-2,690**
Comprehensive income	**6,010**	**-26**	**295**	**6,279**
Basic earnings per share in €				
From continuing operations	0,91	0,00	0,02	0,93
From discontinued operations	-0,18	0,00	0,00	-0,18
No. of shares used as basis	11,939,717			11,939,717
Diluted earnings per share in €				
From continuing operations	0,90	0,00	0,02	0,92
From discontinued operations	-0,18	0,00	0,00	-0,18
No. of shares used as basis	12,033,844			12,033,844

€ 000s	01.01.-12.31.2018 before adjustment	IFRS 9	IFRS 15	01.01.-12.31.2018 before adjustment
Operations				
Consolidated net income (after taxes)	8,683	-7	292	8,968
Depreciation and amortization	22,933	0	-1,287	21,646
Current income tax expenses	4,217	0	0	4,217
Income taxes paid less income taxes received	-2,339	0	0	-2,339
Financial income	-34	0	0	-34
Financial expenses	662	0	0	662
Interest paid	-602	0	0	-602
Interest received	19	0	0	19
Other non-cash expenses	2,139	0	0	2,139
Other non-cash income	-1,938	7	0	-1,931
Change in net pension provisions through profit or loss	-30	0	0	-30
Change in deferred taxes through profit or loss	-1,391	0	109	-1,282
Profit (-) / loss (+) on disposals of non-current assets	267	0	0	267
Increase (-) / decrease (+) in inventories, trade receivables and other assets	-19,943	0	-3,182	-23,125
Increase (+) / decrease (-) in trade payables and other liabilities	-542	0	3,916	3,374
Cash flow from operating activities	**12,100**	**0**	**-151**	**11,950**
Investments				
Incoming payments from disposals of non-current assets				
• Property, plant and equipment	45	0	0	45
• Financial assets	8,601	0	0	8,601
Outgoing payments for investments in non-current assets				
• Intangible assets	-8,575	0	151	-8,424
• Property, plant and equipment	-11,013	0	0	-11,013
• Financial assets	0	0	0	0
Cash flow from investing activities	**-10,942**	**0**	**151**	**-10,792**
Financing				
Incoming funds from taking up of financial liabilities	9,000	0	0	9,000
Outgoing payments for repayment of financial liabilities	-1,971	0	0	-1,971
Incoming payments from issue of shares for employee stock option programs	1,577	0	0	1,577
Dividend payments	-9,533	0	0	-9,533
Cash flow from financing activities	**-927**	**0**	**0**	**-927**
Cash-effective change in cash and cash equivalents	**231**	**0**	**0**	**231**
Cash and cash equivalents at beginning of period	24,137	0	0	24,137
Impact of exchange rate movements	-273	0	0	-273
Cash and cash equivalents at end of period	24,095	0	0	24,095

Accounting requirements already published but not yet applied

The IASB and IFRS IC have issued the following standards, amendments and revisions to standards and interpretations not yet requiring mandatory application. Application of the new and revised standards and interpretations is dependent, among other factors, on their acceptance by the European Union within its IFRS endorsement procedure.

Standard	Title	Effective date[1]	EU endorsement
New and amended standards and interpretations			
IFRS 9	Amendments: Prepayment Features with Negative Compensation	01.01.2019	03.22.2018
IFRS 16	Leases	01.01.2019	10.31.2017
IAS 28	Amendments: Long-Term Interests in Associates and Joint Ventures	01.01.2019	02.08.2019
IAS 19	Amendments: Plan Amendment, Curtailment or Settlement	01.01.2019	03.13.2019
IFRIC 23	Uncertainty over Income Tax Treatments	01.01.2019	10.23.2018
IAS 1 und IAS 8	Amendments: Definition of Material	01.01.2020	Outstanding
IFRS 3	Amendments: Business Combinations	01.01.2020	Outstanding
Framework	Amendments: Reference to the IFRS Conceptual Framework	01.01.2020	Outstanding
IFRS 17	Insurance Contracts	01.01.2021	Outstanding
Sundry	Annual Improvements to IFRS, 2015-2017 Cycle	01.01.2019	03.14.2019

[1] For companies like STRATEC whose financial year corresponds to the calendar year

STRATEC does not intend to make any voluntary, premature application of these standards and interpretations or of the relevant amendments.

In the interests of reporting efficiency, only those standards and interpretations have been outlined below which, based on the information currently available and given the business model and business transactions customary at STRATEC, are very likely to have implications for the accounting policies or for the reporting and disclosure of information in STRATEC's consolidated financial statements in future financial years.

IFRS 16 (Leases)

The International Accounting Standards Board (IASB) published the accounting standard IFRS 16 (Leases) on January 13, 2016. The standard supersedes the current provisions of IAS 17 (Leases) and the associated interpretations IFRIC 4 (Determining Whether an Arrangement Contains a Lease), SIC 15 (Operating Leases – Incentives), and SIC 27 (Evaluating the Substance of Transactions in the Legal Form of a Lease).

The core concept of the new standard is that the lessee should, as a general rule, recognize all leases and all associated contractual rights and obligations in its balance sheet. The distinction previously required by IAS 17 (Leases) between finance and operating leases will in future no longer apply for lessees. For all leases, the lessee recognizes a lease liability in its balance sheet for the obligation to make future lease payments. At the same time, the lessee recognizes a right-of-use asset. This basically corresponds to the present value of future lease payments plus directly allocable costs. Lease payments include fixed payments, variable payments to the extent that these are indexed, payments expected for residual value guarantees and, where appropriate, the exercise price for purchase options and penalties for the premature termination of lease contracts. During the term of the lease contract, the lease liability is written forward in accordance with financial considerations in a manner comparable to that required for finance leases under IAS 17 (Leases), while the right-of-use asset is subject to scheduled amortization.

This approach generally results in higher expenses at the beginning of the term of the lease contract. Practical expedients are provided when accounting for short-term leases and low-value leases.

At the lessor, by contrast, the requirements of the new standard are similar to the existing provisions of IAS 17 (Leases). Lease contracts will continue to be classified either as finance or operating leases. Leases in which substantially all of the risks and rewards incidental to ownership are transferred will be classified as finance leases, while all other lease contracts count as operating leases. Classification of finance leases pursuant to IFRS 16 (Leases) has been based without amendment on the criteria set out in IAS 17 (Leases).

IFRS 16 (Leases) includes a number of additional requirements concerning reporting, note disclosures, and sale and leaseback transactions.

The new provisions require mandatory application in financial years beginning on or after January 1, 2019. In its capacity as lessee, STRATEC will make first-time application of IFRS 16 (Leases) using the modified retrospective approach with optional practical expedients.

Application of the new standard will have implications for STRATEC's asset, financial, and earnings position on account of existing operating lease contracts. Reference is made to the information provided in Section I. 'Other disclosures – Contingent liabilities and other financial obligations'.

Specifically, leased office buildings and leased plant and office equipment will lead to an extension in the balance sheet, as the corresponding rights to use the assets will require recognition as right-of-use assets and the respective obligations as liabilities. Whereas existing operating lease arrangements have generally been based on straight-line expensing, in future the straight-line amortization of the right-of-use assets and reduction over time in the interest charge on the lease liability will result in a declining volume of expenses recognized over the lease term.

Overall, STRATEC views the implications of the amended lease presentation as being of subordinate significance for its asset, financial, and earnings position. Based on the current status of investigations, total assets will increase by less than 4%. The equity ratio is expected to decrease by less than 2 percentage points. Given the discontinuation of amounts previously recognized as operating lease expenses, the EBITDA key figure should improve by around € 1.6 million. Based on the figure for the 2018 financial year, this would correspond to an increase of around 4%. Lease liabilities capitalized for the first time are expected to produce an additional interest charge in a low six-digit euro amount.

B. ACCOUNTING POLICIES APPLIED

Consolidation principles

Capital consolidation at STRATEC has been performed using the purchase method by offsetting the carrying amounts of investments against the prorated equity of the subsidiaries. This involves accounting for the assets and liabilities identifiable at the subsidiaries at the time of acquisition at fair value and for deferred taxes pursuant to IAS 12 (Income Taxes). Any remaining credit difference from capital consolidation is recognized as goodwill.

Intercompany profits and losses, sales, income and expenses have been eliminated, as have receivables and liabilities between the companies included in the consolidated financial statements. The income tax implications of consolidation entries have been accounted for by recognizing deferred taxes.

Scope of consolidation

In accordance with the requirements of IFRS 10 (Consolidated Financial Statements), the consolidated financial statements of STRATEC SE (parent company) basically include all companies controlled by STRATEC SE (subsidiaries).

Shareholdings whose implications, both individually and aggregately, are of immaterial significance for the asset, financial, and earnings position are included in the consolidated financial statements at cost, less any impairments, and recognized as investments in associates in the consolidated balance sheet. The financial data of those subsidiaries of immaterial significance cumulatively account for less than 1 % of consolidated sales, group equity, group earnings and total group assets respectively.

As in the previous year, in addition to STRATEC SE the consolidated financial statements as of December 31, 2018 include the following subsidiaries by way of full consolidation:

- STRATEC Biomedical Switzerland AG, Beringen, Switzerland
- STRATEC Biomedical UK, Ltd. Burton upon Trent, UK
- STRATEC Molecular GmbH, Berlin, Germany
- STRATEC Biomedical USA, Inc., Glendale, US
- STRATEC Biomedical S.R.L, Cluj-Napoca, Romania
- STRATEC Services AG, Beringen, Switzerland
- STRATEC Capital GmbH, Birkenfeld, Germany
- RE Medical Analyzers Luxembourg 2 S.à r.l., Luxembourg, Luxembourg
- Medical Analyzers Holding GmbH, Zug, Switzerland
- Diatron Medicinai Instrumentumok Laboratóriumi Diagnosztikai Fejlesztö-Gyártó Zrt, Budapest, Ungarn
- Diatron (US), Inc., Delaware, US
- STRATEC PS Holding GmbH, Birkenfeld, Germany
- STRATEC Consumables GmbH, Anif, Austria
- STRATEC Biomedical Inc., Southington, US
- Mod-n-More Kft., Budapest, Hungary

As in the previous year, the level of shareholding and voting rights held as of December 31, 2018 amounted to 100% of voting capital at all of the companies.

Due to their immaterial significance, the following subsidiaries have not been included in the consolidated financial statements by way of full consolidation:

	Share capital	Shareholding %	Annual earnings[1]
Sanguin International Inc., Southington, CT, US	USD 1,000	100.0	USD -21,436 (2017: USD -25,891)
STRATEC Biomedical (Taicang) Co. Ltd., Taicang, China	CNY 814,940	100.0	CNY -532,230 (2017: CNY -803,150)

[1] The earnings figures reported are based on the annual financial statements prepared in accordance with respective national accounting requirements as of December 31, 2018 and December 31, 2017 respectively.

Operation held for sale

A disposal group must be classified as held for sale if it is ready for immediate sale in its present condition, if it is to be sold on customary terms, and if such sale is highly probable. The disposal group must be measured at the lower of its carrying amount and its fair value less costs to sell. Depreciation is no longer recognized on its non-current assets. The assets and liabilities attributable to the disposal group must be recognized separately in the balance sheet. If the disposal group is an operation, the earnings from this operation must be presented separately in the consolidated statement of comprehensive income in the year under report. **The comparative figures for the previous year must be adjusted accordingly in the consolidated statement of comprehensive income and in the relevant comparative figures in the note disclosures.**

When publishing its initiative to improve its earnings position, on October 4, 2018 STRATEC announced its intention to dispose of the nucleic acid purification business unit, and thus of its STRATEC Molecular GmbH subsidiary. As a result, the assets and liabilities of this subsidiary have been classified as held for sale in the 2018 financial statements. The contract for this transaction was signed on February 28, 2019, while the closing was executed on schedule on March 31, 2019.

Currency translation

Transactions in foreign currencies

Transactions in foreign currencies have been translated into the functional currency using the rate on the date of the transaction. On the balance sheet date, monetary items have been translated using the reporting date rate, while non-monetary items have been translated at the rate on the date of the transaction. Differences arising upon currency translation have been recognized through profit or loss in the consolidated statement of comprehensive income, provided that the item in question does not form part of a net investment in a foreign operation.

Translation of financial statements of foreign group companies:

With the exception of Medical Analyzers Holding GmbH, Zug, Switzerland, whose functional currency has been the euro since December 31, 2018, the functional currency of all other foreign group companies is the respective national currency, as the companies operate independently in financial, economic and organizational terms. The change in the functional currency at Medical Analyzers Holding GmbH, Zug, Switzerland, is due to the fact that this company's business transactions have changed such that its only remaining material asset involves a (group-internal) receivable denominated in euros with corresponding interest. Its cash flows are therefore generated exclusively in euros. As the company's accounting currency in its statutory financial statements has also been changed to euros, it was consistent and appropriate from STRATEC's perspective to amend the functional currency in its consolidated financial statements as well.

Assets and liabilities at foreign companies have been translated into euros at the reporting date rate, while income and expenses have been translated into euros using annual average exchange rates. Equity components have been translated at historic rates upon the respective dates of addition from the Group's perspective. The translation difference arising compared with the reporting date rates has been recognized directly in equity in the 'Other equity – Foreign currency translation' item.

The exchange rates between major currencies and the euro developed as follows:

1 €/		Reporting date rate		Average rate	
		2018	2017	2018	2017
GBP	UK	0.895	0.887	0.885	0.877
USD	US	1.145	1.199	1.181	1.130
CHF	Switzerland	1.127	1.170	1.155	1.111
RON	Romania	4.664	4.659	4.654	4.569
HUF	Hungary	320.980	310.330	318.890	309.190

Other intangible assets

Other intangible assets are recognized upon addition at cost in accordance with IAS 38.24. In line with IAS 38.27, the purchase costs of a separately purchased intangible asset particularly comprise the purchase price, less any reductions in the purchase price, plus costs directly attributable to preparing the asset for its intended use. In line with IAS 38.66, the construction costs of an internally generated intangible asset comprise all costs directly attributable to create, produce and prepare the asset to be capable of operating in the manner intended by the management.

In line with IAS 38.74, subsequent measurement is based on the cost model. As all other intangible assets apart from those not yet ready for use currently have limited useful lives, they have been amortized in accordance with these, generally using the straight-line method unless the actual decline in their value requires another form of amortization. Furthermore, account is also taken where necessary of impairments (see 'Impairment tests'). Where the reasons for impairment no longer apply, the respective assets are written back to a maximum of amortized cost.

Amortization of intangible assets has been based on the following useful lives:

	Useful lives in years 2018	Useful lives in years 2017
Acquired technologies	7–15	7–15
Acquired R&D projects	8	8
Internally generated intangible assets • **Proprietary development projects** • **Development cooperations**	5–10 *	5–8 *
Acquired patents	12–19	12–19
Acquired trademarks	10	10
Acquired customer relationships	5–12	5–12
Other rights and values • **Software and licenses**	1–8	1–8

* In respect of the accounting treatment of development cooperations within the OEM partnering business model, reference is made to the comments in 'Recognition of sales, cost of sales, research and development expenses' in this section. The period and method of amortization applied to the intangible assets resulting from development cooperations within the OEM partnering business model is based on the methodology presented under 'Forward-looking assumptions' in this section.

Property, plant and equipment

Property, plant and equipment are measured upon initial recognition at cost in accordance with IAS 16.15 et seq. In line with IAS 16.30, subsequent measurement is based on the cost model. Accordingly, in subsequent periods the costs recognized are reduced by depreciation, where the respective assets are depreciable. Depreciation has generally been performed using the straight-line method, unless the actual decline in value requires a use-based form of depreciation. Furthermore, account is also taken where necessary of impairments (see 'Impairment tests' below). Where the reasons for impairment no longer apply, the respective assets are written back to a maximum of amortized cost.

Costs incurred to repair or maintain items of property, plant and equipment have generally been recognized through profit or loss. Costs incurred for measures expected to lead to an inflow of economic benefits in future have been capitalized as retrospective costs.

Depreciation of property, plant and equipment has been based on the following useful lives:

	Useful lives in years 2018	Useful lives in years 2017
Buildings	25–33	25–33
Outdoor facilities	10–30	10–30
Technical equipment and machinery	3–20	3–20
Vehicles	3–6	3–6
Tools	3–7	3–7
IT components	2–5	2–5
Other plant and office equipment	1–20	1–20

Gains or losses incurred upon the sale, decommissioning or scrapping of items of property, plant and equipment have been recognized in other operating income or expenses in the amount of the difference between the potential proceeds on disposal and the residual carrying amount.

Investment property includes land and buildings held to generate rental income (€ 88k; previous year: € 61k) or for capital appreciation, rather than for proprietary performance of services, administration purposes, or sales within customary business activities. STRATEC lets out parts of the real estate recognized in property, plant and equipment to third parties external to the Group. Given the immaterial scope of these surfaces, they have not been recognized in a separate item.

Borrowing costs

Where a significant period of time is required to manufacture a respective asset (so-called qualifying asset), the borrowing costs incurred through to completion are capitalized as a component of cost where the requirements of IAS 23 (Borrowing Costs) are met. At STRATEC, qualifying assets may relate in particular to intangible assets, property, plant and equipment, and inventories (contract fulfilment costs or unfinished services).

The predominant share of interest expenses incurred at STRATEC in the 2018 financial year relates to financing the business combinations executed in the 2016 financial year. These do not meet the requirements for recognition as qualifying assets. The remaining share of interest expenses incurred in the 2018 financial year meet the requirements for capitalization as borrowing costs under IAS 23 (Borrowing Costs). However, due to materiality considerations these expenses have not been capitalized to date.

Subsidies and grants

Government grants intended to promote investment and directly allocable to the respective investments have been deducted from the amount capitalized for the object of investment. Non-repayable grants received as project subsidies for research and development projects are linked to the respective expenses and are initially recognized as liabilities and subsequently offset through profit or loss in the consolidated statement of comprehensive income in the financial year in which the associated expenses are incurred.

Leases

A lease arrangement is classified as an operating lease in cases when substantially all of the risks and rewards incidental to ownership remain at the lessor. The STRATEC Group only has operating leases in which the STRATEC Group acts as lessee. In line with IAS 17.33, payable lease installments have been recognized in the consolidated statement of comprehensive income as expenses over the term of the lease arrangement.

Impairment tests

Impairment tests pursuant to IAS 36 (Impairment of Assets) are performed on goodwill and other intangible assets with unlimited or indefinite useful lives, as well as on intangible assets not yet ready for use, at least once a year and, in the case of other intangible assets with limited useful lives and property, plant and equipment, only if there are specific indications of impairment. Impairment losses have been recognized through profit or loss in the consolidated statement of comprehensive income to the extent that the recoverable amount of the asset, i.e. the higher of its fair value less costs to sell and its value in use, falls short of its carrying amount. In principle, the recoverable amount has been determined for each individual asset. Where this is not possible, the recoverable amount has been determined on the basis of a group of assets representing a cash generating unit. A review is performed at least once a year to ascertain whether there is any indication that the reason for impairment losses already recognized no longer applies or that the amount of impairment has reduced. In this case, the recoverable amount is newly determined and the impairment losses already recognized, unless they involve goodwill, are correspondingly reversed.

The cash generating units determined for goodwill impairment testing are unchanged on the previous year. They comprise 'laboratory automation', 'workflow software', 'nucleic acid purification', 'manufacturing parts & services', 'Diatron', and 'smart consumables'. It should be noted, however, that from September 30, 2018 the 'nucleic acid purification' cash generating unit was classified as an operation held for sale pursuant to IFRS 5 (Non-Current Assets Held for Sale and Discontinued Operations). Since that date, this operation has been measured in accordance with the specific standards set out in this standard.

The recoverable amount for the cash generating units as of December 31, 2018 (previous year: October 31, 2017 and December 31, 2017) has been determined by reference to their value in use, defined as the present value of future net inflows of cash. The forecast future net inflows of cash have been based on STRATEC's current budgets. Future net inflows of cash are budgeted in the functional currency. Raw materials prices are accounted for on their given terms. As in the previous year, the detailed budget period covers three years. The budgets have in turn been based on assumptions concerning future sales volumes and sales prices, as well as on expected costs. Net inflows of cash beyond the detailed budget period have been presented as perpetuity, taking due account of growth rates based on current market information. Should the value in use fall short of the carrying amount of the cash generating unit, then the fair value less costs to sell has to be determined.

In line with IAS 36.A17 (a), capital costs of cash generating units have been calculated as the weighted average of their equity and debt capital costs (WACC). To calculate the weighted capital costs, reference has been made on the one hand to the costs of equity, which comprise the risk-free base interest rate and the risk premium (market risk premium, multiplied by a beta factor based on a peer group analysis) and on the other hand on the cost of borrowing, which corresponds to the average cost of borrowing at the peer group companies. Equity and debt capital costs have been weighted based on the average capital structure at the peer group companies.

Given the risk and return profiles of the cash generating units thereby reviewed, the costs of capital have been calculated on an individual basis. The key parameters are as follows:

Cash generating unit	Pre-tax %
Laboratory automation	
2018	8.53
2017	8.37
Manufacturing, parts & services	
2018	7.67
2017	7.52
Diatron	
2018	8.93
2017	8.74
Workflow software	
2018	7.71
2017	7.61
Nucleic acid purification	
2018	*
2017	8.07
Smart consumables	
2018	6.64
2017	6.69

* In the 2018 financial year, the impairment test was performed in accordance with the requirements of IAS 36 (Impairment of Assets) directly prior to reclassification as a discontinued operation. Based on the budgets then applicable, there was no impairment at the time. In the course of the disposal process it became apparent that the fair value less costs to sell was lower than the carrying amount. Reference is made to details provided in Section C. 'Notes to the consolidated balance sheet (17) Assets held for sale and liabilities directly associated with assets held for sale'.

Of the goodwill recognized in the amount of € 41,245k (previous year: € 42,018k), € 648k (previous year: € 654k) results from the acquisition of STRATEC Biomedical UK, Ltd. in the 2006 financial year, € 1,467k (previous year: € 1,488k) from the acquisition of STRATEC Molecular GmbH in the 2009 financial year, € 2,707k (previous year: € 2,584k) from the acquisition of STRATEC Biomedical USA, Inc. in the 2010 financial year, € 27,815k (previous year: € 28,525k) from the acquisition of the Diatron Group and € 8,608k (previous year: € 8,767k) from the acquisition of STRATEC Consumables GmbH in the 2016 financial year. The changes compared with the previous year are mostly due to foreign currency translation. An amount of € 180k is due to the recognition of the prorated goodwill at STRATEC Molecular GmbH in the 'Assets held for sale' balance sheet line item. For impairment testing purposes, the goodwill has been allocated to those cash generating units benefiting from the synergies.

For impairment testing purposes, the carrying amounts of the goodwill resulting from the aforementioned acquisitions have been allocated to the 'laboratory automation', 'manufacturing, parts & services', 'Diatron', 'workflow software', 'nucleic acid purification', and 'smart consumables' cash generating units on the basis of the respective EBITs. The main units have the following characteristics:

€ 000s	Labor-automatisierung		Manufacturing, Parts & Services		Diatron	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Carrying amount of goodwill	15,932	16,035	17,505	17,856	7,177	7,317
Carrying amount of cash generating unit, including goodwill	100,047	90,559	49,253	47,177	46,674	55,178

In line with IAS 36 (Impairment of Assets), the company performed the annual impairment test for these goodwill items as of December 31, 2018 (previous year: October 31, 2017 and December 31, 2017).

The following key assumptions have been used to determine the recoverable amounts of the cash generating units:

Assumptions used to calculate recoverable amounts of cash generating units

Laboratory automation

The budget for the recoverable amount has been based on average sales growth of 2.3% (previous year: 5.4%) and a budgeted average EBIT margin of 12.6% (previous year: 8.8%). This assumption reflects previous management experience. In perpetuity, a growth rate of 1.0% has been assumed (previous year: 1.0%).

Manufacturing, parts & services

Average sales growth of 22.5% (previous year: 13.1%) and a budgeted average EBIT margin of 22.6% (previous year: 26.0%) have been assumed. This assumption reflects past management experience. In perpetuity, a growth rate of 1.0% has been assumed (previous year: 1.0%).

Diatron

The budget for the recoverable amount has been based on average sales growth of 16.0% (previous year: 16.0%) and a budgeted average EBIT margin of 17.9% (previous year: 19.3%). These assumptions are consistent with average growth prospects in the sector based on external market data. In perpetuity, a growth rate of 1.0% has been assumed (previous year: 1.0%).

The sensitivity analysis has assumed a reduction in the future cash flow and an increase in weighted costs of capital by 10% each, as changes on this scale would appear reasonable and possible, especially from a long-term perspective. On this basis, we concluded that there were no indications of any potential impairment in the goodwill reported at STRATEC. As in the previous year, no impairment losses were therefore recognized in the year under report.

An amount of € 631k, and thus not material compared with the total carrying amount of goodwill, was allocated to further cash generating units in the year under report (previous year: € 810k). For the goodwill thereby allocated as well, the annual impairment test did not identify any indications of impairment.

Financial instruments

Accounting in accordance with IFRS 9 (Financial Instruments) from January 1, 2018

1. Recognition and first-time measurement

Financial instruments are recognized and measured in accordance with IFRS 9 (Financial Instruments). Accordingly, financial assets or financial liabilities are recognized in the consolidated balance sheet as soon as STRATEC becomes a party to the contractual requirements of the financial instrument. Trade receivables are recognized at the time at which they arise.

First-time measurement of financial assets and financial liabilities is based on their respective fair values. Transaction costs are accounted for, unless the financial instrument is measured at fair value through profit or loss. Trade receivables without any significant financing component are measured at their respective transaction prices.

2. Financial assets – classification and subsequent measurement

Subsequent measurement of financial assets is based on their allocation upon first-time recognition to the following categories provided for by IFRS 9 (Financial Instruments), for which different measurement rules apply. In general, financial assets are allocated on the basis of business model objectives and cash flow characteristics. STRATEC performs its assessment of the objectives of the business model in which financial assets are held on portfolio level, as this best reflects the way in which the business is managed and information provided to the management. In assessing the characteristics of the cash flows, and in particular whether they are solely payments of interest and principal on the principal amounts outstanding, STRATEC takes due account of the contractual agreements underlying the respective instruments. This includes assessing whether the financial asset includes a contractual arrangement that could modify the time or amount of contractual cash flows, with the result that they no longer satisfy these conditions.

Unless it is designated as FVTPL, a debt instrument is measured at amortized cost when it is held within a business model whose objective involves holding financial assets to collect contractual cash flows and the contractual terms result in cash flows at fixed times that are solely payments of interest and principal on the principal amount outstanding. In accordance with the requirements of IFRS 9 (Financial Instruments), amortized cost is determined using the effective interest method and taking account of any expected impairments. Interest income, exchange rate gains and losses, and impairments are recognized through profit or loss. Gains or losses arising upon derecognition are also recognized through profit or loss.

Unless it is designated as FVPTL, a debt instrument is measured at fair value with any changes in its value being recognized through other comprehensive income (FVOCI debt instrument) when it is held within a business model whose objective involves holding financial assets both to collect contractual cash flows and to sell these and its contractual terms result in cash flows at fixed times that are solely payments of interest and principal on the principal amount outstanding. Interest income, exchange rate gains and losses, and impairments are recognized through profit or loss. Other net gains or losses are recognized in other comprehensive income (OCI). Upon retirement, the accumulated OCI is reclassified to profit or loss.

Unless it is held for trading, an equity instrument is measured at fair value with any changes in its value being recognized through other comprehensive income (FVOCI equity instrument) if STRATEC has irrevocably elected upon initial recognition to present subsequent changes in the fair value of the equity instrument in other comprehensive income. This election is made on a case-by-case basis for each equity instrument. STRATEC exercised this option upon its first-time application of IFRS 9 (Financial Instruments). Dividends are generally recognized as income through profit or loss. Other net gains or losses are recognized in other comprehensive income and never reclassified to profit or loss.

Financial assets not measured at amortized cost or at FVOCI are measured at fair value with any changes in their value being recognized through profit or loss (FVTPL). Measurement also includes derivatives and financial assets held or managed for trading and whose value changes are assessed by reference to their fair values. Furthermore, upon initial recognition companies may irrevocably designate financial assets that otherwise meet the conditions for measurement at amortized cost or at FVOCI as measured at FVPTL ('fair value option'). STRATEC did not exercise this option in the 2018 financial year. Net gains and losses, including all interest and dividend income, are recognized through profit or loss.

3. Financial liabilities – classification and subsequent measurement

Financial liabilities are measured at amortized cost unless they are measured at fair value through profit or loss (FVTPL). Measurement at fair value through profit or loss begins as soon as a financial liability is classified as held for sale, is a derivative, or is designated as such upon initial recognition. Net gains or losses, including interest expenses, are recognized through profit or loss. Other financial liabilities are measured at amortized cost using the effective interest method. Interest expenses and foreign currency translation differences are recognized through profit or loss. Gains or losses arising upon derecognition are also recognized through profit or loss.

4. Derecognition

Financial assets are derecognized when the contractual rights to payment from the financial assets no longer exist or the financial asset has been transferred with all of its material risks and rewards.

Financial liabilities are derecognized when the contractual obligations have been settled, rescinded or have expired.

5. Netting

Financial assets and liabilities are netted and presented in the consolidated balance sheet as net amounts when STRATEC currently has a legally enforceable right to offset the amounts thereby recognized and intends either to obtain settlement on a net basis or to simultaneously settle the liability upon recovery of the respective asset.

6. Derivative financial instruments and hedge accounting

STRATEC holds derivative financial instrument to hedge its currency risks. Derivatives are measured at fair value both upon initial recognition and when measured subsequently. Resultant changes in their value are recognized through profit or loss, as STRATEC has to date not designated any derivatives as hedge instruments.

Accounting in accordance with IAS 39 (Financial Instruments: Recognition and Measurement) until December 31, 2017

Financial assets are recognized and measured in accordance with IAS 39 (Financial Instruments: Recognition and Measurement). Accordingly, financial assets have been recognized in the consolidated balance sheet when STRATEC has a contractual right to receive cash or other financial assets from third parties. These items are basically recognized as of their respective performance dates. They are initially recognized at fair value plus transaction costs. Transaction costs incurred upon the acquisition of financial assets measured at fair value through profit or loss have been expensed directly in the consolidated statement of comprehensive income.

Subsequent measurement is based on the asset's allocation to one of the following IAS 39 categories (Financial Instruments: Recognition and Measurement), which are governed by different measurement rules in each case:

Financial assets measured at fair value through profit or loss comprise financial assets held for trading. Changes in the fair value of financial assets in this category are recognized through profit or loss in the consolidated statement of comprehensive income as of the date of increase or decrease in their value. The financial assets held for trading and financial instruments classified as measured at fair value are recognized on the trading date. The trading date is taken as the date on which STRATEC undertakes to buy or sell the respective assets.

Loans and receivables are non-derivative financial assets not listed on any 'active market'. Trade receivables, future receivables from construction contracts, receivables from associates, and the receivables included in financial assets have been allocated to this category, as have cash and cash equivalents. These items are measured at amortized cost using the effective interest method, accounting for impairments where appropriate. For impairments of trade receivables, a distinction is made between individual allowances and general allowances. These take appropriate account of default risks calculated on the basis of historic experience and individual risk assessments. Impairments of trade receivables are recognized in an allowances schedule. When a receivable is demonstrably in default, its carrying amount is written down directly. Given the short-term nature of the maturities, trade receivables are not discounted. Such receivables are only discounted when they are expected to be collected after more than 12 months.

Available-for-sale financial assets include those non-derivative financial assets not allocated to any of the other measurement categories, as well as the shares in Quanterix Corporation, US. Changes in the fair value of available-for-sale financial assets are recognized in other comprehensive income in equity. Pursuant to IAS 39.55 (b), changes in their fair value are generally only recognized through profit or loss upon derecognition. When the fair value falls either permanently or significantly short of cost, then a corresponding impairment is recognized through profit or loss in the consolidated statement of comprehensive income. Financial assets for which no listed market price is available and whose fair value cannot be reliably estimated are measured at cost, less any impairment losses.

STRATEC does not have any financial assets in the financial investments held to maturity category.

When there are objective indications of impairment in the case of financial assets in the loans and receivables and available-for-sale financial assets categories, then a test is performed to ascertain whether their carrying amounts exceed the present value of the expected future cash flows determined on the basis of the market yields of comparable instruments. Should this be the case, corresponding impairment losses are recognized through profit or loss.

Application is made of the following requirements when the reasons for impairment losses previously recognized no longer apply: Impaired items in the loans and receivables, available-for-sale debt instruments and held-to-maturity financial investments categories may not be written up beyond their respective amortized cost. Impairments of items in the available-for-sale equity instruments category may not be reversed through profit or loss. Impairments of unlisted equity instruments whose fair value cannot be reliably determined may not be reversed.

Financial assets are retired when the contractual rights to payment have expired or the financial assets have been assigned.

Financial liabilities are recognized in the consolidated balance sheet when STRATEC has a contractual obligation to transfer cash or other financial assets to a third party. These items are initially recognized at the fair value of the consideration received, less transaction costs where appropriate. They are subsequently measured at amortized cost using the effective interest method. Financial liabilities are retired when the contractual obligations have been met or cancelled, or have expired. STRATEC has not drawn on the option provided for in specified circumstances of designating financial liabilities upon initial recognition as financial liabilities measured at fair value through profit or loss.

Where STRATEC has made use of derivative financial instruments (generally currency futures to manage exchange risks), these have initially been recognized at fair value and subsequently measured at fair value as of each balance sheet date. Gains or losses resulting from measurement have been recognized directly through profit or loss in the consolidated statement of comprehensive income, unless the derivative is designated and effective as a hedge within hedge accounting. However, STRATEC has so far not drawn on the possibility of designating such instruments as hedges. Derivatives with positive fair values are recognized as financial assets, while derivatives with negative fair values are recognized as financial liabilities.

Inventories

Broadly speaking, inventories include assets held for sale in the normal course of business (finished products and merchandise), assets currently in the process of being manufactured for sale (unfinished products and contract fulfilment costs/unfinished services), and assets consumed during the manufacturing process or in the performance of services (raw materials and supplies). These items are measured at their cost of acquisition or at their net disposal value, if lower.

Upon addition, raw materials, supplies and merchandise are measured at their average cost of acquisition.

The manufacturing costs for unfinished and finished products include both directly allocable manufacturing wage and material expenses and a prorated share of material and production overheads, including depreciation. The manufacturing costs for contract fulfilment costs/unfinished services include both directly allocable manufacturing wage expenses and prorated production overheads. Administration expenses are also included to the extent that they can be directly allocated to production. Sales-related expenses are not included. Due to materiality considerations, borrowing costs as defined in IAS 23 (Borrowing Costs) have been recognized in full through profit or loss in the consolidated statement of comprehensive income.

Consistent with STRATEC's business model, this balance sheet item also includes development projects based on contracts with customers (development cooperations) or other contracts with customers. In respect of the accounting policies applied for development cooperations, reference is made to the information in 'Recognition of sales, cost of sales, research and development expenses' in this section.

Taxes

The taxes on income reported include the taxes levied on taxable profit and deferred tax items at companies in the STRATEC Group. The income taxes reported have been calculated in accordance with the country-specific tax legislation valid or enacted as of the balance sheet date, and in the amount at which they are expected to be paid or refunded.

Other taxes levied on items other than income have been recognized in other operating expenses in the consolidated statement of comprehensive income.

Deferred taxes have been calculated using the liability method for temporary differences between the amounts recognized for assets and liabilities in the tax balance sheet and those stated in the IFRS financial statements, as well as for consolidation entries and loss carryovers likely to be realized.

Deferred tax assets on temporary differences and tax loss carryovers have been capitalized to the extent that it is likely that future taxable income will be available and that there is sufficient likelihood that the loss carryovers will be utilized. The assessment of the ongoing value of tax loss carryovers has been based on short and medium-term forecasts concerning the future earnings situation of the respective group company. In this assessment, STRATEC is further bound by the tax law norms valid or enacted as of the balance sheet date. Future legislative amendments may thus make it necessary to adjust the respective values through profit or loss.

Pursuant to German tax law, deferred taxes have been recognized on 5 % of the differences resulting from translating foreign financial statements denominated in foreign currencies.

No further deferred taxes have been recognized in connection with temporary differences for interests in subsidiaries as STRATEC is able to manage the timing of any reversal of these differences and these are unlikely to be reversed in the foreseeable future. The net balance of deferred taxes for STRATEC Molecular GmbH, which is held for sale pursuant to IFRS 5 (Non-Current Assets Held for Sale and Discontinued Operations), is of immaterial significance.

Deferred tax assets and liabilities have been reported on a net basis in cases where they refer to the same taxable entity and the same tax authority. Where gains and losses have been recognized directly in equity, the same applies for the relevant deferred tax assets and liabilities.

Provisions for pensions and similar obligations

Company pensions at STRATEC involve both defined contribution and defined benefit schemes.

In defined contribution pension schemes, STRATEC is obliged to pay contributions to state or private pension companies in accordance with statutory or contractual requirements. Apart from these contributions, STRATEC is not subject to any further payment obligations. Current contributions have been recognized as expenses in the consolidated statement of comprehensive income.

At STRATEC, the defined contribution pension schemes take a variety of forms due to the different country-specific requirements in Germany, Austria, and Switzerland. To cover the commitments made, STRATEC makes contributions to external plan assets in some cases. In line with IAS 19 (Employee Benefits), the present value of pension obligations has been calculated using the projected unit credit method. This involves future obligations being measured using actuarial methods. The calculations at STRATEC have mainly been based on statistical data concerning mortality and invalidity rates, on assumptions concerning the discount rate, and the expected income from plan assets. The discount rate and the expected return on plan assets has basically been determined by reference to the yields on congruent corporate bonds of AA-rated companies, or additionally by reference to the yields on corresponding government bonds. The fair value of the plan assets has been deducted from the present value of the pension obligations. The obligations and plan assets are measured annually. Actuarial calculations are performed as of the balance sheet date. Remeasurements for actuarial items are recognized directly in 'Other comprehensive income'.

In respect of the delineation between defined contribution and defined benefit pension plans, which requires discretionary decisions, reference is made to the comments in 'Discretionary decisions' in this section.

Other provisions

Other provisions have been recognized to cover legal or constructive obligations to third parties resulting from past events which are likely to lead to a future outflow of resources and for which the expected amount of the obligation can be reliably estimated.

Such obligations have been recognized at the present values of the expected outflow of resources where this is expected to occur later than in the following year. Refund claims due from third parties have been recognized separately from provisions to the extent that their realization is virtually certain.

Other provisions include those for guarantee and warranty obligations. The calculation of the scope of obligation has been based on the sales involving such guarantees thereby generated, on the respective contractual warranty periods, as well as on past empirical values, which are adapted on the basis of the implications of currently observable information and data, thus supplementing the implications of the historic values by reference to this current information and data.

Share-based payment transactions

IFRS 2 (Share-based Payment) makes a distinction between transactions that are cash-settled and those that are equity-settled. STRATEC recognizes two arrangements (previous year: three arrangements) that are within the scope of IFRS 2 (Share-based Payment):

Cash-settled stock appreciation rights (SARs) and equity-settled stock options for employees.

In the 2017 financial year, STRATEC also issued employee shares within its employee participation program.

Goods and services received for cash-settled share-based payments (stock appreciation rights – SARs) have been measured at each reporting date and settlement date at the fair value of the respective liability, which is determined using recognized option pricing models. Changes in fair value are recognized through profit or loss.

Given the lack of a separately determinable fair value for the services involved, goods and services received for equity-settled share-based payments (stock options, employee participation program) have been measured at the fair value of the equity instruments as of the grant date and, in the case of stock options, using recognized option pricing models. Where the exercising of equity instruments granted or of the right to cash payment is dependent on the performance by the contractual party of a specific period of service, it is assumed that the services to be performed by the counterparty as consideration will be received during the vesting period in future. The payment expenses are therefore recognized over the vesting period within which the beneficiaries acquire an unrestricted claim to the instruments thereby committed.

Contingent liabilities

Contingent liabilities are potential obligations resulting from past events whose existence is conditional on the materialization or otherwise of one or several uncertain future events not fully within STRATEC's control. In this case, an outflow of resources is deemed unlikely or the scope of obligation cannot be reliably estimated.

Recognition of sales, cost of sales, research and development expenses

Accounting in accordance with IFRS 15 (Revenue from Contracts with Customers) from January 1, 2018

The core principles governing the recognition of sales, as well as of cost of sales and research and development expenses, in respect of STRATEC's business model are as follows:

Unless they involve development projects without a customer contract, the development expenses incurred for development projects are generally recognized as expenses in the period in which they are incurred, with the exception of research and development projects acquired upon company acquisitions, and development expenses cumulatively meeting the criteria stipulated in IAS 38.57. Capitalized development expenses are tested for impairment at least once a year in line with IAS 36 (Impairment of Assets) in cases where they are not yet ready for their intended use. Impairment losses are recognized when the carrying amount of the capitalized assets exceeds the recoverable amount. Once ready for their intended use, assets are amortized, generally over periods of five to eight years.

In the 2018 financial year, **development expenses** in connection with aforementioned development projects were capitalized as internally generated intangible assets in an amount of € 7,270k. Pursuant to IAS 38.54, expenses attributable to **research expenses** are recognized as expenses in the period in which they are incurred.

For development projects with customer contracts (development cooperations) or other contracts with customers, STRATEC recognizes sales for development and other services and for sales of analyzer systems, service parts, and consumables. These are based on STRATEC's customer contracts and the performance obligations contained therein, which are individually identified and presented separately for the purpose of recognizing sales. Sales are recognized when or as STRATEC transfers control over goods or services to customers either at a given point in time or over a given period of time. For sales of analyzer systems, service parts, and consumables, the respective sales are generally recognized at a point in time determined by taking account of the transfer of ownership and assignment of the related risks and rewards. Sales for other services are generally recognized over the time in which they are performed in accordance with the percentage of completion. Depending on contractual requirements, sales for development performance obligations are recognized over time or at a given point in time. The four main case groups for recognizing development cooperations and associated development performance obligations in the OEM partnering business are presented below. This is the business model which in both quantitative and qualitative terms is of the greatest significance for STRATEC:

CASE 1	CASE 2	CASE 3	CASE 4
• Development performance obligation satisfied at a point in time (IFRS 15.38) • Development expenses covered by milestone payments > Contract fulfilment costs • Shortfall > Intangible asset pursuant to IAS 38	• Development performance obligation satisfied at a point in time (IFRS 15.38) • Transaction price allocated from appliance delivery obligations for minimum acceptance volumes to development work > Contract asset • Development expenses covered by payments > Contract fulfilment costs • Shortfall > Intangible asset pursuant to IAS 38	• Development performance obligation satisfied over time (IFRS 15.35(c)) • Transaction price allocated from appliance delivery obligations for minimum acceptance volumes to development work > Contract asset	• Development performance obligation satisfied over time (IFRS 15.35(c)) • Transaction price not allocated from appliance delivery obligations for minimum acceptance volumes to development work

Sales are recognized in the amount which STRATEC expects to receive for satisfying the performance obligations. Fee components that have to be withheld for third parties, such as sales taxes and revenue reductions, are deducted from the sales recognized. STRATEC adjusts the amount of promised consideration to account for the effects of significant financing components when the period between satisfaction of a performance obligation and payment for such is expected to amount to more than one year. STRATEC usually has significant financing components when development performance obligations are satisfied over a period of time and STRATEC only receives consideration upon completion of development. Financing components are evaluated for each contract and are only significant when factors such as a lower cash purchase price and the combined effect of the passage of time and market interest rates give reason to expect a significant variance from the agreed consideration.

Additional contract acquisition costs are directly expensed when the amortization period does not amount to more than one year. As a general rule, STRATEC does not incur any additional costs that would not have arisen without corresponding contractual agreements. The costs incurred by STRATEC to acquire contracts are therefore recognized as expenses at the time at which they are incurred.

Costs incurred to satisfy performance obligations ('contract fulfilment costs') that are within the scope of IFRS 15 (Revenue from Contracts with Customers) are capitalized as assets and recognized in inventories when the costs lead to the creation or improvement of resources that will be used in future to satisfy performance obligations and are expected to be settled.

At the time at which a contract is agreed, STRATEC does not recognize an asset or liability for the resultant pending transaction. Only when one of the parties to the contract meets its obligation does STRATEC recognize a contract asset or contract liability in its consolidated balance sheet. A contract liability exists when the customer has already paid all or part of the consideration due for the promised services before STRATEC has transferred these to the customer. In STRATEC's business model, this situation may arise, for example, with development service obligations satisfied at a point in time when the customer makes milestone payments during the development phase. In this case, STRATEC recognizes the milestone payments as contract liabilities until the development work is transferred to the customer and the associated sales are recognized. In the reverse case, in which STRATEC provides its services and the customer has not yet paid consideration, STRATEC reviews whether its claim to payment of the consideration is conditional or unconditional. A conditional claim leads to the recognition of a contract asset, while an unconditional claim results in the recognition of a trade receivable.

In STRATEC's business model, this may be the case for a development performance obligation satisfied over time for which the costs of satisfying the development performance obligation exceed the consideration paid by the customer during the period in which the service is performed. Furthermore, the arising of an unconditional payment claim in connection with the development service obligation may also depend on the satisfaction of further contractually agreed performance obligations.

Should STRATEC be contractually obliged to transfer several performance obligations to a customer, the contractually promised consideration is divided on the basis of the standalone selling price at the time at which the contract was concluded. Standalone selling prices are not directly observable within STRATEC's development cooperation business model, i.e. STRATEC does not separately transfer similar goods and services to similar customers. In this case, the standalone selling price for a good or service must be estimated using a suitable method. For this purpose, STRATEC generally uses the 'expected-cost-plus-a-margin' approach. The method applied is subject to discretionary decisions and estimation uncertainties.

Accounting in accordance with IAS 11 (Construction Contracts) and IAS 18 (Revenue) until December 31, 2017

The key principles underlying the recognition of sales and the recognition of cost of sales and research and development expenses given the business model at STRATEC are as follows:

When recognizing development expenses, a distinction is made between proprietary development projects and development cooperations.

Development expenses for proprietary development projects are generally recognized as expenses in the period in which they are incurred, with the exception of research and development projects acquired upon company acquisitions, and development expenses cumulatively meeting the criteria stipulated in IAS 38.57. Capitalized development expenses are tested for impairment at least once a year in line with IAS 36 (Impairment of Assets) in cases where they are not yet ready for their intended use. Impairment losses are recognized when the carrying amount of the capitalized assets exceeds the recoverable amount. Once ready for their intended use, assets are amortized, generally over periods of five to eight years.

For development cooperations, it is first assessed whether the respective development cooperation constitutes a construction contract pursuant to IAS 11 (Construction Contracts). This assessment is largely based on the relevant facts and circumstances as to whether a binding agreement for the recovery of these costs of the early development phase already exists upon conclusion of the development agreement.

Where a binding agreement of this nature already exists upon conclusion of the development agreement, sales for these orders are recognized in accordance with the requirements of IAS 11 (Construction Contracts) in the development stage already. Pursuant to IAS 11.32 et seq., however, the sales recognized are limited to the amount of contract costs incurred, as the development stage is viewed as an early stage of the respective contract. No earnings are therefore recognized. Here too, the respective contracts are tested for loss-free measurement (impairment) as a minimum as of each balance sheet date. This test is performed by analogy with the requirements of IAS 36 (Impairment of Assets). Development cooperations classified as construction contracts during the development stage are recognized in each case in line with IAS 11 (Construction Contracts) as either receivables or liabilities from construction contracts. Any differential amount arising following completion of the development stage between the development expenses capitalized and the payments received is amortized in the subsequent appliance manufacturing stage within sales over the agreed minimum purchase volume.

Where no binding agreement of this nature already exists upon conclusion of the development agreement, amounts not covered by agreed payments gradually arise for these orders as the relevant development work progresses. Where the requirements of IAS 38.57 are cumulatively met, the (prorated) shortfall determined for these projects using the percentage of completion method is capitalized. These items are recognized as intangible assets within non-current assets pursuant to IAS 38 (Intangible Assets), while the development expenses covered by agreed payments are recognized either as unfinished services pursuant to IAS 2 (Inventories) or as trade receivables. The recognition of sales during the development stage is based on the percentage of completion pursuant to IAS 18.21. In line with IAS 18.24 (c), percentage of completion is calculated as the ratio of the costs incurred as of the balance sheet date to the estimated total costs for the development agreement. In the case of contingent milestone payments pursuant to IAS 18.25 Sentence 2, however, sales may only be recognized when the respective conditions governing the milestone payment have been met. In these cases too, the sales thereby recognized are 'capped' at the percentage of completion of the order at that point in time. Unfinished services pursuant to IAS 2 (Inventories) are recognized as costs of sales in each case at the time at which the aforementioned principles governing the recognition of sales are met, while the capitalized shortfall pursuant to IAS 38.97 et seq. is amortized over the expected purchase volume following completion of the development stage and from the beginning of the appliance manufacturing stage. This amortization is also recognized within cost of sales. Furthermore, in line with IAS 36.10 (a) the capitalized shortfall is tested for impairment as a minimum as of each balance sheet date – and also during the financial year should there be any corresponding indications of impairment.

The recognition of sales in the appliance manufacturing stage is treated as a 'sale of goods' pursuant to the requirements of IAS 18.14 et seq. This approach is adopted irrespective of whether or not the preceding development stage constitutes a construction contract pursuant to IAS 11 (Construction Contracts).

The following aspects should also be noted:

Cost of sales basically consists of production-related manufacturing expenses for completed development cooperations and sold products. Alongside directly attributable individual material and production costs, they also include systematically attributed production overheads, including depreciation of production-related assets and impairments of inventories.

Development expenses of € 2,908k were capitalized as internally generated intangible assets for proprietary development projects in the 2017 financial year. Pursuant to IAS 38.54, outlays allocable to research expenses are recognized as expenses in the period in which they are incurred.

Discretionary decisions and forward-looking assumptions

The preparation of the consolidated financial statements requires a certain number of discretionary decisions and forward-looking assumptions to be made which have implications for the method of statement and volume of assets, liabilities, expenses, income and contingent liabilities thereby recognized.

The most important discretionary decisions and forward-looking assumptions, as a result of which there may be a substantial risk of significant adjustments being required in the assets and liabilities thereby recognized in the coming financial year, are presented in greater detail below:

Discretionary decisions

1. Capitalization of internally generated intangible assets in connection with the development, or development stage, of a proprietary development project

The assessment as to whether the requirements for capitalization have been met in each individual case is subject to significant discretionary decisions. Given the empirical values available in the fields of development and project management, STRATEC assumes that the estimates in terms of technical feasibility, expected overall costs and market conditions are sufficiently reliable. When determining the recoverable amount, assumptions have been made concerning product lifecycles and the resultant future cash flows. The discount rates have been based on the relevant weighted average costs of capital (WACC) of the cash generating units performing the development work, adjusted where appropriate to account for the relevant term.

2. Recognition of development cooperations and recognition of sales in accordance with IFRS 15 (Revenue from Contracts with Customers)

Through to the end of the 2017 financial year, the adequate accounting treatment of development cooperations including the manufacturing of analyzer systems within the business model at STRATEC SE represented one of the main accounting problems, and one that was subject to significant discretionary decisions. Reference is made in this respect to the information provided in 'Recognition of sales, cost of sales, research and development expenses' in this section with regard to accounting in accordance with IAS 11 (Construction Contracts) and IAS 18 (Revenue) until December 31, 2017.

With regard to the discretionary decisions made in connection with the first-time application of IFRS 15 (Revenue from Contracts with Customers) from the beginning of the 2018 financial year, reference is made to the information provided in Section A. 'General disclosures – IFRS 15 (Revenue from Contracts with Customers) and in 'Recognition of sales, cost of sales, research and development expenses' in this section with regard to accounting in accordance with IFRS 15 (Revenue from Contracts with Customers) from January 1, 2018.

3. Allocation of goodwill to cash generating units for impairment testing purposes

The allocation of goodwill acquired upon company acquisitions to cash generating units for impairment testing purposes pursuant to IAS 36 (Impairment of Assets) is subject to significant discretionary decisions. From the takeover date onwards, STRATEC allocates the goodwill resulting from any company acquisition to each cash generating unit at the company intended to benefit from the synergies expected to arise on account of the business combination. STRATEC works with appropriate key figures (EBIT factors) to determine the potential synergies expected in each case.

4. Identification of functional currency

When determining the functional currency of a foreign business operation and deciding whether its functional currency is identical with that of the reporting company, reference has to be made to the indicators specified in IAS 21 (The Effects of Changes in Foreign Exchange Rates). When these indicators provide a mixed picture and the functional currency is not immediately apparent, STRATEC determines at its own discretion which functional currency best reflects the economic implications of the underlying business transactions, events and circumstances. In the case of foreign group companies, the respective national currencies have accordingly been chosen as the functional currencies with the exception of Medical Analyzers Holding GmbH, Zug, Switzerland, whose functional currency has been the euro since December 31, 2018. With regard to the change in the functional currency at Medical Analyzers Holding GmbH, Zug, Switzerland, reference is made to the information provided in 'Currency translation' in this section.

5. Classification of pension commitments with insurance-based execution channels

Pension commitments require classification as defined contribution plans pursuant to IAS 19.8 when STRATEC (employer) pays set contributions to an independent unit (fund) and has no legal or constructive obligation to pay further contributions if the fund does not have sufficient assets to cover its payments for all work performed by employees in the period under report or earlier periods (IAS 19.8, IAS 19.28). All other commitments constitute defined benefit plans as defined in IAS 19.8.

Despite the subsidiary liability incumbent on STRATEC SE under the German Company Pensions act (BetrAVG), in Germany certain pension commitments with insurance-based execution channels have been recognized in line with customary practice as defined contribution plans provided that it is highly unlikely as of the balance sheet date that any further claims will be made on the employer.

Given that, in view of the ongoing climate of low interest rates, the imposition of such claims on STRATEC SE could no longer be assessed as highly unlikely as of the balance sheet date, the question arose as to how any transition to recognition of the respective commitments as a defined benefit plan should be presented in the financial statements. This matter is not regulated by IAS 19 (Employee Benefits). According to the relevant IFRS module pronouncement issued by the German Institute of Auditors (IDW), namely RS HFA 50 Modul IAS 19 - M1 (Accounting for Pension Commitments with Insurance-Based Execution Channels in Prolonged Periods of Low Interest Rates), various perspectives are basically permitted.

Based on the specific facts and circumstances, STRATEC concluded that the 'reassessment without changing classification' perspective included in the pronouncement adequately addressed the situation. According to this perspective, the probability of a pension commitment with insurance-based execution channels being utilized for a defined benefit plan represents an actuarial assumption. Actuarial assumptions are the best estimates made by a company concerning variables that will ultimately determine the costs incurred for post-employment benefits (IAS 19.76). In the cases under discussion here, these costs will – alongside the contributions requiring payment – particularly be determined by the level of liability over and above these contributions. Any change to this actuarial assumption (probability of utilization) leads to an actuarial gain or loss requiring recognition as a remeasurement in other comprehensive income (IAS 19.8, IAS 19.120(c)). If a pension commitment previously treated as a defined contribution plan is reassessed due to the increased probability of claims being imposed and subsequently treated as a defined benefit plan then – assuming the existence of plan assets – any net liability requiring recognition must be charged to other comprehensive income. In its consolidated balance sheet as of December 31, 2018, STRATEC has therefore recognized an amount of € 221k (before deferred tax assets of € 61k) in equity and charged this to equity within other comprehensive income.

Forward-looking assumptions

1. Determination of the recoverable amount when testing goodwill for impairment under IAS 36 (Impairment of Assets)

Due to the large number of variables involved, the goodwill impairment test (carrying amount as of December 31: € 41,245k; previous year: € 42,018k) is subject to a difficult assessment involving a significant degree of uncertainty in the estimates used. The principal assumptions underlying the impairment test performed at each balance sheet date are outlined under 'Impairment tests' in this section. When performing sensitivity analyses for goodwill impairment tests, a reduction in the future cash flow and an increase in the weighted costs of capital by 10% each has been assumed, as changes on this scale would appear possible from a long-term perspective. On this basis, STRATEC has concluded that there are no indications of potential impairment in the goodwill of any of its cash generating units.

2. Determination of the recoverable amount when testing other intangible assets for impairment under IAS 36 (Impairment of Assets)

Other intangible assets (e.g. capitalized development expenses) are tested for impairment either upon the occurrence of a triggering event (where the respective assets are subject to scheduled amortization) or at least once a year (where the respective assets are not subject to scheduled amortization) (carrying amount as of December 31, 2018: € 57,017k; previous year: € 68,708k). These impairment tests are also subject to the same difficulties and discretionary scope as the goodwill impairment test. When performing sensitivity analyses for these impairment tests, a reduction in the future cash flows and an increase in the weighted costs of capital by 10% each has been assumed, as changes on this scale would appear possible from a long-term perspective. Based on the sensitivity analyses performed for the impairment tests, STRATEC concluded that there are no indications of potential impairment in these assets over and above those outlined in Section C. 'Notes to the consolidated balance sheet (1) Goodwill and other intangible assets'.

3. Measurement of the stock appreciation rights (SARs) granted (carrying amount as of December 31: € 944k; previous year: € 1,988k) and determination of the resultant personnel expenses pursuant to IFRS 2 (Share-based Payment)

The stock appreciation rights (SARs) granted have been measured by an independent surveyor specializing in option valuation. This surveyor used the binomial tree method to measure the SARs. The principal parameters subject to estimates (term, expected volatility, risk-free interest rate) have been presented in Section C. 'Notes to the consolidated balance sheet (12) Non-current and current financial liabilities – Stock appreciation rights (SARs)'.

4. Measurement of post-employment defined benefit plans pursuant to IAS 19 (carrying amount as of December 31: €3,811k; previous year: € 3,402k)
The defined benefit plans pursuant to IAS 19 have been measured by an independent company specializing in employee benefits. With regard to the principal parameters used in this measurement, reference is made to the information provided in Section C. 'Notes to the consolidated balance sheet (10) Provisions for pensions'.

5. Calculation of provision for guarantee and warranty obligations pursuant to IAS 37 (Provisions, Contingent Liabilities and Contingent Assets)
When calculating the provision for guarantee and warranty obligations (carrying amount as of December 31: € 965k; previous year: € 1,031k), the management takes due account of historic values from the past, which are adapted on the basis of the implications of currently observable information and data, thus supplementing the implications of the historic values by reference to this current information and data. The insights gained in the current financial year did not lead to any material change in the provision for guarantee and warranty obligations. Actual expenses in future financial years may deviate from the estimated figures.

6. Recognition of deferred taxes for temporary differences and tax loss carryovers pursuant to IAS 12 (Income Taxes)
In its assessment that the – predominantly short-term – differences between the figures recognized for tax purposes and the figures recognized in the IFRS consolidated financial statements will reverse in subsequent financial years, the management is bound pursuant to IAS 12 (Income Taxes) by the requirements of tax law valid or enacted as of the balance sheet date. Future legislative amendments could therefore make it necessary to adjust these figures through profit or loss. In its assessment that it will be possible to offset the tax loss carryovers recognized against future profits, the management relies on its short and medium-term budget forecasts. The actual materialization of future profits is based on discretionary estimates. The carrying amounts of the deferred tax assets and liabilities recognized and not recognized in the consolidated financial statements, as well as their arising and changes in the 2018 financial year compared with the previous year have been explained in detail in Section C. 'Notes to the consolidated balance sheet (11) Taxes on income'.

7. Determining the period and method of amortization applicable to intangible assets capitalized in the context of development cooperations in the OEM partnering business model
For intangible assets with limited useful lives, IAS 38.97 requires the amortizable amount to be allocated over the respective **useful life**. According to the definition provided in IAS 38.8, the **useful life** is either the period over which the asset is expected to be of use to the company or the number of production or similar units which the asset is expected to generate at the company. Pursuant to IAS 38.97, the **method of amortization** has to correspond to the expected pattern of use for the future economic benefits accruing to the company from the asset. According to IAS 38.98, reference may be made to various methods of amortization when determining the scheduled allocation of the amortizable amount. Alongside the straight-line and decreasing balance methods, these also include the units of production method. Pursuant to IAS 38.98B, when selecting an appropriate method of amortization as required by IAS 38.98 the company can determine the inherent predominant limiting factor relevant to the intangible asset. This may serve as the starting point for determining the appropriate amortization base. In the case of the development cooperations in STRATEC's OEM partnering business model, the decision as to whether the inherent predominant limiting factor is time-based or based on the number of units produced represents a discretionary assessment. Taking due account of all circumstances, STRATEC concluded that the number of units produced is the predominant limiting factor. In conjunction with the impairments tests performed at least once a year pursuant to IAS 36 (Impairment of Assets), the resultant method of amortization tends to result in the recognition of higher expenses in early appliance stages than would be the case with straight-line amortization – should this have been based on past experience with the current product lifecycles for the appliances, which generally range from 12 to 15 years.

There are no other significant forward-looking assumptions and sources of uncertainty concerning estimates at the balance sheet date which involve any substantial risk of material adjustments being required in the assets and liabilities thereby recognized within the coming financial year.

C. NOTES TO THE CONSOLIDATED BALANCE SHEET

(1) Goodwill and other intangible assets

Intangible assets developed as follows in the 2018 financial year:

	Goodwill € 000s	Acquired technologies € 000s	Acquired R&D projects € 000s	Internally generated intangible assets € 000s	Acquired patents € 000s	Acquired trade-marks € 000s	Acquired customer bases € 000s	Other rights and values € 000s	Advance payments € 000s	Total € 000s
Acquisition and manufacturing costs Balance at 12.31.2017	**42,018**	**27,134**	**431**	**40,282**	**5,023**	**2,993**	**27,386**	**7,039**	**0**	**152,306**
IFRS 15 adjustments	0	0	0	-7,122	0	0	0	0	0	-7,122
Acquisition and manufacturing costs Balance at 12.31.2018	**42,018**	**27,134**	**431**	**33,160**	**5,023**	**2,993**	**27,386**	**7,039**	**0**	**145,184**
Additions	0	0	0	7,057	0	0	0	1,342	22	8,421
Disposals	0	0	0	-2,188	0	0	0	-48	0	-2,236
Reclassifications	0	0	0	-166	0	0	0	166	0	0
IFRS 5 reclassifications	-179	-1,533	-431	-1,248	0	0	-405	-117	0	-3,913
Currency differences	-594	-446	0	28	0	-100	-338	11	0	-1,439
Balance at 12.31.2018	**41,245**	**25,155**	**0**	**36,643**	**5,023**	**2,893**	**26,643**	**8,393**	**22**	**146,017**

	Goodwill € 000s	Acquired technologies € 000s	Acquired R&D projects € 000s	Internally generated intangible assets € 000s	Ac-quired patents € 000s	Acquired trade-marks € 000s	Acquired customer bases € 000s	Other rights and values € 000s	Advance payments € 000s	Total € 000s
Accumulated amortization and impairments Balance at 12.31.2017	**0**	**10,744**	**392**	**18,083**	**500**	**524**	**7,720**	**3,617**	**0**	**41,580**
IFRS 15 adjustments	0	0	0	-2,158	0	0	0	0	0	-2,158
Accumulated amortization and impairments Balance at 01.01.2018	**0**	**10,744**	**392**	**15,925**	**500**	**524**	**7,720**	**3,617**	**0**	**39,422**
Additions to amortization	0	2,335	39	4,186	333	291	5,100	1,097	0	13,381
Impairments	0	222	0	420	0	0	0	0	0	642
Write-ups	0	0	0	0	0	0	0	0	0	0
Disposals	0	0	0	-2,188	0	0	0	-48	0	-2,236
Reclassifications	0	0	0	-161	0	0	0	161	0	0
IFRS 5 reclassifications	0	-1,533	-431	-819	0	0	-405	-116	0	-3,304
Currency differences	0	-102	0	54	0	-19	-98	15	0	-150
Balance at 12.31.2018	**0**	**11,666**	**0**	**17,417**	**833**	**796**	**12,317**	**4,726**	**0**	**47,755**
Carrying amounts at 12.31.2018	**41,245**	**13,489**	**0**	**19,226**	**4,190**	**2,097**	**14,326**	**3,667**	**22**	**98,262**

The goodwill results from the acquisitions of the subsidiaries STRATEC Consumables GmbH, the Diatron Group, STRATEC Biomedical UK, Ltd., STRATEC Molecular GmbH, and STRATEC Biomedical USA, Inc.

The carrying amount of technologies includes the technologies relating to technical solutions for decentralized laboratory analyses in the field of hematology and clinical chemicals identified upon the acquisition of the Diatron Group and the technologies for smart consumables, particularly in the fields of nano-structuring, micro-structuring, coating, and plastics production, identified upon the acquisition of STRATEC Consumables. Furthermore, the carrying amount of technologies includes technology in the field of contact-free measurement and capacity calculation methods identified upon the acquisition of STRATEC Biomedical USA, Inc.

The carrying amount for internally generated intangible assets includes both development expenses capitalized for proprietary development projects (€ 17,290k; previous year: € 11,112k) and development expenses capitalized for development cooperations within the OEM partnering business model (€ 1,936k; previous year: € 11,087k). Reference is made to the information in Section B. 'Accounting policies applied – Recognition of sales, cost of sales, research and development expenses'. The carrying amount for other rights and values includes software and licenses acquired.

In the consolidated statement of comprehensive income, amortization on internally generated intangible assets, technologies, current R&D projects acquired, and other rights and values has been recognized under cost of sales or within the individual functional divisions in line with its causation.

Impairment losses totaling € 642k were recognized under other operating expenses in the 2018 financial year for acquired technologies and internally generated intangible assets relating to proprietary development projects. These items are attributable to the Instrumentation segment. The events and circumstances leading to these impairment losses resulted from the decision taken in the financial year to discontinue active sales operations for the underlying product.

Individual intangible assets with carrying amounts of more than € 2.0 million at the balance sheet date on December 31, 2018 and thus, alongside goodwill, of material significance for the consolidated financial statements of STRATEC comprise the following items: development cooperation A with a carrying amount of € 5,125k – still in the development phase; development cooperation B with a carrying amount of € 2,990k – still in the development phase.

Intangible assets developed as follows in the 2017 financial year:

	Goodwill € 000s	Acquired technologies € 000s	Acquired R&D projects € 000s	Internally generated intangible assets € 000s	Acquired patents € 000s	Acquired trademarks € 000s	Acquired customer bases € 000s	Other rights and values € 000s	Total € 000s
Acquisition and manufacturing costs Balance at 12.31.2016	**42,841**	**27,485**	**431**	**37,591**	**5,023**	**2,997**	**27,960**	**3,720**	**148,048**
Additions	0	0	0	2,907	0	0	0	3,447	6,354
Disposals	0	0	0	0	0	0	0	-60	-60
Reclassifications	0	0	0	0	0	0	0	0	0
Currency differences	-823	-351	0	-216	0	-4	-574	-68	-2,036
Balance at 12.31.2017	**42,018**	**27,134**	**431**	**40,282**	**5,023**	**2,993**	**27,386**	**7,039**	**152,306**

	Goodwill € 000s	Acquired technologies € 000s	Acquired R&D projects € 000s	Internally generated intangible assets € 000s	Acquired patents € 000s	Acquired trademarks € 000s	Acquired customer bases € 000s	Other rights and values € 000s	Total € 000s
Accumulated amortization and impairments Balance at 12.31.2016	**0**	**8,627**	**343**	**14,191**	**167**	**225**	**2.596**	**3,123**	**29,272**
Additions to amortization	0	2,412	49	2,784	333	300	5,243	619	11,740
Impairments	0	0	0	1,185	0	0	0	0	1,185
Write-ups	0	0	0	0	0	0	0	0	0
Disposals	0	0	0	0	0	0	0	-60	-60
Currency differences	0	-295	0	-77	0	-1	-119	-65	-557
Balance at 12.31.2017	**0**	**10,744**	**392**	**18,083**	**500**	**524**	**7,720**	**3,617**	**41,580**
Carrying amounts at 12.31.2017	**42,018**	**16,390**	**39**	**22,199**	**4,523**	**2,469**	**19,666**	**3,422**	**110,726**

In the 2017 financial year, impairment losses of € 1,185k were recognized under other operating expenses for internally generated assets in connection with development cooperations. These are attributable to the Instrumentation segment. The events and circumstances leading to this impairment resulted from decisions taken on the basis of an individual customer assessment concerning the short to medium-term placement opportunities for an assay portfolio not yet fully developed for market penetration.

(2) Property, plant and equipment

Property, plant and equipment developed as follows in the 2018 financial year:

	Land, leasehold rights and buildings € 000s	Technical equipment and machinery € 000s	Other equipment, plant and office equipment € 000s	Prepayments made and assets under construction € 000s	Total € 000s
Acquisition and manufacturing costs Balance at 12.31.2017	**22,262**	**10,636**	**25,345**	**3,398**	**61,641**
Additions	175	840	3,418	6,561	10,994
Disposals	-123	-23	-1,702	-44	-1,892
Reclassifications	162	599	1,473	-2,234	0
IFRS 5 reclassifications	0	-565	-469	0	-1,034
Currency differences	348	-12	67	-2	401
Balance at 12.31.2018	**22,824**	**11,475**	**28,132**	**7,679**	**70,110**

	Land, leasehold rights and buildings € 000s	Technical equipment and machinery € 000s	Other equipment, plant and office equipment € 000s	Prepayments made and assets under construction € 000s	Total € 000s
Accumulated depreciation Balance at 12.31.2017	**4,946**	**4,511**	**16,483**	**0**	**25,940**
Additions	654	3,585	2,559	0	6,798
Disposals	0	-17	-1,465	0	-1,482
Reclassifications	0	-143	145	0	0
IFRS 5 reclassifications	0	-419	-408	0	-827
Currency differences	63	1	105	0	169
Balance at 12.31.2018	**5,663**	**7,518**	**17,419**	**0**	**30,600**
Carrying amounts at 12.31.2018	**17,161**	**3,957**	**10,713**	**7,679**	**39,510**

As in the previous year, it was not necessary to capitalize any borrowing costs as a component of costs of acquisition or manufacturing pursuant to IAS 23 (Borrowing Costs) in the 2018 financial year.

Also as in the previous year, it was not necessary to recognize any impairment losses in the 2018 financial year.

Property, plant and equipment developed as follows in the 2017 financial year:

	Land, leasehold rights and buildings € 000s	Technical equipment and machinery € 000s	Other equipment, plant and office equipment € 000s	Prepayments made and assets under construction € 000s	Total € 000s
Acquisition and manufacturing costs Balance at 12.31.2016	**22,442**	**9,713**	**20,475**	**1,480**	**54,110**
Additions	738	924	5,215	2,435	9,312
Disposals	0	-1	-531	0	-532
Reclassifications	0	28	510	-510	28
Currency differences	-918	-28	-324	-7	-1,277
Balance at 12.31.2017	**22,262**	**10,636**	**25,345**	**3,398**	**61,641**

	Land, leasehold rights and buildings € 000s	Technical equipment and machinery € 000s	Other equipment, plant and office equipment € 000s	Prepayments made and assets under construction € 000s	Total € 000s
Accumulated depreciation Balance at 12.31.2016	**4,372**	**1,881**	**15,068**	**0**	**21,321**
Additions	706	2,644	2,213	0	5,563
Disposals	0	0	-499	0	-499
Currency differences	-132	-14	-299	0	-445
Balance at 12.31.2017	**4,946**	**4,511**	**16,483**	**0**	**25,940**
Carrying amounts at 12.31.2017	**17,316**	**6,125**	**8,862**	**3,398**	**35,701**

(3) Inventories

Raw materials and supplies

In the previous year, expenses of € 904k were recognized through profit or loss under cost of materials for write-downs of raw materials and supplies. The resultant earnings items arose on account of stock movements. In the 2018 financial year, following netting with consumption volumes, particularly for scrapping, impairments of € 182k were reversed and credited to earnings.

Unfinished products, contract fulfilment costs and unfinished services

These items are structured as follows:

	12.31.2018 € 000s	12.31.2017 € 000s
Unfinished products	5,486	5,447
Unfinished services	0	920
Contract fulfilment costs	16,460	0
	21,946	**6,367**

In the previous year, impairment losses of € 113k were recognized through profit or loss under cost of materials for unfinished products. In the 2018 financial year, following netting with consumption volumes impairments of € 185k were reversed and credited to earnings.

With regard to the accounting treatment of development cooperations, reference is made to the information provided in Section B. 'Accounting policies applied – Recognition of sales, cost of sales, research and development expenses'.

Finished products and merchandise

These items are structured as follows:

	12.31.2018 € 000s	12.31.2017 € 000s
Finished products	11,726	5,944
Merchandise	794	62
Prepayments made	335	127
	12,855	**6,133**

In the previous year, impairment losses of € 123k were recognized through profit or loss under cost of materials for unfinished products. In the 2018 financial year, following netting with consumption volumes impairments of € 8k were recognized as expenses and charged to earnings.

Of the items recognized within inventories, the overwhelming share is expected to be realized within a period of twelve months after the balance sheet date.

(4) Contract assets and receivables from construction contracts

Accounting in accordance with IFRS 15 (Revenue from Contracts with Customers) from January 1, 2018

Contract assets mainly involve STRATEC's claims to consideration for work that is completed but not yet invoiced as of the balance sheet date. Contract assets are reclassified as trade receivables when such rights become unconditional. This is generally the case when STRATEC issues or has issued an invoice to the customer.

The increase of € 6,075k in contract assets in the financial year was chiefly due to the recognition of sales for development projects in the Instrumentation segment in which the development work was performed over a period of time pursuant to IFRS 15.35 (c).

Accounting in accordance with IAS 11 (Construction Contracts) and IAS 18 (Revenue) until December 31, 2017

As of the balance sheet date on December 31, 2017, these items were recognized separately in the balance sheet in the 'Receivables from construction contracts' line item. With regard to the recognition of development cooperations as construction contracts pursuant to IAS 11 (Construction Contracts), reference is made to the information provided in Section B. 'Accounting policies applied – Recognition of sales, cost of sales, research and development expenses'

Sales from construction contracts totaling € 10,299k were recognized in the consolidated statement of comprehensive income in the 2017 financial year. The costs incurred amounted to € 5,917k.

Of the future receivables from construction contracts recognized as of December 31, 2017, none were impaired, an amount of € 1,441k was overdue and an amount of € 5,531k was due within one year.

(5) Trade receivables

Of trade receivables (€ 34,750k; previous year: € 39,126k), an amount of € 34,750k (previous year: (€ 39,126k) is due for payment within one year. Customer credit balances have been recognized under financial liabilities.

The allowances schedule for trade receivables developed as follows:

	2018 € 000s	2017 € 000s
Accumulated allowances at 01.01.	1,232	1,280
IFRS 9 adjustments	120	0
Expenses in period under report	289	111
Reversals	-141	-88
Utilized	-130	-35
IFRS 5 reclassifications	-2	0
Currency differences	-16	-36
Accumulated allowances at 12.31.	**1,352**	**1,232**

No expenses of were recognized through profit or loss in the 2018 financial year for the complete write-down of trade receivables. No write-backs were required.

The time band structure of trade receivables and of the allowance recognized for 'expected credit losses' for the 2018 financial year have been presented in the following table (figures in € 000s):

	Gross amount	of which: not overdue at balance sheet date	of which: overdue at balance sheet date within following time bands		
			up to 60 days	between 60 and 90 days	more than 90 days
12.31.2018	**36,102**	**28,546**	**6,195**	**103**	**1,258**
Expected credit loss		**120**	**76**	**47**	**1,109**

To calculate its expected credit losses, STRATEC uses a nuanced method which takes particular account of different country-specific circumstances, for example in terms of overdue periods. Furthermore, due account is taken of the fact that the trade credit insurance policy intended to minimize default risks is concluded by STRATEC SE in particular and covers (only) part of the default risk at subsidiaries. The (expected) premium for the trade credit insurance policy was referred to as the basis for calculating (expected) credit losses. This premium covers overdue periods for both 'short-term' and 'longer-term' maturity bands. Moreover, for uninsured receivables the expected credit losses rise in line with the extent to which the receivables are overdue. In view of this, disclosing the average percentage based on the extent to which receivables are overdue as of the balance sheet date would produce an arbitrary and not especially meaningful figure. This being so, STRATEC has not disclosed this figure.

The time band structure of trade receivables in the 2017 financial year has been presented in the following table (figures in € 000s):

	Gross amount	of which: impaired	of which: neither impaired nor overdue at balance sheet date	of which: not impaired at balance sheet date, but overdue within following time bands			
				up to 30 days	between 30 and 60 days	between 60 and 90 days	more than 90 days
12.31.2017	**40,358**	**1,862**	**28,732**	**7,435**	**1,732**	**234**	**363**

The gross amount of receivables for which allowances had been recognized at the balance sheet date as of December 31, 2017 came to € 1,862k.

No expenses were recognized through profit or loss in the 2017 financial year for the complete write-down of trade receivables. No write-backs were required.

There were no indications at the balance sheet date of any default risks in connection with receivables which were not impaired. Furthermore, material receivables are covered by trade credit insurance policies.

(6) Receivables from associates

These receivables are structured as follows:

Company providing service	Company receiving service	12.31.2018 € 000s	12.31.2017 € 000s
STRATEC SE	STRATEC Biomedical (Taicang) Co. Ltd.	13	15
STRATEC Biomedical UK, Ltd.	Sanguin International Inc.	9	9
		22	**24**

Receivables due from associates are subject to foreign currency risks. Given the amounts involved, however, these do not have any material impact on consolidated net income.

(7) Financial assets

Financial assets are structured as follows:

	12.31.2018 € 000s	12.31.2017 € 000s
Investments in associates	158	158
Investments in listed companies	696	12,114
Other	415	466
	1,269	**12,738**

Investments in associates and other financial assets of € 301k have been recognized under non-current financial assets (previous year: € 82k).

Investments in associates

The composition of investments in associates is presented in Section B. 'Accounting policies applied – Scope of consolidation'. The amounts recognized in the balance sheet developed as follows:

	12.31.2018 € 000s	12.31.2017 € 000s
Carrying amount at 01.01.	158	160
Currency differences	0	-2
	158	**158**

Investments in listed companies

The shares held in listed companies have been measured at their closing prices on the stock market with the highest trading volumes at the balance sheet date and are structured as follows:

	12.31.2018 € 000s	12.31.2017 € 000s
Shares in Quanterix Corporation, US	0	11,140
Other shares	696	974
	696	**12,114**

No securities in listed companies were acquired in the 2018 financial year (previous year: € 1k). Of the net expenses of € 280k (previous year: income of € 2,454k) resulting from the measurement of investments in listed companies as of the balance sheet date, expenses of € 280k (previous year: € 106k) have been recognized through profit or loss under 'Other financial income/expenses' in the consolidated statement of comprehensive income. Furthermore, in the 2017 financial year income of € 2,560k was recognized directly in equity under 'Changes in value of financial investments' in the consolidated statement of comprehensive income.

Shares in Quanterix Corporation, US

The shares hold in Quanterix Corporation, US, were sold in full in June 2018. The resultant implications for STRATEC's consolidated statement of comprehensive income have been presented in detail in Section G. 'Financial instruments'.

Other

The 'Other' line item mainly includes amounts charged on, claims of € 258k for rental deposits (previous year: € 51), loans of € 37k (previous year: € 41k), creditors with debit balances of € 31k (previous year: € 7k), receivables of € 29k due from employees (previous year: € 38k), and refund claims of € 21k (previous year: € 329k).

(8) Other receivables and assets and income tax receivables

Other receivables and assets are structured as follows:

	12.31.2018 € 000s	12.31.2017 € 000s
Contract fulfilment costs	1,109	0
Deferred expenses	1,706	2,160
Sales taxes	3,997	2,275
Other	44	128
	6,856	**4,563**

The contract fulfilment costs of € 1,109k (previous year: € 0k) have been recognized under non-current other receivables and assets.

The other receivables and other assets are neither impaired nor overdue.

Income tax receivables of € 1,418k result from prepayments and refunds of taxes on income (previous year: € 1,543k).

(9) Shareholders' equity

The individual components of shareholders' equity and their development in 2018 and 2017 have been presented in the consolidated statement of changes in equity.

Share capital

The share capital of STRATEC SE amounted to € 11,969k at the balance sheet date (previous year: € 11,921k). The share capital is divided into 11,969,245 ordinary shares (previous year: 11,920,945 ordinary shares). The shares have been paid up in full and are registered shares. Each share entitles its holder to one voting right.

The increase in share capital by € 48k was due to the issue of 48,300 shares for subscription from conditional capitals in the context of stock option programs. The resultant capital increase of € 48k was not yet entered in the Commercial Register as of the balance sheet date. The corresponding entry was made on January 3, 2019.

Authorized capital

Pursuant to § 4 (4.5) of the Articles of Association, the Board of Management is authorized, subject to approval by the Supervisory Board, to increase the company's share capital on one or more occasions prior to May 21, 2020 by a maximum amount of up to € 5,500,000.00 by issuing up to a maximum of 5,500,000 new shares in return for cash or non-cash contributions (**Authorized Capital 2015/I**). In general, shareholders must be granted subscription rights. In specific circumstances outlined in the Articles of Association, however, the Board of Management is entitled to exclude such subscription rights for a total amount of up to 20% of existing share capital upon this authorization becoming effective or, if lower, of the equivalent amount upon this authorization being acted on. Authorized Capital amounted to € 5,500,000 as of December 31, 2018.

Conditional capital

§ 4 (4.6) Paragraph 1 of the Articles of Association provides for **Conditional Capital V/2009**. This conditional capital increase serves to grant subscription rights (stock options) up to May 19, 2014 on the basis of the resolution adopted by the Annual General Meeting on May 20, 2009. Pursuant to the resolution adopted by the Annual General Meeting on June 6, 2013, Conditional Capital V/2009 was reduced to € 198,500.00 and the authorization to grant stock options dated May 20, 2009 rescinded to the extent that no further new option rights may be granted; only existing option rights may be exercised. Conditional Capital V/2009 amounted to € 6,500.00 as of December 31, 2018.

§ 4 (4.6) Paragraph 2 of the Articles of Association provides for **Conditional Capital VI/2013**. This conditional capital increase serves to grant subscription rights (stock options) up to June 5, 2018 on the basis of the resolution adopted by the Annual General Meeting on June 6, 2013. Pursuant to the resolution adopted by the Annual General Meeting on May 30, 2018, Conditional Capital VI/2013 was reduced to € 190,000.00 and the authorization to grant stock options dated June 6, 2013 rescinded to the extent that no further new option rights may be granted; only existing option rights may be exercised. The new shares have profit entitlement from the beginning of the financial year in which they are issued. Conditional Capital VI/2013 amounted to € 167,250.00 as of December 31, 2018.

Furthermore, § 4 (4.6) Paragraph 3 of the Articles of Association provides for **Conditional Capital VIII/2018.** This conditional capital increase serves exclusively to grant subscription rights (stock options) up to May 29, 2023 on the basis of the resolution adopted by the Annual General Meeting on May 30, 2018. The conditional capital increase is only executed to the extent that bearers of stock options exercise their subscription rights. The new shares have profit entitlement from the beginning of the financial year in which they are issued. Conditional Capital VIII/2018 amounted to € 810,000.00 as of December 31, 2018.

Furthermore, § 4 (4.7) of the Articles of Association provides for **Conditional Capital VII/2015** of € 800,000.00. This conditional capital increase serves exclusively to grant up to 800,000 new shares to the bearers or creditors of convertible or warrant bonds issued by the company or by direct or indirect majority shareholdings of the company by May 21, 2020 on the basis of the resolution adopted by the Annual General Meeting on May 22, 2015. Conditional Capital VII/2015 amounted to € 800,000.00 as of December 31, 2018.

Total conditional capital therefore amounted to € 1,783,750.00 as of December 31, 2018 (previous year: € 1,718,550.00).

Stock option programs

The company had three stock option programs (equity-settled share-based payment) as of December 31, 2018 (previous year: two programs). These programs are especially well-suited to provide a sustainable performance incentive for members of the Board of Management, employees of STRATEC SE, and for members of the management and employees of companies associated with STRATEC SE. They thus help increase the value of the company in the interests both of the company and of its shareholders.

In the financial years 2015 to 2017, the individual members of the Board of Management were no longer granted any stock options. Rather than stock options, they were granted stock appreciation rights (cash-settled share-based payment – SARs) as a variable compensation component of a long-term incentive nature. From the 2018 financial year, a modification to this approach means that the company no longer exclusively grants stock appreciation rights (SARs), but has once again granted stock options at a ratio of 75 % (SARs) to 25 % (stock options). Further details of the structure of the stock appreciation rights (SARs) can be found in Section E. 'Compensation report' in the group management report.

The following specific conditions apply to stock option programs adopted by the Annual General Meeting up to **June 6, 2013**:

Each stock option entitles its bearer to subscribe one STRATEC share at a later date in return for payment of an exercise price determined upon the options being granted. The exercise price is equivalent to the average closing price of STRATEC shares on the five trading days prior to the decision being taken to grant stock options, with the par value of one euro per share representing the minimum possible exercise price. Following the expiry of qualifying periods and the meeting of specified performance targets, the stock options may be exercised in predetermined exercise windows. Up to 50 percent of the stock options granted may only be exercised at the earliest following a **qualifying period of two years** and provided that STRATEC's share has risen in value by a least ten percent compared with the exercise price between the date of the option rights being granted and the date marking the expiry of the qualifying period. Following a qualifying period of a further year, up to 100 percent of the stock options granted may be exercised provided that STRATEC's share has risen in value by at least fifteen percent between the date of the option rights being granted and the date marking the expiry of the qualifying period. Following the expiry of a seven-year term after being granted, the option rights lapse without compensation.

The following specific conditions in respect of qualifying periods, the meeting of specific performance targets, and the lapsing of rights apply to stock option programs adopted by the Annual General Meeting from **June 6, 2013** onwards:

The stock options granted may be exercised in full at the earliest following the expiry of a **qualifying period of four years** and provided that STRATEC's share has risen in value by at least twenty percent compared with the exercise price between the date of the option rights being granted and the date marking the expiry of the qualifying period. Following the expiry of a seven-year term after being granted, the option rights lapse without compensation.

The individual stock option programs, fair value calculations using the Black-Scholes option pricing model and, from the 2018 financial year, using Monte Carlo simulations, and the calculation of the related personnel expenses in the individual periods (taking due account of personnel turnover) have mainly been based on the following key parameters (with expected volatility derived from historic volatility figures):

Granted in:	2018	2017	2016	2015	2014	2013
Option rights granted (number of shares)	47,850	31,550	24,050	19,850	56,100	92,600
Weighted exercise price (in €)	60.05	51.73	48.52	47.85	33.04	29.75
Expected share price volatility in %	33.72 bis 35.83	29.70 bis 34.18	34.88 bis 42.29	31.93 bis 39.77	26.40 bis 34.67	34.20 bis 39.43
Expected dividend yield in %	1.09 bis 1.45	1.69	1.23	1.50	1.50	1.50
Risk-free interest rate in %	0.08 bis 0.34	0.22 bis 0.37	-0.02 bis 0.19	0.12 bis 0.79	0.72 bis 1.56	1.20 bis 1.76
Assumed turnover of subscription beneficiaries in %	0.5 bis 5.0	5.0	5.0	5.0	5.0	5.0
Fair value of option rights at grant date (in € 000s)	787	151	123	101	202	307

The weighted average share price has been accounted for at € 60.50 in the fair value calculation of the option rights granted in the financial year (previous year: € 52.66).

In respect of the exercise behavior shown by the program participants, since the 2018 financial year it has been assumed that they will exercise their options in line with their economic interests.

The following options schedule provides an overview of the development in stock option rights in the 2017 to 2018 financial years:

	Number of option rights	Weighted exercise price
Outstanding on 12.31.2016	**244,450**	**33.91**
Exercisable on 12.31.2016	**78,500**	**31.63**
During the 2017 financial year		
• granted	31,550	51.73
• exercised	59,950	30.18
• lapsed	0	n.a.
• forfeited	500	n.a.
Outstanding on 12.31.2017	**215,550**	**37.57**
Exercisable on 12.31.2017	**87,100**	**30.19**
During the 2018 financial year		
• granted	47,850	60.05
• exercised	48,300	32.66
• lapsed	0	n.a.
• forfeited	1,000	n.a.
Outstanding on 12.31.2018	**214,100**	**43.65**
Exercisable on 12.31.2018	**94,100**	**30.60**

Of the stock options granted in the year under report, 10,000 were allocated to members of the Board of Management (previous year: none) while 37,850 were allocated to STRATEC employees (previous year: 31,550).

In the year under report, 25,000 stock options were exercised by members of the Board of Management at an average exercise price of € 31.63 per share (previous year: 25,000 stock options at an average exercise price of € 30.75). No stock options were exercised by former members of the Board of Management of STRATEC SE in the year under report (previous year: 15,000 stock options at an average exercise price of € 28.09). Employees of STRATEC exercised 23,300 stock options in the financial year under report (previous year: 19,950) at an average exercise price of € 33.77 per share (previous year: € 31.05). Of the stock options exercised by STRATEC employees in the 2018 financial year, 2,500 related to stock options granted to a member of the Board of Management prior to his appointment as such (previous year: 3,000). These were exercised at an average exercise price of € 31.71 per share (previous year: € 34.74).

The fair value of the stock option rights has been expensed over the agreed qualifying periods and has resulted in an endowment of the same amount in the capital reserve. This led to expenses of € 174k in the 2018 financial year (previous year: € 156k). Given the consistent, low level of personnel turnover, it has not been necessary in subsequent periods to adjust the expenses calculated upon the respective rights being granted.

The 94,100 stock option rights exercisable as of December 31, 2018 (previous year: 87,100) entitle their bearers to acquire a total of up to 94,100 shares (previous year: 87,100) at a total exercise price of € 2,879k (previous year: € 2,629k).

The weighted average listed price on the Frankfurt Stock Exchange of those stock options exercised in the period under report since their respective issue amounted to € 61.74 (previous year: € 59.01).

The weighted exercise prices and weighted average remaining contractual terms of the stock options outstanding at the end of the period under report have been presented in the following table:

2018

Range in €	Number of stock options	Weighted exercise price in €	Weighted remaining contractual term in months
25.01 – 30.00	39,000	28.09	19.3
30.01 – 35.00	52,300	31.97	25.5
35.01 – 40.00	2,800	39.98	33.5
40.01 – 45.00	11,000	43.06	51.7
45.01 – 50.00	30,050	47.59	53.6
50.01 – 55.00	22,350	52.27	56.6
55.01 – 60.00	42,800	57.13	80.9
60.01 – 65.00	1,750	61.99	65.9
65.01 – 70.00	4,550	67.10	80.6
70.01 – 75.00	7,500	71.40	74.5
Total	**214,100**	**43.65**	**47.3**

2017

Range in €	Number of stock options	Weighted exercise price in €	Weighted remaining contractual term in months
25.01 – 30.00	42,000	28.09	31.4
30.01 – 35.00	93,350	32.02	31.6
35.01 – 40.00	2,800	39.98	45.6
40.01 – 45.00	15,250	42.61	59.1
45.01 – 50.00	31,050	47.60	66.1
50.01 – 55.00	23,850	52.50	69.2
55.01 – 60.00	5,500	59.81	83.2
60.01 – 65.00	1,750	61.99	78.1
Total	**215,550**	**37.57**	**44.5**

Employee participation program

No employee shares were issued within the employee participation program in the 2018 financial year. In the 2017 financial year, all STRATEC SE employees received five employee shares. To this end, a total 1,695 shares held as treasury stock by STRATEC SE were transferred to the accounts of the employees participating in the program. An amount of € 119k was recognized as expenses, while an amount of € 119k was recognized in the capital reserve, with this amount subsequently being reduced by € 29k due to the assignment of treasury stock.

Capital reserve

The capital reserve mainly includes the premium from the issuing of shares, less the costs of equity procurement, after taxes. Moreover, the capital reserve also includes the benefit from the granting of stock options and from the employee participation program recognized as expenses, as well as the differential amount from the buyback and reissue of treasury stock.

Revenue reserves

Revenue reserves include accumulated net income generated in the past, to the extent that this has not been distributed, as well as free revenue reserves. The free revenue reserves arose due to allocations made in the context of the statutory authorization of the Board of Management and Supervisory Board of STRATEC SE to determine the appropriation of profit pursuant to § 58 (2) of the German Stock Corporation Act (AktG).

Revenue reserves are thus structured as follows:

	12.31.2018 € 000s	12.31.2017 € 000s
Free revenue reserves	19,392	19,392
Accumulated net income	96,955	101,666
	116,347	**121,058**

Accumulated net income developed as follows in the year under report:

	€ 000s
Accumulated net income at 12.31.2017	101,666
IFRS 9 / IFRS 15 adjustments	-1,603
Accumulated net income at 01.01.2018	**100,063**
Consolidated net income in 2018	8,969
Distribution (dividend for 2017)	-9,533
Assignment to other equity	-2,544
Accumulated net income at 12.31.2018	**96,955**

Other equity

Other equity includes the currency translation reserve, accumulated actuarial gains and losses from the remeasurement of pensions, and the resultant deferred taxes.

The currency translation reserve of € 747k reported as of the balance sheet date (previous year: € 774k) mainly relates to currency differences arising upon the translation of the separate financial statements of companies with functional currencies other than the euro, as well as to the translation of group-internal net investments within equity as of the balance sheet date. Of the separately reported currency reserve, an amount of € -827k is attributable to the operation held for sale (STRATEC Molecular GmbH). Upon deconsolidation, this amount will be recognized through profit or loss under earnings from discontinued operations.

The amounts recognized in other comprehensive income (OCI) within equity are structured as follows:

	IFRS 9 / IFRS 15 adjustments € 000s	Balance at 01.01.2018 € 000s	OCI € 000s	Balance at 12.31.2018 € 000s
Pensions	0	-970	-166	-1,136
Deferred taxes	0	201	48	249
AfS instruments	-2,561	0	0	0
Deferred taxes	36	0	0	0
Currency reserve	0	1,622	-759	863[1]
Deferred taxes	0	-848	730	-118[1]
Total	**-2,525**	**5**	**-147**	**-142**

[1] of which currency reserve of € -838k and deferred taxes of € 11k attributable to the operation held for sale (STRATEC Molecular GmbH).

	Balance at 01.01.2017 € 000s	OCI € 000s	Balance at 12.31.2017 € 000s
Pensions	-868	-102	-970
Deferred taxes	185	16	201
AfS instruments	1,055	1,506	2,561
Deferred taxes	-15	-21	-36
Currency reserve	5,501	-3,879	1,622
Deferred taxes	-249	-599	-848
Total	**5,609**	**-3,079**	**2,530**

Treasury stocks

By resolution of the Annual General Meeting held on May 22, 2015, STRATEC SE was authorized until May 21, 2020 to acquire treasury stocks on one or several occasions and in total or in partial amounts up to a total of ten percent of existing share capital as of May 22, 2015 and to use these for every purpose permitted within the statutory limitation and consistent with the respective conditions. The authorization may not be drawn on to trade in treasury stocks. Together with the treasury stocks already acquired on the basis of previous authorizations and still possessed by the company, the treasury stocks acquired on the basis of this authorization may not at any time account for more than ten percent of the respective share capital. The treasury stocks may be acquired on the stock market, by way of a public offer, by way of a public request to submit sales offers, or by issuing pre-emptive rights to shareholders.

As in the previous year, STRATEC SE made no use of this authorization to acquire treasury stocks in 2018. The company currently has no plans to retire the shares already acquired, but rather intends to retain the financial scope to make acquisitions and safeguard its growth strategy. Furthermore, STRATEC SE reserves the right to use the treasury stocks already acquired for other purposes consistent with the authorization provided by the Annual General Meeting.

STRATEC SE held 4,995 treasury stocks at the balance sheet date (previous year: 4,995). The treasury stocks have been recognized at cost at a total amount of € 89k (previous year: € 89k) as a separate line item within equity.

Appropriation of earnings

The German Stock Corporation Act (AktG) requires the dividends to be distributed to shareholders to be calculated on the basis of the net income reported in the annual financial statements of STRATEC SE prepared in line with the German Commercial Code (HGB).

In the 2018 financial year, a dividend of € 0.80 (previous year: € 0.77) was paid per share with dividend entitlement for the 2017 financial year, corresponding to a total distribution of € 9,533k (previous year: € 9,129k).

With the approval of the Supervisory Board, the Board of Management proposes that, of the net income of € 69,853k calculated for STRATEC SE in line with the German Commercial Code, an amount of € 9,810,685.00, equivalent to € 0.82 per share with dividend entitlement, should be distributed, and that the remaining amount of € 60,042k should be carried forward. The proposed dividend is dependent on approval by the Annual General Meeting and has not been recognized as a liability in the consolidated financial statements.

As in the previous year, upon preparing the annual financial statements of STRATEC SE in line with the German Commercial Code (HGB) as of December 31, 2018, the Board of Management and Supervisory Board did not allocate any amount from the net income for 2018 to the free revenue reserves.

(10) Provisions for pensions

The company pension scheme can basically be divided into defined contribution plans and defined benefit plans. In defined contribution plans, STRATEC does not enter into any legal or constructive obligations over and above its obligation to pay contributions to an external state or private pension provider. These contributions are recognized within personnel expenses upon becoming due for payment. Defined contribution pension expenses totaled € 4,543k in the 2018 financial year (previous year: € 4,939k). This total includes employer contributions of € 2,228k to the German state pension system (previous year: € 1,987k).

Furthermore, as of the balance sheet date STRATEC had defined benefit plan commitments for members of the Board of Management in Germany and for employees in Austria and Switzerland. Reinsurance policies have been concluded in some cases to cover the pension obligation.

Actuarial surveys have been obtained to ascertain the corresponding asset values as of the balance sheet date. The pension obligation is offset against the pledged assets of the reinsurance policies and stated on a net basis in the consolidated balance sheet.

The present value of pension obligations is calculated using the projected unit credit method, the actuarial method stipulated by IAS 19.67 to measure the respective provisions. In this, the future obligations are measured on the basis of the prorated vested claims attained by the end of the financial year, taking due account of assumed trends.

The calculation of the present value of pension obligations has been based on the following actuarial assumptions:

	Germany 12.31.2018	Austria 12.31.2018	Switzerland 12.31.2018
Discount factor	1.91 %	1.79%	1.00 %
Future income increases	0.00 %	3.00 %	1.80 %
Future pension increases	0.00 % – 1.00 %	0.00 %	0.00 %
Personnel turnover rate	0.50 % – 1.50 %	10.00 %	*
Average duration	***	13.2 Jahre	**

	Germany 12.31.2017	Österreich 12.31.2017	Switzerland 12.31.2017
Discount factor	1.77 %	1.82 %	0.70 %
Future income increases	0.00 %	3.00 %	1.80 %
Future pension increases	0.00 %	0.00 %	0.00 %
Personnel turnover rate	0.00 %	10.00 %	*
Average duration	14.6 Jahre	13.9 Jahre	**

* Personnel turnover rate graded for men, women, and age groups. Pursuant to the Swiss Federal Act on Retirement, Dependant Care, and Invalidity Pensions (BVG), the turnover rate for men ranges, as in the previous year, from 1.30 % to 28.53 %; the rate for women ranges from 1.52 % to 24.12 %.

** The range of average duration amounts to 20.3 years at STRATEC Biomedical Switzerland AG (previous year: 21.1 years) and to 20.5 years at STRATEC Services AG (previous year: 22.6 years).

*** The average duration for pension commitments with insurance-based execution channels amounts to 23.2 years while that for direct pension commitments amounts to 13.7 years (previous year: 14.6 years).

The main life expectancy assumptions for Germany have been taken from the biometric '2018 G Guidelines' published by Prof. Dr. Klaus Heubeck (previous year: '2005 G Guidelines' published by Prof. Dr. Klaus Heubeck). For Austria, these assumptions have been based on the 'AVÖ 2018-P Pagler & Pagler Generationentafel' (previous year: 'AVÖ 2008-P Pagler & Pagler Generationentafel'). For Switzerland they have been based, as in the previous year, on the 'BVG 2015 Generationstafel'.

The assumptions stated for the calculation of the present value of pension obligations as of the previous year's balance sheet date also apply for the calculation of interest expenses and current service cost in the following financial year.

The present value of the vested defined benefit obligations (DBO) and plan assets changed as follows in the financial year under report:

	2018 € 000s	2017 € 000s
Present value of defined benefit obligations (DBO) as of 01.01	**6,315**	**6,161**
Addition due to reassessment of utilizatio	1,260	0
Transfers due to change of employer	-108	47
Current service cost	383	367
Retrospective service cost	0	-83
Compounding of pension obligations	68	64
Payments made	0	-58
Employee contributions to pension plan	198	171
Remeasurement of pension obligations Actuarial gains (-) / losses (+) due to changes in		
• financial assumptions	-185	-18
• demographic assumptions	-21	0
• experience adjustments	35	35
Currency differences	171	-371
Present value of defined benefit obligations (DBO) as of 12.31.	**8,116**	**6,315**

	2018 € 000s	2017 € 000s
Fair value of plan assets as of 01.01.	**2,913**	**2,775**
Addition due to reassessment of utilization	1,039	0
Transfers due to change of employer	-108	47
Employer contributions to plan assets	246	214
Employee contributions to plan assets	198	171
Interest income on plan assets	24	22
Remeasurement of plan assets • expenses for plan assets (excluding interest income)	-118	-85
Currency differences	111	-231
Fair value of plan assets as of 12.31.	**4,305**	**2,913**

To calculate the financing status or the net obligation, the present value of the externally financed obligations is compared with the fair value of the plan assets.

	12.31.2018 € 000s	12.31.2017 € 000s
Present value of pension obligations	8,116	6,315
Fair value of plan assets	4,305	2,913
Financing status = net obligation	**3,811**	**3,402**

The net obligation developed as follows in the past financial years:

	2018 € 000s	2017 € 000s
Net obligation as of 01.01.	**3,402**	**3,386**
Share of pension expenses recognized in income statement	429	326
Amounts recognized in OCI	166	102
Payments made	0	-58
Employer contributions to plan assets	-246	-214
Currency differences	60	-140
Net obligation at 12.31.	**3,811**	**3,402**

The pension expenses recognized through profit or loss in the income statement for defined benefit commitments in the period under report comprise the following items:

	2018 € 000s	2017 € 000s
Current service cost	385	367
Retrospective service cost	0	-83
Compounding of pension obligations	68	64
Interest income on plan assets	-24	-22
Share of pension expenses recognized in income statement	**429**	**326**

Service cost is included in personnel expenses, while other components of the share of pension expenses recognized in the income statement are included in net financial expenses.

The following amounts have been recognized in equity under 'Other comprehensive income' in the consolidated statement of comprehensive income:

	2018 € 000s	2017 € 000s
Remeasurement of net obligation:		
Reassessment of utilization	221	0
Expenses for plan assets (excluding interest income)	118	85
Actuarial gains (-) / losses (+) due to changes in		
• financial assumptions	-185	-18
• demographic assumptions	-21	0
• experience adjustments	35	35
Amounts recognized in OCI	**166**	**102**

The plan assets relate to pension plans in Germany and Switzerland. In Germany, these reinsurance policies predominantly invest in fixed-income securities. When selecting such securities, the rating and equity resources of the issuer are accounted for, among other factors. The investment strategy predominantly aims to generate ongoing interest income and to ensure capital preservation with a low degree of volatility. No prices listed on an 'active market' are available for the reinsurance policies. The two Swiss companies are affiliated to the comprehensive insurance contract for the BVG collective foundation ('Sammelstiftung') at Allianz Suisse, while a reinsurance contract is in place between the Sammelstiftung and the life insurer Allianz Suisse Lebensversicherungs-Gesellschaft.

Depending on the specific country, the key actuarial assumptions used to calculate the pension obligations at STRATEC include the parameters presented in the sensitivity analyses below, namely the discount factor, future income increases, and the projected interest rate for retirement assets. The sensitivity analyses show how the net defined benefit obligation in Germany and Austria would have been influenced by potential changes in the corresponding assumptions if all other assumptions had remained unchanged.

Germany	2018 € 000s	2017 € 000s
Discount factor +0,50 %	-156	-21
Discount factor -0,50 %	178	22

Austria	2018 € 000s	2017 € 000s
Discount factor +0,50 %	-85	-150
Discount factor -0,50 %	156	81
Future income increases +0,50 %	152	76
Future income increases -0,50 %	-82	-147

In Switzerland, any variation in the respective parameters by 25 basis points would result in the following sensitivities in the present value of the defined benefit obligation:

Switzerland	2018 € 000s	2017 € 000s
Discount factor +0,25 %	247	241
Discount factor -0,25 %	-225	-220
Interest rate on retirement assets +0,25 %	-92	-88
Interest rate on retirement assets -0,25 %	95	91
Future income increases +0,25 %	-53	-54
Future income increases -0,25 %	53	58

Plan asset endowments by STRATEC of € 703k (previous year: € 417k) are expected for the following 2019 financial year. No outgoing payments from plan assets are expected.

STRATEC SE has congruently reinsured pension fund models. Consistent with an approach frequently adopted in practice, these were – in the past – considered on the basis of 'economic interpretation' as defined contribution plans, as the refinancing risk borne by the employer was generally deemed to be negligible. The fair value of the insurance contracts amounted to € 884k as of December 31, 2017. If, however, the reinsured pension fund models had already been recognized at this time as defined benefit obligation plans then, based on the assumption made in the previous year, the present value of the obligations would have been of the same amount.

Given that utilization of the statutory subsidiary liability obligation in Germany is no longer assessed as highly unlikely due to the ongoing climate of low interest rates, as of December 31, 2018 STRATEC performed a reassessment. Information about this has been provided in Section B. 'Accounting policies applied – Discretionary decisions'.

As a result of this, in its consolidated financial statements as of December 31, 2018 STRATEC has recognized an amount of € 221k (before deferred tax assets of € 61k) in equity and charged this to equity within OCI. This amount corresponds to the difference between the amounts presented in the 'Addition due to reassessment of utilization' line item in the above reconciliations. It should be noted that the amounts presented include a net balance of € 3k from direct insurance schemes.

In the 2018 financial year, STRATEC SE paid contributions of € 251k into these pension trust models for the retirement pensions of members of the Board of Management of STRATEC SE (previous year: € 200k) and recognized these as personnel expenses. For the 2019 financial year, the surveyor has forecast current service cost of € 239k and a net interest cost of € 4k, and thus a total expense of € 243k for the pension fund models.

(11) Taxes on income

Taxes on income comprise the income taxes paid or owed and deferred taxes in the individual countries. Interest on back payments and reimbursements in connection with tax audits are recognized under net financial expenses.

Income tax expenses can be broken down in terms of their origin as follows:

	2018 € 000s	2017 € 000s
Income taxes paid or owed		
• Germany	789	2,251
• International	3,428	4,233
	4,217	6,484
Deferred taxes		
• Germany	166	78
• International	-1,403	-4,157
	-1,237	-4,079
Income tax expenses	**2,980**	**2,405**

Deferred taxes are recognized for the following balance sheet items and factors:

	12.31.2018		12.31.2017	
	Deferred tax assets € 000s	**Deferred tax liabilities € 000s**	**Deferred tax assets € 000s**	**Deferred tax liabilities € 000s**
Intangible assets	420	10,202	800	12,639
Property, plant and equipment	62	538	29	845
Non-current financial assets	0	581	0	573
Non-current contract assets	0	847	0	0
Inventories	96	2,651	48	121
Trade receivables	1,814	188	136	179
Receivables from construction contracts	0	0	60	0
Receivables from associates	31	789	39	775
Current financial assets	0	6	0	123
Other receivables and assets	35	0	0	0
Current contract assets	72	461	0	0
Non-current financial liabilities	103	0	62	0
Non-current other liabilities	0	0	1	0
Provisions for pensions	880	0	754	0
Non-current contract liabilities	565	0	0	0
Current financial liabilities	122	0	38	0
Liabilities from associates	88	6	80	13
Current other liabilities	126	31	111	0
Provisions	55	101	6	113
Current contract liabilities	1,726	0	0	0
Loss carryovers	2,984	0	3,173	0
Net investment in foreign operation	0	102	0	831
Currency translation	63	69	37	69
Subtotal	**9,243**	**16,572**	**5,374**	**16,281**
Netting	-9,042	-9,042	-5,246	-5,246
Amount recognized in consolidated balance sheet	**201**	**7,530**	**128**	**11,035**

Of the deferred tax income of € -1,237k recognized in the consolidated statement of comprehensive income (previous year: € -4,079k), € -961k (previous year: € -1,440k) is attributable to temporary valuation differences, € 1k (previous year: € 6k) to the costs of capital increases, and € -277k (previous year: € -2,645k) to the recognition through profit or loss of deferred tax assets on tax loss carryovers. Of the change in deferred tax assets recognized on loss carryovers, an amount of € 173k (previous year: € 2,628k) involves income resulting from the recognition of deferred tax assets on loss carryovers, € 50k (previous year: € 182k) involves expenses resulting from the utilization of deferred tax assets on loss carryovers, € 399k (previous year: € 112k) relates to impairment losses, € -1k (previous year: € 311k) involves income resulting from changes in tax rates, and € -86k involves income (previous year: € 211k) resulting from currency translation.

In the 2018 financial year, deferred tax assets on loss carryovers were recognized, as in the previous year, for five subsidiaries in an amount of € 2,984k (previous year: € 3,174k). In the 2018 financial year, deferred tax assets of € 399k on loss carryovers were written down (previous year: € 112k), of which € 322k related to STRATEC Biomedical USA, Inc. (previous year: € 46k). Given the existence of deferred tax liabilities, the deferred tax assets still recognized at this company are deemed to have retained their value. The nominal amount of loss carryovers for which no deferred tax assets were recognized amounts to € 5,713k (previous year: € 4,598k). The unused tax loss carryovers for which no deferred tax assets have been recognized in the balance sheet mainly relate to STRATEC Biomedical USA, Inc. Their eligibility to be carried forward is as follows:

	Up to 7 years € 000s	20 years € 000s	Unlimited € 000s	Total € 000s
Loss carryover	283	5,430	0	5,713
Loss carryover (previous year)	248	4,350	0	4,598

The tax expenses of € 2,980k reported for 2018 (previous year: € 2,405k) deviate by € 892k (previous year: € 5,571k) from the tax expenses of € 3,872k (previous year: € 7,976k) expected to result from application of the overall tax rate for STRATEC SE (27.48%; previous year: 27.51%) to the Group's earnings before taxes. The overall tax rate results from the corporate income tax rate of 15.00% (previous year: 15.00%), the solidarity surcharge of 5.50% of corporate income tax (previous year: 5.50%), and an average trade tax rate of 11.66% (previous year: 11.68%).

The difference between the tax expenses expected and those reported is attributable to the following items:

	2018 € 000s	2017 € 000s
Earnings before taxes on income	14,090	28,994
Overall tax rate	27,48%	27.51%
Expected tax expenses (-) / income (+)	**-3,872**	**-7,976**
Deviations in German and foreign tax rates	1,850	2,406
Impact of increase (-) / decrease (+) in effective tax rates	14	310
Tax-exempt income (+) / expenses (-) from investments, securities price gains/losses, and dividends	-227	1,138
Expenses not deductible for tax purposes less tax settlements	-332	-343
IFRS personnel expenses (stock options)	-48	-43
Tax back payments / refunds for previous years and non-period tax expenses / income	-91	-478
Write-down of deferred tax assets on tax loss carryovers	-398	-112
Deferred tax assets on tax loss carryovers for previous years	0	2,503
Sundry	-42	-63
IFRS 5 implications	166	253
Reported tax expenses (-) / income (+)	**-2,980**	**-2,405**

The items presented in the 'IFRS 5 implications' line item result from the fact that STRATEC Molecular GmbH is integrated into a fiscal unit with STRATEC SE for income tax purposes. As a result, the negative earnings at STRATEC Molecular GmbH were also adjusted within earnings before taxes on income in the tax reconciliation. This did not lead to any amendment to the tax expenses reported, as the resultant income tax effects are basically incurred on the level of the parent company.

(12) Non-current and current financial liabilities

Non-current financial liabilities are structured as follows:

	12.31.2018 € 000s	12.31.2017 € 000s
Liabilities to banks	68,526	61,534
Liabilities for personnel-related items	397	1,000
Accrued trade payables	5	47
Other	5	0
	68,933	**62,581**

Current financial liabilities are structured as follows:

	12.31.2018 € 000s	12.31.2017 € 000s
Liabilities to banks	1,008	971
Liabilities for personnel-related items	3,143	4,293
Accrued trade payables	3,640	4,929
Supervisory Board compensation	124	129
Other	72	38
	7,987	**10,360**

Financial liabilities to banks

For the predominant share of financial liabilities to banks, the relevant financing contracts include agreements concerning compliance with specific key financial figures (covenants), particularly with regard to the debt/equity ratio and the equity ratio. These financial covenants have to be calculated at the end of each quarter and were complied with in each case in the 2018 financial year. Furthermore, the company has entered into various obligations in this regard involving restrictions on assets and provisos concerning further borrowing. Moreover, no collateral securities exceeding an amount of € 10 million may be provided to third parties (or specific group companies not party to the guarantee concept for the financing arrangement) unless securities in the same amount are provided to the financing banks.

As of December 31, 2018, the Group had total unutilized credit lines of € 12 million (previous year: € 20 million).

Financial liabilities for personnel-related items

Financial liabilities for personnel-related items chiefly comprise obligations of € 3,210k in connection with profit participation schemes (previous year: € 5,149k).

Obligations for profit participation schemes include obligations for short-term performance-related compensation for employees (€ 1,025k; previous year: € 1,514k), and obligations for short, medium, and long-term performance-related compensation for the Board of Management (€ 2,185k; previous year: € 3,635k). The obligations for long-term performance-related compensation for the Board of Management (€ 944k; previous year: € 1,000k) correspond to the fair value of the payments expected for the stock appreciation rights (SARs) granted. The fair value has been determined as an arbitrage-free valuation using the Black/Scholes method and with application of the binomial tree method. Further information about the structure of the short, medium, and long-term performance-related compensation for the Board of Management can be found in Section E. 'Compensation report' in the group management report.

Stock appreciation rights (SARs)

The fair value of the stock appreciation rights (SARs) as of the measurement date on December 31, 2018 has been determined on the basis of the following parameters:

Stock appreciation rights (SARs) model parameters	**Tranche I 2018 financial year**	**Tranche I 2017 financial year**
Issue date	10.25.2018	01.23.2017
Average share price on issue date	€ 57.60	€ 45.05
Term		
Overall term	60.0 months	60.0 months
Remaining term as of 12.31.	57.8 months	36.8 months
Minimum qualifying period		
Overall term	24.0 months	24.0 months
Remaining term as of 12.31.	21.8 months	0.8 months
Share price at measurement date	€ 50.30	€ 50.30
Expected volatility	37.80 %	40.74 %
Risk-free interest rate	-0.33 %	-0.56 %
Fair value on issue date	**€ 16.18**	**€ 10.90**
Fair value as of 12.31.	**€ 12.03**	**€ 14.59**

The development in the total number of stock appreciation rights (SARs) in the reporting period is presented below:

Absolute figures	Total at 01.01.2018	Granted	Exercised Lapsed Forfeited	Total at 12.31.2018	of which exercisable
Tranche I 2016	40,000	0	-40,000	0	0
Tranche I 2017	40,000	0	0	40,000	0
Tranche I 2018	0	30,000	0	30,000	0
Total	**80,000**	**30,000**	**-40,000**	**70,000**	**0**

The total expenses recognized in the 2018 financial year for equity-settled share-based payments amounted to € 174k (previous year: € 255k) – further information can be found in '(9) Shareholders' equity' in this section – while total expenses for cash-settled share-based payments amounted to € 170k (previous year: € 1,525k).

Maturities

Financial liabilities have the following maturities:

Maturity[1]	12.31.2018 € 000s
2019	7,987
2020	2,038
2021	1,635
2022	59,571
2023	1,314
2024 and later	4,375
Total	**76,920**

Maturity[1]	12.31.2017 € 000s
2018	10,360
2019	2,013
2020	1,639
2021	1,514
2022	57,326
2023 and later	89
Total	**72,941**

[1] The calculation of the maturity of stock appreciation rights (SAR) has been based on the shortest possible term for the rights in each case.

(13) Trade payables/liabilities to associates

By analogy with the previous year, trade payables mostly involve goods and services provided in November and December 2018. Also as in the previous year, these items are due for payment within one year.

No liabilities were due to associates, as was also the case in the previous year.

(14) Non-current and current other liabilities

Other liabilities are structured as follows:

	12.31.2018 € 000s	12.31.2017 € 000s
Liabilities for personnel-related items	2,844	2,696
Other tax liabilities	1,357	1,402
Social security liabilities	1,009	967
Prepayments received on orders	0	2,088
Other	1,043	1,273
	6,253	**8,426**

Of the 'Other' amount, € 417k has been recognized under non-current other liabilities (previous year: € 222k).

Liabilities for personnel-related items mainly consist of liabilities for outstanding vacation (€ 2,132k; previous year: € 1,968k) and employee working time credits (€ 712k; previous year: € 683k).

The tax liabilities relate to transaction taxes and employee payroll settlement. Social security liabilities chiefly relate to social security contributions still to be transferred.

Of prepayments received on orders in the 2017 financial year, an amount of € 882k related to development cooperations. Reference is made to Section B. 'Accounting policies applied – Recognition of sales, cost of sales, research and development expenses'. Since the 2018 financial year, these prepayments received on orders have been reported in the balance sheet line item '(15) Contract liabilities'.

In the 2018 financial year, STRATEC received government grants of € 1,006k (previous year: € 1,287k). These relate exclusively to grants for research purposes. Total accrued liabilities for government grants amount to € 560k (previous year: € 649k).

Other liabilities have the following maturities:

Maturity	12.31.2018 € 000s
2019	5,835
2020	168
2021	135
2022	38
2023	38
2024 and later	38
Total	**6,252**

Maturity	12.31.2017 € 000s
2018	8,204
2019	222
2020	0
2021	0
2022	0
2023 and later	0
Total	**8,426**

(15) Contract liabilities

Contract liabilities mainly relate to prepayments received from customers for development services and product deliveries. The overwhelming share of contract liabilities will be recognized as sales in the subsequent financial year.

Contract liabilities were structured as follows as of December 31, 2018:

	12.31.2018 € 000s
Development and other services	12,944
Other	3,120
Total	**16,064**

The amounts subsequently recognized in sales are structured as follows:

	2018 € 000s
Amounts included in contract liabilities at the beginning of the financial year	1,761
Amounts relating to performance obligations satisfied in previous financial years	0
Total	**1,761**

Contract liabilities have the following maturities:

Maturity	12.31.2018 € 000s
2019	12,722
2020	2,653
2021	689
2022	0
2023	0
2024 and later	0
Total	**16,064**

(16) Provisions and income tax liabilities

Current provisions mainly include provisions for guarantees and warrantees (€ 965k; previous year: € 1,031k), legal disputes (€ 244k; previous year: € 0k) and onerous contracts (€ 139k; previous year: € 0k). These items developed as follows:

	12.31.2018 € 000s	12.31.2017 € 000s
01.01.	1,031	1,348
Added	722	478
Reversed	0	-399
Utilized	-405	-352
IFRS 5 reclassifications	-25	0
Currency differences	25	-44
12.31.	**1,348**	**1,031**

There is uncertainty in respect of the amount and maturity of the provisions recognized. This has been duly accounted for by way of best estimates.

Income tax liabilities (€ 3,796k; previous year: € 2,176k) relate to current income tax obligations.

(17) Assets held for sale and liabilities directly associated with assets held for sale

As part of its initiative to improve its earnings position, on October 4, 2018 STRATEC announced its intention to dispose of the nucleic acid purification business unit, and thus of its STRATEC Molecular GmbH subsidiary.

This transaction meets the criteria of IFRS 5 (Non-Current Assets Held for Sale and Discontinued Operations) for recognition as a discontinued operation.

In the balance sheet, assets and liabilities attributable to the discontinued operation have only been stated separately as of the current balance sheet date. In conjunction with the disposal measures already initiated, the assets and liabilities have been measured at fair value less costs to sell, as this is lower than the carrying amount prior to recognition of impairments. Since being classified as a discontinued operation as of September 30, 2018, the non-current assets thereby affected have no longer been depreciated.

The assets relating to the discontinued operation are presented in the following table:

	12.31.2018 € 000s
Deferred tax assets	64
Raw materials and supplies	225
Unfinished products, contract fulfilment costs	56
Finished products and merchandise	55
Trade receivables	271
Current financial assets	1
Current other receivables and assets	11
Cash and cash equivalents	279
Assets held for sale	**962**

The liabilities relating to the discontinued operation are presented in the following table:

	12.31.2018 € 000s
Current financial liabilities	26
Trade payables	47
Other current liabilities	805
Provisions	25
Liabilities directly associated with assets held for sale	**903**

D. NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(18) Sales

The sales generated from contracts with customers are presented below, broken down by the type of goods or services, geographical regions, and point or period of time at which the respective sales are recognized:

Segment	Instrumentation € 000s	Diatron € 000s	Smart Consumables € 000s	Other € 000s	Total € 000s
Type of goods or services					
Analyzer systems	72,240	18,838	0	0	91,079
Service parts and consumables	39,950	14,422	7,929	0	62,301
Development and services	16,725	0	8,836	4,391	29,952
Other	2,407	2,081	0	0	4,487
Total	**131,323**	**35,341**	**16,765**	**4,391**	**187,820**
Geographical regions					
Germany	20,320	8,207	16	335	28,878
European Union	52,338	7,299	6,967	454	67,059
Other	58,664	19,835	9,782	3,602	91,883
Total	**131,323**	**35,341**	**16,765**	**4,391**	**187,820**
Time at which sales are recognized					
Recognized at a point in time	124,477	35,341	15,734	3,458	179,009
Recognized over time	6,846	0	1,031	934	8,811
Total	**131,323**	**35,341**	**16,765**	**4,391**	**187,820**

STRATEC's performance obligations are described in summarized form below.

Supply of analyzer systems, service parts, and consumables

The performance obligations for supplying analyzer systems, service parts, and consumables are generally satisfied upon delivery. The payment terms vary from advance payment through to a payment target of a maximum of 120 days.

Development and services

The performance obligations for development and services are satisfied, taking due account of the respective customer contracts, at a point in time or over time. As a general rule, customers make non-refundable milestone payments during the development phase. In some contracts, consideration for the development performance obligation is transferred to STRATEC in connection with other contractual performance obligations. The payment targets for invoiced development work usually amount to between 30 and 60 days.

Sales generated in the 2017 financial year mainly related to:

	2017 € 000s
1. Systems	102,034
2. Service parts and consumables	66,877
3. Development and services	37,492
4. Other	1,075
	207,478

Sales can be broken down by geographical region (customer location) as follows:

	2017 € 000s
1. Germany	33,642
2. European Union	58,761
3. Other	115,075
	207,478

Substantial sales generated with analyzer systems in other countries are structured as follows:

	2017 € 000s
USA	24,310
Belgium	20,506
Italy	6,026
China	5,871
France	3,881
Czech Republic	1,965
UK	1,100

The allocation of sales generated with analyzer systems to other countries has been based on the delivery locations from STRATEC's perspective. In view of the fact that STRATEC's customers partly supply their country outlets and customers from central distribution centers, however, this breakdown of sales does not necessarily reflect the geographical distribution of the final operating locations of the analyzer systems supplied by STRATEC. For the same reason, it would not be meaningful to compile any country-specific breakdown of the supply of spare parts and other services.

List of major customers pursuant to IFRS 8.34: in the year under report, as in the previous year, two customers with sales of € 36.7 million and € 33.4 million (previous year: € 43.2 million and € 39.3 million). These figures in all cases include sales for several analyzer system lines, development activities, and services and consumables. The sales generated with these customers are allocable to the Instrumentation and Diatron segments.

(19) Cost of sales

Cost of sales, amounting to € 134,339k (previous year: € 142,731k), include production-related manufacturing expenses incurred for the products, maintenance and spare parts sold, and for development and other services.

In assessing the figures reported above, it should be noted that, due to improvements in STRATEC's internal reporting, items were reclassified between cost of sales and general administration expenses in the 2018 financial year. Based on an enhanced allocation model, product-related quality assurance expenses, which through to the previous year had been recognized under general administration expenses, were now allocated to cost of sales. This item amounted to € 2,369k and in the previous year to € 2,214k. The previous year's figures have been adjusted accordingly.

(20) Research and development expenses

Research and development expenses not meeting the criteria for capitalization pursuant to IAS 38 (Intangible Assets) totaled € 9,236k (previous year: € 9,899k) and mainly involved cost of materials and personnel expenses.

Gross development expenses were structured as follows:

	2018 € 000s	2017 € 000s
Research and development expenses	37,876	29,396
of which development expenses recognized as revenues or capitalized	-28,638	-19,497
	9,236	**9,899**

In the financial year under report, an amount of € 1,093k from grants was recognized as a reduction to research and development expenses (previous year: € 762k).

(21) Sales-related expenses

Sales-related expenses amounted to € 13,639k (previous year: € 12,299k) and included direct sales expenses and sales overheads. These basically include all expenses incurred for personnel, materials, and other expenses incurred for sales (including prorated depreciation and amortization). A major share relates to expenses arising in connection with product launches and support.

(22) General administration expenses

At € 16,282k (previous year: € 18,264k), administration expenses include the personnel and material expenses incurred in central administration departments (including corporate management, controlling, finance and accounting, legal affairs, investor relations, personnel and quality management) that are not directly attributable to production, sales, or R&D.

With regard to the adjustments made to the previous year's comparative figures (over and above the adjustments made pursuant to IFRS 5), reference is made to the information provided in (19) 'Cost of sales' in this section.

(23) Other operating income and expenses

The other operating income of € 4,805k (previous year: € 9,360k) and other operating expenses of € 4,118k (previous year: € 3,838k) reported for the 2018 financial year are mainly attributable to currency items. Furthermore, impairments of intangible assets amounting to € 642k were also recognized in other operating expenses in the 2018 financial year. Reference is made to the information provided in Section C. 'Notes to the consolidated balance sheet (1) Goodwill and other intangible assets'. Of the other operating income reported for the 2017 financial year, an amount of € 5,411k was due to the IPO of Quanterix Corporation, US, in which STRATEC held a shareholding. Other than that, other operating income and other operating expenses in the 2017 financial year also included numerous standalone items which, viewed individually, were only of subordinate significance.

(24) Net financial expenses

Financial income is structured as follows:

	2018 € 000s	2017 € 000s
Interest income on cash and cash equivalents	5	15
Other interest income	29	94
	34	**109**

Financial income is structured as follows:

	2018 € 000s	2017 € 000s
Interest income on cash and cash equivalents	586	728
Interest expenses for compounding of pension provisions	68	64
Interest expenses for compounding of liabilities and provisions	7	14
Other interest expenses	1	10
	662	**816**

Other financial income/expenses include gains and losses for financial assets and financial liabilities measured at fair value and are structured as follows:

	2018 € 000s	2017 € 000s
Gains/losses on financial assets measured at fair value **through profit or loss:**		
• Gains/losses on retirement	0	0
• Gains/losses on measurement at balance sheet date	-295	-106
Other financial income/expenses	**-295**	**-106**

(25) Earnings from discontinued operations

Earnings in the discontinued operation (nucleic acid purification) are structured as follows:

	2018 € 000s	2017 € 000s
Sales	2,541	2,286
Current income and expenses	-3,189	-3,253
Current earnings from discontinued operations (before taxes on income)	**-648**	**-967**
Taxes on income	46	13
Expenses from measurement at fair value less costs to sell[1]	-1,539	0
Earnings from discontinued operations (after taxes on income)	**-2,141**	**-954**

[1] of which impairments of non-current assets: € 826k of which amount recognized as 'excess' in liabilities: € 713k

(26) Earnings per share

Earnings per share have been calculated pursuant to IAS 33 (Earnings per Share) by dividing the consolidated net income by the average weighted number of shares in STRATEC SE in circulation in the past financial year.

The treasury stock held by STRATEC SE has been excluded from the calculation of the number of shares in circulation. The year-on-year increase in the number of shares was due to the issue of new shares upon the exercising of option rights within stock option programs. Changes in the number of shares within the financial year have been accounted for by weighting the respective figures on a prorated basis. The resultant weighted average number of outstanding shares used to calculate (basic) earnings per share amounts to 11,939,717 (previous year: 11,881,254).

Pursuant to IAS 33 (Earnings per Share), the consolidated net income of € 8,969k (previous year: € 25,635k) reported in the consolidated statement of comprehensive income has been used as the unaltered basis for the calculation.

Due to the option rights outstanding as of December 31, 2018, both basic earnings per share (€ 0.75; previous year: € 2.16) and diluted earnings per share (€ 0.75; previous year: € 2.14) have been calculated. Diluted earnings per share have been calculated on the assumption that all outstanding options not yet exercised are actually exercised. The number of additional shares to be accounted for is calculated by comparing the proceeds generated by such exercising of options with the proceeds which could theoretically be generated by issuing new shares on customary market terms.

The allocation or exercising of option rights within the financial year has been accounted for using prorated weighting. The resultant weighted average number of outstanding shares with a diluting effect accounted for in the calculation of (diluted) earnings per share amounts to 12,033,844 (previous year: 11,984,437).

(27) Additional disclosures on the consolidated statement of comprehensive income

Cost of materials

The functional divisions include the following cost of materials:

	2018 € 000s	2017 € 000s
Costs of raw materials and supplies	87,617	86,255
Costs of purchased services	4,462	6,512
	92,079	**92,797**

Of the costs of raw materials and supplies, € 579k are attributable to the operation held for sale at STRATEC Molecular GmbH (previous year € 558k) while € 19k of the costs of purchased services are attributable to this operation (previous year: € 20k).

Personnel expenses

The functional divisions include the following personnel expenses:

	2018 € 000s	2017 € 000s
Wages and salaries	54,858	51,161
Social security contributions and pension and welfare expenses	9,952	9,911
	64,810	**61,072**

Furthermore, expenses of € 1,982k (previous year: € 3,810k) were incurred for wages and salaries for third-party employees (personnel leasing).

Of the personnel expenses for wages and salaries, an amount of € 1,121k (previous year: € 1,125k) is attributable to the operation held for sale (STRATEC Molecular GmbH). Of the social security contributions and pension and welfare expenses, an amount of € 200k (previous year: € 204k) is attributable to this operation. Furthermore, of the expenses incurred for wages and salaries for third-party employees an amount of € 45k (previous year: € 0k) was attributable to the operation held for sale (STRATEC Molecular GmbH).

Number of employees

The average number of individuals employed by the Group during the financial year (including temporary employees from personnel agencies) was as follows:

	2018 Number	2017 Number
Employees	1,050	901
Trainees	39	39
Employees in permanent employment	1,089	940
Temporary employees	72	91
Total	**1,161**	**1,031**

Of permanent employees, 448 (previous year: 397) were in Germany, and 602 (previous year: 504) abroad. Of temporary employees, 31 (previous year: 36) were in Germany, and 41 (previous year: 55) abroad.

Of the employees in Germany, 27 (previous year: 28) were attributable to the operation held for sale (STRATEC Molecular GmbH).

Disclosures concerning the auditor's fee pursuant to § 314 (1) No. 9 HGB

The total fees recorded for the group auditor in the financial year under report pursuant to § 314 (1) No. 9 of the German Commercial Code (HGB) are structured as follows:

	2018 € 000s	2017 € 000s
Fee for		
a) Auditing	203	175
- of which for the previous year	8	-15
b) Other certification services	0	0
c) Tax advisory services	0	0
d) Other services	0	0
Total auditor's fee	**203**	**175**

E. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

General disclosures

The consolidated cash flow statement shows how the liquidity of the STRATEC Group has changed due to inflows and outflows of funds during the financial year. A distinction is made between the cash flows from operating, investing and financing activities.

The amounts reported for foreign group companies have generally been translated at annual average exchange rates. One exception involves cash and cash equivalents which, like in the consolidated balance sheet, have been recognized at the exchange rate on the reporting date. The impact of changes in exchange rates on cash and cash equivalents is presented separately.

Inflow of funds from operating activities

The cash flow from operating activities has been calculated using the indirect method. This involves eliminating non-cash earnings components from consolidated net income after taxes.

The non-cash other operating income reported for the previous year mainly included income of € 5,402k recognized in connection with the IPO of Quanterix Corporation, US. This is presented in Section D. 'Notes to the consolidated statement of comprehensive income – (23) Other operating income and expenses'. The shares held in this company were sold in full in June 2018. This led to an inflow of funds amounting to € 8,597k in the 2018 financial year. These funds have been allocated to the cash flow from investing activities.

Interest income and expenses have been allocated to operating activities, as have the components of other financial income/expenses. Dividend payments are presented in the cash flow from financing activities.

Tax payments have been reported under operating activities in their entirety, as their allocation to individual business divisions is not practically feasible.

The interest paid/received and income taxes paid/refunded items in the cash flow from operating activities have been presented using the direct method. In the first stage, this involves adjusting consolidated net income to account for income and expenses recognized in the consolidated statement of comprehensive income. After this, the interest and income taxes paid or received are reported separately.

Reconciliation pursuant to IAS 7.44A – .44B

As STRATEC did not execute any business combinations or incept any new finance leases in the 2018 and 2017 financial years, there is no obligation to provide a reconciliation such as that called for in Illustrative Example E to IAS 7 (Statement of Cash Flows). All cash flows relating to financing activities can be seen directly in the cash flow statement.

Presentation of implications of IFRS 5

As there are various options for meeting the requirements of IFRS 5 and IAS 7 with regard to the presentation of cash flows, STRATEC has selected the following presentation:

- The cash flow statement includes all cash flows, i.e. both from continuing and from discontinued operations.
- The cash flows relating to the discontinued operations (cash flows from operating, investing, and financing activities) are stated below.

	2018 € 000s	2017 € 000s
Cash from operating activities	-508	-285
Cash flow from investing activities	-55	-180

As of December 31, 2018, the discontinued operation held cash and cash equivalents of € 279k.

In the 2018 financial year, depreciation of € 297k (previous year: € 365k) and impairments of € 826k on non-current assets (previous year: € 0k) were attributable to the discontinued operation.

(28) Cash and cash equivalents

Cash and cash equivalents comprises cash holdings and credit balances at banks with original maturities of up to three months. As of December 31, 2018, cash and cash equivalents amounted to € 23,816k (previous year: € 24,137k).

F. SEGMENT REPORTING

STRATEC is managed by reference to a matrix organizational structure which aggregates individual areas of activity in business units across various locations. Business units are aggregated on the basis of the products and services thereby offered. These units therefore basically constitute operating segments pursuant to IFRS 8 (Operating Segments). Separate segment reporting is provided where the quantitative thresholds pursuant to IFRS 8 (Operating Segments) are exceeded.

The following business units have been identified as reporting segments: 'Instrumentation', 'Diatron', and 'Smart Consumables'. In its 'Instrumentation' segment, STRATEC designs and manufactures fully automated analyzer systems for its clinical diagnostics and biotechnology customers. The Diatron Group represents a standalone business unit ('Diatron') and extends STRATEC's offering to include products and customer services for analyzer systems, system components, consumables and tests in the lower throughput segment. The 'Smart Consumables' segment includes the development and production of smart consumables in the fields of diagnostics, life sciences, and medical technology.

The accounting policies applied to the reporting segments are consisting with the accounting policies set out in Section B. 'Accounting policies applied.' The reconciliation of segment data to the relevant group data therefore mainly involves accounting for consolidation entries and amounts relating to the business unit recognized as held for sale in accordance with IFRS 5 (Non-Current Assets Held for Sale and Discontinued Operations). The segment data for the 2017 financial year has been adjusted for comparative purposes.

Segment data by operating segment for 2018

	Instrumentation (includes service parts and consumables allocable to business unit) € 000s	**Diatron** (includes service parts and consumables allocable to business unit) € 000s	**Smart Consumables** € 000s	**Other segments** € 000s	**Total**[1] € 000s	**Reconciliation** € 000s	**Total** € 000s
Sales with external customers	131,323	35,341	16,765	4,391	187,820	0	187,820
Inter-segmental sales	2,034	853	888	874	4,649	-4,649	0
Depreciation and amortization	8,536	6,913	4,974	100	20,523	0	20,523
EBITDA	27,596	5,237	2,323	378	35,534	0	35,534
EBIT	19,060	-1,676	-2,651	278	15,011	0	15,011
Interest income	2,457	0	0	4	2,461	-2,427	34
Interest expenses	628	2,080	365	16	3,089	-2,427	662
Assets	294,353	59,441	32,606	9,868	396,268	-120,983	275,285
Additions to non-current assets	13,509	1,524	3,178	1,158	19,369	68	19,437
Average number of employees	600	218	156	89	1,063	27	1,089

[1] Excluding segment data pursuant to IFRS 5 (Non-Current Assets Held for Sale and Discontinued Operations)

Segment data by operating segment for 2017

	Instrumentation (includes service parts and consumables allocable to business unit) € 000s	**Diatron** (includes service parts and consumables allocable to business unit) € 000s	**Smart Consumables** € 000s	**Other segments** € 000s	**Total**[1] € 000s	**Reconciliation** € 000s	**Total** € 000s
Sales with external customers	149,645	37,027	15,644	5,162	207,478	0	207,478
Inter-segmental sales	1,834	366	352	2,260	4,812	-4,812	0
Depreciation and amortization	6,716	7,086	4,183	89	18,074	0	18,074
EBITDA	40,237	5,034	2,102	508	47,881	0	47,881
EBIT	33,521	-2,051	-2,081	418	29,807	0	29,807
Interest income	2,295	0	20	0	2,315	-2,206	109
Interest expenses	770	2,054	186	12	3,022	-2,206	816
Assets	282,653	61,490	30,844	7,799	382,786	-119,031	263,755
Additions to non-current assets	11,016	1,079	2,252	1,140	15,487	179	15,666
Average number of employees	508	194	136	74	912	28	940

[1] Excluding segment data pursuant to IFRS 5 (Non-Current Assets Held for Sale and Discontinued Operations)

Of non-current assets at the reporting segments, excluding financial instruments and deferred taxes, € 36,554k are located in the country of origin of STRATEC SE (previous year: € 36,323k) and € 99,750k in other countries (previous year: € 107,728k). Further disclosures on company level have been presented in Section D. 'Notes to the consolidated statement of comprehensive income (18) Sales'.

Furthermore, impairment losses of € 642k were recognized and are allocable to the Instrumentation segment. Information about these can be found in Section C. 'Notes to the consolidated balance sheet (1) Goodwill and other intangible assets'.

G. FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and fair values of individual financial assets and liabilities for each class of financial instruments pursuant to IFRS 9 (Financial Instruments) and reconciles these with the corresponding balance sheet items. The conversion effects resulting from first-time application of IFRS 9 (Financial Instruments) have been presented in Section A. 'General disclosures – Accounting standards requiring mandatory application for the first time in the current financial year'.

As financial liabilities also include the financial instruments covered by IFRS 2 (Share-based Payment), which are exempted from the scope of IFRS 7 (Financial Instruments: Disclosures), the 'Not in scope of IFRS 7' column provides a corresponding reconciliation of these items.

Abbreviations for IFRS 9 measurement categories (Financial Instruments)

AC	Measured at amortized cost
FVTPL	Measured at fair value through profit or loss
FVTOCI	Measured at fair value through OCI
n/a	Not attributable to any measurement category

Abbreviations for IAS 39 measurement categories (Financial Instruments: Recognition and Measurement)

LaR	Loans and receivables
AfS	Available-for-sale financial assets
FVTPL	Financial assets measured at fair value through profit or loss
FAHfT	Financial assets held for trading
FLAC	Financial liabilities measured at amortized cost

Figures in € 000s 12.31.2018 (01.01.2018)	IFRS 9 cate- gory	Carrying amount	Amortized cost	Fair value of which Level 1	 of which Level 2	 of which Level 3	 Not in scope of IFRS 7	 Total	Fair value
Non-current assets									
Financial assets									
• Investments in associates	n/a	158 (158)					158 (158)	158 (158)	158 (158)
• Other financial assets	AC	301 (82)	301 (82)					301 (82)	301 (82)
Current assets									
Trade receivables	AC	34,750 (41,290)	34,750 (41,290)					34,750 (41,290)	34,750 (41,290)
Receivables from associates	AC	22 (24)	22 (24)					22 (24)	22 (24)
Financial assets									
• Amortized cost	AC	115 (384)	115 (384)					115 (384)	115 (384)
• Fair value through profit or loss	FVTPL	696 (974)		696 (974)				696 (974)	696 (974)
• Fair value through OCI	FVOCI	0 (11,140)		0 (11,140)				0 (11,140)	0 (11,140)
Cash and cash equivalents	AC	23,816 (24,137)	23,816 (24,137)					23,816 (24,137)	23,816 (24,137)
Total financial assets									
• of which amortized cost	AC	59,004 (65,917)	59,004 (65,917)					59,004 (65,917)	
• of which fair value through profit or loss	FVTPL	696 (974)		696 (974)				696 (974)	
• of which fair value through OCI	FVOCI	0 (11,140)		0 (11,140)				0 (11,140)	
• of which not in scope of IFRS 7	n/a	158 (158)					158 (158)	158 (158)	
Non-current debt									
Financial liabilities									
• Amortized cost	AC	68,572 (61,581)						68,572 (61,581)	67,719 (61,382)
• Not in scope of IFRS 7	n/a	361 (1,000)					361 (1,000)	361 (1,000)	n/a (n/a)
Current debt									
Financial liabilities									
• Amortized cost	AC	7,388 (9,372)	7,388 (9,372)					7,388 (9,372)	8,015 (9,444)
• Fair value through profit or loss	FVTPL	15 (0)			15 (0)			15 (0)	15 (0)
• Not in scope of IFRS 7	n/a	584 (989)					584 (989)	584 (989)	584 (989)
Trade payables	AC	6,457 (6,928)	6,457 (6,928)					6,457 (6,928)	6,457 (6,928)
Liabilities to associates	AC	0 (0)	0 (0)					0 (0)	0 (0)
Other financial debt									
• of which amortized cost	AC	82,417 (77,881)	82,417 (77,881)					82,417 (77,881)	
• of which fair value through profit or loss	FVTPL	15 (0)			15 (0)			15 (0)	
• of which fair value through OCI	FVOCI	0 (0)						0 (0)	
• of which not in scope of IFRS 7	n/a	945 (1,099)					945 (1,988)	945 (1,988)	

Figures in € 000s 12.31.2017	IAS 39 category	Carrying amount	Amortized cost	Fair value through profit or loss	Fair value through OCI	Total	Not in scope of IFRS 7	Fair value
Non-current assets								
Financial assets		240	240			240		
• Investments in associates	AfS	158	158			158		
• Other financial assets	LaR	82	82			82		82
Current assets								
Trade receivables	LaR	39,126	39,126			39,126		39,126
Receivables from construction contracts	LaR	7,210	7,210			7,210		7,210
Receivables from associates	LaR	24	24			24		24
Financial assets		12,498	384	974	11,140	12,498		12,498
• Financial instruments available for sale	AfS	11,140			11,140	11,140		11,140
• Financial instruments measured at fair value through profit or loss	FVTPL	0		0		0		0
• Assets held for trading	FAHfT	974		974		974		974
• Loans and receivables	LaR	384	384			384		384
Cash and cash equivalents	LaR	24,137	24,137			24,137		24,137
Non-current debt								
Financial liabilities	FLAC	62,581	61,581			61,581	1,000	62,382
Current debt								
Financial liabilities	FLAC	10,360	9,371			9,371	989	10,388
Trade payables	FLAC	6,928	6,928			6,928		6,928
Liabilities to associates	FLAC	0	0			0		0

The fair value of loans, receivables, and liabilities is calculated as the present value of future inflows and outflows of cash. Where a listed price is available, this has been taken as the fair value. Discounting is based on a market interest rate with a congruent term and risk structure. Where a listed price is available, this has been taken as the fair value.

Given the predominantly short-term maturities of loans and receivables and of trade payables and liabilities to associates, their carrying amounts as of the balance sheet date do not deviate significantly from their fair values.

The net results on financial instruments broken down into their respective measurement categories were as follows:

Figures in € 000s 2018	IFRS 9 category	From investments	From interest	From subsequent measurement: Fair value through profit or loss	From subsequent measurement: Fair value through OCI	From subsequent measurement: Currency translation	From subsequent measurement: Impairment	From disposals	Net results
Financial investments in equity instruments measured at fair value through OCI pursuant to IFRS 9.5.7.5	FVOCI	0	0	0	0	0	0	-2,544	-2,544
Financial assets measured at amortized cost	AC	0	1	0	0	57	144	0	202
Financial assets measured at fair value (not designated)	FVTPL	8	0	-280	0	0	0	0	272
Financial liabilities measured at fair value (not designated)	FVTPL	0	0	-15	0	0	0	0	-15
Financial liabilities measured at amortized cost	AC	0	-586	0	0	-197	0	0	-783
Total		**8**	**-585**	**-295**	**0**	**-140**	**144**	**-2,544**	**-3,412**

Figures in € 000s 2017	IAS 39 category	From investments	From interest	From subsequent measurement: Fair value through profit or loss	From subsequent measurement: Fair value through OCI	From subsequent measurement: Currency translation	From subsequent measurement: Impairment	From disposals	Net result
Available-for-sale financial assets	AfS	0	0	0	2,560	0	0	5,411	7,971
Loans and receivables	LaR	0	37	0	0	-358	-23	0	-344
Financial assets measured at fair value	FVTPL	0	0	-9	0	0	0	0	-9
Financial assets held for trading	FAHFT	8	0	-106	0	0	0	0	-98
Financial liabilities measured at amortized cost	FLAC	0	-731	0	0	-1	0	0	-732
Total		**8**	**-694**	**-115**	**2,560**	**-359**	**-23**	**5,411**	**6,788**

No interest income or interest expenses were generated or incurred in connection with financial instruments measured at fair value through profit or loss. Of the net result for financial instruments measured at fair value, an amount of € -295k has been recognized in other financial income/expenses (previous year: € -106k) and an amount of € 17k (previous year: € 5,402k) in other operating income/expenses. Furthermore, losses of € 2,544k for equity instruments designated pursuant to IFRS 9.5.7.5. as recognized at fair value through OCI were transferred within equity pursuant to IFRS 9.B5.7.1. in the 2018 financial year.

The income and expenses resulting from translation through profit or loss of financial assets and liabilities at average exchange rates on the balance sheet date have been recognized under other operating income or expenses, as have the results of foreign currency translation performed within the financial year. The translation of cash and cash equivalents at the balance sheet date resulted in currency income of € 12k (previous year: € 19k) recognized through profit or loss under other operating income. Currency expenses of € 200k (previous year: € 98k) have been recognized under other operating expenses in connection with the translation of cash and cash equivalents at the balance sheet date.

Fair value hierarchy

To ensure the comparability and consistency of fair value measurements and related disclosures, IFRS 13 (Fair Value Measurement) stipulates a fair value hierarchy that allocates the input factors used in valuation methods to calculate fair value to three levels. The hierarchy grants the highest priority to prices (taken over without amendment) on active markets for identical assets or liabilities (Level 1 input factors) and the lowest priority to non-observable input factors (Level 3 input factors). The following specific definitions apply:

Input factors: Assumptions that would be used by market participants when determining the price of an asset or liability, including risk assumptions, such as:

(a) The risk involved in a specific valuation method used to calculate fair value (such as a price model), and
(b) The risk involved in the input factors used in the valuation method.

Input factors may be observable or non-observable.

Level 1 input factors: Listed prices (taken over without amendment) on active markets for identical assets or liabilities to which the company has access on the valuation date.

Level 2 input factors: Input factors other than the listed prices included in Level 1 that are either directly or indirectly observable for the asset or liability.

Level 3 input factors: Input factors not observable for the asset or liability.

Observable input factors: Input factors derived from market data, such as publicly available information about actual events or transactions, which reflect those assumptions that would be used by market participants when determining the price of the asset or liability.

Non-observable input factors: Input factors for which no market data is available and which are derived from the best information available concerning the assumptions that would be used by market participants when determining the price of the asset or liability.

No items were reclassified within the three input factor levels in the 2018 financial year. The financial assets allocated to Level 1 involve shares in listed companies, which have been measured at the closing price on the stock market with the highest trading volumes as of the balance sheet date. These mainly relate to the shares held in a listed US company. With regard to the implications of first-time application of IFRS 9 (Financial Instruments) on the accounting treatment of these shares, reference is made to the information provided in Section A. 'General disclosures – Accounting standards requiring mandatory application for the first time in the current financial year.' The shares in this company were sold in full in June 2018. The financial liabilities allocated to Level 2 involve forward exchange transactions intended to hedge currency risks.

Overall, this had the following implications for the consolidated statement of comprehensive income:

	Level 1 € 000s	Level 2 € 000s	Level 3 € 000s
Balance at 01.01.2017	**1,080**	**0**	**4,232**
Total gains or losses recognized through profit or loss			
• Other operating income	0	0	0
• Other operating expenses	0	0	-9
• Other financial income/expenses	-106	0	0
Total gains or loss recognized in OCI			
• Changes in value	2,560	0	4,356
• Reclassifications out of OCI into profit or loss (other operating income)	0	0	-5,411
Additions	8,580	0	1
Retirements			
• Due to sale	0	0	0
• Due to derecognition	0	0	-3,169
Balance at 12.31.2017	**12,114**	**0**	**0**
Total gains or losses recognized through profit or loss			
• Other operating income	17	0	0
• Other operating expenses	0	0	0
• Other financial income/expenses	-280	-15	0
Total gains or losses recognized in OCI			
• Changes in value	-2,544	0	0
• Reclassifications out of OCI into profit or loss (other operating income)	0	0	0
Additions	0	0	0
Retirements			
• Due to sale	-8,597	0	0
• Due to derecognition	0	0	0
Balance at 12.31.2018	**711**	**-15**	**0**

Maturity analysis

The liquidity risk to which STRATEC is exposed in connection with its financial instruments consists of obligations due to future interest and principal payments for financial liabilities. Future payments are structured as follows:

	Carrying amount 12.31.2018	Cash flows 2020		Cash flows 2020		Cash flows 2021 – 2022		Cash flows 2023 and later	
Figures in € 000s		**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**
Financial liabilities	76,920	646	7,987	634	2,038	763	61,206	120	5,689
• of which derivatives	15	0	15	0	0	0	0	0	0
Trade payables	6,457	0	6,457	0	0	0	0	0	0
Liabilities to associates	0	0	0	0	0	0	0	0	0
Total	**83,377**	**646**	**14,444**	**634**	**2,038**	**763**	**61,206**	**120**	**5,689**

	Carrying amount 12.31.2017	Cash flows 2018		Cash flows 2019		Cash flows 2020 – 2021		Cash flows 2022 and later	
Figures in € 000s		**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**
Financial liabilities	72,941	594	10,376	576	2,020	1,108	3,151	88	57,570
Trade payables	6,928	0	6.928	0	0	0	0	0	0
Liabilities to associates	0	0	0	0	0	0	0	0	0
Total	**79,869**	**594**	**17,304**	**576**	**2,020**	**1,108**	**3,151**	**88**	**57,570**

Loans with remaining terms of up to five years charge interest at a weighted average of 0.93% (previous year: 0.94%). Loans with remaining terms of more than five years charge interest at a weighted average of 0.90% (previous year: 1.01%). This calculation has been based on the nominal interest rates applicable as of the balance sheet date.

H. RISK MANAGEMENT

Risk management principles

STRATEC's assets, liabilities and future activities are subject to liquidity risks and market risks resulting from changes in exchange rates, interest rates and stock market prices. The objectives and methods used by STRATEC to deal with the financial risks listed below form the object of the Group's risk management activities. The principles underlying the Group's risk management policies are presented in Section D. 'Opportunities and risks' of the group management report.

The objective of financial risk management is to limit these risks primarily by means of its operating activities. In assessing individual risks the management takes account of the volume of such risks arising across the Group as a whole. These activities are supplemented by finance-based measures. The primary objective is to limit the risks of relevance to the cash flow. The basic principles of the company's financial policy are reviewed by the Board of Management annually and revised to account for new developments. The Supervisory Board is informed at regular intervals of the financial position of the Group and the assessments made by the Board of Management.

Financial instruments could in principle give rise to the following risks for the company:

Liquidity risks

For STRATEC, liquidity risks involve the risk of not being able to meet payment obligations due to insufficient cash and cash equivalents. To safeguard the company's solvency, sufficient liquid funds are reserved on the basis of rolling liquidity planning, as are limited credit lines.

STRATEC had cash and cash equivalents of € 23,816k at the balance sheet date (previous year: € 24,137k). Furthermore, the discontinued operation had further cash and cash equivalents of € 279k as of December 31, 2018.

Foreign currency risks

On account of its international business activities, STRATEC is exposed to foreign currency risks resulting from the impact of exchange rate movements on business transactions and the foreign currency receivables and liabilities as of the balance sheet date (transaction risks). Furthermore, the translation of the financial statements of foreign subsidiaries into the group currency (€) also involves foreign currency risks (translation risks). Pursuant to IFRS 7.B23, these latter risks do not require separate analysis for IFRS 7 (Financial Instruments: Disclosures) purposes.

The principal foreign currency transactions performed by STRATEC relate to export transactions in US dollars and intercompany loan relationships in US dollars. Translation risks arise due to the translation of the financial statements of foreign group companies from Swiss francs (CHF), British pounds (GBP), and US dollars (USD), Romanian leis (RON), and Hungarian forints (HUF) into the group reporting currency (€).

To secure its foreign currency risks, STRATEC deployed forward exchange transactions in the 2018 financial year. With regard to the accounting treatment, reference is made to the information in Section B. 'Accounting policies applied – Accounting in accordance with IFRS 9 (Financial Instruments) from January 1, 2018.'

With regard to the disclosures required by IFRS 7.31-42 concerning the type and scope of risks resulting from financial instruments, to avoid redundancies STRATEC makes partial use of IFRS 7.B6 by making the disclosures thereby required in its group management report. Reference is made to the following sections of that report: Section D. 'Outlook' and Section D. 'Opportunities and risks: 4. Risk report in respect of use of financial instruments'.

Sensitivity to exchange rate movements (transaction risk):

The Group had the following transaction risk exposure as of the balance sheet date:

Foreign currency item translated into € 000s	12.31.2018				12.31.2017			
	GBP	CHF	EUR	USD	GBP	CHF	EUR	USD
Cash and cash equivalents	5	100	5,142	3,307	4	97	4,519	3,185
Trade receivables and other receivables	0	0	0	11,296	0	0	0	9,218
Receivables from associates	279	682	56,267	7,455	1,169	0	56,053	8,641
Financial assets	0	0	0	0	0	0	0	11,140
Trade payables	50	8	3	25	58	60	0	337
Derivatives	0	0	0	22,533	0	0	0	0
Liabilities to associates	0	652	3,222	230	64	624	3,122	386
Net risk exposure	**234**	**122**	**58,184**	**-730**	**1,051**	**-587**	**57,450**	**31,461**

Exchange rate gains and losses resulting from the measurement of financial assets and financial liabilities as of the balance sheet date have been presented in Section G. 'Financial instruments'.

Any change in the exchange rate of these key currencies and the euro exchange rate by +10%/-10% would have impacted as follows on consolidated net income as of the balance sheet date:

Foreign currency item translated into € 000s	12.31.2018				12.31.2017			
	GBP	CHF	EUR	USD	GBP	CHF	EUR	USD
Change in currency by +10%, Change in consolidated net income (€ 000s)	-21	-11	-5,289	68	-96	53	-5,223	-2,860
Change in currency by -10%, Change in consolidated net income (€ 000s)	26	14	6,465	-83	117	-65	6,383	3,496

In the 2018 financial year, the translation of transactions with third parties and within intercompany relationships led to the recognition through profit or loss of income from currency translation totaling € 3,535k (previous year: € 2,784k) and expenses for currency translation totaling € 3,265k (previous year: € 3,725k). These have been recognized under other operating income and other operating expenses respectively.

Interest rate risks

Interest rate risks involve the risk of fluctuations in the value of a financial instrument as a result of changes in market interest rates.

STRATEC is subject to interest rate risks in terms of its interest-bearing/interest-charging financial instruments.

Given that interest rates are extremely low by historical standards, the cash and cash equivalents at STRATEC now only generate interest income of immaterial significance and the resultant interest rate risk is also of subordinate significance. This item has therefore not been accounted for in the following analysis. However, any rise in interest rates would have a positive impact on earnings.

The Group reported the following interest-bearing assets and interest-charging liabilities as of the balance sheet date:

	2018 € 000s	2017 € 000s
Interest-bearing medium and long-term financial assets	59	67
• of which with floating interest rates	0	0
• of which with fixed interest rates	59	67
Interest-charging financial liabilities	69,534	62,505
• of which with floating interest rates	58,000	57,000
• of which with fixed interest rates	11,534	5,505

Sensitivity of fair values for fixed-interest financial instruments

Changes in market interest rates have no implications for the measurement of fixed-interest financial instruments at STRATEC as of the balance sheet date, as these items are measured at amortized cost using the effective interest method. The fair values based on market interest rates as of the balance sheet date have been presented in Section G. 'Financial instruments'.

Sensitivity of cash flows for floating-interest financial instruments

Changes in market interest rates have no implications for the measurement of floating-interest financial instruments at STRATEC as of the balance sheet date, as these items are measured at amortized cost using the effective interest method. Unlike fixed-interest financial liabilities, however, financial liabilities with floating interest rates involve the risk of fluctuations in future cash flows for payments of interest and principal due to changes in market interest rates. The STRATEC Group had financial liabilities with a nominal volume of € 58,000k with floating interest rates at the balance sheet date as of December 31, 2018 (previous year: € 57,000k).

The following table presents the future interest and principal payments assumed for the remaining term of the floating-rate loan liability as of the balance sheet date. The figures are based on the market interest rate prevalent at that time.

€ 000s	Carrying amount 12.31.2018	Cash flows 2019		Cash flows 2020		Cash flows 2021 and later	
		Interest	Principal	Interest	Principal	Interest	Principal
Financial liabilities with floating interest rates (1-month EURIBOR)							
Actual	58,000	539	0	541	0	625	58,000
+100 basis points	58,000	1,127	0	1,131	0	1,307	58,000
- 100 basis points	58,000	381	0	382	0	442	58,000

The change in the cash flow from interest presented here simultaneously corresponds to the hypothetical impact on consolidated net income before taxes on income in the consolidated statement of comprehensive income.

Other price risks

The financial assets requiring measurement at fair value are subject in particular to price risks. Had fair values been 10% higher (lower) than their balance sheet date levels, then consolidated net income before taxes on income would have been € 70k (previous year: € 97k) higher (lower) and OCI in the previous year would have been € 1,114k higher (lower).

Default risks

The principal default risks faced by STRATEC are to be found in its operating activities. They involve the risk of contractual partners failing to meet their obligations. At STRATEC, this risk relates in particular to receivables from customers. The risk volumes considered for default risk management purposes includes all creditor items due from customers in connection with supplies and services. Default risk is countered by means of receivables management, such as trade credit insurance policies. Remaining default risks are accounted for with suitable allowances. The first-time application of IFRS 9 (Financial Instruments) led these allowances to increase by € 130k as of January 1, 2018. Reference is made to the comments in the subsection for IFRS 9 (Financial Instruments) in Section A. 'General disclosures – Effects of first-time application of IFRS 9 (Financial Instruments) and IFRS 15 (Revenue from Contracts with Customers) on revenue reserves and other equity'.

Liquid funds are invested solely in the form of short-term monthly deposits at financial service providers with high-quality ratings.

The maximum default risk is reflected by the carrying amounts of the financial assets reported in the consolidated balance sheet. However, these figures do not account for the hedging measures outlined above.

Capital management

The objectives of capital management at STRATEC are:

- To safeguard the company's continued existence to enable it to continue generating income for shareholders and benefits for other stakeholders, and
- To generate an adequate return for shareholders by setting prices for products and services that are suitable to the market and the degree of risk involved.

STRATEC determines its level of capital in proportion to risk. To this end, STRATEC manages its capital structure and makes adjustments to be able to react to changes in the macroeconomic framework and the risk characteristics of its underlying assets. To maintain or adjust its capital structure, STRATEC may adjust the level of dividends paid to its shareholders, repay capital to its shareholders, issue new shares, or reduce debts by making repayments or selling assets.

The main key figures referred to by the management are the equity ratio and the debt/equity ratio (net financial liabilities as a proportion of EBITDA). The equity ratio amounted to 55.3% at December 31, 2018 (previous year: 59.8%). The medium-term target corridor for this figure amounts to between 50 percent and 75 percent.

I. OTHER DISCLOSURES

Related party disclosures

Closely related companies and persons as defined in IAS 24 (Related Party Disclosures) are legal or natural persons in a position to exert influence on STRATEC SE and/or its subsidiaries or subject to control or significant influence by STRATEC SE or its subsidiaries. Such parties include unconsolidated subsidiaries, members of the Board of Management and Supervisory Board of STRATEC SE and persons and companies closely related to such.

The receivables and liabilities due to and from unconsolidated subsidiaries as of the balance sheet date have been presented under the respective balance sheet items.

In the 2018 financial year, STRATEC generated revenues of € 1k (previous year: € 6k) from transactions with STRATEC Biomedical (Taicang) Co. Ltd. and purchased services of € 247k (previous year: € 234k) from this company.

Due to the presumption regulation set out in IAS 28.5, the company's founder Hermann Leistner, his family, and their investment company (hereinafter 'the Leistner family') count as related parties pursuant to IAS 24. In Hermann Leistner's capacity as a member of the Administrative Board and advisor of STRATEC Biomedical Switzerland AG, the Leistner family received compensation corresponding to € 52k via Hermann Leistner in the financial year under report (previous year: € 54k). As Hermann Leistner is a member of the Supervisory Board of DITABIS Digital Biomedical Imaging Systems AG, this company counts as a related party pursuant to IAS 24 (Related Party Disclosures) via the Leistner family. In the 2018 financial year, STRATEC SE generated revenues of € 41k from transactions with DITABIS Digital Biomedical Imaging Systems AG (previous year: € 2k) and purchased services of € 145k from this company (previous year: € 0k). As of the balance sheet date, the company had receivables of € 49k (previous year: € 0k) due from and, as in the previous year, no liabilities due to DITABIS Digital Biomedical Imaging Systems AG. Services were performed on customary contractual conditions.

Directors and officers

The **Board of Management** comprised the following members in the year under report:

- **Marcus Wolfinger,** Remchingen (Chairman)
  Graduate in Business Administration

- **Dr. Robert Siegle**, Birkenfeld
  (Director of Finance and Human Resources)
  Jurist

- **Dr. Claus Vielsack**, Birkenfeld
  (Director of Product Development)
  Graduate in Chemistry

The members of the Board of Management are authorized to solely represent the company.

Marcus Wolfinger has been a member of the management of STRATEC Capital GmbH since November 2015 and a member of the management of STRATEC PS Holding GmbH since May 2016.

Dr. Robert Siegle has been a member of the management of STRATEC Molecular GmbH since December 2012 (until March 31, 2019), a member of the Administrative Board of STRATEC Biomedical Switzerland AG since March 2014 (until March 21, 2018), and a member of the management of STRATEC PS Holding GmbH since May 2016.

Dr. Claus Vielsack has been a member of the management of STRATEC PS Holding GmbH since May 2016.

The compensation of members of the Board of Management consists of fixed basic compensation and variable components dependent, among other factors, on the achievement of individual performance targets. Further information about the basic features of the compensation system for the Board of Management and the disclosures required by § 314 (1) No. 6 a) Sentences 5 to 8 of the German Commercial Code (HGB) can be found in Section E. 'Compensation report' in the group management report.

Moreover, members of the Board of Management are entitled to participate in the stock option program subject to the limitation that no further stock options were granted to them in the financial years from 2015 to 2017. Since the 2018 financial year, they have once again participated in the stock option program. Among other conditions, the exercising of the options is dependent on the achievement of performance targets outlined in greater detail in Section C. 'Notes to the consolidated balance sheet (9) Shareholders' equity – Stock option programs'. Furthermore, members of the Board of Management receive stock appreciation rights (SARs). Detailed information about the structure of this program can be found in Section E 'Compensation report' in the group management report.

The members of the Board of Management received total compensation of € 2,766k for their activity on the Board of Management in the 2018 financial year (previous year: € 2,652k). As of December 31, 2018, the net balance of performance-related payments outstanding for members of the Board of Management amounted to € 2,983k (previous year: € 3,635k).

	2018 € 000s[1]	2017 € 000s[1]
Short-term benefits	1,450	1,609
Post-employment benefits[2]	268	217
Other long-term benefits[3]	405	391
Share-based compensation[4]	643	436

[1] The amounts disclosed refer to members of the Board of Management active in the respective reporting year and to their activities on the Board of Management.
[2] The amount disclosed refers to the service cost recognized in the 2018 financial year and the insurance contributions made to the pension provision and direct insurance policies of members of the Board of Management.
[3] The amount disclosed refers to the mid-term incentive agreement for 2016 (2015), which covers 2016, 2017, and 2018 (2015, 2016, and 2017) and is due for payment in 2019 (2018).
[4] The amount disclosed corresponds to the fair value upon issue of the stock appreciation rights (SARs) granted in 2018 (2017) and calculated in accordance with IFRS 2 (Share-based payment) as well as – from the 2018 financial year – the fair value upon issue of the stock options granted, although these were in some cases not yet vested as of the balance sheet date.

One former member of the Board of Management was not paid any compensation in the 2018 financial year (previous year: € 15k).

The **Supervisory Board** comprised the following individuals in the year under report:

- **Fred K. Brückner,** Marburg (Chairman)
  Chemical Engineer and Independent Management Consultant
- **Rainer Baule**, Überlingen (Deputy Chairman)
  Graduate in Industrial Engineering, Managing Director of Baule GmbH
- **Prof. Dr. Stefanie Remmele**, Landshut
  Professor of Medical Technology at the University of Applied Sciences in Landshut

The Supervisory Board members Fred K. Brückner and Prof. Dr. Stefanie Remmele do not hold positions on any other supervisory boards or supervisory bodies as defined in § 125 (1) Sentence 5 of the German Stock Corporation Act (AktG). Rainer Baule is a member of the Supervisory Board of DITABIS Biomedical Imaging Systems AG, Pforzheim, the Advisory Board of Vorwerk & Co. KG, Wuppertal, and the Foundation Board of Else Kröner-Fresenius-Stiftung, Bad Homburg v.d.H.

The Supervisory Board members received total compensation of € 124k in the 2018 financial year for their activities on the Supervisory Board (previous year: € 129k). The specific structure of overall compensation was as follows:

	2018 € 000s	2017 € 000s
Fixed compensation	113	116
Meeting allowance	11	13
Total	**124**	**129**

In addition to this total compensation, each member of the Supervisory Board also has his or her expenses reimbursed and benefits from a pecuniary damage liability insurance policy taken out at the company's expense at suitable terms customary to the market.

Contingent liabilities and other financial obligations

Other financial obligations primarily relate to acceptance obligations (basic contracts with suppliers concerning modules and contractual obligations), and obligations in connection with operating leases and development orders.

Obligations for orders placed amounted to € 61,380k (previous year: € 67,955k).

The rental and lease contracts for buildings, vehicles, and office and other equipment have remaining terms of up to 10 years (previous year: 8 years). The lease contracts provide for conditional lease payments dependent on the number of kilometers traveled or the number of copies made. Payments of € 1,628k were made for rental and lease contracts in the 2018 financial year (previous year: € 1,490k). The contracts provide for price adjustment clauses and for extension and purchase options in some cases.

The income and expenses recognized for rental and lease contracts are structured as follows:

	2018 € 000s	2017 € 000s
Minimum lease payments	1,628	1,490
Conditional lease payments	0	0
Less lease income from subletting arrangements	0	0
Total	**1,628**	**1,490**

Undiscounted future minimum lease and rental payments in connection with operating leases amounted to € 10,273k as of the balance sheet date (previous year: € 8,096k). Key individual items within operating leases are the rental agreements for the company buildings used by STRATEC Biomedical UK, Ltd., Diatron Medicinai Instrumentumok Laboratóriumi Diagnosztikai Fejlesztö-Gyártó Zrt, and STRATEC Consumables GmbH. Furthermore, the comparative figures presented here also include future minimum lease and rental payments at STRATEC Molecular GmbH. The remaining terms of the rental agreements amounted to up to 10 years at the balance sheet date (previous year: 8 years). Price adjustment clauses and extension and purchase options have been agreed in some cases.

The future lease payments resulting from rental agreements for company buildings are structured as follows:

	2018 € 000s	2017 € 000s
Future minimum lease payments		
Due within one year	2,016	1,729
Due in between one and five years	6,769	4,926
Due in more than five years	747	774
Total future minimum lease payments	**9,532**	**7,429**
Less lease income from subletting arrangements	0	0
Net minimum lease payments	**9,532**	**7,429**

STRATEC SE lets out sections of some properties recognized under property, plant and equipment. Future lease income from non-terminable rental agreements is structured as follows:

	2018 € 000s	2017 € 000s
Future minimum lease payments		
Due within one year	58	88
Due in between one and five years	9	198
Due in more than five years	0	0
Total future minimum lease payments	**67**	**286**

Other financial payment obligations mature as follows:

	2018 € 000s	2017 € 000s
Due within one year	62,881	57,784
• of which for operating leases	2,342	2,065
Due in between one and five years	22,567	19,089
• of which for operating leases	7,184	5,257
Due in more than five years	747	774
• of which for operating leases	747	774
Total	**86,195**	**77,647**
• of which for operating leases	10,273	8,096

Of other financial payment obligations, an amount of € 14,984k (previous year: € 723k) relates to property, plant and equipment, while € 652k (previous year: € 1,235k) involves intangible assets.

There are no contingent liabilities relating to the provision of security for third-party liabilities.

Contingent assets and liabilities

As in the previous year, STRATEC has no contingent assets or liabilities.

Disclosures pursuant to § 160 (1) No. 8 AktG at STRATEC SE (previously: STRATEC Biomedical AG)

STRATEC SE received the following voting right notifications from shareholders who hold a share of at least 3% of the voting rights:

Notifying party	Date on which threshold was met	Share of voting rights		Allocable voting right share of at least 3%
		in %	absolute	
Herdor GmbH & Co. KG, Unterschleißheim, Germany	04.27.2014	25.40	2,990,000	Tanja van Dinter, Bettina Siegle and Ralf Leistner
Herdor Beteiligungs GmbH, Unterschleißheim, Germany	04.27.2014	25.40	2,990,000	Herdor GmbH & Co. KG, Tanja van Dinter, Bettina Siegle and Ralf Leistner
Hermann Leistner, Germany	04.27.2014	25.79	3,035,456	Herdor GmbH & Co. KG, Herdor Beteiligungs GmbH, Tanja van Dinter, Bettina Siegle and Ralf Leistner
Doris Leistner, Germany	04.27.2014	25.74	3,030,235	Herdor GmbH & Co. KG, Herdor Beteiligungs GmbH, Tanja van Dinter, Bettina Siegle and Ralf Leistner
Tanja van Dinter, Germany	04.27.2014	29.53	3,476,286	Herdor GmbH & Co. KG, Bettina Siegle and Ralf Leistner
Bettina Siegle, Germany	04.27.2014	29.68	3,493,954	Herdor GmbH & Co. KG, Tanja van Dinter and Ralf Leistner
Ralf Leistner, Germany	04.27.2014	29.73	3,499,343	Herdor GmbH & Co. KG, Tanja van Dinter and Bettina Siegle
BNP Paribas Investment Partners UK Limited, London, UK	03.30.2015	3.06	360,672	BNP Paribas Investment Partners Belgium S.A.
BNP Paribas Investment Partners Belgium S.A., Brussels, Belgium	03.30.2015	3.06	360,672	
OppenheimerFunds, Inc., Denver, Colorado, US	11.29.2016	5.19	615,133	Oppenheimer International Small-Mid Company Fund
Oppenheimer International Small-Mid Company Fund, Centennial, Colorado, US	11.29.2016	5.19	615,133	
NN Group N.V., The Hague, Netherlands	10.05.2018	3.28	392,704	
Allianz Global Investors GmbH, Frankfurt am Main, Germany	11.16.2018	5.15	616,481	Allianz Global Investors Fund SICAV
Allianz Global Investors Fund SICAV, Senningerberg, Luxembourg	11.16.2018	3.94	471,511	
Ameriprise Financial, Inc., Wilmington, Delaware, US	11.24.2018	6.76	808,936	Threadneedle (Lux)
Threadneedle (Lux), Bartringen, Luxembourg	11.24.2018	5.38	644,072	

Information about voting right notifications can also be found in the Investors section of the company's website at www.stratec.com.

Events after the balance sheet date

By contract concluded on February 28, 2019, all shares in STRATEC Molecular GmbH and all loans provided by STRATEC SE to STRATEC Molecular GmbH were sold. The contract was executed on schedule as of March 31, 2019. Furthermore, the control and profit transfer agreement concluded between STRATEC SE and STRATEC Molecular GmbH in the 2013 financial year was rescinded as of March 31, 2019.

Apart from this, no events of particular significance expected to materially impact on the company's earnings, financial, or net asset position have occurred since the balance sheet date.

Declaration in respect of the German Corporate Governance Code

The declaration in respect of the German Corporate Governance Code 'Declaration of Conformity') required by § 161 of the German Stock Corporation Act (AktG) has been submitted by the Board of Management and Supervisory Board of STRATEC SE and made permanently available to shareholders in the Investors section of the company's website (www.stratec.com).

Birkenfeld, April 5, 2019

STRATEC SE
The Board of Management

Marcus Wolfinger *Dr. Robert Siegle* *Dr. Claus Vielsack*

RESPONSIBILITY STATEMENT

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

Birkenfeld, April 5, 2019

STRATEC SE
The Board of Management

Marcus Wolfinger *Dr. Robert Siegle* *Dr. Claus Vielsack*

INDEPENDENT AUDITORS' REPORT

TO STRATEC SE (FORMERLY: STRATEC BIOMEDICAL AG), BIRKENFELD

Report on the Audit of the Consolidated Financial Statements and of the Group Management Report

Audit opinions

We have audited the consolidated financial statements of **STRATEC SE (formerly: STRATEC Biomedical AG), Birkenfeld,** and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January to 31 December 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of STRATEC SE, Birkenfeld, for the financial year from 1 January to 31 December 2018. In accordance with the German legal requirements, we have not audited the content of the (Group) Declaration on Corporate Governance and the Corporate Governance Report in accordance with 3.10 of the German Corporate Governance Code published on the website of the Company, which is referred to in Section G. of the group management report, or the Non-Financial Statement of the Group in Section H. of the group management report.

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

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 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 31 December 2018 and of its financial performance for the financial year from 1 January to 31 December 2018, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group 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 group management report does not cover the content of the components of the group management report referred to above.

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

Basis for Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Sec. 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as 'EU Audit Regulation') and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (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 Group 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) 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 opinions on the consolidated financial statements and on the group 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 1 January to 31 December 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; we do not provide a separate audit opinion on these matters.

Below, we describe what we consider to be the key audit matters:

1. Impairment testing of goodwill
2. Accounting for development costs for internal development projects and development cooperations

Re 1 Impairment testing of goodwill

a) The risk for the financial statements

Goodwill of EUR 41.2 million is carried in the consolidated financial statements of STRATEC SE, Birkenfeld, under the line item 'Goodwill'. This corresponds to approximately 15.0% of the Group's total assets. Goodwill is subject to an impairment test as of 31 December of each respective financial year.

The valuation was performed using the discounted cash flow method. The results of the impairment test are highly dependent on the estimates made by the executive directors of future cash flows, the planned operating margins and the discount rate applied and are therefore subject to substantial uncertainty. In light of this fact and the complexity of the valuation, this was a key audit matter.

The disclosures of the Company regarding goodwill are contained in Sections B. and C. of the notes to the consolidated financial statements.

b) Audit approach and conclusions

We verified that the future cash flows used in the valuations are appropriate by comparing them to the latest budgets derived from the three-year planning drawn up by the executive directors and approved by the Supervisory Board and reconciling them with expectations for the specific industrial sector or general market expectations.

The reliability of the business planning was tested using a retrospective variance analysis between the budget figures underlying the valuation performed in the prior year and the actual figures posted in the financial year 2018. Where significant variances were identified, we discussed these with the executive directors in terms of their relevance for these financial statements.

Based on the knowledge that relatively small changes in the discount rate used can have a significant impact on the business value determined in this way, we also placed a focus of our audit on the parameters used to determine the discount rate, including the weighted average cost of capital, and verified the formula used in the calculation.

Due to the material significance of goodwill and the fact that the valuation of goodwill also depends on the macroeconomic environment, which lies outside the sphere of influence of the Company, we also performed sensitivity analyses for the cash-generating units with low coverage (carrying amount compared to net present value) and found that the respective goodwill is suitably covered by discounted future cash surpluses. Overall, the valuation parameters and assumptions applied by the executive directors agree with our expectations.

Re 2 Accounting for development costs for internal development projects and development cooperations

a) The risk for the financial statements

Where the development project is one of the Company's own development projects, the development costs incurred in connection with the project are expensed in the period in which they are incurred. This excludes research and development projects acquired in the course of business combinations and development costs that cumulatively meet the recognition criteria in IAS 38.57. Capitalized development costs are subject to an impairment test at least once a year in accordance with IAS 36 until they are put into an operating condition. As soon as they are put into an operating condition, they are amortized, generally over five to eight years.

If the project is a development cooperation with a contract or other contracts with customers, the first step is to identify the performance obligations and determine whether revenue has to be recognized at a point in time or over time for the respective performance obligations. For sales of analysis systems, service parts and consumables, revenue is generally recognized at a point in time. Revenue from other services is generally recognized over time, measuring progress towards complete satisfaction of the performance obligation. Revenue from development performance obligations is recognized over time or at a point in time, depending on the contract.

Revenue is recognized at the expected amount. Consideration components and sales deductions to be withheld for third parties are deducted from revenue. The consideration to be taken into account is adjusted for the effects of significant financing components, if the period between satisfaction of the performance obligation and payment is more than one year.

Costs of obtaining a contract are expensed immediately if the amortization period is less than one year. Costs to fulfill a contract are recognized as an asset if the costs generate or enhance resources that will be used in satisfying performance obligations and the costs are expected to be recovered. They are reported in inventories.

The pending transaction resulting upon conclusion of the contract is not recognized as an asset or a liability. When one of the contractual parties meets its obligation, a contract asset or a contract liability is recognized in the consolidated statement of financial position. A contract liability exists when the customer has already paid the consideration in full or in part before it is transferred to the customer. In cases where the performance obligation has been satisfied and the customer has not yet transferred the consideration, the existence of a conditional or an unconditional right is verified. A conditional right leads to recognition of a contract asset, while an unconditional right leads to recognition of trade receivables.

In the event that several performance obligations must be transferred to a customer, the contractually agreed consideration is allocated based on the stand-alone selling price at the time of concluding the contract. Stand-alone selling prices are not directly observable in the business model for development cooperations. The stand-alone selling prices are estimated using an appropriate method, generally the expected cost plus margin approach.

As of 31 December 2018, internally generated intangible assets of EUR 17,290 k (prior year: EUR 11,112 k) were capitalized in connection with development costs from internal development projects, and of EUR 1,936 k (prior year: EUR 11,087 k) in connection with development costs from development cooperations. Costs qualifying as research expenditure as defined by IAS 38.54 are expensed in the period in which they are incurred. Due to the different individual contracts and the significance of capitalized development costs in the consolidated financial statements, this was a key audit matter.

The disclosures of the Company on the accounting treatment of development costs for internal development projects and for development cooperations, and their impact on the consolidated financial statements, are included in Sections B. and C. of the notes to the consolidated financial statements.

b) Audit approach and conclusions

In a first step, we satisfied ourselves that the accounting policies required by IFRS described in a) above were applied systematically. This involved a critical appraisal of whether the recognition criteria in IAS 38.57 were met as well as of the applicability of the rules in IFRS 15 relating to recognition over time or at a point in time.

We audited the recognition, presentation and measurement of internal development projects and development cooperations by means of substantive testing using consciously selected samples. If new development cooperations were arranged in the financial year, the contractual documents were examined to determine whether the respective project was classified on the basis of the methodology presented under a) above. In particular, an audit focus was placed on revenue recognition in the respective development category and the annual impairment testing of capitalized development costs. We also audited the transition to recognition, presentation and measurement in accordance with IFRS 15 using consciously selected samples. We were able to verify the assumptions and estimates made by the executive directors with regard to the capitalization of development costs and determined that these are suitably documented and agree with our expectations.

Other Information

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

- the Non-Financial Statement included in Section H. of the group management report,
- the (Group) Declaration on Corporate Governance published on the website of the Company, which is referred to in Section G. of the group management report,
- the remaining parts of the annual report, with the exception of the audited consolidated financial statements, the audited components of the group management report and our auditor's report,
- the Corporate Governance Report pursuant to No. 3.10 of the German Corporate Governance Code published on the website of the Company, which is referred to in Section G. of the group management report,
- the confirmation pursuant to Sec. 297 (2) Sentence 4 HGB regarding the consolidated financial statements and the confirmation pursuant to Sec. 315 (1) Sentence 5 HGB regarding the group management report.

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

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

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

Responsibility of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group 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 Sec. 315a (1) HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Furthermore, the executive directors are responsible for the preparation of the group 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 group 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 group 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 group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group 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 group 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 opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 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 group 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 group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group 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 group management report or, if such disclosures are inadequate, to modify our respective opinion. 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 Sec. 315e (1) HGB.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- evaluate the consistency of the group 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 group management report. On the basis of sufficient appropriate audit evidence, we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

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

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

Other legal and regulatory requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting on 30 May 2018. Pursuant to Sec. 318 (2) HGB, we are the auditor of the consolidated financial statements, as no other auditor was elected. We were engaged by the Supervisory Board on 30 October 2018. We have been the group auditor of STRATEC SE, Birkenfeld, without interruption since the financial year 2015.

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

German public auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Ms. Linda Ruoß.

Stuttgart, 5. April 2019

Ebner Stolz GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Christian Fuchs Wirtschaftsprüfer (German Public Auditor)	Linda Ruoß Wirtschaftsprüferin (German Public Auditor)

FINANCIAL CALENDAR

04	05	05
April 11, 2019 Annual Financial Report 2018	**May 24, 2019** Quarterly Statement Q1|2019	**May 29, 2019** Annual General Meeting, Pforzheim, Germany
08	**11**	**11**
August 22, 2019 Half-yearly Financial Report H1|2019	**November 7, 2019** Quarterly Statement 9M|2019	**November 26, 2019** German Equity Forum, Frankfurt / Main, Germany

Subject to amendment

CONTACT

STRATEC SE
Gewerbestr. 37
75217 Birkenfeld
Germany
Phone: +49 7082 7916-0
Fax: +49 7082 7916-999
info@stratec.com
www.stratec.com

Head of Investor Relations
& Corporate Communications
Jan Keppeler
Phone: +49 7082 7916-991
j.keppeler@stratec.com

IMPRINT

Published by
STRATEC SE
Gewerbestr. 37
75217 Birkenfeld
Germany
Phone: +49 7082 7916-0
Fax: +49 7082 7916-999
info@stratec.com
www.stratec.com

Board of Management
Marcus Wolfinger (Chairman),
Dr. Robert Siegle and Dr. Claus Vielsack

Supervisory Board Chairman
Fred K. Brückner

Registration Court
Mannheim HRB 732007

Value Added Tax Identification Number
DE812415108

Editorial Responsibility
STRATEC SE

Concept and Design
STRATEC SE
Bartenbach AG, Mainz, Germany

Notice
Forward-looking statements involve risks: This annual report contains various statements concerning the future performance of STRATEC. These statements are based on both assumptions and estimates. Although we are convinced that these forward-looking statements are realistic, we can provide no guarantee of this. This is because our assumptions involve risks and uncertainties which could result in a substantial divergence between actual results and those expected. It is not planned to update these forward-looking statements.

This annual report contains various disclosures that from an economic point of view are not required by the relevant accounting standards. These disclosures should be regarded as a supplement, rather than a substitute for the IFRS disclosures.

Apparent discrepancies may arise throughout this annual report on account of mathematical rounding up or down in the course of addition.

This annual report is available in both German and English. Both versions can be downloaded from the company's website at www.stratec.com. In the event of any discrepancies between the two, the German report is the definitive version.

STRATEC SE
Gewerbestr. 37
75217 Birkenfeld
Germany
Phone: +49 7082 7916-0
Fax: +49 7082 7916-999
info@stratec.com
www.stratec.com