stratec

QUICK. PRECISE. SIGNIFICANT.

ANNUAL REPORT 2019

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 2019

STRATEC GROUP AT A GLANCE

Group Key Figures

Sales, earnings, and dividend

	2019	2018[3]	Change
Sales (in € thousand)	221,641	187,820	+18.0%
Gross R&D expenses (in € thousand)	38,210	38,669	-1.2%
Gross R&D expenses as % of sales	17.2	20.6	-340 bps
Adjusted EBITDA (in € thousand)[1]	40,853	36,190	+12.9%
Adjusted EBITDA in % of sales[1]	18.4	19.3	-90 bps
Adjusted EBIT (in € thousand)[1]	31,150	26,157	+19.1%
Adjusted EBIT as % of sales[1]	14.1	13.9	+20 bps
Adjusted consolidated net income (in € thousand)[1,4]	25,896	20,238	+28.0%
Adjusted basic earnings per share (in €)[1,4]	2.16	1.70	+27.1%
Basic earnings per share IFRS (in €)[4]	1.34	0.93	+44.1%
Dividend per share (in €)	0.84[2]	0.82	+2.4%

[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.
[3] Not retrospectively restated to reflect IFRS 16.
[4] Results from continuing operations.

bps = basis points

Balance sheet

	12.31.2019	12.31.2018	Change
Shareholders' equity (in € thousand)	159,007	152,204	+4.5%
Total assets (in € thousand)	299,414	275,285	+8.8%
Equity ratio (in %)	53.1	55.3	-220 bps

bps = basis points

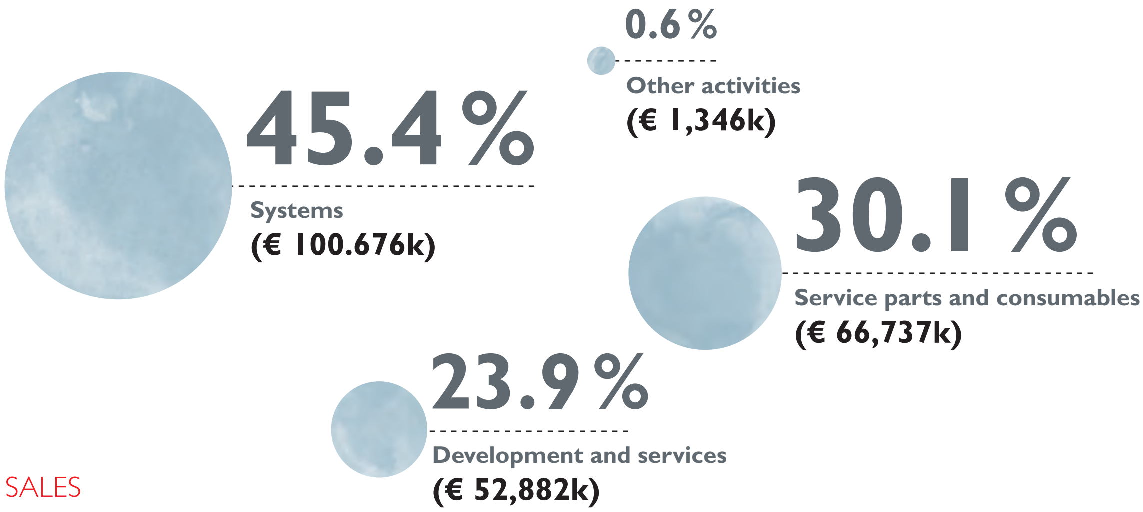
Quarterly Overview 2019

Sales and earnings

	1st quarter (01.01.– 03.31.)	2nd quarter (04.01.– 06.30.)	3rd quarter (07.01.– 09.30.)	4th quarter (10.01.– 12.31.)
Sales (in € thousand)	47,675	62,694	50,689	60,583
Adjusted EBIT (in € thousand)[1]	5,079	7,644	7,357	11,070
Adjusted EBIT as % of sales[1]	10.7	12.2	14.5	18.3
Adjusted consolidated net income (in € thousand)[1,2]	3,836	6,448	5,588	10,023
Adjusted basic earnings per share (in €)[1,2]	0.32	0.54	0.46	0.84
Basic earnings per share IFRS (in €)[2]	0.12	0.34	0.25	0.63

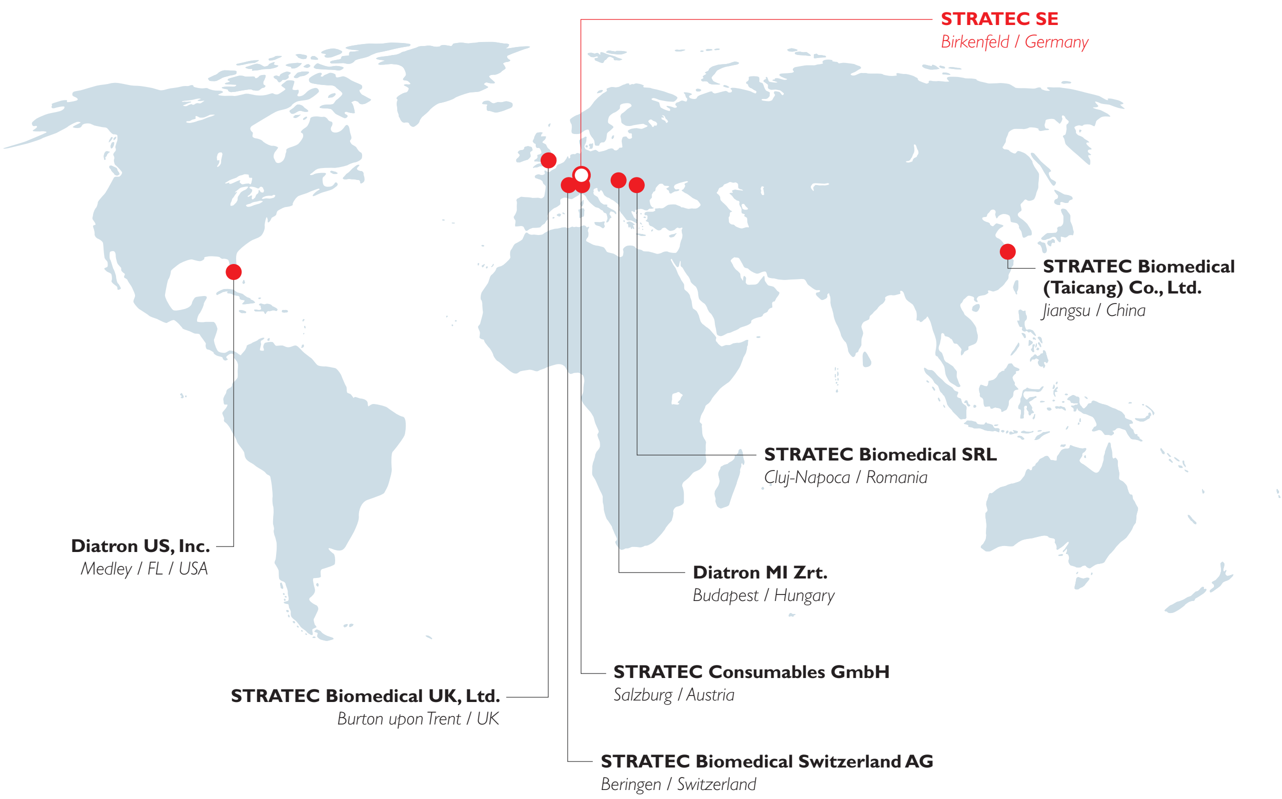
[1] Adjusted to exclude amortization resulting from purchase price allocations in the context of acquisitions, associated integration expenses, and other extraordinary effects.
[2] Results from continuing operations.

Sales by operating division 2019



SALES
100 % (€ 221,641k)

Locations of the STRATEC Group



LETTER FROM THE BOARD OF MANAGEMENT

Dear Shareholders, Partners and Friends of STRATEC,

The STRATEC Group can look back on a very successful 2019 financial year. Together with our partners, we have launched new and important products onto the market, made significant advances in our development pipeline by achieving major development targets, generated double-digit percentage growth in our sales and earnings and, thanks to these factors, met the targets communicated at the beginning of the year. This pleasing development in our business was driven by nearly all of our operating divisions. We increased our sales with systems and benefited here in particular from new product launches and pleasing call-up figures for systems already established in the market. Our business with Service Parts and Consumables and Development and Services profited on the other hand from pleasing capacity utilization rates in the installed system base and from ongoing high volumes of development activity across the Group. Given our very young product portfolio and additional market launches, we expect to generate substantial sales and earnings growth in 2020 as well. To date, the coronavirus pandemic has had the effect of increasing our customers' order forecasts overall. At present, however, we are also not able to entirely assess the further implications of the pandemic, such as the possibility of temporary interruptions arising in our supply chain.

The medium to long-term growth prospects for our company are still positive. The sustainable growth drivers in our partners' end markets, such as aging populations worldwide and rapid technological advances, are intact. The trend in which our customers are showing greater interest in outsourcing automation solutions to specialist companies such as STRATEC is also continuing unabated. To enable us to make optimal use of the various growth opportunities associated with these developments in the years ahead, we made an above-average volume of investments and took numerous related measures in 2019. Examples here include the construction work currently underway to significantly expand building capacities at the company's main location in Birkenfeld, the productive launch of a uniform group-wide ERP system in January 2019, and the further significant expansion in our workforce.

Our very successful business performance in 2019 was driven in particular by the motivation, experience, creativity, and willingness to perform shown by more than 1,300 STRATEC employees. Thanks to their commitment, their flexibility, and their customer focus, we were able to turn 2019 into yet another successful year for STRATEC.

Dr. Claus Vielsack (52)
Member of the Board of Management,
Product Development

Marcus Wolfinger (52)
Chairman of the Board of Management

Dr. Robert Siegle (52)
Member of the Board of Management,
Finances and Human Resources

Given the pleasing overall development of our company and the ongoing strength of its balance sheet, we currently plan to propose a further increase in our dividend to a new record level of € 0.84 per share for approval by our shareholders (previous year: € 0.82). Subject to approval by the Annual General Meeting, this would already represent the sixteenth consecutive increase in our dividend since payment of the first dividend in 2004.

We are absolutely aware of the responsibility we bear towards our employees, customers, shareholders, and partners, who rely on the high quality of our products. This responsibility will continue to shape our business activities. We would like to thank you sincerely for the trust and interest you have shown in our company. And we look forward to working with you to build our exciting and successful future.

Birkenfeld, April 2020

The Board of Management

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

REPORT OF THE SUPERVISORY BOARD

Dear Shareholders,

In what was and is an increasingly difficult political and economic climate, STRATEC can report a very successful business performance for 2019. The company's strong development pipeline, young product portfolio, and upcoming market launches also provide it with a basis for generating further growth.

In the 2019 financial year, 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 members take part in training and development measures needed for them to perform their duties at their own initiative. An introduction was provided to the new member of the Supervisory Board in order to assist him in performing his duties. Finally, on November 28, 2019 the Supervisory Board held its annual strategy at the STRATEC Consumables GmbH subsidiary in Anif, Austria. Here, the Supervisory Board members took the opportunity to visit the plant operated by the STRATEC Smart Consumables business unit and to inform themselves on site about the most important development projects there.

Supervisory Board meetings, formation of committees, meeting attendance, and key focuses of discussion
The Supervisory Board held six meetings in the 2019 financial year, one of which by way of a conference call. Given its size, with only three members, the Supervisory Board did not form any committees in the year under report. All meetings of the Supervisory Board were attended by all of its members and – unless the topics involved matters relating to the Board of Management or internal Supervisory Board matters – also by all members of the Board of Management.

At its meetings, which took place on April 8, 2019, May 29, 2019, July 26, 2019 and November 28, 2019, the Supervisory Board focused on the risk report, compliance management, the company's sales and earnings performance, its financial situation, the status of individual development projects and of the company's contract negotiations. Further focuses included discussions concerning the company's subsidiaries, its organizational structure, the impact of new legislative requirements, and the long-term corporate strategy.

At its first meeting in the period under report, on February 26, 2019, the Supervisory Board discussed the sale of the shares held in STRATEC Molecular GmbH and approved this transaction. Furthermore, it determined the target achievement and discretionary components for the bonus payments to be made to members of the Board of Management for the 2018 financial year in line with their individual supplementary agreements (medium-term component of compensation/MTI). In addition, new target agreements were reached for the individual members of the Board of Management for the 2019 financial year. Moreover, the Supervisory Board approved the corporate governance declaration with the corporate governance report, which was made permanently available to shareholders on the company's website.

Following its own detailed review, at its meeting on April 8, 2019 the Supervisory Board approved the annual financial statements and management report and the consolidated financial statements and group management report of STRATEC SE for the 2018 financial year. In this context, the Supervisory Board also reviewed the non-financial group declaration prepared by the Board of Management and did not raise any objections to this. Further focuses of this meeting involved the draft resolutions to be proposed to the Annual General Meeting, including the proposed appropriation of profit for the 2018 financial year and the elections to the Supervisory Board.

Directly after the Annual General Meeting on May 29, 2019, the members of the newly elected Supervisory Board held their first meeting and, from among their number, elected Dr. Frank Hiller as Chair and Rainer Baule as Deputy Chair and financial expert pursuant to § 100 (5) of the German Stock Corporation Act (AktG).

Alongside recurring topics, the Supervisory Board meeting on July 26, 2019 focused in particular on the comments provided by the Board of Management on the impact of the project to introduce a new ERP system across all locations, which was completed in spring 2019. As planned, the ERP system had most recently been rolled out at the German and Swiss locations in January 2019.

At its final meeting of the reporting period, held on November 28, 2019, the Supervisory Board adopted the budget and annual financial plan for the 2020 financial year. Furthermore, it 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. It also assessed the efficiency of its own activities by way of self-assessment based on a structured questionnaire. Here, the Supervisory Board members assessed their activities as being efficient overall. On this day, the Supervisory Board and the Board of Management also renewed the company's Declaration of Conformity pursuant to § 161 AktG and made this permanently available to shareholders on the company's website.

Given the conversion in the company's legal form into an SE at the end of 2018 and to account for the further evolution in high-quality corporate governance, the Supervisory Board revised the Codes of Procedure for the Board of Management and the Supervisory Board and adopted these at this meeting. In connection with this revision, it was also decided to publish the Code of Procedure for the Supervisory Board on the company's website. The Supervisory Board also revised and adopted its competency profile for the board as a whole.

Furthermore, at its final meeting in the period under report the Supervisory Board also passed a resolution to adjust and amend the company's Articles of Association to account for the shares issued for subscription in 2019 in connection with existing stock option programs.

Moreover, the Supervisory Board addressed the employment contracts with the individual members of the Board of Management. These contracts required amendment due to the conversion in the company's legal form into an SE in 2018. This has not changed the compensation system for the Board of Management.

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 Supervisory Board members are independent according to the definition provided in Point 5.4.2 of the German Corporate Governance Code.

Changes in the Board of Management and Supervisory Board
The term in office of the first Supervisory Board of STRATEC SE expired upon the conclusion of the Annual General Meeting on May 29, 2019. Apart from Fred K. Brückner, the existing Supervisory Board members were available for reelection. The Annual General Meeting elected Dr. Frank Hiller to the Supervisory Board as successor to the retiring member Fred K. Brückner.

Through to May 29, 2019, the Supervisory Board of STRATEC SE comprised the following members: Fred K. Brückner (Supervisory Board Chair), Rainer Baule (financial expert), and Prof. Dr. Stefanie Remmele. From May 29, 2019, it was composed as follows: Dr. Frank Hiller (Supervisory Board Chair), Rainer Baule (financial expert), and Prof. Dr. Stefanie Remmele.

Audit of annual and consolidated financial statements; audit of non-financial group declaration
Consistent with the proposal submitted by the Supervisory Board, the Annual General Meeting held on May 29, 2019 elected Ebner Stolz GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Stuttgart, as auditor and group auditor for the 2019 financial year. Ebner Stolz has audited the annual and consolidated financial statements of STRATEC SE since the 2015 financial year. During that time, the auditor responsible for the audit of the annual financial statements from 2015 to 2018 and of the consolidated financial statements from 2015 to 2019 was Linda Ruoss, while Philipp Lessner was responsible for the audit of the 2019 annual financial statements.

At its meeting on March 30, 2020 which, in view of the corona crisis, was held as a conference call, the Supervisory Board dealt in detail with the annual financial statements and management report, as well as with the consolidated financial statements and group management report, together with the non-financial group declaration, of STRATEC SE for the 2019 financial year. 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 (AktG) for the early identification of any risks to the company's continued existence.

The annual financial statements and management report, the consolidated financial statements and group management report with the non-financial group declaration, the proposal submitted by the Board of Management in respect of the appropriation of profit, and the auditor's audit reports were available to the Supervisory Board for its own review. Representatives of the auditor attended the discussion of the annual and consolidated financial statements at the Supervisory Board meeting on March 30, 2020 and outlined the key audit findings.

Dr. Frank Hiller (53)
Chairman of the Supervisory Board
(since May 29, 2019)

The audit of the annual financial statements and management report and of the consolidated financial statements and group management report with the non-financial group declaration 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 management report, as well the consolidated financial statements and group management report, in a meeting also held by conference call, in this case on April 1, 2020. The annual financial statements are thus adopted.

Furthermore, the Supervisory Board discussed the proposed appropriation of profit in detail with the Board of Management and approved this proposal. Subject to approval by shareholders at this year's Annual General Meeting, this currently foresees the distribution of a dividend of € 10.1 million (€ 0.84 per share) to shareholders in STRATEC SE.

Thanks
The Supervisory Board would like to thank the members of the Board of Management and all employees of STRATEC SE and its subsidiaries for their fantastic commitment and superb achievements once again in the 2019 financial year.

Moreover, the Supervisory Board particularly thanks Fred K. Brückner for his successful work at the company, whose development he accompanied closely with great commitment and expertise over 21 years on the Supervisory Board, of which 19 years as Supervisory Board Chair. Mr. Brückner retired on May 29, 2019.

Birkenfeld, April 2020

On behalf of the Supervisory Board

Dr. Frank Hiller
Supervisory Board Chair

Fred K. Brückner (77)
Chairman of the Supervisory Board
(until May 29, 2019)

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

Rainer Baule (71)
Deputy Chairman of the
Supervisory Board

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CURRENT TRENDS IN IN-VITRO DIAGNOSTICS

Trend towards large laboratories continues

Within the global in-vitro diagnostics market, the trend already apparent for years now towards smaller numbers of ever larger laboratories is continuing apace. Increasing numbers of smaller hospital laboratories are closing and transferring their test volumes to large central laboratories. These major facilities are attracting ever larger test volumes and generating considerable benefits of scale and cost savings. The resultant rise in test volumes generally leads to growing demand for analyzer systems with ever higher throughput rates (number of tests that can be performed on a system within a specified timeframe).

Point-of-care testing – when speed is what counts

Performing tests in central laboratories often makes economic sense, but it can take hours between the blood being taken from the patient and the results then being communicated. For numerous time-critical tests and situations, however, there is no time to send the blood sample to a remote central laboratory and waste valuable time before the results are available and treatment can begin. One example here involves emergency parameters such as cardiovascular markers. This being so, even a hospital that has outsourced most of its test volumes needs to have smaller analyzer systems available on site. In general, these appliances are found not in laboratories, but directly next to the patient, for example in an operating theatre or in the emergency room. This is referred to as point-of-care testing (POCT) using point-of-care systems.

Smaller system solutions with lower throughput rates are now also being used in increasing numbers outside hospitals. After all, the ability to obtain laboratory figures directly may offer crucial benefits at a doctor's practice as well. Because the analysis is performed at the practice, the results are available very quickly, in most cases a few minutes later. This way, they can be discussed directly on location with the doctor. This often saves the patient a subsequent visit and makes it possible to start treatment at an earlier point in time.

The usability requirements for smaller point-of-care systems differ from those for large systems. They are mostly designed to be easy and intuitive to use. That is important because, unlike larger-scale laboratory systems, they are also used by untrained staff.

STRATEC is benefiting from both trends

STRATEC has longstanding experience in designing high-throughput systems, as well as with smaller systems and the smart consumables often used in these. As a result, it is superbly positioned to benefit from both of the market trends outlined above.

COMPLETE BLOOD COUNT.

AT YOUR FINGERTIPS

Growing range of POCT analyzer systems

Millions of blood samples are analyzed every day. The information provided by a blood analysis is crucial when diagnosing and treating numerous diseases, such as anemias, inflammations, infections, and cancer.

A clear trend towards POCT can be seen in hematology, the branch of medicine that deals with changes in the blood. Particularly in the US, large numbers of complete blood counts (CBCs) are already performed directly in doctors' practices. Consistent with this, the range of near-patient hematology analyzer available has grown in recent years.

Small sample – complete results

With its Diatron Aquila, STRATEC has designed a point-of-care system that makes CBCs available wherever they happen to be needed. The analysis needs only a small volume of blood. This can be obtained from a fingerstick, a clear benefit when treating pregnant women, children, or elderly patients.

THE DIATRON AQUILA

THE POINT-OF-CARE SYSTEM FOR LOCAL IN-VITRO DIAGNOSTICS

Less is more. The problem of unnecessary antibiotics use

Antibiotics are used to treat infectious diseases triggered by bacteria. They are unable to fight viruses. Finding out whether a patient has a viral or bacterial infection mostly requires the inflammation values to be checked by analyzing his or her blood. One example of an inflammation value is the number of white blood cells, so-called leukocytes. These are an important part of the body's immune system. An increased number of leukocytes may indicate a bacterial infection.

One overriding goal is to make sure that antibiotics are only used when there is actually a bacterial infection. This way, the emergence of resistances can be slowed down.

Whenever antibiotics are taken unnecessarily or too often, the bacteria form resistances. This means that only those bacteria that are resistant to antibiotics then survive and spread. These pathogens are then more difficult to treat and may lead to complications.

'Antibiotics resistance is one of the greatest global health challenges of our times'

(Robert Koch-Institut)

The Diatron Aquila is a point-of-care hematology system that is particularly flexible and user-friendly. The Aquila can perform up to 60 tests an hour and can be used in a wide variety of contexts, such as doctor's practices, satellite laboratories, and hospitals.

Large user-friendly touchscreen specially designed to be used by inexperienced users as well.

The integrated reagents pack enables up to 200 measurements to be performed.

Precise results in less than a minute. 20 µl of blood from a test tube is what Diatron Aquila aspirate from the sample tube to analyze the sample.

LENA FEELS POORLY.

FROM THE FIRST SYMPTOMS THROUGH TO TREATMENT

Going to the doctor

Lena has a temperature, complains of a sore throat, and feels generally weak. A visit to her family doctor will show whether her infection is viral or bacterial. This way, it can be decided whether she needs to take antibiotics. Alongside a physical examination, Lena's blood is also checked using the Aquila. All this takes is a prick in her finger to obtain the blood sample.

Taking the blood sample

There are two ways of taking blood. The standard way is to take blood from the patient's veins by inserting a needle into a vein in the crook of the arm or the lower arm. The other possibility involves capillary blood collection. Here, a small amount of blood is collected by pricking the fingertip, for example. The Aquila only needs a sample of around 100 µl and this can be obtained with capillary blood collection. For the actual analysis, the appliance uses a mere 20 µl of blood. A capillary blood sample is easier to obtain than blood from the veins. It is also less invasive and requires a lower amount of blood.

The sample is prepared

While Lena is still sitting in the consulting room, the blood sample is prepared so that it can be analyzed straight away using the Diatron Aquila.

Sample mixing – The sample is mixed by being rotated several times and then analyzed at room temperature.

Loading – Once the reagent package has been added, the instrument is then switched on. The test tube is inserted into the sample door. The Diatron Aquila can work with both open and closed test tubes.

The analysis begins

Once the appliance has been loaded, Lena's blood can be checked directly at the doctor's practice. The sample is mixed with the reagent liquid and the numbers of white and red blood cells and blood platelets are determined.

Sample analysis – Once the analysis process has been started, the sample is automatically carried into the analyzer and the door is closed. The sampling needle aspirates the sample volume from the vial. Next, the sample is moved to the mixing chamber, where it is mixed with the reagent liquid. Then the analysis can begin.

The results are there

In less than sixty seconds, the display on the Diatron Aquila already shows all key values for Lena's blood. The possible diagnosis reveals a bacterial infection.

The results – After the analysis process, the sample door is automatically opened and the test tubes can be removed. The results are shown on the display.

After the analysis, the display shows a large amount of information:

- Individual parameters with normal range figures
- Histograms of leukocytes, erythrocytes, and blood platelets
- Warnings and interpretative symbols for the current measurement
- Sample identification and information

The results can be printed in the report. There is also the option of repeating the analysis if the results need to be verified.

Treatment can begin

Based on the Aquila results and in combination with other tests, the doctor can precisely diagnose Lena's sickness. This way, antibiotics can be put to immediate targeted use. If Lena had been suffering from a viral infection, however, the immediate availability of the results would have avoided an unnecessary round of antibiotics.

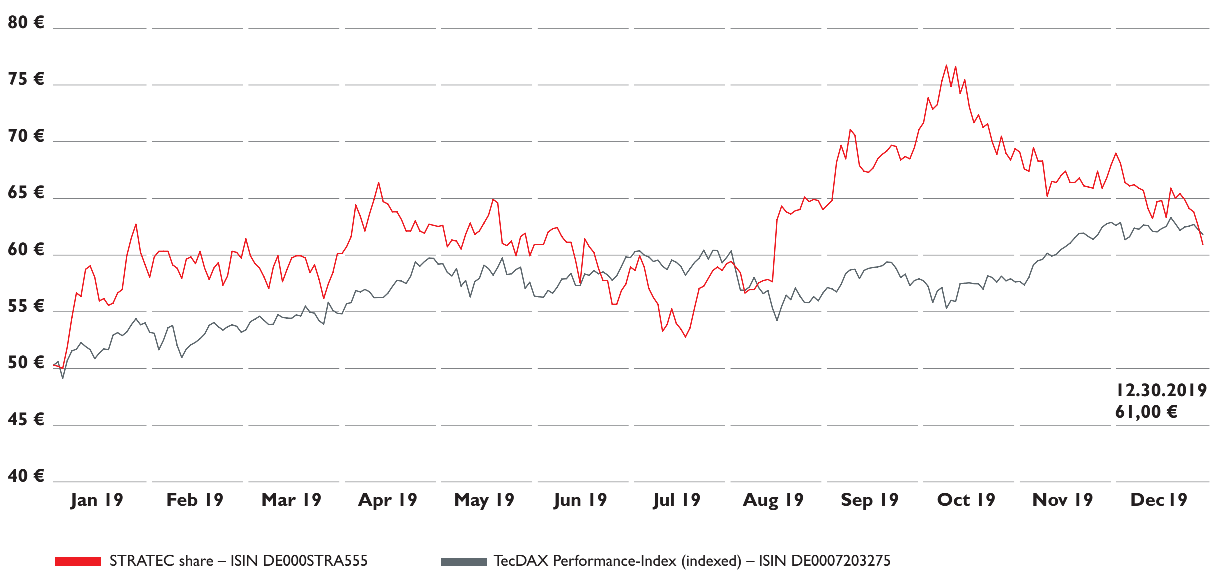
ANNUAL REPORT 2019
of STRATEC SE

STRATEC SHARE

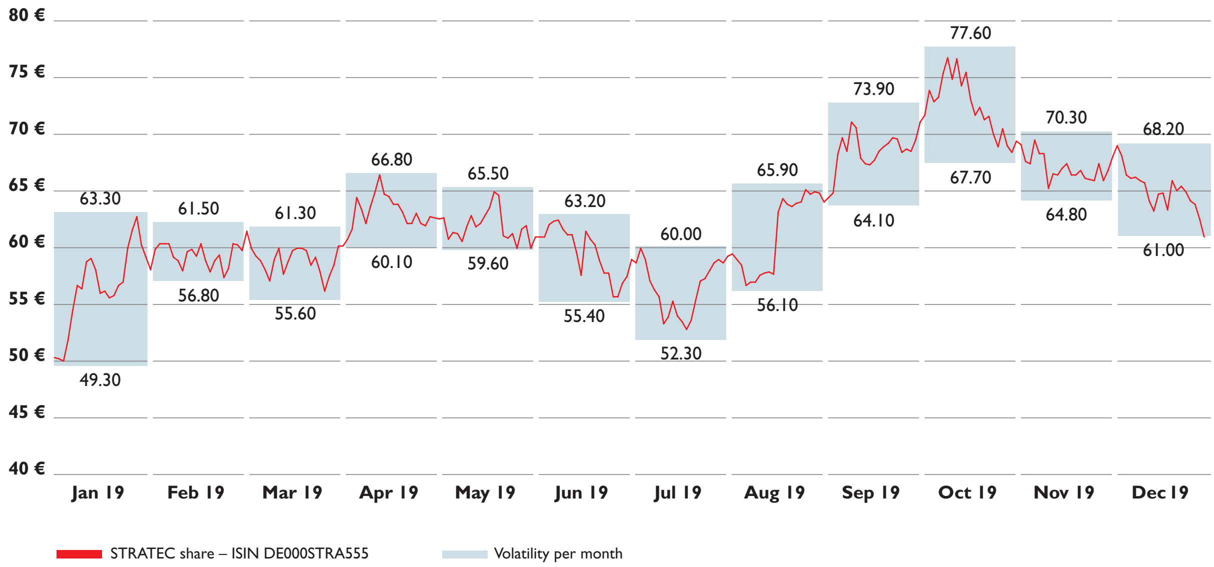
2019 on the stock markets – a superb year for shareholders

Major indices in Europe and the US performed positively in 2019 and in most cases posted clearly double-digit growth. Key German indices, such as the DAX, MDAX, and TecDAX, each increased by more than 20%, while the SDAX even rose by more than 30%. Responding to signs of a pending economic slowdown and the failure of inflation to increase, central banks stepped up their expansive monetary policies. These particularly benefited the stock exchanges. Investors were unnerved, on the other hand, by fears of recession, the Brexit negotiations, growing populism in Europe, and the ongoing trade conflict between US and China. STRATEC's share gained 21.3% in value in the course of the year.

STRATEC's share price performance in 2019 (€)



STRATEC's share – annual highs and lows in 2019 (in €)



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 € 81.9 million changed hands on the aforementioned marketplaces (excluding Tradegate) in 2019 (previous year: € 148.8 million). The Xetra and Frankfurt marketplaces alone accounted for 88.8 % of these volumes (previous year: 90.6 %).

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 market-like trading platform set up and operated by a financial services provider, securities companies, or market operator. 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)

	2019	2018	2017	2016	2015
Year-end price previous year (€)	50.30	64.84	45.79	61.00	45.75
Annual low (€)	49.30	43.55	44.52	41.30	41.00
Annual high (€)	77.60	80.30	70.33	62.85	61.00
Year-end price (€)	61.00	50.30	64.84	45.79	61.00
Performance (%)	+21.3	-22.4	+41.6	-24.9	+33.3
Market capitalization (€ million)	733.8	602.1	773.0	543.1	723.0
Trading volumes (€ million)	81.9	148.8	187.6	120.7	141.0
Average daily trading volume (€)	326,410	593,010	744,490	473,151	555,065
Average daily trading volume (number of shares)	5,124	9,252	13,504	9,775	11,687

Annual General Meeting approves higher dividend and elects new Supervisory Board

On May 29, 2019, 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 85.50% of the company's share capital was represented at the Annual General Meeting (previous year: 81.75%).

The items submitted to the shareholders for resolution were:

- The appropriation of net profit
- The approval of the actions of the Board of Management and the Supervisory Board
- The election of the auditor and the group auditor
- The election of members of the Supervisory Board.

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

These resolutions included increasing the dividend for the fifteenth consecutive year. At € 9.8 million, corresponding to € 0.82 per share, the total distribution reached a new record level. In 2018, the company distributed a total of € 9.5 million, or € 0.80 per share, to its shareholders.

Furthermore, shareholders re-elected two existing members, namely Prof. Dr. Stefanie Remmele and Rainer Baule, to the Supervisory Board of STRATEC SE. Dr. Frank Hiller was newly elected to the Supervisory Board and has replaced the retiring Chair Fred K. Brückner in the supervisory body. After 21 years of Supervisory Board activity, of which 19 as its Chair, Fred K. Brückner did not stand for election and entered retirement.

Following the Annual General Meeting, all voting results and shareholder presence statistics were published on the company's website. The next Annual General Meeting is currently planned to be held at CongressCentrum Pforzheim on May 20, 2020.

Sixteenth 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 are proposing a dividend payment of € 0.84 per share for approval by the Annual General Meeting which, based on current planning, is expected to be held on May 20, 2020. This corresponds to a total distribution of € 10.1 million and a dividend yield of 1.4 % based on the closing price of € 61.00 on December 30, 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. Institutional investors holding at least 3% of the voting rights are:

- Allianz Global Investors GmbH, Frankfurt am Main, Germany, with 5.15%,
- Ameriprise Financial, Inc., Wilmington, Delaware, US, with 6.76%,
- Invesco Ltd., Hamilton, Bermuda, with 6.29%.

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

	2019	2018	2017	2016	2015
Number of shares issued (million)	12.0	12.0	11.9	11.9	11.9
Number of shares with dividend entitlement (million)	12.0	12.0	11.9	11.9	11.9
Cash dividend per share (€)	0.84[1]	0.82	0.80	0.77	0.75
Total distribution (€ million)	10.1[1]	9.8	9.5	9.1	8.9
Dividend yield (%)	1.4[1]	1.6	1.2	1.7	1.2

[1] Subject to approval by the Annual General Meeting

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	€
Class	No-par registered ordinary shares
Share capital (€)	12,030,295.00
Share capital (number of shares)	12,030,295
Initial listing	August 25, 1998
Marketplaces	Xetra; Frankfurt and further regional stock exchanges in Germany
Designated sponsors	Bankhaus Lampe KG (since 10.01.2019) HSBC Trinkaus & Burkhardt AG Oddo Seydler Bank AG (until 09.30.2019)

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 seven institutions regularly report on STRATEC in extensive studies and brief analyses: Bankhaus Lampe, 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 homepage at www.stratec.com.

Financial calendar

04.02.2020	Annual Financial Report 2019
05.14.2020	Quarterly Statement Q1|2020
05.20.2020	Annual General Meeting, Pforzheim, Germany
08.13.2020	Half-yearly Financial Report H1|2020
11.05.2020	Quarterly Statement 9M|2020
11.17.2020	German Equity Forum, Frankfurt/Main, Germany

Subject to amendment

GROUP MANAGEMENT REPORT

for the 2019 Financial Year of STRATEC SE

A. THE STRATEC GROUP

Business model and strategy

Basic features of business model

STRATEC (hereinafter also 'the STRATEC Group') designs and manufactures automation solutions for highly regulated laboratory markets. STRATEC acts as an OEM partner to leading players in the in-vitro diagnostics and life sciences markets. The Group's product range includes hardware and software solutions, as well as related consumables. These are mostly combined into fully integrated system solutions and often receive market approval together with partners' reagents.

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 growth rates ahead of the industry average by offering a well-calibrated mix of cost efficiency, expertise, and innovation.

The core competence of the STRATEC Group involves designing 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 advice 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.

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 systems but also create a need to assess time-critical parameters on a close-to-patient basis. 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.

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. Sustainability-related topics, such as environmental concerns and social aspects, are playing an increasingly important role both at STRATEC and at its customers and suppliers.

STRATEC's strategy addresses five dimensions:

1. Focusing on high-growth market segments:
To achieve the growth targets it has formulated, STRATEC focuses in particular on those market segments within in-vitro diagnostics that show above-average growth rates.

2. Continually expanding the technology and product portfolio:
To extend its market position vis-à-vis its competitors and partners on a long-term basis, STRATEC focuses on continually expanding its technology and product portfolio and on securing this as appropriate with industrial property rights. Alongside organic instruments such as in-house developments, this may also involve making acquisitions. The aim here is to position the company as a full-service provider to its partners and to take responsibility for those areas that customers do not view as forming part of their core competencies. STRATEC strictly ensures that it only takes over those parts of the value chain that do not allow any situation of competition to arise with its partners.

3. Expanding and securing long-term customer relationships:
Given the very long product lifecycles involved in clinical analyzer systems, STRATEC has numerous long-term customer relationships. STRATEC has earned the high level of trust these partners place in the company thanks to the reliability, performance, and high quality of the products it designs and manufactures, and that over many years. This strong basis of trust provides a key foundation for STRATEC to receive additional development and production orders for new generations of systems from existing customers in future as well.

4. Raising the share of recurring sales:
STRATEC aims to increase the share of its sales generated with recurring revenues. The business with related polymer-based consumables, such as complex micro-fluid chips, harbors particularly high growth potential in this respect. To access this potential even more closely, in 2016 STRATEC supplemented its in-house activities by acquiring what is now STRATEC Consumables GmbH. This company is a manufacturer of smart consumables and has outstanding capabilities in nano-structuring, micro-structuring, various coating technologies, polymer science applications, and automated production.

5. Increasing diversification
The market for in-vitro diagnostics is highly concentrated, with the twenty largest players in terms of sales already accounting for nearly 80% of market volumes. This situation is usually reflected in high concentrations of customers at OEM providers. To minimize risks to its future sales and earnings performance, STRATEC aims to further reduce its customer concentration in the long term without missing any growth opportunities with existing customers. Among others, one instrument enabling STRATEC to achieve this goal is the newly developed KleeYa platform which, unlike dedicated systems, can be sold to several customers. Other conceivable ways of increasing diversification include acquisitions aimed at accessing new customer groups and market segments, such as the acquisition in 2016 of what is now the Diatron business unit.

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 complex consumables in a controlled ISO Class 7 production environment. The Group's largest development capacities can be found at its headquarters in Birkenfeld, as well as in Budapest and Cluj-Napoca.

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 already has sufficient capacities in its production departments to guarantee the highly efficient production of existing and future systems 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 nine 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 2019 as well. Among others, these included increasing the vertical integration of assembly activities.

Given its development capacities, which are currently well utilized, STRATEC expects to see further expansion in its workforce in the years ahead. 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 round of construction was completed and the new space occupied on schedule in mid-2019. The second stage of construction is scheduled for completion in 2020. Once this extensive construction work has been finished, the company will have significantly more space for research and development, prototype manufacturing, warehousing, and administration.

Moreover, in the 2019 year under report, STRATEC reached further major milestones in terms of launching a uniform ERP system across the Group. Having been implemented at two locations in early 2018, the system then went live at two further sites in January 2019. All locations relevant to the company's production activities now have a uniform ERP system that will considerably simplify cooperation between locations and enable processes to be structured more efficiently.

Supply Chain

To enhance flexibility, reduce capital intensity, and optimize its cost structures on a long-term basis, the STRATEC Group generally works with a very low level of vertical integration and often outsources upstream production activities to highly specialized contractual suppliers. Final assembly and testing generally takes place at the STRATEC Group's production locations, with these activities being performed by employees with the highest level of qualification and training. Testing procedures are based on actual subsequent applications.

Working with integrated procurement management, STRATEC purchases the functional modules and individual components from strategic suppliers that stand out on account of their quality and compliance management systems. Integrating these suppliers into an early stage of product development ensures access in each case to the latest production methods and procedures. Master agreements provide a commercial framework for these cooperations, with use being made of state-of-the-art production and logistics strategies.

In many cases, STRATEC supplies the finished analyzer systems directly to the logistics distribution centers of large diagnostics companies, which then market the systems together with the relevant reagents as system solutions under their own names and brands. As the STRATEC Group's customers largely supply their country outlets and customers directly from these distribution centers, the regional sales reported in the STRATEC Group's figures do not correspond to the actual geographical distribution or final destinations of the analyzer systems produced by the STRATEC Group.

Quality management

Most of STRATEC's products are supplied to partners operating in strictly regulated markets. Quality management therefore represents a core 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.

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:

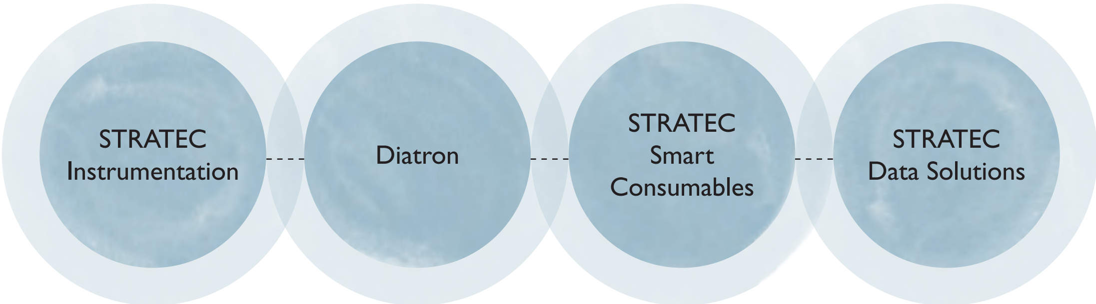
- EN ISO 9001
- EN ISO 13485
- TCP/Taiwan GMP
- FDA QSR Compliant Development and Manufacturing Processes
- FDA Registered Establishment
- CSA/UL/NEMKO Registered

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 development stage 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 market requirements, 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 instruments 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 adapting the platform 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.

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 the Instrumentation business unit.

STRATEC Smart Consumables

The STRATEC Smart Consumables business unit designs and manufactures 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.

STRATEC Data Solutions

As well as software solutions integrated into instruments, Data Solutions 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.

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.

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 positions or key functions, 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.

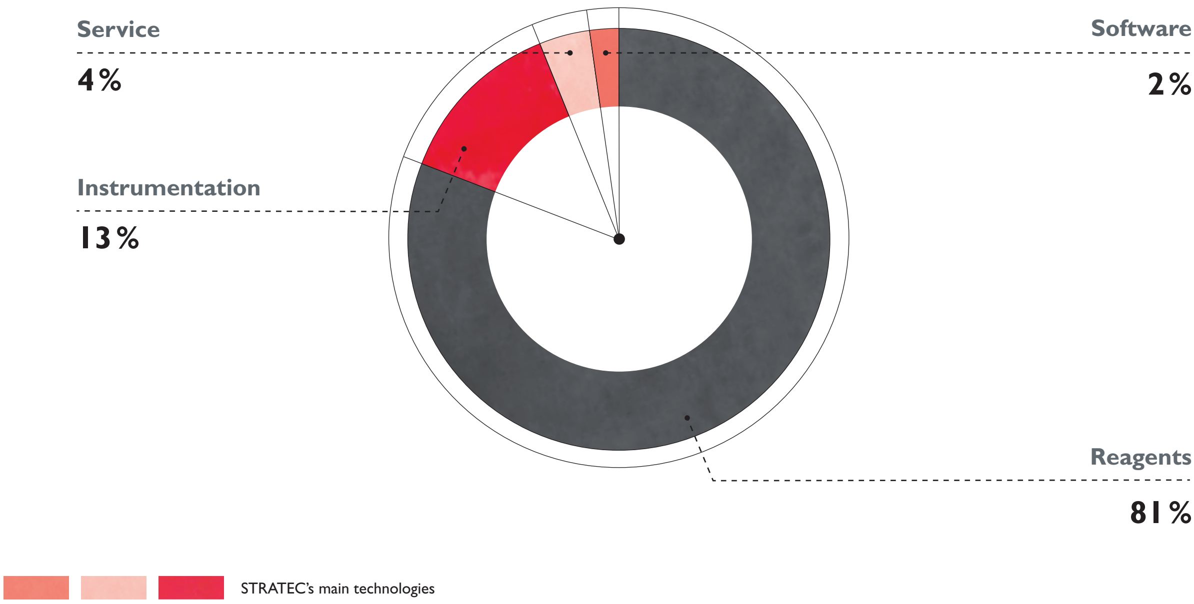
Market

IVD instrumentation market

The overall market for in-vitro diagnostics solutions currently has a volume of almost 70 billion US dollars. Instrumentation solutions (including services and software) currently account for around 19% of the overall market, while the predominant share of market volumes is still generated by selling test reagents. The global market for instrumentation solutions (including services and software) in the field of in-vitro diagnostics (IVD) therefore 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.

IVD market by product category



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.

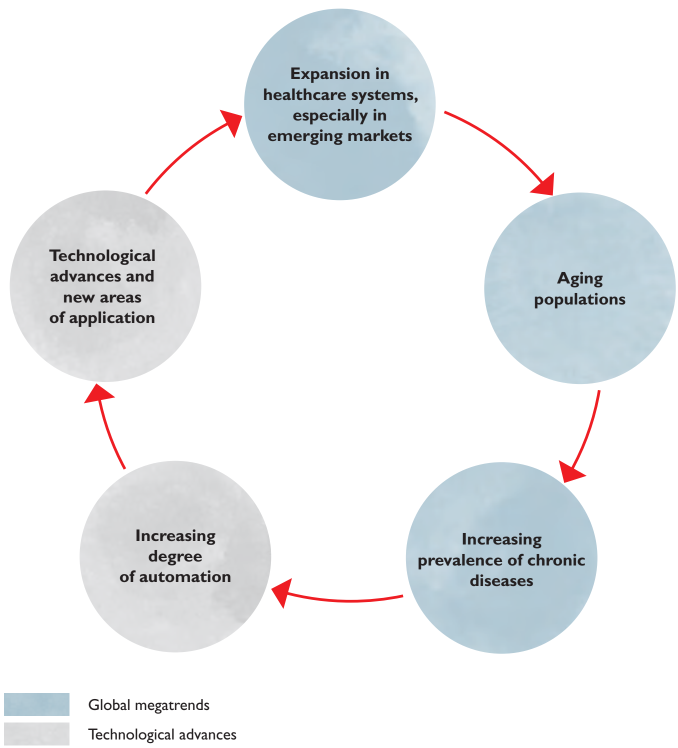
Outsourcing

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.

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 experts 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 the relevant 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 instrument generations are supplied to the partner and then accepted once the respective development milestones have been met. These range from the first development system status ('bread boards') via prototypes through to validation and pre-serial instruments on which the tests are validated and whose results are referred to by the relevant authorities when approving the product. 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 '2. Group Structure – 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 the key industrial property rights and patents for the systems thereby developed. This is another way in which the company secures its long-term cooperation with its partners and customers.

Within the STRATEC Group a total of 674 employees were allocable to research and development at the balance sheet date on December 31, 2019 (previous year: 662 employees). This corresponds to around 51.8% of the total workforce.

B. BUSINESS REPORT

Macroeconomic and sector-specific framework

Macroeconomic framework

According to the OECD, global gross domestic product grew by 2.9% in 2019. Growth therefore slowed significantly compared with the previous year's figure of 3.5%. This was due in particular to the ongoing intensification in trade policy tensions since May 2019, which are increasingly taking their toll on confidence and investment activity. The decline in growth momentum in 2019 was attributable to virtually all economies. For the US, for example, the OECD has predicted GDP growth of only 2.3% for 2019 (compared with 2.9% in 2018). The euro area is thought to have grown by just 1.2% in 2019 (as against 1.9% in 2018), with Germany generating growth of around 0.6% (compared with 1.5% in 2018). The OECD also expected a further deterioration in growth momentum in China, for which growth of 6.2% was forecast (as against 6.6% in 2018).

In its interim report published at the beginning of March 2020, the OECD saw the spread of the coronavirus (Covid-19) as presenting the greatest current risk to the global economy since the global financial crisis. Significant restrictions to the movement of people, goods, and services are foreseeable and can be expected to lead to a material deterioration in business and consumer confidence, as well as to a slowdown in production. In its economic forecast issued at the beginning of March 2020, the OECD assumed that in the most favorable case (the virus only spreads to a weak extent outside China) global economic growth would show a sharp slowdown in the first half of 2020, with this expected to be due to interruptions to supply chains, a downturn in tourism, and a deterioration in business confidence (slowdown in global economic growth from an already low level of 2.9 percent in 2019 to 2.4 percent in 2020). Were Covid-19 to spread more extensively in the Asia-Pacific region and the industrialized nations, a case which has now materialized, the OECD predicted that global economic growth would fall to 1.5 percent. Based on the OECD's assessment, the measures to contain the virus and the loss of confidence would impact so strongly on output and consumption that some economies, such as Japan and the euro area, could slide into recession.

The slowdown in global economic growth expected by the OECD has also been confirmed by the International Monetary Fund (IMF). In February, this organization further reduced its outlook for global economic growth in 2020 having already reduced its forecast slightly in January. As a result, the IMF now expects the global economy to grow by 3.2% in 2020, having still forecast growth of 3.3% in January. The reduced expectations are due to lower forecasts for China following the outbreak of the coronavirus (Covid-19). In its forecast, the IMF assumed that the outbreak could still be contained, thus facilitating a relatively swift recovery for growth in China. According to the IMF, however, this assumption remained subject to very great uncertainties.

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. However, the implications arising in the wake of the 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, 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 Brexit-related implications.

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.

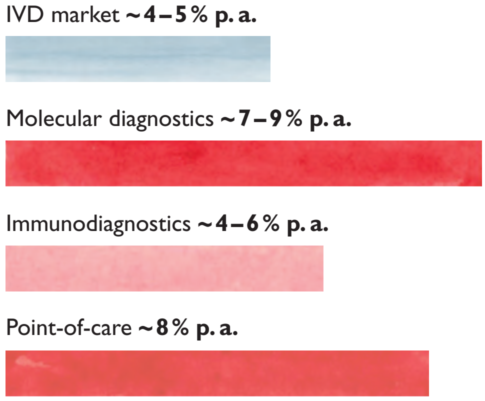
Currently, North America, Europe, and Japan account for around 75% of the total IVD market. In the years ahead, emerging markets such as China, India, and Saudi Arabia in particular will report growing test volumes as the governments in these countries are investing heavily in healthcare systems. Demand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

As the coronavirus (SARS-CoV-2) spreads, STRATEC is currently observing more volatile order behavior among some of its customers. Most recently, the company witnessed an upward trend in orders and order forecasts. Overall, however, the implications of the pandemic, including potential effects on the supply chain and any temporary interruptions in production arising as a result, are currently difficult to predict.

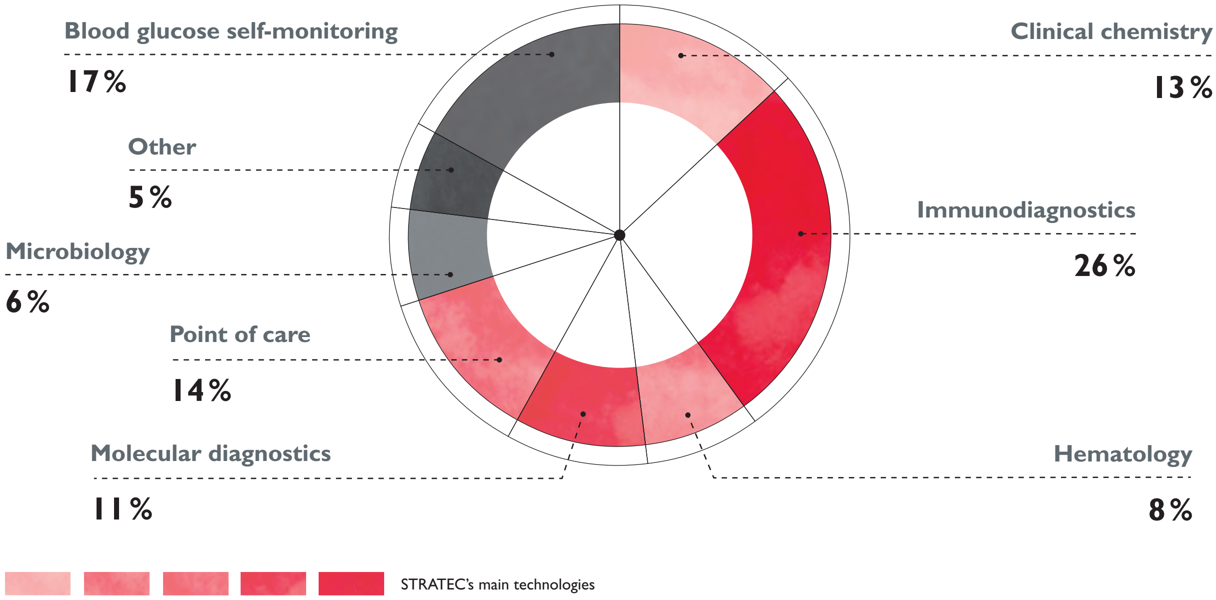
Sector-specific framework

Based on various estimates, in-vitro diagnostics (IVD) is set to remain a growth market, with average annual global growth rates of 4% to 5% through to 2023/24. By 2024, the IVD market should have an estimated volume of more than 85 billion US dollars, as against just under 70 billion US dollars in 2019. 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.

Average annual growth rate (CAGR) 2018/19 to 2023/24:



IVD market by technologies



Due not least to the increasing complexity of IVD tests, it is difficult for any one 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

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 currently amounts to almost 3.0 billion US dollars. 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 as particularly comprising 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 currently has a volume of more than 50 billion US dollars. By 2024, it is expected to somewhat exceed 83 billion US dollars.

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.

Business performance

STRATEC increased its consolidated sales by 18.0% to € 221.6 million in the 2019 financial year, compared with € 187.8 million in the previous year. On a constant-currency basis, this corresponded to organic growth of 15.6%. This substantial growth was driven both by strong business with Systems, as well as by higher sales with Development and Services. Thanks to strong capacity utilization rates among the installed system base, sales with Service Parts and Consumables also rose significantly compared with the previous year.

The adjusted EBIT margin improved by 20 basis points from 13.9% in the previous year to 14.1% in the year under report.

This figures show that STRATEC fully met the targets stated in the outlook in the 2018 Annual Report, namely of generating constant-currency sales growth of at least 12% and an adjusted EBIT margin of between 14% and 15%.

In the 2019 financial year, the company extended its already well-stocked development and deal pipeline with further promising projects. Moreover, it also reached a number of major development targets.

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.

The workforce of the STRATEC Group grew by 6.0% to 1,302 employees as of December 31, 2019, up from 1,228 at the previous year's balance sheet date. Adjusted to account for the sale of the nucleic acid purification business at the beginning of 2019, the organic workforce grew by 8.4%. This increase was due in particular to the company's great ongoing need for highly qualified employees to handle its high current volumes of development activities, as well as to other departments raising their employee totals accordingly.

Position

Earnings position

Overview of key figures in consolidated statement of comprehensive income (€ 000s)

	2019	2018	Change
Sales	221,641	187,820	+18.0%
Adjusted gross profit	62,968	58,608	+7.4%
Adjusted gross margin	28.4%	31.2%	-280 bps
Adjusted EBITDA	40,853	36,190	+12.9%
Adjusted EBITDA margin	18.4%	19.3%	-90 bps
Adjusted EBIT	31,150	26,157	+19.1%
Adjusted EBIT margin	14.1%	13.9%	+20 bps
Adjusted consolidated net income from continuing operations	25,896	20,238	+28.0%

bps = basis points

Sales

STRATEC increased its consolidated sales by 18.0% to € 221.6 million in the 2019 financial year, up from € 187.8 million in the previous year. On a constant-currency basis, this corresponds to organic sales growth of 15.6%. This strong sales growth was driven both by new market launches and by strong call-up figures for systems already established in the market. Furthermore, given the achievement of major development targets STRATEC also significantly increased its Development and Service sales. Not only that, pleasing capacity utilization rates among the installed system base led to strong business with Service Parts and Consumables.

STRATEC divides its sales into four operating divisions.

Sales in **Systems**, the largest operating division, grew year-on-year by 10.5% to € 100.7 million (previous year: € 91.1 million). The performance of this division benefited in particular from new product launches and from strong business with established systems.

Sales in the **Service Parts & Consumables** operating division increased by 6.9% from € 62.3 million to € 66.7 million in the 2019 financial year.

In the **Development and Services** operating division, sales grew year-on-year by 76.6% to € 52.9 million. The sales performance here was positively influenced in particular by the achievement of major development targets and by revenues recognized in connection with IFRS 15 requirements. Here, the performance of the development work is significantly out-of-phase with the recognition of the respective sales.

Sales in the **Other Activities** division fell from € 4.5 million in the previous year to € 1.3 million in 2019.

Consolidated sales by operating division (€ 000s)

	2019	2018	Change
Systems	100,676	91,079	+10.5%
Service Parts & Consumables	66,737	62,301	+6.9%
Development and Services	52,882	29,952	+76.6%
Other Activities	1,346	4,487	-70.0%
Consolidated sales	221,641	187,820	+18.0%

Development in share of sales by operating division

	2019	2018	2017
Sales in € million	221.6	187.8	207.5
Systems share of sales in %	45.4	48.5	49.2
Service Parts & Consumables share of sales in %	30.1	33.2	32.2
Development and Services share of sales in %	23.9	15.9	18.1
Other Activities share of sales in %	0.6	2.4	0.5
Analyzer systems supplied (total number)	8,274	7,024	7,921

Gross profit and gross margin

As a result of higher sales volumes, adjusted gross profit rose by 7.4% to € 63.0 million in 2019, compared with € 58.6 million in the previous year. Due in particular to the high share of Development and Service sales, which tend to have lower margins, the gross margin decreased from 31.2% in the previous year to 28.4% in 2019.

Research and development expenses

Gross development expenses amounted to € 38.2 million in the 2019 financial year, compared with € 38.7 million in the previous year. Of this total, € 33.1 million were turned into sales or capitalized (previous year: € 28.6 million).

Sales-related expenses

Sales-related expenses rose from € 8.4 million in the previous year to € 10.3 million in the 2019 financial year.

General administration expenses

General administration expenses increased by 10.3% to € 17.1 million in the 2019 financial year (previous year: € 15.5 million).

Other operating income and expenses

Other operating income fell from € 4.8 million in the previous year to € 3.7 million in the 2019 financial year. At € 4.2 million, other operating expenses were approximately at the previous year's level (€ 4.1 million).

Earnings performance

Adjusted EBIT grew by 19.1% from € 26.2 million in the previous year to € 31.2 million in the 2019 financial year. As a result, the adjusted EBIT margin showed a slight increase of 20 basis points to 14.1%, compared with 13.9% in the previous year's period. Positive benefits of scale were offset in particular by the sales and product mix having lower margins compared with the previous year. Furthermore, the margin was also adversely affected by measurement items relating to stock appreciation rights.

Adjusted consolidated net income from continuing operations increased from € 20.2 million in the previous year to € 25.9 million in 2019. Adjusted EPS from continuing operations rose year-on-year by 27.1 % to € 2.16 (previous year: € 1.70).

Development in EBIT and EBIT margin (€ 000s)

	2019	2018	Change
Adjusted EBIT	31,150	26,157	+19.1 %
Adjusted EBIT margin	14.1 %	13.9 %	+20 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, including service parts and consumables, 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** segment includes the business with developing and manufacturing smart consumables in the fields of diagnostics, life sciences, and medical technology.

In its **All Other Segments** 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 grew by 17.6% to € 154.4 million in the financial year under report (previous year: € 131.3 million). Within this segment, STRATEC increased its sales with Systems, Service Parts and Consumables, as well as with Development and Services. Adjusted EBIT rose to € 22.0 million, as against € 21.0 million in the previous year. This corresponds to an adjusted EBIT margin of 14.2% (previous year: 16.0%). The year-on-year decrease in the margin was due in particular to sales-related and product mix-related effects.

Diatron segment

The Diatron segment increased its sales by 21.3% to € 42.9 million in the 2019 financial year (previous year: € 35.3 million). This strong sales performance was due in particular to new product launches, as well as to strong business volumes with veterinary diagnostics products. Given positive benefits of scale and a strong product mix, the adjusted EBIT margin showed a significant increase from 13.3% in the previous year to 19.5% in the financial year under report.

Smart Consumables segment

The Smart Consumables segment generated sales of € 16.8 million in the 2019 financial year. Sales were thus at the same level as in the previous year. Adjusted EBIT amounted to € -1.2 million, as against € 0.2 million in the previous year. Earnings were adversely affected in particular by the process of focusing on blue-chip customers and associated temporary rise in advance expenses.

Other Segments

Against a backdrop of increased development services, sales in Other Segments rose from € 4.4 million in the previous year to € 7.5 million. Adjusted EBIT rose to € 2.0 million, compared with € 0.3 million in the previous year.

Overview of developments in reporting segments (€ 000s)

	2019	2018	Change
Instrumentation			
Sales	154,442	131,323	+17.6 %
EBITDA	25,547	27,595	-7.4 %
EBIT	19,285	19,060	+1.2 %
Adjusted EBIT	22,005	20,993	+4.8 %
Adjusted EBIT margin	14.2 %	16.0 %	-180 bps
Diatron			
Sales	42,880	35,341	+21.3 %
EBITDA	9,478	5,236	+81.0 %
EBIT	2,051	-1,677	n/a
Adjusted EBIT	8,353	4,685	+78.3 %
Adjusted EBIT margin	19.5 %	13.3 %	+620 bps
Smart Consumables			
Sales	16,835	16,765	+0.4 %
EBITDA	352	2,323	-84.8 %
EBIT	-4,292	-2,651	n/a
Adjusted EBIT	-1,245	199	-725.6 %
Adjusted EBIT margin	-7.4 %	1.2 %	-860 bps
Other Segments			
Sales	7,485	4,391	+70.5 %
EBITDA	2,402	378	+535.4 %
EBIT	2,037	278	+632.7 %
Adjusted EBIT	2,037	278	+632.7 %
Adjusted EBIT margin	27.2 %	6.3 %	+2,090 bps

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)

	2019
Adjusted EBIT	31,150
Adjustments:	
PPA amortization	-8,996
Transaction-related expenses and associated restructuring expenses	-3,075
EBIT	**19,079**

Reconciliation of adjusted consolidated net income (€ 000s)

	2019
Adjusted consolidated net income continuing operations	25,896
Adjusted earnings per share continuing operations in € (basic)	2.16
Adjustments:	
PPA amortization	-8,996
Transaction-related expenses and associated restructuring expenses	-3,075
Current tax expenses	833
Deferred tax income	1,430
Consolidated net income continuing operations	16,088
Earnings per share continuing operations in € (basic)	1.34

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)

	2019	2018	Change
Cash flow from operating activities	21,262	11,950	+77.9%
Cash flow from investing activities	-27,719	-10,792	n/a
Cash flow from financing activities	5,454	-927	n/a
Cash-effective change in cash and cash equivalents	-1,003	231	n/a

The **inflow of funds from operating activities** rose by 77.9% from € 12.0 million in the previous year to € 21.3 million in the 2019 financial year. This growth was mainly due to the increase in consolidated net income, as well as to a significant rise in net working capital compared with the previous year.

The **outflow of funds for investing activities** amounted to € 27.7 million, as against € 10.8 million in the previous year. Due to the construction work currently underway to extend building capacity at the Birkenfeld location, investments in property, plant and equipment rose to € 16.0 million, as against € 11.0 million in the previous year. Investments in intangible assets came to € 10.6 million (previous year: € 8.4 million).

The **inflow of funds from financing activities** totaled € 5.5 million (previous year: outflow of funds: € 0.9 million) and comprised net new financial liabilities of € 13.3 million, the payment of a dividend of € 9.8 million to shareholders, and an inflow of funds of € 2.0 million due to the issuing of shares in connection with employee stock option programs.

The **cash-effective change in cash and cash equivalents** amounted to € -1.0 million in 2019 (previous year: € 0.2 million).

On a constant-currency basis, the total of all inflows and outflows of funds in the year under report led to **cash and cash equivalents at the end of the period** of € 22.7 million (previous year: € 24.1 million).

STRATEC has credit lines of up to € 70 million with a term through to 2022. These offer the company flexibility to offset potential fluctuations in liquidity. In connection with the new building at the Birkenfeld location, which is scheduled to be completed in the 2020 financial year, in December 2019 the company took up a fixed-interest loan of € 5 million with a term through to 2029. In February 2020, and thus after the balance sheet date on December 31, 2019, the company took up a further fixed-interest loan of € 10 million with a term through to 2029. Alongside these, STRATEC also draws on project-specific grants.

Investment and depreciation policies

In the 2019 financial year, STRATEC invested € 16.1 million in property, plant and equipment (previous year: € 11.0 million) and € 10.6 million in intangible assets (previous year: € 8.4 million). The investments in property, plant and equipment relate in particular to the construction work currently underway to significantly extend the buildings at the Birkenfeld location. The investments in intangible assets, on the other hand, mainly involved capitalized development work.

Investments in property, plant and equipment and intangible assets corresponded to a total of 12.1 % of sales (previous year: 10.3 %) and were thus with the target range of 12 % to 14 % communicated in the previous year's outlook. The investments made in the year under report significantly exceeded the depreciation and amortization of € 9.7 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. 2019	12.31. 2018	Change
Cash and cash equivalents	Cash holdings and credit balances at banks	22,708	23,816	-4.7 %
Net working capital	Current assets ./. cash and cash equivalents ./. current debt	70,751	64,323	+10.0 %
Operating cash flow per share	Operating cash flow/ number of shares (basic)	1.77	1.00	+77.0 %
Capex ratio	Investments in property, plant and equipment ./. consolidated sales	7.3 %	5.9 %	+140 bps

bps = basis points

Asset position

Total assets grew year-on-year by 8.8 % to € 299.4 million as of December 31, 2019 (previous year: € 275.3 million). This growth was driven in particular by increases in property, plant and equipment, contract assets, and right-of-use assets. The increase in property, plant and equipment was mainly due to the positive net balance of investments amounting to € 16.1 million (previous year: € 11.0 million) and depreciation and amortization of € 6.1 million (previous year: € 6.8 million). The investments in property, plant and equipment relate in particular to the construction work currently underway to extend the buildings at the Birkenfeld location. The recognition of right-of-use assets, by contrast, was due to the first-time application of IFRS 16. The increase in contract assets resulted from current development activities.

In contrast to the substantial growth in sales, inventories fell year-on-year by € 2.5 million to € 56.0 million (previous year: € 58.5 million). The volume of inventories at the previous year's balance sheet date was influenced by, among other factors, the new ERP system implemented in January 2019.

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

	2019	2018	Change
Intangible assets	97,092	98,262	+1.2 %
Non-current assets (excluding intangible assets)	73,191	49,836	+46.9 %
Current assets	129,131	127,187	+1.5 %
Consolidated total assets	299,414	275,285	+8.8 %

Given the positive development in consolidated net income and net of the dividend distribution of € 9.8 million in the year under report, shareholders' equity increased by € 6.8 million to € 159.0 million as of December 31, 2019 (previous year: € 152.2 million).

At 53.1 %, the equity ratio remained at a solid level (previous year: 55.3 %).

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

	2019	2018	Change
Shareholders' equity	159,007	152,204	+4.5 %
Non-current debt	104,736	84,033	+24.6 %
Current debt	35,671	39,048	-8.6 %
Consolidated equity and debt	299,414	275,285	+8.8 %

Non-current debt rose from € 84.0 million in the previous year to € 104.8 million in the 2019 financial year. This increase was due among other factors to the higher current volume of investments and to the impact of first-time application of IFRS 16.

Current debt decreased from € 39.0 million to € 35.7 million, with this being mostly due to a reduction in current contract liabilities.

Key figures on assets position (€ 000s)

	2019	2018	Change
Total assets	299,414	275,285	+8.8%
Shareholders' equity	159,007	152,204	+4.5%
Equity ratio in %	53.1	55.3	-220 bps
Financial liabilities	99,962	76,920	+30.0%
Financial liabilities as % of total assets	33.4	27.9	+550 bps
Debt/equity ratio in %	88.3	80.9	+740 bps

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.

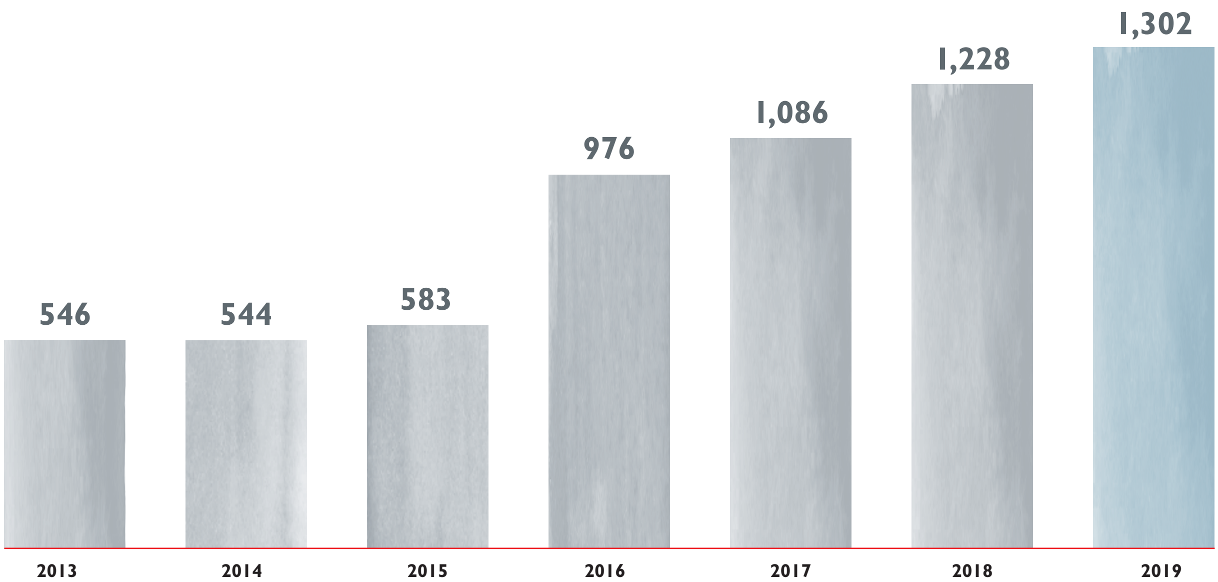
One of STRATEC's primary objectives is to provide its workforce, which has grown consistently in recent years, with a modern and attractive working environment by offering new career challenges and ensuring professional dealings with colleagues and partners. This in turn should motivate employees to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

Number of employees

The workforce of the STRATEC Group grew further in 2019. As of December 31, 2019, STRATEC had a total of 1,302 employees, equivalent to an increase of 6.0% on the previous year. Adjusted to exclude the disposal of the nucleic acid purification business, this corresponds to an organic increase of 8.4%.

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

Number of employees



Development in employee totals

Employees at balance sheet date

	2019	2018	Change
Total employees	1,302	1,228	+6.0 %
Permanent employees	1,223	1,158	+5.6 %
Temporary employees	79	70	+12.9 %
Employees in Germany	501	524	-4.4 %
Employees abroad	801	704	+13.8 %
Trainees and interns	47	36	+30.6 %
Employees working in R&D and development support	674	662	+1.8 %
Share of female employees	28.2 %	28.0 %	+20 bps

2019 2018

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 674 of our employees, corresponding to a 52% 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 28.2% of STRATEC's workforce at the balance sheet date on December 31, 2019. The share of female employees thus rose slightly compared with the previous year (December 31, 2018: 28.0%).

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.

Excluding temporary employees, personnel expenses amounted to € 70.6 million in the 2019 financial year (previous year: € 64.8 million).

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 and thus raise awareness of the wide variety of activities on offer at the company. We also offer work placements and student internships. The cooperation with Pforzheim University, where STRATEC partly finances an endowed professorship in the field of 'Quality Management and Regulatory Affairs' in medical technology while also acting as a sponsor to the team at 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

The long-term growth outlook for the target markets of STRATEC's customers is just as positive as before, particularly in the field of in-vitro diagnostics. Aging populations worldwide, technological advances, and the increasing prevalence of chronic diseases – all these factors give reason to expect sustainable growth in global demand for in-vitro diagnostic applications. Not only that, STRATEC is benefiting from the growing interest in and willingness shown by its customers to outsource the development and production of automation solutions to specialist partners such as STRATEC. In light of these factors, and given its very well-stocked development pipelines, the company is still positive in its assessment of its business prospects.

Given the large numbers of products launched onto the market in recent years and its customers' current order forecasts, STRATEC expects to generate rising sales with systems and with service parts and consumables in the 2020 financial year. By contrast, in view of the exceptionally strong previous year's figure, not least due to the requirements of IFRS 15, STRATEC expects its sales with development and services to decrease.

In view of the aforementioned factors, STRATEC expects to generate constant-currency consolidated sales growth in a high single-digit percentage range in fiscal year 2020.

This increase in consolidated sales, and the resultant benefits of scale, should impact positively on profitability. For the 2020 financial year, STRATEC expects to generate an adjusted EBIT margin of around 15% (2019: 14.1%).

As the coronavirus (SARS-CoV-2) spreads, STRATEC is currently observing more volatile order behavior among some of its customers. Most recently, the company witnessed an upward trend in orders and order forecasts. Overall, however, the implications of the pandemic, including potential effects on the supply chain and any temporary interruptions in production arising as a result, currently cannot be predicted in full and have therefore not been factored into the above outlook. The same applies to current plans concerning the timing of and form in which the Annual General Meeting is held.

For 2020, STRATEC has budgeted investments in property, plant and equipment and intangible assets at around 10% to 12% of sales (previous year: 12.1%). Investments in property, plant and equipment mainly relate to the construction work still underway to significantly extend the buildings at the company's headquarters in Birkenfeld. The building work is scheduled to be completed in the third quarter of 2020. As a result, the investment ratio is expected to decrease further in 2021.

Pending approval by shareholders at this year's Annual General Meeting, the company currently intends a total dividend distribution of € 10.1 million (€ 0.84 per share) is foreseen for shareholders in STRATEC SE.

Depending on its ability to recruit adequate numbers of suitably qualified employees, STRATEC plans to further expand its workforce in the years ahead and thus do justice to continuing high demand for development services.

STRATEC's financial forecast is based on budgets that account for the specific features of its business model, as well as for numerous internal and external factors, and that weigh such factors in accordance with their significance. New order figures, our customers' forecasts and their order behavior, and their stocking of service parts play a superordinate role here, as do the numbers of projects in development and negotiation. This forecast does not account for additional opportunities resulting from external growth. 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, as well as from 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.

STRATEC's growth in recent years has been based on entrepreneurial decisions that involved weighing up the associated opportunities and risks. STRATEC regularly reviews and adjusts its opportunity and risk management to facilitate ongoing sustainable growth in future as well and enable the company to prepare in good time for any changes in the environment in which it operates.

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

A major share of the products offered by or in development at STRATEC are 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 5% through to 2023, there are some segments that are forecast to generate growth above the overall sector average in the years ahead. STRATEC has focused on some of these segments with corresponding 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 the corresponding 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 in which 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 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 in the IVD market presents STRATEC with the opportunity to generate higher sales figures with established systems due to its established partners gaining broader 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 continually for years now. 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 the respective markets. 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 and marketable 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 the instruments and consumables makes it necessary for companies to permanently adapt to this development and research new technologies. At the same time, this development also acts as an ever higher barrier to market entry for potential competitors.

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 can therefore only rarely 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 advance.

Alongside molecular diagnostics, the key focus of these projects is on point-of-care. 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% to 25%	Very unlikely
25% to 50%	Unlikely
50% to 75%	Likely
75% to 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
Credit default risks	Unlikely	Medium	Low

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. In particular, those risks which could impact on production as a result of the coronavirus are being countered as far as possible with emergency plans. In this respect, potential restrictions or downtime in production due to employees being sick or in quarantine or due to a lack of materials can only be controlled to a limited extent.

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 higher complexity and higher 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.

The precautionary measures implemented due to the coronavirus pandemic also included emergency stockpiling to the greatest extent possible. STRATEC cannot influence the length of time for which key modules and materials continue to be suppliable. In the worst case, supply shortages may result in production downtime.

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 this kind of company. On the other hand, STRATEC's competitors also include those companies that focus 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 company concluded a master loan agreement for an amount of up to € 70 million and a term through to 2022 in the 2017 financial year. As a result, it has sufficient liquidity and flexibility to offset any potential fluctuations in its liquidity. In connection with the new building at the Birkenfeld location, which is scheduled for completion in 2020, in December 2019 STRATEC took up a fixed-interest loan for an amount of € 5 million and a term through to 2029. In February 2020, and thus after the reporting date on December 31, 2019, the company took up a further fixed-interest loan for an amount of € 10 million and a term through to 2029. 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 2019 financial year. Given volatility and uncertainty as to future developments in the currency markets, it can be assumed that part of the foreign-currency sales will continued to be hedged with futures transactions. 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 in order to hedge its interest rates at an appropriate point in time. In connection with the prorated financing of the new building at the Birkenfeld location, the company took up fixed-interest loans with terms ending in 2029. 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 test 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.

Credit default risks

Although STRATEC's customers and partners generally involve companies that are strongly positioned in their respective markets and solidly financed, the risk still remains that a customer may be unable to meet its payment obligations, or only in part, as a result of a deterioration in its financial situation.

STRATEC counters this risk as far as possible by taking up trade credit or receivables default insurance and by screening customers before signing contracts. The company therefore assesses the resultant risk as low.

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.

As the coronavirus (SARS-CoV-2) spreads, STRATEC is currently observing more volatile order behavior among some of its customers. Most recently, the company witnessed an upward trend in orders and order forecasts. Overall, however, the implications of the pandemic are not yet fully foreseeable.

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 company 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 accounting policies 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 discharges its reporting duties towards the Supervisory Board.

One aspect of the corporate compliance management system also involves regularly monitoring tax-related risks within the Group by way of a tax control system (Tax-CMS). This is intended to identify and assess potential tax risks, with the aim of minimizing and averting these.

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.

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.

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, audited, and evaluated by the Board of Management. Independently of this process, 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 medium to long-term financing provided by three banks bank in the context of a master loan agreement and fixed-interest loans. Investment programs and development loans are integrated into the financing mechanisms as far as possible.

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 '2. 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 2019 financial year, the company concluded currency hedges.

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 2019 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 2019 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. In this respect, 100% target achievement requires average annual growth of 12.5% over the period covered by the mid-term incentive. The individual components are based on both individual and collective targets agreed between the Supervisory Board and the individual member of the Board of Management. In particular, these also include targets based on non-financial performance indicators. 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 2017 (and 2018 and 2019 respectively) is paid out in 2020 (and 2021 and 2022 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)

Since the 2018 financial year, this compensation been based at a ratio of 75 % to 25 % on contractual agreements in which payments are based on the long-term share price performance without any physical or real stocks actually being supplied (stock appreciation rights – SARs) and on stock options. Detailed disclosures concerning the structure of stock option programs can be found in Section 'C. Consolidated Balance Sheet (9) Shareholders' equity – Stock option programs'.

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, premature payment requests may also not be submitted when 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 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

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 twice 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 2019 financial year.

Individual compensation of Board of Management (€ 000s)

	Marcus Wolfinger		Dr. Robert Siegle		Dr. Claus Vielsack		Total	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Non-performance-related components								
• Basic amount	272	272	239	239	210	210	721	721
• Other[1]	23	23	11	11	12	11	46	45
Performance-related components								
• MTI compensation claim[2]	158	165	130	136	100	104	388	405
• Other performance-related components	295	282	229	219	191	184	715	685
Total	**748**	**742**	**609**	**605**	**513**	**509**	**1,870**	**1,856**
Components with a long-term incentive nature								
• Stock options[3]	83	79	42	39	42	39	167	157
• Stock appreciation rights (SARs)[4]	276	243	138	121	138	121	552	485

[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 2017 (2016), which covers 2017, 2018, and 2019 (2016, 2017, and 2018) and is due for payment in 2020 (2019).
[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 2019 financial year, Marcus Wolfinger was granted 5,000 stock options at an average exercise price of € 57.82, Dr. Robert Siegle 2,500 stock options at an average exercise price of € 57.82, and Dr. Claus Vielsack 2,500 stock options at an average exercise price of € 57.82.

In the 2019 financial year, Marcus Wolfinger exercised 20,000 stock options (previous year: 12,500) at an average exercise price of € 28.09 (previous year: € 31.63), Dr. Robert Siegle exercised 15,000 stock options (previous year: 12,500) at an average exercise price of € 28.09 (previous year: € 31.63), and Dr. Claus Vielsack did not exercise any stock options. In the 2018 financial year, Dr. Claus Vielsack exercised 2,500 stock options granted to him prior to his appointment to the Board of Management at an average exercise price of € 31.71.

As of December 31, 2019, Marcus Wolfinger had 30,000 stock options outstanding (previous year: 45,000) at an average exercise price of € 40.30 (previous year: € 32.93) and a weighted remaining contract term of 34.2 months (previous year: 29.9). As of December 31, 2019, Dr. Robert Siegle had 15,000 stock options outstanding (previous year: 27,500) at an average exercise price of € 40.30 (previous year: € 32.05) and a weighted remaining contract term of 34.2 months (previous year: 28.0). Similarly, as of December 31, 2019 Dr. Claus Vielsack had 15,000 stock options (previous year: 12,500) outstanding at an average exercise price of € 40.30 (previous year: € 36.80) and a weighted remaining contract term of 34.2 months (previous year: 27.4).

As of December 31, 2019 Marcus Wolfinger had 20,000 stock options (previous year: 40,000) which were exercisable at an average exercise price of € 31.87 (previous year: € 29.98), while Dr. Robert Siegle had 10,000 stock options (previous year: 25,000) exercisable at an average exercise price of € 31.87 (previous year: € 29.60), and Dr. Claus Vielsack had 10,000 stock options (previous year: 10,000) exercisable at an average exercise price of € 31.87 (previous year: € 31.87).

The stock appreciation rights (SARs) of individual members of the Board of Management showed the following specific developments in the 2019 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 T I 2017 dated 01.23.2017	45.05	21.17	20,000	-20,000	0	n/a	n/a	n/a
SARs T I 2018 dated 10.25.2018	57.60	16.18	15,000	0	15,000	0	266	45.8
SARs T I 2019 dated 01.15.2019	57.82	18.43	0	15,000	15,000	0	266	48.5
Dr. Robert Siegle								
SARs T I 2017 dated 01.23.2017	45.05	21.17	10,000	-10,000	0	n/a	n/a	n/a
SARs T I 2018 dated 10.25.2018	57.60	16.18	7,500	0	7,500	0	133	45.8
SARs T I 2019 dated 01.15.2019	57.82	18.43	0	7,500	7,500	0	133	48.5
Dr. Claus Vielsack								
SARs T I 2017 dated 01.23.2017	45.05	21.17	10,000	-10,000	0	n/a	n/a	n/a
SARs T I 2018 dated 10.25.2018	57.60	16.18	7,500	0	7,500	0	133	45.8
SARs T I 2019 dated 01.15.2019	57.82	18.43	0	7,500	7,500	0	133	48.5
Total / average	**57.71**	**17.31**	**70,000**	**30,000 -40,000**	**60,000**	**0**	**1,064**	**47.8**

[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 2019 financial year.

The following amounts were recognized as expenses for stock appreciation rights (SARs) in the 2019 financial year: € 483k for Marcus Wolfinger (previous year: € 85k), € 242k for Dr. Robert Siegle (previous year: € 43k), and € 242k for Dr. Claus Vielsack (previous year: € 43k).

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 lifelong pension payments. 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 2019 financial year, the company recognized expenses of € 114k for Marcus Wolfinger (previous year: € 123k), € 104k for Dr. Robert Siegle (previous year: € 101k), and € 40k 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, 2019 amounted to € 1,174k for Marcus Wolfinger (previous year: € 869k), € 805k for Dr. Robert Siegle (previous year: € 567k), and € 247k for Dr. Claus Vielsack (previous year: € 162k). 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 € 896k for Marcus Wolfinger (previous year: € 836k), € 656k for Dr. Robert Siegle (previous year: € 611k), and € 537k for Dr. Claus Vielsack (previous year: € 503k). 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 2019 financial year.

Individual compensation of Supervisory Board (€ 000s)

	Dr. Frank Hiller[1]		Rainer Baule		Prof. Dr. Stefanie Remmele		Fred K. Brückner[2]		Gesamt	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Fixed compensation	33	0	38	38	25	25	21	50	117	113
Meeting allowance	2	0	4	3	4	4	1	4	11	11
Total	**35**	**0**	**42**	**41**	**29**	**29**	**22**	**54**	**128**	**124**

[1] Supervisory Board member since May 29, 2019
[2] Supervisory Board member until May 29, 2019

F. TAKEOVER-RELEVANT DISCLOSURES [1]

Composition of share capital

The company's share capital amounted to € 12,030,295 as of December 31, 2019 and was divided into 12,030,295 individual registered shares. This total includes 4,995 treasury stock shares as of December 31, 2019. 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, 2019 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) Nos. 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, 2019:

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 € 1,739,250 in total as of December 31, 2019:

Conditional Capital V/2009 (amounting to up to € 8,300) 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 € 120,950) 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 (Group) Corporate Governance Declaration 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) and includes the disclosures required by the European CSR Directive concerning the topics of environmental, employee, and social concerns, respect for human rights, and measures to combat corruption and bribery. Information about STRATEC's business model (The STRATEC Group) and additional non-financial risks relevant to the aspects presented in this report (Opportunity and Risk Report) can be found in the other components of 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. The period under report is the 2019 financial year. STRATEC has based its CSR reporting on the Global Reporting Initiative (GRI) standards in the 'Core' application level.

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. By implementing sustainability-related topics in its corporate strategy, STRATEC is meeting its responsibility towards society. Given the high priority accorded to them, corporate social responsibility-related topics are managed at the STRATEC Group by the Board of Management. Within the Supervisory Board, Dr. Hiller is responsible for ESG topics. At STRATEC, the topics identified in a materiality analysis cover 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 and society

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, via measures to reduce greenhouse gas emissions, through to environmentally-friendly waste disposal. STRATEC's objective here is to detect savings potential and render this measurable for the purpose of assessing target achievement 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 1,300 employees, STRATEC is aware of its social and ecological responsibilities.

Stakeholder engagement

STRATEC defines its stakeholders as those persons, companies, institutions, and interest groups that may influence the company's performance or themselves be influenced by its decisions. These include customers, employees, shareholders, lenders, suppliers, other business partners, local authorities/residents, the media, regulatory authorities, associations, research institutions, and lawmakers.

STRATEC accords great value to remaining regularly in dialog with its stakeholders. Only this way is it possible to identify the interests of the respective stakeholders and address important concerns. This dialog with stakeholders is conducted, for example, by way of active investor relations and press activities, specialist fairs, social media, regional and national newspapers, membership in industry associations, employee events, questionnaires, and endowed professorships at and cooperations with universities.

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, via measures to avoid and offset greenhouse gas emissions, through to environmentally-friendly waste disposal.

The STRATEC Group has not reported any environmentally relevant incidents in the past years. Key risks to the company's own business activities as a result of environmental concerns particularly include interruptions to operations due to increasing numbers of extreme weather events in connection with global climate change.

Climate protection and emissions
STRATEC accords high priority to protecting the climate and the associated need to cut greenhouse gas emissions. The STRATEC Group has therefore set itself the target of making its Scope 1 and Scope 2 emissions climate neutral during the 2020 financial year. To achieve this, it will be implementing a Group-wide conversion to CO_2-neutral green electricity from renewable energies. Furthermore, starting in 2020 STRATEC will offset unavoidable CO_2 emissions due to building heating and its vehicle pool by supporting certified climate protection projects.

In selecting the projects to be supported, STRATEC will strictly ensure that these meet high, certified standards for climate protection projects, such as the Gold Standard or the Verified Carbon Standard (VCS) and the Climate, Community and Biodiversity Standards (CCBS). By exclusively procuring green electricity and voluntarily offsetting unavoidable emissions, STRATEC will become climate neutral before the end of 2020.

Furthermore, STRATEC is committed to the climate target agreed in the Paris Climate Accord, namely to limit global warming to less than 2 °C. Consistent with this commitment, the company's new climate target is based on the internationally recognized requirements of the Science-Based Targets Initiative. By 2030, STRATEC therefore aims to reduce its absolute greenhouse gas emissions (Scopes 1 and 2) by 30% compared with 2019.

One aspect that currently plays a particularly important role in the STRATEC Group's efforts to reduce its CO_2 emissions in absolute terms is that of building energy efficiency. In planning the new building and extensions at the company's headquarters in Birkenfeld, for example, STRATEC opted for optimized exterior insulation and energy-efficient light systems. Furthermore, windows with enhanced heat insulation and a central air-conditioning system with a supply air heat exchanger have been installed. Moreover, in 2019 the regular energy audit pursuant to DIN EN 16247-1 was successfully performed at the company's headquarters in Birkenfeld in order to further improve the energy efficiency of existing buildings and reduce energy consumption. The energy audit is performed at regular four-year intervals. The next such audit is therefore scheduled for the 2023 financial year.

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 used to heat buildings at STRATEC's locations and the fuel consumed by the vehicle pool. Due to the construction measures currently underway, the company also made temporary use of heating oil at its Birkenfeld location. 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. It is planned to record Scope 3 emissions for the first time for the 2020 financial year.

Energy consumption[1,2]

	2019	2018	Change
Gas consumption (MWh)	2,245.4	2,695.8	-16.7%
per 1,000 employees	1,789.2	2,310.0	-22.5%
Heating oil (liters)	37,423.0	0	n/a
per 1,000 employees	29,819.1	0	n/a
Electricity consumption (MWh)	4,995.1	4,906.6	+1.8%
per 1,000 employees	3,980.1	4,204.5	-5.3%

[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

Greenhouse gas emissions in tonnes (CO_2-Equivalents)[1,2]

	2019	2018	Change
Gas and heating oil consumption (Scope 1)	569.8	571.6	-0.3 %
per 1,000 employees	454.0	489.8	-7.3 %
Vehicle pool (Scope 1)	290.7	321.7	-9.6 %
per 1,000 employees	231.6	275.7	-16.0 %
Electricity consumption (Scope 2)	1,288.1	1,347.8	-4.4 %
per 1,000 employees	1,026.4	1,154.9	-11.1 %
Total	**2,148.6**	**2,241.1**	**-4.1 %**
per 1,000 employees	**1,712.0**	**1,920.4**	**-10.9 %**

[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 and updated emission factors

Despite substantial growth in sales and the workforce in the 2019 financial year, Group-wide Scope 1 and 2 emissions fell by 4.1 % to 2,148.6 tonnes (previous year: 2,241.1 tonnes). This figure was positively influenced by, among other measures, the sale of the nucleic acid purification business at the beginning of 2019. Furthermore, conversion measures at the Birkenfeld location also involved upgrading building complexes with poor heat insulation. Emissions per 1,000 employees as a result of gas, heating oil, and electricity consumption and the vehicle park therefore fell by 10.9 % to 1,712.0 tonnes.

Energy generation

STRATEC produces green electricity using photovoltaics systems 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 139,084 kilowatt hours (kWh) of green energy a year. Since operations were launched, the system has generated 1,114 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.

Together, the two systems generated 226,209 kWh of renewable energies in the financial year. This corresponds to an increase of 2.3 % compared with the previous year.

Photovoltaics system total yield (kWh)

	2019	2018	Change
Birkenfeld (DE)	142,490	143,749	-0.9 %
Beringen (CH)	83,719	77,342	+8.2 %
Total	**226,209**	**221,091**	**+2.3 %**

Waste and recycling

STRATEC aims to ensure that resources are treated as sparingly as possible and to use a high share of recyclable materials and packaging.

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.

The waste reduction measures outlined above were effective once again in the 2019 financial year, with a year-on-year reduction in Group-wide waste volumes of 7.6 % to 181.4 tonnes.

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

	2019	2018	Change
Waste volumes	181.4	196.3	-7.6 %
per 1,000 employees	144.5	168.3	-14.1 %

[1] Data partly based on estimates, as not all data was yet available for some subsidiaries due to the respective invoicing periods

Water and wastewater

STRATEC's production sites (Birkenfeld, Beringen, Anif, Budapest) are all located in regions that according to the Aqueduct Water Risk Atlas of the World Resources Institute do not constitute risk areas. Furthermore, 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. Despite the growth in the workforce and sales, the Group-wide volume of water consumed remained virtually unchanged at 17,134 m^3 in 2019 compared with 17,171 m^3 in the previous year. As a result, the volume of water consumed per 1,000 employees fell by 7.2% from 14,717 m^3 in the previous year to 13,653 m^3 in 2019.

Water consumption (fresh water) in cubic meters[1]

	2019	2018	Change
Water consumption	17,134	17,171	-0.2%
per 1,000 employees	13,653	14,717	-7.2%

[1] Data partly based on estimates, as not all data was yet available for some subsidiaries due to the respective invoicing periods

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. The main components of the products manufactured by STRATEC include aluminum, steel, and semiconductors.

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.

Attractiveness as employer and measures to attract employees

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. The tools we draw on to evaluate the success of various measures and identify potential improvements include performing surveys to assess our employees' satisfaction in terms of their workplace, workload, future prospects, and internal communications. Preparations are currently underway, for example, to design an employee survey at a national subsidiary.

One way in which we act early to present STRATEC as an attractive employer to young people is by taking part in careers' fairs to raise awareness of the wide variety of activities on offer at the company. Furthermore, STRATEC offers training posts to young people in a variety of areas and employs students in the context of internships, student research projects, and dual training and study programs. Diverse cooperations with universities also serve to arouse students' interest in STRATEC as a potential employer at an early stage. One example worth mentioning here is the close cooperation with Pforzheim University, where STRATEC co-finances an endowed professorship for medical technology. STRATEC also supports a number of student competitions in robotics, and especially in the field of software development, on local and international level.

The success of these measures is reflected in particular in the number of newly recruited staff. With 250 new hires, the STRATEC Group successfully attracted a large number of highly qualified employees once again in the 2019 financial year. Women accounted for 36.4% of the newly hired employees in 2019. A further criterion referred to by STRATEC to assess the attractiveness of its working environment is the personnel turnover rate. Despite the high numbers of staff consistently hired in recent years, the personnel turnover rate remains low. Excluding employees whose temporary contracts expired and employees entering retirement, this key figure amounted to 7.9% in 2019.

New hires

	2019
Total new hires	**250**
of which women	91
of which men	159
Employees aged below 30	116
Employees aged between 30 and 50	125
Employees aged 50 and older	9

Further training

The wealth of new ideas and willingness to perform shown by 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.

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 also a fixed item at the regular feedback meetings and annual appraisals 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, exercise during the lunchbreak, 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

	2019	2018
Total work-related accidents	17	17
per 1,000 employees	13.6	14.6
of which accidents leading to absence on day after[2]	4	n/a
per 1,000 employees[2]	3.2	n/a
Lost time injury frequency (LTIF) rate[1,2]	1.6	n/a

[1] Number of work-related accidents leading to absence on day after per million working hours
[2] Figure first reported for 2019 financial year

The total number of work-related accidents per 1,000 employees fell year-on-year from 14.6% to 13.6% in 2019 and thus remains at a low level. The same also applies for the number of work-related accidents leading to the employee being absent from work on the day after the accident. The resultant accident frequency rate amounts to 1.6 per million working hours. To maintain a low number accidents in future as well, individual accidents are analyzed and suitable measures taken to minimize the risk of such accidents recurring.

Sickness quota

	2019	2018
Sickness quota in %	4.4	3.9

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 50 basis points to 4.4% in the 2019 financial year. The development in the sickness quota is particularly dependent on seasonal 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. In the 2019 financial year, a total of 22 female and 30 male employees took parental leave or comparable periods of leave.

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 inclusion. 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 met as of December 31, 2019. Furthermore, 66.7% of the positions becoming vacant in the second management tier were awarded to female applicants in the 2019 financial year. To further raise the share of women in management tiers, the company is continually taking additional measures. In 2019, for example, a training program aimed at raising awareness for diversity and inclusion among all of the Group's managers was held for members of the first and second management tiers. The rollout of further diversity and inclusion training is planned for the human resources departments at subsidiaries in 2020.

Percentage of female employees

	2019	2018
Female employees in %	28.2	28.0

The female share of the STRATEC Group's total workforce rose from 28.0% in the previous year to 28.2% in the 2019 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 > Investors > 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, conservation organizations, and associations. In 2019, STRATEC supported these kinds of organizations with a total of € 110,673. Organizations worth mentioning here include: Ärzte ohne Grenzen e.V., Plan International, Erde der Kinder e.V., Deutsches Rotes Kreuz e.V., Deutsche Krebshilfe, Feuerwehr Birkenfeld, Wildpark Pforzheim, DKMS, Familienherberge Lebensweg, Pforzheim University, and a center for autistic children at the location in Cluj (Romania).

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. To this end, and also with the aim of reducing transport-related CO_2 emissions, STRATEC is increasingly working with suppliers in its respective regions. At the Birkenfeld and Budapest locations, for example, more than 60% of procurement volumes are sourced from regional companies (within a radius of 100km).

Donations and benefit payments in €

	2019	2018
Donations / benefit payments	110,673	100,530

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 and internal regulations
- 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 expects all of its employees to adhere to compliance requirements and to ensure that all business 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. To this end, soon after they join the company all new employees are trained in person by the Global Compliance Officer with regard to the Corporate Compliance Policy. Training is provided to all full-time and part-time employees, as well as to all interns, trainees, and freelance employees at all locations. Furthermore, managers are obliged to provide compliance-related training to their employees once a year. To detect and remedy any omissions on the part of the managers at an early stage, the provision of this training is monitored and documented.

STRATEC's compliance system is subject to permanent enhancement and optimization. To this end, the Compliance Officer is provided with regular training by an external service provider. Furthermore, 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. The compliance officer reports the findings of his or her talks with managers directly to the Board of Management. The Board of Management discharges its reporting duties towards the Supervisory Board.

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 suppliers relevant to the company's production activities 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. Furthermore, sanction list, watch list and blacklist screenings are performed whenever contracts are initiated with new business partners.

No breaches of human rights were identified within the STRATEC Group or its supply chain in the 2019 financial year or the preceding financial years.

Birkenfeld, March 27, 2020

STRATEC SE

The Board of Management

Marcus Wolfinger *Dr. Robert Siegle*

Dr. Claus Vielsack

CONSOLIDATED FINANCIAL STATEMENTS

for the 2019 Financial Year of STRATEC SE

CONSOLIDATED BALANCE SHEET
as of December 31, 2019

Assets

€ 000s	Note	12.31.2019	12.31.2018
Non-current assets			
Goodwill	(01)	40,674	41,245
Other intangible assets	(01)	56,418	57,017
Right-of-use assets	(02)	8,583	0
Property, plant and equipment	(03)	47,338	39,510
Non-current financial assets	(07)	447	459
Non-current other receivables and assets	(08)	0	1,109
Non-current contract assets	(05)	15,616	8,557
Deferred taxes	(11)	1,207	201
		170,283	**148,098**
Current assets			
Inventories	(04)	55,978	58,530
Trade receivables	(06)	34,121	34,763
Current financial assets	(07)	1,319	819
Current other receivables and assets	(08)	6,124	5,747
Current contract assets	(05)	4,780	1,132
Income tax receivables	(11)	4,101	1,418
Cash and cash equivalents	(28)	22,708	23,816
Assets held for sale	(17)	0	962
		129,131	**127,187**
Total assets		**299,414**	**275,285**

Shareholders' equity and debt

€ 000s	Note	12.31.2019	12.31.2018
Shareholders' equity	(09)		
Share capital		12,030	11,969
Capital reserve		26,457	24,119
Revenue reserves		120,978	116,347
Treasury stock		-89	-89
Other equity		-369	-142
		159,007	**152,204**
Non-current debt			
Non-current financial liabilities	(12)	90,378	68,933
Non-current other liabilities	(14)	481	417
Non-current contract liabilities	(15)	1,869	3,342
Provisions for pensions	(10)	5,077	3,811
Deferred taxes	(11)	6,931	7,530
		104,736	**84,033**
Current debt			
Current financial liabilities	(12)	9,584	7,987
Trade payables	(13)	12,266	6,457
Current other liabilities	(14)	6,016	5,835
Current contract liabilities	(15)	4,407	12,722
Provisions	(16)	1,138	1,348
Income tax liabilities	(11)	2,260	3,796
Liabilities directly associated with assets held for sale	(17)	0	903
		35,671	**39,048**
Total shareholders' equity and debt		**299,414**	**275,285**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the Period from January 1 to December 31, 2019

€ 000s	Note	2019	2018
Sales	(18)	221,641	187,820
Cost of sales	(19)	-169,537	-139,585
Gross profit		**52,104**	**48,235**
Research and development expenses	(20)	-5,106	-10,061
Sales-related expenses	(21)	-10,297	-8,381
General administration expenses	(22)	-17,108	-15,469
Other operating income and expenses	(23)	-514	687
Earnings before interest and taxes (EBIT)		**19,079**	**15,011**
Net financial expenses	(24)	**-759**	**-921**
Earnings before taxes (EBT)		**18,320**	**14,090**
Taxes on income	(11)	-2,232	-2,980
Earnings from continuing operations		**16,088**	**11,110**
Earnings from discontinued operations	(25)	-1,648	-2,141
Consolidated net income		**14,440**	**8,969**
Items that may not be reclassified to profit or loss:			
Remeasurement of defined benefit pension plans		-969	-118
Change in value of financial instruments		0	-2,544
Items that may be subsequently reclassified to profit or loss:			
Currency translation differences from translation of foreign operations		741	-28
Other comprehensive income (OCI)		**-228**	**-2,690**
Comprehensive income		**14,212**	**6,279**
Basic earnings per share in €	(26)	**1.20**	**0.75**
from continuing operations		1.34	0.93
from discontinued operations		-0.14	-0.18
No. of shares used as basis (undiluted)		11,991,531	11,939,717
Diluted earnings per share in €	(26)	**1.20**	**0.75**
from continuing operations		1.33	0.92
from discontinued operations		-0.14	-0.18
No. of shares used as basis (diluted)		12,061,926	12,033,844

CONSOLIDATED CASH FLOW STATEMENT
for the 2019 Financial Year

€ 000s	Note	2019	2018
I. Operations			
Consolidated net income (after taxes)		14,440	8,969
Depreciation and amortization		18,744	21,646
Current income tax expenses	(11)	3,641	4,217
Income taxes paid less income taxes received		-7,475	-2,339
Financial income	(24)	-29	-34
Financial expenses	(24)	1,028	662
Interest paid		-1,088	-602
Interest received		94	19
Other non-cash expenses		5,342	2,139
Other non-cash income		-2,639	-1,931
Change in net pension provisions through profit or loss	(10)	1,174	-30
Change in deferred taxes through profit or loss	(11)	-1,442	-1,282
Profit (-) / loss (+) on disposals of non-current assets		-13	267
Increase (-) / decrease (+) in inventories, trade receivables and other assets		-7,874	-23,125
Increase (+) / decrease (-) in trade payables and other liabilities		-2,641	3,374
Cash flow from operating activities		**21,262**	**11,950**
II. Investments			
Incoming payments from disposals of non-current assets			
• Intangible assets		8	0
• Property, plant and equipment		13	45
• Financial assets		33	8,601
Outgoing payments for investments in non-current assets			
• Intangible assets		-10,699	-8,425
• Property, plant and equipment		-16,147	-11,013
• Financial assets		-33	0
Incoming payments from sale of companies previously consolidated, less cash funds thereby ceded		-894	0
Cash flow from investing activities		**-27,719**	**-10,792**
III. Financing			
Incoming funds from taking up of financial liabilities		23,000	9,000
Outgoing payments for repayment of financial liabilities	(12)	-9,746	-1,971
Incoming payments from issue of shares for employee stock option programs		2,011	1,577
Dividend payments		-9,811	-9,533
Cash flow from financing activities		**5,454**	**-927**
IV. Cash-effective change in cash and cash equivalents (net balance of I – III)		**-1,003**	**231**
Cash and cash equivalents at start of period		24,095	24,137
Impact of exchange rate movements		-384	-273
Cash and cash equivalents at end of period	(28)	**22,708**	**24,095**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the 2019 Financial Year

€ 000s	Note	Share capital	Capital reserve
December 31, 2017	(09)	**11,921**	**22,417**
Changes in accounting policies			
• 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			
Transfer due to disposal			
IFRS 5 reclassifications			
December 31, 2018	(09)	**11,969**	**24,119**
Equity transactions with owners			
• Dividend payment			
• Issue of subscription shares from stock option programs, less costs of capital issue after taxes		61	1,950
Allocations due to stock option programs			388
Comprehensive income			
December 31, 2019	(09)	**12,030**	**26,457**

		Other equity					
					Currency translation		
	Revenue reserves	Treasury stock	Fair value reserve	Pension plans		IFRS 5	Group equity
	121,058	-89	2,525	-769	774	0	157,837
	-94						-94
	-1,509		-2,525				-4,034
	119,455	-89	0	-769	774	0	153,709
	-9,533						-9,533
							1,577
							173
	8,969		-2,544	-118	-28		6,279
	-2,544		2,544				0
					827	-827	0
	116,347	-89	0	-887	1,573	-827	152,205
	-9,811						-9,811
							2,011
							388
	14,440			-969	-86	827	14,212
	120,978	-89	0	-1,856	1,487	0	159,007

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the 2019 Financial Year

A. GENERAL DISCLOSURES

General information

STRATEC SE 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 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.

STRATEC SE, whose legal domicile is at Gewerbestrasse 35–37, 75217 Birkenfeld, Germany, is a publicly listed corporation under European law and is registered in the Commercial Register in Mannheim, Germany, with the number HRB 732007.

These consolidated financial statements were approved for publication by the Board of Management of STRATEC SE on March 27, 2020.

Basis of preparation

The consolidated financial statements compiled by STRATEC SE as the topmost parent company as of December 31, 2019 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.

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 totals 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. This involves presenting sales alongside the expenses incurred to generate such, which are generally allocated to the functional areas of production, research and development, sales, and general administration.

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. Deferred taxes must generally be recognized as non-current items.

Unless reported otherwise below, the accounting policies applied have not changed since the previous year.

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 2019 financial year.

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
Diverse	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

The application of these standards and interpretations in the 2019 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.

IFRS 16 (Leases)

STRATEC applied IFRS 16 (Leases) for the first time as of January 1, 2019. Pursuant to IFRS 16 C5 (b), the new standard was applied for the first time retrospectively as of January 1, 2019 without amending the previous year's figures. Conversion effects arising upon first-time application have been recognized on a cumulative basis in equity, while the previous year's period has been presented in accordance with the previous accounting requirements.

IFRS 16 (Leases) supersedes the previously valid 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 consolidated balance sheet. The distinction previously required by IAS 17 (Leases) between finance and operating leases thus no longer applies for lessees. For all leases, the lessee recognizes a lease liability in its consolidated balance sheet for the obligation to make future lease payments. At the same time, the lessee recognizes a right to use the underlying asset ('right-of-use asset') which 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, while the right-of-use asset is subject to scheduled depreciation. This approach generally results in higher expenses at the beginning of the term of the lease contract. The weighted average incremental borrowing rate used to discount the future lease payments remaining as of January 1, 2019 amounts to 3.62%.

At the **lessor**, by contrast, the requirements of the new standard are similar to the existing provisions of IAS 17 (Leases). Lease contracts 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 are 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).

Apart from the application of a single discount rate to a portfolio of similarly structured lease contracts, upon **first-time application** STRATEC has drawn on the simplifications provided for in IFRS 16 C10, although the practical expedient provided for in IFRS 16.C10 (b) was not relevant for STRATEC.

The reconciliation of undiscounted future minimum lease and rental payments for operating lease agreements as of December 31, 2018 with the lease liabilities recognized in the opening balance sheet as of January 1, 2019 is presented in the table below:

	€ 000s
Obligations for future minimum lease and rental payments as of 12.31.2018	10,273
Practical relief for short-term leases	-131
Practical relief for low-value leases	-5
Adjustments due to service components not eligible for capitalisation	-1,308
Adjustments due to differing assessments of extension and termination options	425
Other	-162
Gross lease liabilities as of 01.01.2019	**9,092**
Discounting	-793
Lease liabilities resulting from first-time application of IFRS 16 as of 01.01.2019	**8,299**

Voluntary changes to accounting methods

Due to the activation of the new uniform ERP system at the two largest production locations, Birkenfeld and Beringen, Switzerland, at the beginning of the 2019 financial year and the implementation of this system at the Budapest and Anif locations in the 2018 financial year already, all locations relevant to STRATEC's production activities now have a uniform ERP system. Due to the ongoing associated improvements in STRATEC's internal reporting and the further restructuring of the allocation key, **starting in the 2019 financial year** the product-related project support costs previously included in research and development expenses and in sales-related expenses have now been reallocated to cost of sales. The figures reported for the comparative period have been adjusted accordingly.

The resultant effects are structured as follows:

	2019 € 000s	**2018** € 000s
Cost of sales	-4,108	-5,246
Gross profit	-4,108	-5,246
Research and development expenses	-787	-825
Sales-related expenses	4,539	5,258
General administration expenses	357	813

From the 2019 financial year, receivables and liabilities due from and to associates which, due to materiality considerations, have not been included in the consolidated financial statements by way of full consolidation, have no longer been recognized separately in the balance sheet, but rather within other balance sheet items with corresponding explanations provided in the notes. The figures reported in the previous year for trade receivables and financial assets have been amended by € 13k and € 9k respectively.

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			
IAS 1 and IAS 8	Amendments: Definition of Material	01.01.2020	11.29.2019
IFRS 3	Amendments: Definition of a Business	01.01.2020	Outstanding
IFRS 9, IAS 39 and IFRS 7	Amendments: Interest Rate Benchmark Reform	01.01.2020	01.15.2020
Framework	Amendments: Reference to the IFRS Conceptual Framework	01.01.2020	11.29.2019
IFRS 17	Insurance Contracts	01.01.2020	Outstanding
IAS 1	Amendments: Classification of Liabilities as Current or Non-Current	Outstanding	Outstanding

[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.

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.

Subsidiaries are deconsolidated as soon as STRATEC SE can no longer exercise control. The assets and liabilities of the subsidiary are derecognized in the month of deconsolidation. In the consolidated statement of comprehensive income, earnings from deconsolidation of the subsidiary are presented in the line item '(25) Earnings from discontinued operations'. The relevant items are not presented separately in the consolidated cash flow statement.

In addition to STRATEC SE the consolidated financial statements as of December 31, 2019 and as of December 31, 2018 include the following subsidiaries by way of full consolidation:

		Shareholding %	
Company	**Domicile**	**12.31.2019**	**12.31.2018**
Germany			
STRATEC Capital GmbH	Birkenfeld, Germany	100%	100%
STRATEC PS Holding GmbH	Birkenfeld, Germany	100%	100%
STRATEC Molecular GmbH[1]	Berlin, Germany	0%	100%
European Union			
STRATEC Biomedical UK, Ltd.	Burton upon Trent, UK	100%	100%
STRATEC Biomedical S.R.L.	Cluj-Napoca, Romania	100%	100%
STRATEC Consumables GmbH	Anif, Austria	100%	100%
RE Medical Analyzers Luxembourg 2 S.à r.l.	Luxemburg, Luxembourg	100%	100%
Diatron Medicinai Instrumentumok Laboratóriumi Diagnosztikai Fejlesztö-Gyártó Zrt	Budapest, Hungary	100%	100%
Mod-n-More Kft.	Budapest, Hungary	100%	100%
Other			
STRATEC Biomedical Switzerland AG	Beringen, Switzerland	100%	100%
STRATEC Biomedical USA, Inc.	Glendale, US	100%	100%
STRATEC Services AG	Beringen, Switzerland	100%	100%
Medical Analyzers Holding GmbH	Zug, Switzerland	100%	100%
STRATEC Biomedical Inc.	Southington, US	100%	100%
Diatron (US), Inc.	Delaware, US	100%	100%

[1] STRATEC Molecular GmbH was deconsolidated as of March 31, 2019.

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

Company, domicile	Share capital	Share-holding %	Annual earnings[1]
Sanguin International Inc., Southington, CT, US	USD 1,000	100.0	USD -21,677 (2018: USD -21,436)
STRATEC Biomedical (Taicang) Co. Ltd., Taicang, China	CNY 814,940	100.0	CNY 165,234 (2018: CNY -532,230)

[1] The earnings figures reported are based on the annual financial statements prepared in accordance with national accounting requirements as of December 31, 2019 and December 31, 2018.

Discontinued operations

By contract signed on February 28, 2019, all shares held in **STRATEC Molecular GmbH, Berlin, Germany**, and all loans granted by STRATEC SE to STRATEC Molecular GmbH were sold. The closing of the contract took place on schedule on March 31, 2019. Furthermore, in connection with the sale the control and profit transfer agreement concluded between STRATEC SE and STRATEC Molecular GmbH in the 2013 financial year was also rescinded as of March 31, 2019. Since the interim financial statements as of September 30, 2018, assets and liabilities forming part of the disposal group had been reported separately in the balance sheet and measured in accordance with the requirement of IFRS 5 (Non-Current Assets Held for Sale and Discontinued Operations). Furthermore, the earnings from this operation have been presented separately in the consolidated statement of comprehensive income in line item '(25) Earnings from discontinued operations'. Due the loss of control resulting from this transaction, STRATEC Molecular GmbH was deconsolidated as of March 31, 2019. STRATEC Molecular GmbH was allocated to the 'Smart Consumables' segment.

The disposal of STRATEC Molecular GmbH impacted as follows on the asset, financial, and earnings position:

	Figures upon deconsolidation € 000s
Sale price less costs to sell	-23
Cash and cash equivalents thereby ceded	-871
Net outflow of funds	**-894**
Inventories	384
Trade receivables	130
Other receivables and assets (including deferred taxes)	20
Cash and cash equivalents	871
Currency items recognized in OCI	-827
Financial liabilities	59
Trade payables	15
Other liabilities	577
Provisions	25
Net assets	**-1,556**
Deconsolidation result	**-1,579**

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 group companies with functional currencies other than the euro 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	
		2019	2018	2019	2018
GBP	UK	0.851	0.895	0.878	0.885
USD	US	1.123	1.145	1.120	1.181
CHF	Switzerland	1.085	1.127	1.112	1.155
RON	Romania	4.783	4.664	4.745	4.654
HUF	Hungary	330.530	320.980	325.300	318.890

Other intangible assets

Other intangible assets are recognized upon addition at cost. The purchase costs of a separately purchased intangible asset particularly comprise the purchase price, less any reductions in the price, plus costs directly attributable to preparing the asset for its intended use. 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.

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, their cost has 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 other intangible assets has been based on the following useful lives:

	Useful lives in years 2019	Useful lives in years 2018
Acquired technologies	7–15	7–15
Acquired R&D projects	*	8
Internally generated intangible assets • Proprietary development projects • Development cooperations	 5 **	 5–10 **
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

* There were no longer any acquired R&D projects in the 2019 financial year.
** 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.

Subsequent measurement is based on the cost model. Accordingly, in subsequent periods the costs recognized are reduced by depreciation, in general using the straight-line method, where the respective assets are depreciable. 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 2019	Useful lives in years 2018
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.

Leasing

Since **January 1, 2019**, STRATEC has accounted for leases in accordance with IFRS 16 (Leases).

A lease is a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration.

In its capacity as a **lessee**, STRATEC recognizes right-of-use assets for leased items and liabilities for the payment obligations thereby entered into at present value for basically all leases in its balance sheet. Exemptions apply for low-value leases (for which expenses of € 3k were recognized in the 2019 financial year), short-term leases (for which expenses of € 175k were recognized in the 2019 financial year) and leases of intangible assets. The lease installments payable for these leases are expensed on a straight-line basis in line with their allocation to individual functional areas in the consolidated statement of comprehensive income. For contracts including lease and non-lease components, STRATEC has drawn on the option of not separating these components. When determining the contract term, extension and termination options have only been accounted for when the exercising or non-exercising of such options is sufficiently certain.

As of the provision date, lease liabilities comprise the lease payments listed in IFRS 16.27 and are discounted using the interest rate implicit in the lease, where this can be determined, and otherwise using the lessee's incremental borrowing late. Subsequent to the provision date, lease liabilities are increased by interest expenses and reduced by the lease payments made. Lease liabilities are revalued to account for changes in lease payments.

Right-of-use assets are measured at cost and, alongside the respective lease liabilities, also include the components listed in IFRS 16.24 as of the provision date. These assets are subsequently measured at amortized cost. Depreciation is recognized on a straight-line basis over the term of the respective contract.

Depreciation of right-of-use assets is based on the following useful lives:

	Useful lives in years 2019
Land and buildings	1–10
Vehicles	1–4
Other plant and office equipment	5–6

In the land and buildings category, STRATEC chiefly leases production and office buildings, as well as warehouse and parking space. The lease arrangements include conditions that basically conform to customary practice in the industry. The lease arrangements provide for extension and termination options in some cases and thus provide STRATEC with the greatest possible flexibility. Further future outflows of funds may arise due to lease payments which are indexed or based on utilization volumes.

Specifically, potential future outflows of funds not accounted for in the measurement of lease liabilities include:

	12.31.2019 € 000s
Due to extension and termination options	361
Due to variable lease payments	1,377
Due to low-value lease assets	1
Total	**1,739**

Future outflows of funds which STRATEC has entered into in its capacity as lessee, but which have not begun as of the balance sheet date, amounted to € 1,614k.

Further details about leases can be found in our comments in Section 'C. Notes to the consolidated balance sheet (2) Right-of-use assets' and Section 'C. Notes to the consolidated balance sheet (12) Non-current and current financial liabilities':

As of December 31, 2019, STRATEC did not have any leases in which the company acted as **lessor.** With regard to the rental income generated from letting out parts of buildings owned by STRATEC, which is immaterial in terms of its amount, reference is made to our comments on 'Investment property' in this section.

Through to **December 31, 2018** leases were accounted for in accordance with IAS 17 (Leases):

A lease is an agreement whereby the lessor conveys to the lessee in return for payment the right to use an asset for an agreed period of time.

STRATEC classified a lease arrangement as an operating lease in cases where substantially all of the risks and rewards incidental to ownership remained at the lessor. As of December 31, 2018, STRATEC only had operating leases in which the company acted as lessee. Pursuant to IAS 17.33, payable lease installments were recognized in line with their allocation to functional divisions in the consolidated statement of comprehensive income.

Investment property

Investment property includes land and buildings held to generate rental income (€ 32k; previous year: € 88k) 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 and property, plant and equipment. Borrowing costs of € 98k were capitalized in the 2019 financial year. The financing rate used to determine borrowing costs eligible for capitalization amounted to 1.2%. Due to materiality considerations, no borrowing costs were capitalized in the previous year.

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.

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, 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.

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.

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.

The cash generating units determined for goodwill impairment testing are unchanged on the previous year's balance sheet date. They comprise 'laboratory automation', 'workflow software', '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). Through to its disposal as of March 31, 2019, this operation was measured in accordance with the specific standards set out in this standard.

The recoverable amount for the cash generating units as of December 31, 2019 (previous year: December 31, 2018) 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. As in the previous year, the detailed budget period covers three years. Future net inflows of cash are budgeted in the functional currency. The budgets have in turn been based on assumptions concerning future sales volumes and sales prices, as well as on expected costs. Raw materials prices are accounted for on their given terms. 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.

Net inflows of funds have been discounted at capital cost rates. The 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 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 WACC %**
Laboratory automation	
2019	8.05
2018	8.53
Manufacturing, parts & services	
2019	7.08
2018	7.67
Diatron	
2019	8.41
2018	8.93
Workflow software	
2019	7.24
2018	7.71
Smart consumables	
2019	6.33
2018	6.64

Of the **goodwill** recognized in the amount of € 40,674k (previous year: € 41,245k), € 682k (previous year: € 648k) results from the acquisition of STRATEC Biomedical UK, Ltd. in the 2006 financial year, € 1,467k (previous year: € 1,467k) from the acquisition of STRATEC Molecular GmbH in the 2009 financial year, € 2,759k (previous year: € 2,707k) from the acquisition of STRATEC Biomedical USA, Inc. in the 2010 financial year, € 27,158k (previous year: € 27,815k) from the acquisition of the Diatron Group, and € 8,608k (previous year: € 8,608k) from the acquisition of STRATEC Consumables GmbH in the 2016 financial year. The changes compared with the previous year are mostly due to currency translation. 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', and 'smart consumables' cash generating units on the basis of the respective EBITs.

€ 000s	Laboratory automation		Manufacturing, parts & services		Diatron	
	2019	2018	2019	2018	2019	2018
Carrying amount of goodwill	15,810	15,932	17,180	17,505	7,048	7,177

In line with IAS 36 (Impairment of Assets), STRATEC performed the annual impairment test for these goodwill items as of December 31, 2019 (previous year: December 31, 2018). As in the previous year, this did not lead to the recognition of any impairment loss in the year under report.

The following key assumptions have been used to determine the recoverable amounts of these 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 4.1 % (previous year: 2.3 %) and a budgeted average EBIT margin of 13.1 % (previous year: 12.6 %). 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 16.1 % (previous year: 22.5 %) and a budgeted average EBIT margin of 21.6 % (previous year: 22.6 %) 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 7.3 % (previous year: 16.0 %) and a budgeted average EBIT margin of 18.6 % (previous year: 17.9 %). 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, with the exception of the 'Workflow software' cash generating unit, there were no indications of any potential impairment in the goodwill reported for any of the cash generating units at STRATEC. At the 'Workflow software' cash generating unit, by contrast, any reduction in the future cash flow or increase in weighted costs of capital by 10 % would lead to an impairment.

An amount of € 636k, 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: € 631k). For the goodwill thereby allocated as well, the annual impairment test did not identify any indications of impairment.

Inventories

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), and assets consumed during the manufacturing process or in the performance of services (raw materials and supplies).

Inventories are measured at cost or, if lower, at net realizable value.

The acquisition costs of raw materials, supplies, and merchandise are based on average procurement prices. 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 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. Consistent with STRATEC's business model, contract fulfilment costs also include 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.

Inventory risks resulting from low turnover rates or diminished usability have been accounted for with additional write-downs.

Financial instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

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.

Depending on its allocation upon first-time recognition to the various categories provided for by IFRS 9 (Financial Instruments), a financial asset (debt or equity instruments) is subsequently measured either at amortized cost or at fair value. The allocation to the categories provided for by IFRS 9 (Financial Instruments) is based in each case on the objectives of the business model and characteristics of the respective cash flows.

Unless it is designated as FVTPL, a debt instrument is measured at amortized cost (AC debt instrument) 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 FVTPL, a debt instrument is measured at fair value with any changes in its value being recognized through other comprehensive income (FVTOCI 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 (FVTOCI 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 partly 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. Upon retirement, accumulated OCI is reclassified to revenue reserves.

Financial assets (debt or equity instruments) not measured at amortized cost or at FVTOCI are measured at fair value with any changes in their value being recognized through profit or loss (FVTPL). Measurement also includes derivative financial instruments, except for those designated as hedging instruments and effective as such, 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 FVTOCI as measured at FVTPL ('fair value option'). As in the previous year, STRATEC did not exercise this option in the 2019 financial year. Net gains and losses, including all interest and dividend income, are recognized through profit or loss.

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 trading, is a derivative financial instrument, except for those designated as hedging instruments and effective as such, 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 exchange rate gains and losses are recognized through profit or loss. Gains or losses arising upon derecognition are also recognized through profit or loss.

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.

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.

STRATEC deploys derivative financial instruments, and particularly forward exchange transactions, to reduce its currency risks. Derivatives are measured at fair value both upon initial recognition and when measured subsequently. Changes in their fair value are recognized through profit or loss in other operating income or expenses, as STRATEC has to date not designated any derivatives as hedge instruments.

Taxes

Taxes levied on taxable profit in individual countries and changes in deferred tax items are reported as taxes on income. 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 IFRS and tax balance sheets (except for goodwill), as well as for consolidation entries and tax-reducing claims on loss carryovers likely to be recoverable in subsequent years.

Deferred tax assets on temporary differences and tax loss carryovers have been capitalized to the extent that sufficient future taxable income will likely be available to utilize these deferred tax assets. The assessment of the recoverability of tax loss carryovers has been based on the impact on earnings of reversing taxable temporary differences, short and medium-term forecasts concerning the future earnings situation of the respective group company, and potential tax strategies. In making 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.

Current and 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.

Should relevant indications arise, STRATEC reviews tax items with regard to their uncertainty and, in the event of a corresponding assessment, recognizes an appropriate amount of risk provision. As such assessments may change over time, this also has implications for the amount of risk provision deemed necessary. The amounts stated for expected tax liabilities and tax assets reflect the best estimates taking due account of any existing tax-related uncertainties.

Provisions for pensions and similar obligations

Pension provisions at STRATEC involve both defined contribution and defined benefit schemes and are structured in accordance with legal requirements in the various countries and based on individual commitments.

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, on future increases in incomes and pensions, personnel turnover rates, and the expected income from plan assets. The discount rate and the expected return on plan assets have basically been determined by reference to the yields on high-quality corporate bonds with congruent terms, or additionally by reference to the yields on appropriate government bonds. The currency and terms of the underlying bonds are congruent with the currency and expected maturities of the post-employment pension obligations to be satisfied.

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.

At STRATEC, other provisions are stated for obligations resulting from guarantees and warranties, from legal disputes, and from onerous contracts. 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 historic values by reference to 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 three 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, and an equity-settled employee participation program based on the 2019 financial year.

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. Such obligations are not recognized in the balance sheet, as the outflow of resources is deemed unlikely or the scope of obligations cannot be reliably estimated.

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

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:

If they relate to **development projects without a customer contract**, the development expenses 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 a period of five years.

In the 2019 financial year, development expenses in connection with aforementioned development projects were capitalized as internally generated intangible assets in an amount of € 8,947k (previous year: € 6,863k). 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. When recognizing development cooperations and associated development performance obligations in the OEM partnering business, which is the business model with the greatest significance for STRATEC in both quantitative and qualitative terms, distinctions – based on whether the development expenses are covered by (milestone) payments or compensation clauses, and/or whether minimum collection volumes were agreed – can be made between four case groups:

Case groups for recognition of development cooperations

CASE 1	CASE 2	CASE 3	CASE 4
• Development performance obligation satisfied at a point in time (IFRS 15.38) – Development expenses covered by payments = contract fulfilment costs – Development expenses not covered by payments = intangible asset pursuant to IAS 38 – Payments received before transfer of development work = contract liabilities	• 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 fulfillment costs – Development expenses not covered by payments = intangible assets pursuant to IAS 38 – Payments received before transfer of development work = contract liabilities	• 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 – Payments received before transfer of development work = contract liabilities	• 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 – Payments received before transfer of development work = contract liabilities

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 leads to 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.

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.

2. Recognition of development cooperations and recognition of sales

With regard to the discretionary decisions relating to the recognition of development cooperations and recognition of sales pursuant to IFRS 15 (Revenue from Contracts with Customers), reference is made to the information provided under 'Recognition of sales, cost of sales, research and development expenses' in this section.

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), through to December 31, 2018 certain pension commitments with insurance-based execution channels in Germany were recognized in line with customary practice as defined contribution plans provided that it was highly unlikely as of the balance sheet date that any further claims would be made on the employer.

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 December 31, 2018; since then, the plan has therefore been accounted for as a defined benefit plan. The transition was implemented in accordance with the relevant IFRS module pronouncement issued by the German Institute of Auditors (IDW), namely IDW RS HFA 50 IAS 19 - M1 (Accounting for Pension Commitments with Insurance-Based Executive Channels in Prolonged Periods of Low Interest Rates), and more specifically in accordance with the following perspective contained therein: 'Reassessment without changing classification'. Assuming the existence of plan assets, upon transition this requires a net liability to be charged from the plan to other comprehensive income to account for the remeasurement due to increased likelihood of utilization. In its consolidated balance sheet as of December 31, 2018, STRATEC therefore recognized an amount of € 221k (before deferred tax assets of € 61k) and charged this to equity within other comprehensive income.

6. Determining the interest rate implicit in a lease

Lease liabilities are calculated by discounting future lease payments using an interest rate. This rate is the interest rate implicit in the lease, to the extent that this can readily be determined. Should this not be possible, the lessee should refer to its incremental borrowing rate.

As the interest rate implicit in a lease is determined from the perspective of the lessor, it is often not available to the lessee. In many cases, lessees are therefore obliged to refer to the incremental borrowing rate (hereinafter also 'IBR'). The IBR is a company-specific interest rate that in principle is even specific to the individual lease contract and each legal unit. Comparable leased assets, such as lease arrangements for comparable motor vehicles leased on comparable terms in a comparable environment, may be pooled into groups. The main factors determining the IBR are the term of the lease contract, the currency in which it is handled, the creditworthiness of the lessor, the credit amount, the economic environment in which the leased asset is deployed, the provision of the leased asset as collateral, the specific features of the leased asset, and the measurement date.

As a general rule, STRATEC determines the IBR using the build-up approach, which involves calculating the total of the following components:

(a) A term-specific risk-free base rate based on government bond yields (mostly based on an established currency with a reliable foundation of data)
(b) Premiums / discounts for currency risks compared with the currency of the base rate, for example to account for inflation data, should the currency diverge from that of the base rate
(c) Premiums for country risks, should the country diverge from that of the base rate
(d) Premiums for the creditworthiness of the individual lessee (legal unit) based, for example, on rating or term-specific credit spreads
(e) Discounts to account for the leased item being provided as collateral
(f) Premiums / discounts to account for the specific features of the leased asset.

In determining the term-specific base rate, STRATEC ensured that reference was not simply made to the yields on government bonds without further reflection. Due to interest payments made during their term and the repayment of the nominal amount at the end of their term, the payment structures of such bonds differs from those of typical leases, which involve constant payments made in each year of their terms. In view of this, when deriving the IBR STRATEC made appropriate adjustments to determine discount rates adequate to the respective durations. In the course of the 2019 financial year, this approach was refined by applying term-specific yields for individual lease payments at uniform base rates for specific terms. However, significant discretionary scope still has to be exercised, particularly when assessing premiums and discounts for the degree of collateral and the specific features of the leased assets. Furthermore, insufficient reliable empirical data is available for these aspects, as no widely accepted approach has yet been established in practice.

7. Assessing whether the exercising or non-exercising of an extension or termination option for a lease is sufficiently certain

Numerous lease contracts, particularly for buildings, include extension and termination options. The extensions to terms resulting from the exercising or non-exercising of such options may only be accounted for when determining the lease contract term if they are sufficiently certain. In assessing whether the exercising or non-exercising of such options is sufficiently certain, STRATEC accounts for all significant facts and circumstances that would provide the company with an economic incentive to exercise or not exercise the respective option, as well as for decisions taken in the past.

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: € 40,674k; previous year: € 41,245k) 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, with the exception of the 'workflow software' cash generating unit, 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, 2019: € 56,418k; previous year: € 57,017k). 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 (previous year: no further 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 and determination of the resultant personnel expenses pursuant to IFRS 2 (Share-based Payment)

The stock appreciation rights (SARs) granted (carrying amount as of December: € 1,063k; previous year: € 944k) have been measured by an independent surveyor specializing in option valuations. 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

The defined benefit plans pursuant to IAS 19 (Employee Benefits) (carrying amount as of December 31: € 5,077k; previous year: € 3,811k) have been measured by an independent company specializing in employee benefits. These measurements are based on actuarial assumptions which, given the long-term nature of these plans, involve uncertainties. With regard to the significant assumptions used in this respect, 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: € 1,138k; previous year: € 965k), STRATEC 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, STRATEC 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 deferred tax assets recognized for tax loss carryovers (carrying amount as of December 31: € 5,046k; previous year: € 2,984k) against future profits, STRATEC relies on sources including 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 2019 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. With regard to potential implications arising due to the spread of coronavirus (SARS-CoV-2), reference is made to the comments provided in Section 'I. Other Disclosures – Events after the balance sheet date'.

Supplementary disclosures

In addition to the disclosures required by IFRS, for purposes of comparison STRATEC also reports its EBIT and EBITDA figures following adjustment for one-off items. Together with sales, these adjusted earnings figures represent the key figures referred to for internal management purposes. One-off items are defined in this respect as significant income and expense items incurred outside the framework of customary business activities and/or of a non-recurring nature. Further details can be found in section 'B. Business report – Position' in the Group Management Report.

C. NOTES TO THE CONSOLIDATED BALANCE SHEET

(1) Goodwill and other intangible assets

Intangible assets developed as follows in the 2019 financial year:

	Goodwill € 000s	Acquired technologies € 000s	Internally generated intangible assets € 000s	Acquired patents € 000s	Acquired trademarks € 000s	Acquired customer bases € 000s	Other rights and values € 000s	Advance payments € 000s	Total € 000s
Acquisition and manufacturing costs Balance at 12.31.2018	**41,245**	**25,155**	**36,643**	**5,023**	**2,893**	**26,643**	**8,393**	**22**	**146,017**
Additions	0	0	10,542	0	0	0	116	0	10,658
Disposals	0	0	420	0	0	0	0	0	420
Reclassifications	0	0	0	0	0	0	91	0	91
Currency differences	-571	-150	217	0	-84	-363	9	-1	-942
Balance at 12.31.2019	**40,674**	**25,005**	**46,982**	**5,023**	**2,809**	**26,280**	**8,610**	**21**	**155,403**

	Goodwill € 000s	Acquired technologies € 000s	Internally generated intangible assets € 000s	Acquired patents € 000s	Acquired trademarks € 000s	Acquired customer bases € 000s	Other rights and values € 000s	Advance payments € 000s	Total € 000s
Accumulated amortization and impairments Balance at 12.31.2018	**0**	**11,666**	**17,417**	**833**	**796**	**12,317**	**4,726**	**0**	**47,755**
Additions to amortization	0	2,243	1,508	333	285	5,083	1,252	0	10,704
Impairments	0	0	0	0	0	0	0	0	0
Write-ups	0	0	0	0	0	0	0	0	0
Disposals	0	0	0	0	0	0	0	0	0
Reclassifications	0	0	0	0	0	0	0	0	0
Currency differences	0	70	36	0	-28	-243	15	0	-150
Balance at 12.31.2019	**0**	**13,979**	**18,962**	**1,166**	**1,054**	**17,156**	**5,995**	**0**	**58,311**
Carrying amounts at 12.31.2019	**40,674**	**11,026**	**28,020**	**3,857**	**1,756**	**9,123**	**2,615**	**21**	**97,092**

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

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 nanostructuring, 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 (€ 25,306k; previous year: € 17,290k) and development expenses capitalized for development cooperations within the OEM partnering business model (€ 2,714k; previous year: € 1,936k). Of the intangible assets recognized for proprietary development projects € 2,280k (previous year: € 3,142k) were completed as of the balance sheet date. The equivalent figure for intangible assets recognized for development cooperations is € 1,089k (previous year: € 1,515k). 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.

Borrowing costs of € 89k were recognized as a component of costs in accordance with IAS 23 (Borrowing Costs) in the 2019 financial year (previous year: € 0k).

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

Individual intangible assets with carrying amounts of more than € 2.0 million at the balance sheet date on December 31, 2019 and thus, alongside goodwill and the intangible assets acquired upon the acquisition of the Diatron Group and STRATEC Consumables GmbH, of material significance for the consolidated financial statements of STRATEC comprise the following items: Proprietary development project with a carrying amount of € 7,667k – still in the development phase; proprietary development project with a carrying amount of € 3,948k – still in the development phase; proprietary development project with a carrying amount of € 2,017k – still in the development phase.

Intangible assets developed as follows in the 2018 financial year:

	Goodwill € 000s	Acquired techno-logies € 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	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 01.01.2018	**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 techno-logies € 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	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

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.

(2) Right-of-use assets

Right-of-use assets are structured as follows:

		Other equipment, plant and office equipment		
	Land and buildings € 000s	Vehicles € 000s	Office equipment € 000s	Total € 000s
Cost of acquisition Balance at 12.31.2019	**9,793**	**558**	**121**	**10,472**
of which additions due to first-time application of IFRS 16	7,816	361	121	8,299
of which additions in 2019	1,975	195	0	2,170
of which currency differences	2	2	0	4
Depreciation Balance at 12.31.2019	**1,681**	**184**	**23**	**1,889**
of which additions in 2019	1,684	184	23	1,892
of which currency differences	-3	1	0	-2
Carrying amount at 12.31.2019	**8,112**	**373**	**97**	**8,583**

For information about the corresponding lease liabilities, please see Section 'C. Notes to the consolidated balance sheet (12) Non-current and current financial liabilities'.

(3) Property, plant and equipment

Property, plant and equipment developed as follows in the 2019 financial year:

	Land 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 12.31.2018	**22,824**	**11,475**	**28,132**	**7,679**	**70,110**
Adjustments	-82	-571	653	0	0
Additions	147	499	2,941	12,556	16,143
Disposals	1,190	294	543	2,065	4,092
Reclassifications	8,128	585	681	-9,486	-92
Currency differences	295	-21	76	0	349
Balance at 12.31.2019	**30,122**	**11,673**	**31,940**	**8,684**	**82,420**

	Land 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 12.31.2018	**5,663**	**7,518**	**17,419**	**0**	**30,600**
Adjustments	-82	-927	1,009	0	0
Additions	848	2,150	3,103	0	6,101
Disposals	1,088	285	423	0	1,796
Reclassifications	0	0	0	0	0
Currency differences	74	-27	129	0	176
Balance at 12.31.2019	**5,415**	**8,429**	**21,237**	**0**	**35,082**
Carrying amounts at 12.31.2019	**24,707**	**3,244**	**10,703**	**8,684**	**47,338**

The reclassifications reported for land and buildings mainly result from completion of the first construction phase for the building extensions at the Birkenfeld location.

Borrowing costs of € 9k were capitalized as a component of cost in accordance with IAS 23 (Borrowing Costs) in the 2019 financial year (previous year: € 0k).

The adjustments are mainly due to the reorganization resulting from further standardization of the ERP system in the 2019 financial year.

As in the previous year, it was not necessary to recognize any impairment losses in the 2019 financial year.

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

	Land 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 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**

(4) Inventories

Raw materials and supplies

Raw materials and supplies amounted to € 26,909k as of December 31, 2019 (previous year: € 23,729k). In the 2019 financial year, income of € 163k and expenses of € 268k were recognized through profit or loss under cost of sales for write-downs of raw materials and supplies. The resultant earnings items were attributable to diminished usability risks. In the 2018 financial year, following netting with consumption volumes, particularly for scrapping, income of € 182k resulting from to changes in write-downs of raw materials and supplies was recognized through profit or loss under cost of sales.

Unfinished products and contract fulfilment costs

These items are structured as follows:

	12.31.2019 € 000s	12.31.2018 € 000s
Unfinished products	10,053	5,486
Contract fulfilment costs	9,220	16,460
Total	**19,273**	**21,946**

Income of € 19k and expenses of € 1,174k resulting from changes in write-downs of unfinished products were recognized through profit or loss under cost of sales in the 2019 financial year. In the 2018 financial year, following netting with consumption volumes, income of € 185k resulting from to changes in write-downs of unfinished products was recognized through profit or loss under cost of sales.

Information about the accounting treatment of contract fulfilment costs in connection with development cooperations can be found 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:

	12.31.2019 € 000s	12.31.2018 € 000s
Finished products	9,325	11,726
Merchandise	0	794
Prepayments made	471	335
Total	**9,796**	**12,855**

Income of € 21k and expenses of € 53k resulting from changes in write-downs of finished products were recognized through profit or loss under cost of sales in the 2019 financial year. In the 2018 financial year, following netting with consumption volumes, expenses of € 8k resulting from to changes in write-downs of finished products were recognized through profit or loss under cost of sales.

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. One exception relates to contract fulfilment costs of € 1,176k, whose realization is only expected after more than twelve months.

(5) Contract assets

The contract assets of € 20,396k (previous year: € 9,689k) 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 € 10,707k in contract assets in the 2019 financial year was chiefly due to the recognition of sales for one development project in the Instrumentation segment in which the development work was performed over a period of time pursuant to IFRS 15.35 (c), as well as to the recognition of sales for one development project in the Instrumentation segment in which the development work was realized at a point in time pursuant to IFRS 15.38 and for which serial production has now begun.

(6) Trade receivables

Of trade receivables (€ 34,121k; previous year: € 34,763k), an amount of € 34,121k (previous year: (€ 34,763k) is due for payment within one year. Customer credit balances have been recognized under financial liabilities.

Trade receivables include receivables of € 13k due from associates (previous year: € 13k).

The receivables are structured as follows:

Company providing service	Company receiving service	12.31.2019 € 000s	12.31.2018 € 000s
STRATEC SE	STRATEC Biomedical (Taicang) Co. Ltd.	13	13
Total		**13**	**13**

The allowances schedule for trade receivables and contract assets developed as follows:

	2019 € 000s	2018 € 000s
Accumulated allowances at 01.01.	1,352	1,232
IFRS 9 adjustments	0	120
Expenses in period under report	543	289
Reversal	0	-141
Utilized	-212	-130
IFRS 5 reclassifications	0	-2
Currency differences	-21	-16
Accumulated allowances at 12.31.	**1,662**	**1,352**

Of the accumulated allowances recognized as of 12.31., € 162k relate to contract assets (previous year: € 0k).

As in the previous year, no expenses were recognized through profit or loss in the 2019 financial year for the complete write-down of trade receivables. Also as in the previous year, no write-backs were required.

All income and expenses resulting from changes in allowances and the derecognition of trade receivables were, as in the previous year, recognized under sales-related expenses.

The time band structure of trade receivables and of the allowance recognized for 'expected credit losses' is presented in the following table:

€ 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
12.31.2019	**35,608**	**26,579**	**6,890**	**374**	**1,765**
Expected credit loss		**130**	**187**	**66**	**1,117**
12.31.2018	**36,115**	**28,559**	**6,195**	**103**	**1,258**
Expected credit loss		**120**	**76**	**47**	**1,109**

At STRATEC, 'expected credit losses' have been calculated using a sophisticated process that accounts in particular for different country-specific circumstances, e.g. in terms of overdue items. Furthermore, due account was taken of the fact that STRATEC SE in particular concluded trade credit insurance to minimize default risk and that this (only) covers part of the default risk at subsidiaries. The (expected) premium for the trade credit insurance was referred to as the basis for calculating (expected) credit losses. On the one hand, this premium covers overdue items in both 'shorter' and 'longer' time bands. On the other hand, for uninsured receivables the expected credit losses increase with the number of days overdue. Any average percentage rate disclosed as of the balance sheet date and based on days overdue would provide a chance view and would not be especially meaningful. STRATEC has therefore waived disclosure of this figure.

(7) Financial assets

Financial assets are structured as follows:

	12.31.2019 € 000s	12.31.2018 € 000s
Investments in associates	160	158
Investments in listed companies	907	696
Receivables due from associates	0	9
Other	699	415
Total	**1,766**	**1,278**

Investments in associates and other financial assets of € 287k have been recognized under non-current financial assets (previous year: € 301k).

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:

	12.31.2019 € 000s	12.31.2018 € 000s
Carrying amount at 01.01.	158	158
Currency differences	2	0
Total	**160**	**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:

	12.31.2019 € 000s	12.31.2018 € 000s
Shares in Quanterix Corporation, US	0	0
Other shares	907	696
Total	**907**	**696**

As in the previous year, no shares in listed companies were acquired in the 2019 financial year.

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'.

Of the other shares held in listed companies, shares were sold at a disposal price of € 28k in the 2019 financial year. The loss of € 1k resulting from the sale was recognized through profit or loss under 'Other financial income/expenses' in the consolidated statement of comprehensive income.

The net income of € 240k (previous year: expenses of € 280k) resulting from the measurement of investments in listed companies as of the balance sheet date have been recognized through profit or loss under 'Other financial income/expenses' in the consolidated statement of comprehensive income.

Receivables from associates

Receivables from associates are structured as follows:

Company providing service	Company receiving service	12.31.2019 € 000s	12.31.2018 € 000s
STRATEC Biomedical UK, Ltd.	Sanguin International Inc.	0	9
Total		**0**	**9**

Other

The 'Other' line item mainly includes amounts charged on and claims of € 271k for rental deposits (previous year: € 258), creditors with debit balances of € 184k (previous year: € 31k), receivables of € 89k due from employees (previous year: € 29k), and loans of € 32k (previous year: € 37k).

(8) Other receivables and assets

Other receivables and assets are structured as follows:

	12.31.2019 € 000s	12.31.2018 € 000s
Contract fulfilment costs	0	1,109
Deferred expenses	1,705	1,706
Sales tax	4,277	3,997
Other	142	44
Total	**6,124**	**6,856**

The contract fulfilment costs of € 1,109k reported as of December 31, 2018 were recognized under non-current other receivables and assets. Since the 2019 financial year, the non-current share of contract fulfilment costs has been recognized in a separate line item within inventories.

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

(9) Shareholders' equity

The individual components of shareholders' equity, their development in 2018 and 2019, and dividends paid have been presented in the consolidated statement of changes in equity.

Share capital

The share capital of STRATEC SE amounted to € 12,030k at the balance sheet date (previous year: € 11,969k). The share capital is divided into 12,030,295 ordinary shares (previous year: 11,969,245 ordinary shares). The shares have been paid up in full and are registered shares.

The increase in share capital by € 61k (previous year: € 48k) was due to the issue of 61,050 shares (previous year: 48,300 shares) for subscription from conditional capitals in the context of stock option programs. The resultant capital increase of € 61k (previous year: € 48k) was not yet entered in the Commercial Register as of the balance sheet date. The corresponding entry was made on January 23, 2020 (previous year: 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, 2019.

Conditional capitals

§ 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 € 1,000.00 as of December 31, 2019.

§ 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 € 111,700.00 as of December 31, 2019.

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, 2019.

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, 2019.

Total conditional capital therefore amounted to € 1,722,700.00 as of December 31, 2019 (previous year: € 1,783,750.00).

Stock option programs

The company had three stock option programs (equity-settled share-based payment) as of December 31, 2019 (previous year: three 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:	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**
Option rights granted (number of shares)	47,350	47,850	31,550	24,050	19,850	56,100	92,600
Weighted exercise price (in €)	59.76	60.05	51.73	48.52	47.85	33.04	29.75
Expected share price volatility in %	35.78 to 36.20	33.72 to 35.83	29.70 to 34.18	34.88 to 42.29	31.93 to 39.77	26.40 to 34.67	34.20 to 39.43
Expected dividend yield in %	1.11 to 1.54	1.09 to 1.45	1.69	1.23	1.50	1.50	1.50
Risk free interest rate in %	-0.70 to -0.07	0.08 to 0.34	0.22 to 0.37	-0.02 to 0.19	0.12 to 0.79	0.72 to 1.56	1.20 to 1.76
Assumed turnover of subscription beneficiaries in %	0.5 to 5.0	0.5 to 5.0	5.0	5.0	5.0	5.0	5.0
Fair value of option rights at grant date (in € 000s)	731	787	151	123	101	202	307

The weighted average share price has been accounted for at € 59.32 in the fair value calculation of the option rights granted in the 2019 financial year (previous year: € 60.50).

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 2018 to 2019 financial years:

Stock option rights	Board of Management No. of options	 Weighted exercise price in €	Employees No. of options	 Weighted exercise price in €	Total No. of options	 Weighted exercise price in €
Outstanding on 12.31.2018	**85,000**	**33.21**	**129,100**	**50.53**	**214,100**	**43.65**
of which exercisable	75,000	30.11	19,100	32.54	94,100	30.60
Granted	10,000	57.82	37,350	60.28	47,350	59.76
Exercised	35,000	28.09	26,050	39.47	61,050	32.95
Lapsed	0	n/a	0	n/a	0	n/a
Forfeited	0	n/a	0	n/a	0	n/a
Outstanding on 12.31.2019	**60,000**	**40.30**	**140,400**	**55.17**	**200,400**	**50.72**
of which exercisable	40,000	31.87	10,600	41.07	50,600	33.80

Stock option rights	Board of Management No. of options	 Weighted exercise price in €	Employees No. of options	 Weighted exercise price in €	Total No. of options	 Weighted exercise price in €
Outstanding on 12.31.2017	**100,000**	**30.49**	**115,550**	**43.70**	**215,550**	**37.57**
of which exercisable	60,000	29.56	27,100	31.57	87,100	30.19
Granted	10,000	56.50	37,850	60.99	47,850	60.05
Exercised[1]	25,000	31.63	23,300	33.77	48,300	32.66
Lapsed	0	n/a	0	n/a	0	n/a
Forfeited	0	n/a	1,000	n/a	1,000	n/a
Outstanding on 12.31.2018	**85,000**	**33.21**	**129,100**	**50.53**	**214,100**	**43.65**
of which exercisable	75,000	30.11	19,100	32.54	94,100	30.60

[1] Of the stock options exercised by employees, 2,500 stock options exercised at an average exercise price of € 31.71 per share relate to stock options granted to a member of the Board of Management prior to his appointment to such.

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 € 388k in the 2019 financial year (previous year: € 173k). 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 50,600 stock option rights exercisable as of December 31, 2019 (previous year: 94,100) entitle their bearers to acquire a total of up to 50,600 shares (previous year: 94,100) at a total exercise price of € 1,710k (previous year: € 2,879k).

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 € 64.97 (previous year: € 61.74).

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:

2019

Range in €	Number of stock options	Weighted exercise price in €	Weighted remaining contractual term in months
25.01 – 30.00	1,500	28.09	7.1
30.01 – 35.00	41,500	31.91	14.9
35.01 – 40.00	2,800	39.98	21.3
40.01 – 45.00	11,000	43.06	39.5
45.01 – 50.00	22,300	48.11	46.1
50.01 – 55.00	18,350	52.62	48.7
55.01 – 60.00	71,300	56.81	72.1
60.01 – 65.00	8,500	60.64	70.7
65.01 – 70.00	15,650	68.52	78.7
70.01 – 75.00	7,500	71.40	62.3
Total	**200,400**	**50.72**	**52.4**

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**

Employee participation program

Due to the performance conditions not being met, no stocks were issued in the 2019 financial year in connection with employee participation program for the 2019 financial year. There was no employee participation program in the 2018 financial year.

Capital reserve

The capital reserve of € 26,457k (previous year: € 24,119k) 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, transfers from other equity, 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:

	12.31.2019 € 000s	**12.31.2018** T€ 000s
Free revenue reserves	19,392	19,392
Accumulated net income	101,586	96,955
Total	**120,978**	**116,347**

Accumulated net income developed as follows in the year under report:

	€ 000s
Accumulated net income at 12.31.2018	96,955
IFRS 16 adjustments	0
Accumulated net income at 01.01.2019	**96,955**
Consolidated net income in 2019	14,440
Distribution (dividend for 2018)	-9,811
Accumulated net income at 12.31.2019	**101,586**

Other equity

The other equity of € -369k (previous year: € -142k) 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 € 1,487k reported as of the balance sheet date (previous year: € 747k) 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 currency reserve reported separately in the 2018 financial year, an amount of € -827k was attributable to the operation held for sale (STRATEC Molecular GmbH). Upon the deconsolidation of STRATEC Molecular GmbH as of March 31, 2019, this amount was recognized through profit or loss under earnings from discontinued operations.

The amounts recognized in other comprehensive income (OCI) within equity are structured as follows:

	Balance at 01.01.2019 € 000s	OCI € 000s	Balance at 12.31.2019 € 000s
Pensions	-1,136	-1,189	-2,325
Deferred taxes	249	220	469
Currency reserve	863	743	1,606
Deferred taxes	-118	-1	-119
Total	**-142**	**-227**	**-369**

	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).

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 2019. 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 2019 financial year, a dividend of € 0.82 (previous year: € 0.80) was paid per share with dividend entitlement for the 2018 financial year, corresponding to a total distribution of € 9,811k (previous year: € 9,533k).

With the approval of the Supervisory Board, the Board of Management proposes that, of the net income of € 67,944k calculated for STRATEC SE in line with the German Commercial Code, an amount of € 10,101,252.00, equivalent to € 0.84 per share with dividend entitlement, should be distributed, and that the remaining amount of € 57,843k 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, 2019, the Board of Management and Supervisory Board did not allocate any amount from the net income for 2019 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. The related expenses totaled € 4,839k in the 2019 financial year (previous year: € 4,543k). This total includes employer contributions of € 2,432k to the German state pension system (previous year: € 2,228k).

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 in Germany. The pension plans in Switzerland are executed in accordance with legal requirements on the basis of an external pension fund. In connection with defined benefit plans, STRATEC is exposed not only to general actuarial risks, such as interest rate risk, pension and income growth risks, and risks resulting from rising life expectancy, but also to capital market risks resulting from the investment of plan assets.

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 actuarial procedure known as the projected unit credit method. In this, 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 12.31.2019	Austria 12.31.2019	Switzerland 12.31.2019
Discount factor	1.04 %	0.90 %	0.30 %
Future income increases	0.00 %	2.50 %	1.80 %
Future pension increases	0.00 % – 1.00 %	0.00 %	0.00 %
Personnel turnover rate	0.50 % – 1.50 %	0.00 %	*
Average duration	***	13.9 Jahre	**

	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	**

* 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 21.8 years at STRATEC Biomedical Switzerland AG (previous year: 20.3 years) and to 22.4 years at STRATEC Services AG (previous year: 20.5 years).

*** The average duration for pension commitments with insurance-based execution channels amounts to 23.3 years (previous year: 23.2 years) while that for direct pension commitments amounts to 12.8 years (previous year: 13.7 years).

As in the previous year, the main life expectancy assumptions for Germany have been taken from the biometric '2018 G Guidelines' published by Prof. Dr. Klaus Heubeck. For Austria, also as in the previous year, these assumptions have been based on the 'AVÖ 2018-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:

	2019 € 000s	2018 € 000s
Present value of defined benefit obligations (DBO) as of 01.01.	**8,116**	**6,315**
Addition due to reassessment of utilization	0	1,260
Transfers due to change of employer	509	-108
Current service cost	670	383
Retrospective service cost	-50	0
Compounding of pension obligations	116	68
Payments made	-153	0
Employee contributions to pension plan	253	198
Remeasurement of pension obligations Actuarial gains (-) / losses (+) due to changes in		
• financial assumptions	1,262	-185
• demographic assumptions	162	-21
• experience adjustments	-110	35
Currency differences	233	171
Present value of defined benefit obligations (DBO) as of 12.31.	**11,008**	**8,116**

	2019 € 000s	2018 € 000s
Fair value of plan assets as of 01.01.	**4,305**	**2,913**
Addition due to reassessment of utilization	0	1,039
Transfers due to change of employer	509	-108
Employer contributions to plan assets	538	246
Employee contributions to plan assets	253	198
Interest income on plan assets	60	24
Remeasurement of plan assets • Income (previous year: expenses) for plan assets (excluding interest income)	126	-118
Currency differences	140	111
Fair value of plan assets as of 12.31.	**5,931**	**4,305**

To calculate the financing status and the net obligation, the present value of the externally financed obligations is compared with the fair value of the plan assets.

	12.31.2019 € 000s	12.31.2018 € 000s
Pension plans in Germany		
• Present value of pension obligations	2,225	1,597
• Fair value of plan assets	1,783	1,244
Financing status = net obligation	**442**	**353**
Pension plans in Austria		
• Present value of pension obligations	1,707	1,845
• Fair value of plan assets	0	0
Financing status = net obligation	**1,707**	**1,845**
Pension plans in Switzerland		
• Present value of pension obligations	7,076	4,674
• Fair value of plan assets	4,148	3,061
Financing status = net obligation	**2,928**	**1,613**
Total		
• Present value of pension obligations	11,008	8,116
• Fair value of plan assets	5,931	4,305
Financing status = net obligation	**5,077**	**3,811**

The net obligation developed as follows:

	2019 € 000s	2018 € 000s
Net obligation at 01.01.	**3,811**	**3,402**
Share of pension expenses recognized in income statement	676	429
Amounts recognized in OCI	1,189	166
Payments made	-153	0
Employer contributions to plan assets	-538	-246
Currency differences	92	60
Net obligation at 12.31.	**5,077**	**3,811**

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:

	2019 € 000s	2018 € 000s
Current service cost	670	385
Retrospective service cost	-50	0
Compounding of pension obligations	116	68
Interest income on plan assets	-60	-24
Share of pension expenses recognized in income statement	**676**	**429**

Service cost is included in personnel expenses, while other components of the share of pension expenses recognized in the income statement are included in the financial income or financial expense line items within net financial expenses.

The following amounts have been recognized in equity under 'Other comprehensive income' in the consolidated statement of comprehensive income:

	2019 € 000s	2018 € 000s
Remeasurement of net obligation:		
Reassessment of utilization	0	221
Expenses for plan assets (excluding interest income)	-126	118
Actuarial gains (-) / losses (+) due to changes in		
• financial assumptions	1,262	-185
• demographic assumptions	162	-21
• experience adjustments	-110	35
Amounts recognized in OCI	**1,189**	**166**

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 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 interest rate on retirement assets. The sensitivity analyses show how the defined benefit obligation would have been influenced by potential changes in the corresponding assumptions if all other assumptions had remained unchanged.

In Germany, any variation in the respective parameters by 50 basis points would result in the following sensitivities in the present value of the defined benefit obligation:

Germany	**2019** € 000s	**2018** € 000s
Discount factor +0.50 %	-221	-156
Discount factor -0.50 %	253	178

In Austria, any variation in the respective parameters by 50 basis points would result in the following sensitivities in the present value of the defined benefit obligation:

Austria	**2019** € 000s	**2018** € 000s
Discount factor +0.50 %	-113	-115
Discount factor -0.50 %	124	126
Future income increases +0.50 %	120	121
Future income increases -0.50 %	-111	-113

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	**2019** € 000s	**2018** € 000s
Discount factor +0.25 %	-371	-225
Discount factor -0.25 %	407	247
Future income increases +0.25 %	88	53
Future income increases -0.25 %	-88	-53
Interest rate on retirement assets +0.25 %	147	95
Interest rate on retirement assets -0.25 %	-143	-92

Plan asset endowments by STRATEC of € 854k (previous year: € 703k) are expected for the following 2020 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. In view of the ongoing climate of low interest rates, the imposition of such claims on STRATEC in connection with the statutory subsidiary liability obligation applicable in Germany could no longer be assessed as being highly unlikely as of December 31, 2018. STRATEC therefore performed the remeasurement described in Section. 'B. Accounting policies applied – Discretionary decisions'. As a result of this, in its consolidated financial statements as of December 31, 2018 STRATEC 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 and recognized these as personnel expenses.

(11) Taxes on income

Taxes on income comprise the income taxes paid or owed and deferred taxes in the individual countries. Interest on tax-related back payments and reimbursements are recognized under net financial expenses.

Income tax expenses can be broken down in terms of their origin as follows:

	2019 € 000s	**2018** € 000s
Current tax expenses	3,674	4,217
Deferred tax income	-1,442	-1,237
Total	2,232	2,980

Of the deferred tax income of € 1,442k recognized in the consolidated statement of comprehensive income (previous year: € 1,237k), € 617k results from expenses due to temporary valuation differences (previous year: income of € 1,514k), € 0k (previous year: € 1k) from the costs of capital increases, and € 2,059k from income (previous year: € 277k from expenses) due to the recognition through profit or loss of changes in deferred tax assets on tax loss carryovers.

The changes in the deferred tax assets on tax loss carryovers are structured as follows:

	2019 € 000s	2018 € 000s
Income from recognition	-2,232	-173
Expenses due to utilization	12	50
Expenses due to write-downs	161	399
Expenses due to changes in tax rates	0	1
Income (previous year: expenses) due to changes	-2,059	277
Currency translation	-3	-86
Total	-2,062	191

In the 2019 financial year, deferred tax assets of € 5,046k (previous year: € 2,984k) were recognized on tax loss carryovers at STRATEC SE and at four subsidiaries (previous year: five). In the 2019 financial year, deferred tax assets of € 161k on loss carryovers were written down (previous year: € 399k), of which € 161k related to STRATEC Consumables GmbH (previous year: € 322k at STRATEC Biomedical USA, Inc.). Given the existence of deferred tax liabilities, the deferred tax assets still recognized at STRATEC Consumables GmbH are deemed to have retained their value. The nominal amount of loss carryovers for which no deferred tax assets were recognized amounts to € 6,206k (previous year: € 5,713k). 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	0	5,563	643	6,206
(previous year)	(283)	(5,430)	(0)	(5,713)

The tax expenses of € 2,232k reported for the 2019 financial year (previous year: € 2,980k) deviate by € 2,784k (previous year: € 892k) from the tax expenses of € 5,016k (previous year: € 3,872k) expected to result from application of the overall tax rate for STRATEC SE (27.38%; previous year: 27.48%) 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 11.55% (previous year: 11.66%).

The difference between the tax expenses expected and those reported is attributable to the following items:

	2019 € 000s	2018 € 000s
Earnings before taxes on income	18,320	14,090
Overall tax rate	27.38%	27.48%
Expected tax expenses (-)/income (+)	**-5,016**	**-3,872**
Deviations in German and foreign tax rates	3,071	1,850
Impact of increase (-)/decrease (+) in effective tax rates	130	14
Tax-exempt income (+)/expenses (-) from investments, securities price gains/losses, and dividends	-49	-227
Expenses not deductible for tax purposes less tax settlements	-345	-332
IFRS personnel expenses (stock options)	-106	-48
Tax back payments/refunds for previous years and non-period tax expenses/income	24	-91
Write-down of deferred tax assets	-260	-398
Sundry	271	-42
IFRS 5 implications	48	166
Reported tax expenses (-)/income (+)	**-2,232**	**-2,980**

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 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.

The income tax receivables of € 4,101k (previous year: € 1,418k) are attributable to prepayments and refunds of taxes on income. The income tax liabilities (€ 2,260k; previous year: € 3,796k) relate to current income tax obligations.

Deferred taxes are recognized for the following balance sheet items and factors:

	12.31.2019		12.31.2018	
	Deferred tax assets € 000s	**Deferred tax liabilities € 000s**	**Deferred tax assets € 000s**	**Deferred tax liabilities € 000s**
Intangible assets	465	10,196	420	10,202
Right of use assets	0	1,405	0	0
Property, plant and equipment	87	321	62	538
Non-current financial assets	0	571	0	581
Non-current other receivables and assets	83	0	0	0
Non-current contract assets	103	1,713	0	847
Inventories	592	833	96	2,651
Trade receivables	1,619	148	1,814	188
Receivables from associates	1	795	31	789
Current financial assets	0	22	0	6
Other receivables and assets	34	0	35	0
Current contract assets	8	830	72	461
Non-current financial liabilities	1,163	0	103	0
Non-current other liabilities	51	0	0	0
Provisions for pensions	1,007	0	880	0
Non-current contract liabilities	260	0	565	0
Current financial liabilities	459	0	122	0
Liabilities from associates	118	0	88	6
Current other liabilities	115	3	126	31
Provisions	7	120	55	101
Current contract liabilities	131	0	1,726	0
Tax loss carryovers	5,046	0	2,984	0
Net investment in foreign operation	0	98	0	102
Currency translation	79	97	63	69
Subtotal	**11,428**	**17,152**	**9,243**	**16,572**
Netting	-10,221	-10,221	-9,042	-9,042
Amount recognized in consolidated balance sheet	**1,207**	**6,931**	**201**	**7,530**

(12) Non-current and current financial liabilities

Non-current financial liabilities are structured as follows:

	12.31.2019 € 000s	12.31.2018 € 000s
Liabilities to banks	82,893	68,526
Lease liabilities	6,914	0
Liabilities for personnel-related items	571	397
Accrued trade payables	0	5
Other	0	5
Total	**90,378**	**68,933**

Current financial liabilities are structured as follows:

	12.31.2019 € 000s	12.31.2018 € 000s
Liabilities to banks	1,633	1,008
Lease liabilities	1,821	0
Liabilities for personnel-related items	3,702	3,143
Accrued trade payables	2,353	3,640
Other	75	196
Total	**9,584**	**7,987**

Financial liabilities to banks

Liabilities to banks include liabilities of € 64 million (previous year: € 58 million) in connection with a master credit facility with a revolving credit line of up to € 70 million that was concluded with three banks and has a term through to June 30, 2022. The interest payable on the amount effectively drawn down from the master credit facility is based on customary market reference rates plus a margin. The margin is increased by a premium should the company not comply with key financials. A commitment fee is payable on amounts not drawn down from the master credit facility.

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 covenants have to be calculated at the end of each quarter, half-year, and full-year and were complied with in each case in the 2019 financial year. To account for the implications of IFRS 16 (Leases) and facilitate the taking up of an additional loan due to the construction activities at the Birkenfeld location, these financial covenants were amended by addendum dated December 18, 2019. 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.

Lease liabilities

Initial application of IFRS 16 (Leases) led to the recognition of lease liabilities for the first time. As of January 1, 2019, these were recognized at € 8,299k. In the 2019 financial year, lease liabilities of € 1,737k were repaid, while lease interest of € 320k was paid. Leases resulted in a total outflow of funds amounting to € 2,207k in the 2019 financial year. With regard to the interest expenses recognized for lease liabilities under net financial expenses in the 2019 financial year, reference is made to the information provided in Section 'C. Notes to the consolidated statement of comprehensive income (24) Net financial expenses'.

Expenses of € 397k for variable lease payments were not included in the measurement of lease liabilities in the 2019 financial year.

Financial liabilities for personnel-related items

Financial liabilities for personnel-related items chiefly comprise obligations of € 3,532k in connection with profit participation schemes (previous year: € 3,210k).

Obligations for profit participation schemes include obligations for short-term performance-related compensation for employees (€ 1,113k; previous year: € 1,025k), and obligations for short, medium, and long-term performance-related compensation for the Board of Management (€ 2,419k; previous year: € 2,185k). The obligations for long-term performance-related compensation for the Board of Management (€ 1,063k; previous year: € 944k) 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, 2019 has been determined on the basis of the following parameters:

Stock appreciation rights (SARs) model parameters	Tranche I 2019 financial year	Tranche I 2018 financial year
Issue date	01.15.2019	10.25.2018
Average share price on issue date	€ 57,82	€ 57.60
Term		
Overall term	60.0 months	60.0 months
Remaining term as of 12.31.	48.5 months	45.8 months
Minimum qualifying period		
Overall term	24.0 months	24.0 months
Remaining term as of 12.31.	12.5 months	9.8 months
Share price at measurement date	€ 61.00	€ 61.00
Expected volatility	37.71 %	38.76 %
Risk-free interest rate	-0.54 %	-0.55 %
Fair value on issue date	**€ 18.43**	**€ 16.18**
Fair value as of 12.31.	**€ 17.74**	**€ 17.71**

The development in the total number of stock appreciation rights (SARs) in the reporting period is presented below:

Absolute figures	Total at 01.01.2019	Granted	Exercised, lapsed, forfeited	Total at 12.31.2019	of which exercisable
Tranche I 2017	40,000	0	-40,000	0	0
Tranche I 2018	30,000	0	0	30,000	0
Tranche I 2019	0	30,000	0	30,000	0
Total	**70,000**	**30,000**	**-40,000**	**60,000**	**0**

The total expenses recognized in the 2019 financial year for equity-settled share-based payments amounted to € 388k (previous year: € 174k) – further information can be found in '(9) Shareholders' equity' in this section – while total expenses for cash-settled share-based payments amounted to € 966k (previous year: € 170k).

Maturities

Financial liabilities have the following maturities:

Maturity[1]	12.31.2019 € 000s
2020	9,583
2021	4,618
2022	68,044
2023	3,289
2024	2,761
2025 and later	11,667
Total	**99,962**

[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. With regard to the utilization of the revolving credit facilities, it has been assumed that the amounts drawn down as of the balance sheet date continue to apply through to the end of the credit agreement.

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
Gesamt	**76,920**

(13) Trade payables/ liabilities to associates

By analogy with the previous year, the trade payables of € 12,266k (previous year: € 6,457k) mostly involve goods and services provided in November and December 2019. Also as in the previous year, these items are due for payment within one year.

Trade payables include liabilities of € 58k to associates (previous year: € 0k). These liabilities are structured as follows:

Company providing service	Company receiving service	12.31.2019 € 000s	12.31.2018 € 000s
STRATEC Biomedical (Taicang) Co. Ltd.	STRATEC SE Mod-n-More Kft.	24 34	0 0
Total		**58**	**0**

(14) Non-current and current other liabilities

Other liabilities are structured as follows:

	12.31.2019 € 000s	12.31.2018 € 000s
Liabilities for personnel-related items	2,912	2,844
Other tax liabilities	1,166	1,357
Social security liabilities	1,067	1,009
Other	1,352	1,042
Total	**6,497**	**6,252**

Of the 'Other' amount, € 481k has been recognized under non-current other liabilities (previous year: € 417k).

Liabilities for personnel-related items consist of liabilities for outstanding vacation (€ 2,135k; previous year: € 2,132k) and employee working time credits (€ 777k; previous year: € 712k).

The tax liabilities relate to transaction taxes and employee payroll settlement. Social security liabilities chiefly relate to social security contributions still to be transferred.

In the 2019 financial year, STRATEC received government grants of € 1,262k (previous year: € 1,006k). These relate exclusively to grants for research purposes. Total accrued liabilities for government grants amount to € 934k (previous year: € 560k).

Other liabilities have the following maturities:

Maturity	12.31.2019 € 000s
2020	6,016
2021	238
2022	61
2023	61
2024	61
2025 and later	60
Total	**6,497**

Maturity	12.31.2018 € 000s
2019	5,835
2020	168
2021	135
2022	38
2023	38
2024 and later	38
Total	**6,252**

(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:

	12.31.2019 € 000s	12.31.2018 € 000s
Development and services	5,464	12,944
Other	812	3,120
Total	**6,276**	**16,064**

The reduction in contract liabilities for development and services by € 7,480k in the 2019 financial year was mainly due to the recognition of sales for development cooperations.

Contract liabilities have the following maturities:

Maturity	12.31.2019 € 000s
2020	4,407
2021	1,869
2022	0
2023	0
2024	0
2025 and later	0
Total	**6,276**

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

Current provisions mainly include provisions for guarantees and warrantees (€ 1,138k; previous year: € 965k) and in the previous year for legal disputes (€ 244k), and onerous contracts (€ 139k).

Provisions developed as follows:

	12.31.2019 € 000s	12.31.2018 € 000s
01.01.	1,348	1,031
Added	541	722
Reversed	-50	0
Utilized	-718	-405
IFRS 5 reclassifications	0	-25
Currency differences	17	25
12.31.	**1,138**	**1,348**

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.

(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 subsidiary STRATEC Molecular GmbH, Berlin, Germany.

This transaction met the criteria of IFRS 5 (Non-Current Assets Held for Sale and Discontinued Operations) for recognition as a discontinued operation.

The assets and liabilities attributable to the discontinued operation were therefore stated separately in the balance sheet. In conjunction with the disposal measures already initiated, the assets and liabilities were measured at fair value less costs to sell, as this was lower than the carrying amount prior to recognition of impairments. From the time at which they were classified as a discontinued operation as of September 30, 2018, the non-current assets thereby affected were no longer depreciated. Due to the closing of the transaction as of March 31, 2019, no amounts are included in the consolidated balance sheet as of December 31, 2019.

The assets relating to the discontinued operation as of December 31, 2018 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:

Sales from contracts with customers for the period from January 1, 2019 to December 31, 2019 are structured as follows:

Segment	Instrumentation € 000s	Diatron € 000s	Smart Consumables € 000s	Other € 000s	Total € 000s
Type of goods or services					
Analyzer systems	75,407	25,269	0	0	100,676
Service parts and consumables	44,554	16,277	5,905	0	66,737
Development and services	34,468	0	10,929	7,485	52,882
Other	12	1,334	0	0	1,346
Total	**154,441**	**42,880**	**16,835**	**7,485**	**221,641**
Geographical regions					
Germany	21,690	10,593	733	250	33,266
European Union	78,133	10,319	5,726	747	94,925
• of which UK	1,453	74	3,932	332	5,781
Other	54,619	21,969	10,376	6,487	93,451
• of which US	36,447	14,655	7,979	4,772	63,853
Total	**154,441**	**42,880**	**16,835**	**7,485**	**221,641**
Time at which sales are recognized					
Recognized at a point in time	147,402	42,880	16,064	6,445	212,793
Recognized over time	7,039	0	771	1,039	8,849
Total	**154,441**	**42,880**	**16,835**	**7,485**	**221,641**

Sales from contracts with customers for the period from January 1, 2018 to December 31, 2018 are structured as follows:

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	26,654	8,207	16	335	35,212
European Union	68,405	7,299	6,967	454	83,126
• of which UK	2,278	87	4,342	246	6,953
Other	36,262	19,835	9,782	3,602	69,481
• of which US	31,415	12,734	5,838	1,530	51,517
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**

For analyzer systems, service parts, and consumables, the allocation of sales to geographical regions 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 final operating locations of the analyzer systems, service parts, and consumables supplied by STRATEC.

List of major customers pursuant to IFRS 8.34: in the year under report, as in the previous year, two customers with sales of € 46.9 million and € 41.4 million (previous year: € 36.7 million and € 33.4 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 segment, and in the previous year also to the Diatron segment.

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 include the following amounts:

	2019 € 000s	2018 € 000s
Sales from amounts included in contract liabilities at the beginning of the financial year	10,490	1,761
Sales from performance obligations satisfied in previous financial years	0	0
Total	**10,490**	**1,761**

(19) Cost of sales

Cost of sales, amounting to € 169,537k (previous year: € 139,585k), include production-related manufacturing expenses incurred for the products, maintenance and spare parts sold, and for development and 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, research and development expenses, and sales-related expenses in the 2019 financial year. With regard to these items, reference is made to the information provided in Section 'A. General disclosures – Voluntary changes to accounting policies'. 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 € 5,106k (previous year: € 10,061k) and mainly involved cost of materials and personnel expenses.

With regard to the adjustments made to the comparative figures for the previous year, reference is made to the information provided in '(19) Cost of sales' in this section.

Gross development expenses were structured as follows:

	2019 € 000s	2018 € 000s
Research and development expenses	38,210	38,699
of which development expenses recognized as revenues or capitalized	-33,104	-28,638
Total	**5,106**	**10,061**

In the financial year under report, an amount of € 901k from grants was recognized as a reduction to research and development expenses (previous year: € 1,093k).

With regard to the adjustments made to the comparative figures for the previous year, reference is made to the information provided in '(19) Cost of sales' in this section.

(21) Sales-related expenses

Sales-related expenses amounted to € 10,297k (previous year: € 8,381k) and included direct sales expenses and sales overheads. These basically include all expenses incurred for personnel, materials, and other expenses for sales (including prorated depreciation and amortization). These partly involve expenses arising in connection with product launches.

With regard to the adjustments made to the comparative figures for the previous year, reference is made to the information provided in '(19) Cost of sales' in this section.

(22) General administration expenses

At € 17,108k (previous year: € 15,469k), administration expenses include the personnel and material expenses incurred in central administration departments (including corporate management, controlling, finance and accounting, legal affairs, investor relations, and personnel) that are not directly attributable to production, sales, or R&D.

With regard to the adjustments made to the comparative figures for the previous year, reference is made to the information provided in '(19) Cost of sales' in this section.

(23) Other operating expenses and income

Other operating expenses are structured as follows:

	2019 € 000s	2018 € 000s
For exchange rate losses	4,176	3,265
For impairments	0	642
Other	15	211
Total	**4,191**	**4,118**

With regard to the impairments recognized 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'.

Other operating income is structured as follows:

	2019 € 000s	2018 € 000s
From exchange rate gains	3,000	3,535
From reversals of provisions and liabilities	50	843
Other	627	427
Total	**3,677**	**4,805**

Other than that, other operating income and other operating expenses also included numerous standalone items which, viewed individually, were only of subordinate significance.

(24) Net financial expenses

Financial income is structured as follows:

	2019 € 000s	2018 € 000s
Interest income on cash and cash equivalents	10	5
Other financial income	19	29
Total	**29**	**34**

Financial expenses are structured as follows:

	2019 € 000s	2018 € 000s
Interest expenses on loan liabilities to banks	602	586
Interest expenses for leases	320	0
Net interest from pension provision	56	68
Interest expenses for compounding of liabilities and provisions	8	7
Other interest expenses	42	1
Total	**1,028**	**662**

Other financial income/expenses include gains and losses for financial assets and financial liabilities measured at fair value and are structured as follows:

	2019 € 000s	2018 € 000s
Gains/losses on financial assets measured at fair value **through profit or loss**: • Gains/losses on retirement • Gains/losses on measurement at balance sheet date	 -1 240	 0 -293
Other financial income/expenses	**239**	**-293**

(25) Earnings from discontinued operations

Earnings in the discontinued operation (nucleic acid purification) are structured as follows:

	2019 € 000s	2018 € 000s
Sales	450	2,541
Current income and expenses	-452	-3,189
Current earnings from discontinued operation (before taxes on income)	**-2**	**-648**
Taxes on income	-21	46
Expenses from measurement at fair value less costs to sell[1]) and from disposal of operation	-1,625	-1,539
Earnings from discontinued operation (after taxes on income)	**-1,648**	**-2,141**

[1] of which impairments of non-current assets: € 46k (previous year: € 826k)
of which amount recognized as 'excess' in liabilities: € 0k (previous year: 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 AG 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 11,991,531 (previous year: 11,939,717).

Pursuant to IAS 33 (Earnings per Share), the consolidated net income of € 14,440k (previous year: € 8,969k) 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, 2019, both basic earnings per share (€ 1.20; previous year: € 0.75) and diluted earnings per share (€ 1.20; previous year: € 0.75) 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 12,061,926 (previous year: 12,033,844).

(27) Additional disclosures on the consolidated statement of comprehensive income

Cost of materials

The functional divisions include the following cost of materials:

	2019 € 000s	2018 € 000s
Costs of raw materials and supplies	92,591	87,617
Costs of purchased services	4,722	4,462
Total	**97,313**	**92,079**

Of the costs of raw materials and supplies, € 101k are attributable to the operation held for sale (STRATEC Molecular GmbH) (previous year € 579k), while no costs of purchased services are attributable to that operation (previous year: € 19k).

Personnel expenses

The functional divisions include the following personnel expenses:

	2019 € 000s	2018 € 000s
Wages and salaries	59,792	54,858
Social security contributions and pension and welfare expenses	10,950	9,952
Total	**70,742**	**64,810**

Furthermore, expenses of € 2,143k (previous year: € 1,982k) were incurred for wages and salaries for third-party employees (personnel leasing).

Of the personnel expenses for wages and salaries, an amount of € 293k (previous year: € 1,121k) is attributable to the operation held for sale (STRATEC Molecular GmbH), while an amount of € 52k (previous year: € 200k) of the social security contributions and pension and welfare expenses is attributable to this operation. Furthermore, none of the expenses incurred for wages and salaries for third-party employees was attributable to the operation held for sale (STRATEC Molecular GmbH) (previous year: € 45k).

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:

	2019 Number	2018 Number
Employees	1,125	1,050
Trainees	47	39
Employees in permanent employment	1,172	1,089
Temporary employees	76	72
Total	**1,248**	**1,161**

Of permanent employees, 460 (previous year: 448) were in Germany, and 665 (previous year: 602) abroad. Of temporary employees, 23 (previous year: 31) were in Germany, and 53 (previous year: 41) abroad.

Of permanent employees in Germany, 7 (previous year: 27) 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:

	2019 € 000s	2018 € 000s
Fee for		
a) Auditing	194	203
- of which for the previous year	-21	8
b) Other certification services	0	0
c) Tax advisory services	0	0
d) Other services	10	0
Total auditor's fee	**204**	**203**

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.

The outflows of funds for leases are divided, with the amount attributable to the capital repayments share of lease liabilities being allocated to the cash flow from financing activities and the interest portion being allocated to the cash flow from operating activities. Outflows of funds for low-value leases, short-term leases, and for variable lease payments not accounted for when measuring the lease liabilities are allocated to the cash flow from operating activities.

Inflow / outflow 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.

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.

Change in liabilities for financing activities

	Balance at 12.31.2018 € 000s	IFRS 16 adjustments € 000s	Balance at 01.01.2019 € 000s	Cash-effective changes € 000s	Non-cash-effective changes: Exchange rates € 000s	Non-cash-effective changes: New-leases € 000s	Non-cash-effective changes: Other[1] € 000s	Balance at 12.31.2019 € 000s
Non-current liabilities to banks	68,526	0	68,526	16,000	0	0	-1,633	82,893
Non-current lease liabilities	0	6,614	6,614	0	14	2,115	-1,829	6,914
Current liabilities to banks	1,008	0	1,008	-1,008	0	0	1,633	1,633
Current lease liabilities	0	1,685	1,685	-1,737	-11	55	1,829	1,821
Total	**69,534**	**8,299**	**77,833**	**13,255**	**3**	**2,170**	**0**	**93,261**

[1] The 'Other' column includes the effects of reclassifications from the non-current share of liabilities for financing activities arising due to the passage of time.

Presentation of implications of IFRS 5

As there are various options for meeting the requirements of IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations) and IAS 7 (Statement of Cash Flows) 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.

	2019 € 000s	2018 € 000s
Cash from operating activities	-54	-508
Cash flow from investing activities	-36	-55

As of December 31, 2018, the discontinued operation held cash and cash equivalents of € 279k; upon deconsolidated as of March 31, 2019, this figure amounted to € 871k.

No depreciation (previous year: € 297k) and impairments of non-current assets amounting to € 46k (previous year: € 826k) were attributable to the discontinued operation in the 2019 financial year.

The incoming payments from the sale of STRATEC Molecular GmbH, less the cash funds thereby ceded, have been presented as a separate line item within the cash flow from investing activities, while the income from deconsolidation has been included in other non-cash expenses within the cash flow from operating activities.

(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, 2019, cash and cash equivalents amounted to € 22,708k (previous year: € 23,816k).

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 segment ('**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 consistent 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).

Segment data by operating segment for 2019

	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**[2] € 000s	**Total** € 000s
Sales with external customers	154,442	42,880	16,835	7,485	221,641	0	221,641
Inter-segmental sales	2,577	2,894	611	1,129	7,211	-7,211	0
Depreciation and amortization	6,261	7,427	4,645	365	18,698	0	18,698
EBITDA	25,547	9,478	352	2,402	37,777	0	37,777
Adjusted EBITDA	28,267	9,478	706	2,402	40,853	0	40,853
EBIT	19,285	2,051	-4,292	2,037	19,079	0	19,079
Adjusted EBIT	22,005	8,353	-1,245	2,037	31,150	0	31,150
Interest income	2,472	0	0	0	2,472	-2,443	29
Interest expenses	703	2,209	493	66	3,471	-2,443	1,028
Assets	316,632	59,683	31,113	1,944	409,372	-109,958	299,414
Additions to non-current assets	21,206	1,575	1,944	2,075	26,800	46	26,846
Average number of employees	675	229	166	95	1,165	7	1,172

[1] Excluding segment data for the operation disposed of pursuant to IFRS 5.
[2] With regard to the reconciliation of the figures adjusted for one-off items with the Group figures, reference is made to the information provided in the Group Management Report in Section 'B. Business Report – Position'.

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
Adjusted EBITDA	28,252	5,237	2,323	378	36,190	0	36,190
EBIT	19,060	-1,676	-2,651	278	15,011	0	15,011
Adjusted EBIT	20,993	4,685	199	278	26,157	0	26,157
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 for the operation held pursuant to IFRS 5.

Of non-current assets at the reporting segments, excluding financial instruments and deferred taxes, € 54,025k are located in the country of origin of STRATEC SE (previous year: € 38,021k) and € 98,987k in other countries (previous year: € 99,750k). Further disclosures on company level have been presented in Section 'D. Notes to the consolidated statement of comprehensive income (18) Sales'.

Furthermore, in the 2018 financial year impairment losses of € 642k were recognized and were 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 individual class of financial instruments pursuant to IFRS 9 (Financial Instruments) and reconciles these with the corresponding balance sheet items.

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 measurement categories:

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

Figures in € 000s 12.31.2019 (12.31.2018)	IFRS 9 category	Carrying amount	Amortized cost	Fair value: of which Level 1	Fair value: of which Level 2	Fair value: of which Level 3	Fair value: Not in scope of IFRS 7	Fair value: Total	Fair value
Non-current assets									
Financial assets									
• Investments in associates	n/a	160 (158)					160 (158)	160 (158)	160 (158)
• Other financial assets	AC	287 (301)	287 (301)					287 (301)	287 (301)
Current assets									
Trade receivables	AC	34,121 (34,763)	34,121 (34,763)					34,121 (34,763)	34,121 (34,763)
Financial assets									
• Amortized cost	AC	411 (124)	411 (124)					411 (124)	411 (124)
• Fair value through profit or loss	FVTPL	907 (696)		907 (696)				907 (696)	907 (696)
• Fair value through OCI	FVTOCI	0 (0)		0 (0)				0 (0)	0 (0)
Cash and cash equivalents	AC	22,708 (23,816)	22,708 (23,816)					22,708 (23,816)	22,708 (23,816)
Total financial assets									
• Amortized cost	AC	57,527 (59,004)	57,527 (59,004)					57,527 (59,004)	
• Fair value through profit or loss	FVTPL	907 (696)		907 (696)				907 (696)	
• Fair value through OCI	FVTOCI	0 (0)		0 (0)				0 (0)	
• Not in scope of IFRS 7	n/a	160 (158)					160 (158)	160 (158)	
Non-current debt									
Financial liabilities									
• Amortized cost	AC	89,846 (68,572)	89,846 (68,572)					89,846 (68,572)	88,281 (67,719)
• Not in scope of IFRS 7	n/a	532 (361)					532 (361)	532 (361)	n/a (n/a)
Current debt									
Financial liabilities									
• Amortized cost	AC	9,053 (7,388)	9,053 (7,388)					9,053 (7,388)	9,847 (8,015)
• Fair value through profit or loss	FVTPL	0 (15)			0 (15)			0 (15)	0 (15)
• Not in scope of IFRS 7	n/a	531 (584)					531 (584)	531 (584)	531 (584)
Trade payables	AC	12,266 (6,457)	12,266 (6,457)					12,266 (6,457)	12,266 (6,457)
Total financial liabilities									
• Amortized cost	AC	111,165 (82,417)	111,165 (82,417)					111,165 (82,417)	
• Fair value through profit or loss	FVTPL	0 (15)			0 (15)			0 (15)	
• Fair value through OCI	FVTOCI	0 (0)						0 (0)	
• Not in scope of IFRS 7	n/a	1,063 (945)					1,063 (945)	945 (945)	

The fair value of those financial instruments that are not recognized at fair value is calculated as the present value of future inflows and outflows of cash. Discounting is based on a market interest rate with a congruent term and risk structure. Where a listed price on an active market is available, this has been taken as the fair value.

Given the predominantly short-term maturities of trade receivables, cash and cash equivalents, trade payables, and some of the other financial assets and liabilities, their carrying amounts approximate to their fair values.

The net results on financial instruments broken down into their respective measurement categories were as follows:

			From subsequent measurement						
Figures in € 000s 2019	**IFRS 9 category**	**From investments**	**From interest**	Fair value through profit or loss	Fair value through OCI	Currency translation	Impairment	**From disposals**	**Net results**
Financial assets measured at amortized cost	AC	0	10	0	0	-1,390	-385	0	**-1,765**
Financial assets measured at fair value (not designated)	FVTPL	19	0	240	0	0	0	-1	**258**
Financial liabilities measured at fair value (not designated)	FVTPL	0	0	0	0	0	0	16	**16**
Financial liabilities measured at amortized cost	AC	0	-930	0	0	218	0	0	**-712**
Total		19	-920	240	0	-1,172	-385	15	**-2,203**

			From subsequent measurement						
Figures in € 000s 2018	**IFRS 9 category**	**From investments**	**From interest**	Fair value through profit or loss	Fair value through OCI	Currency translation	Impairment	**From disposals**	**Net result**
Financial investments in equity instruments measured at fair value through OCI pursuant to IFRS 9.5.7.5	FVTOCI	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	-278	0	0	0	0	**-270**
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	-293	0	-140	144	-2,544	**-3,410**

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 € 240k has been recognized in other financial income/expenses (previous year: € -293k). Furthermore, in the 2018 financial year 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.

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 € 80k (previous year: € 12k) recognized through profit or loss under other operating income. Currency expenses of € 118k (previous year: € 200k) 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:

- The risk involved in a specific valuation method used to calculate fair value (such as a price model), and
- 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.

As in the previous year, no items were reclassified within the three input factor levels in the 2019 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. In the 2018 financial year, these mainly related to the shares held in a listed US company. The shares held 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 01.01.2018	**12,114**	**0**	**0**
Total gains or losses recognized through profit or loss			
• Other operating income	0	0	0
• Other operating expenses	0	0	0
• Other financial income/expenses	-278	-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	**696**	**-15**	**0**
Total gains or losses recognized through profit or loss			
• Other operating income	0	15	0
• Other operating expenses	0	0	0
• Other financial income/expenses	239	0	0
Total gains or losses recognized in OCI			
• Changes in value	0	0	0
• Reclassifications out of OCI into profit or loss (other operating income)	0	0	0
Additions	0	0	0
Retirements			
• Due to sale	-28	0	0
• Due to derecognition	0	0	0
Balance at 12.31.2019	**907**	**0**	**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 12.31.2019	Cash flows 2020		Cash flows 2021		Cash flows 2022 – 2023		Cash flows 2024 and later	
Figures in € 000s		**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**
Financial liabilities	99,962	1,142	9,583	1,054	4,618	737	71,333	776	14,428
• of which lease liabilities	8,735	319	1,821	252	1,789	289	3,198	110	1,927
• of which derivatives	0	0	0	0	0	0	0	0	0
Trade payables	12,266	0	12,266	0	0	0	0	0	0
Total	**112,228**	**1,142**	**21,849**	**1,054**	**4,618**	**737**	**71,333**	**776**	**14,428**

	Carrying amount 12.31.2018	Cash flows 2019		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
Total	**83,377**	**646**	**14,444**	**634**	**2,038**	**763**	**61,206**	**120**	**5,689**

Financing contracts with banks and remaining terms of up to five years charge interest at a weighted average of 0.92 % (previous year: 0.93 %), while financing contracts with remaining terms of more than five years charge interest at a weighted average of 1.13 % (previous year: 0.90 %). 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 Board of 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 and fixed-term credit lines are reserved via STRATEC SE on the basis of rolling liquidity planning which provides current information as to the expected development in liquidity on company and currency level.

STRATEC had cash and cash equivalents of € 22,708 at the balance sheet date (previous year: € 23,816k). Furthermore, as of December 31, 2018 the discontinued operation had further cash and cash equivalents of € 279k. As of December 31, 2019, unutilized committed credit lines totaling € 6 million were available to STRATEC (previous year: € 12 million).

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 by the Board of Management 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.

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.

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). 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 (€).

As in the previous year, to secure its foreign currency risks STRATEC deployed forward exchange transactions. With regard to the accounting treatment, reference is made to the information in Section 'B. Accounting policies applied – Financial Instruments.'

With regard its reporting on 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: Risk reporting in respect of use of financial instruments'.

Sensitivity to exchange rate movements (transaction risk):

STRATEC had the following transaction risk exposure as of the balance sheet date:

Material foreign currency item translated into € 000s	12.31.2019					12.31.2018				
	GBP	CHF	USD	HUF	RON	GBP	CHF	USD	HUF	RON
Cash and cash equivalents	189	3,721	2,024	2,795	512	17	6,362	3,612	1,251	1,132
Trade and other receivables	486	2,442	11,891	5,975	0	-279	3,105	11,432	4,687	73
Receivables from associates	2,475	19,986	1,837	3,730	393	279	59,776	3,190	1,147	0
Financial assets	0	1	5	190	0	125	1	0	0	0
Trade payables	42	841	445	2,959	0	50	106	673	2,215	3
Derivatives	0	0	0	0	0	0	0	22,551	0	0
Liabilities to associates	144	13,894	405	5,393	3,049	278	673	230	6,592	3,222
Financial liabilities	0	0	13	2,994	0	0	0	0	0	0
Net risk exposure	**2,964**	**11,415**	**14,894**	**1,344**	**-2,144**	**-186**	**68,465**	**-5,220**	**-1,722**	**-2,020**

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 by +10%/-10% would have impacted as follows on consolidated net income as of the balance sheet date:

Material foreign currency item translated into € 000s	12.31.2019					12.31.2018				
	GBP	CHF	USD	HUF	RON	GBP	CHF	USD	HUF	RON
Change in currency by +10% Change in consolidated net income (€ 000s)	-269	-1,038	-1,354	-122	195	28	-6,224	486	157	184
Change in currency by -10% Change in consolidated net income (€ 000s)	329	1,268	1,655	149	-238	-35	7,607	-594	-191	-224

In the 2019 financial year, income from currency translation totaling € 3,000k (previous year: € 3,535k) and expenses for currency translation totaling € 4,176k (previous year: € 3,265k) were recognized through profit or loss in 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 or in future cash flows 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.

STRATEC reported the following interest-bearing assets and interest-charging liabilities as of the balance sheet date:

	2019 € 000s	2018 € 000s
Interest-bearing medium and long-term financial assets	52	59
• of which with floating interest rates	0	0
• of which with fixed interest rates	52	59
Interest-charging financial liabilities	84,526	69,534
• of which with floating interest rates	64,000	58,000
• of which with fixed interest rates	20,526	11,534

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. STRATEC had financial liabilities with a nominal volume of € 64,000k with floating interest rates at the balance sheet date as of December 31, 2019 (previous year: € 58,000k).

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 12.31.2019	Cash flows 2020		Cash flows 2021		Cashflows 2022 and later	
		Interest	Principal	Interest	Principal	Interest	Principal
Financial liabilities with floating interest rates (1-month EURIBOR)							
Actual	64,000	594	0	593	0	94	64,000
+100 basis points	64,000	1,243	0	1,240	0	198	64,000
-100 basis points	64,000	412	0	411	0	65	64,000

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 been10% higher (lower) than their balance sheet date levels, then consolidated net income before taxes on income would have been € 91k (previous year: € 70k) higher (lower).

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, the company 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 dynamic gearing ratio (net financial liabilities as a proportion of EBITDA). The equity ratio amounted to 53.1% at December 31, 2019 (previous year: 55.3%). 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 persons and companies 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 particularly include unconsolidated subsidiaries, directors and officers at 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 2019 financial year, STRATEC SE did not generate any revenues from transactions with STRATEC Biomedical (Taicang) Co. Ltd. (previous year: € 1k) and purchased services of € 314k (previous year: € 247k) from this company.

In the 2019 financial year, Mod-n-More Kft. purchased services of € 141k from STRATEC Biomedical (Taicang) Co. Ltd. (previous year: € 0k).

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 in the previous year also as advisor to STRATEC Biomedical Switzerland AG, the Leistner family received compensation corresponding to € 10k via Hermann Leistner in the financial year under report (previous year: € 52k). 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 2019 financial year, STRATEC SE did not generate any revenues from transactions with DITABIS Digital Biomedical Imaging Systems AG (previous year: € 41k) and purchased services of € 383k from this company (previous year: € 145k). As of the balance sheet date, the company had receivables of € 113k (previous year: € 49k) due from DITABIS Digital Biomedical Imaging Systems AG. Services were performed on customary contractual conditions.

Directors and officers

The **Board of Management of STRATEC SE** comprised the following members in the year under report:

- **Marcus Wolfinger,** Remchingen, Germany
  (Chairman)
  Graduate in Business Administration

- **Dr. Robert Siegle**, Birkenfeld, Germany
  (Director of Finance and Human Resources)
  Attorney-at-law

- **Dr. Claus Vielsack**, Birkenfeld, Germany
  (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) 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. 6a) 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 € 2,847k for their activity on the Board of Management in the 2019 financial year (previous year: € 2,766k). As of December 31, 2019, the net balance of performance-related payments outstanding for members of the Board of Management amounted to € 2,419k (previous year: € 2,983k).

	2019 € 000s[1]	2018 € 000s[1]
Short-term benefits	1,482	1,450
Post-employment benefits[2]	258	268
Other long-term benefits[3]	388	405
Share-based compensation[4]	719	643
Total	**2,847**	**2,766**

[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 2019 financial year and, in the previous year, the insurance contributions made to the pension provision and direct insurance policies of members of the Board of Management. Due to the amended presentation of pension commitments with insurance-based execution channels as defined benefit obligations as of December 31, 2018, the insurance contributions paid in the 2019 financial year are included in service cost.
[3] The amount disclosed refers to the mid-term incentive agreement for 2017 (2016), which covers 2017, 2018, and 2019 (2016, 2017, and 2018) and is due for payment in 2020 (2019).
[4] The amount disclosed corresponds to the fair value upon issue of the stock appreciation rights (SARs) granted in 2019 (2018) and calculated in accordance with IFRS 2 (Share-based payment) as well as the fair value upon issue of the stock options granted in 2019 (2018), although these were in some cases not yet vested as of the balance sheet date.

The **Supervisory Board of STRATEC SE** comprised the following individuals in the year under report:

- **Dr.-Ing. Frank Hiller**, Feldafing, Germany
  (Chairman)
  CEO of Deutz AG, Cologne, Germany
  (Member of Supervisory Board since May 29, 2019)
- **Fred K. Brückner**, Marburg, Germany
  (Chairman)
  Chemical Engineer and Independent Management Consultant
  (Member of Supervisory Board until May 29, 2019)
- **Rainer Baule**, Überlingen, Germany
  (Deputy Chairman)
  Graduate in Industrial Engineering, Managing Director of Baule GmbH, Überlingen, Germany
- **Prof. Dr. Stefanie Remmele**, Landshut, Germany
  Professor of Medical Technology at the University of Applied Sciences in Landshut, Germany

The Supervisory Board members Dr.-Ing. Frank Hiller 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). Through to his retirement from the Supervisory Board, Fred K. Brückner did not hold positions on any other supervisory boards or supervisory bodies. Since June 14, 2019, Fred K. Brückner has been a member of the Administrative Board of STRATEC Biomedical Switzerland AG, for which role he received compensation equivalent to € 13k in the 2019 financial year. Rainer Baule is a member of the Supervisory Board of DITABIS Biomedical Imaging Systems AG, Pforzheim, Germany, the Advisory Board of Vorwerk & Co. KG, Wuppertal, Germany (until May 31, 2019), and the Foundation Board of Else Kröner-Fresenius-Stiftung, Bad Homburg v.d.H.

The Supervisory Board members received total compensation of € 128k in the 2019 financial year for their activities on the Supervisory Board (previous year: € 129k). The specific structure of overall compensation was as follows:

	2019 € 000s	2018 € 000s
Fixed compensation	117	113
Meeting allowance	11	11
Total	**128**	**124**

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.

Contractual obligations not recognized in the balance sheet

The unrecognized contractual obligations mainly involve master agreements with suppliers.

Due to the first-time application of IFRS 16 (Leases), which requires lessees to recognize all leases and associated contractual rights and obligations in the consolidated balance sheet, the disclosures previously made on unrecognized contractual obligations for operating leases are no longer required from the 2019 financial year. With regard to the reconciliation of the undiscounted future minimum lease and rental payments for operating leases, which amounted to € 10,273k as of December 31, 2018, with the figure stated for lease liabilities in the opening balance sheet as of January 1, 2019, reference is made to the information provided in Section 'A. General disclosures – IFRS 16 (Leases)'.

The unrecognized contractual obligations mature as follows:

	2019 € 000s	2018[1] € 000s
Due within one year	81,192	60,539
Due in between one and five years	20,523	15,383
Due in more than five years	0	0
Total	**101,715**	**75,922**

[1] In the interests of comparability, the comparative figures have been adjusted to exclude unrecognized contractual obligations for operating leases amounting to a total of € 10,273k.

As of the balance sheet date, unrecognized contractual obligations involving obligations for orders placed amounted to € 94,604k (previous year: € 61,380k).

Of unrecognized contractual obligations, € 6,579k relates to property, plant and equipment (previous year: € 14,984k) and none to intangible assets (previous year: € 652k).

Through to the end of the 2019 financial year, STRATEC SE let out sections of buildings that were reported under property, plant and equipment. Future receipts from non-terminable rental agreements are structured as follows:

	2019 € 000s	2018 € 000s
Due within one year	0	58
Due in between one and five years	0	9
Due in more than five years	0	0
Total	**0**	**67**

Disclosures for the 2018 financial year on unrecognized contractual obligations for operating leases:

The rental and lease contracts for buildings, vehicles, and office and other equipment have remaining terms of up to 10 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. 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
Minimum lease payments	1,628
Conditional lease payments	0
Less lease income from subletting arrangements	0
Total	**1,628**

Undiscounted future minimum lease and rental payments for operating leases amounted to € 10,273k as of the 2018 balance sheet date and mature as follows:

	2018 € 000s
Due within one year	2,342
Due in between one and five years	7,184
Due in more than five years	747
Total	**10,273**

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. 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
Future minimum lease payments	
Due within one year	2,016
Due in between one and five years	6,769
Due in more than five years	747
Total future minimum lease payments	9,532
Less lease income from subletting arrangements	0
Net minimum lease payments	**9,532**

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

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 in %	Share of voting rights absolute	Allocable voting right share of at least 3%
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
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	
Invesco Ltd., Hamilton, Bermuda	05.24.2019	6.29	753,387	AIM International Mutual Funds (Invesco International Mutual Funds)
AIM International Mutual Funds (Invesco International Mutual Funds), Wilmington, Delaware, US	05.24.2019	6.29	753,387	

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

As the coronavirus (SARS-CoV-2) spreads, STRATEC is currently observing slightly more volatile order behavior among some of its customers. Most recently, the company witnessed an upward trend in orders and order forecasts. Overall, however, the implications of the pandemic, including potential effects on the supply chain and any temporary interruptions in production arising as a result, cannot be fully predicted.

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, March 27, 2020

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, March 27, 2020

STRATEC SE
The Board of Management

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

INDEPENDENT AUDITORS' REPORT

TO STRATEC SE, BIRKENFELD

Report on the Audit of the Consolidated Financial Statements and the Group Management Report

Audit Opinions

We have audited the consolidated financial statements of **STRATEC SE, Birkenfeld**, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, 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 2019. 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 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, or the Consolidated Non-Financial Statement contained 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 2019, and of its financial performance for the financial year from 1 January to 31 December 2019, 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 does not extend to the components of the management report whose content we, as described above, have not audited.

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 the Audit Opinions

We conducted our audit of the consolidated financial statements and of the 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) point (f) of the EU Audit Regulation, we declare that we have not provided any non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the 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 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon, we do not provide a separate audit opinion on these matters.

We summarize what in our view are the key audit matters below:

1. Impairment testing of goodwill
2. Accounting treatment of development expenditure for development projects and development cooperations

Re 1 Impairment testing of goodwill

a) The risk for the financial reporting

Goodwill of EUR 40.7 million is carried in the consolidated financial statements of STRATEC SE, Birkenfeld, under the line item 'Goodwill'. This corresponds to 13.6% of the balance sheet total. Goodwill is subject to an impairment test as at 31 December of each respective financial year.

The valuation was performed using the discounted cash flow method. The findings of the impairment test are highly dependent on the estimates made by the executive directors of future cash flows, the operating margins and the discount rate applied and are therefore subject to substantial uncertainty. In light of this circumstance and the complexity of the valuation, this issue considered to be 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) Auditor's response 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 assessed using a retrospective comparison of the deviations between the budget figures underlying the valuation performed in the prior year and the actual figures posted in financial year 2019. Where any significant deviations were identified we discussed these with the executive directors in terms of their relevance for the financial statements of the reporting year.

Based on the knowledge that relatively small changes in the discount rate used can have a significant impact on the enterprise value determined in this way, we also placed a focus of our audit on the parameters used to determine the discount rate and 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 of the cash generating units with lower coverage (carrying amount compared to net present value) and found that the goodwill carried in the books is suitably covered by discounted future cash surpluses and has been suitably discounted. Overall, the valuation parameters and assumptions applied by the executive directors agree with our expectations.

Re 2 Accounting treatment of development expenditure for development projects and development cooperations

a) The risk for the financial reporting

Where the development project is one of the Company's own development projects, the development expenditure incurred in connection with the project is expensed in the period in which it is incurred. This excludes research and development projects acquired in the course of business combinations and development expenditure that cumulatively meets the recognition of IAS 38.57. Capitalized development expenses recognized under intangible assets 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 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 at 31 December 2019, internally generated intangible assets of EUR 25,306 k (prior year: EUR 17,290 k) were recognized in association with own development projects and EUR 2,714 k (prior year: EUR 1,936 k) in association with development cooperations. Expenditures qualifying as research expenditure in the sense of IAS 38.54 are expensed in the period in which they are incurred. Due to the different individual contracts and the significance of internally generated intangible assets in the consolidated financial statements, this matter was of particular significance for our audit.

The disclosures of the Company on the accounting treatment of development expenditure for internal development projects and for development cooperations, and its impact on the consolidated financial statements, are included in Sections B. and C. of the notes to the financial statements.

b) Auditor's response 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 own 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 allocated on the basis of the methodology presented under a) above. In particular, an audit focus was placed on revenue recognition in the various development categories and the annual impairment testing of development expenditure capitalized under intangible assets. 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 recognition of development expenses as intangible assets, 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 Consolidated 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 report of the Supervisory Board,
- the remaining parts of the annual report, with the exception of the 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.

The Supervisory Board is responsible for the report of the Supervisory Board. The executive directors and the Supervisory Board are responsible for the Declaration of Conformity with the German Corporate Governance Code pursuant to Sec. 161 AktG ['Aktiengesetz': German Stock Corporation Act] contained in Section G. of the management report. In all other respects, the executive directors are responsible for the other information.

Our audit opinions on the financial 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 of the consolidated financial statements, our responsibility is to read the aforementioned other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, the elements of the group management report whose content was audited, 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.

Responsibilities 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. 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Furthermore, the executive directors are responsible for the preparation of the 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 audit 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 audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the 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 audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express [audit] opinions on the consolidated financial statements and on the 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 the independent auditor by the annual general meeting on 29 May 2019. According to Sec. 318 (2) HGB, we qualify as the independent auditors of the consolidated financial statements, as no other auditor has been appointed. We were engaged by the Supervisory Board on 26 July 2019. We have been the independent auditor of STRATEC SE, Birkenfeld, without interruption since financial year 2015.

We declare that the audit 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, 27 March 2020

Ebner Stolz GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Christian Fuchs	Linda Ruoß
Wirtschaftsprüfer	Wirtschaftsprüferin
(German Public Auditor)	(German Public Auditor)

FINANCIAL CALENDAR

04 **April 2, 2020** Annual Financial Report 2019	**05** **May 14, 2020** Quarterly Statement Q1|2020	**05** **May 20, 2020** Annual General Meeting, Pforzheim, Germany
08 **August 13, 2020** Half-yearly Financial Report H1|2020	**11** **November 5, 2020** Quarterly Statement 9M|2020	**11** **November 17, 2020** German Equity Forum, Frankfurt / Main, Germany

Subject to amendment

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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.

In this annual report, words in the masculine include words in the feminine; in parts of the report, the masculine form has solely been used to make the document easier to read.

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.

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