

SPEED.  
AGILITY.  
VISION.



# KEY FIGURES

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in € million	<b>2018</b>	<b>2017</b>
Revenue	<b>131.0</b>	122.3
EBIT	<b>-2.5</b>	-0.5
Consolidated net loss / income	<b>-1.6</b>	-2.7
Earnings per share (in €)	<b>-0.26</b>	-0.47
Operating cash flow	<b>3.3</b>	-7.5
Cash and cash equivalents	<b>40.0</b>	33.9
Employees at year end	<b>1,286</b>	1,341

# TRANSFORMATION NEVER ENDS

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SNP supports companies in adapting their business models and using new technologies. Our software and services make it easy to implement business or technical changes in business applications.

CrystalBridge® and SNP Transformation Backbone® with SAP LT are the world's leading software suite for data transformations that automatically analyzes, implements and tracks changes to IT systems. As a result, they offer clear qualitative advantages, while significantly reducing the time and expense involved in transformation projects.

The SNP Group has around 1,300 employees worldwide. It serves multinational companies from all industries.

# A VISION OF SUSTAINABLE GROWTH

**IN AN INTERVIEW, CEO DR. ANDREAS SCHNEIDER-NEUREITHER  
AND CFO DR. UWE SCHWELLBACH TALK ABOUT  
THE PAST FISCAL YEAR, THE STRUCTURAL DEVELOPMENT  
OF THE SNP GROUP AND SHORT AND LONG-TERM GOALS.**

**SNP had set some goals for the past year.  
What was achieved?**

*Schneider-Neureither:* We successfully used the year to set the course for the operational and strategic development of the Group. These include personnel and structural changes, the internationalization strategy, the orientation of our product development and marketing to the current needs of the market and a program to increase sales and profitability. These are all interconnected measures that were necessary in order to ensure the long-term profitability of SNP after the growth of the past few years.

**What are some highlights?**

*Schneider-Neureither:* Specifically, we achieved visible success in 2018 in establishing ourselves as a quality leader in the highly attractive market of transformation in the SAP environment. This is proven by the international global corporations that have chosen us for key S/4HANA projects, such as Siemens or VW. A further milestone was the beginning of the collaboration with IBM to market our SNP BLUEFIELD approach. With this innovative one-step approach, we work together to ensure that S/4 projects can be carried out faster and, above all, more safely. But the highlights of the year also included our events – this year's fifth Transformation World and our appearance

at the SAP customer conference SAPPHERE NOW. We put on a spectacular show at both events, which has brought us a great deal of attention. Transformation World was the most successful event in the history of SNP: more than 400 customers confirmed the quality of our highly-specialized products and services, demonstrated their serious need for our solutions and talked to us about future projects.

**One focus in the past year was the  
internationalization process. How is this going?**

*Schneider-Neureither:* The integration of our companies acquired in recent years and the drive for internationalization were among the most important goals of 2018. The integration of SNP Latam, formerly ADEPCON, has been very successful. In addition, due to good developments in Eastern Europe and Latin America, we opened a branch in Australia at the beginning of January. This allows us to directly address the Asia-Pacific region and serve one of the most strategically important markets even better. In addition, our organization in the US gained new leadership in January 2019: Derek Oats is now leading our business in the USA and will advance our global product strategy with his experience. Overall, we are better positioned than ever to offer and implement our services very quickly worldwide.

**Dr. Schwellbach, in the middle of last year, you joined SNP as the new Chief Financial Officer. A few months later, you were appointed Managing Director. Which goals currently have priority for you?**

*Schwellbach:* My main priority is to boost confidence in corporate management decisions in the medium term, both from the employees' point of view and on the investors' side. To achieve this, we are setting realistic goals for ourselves, deliberately choosing suitable measures and implementing them consistently. In this way, we demonstrate that whatever we announce, we achieve.

**With a program to increase profitability and liquidity, you took a number of steps shortly after you started. How did the program start off?**

*Schwellbach:* We have also achieved the goals that we set for ourselves in terms of profitability and liquidity for the second half of the year. We were able to increase our working capital through improved receivables management and consequently improve our liquidity. At the same time, we implemented common cost-cutting measures in the second half of the year. In addition, we downsized the number of our employees in Germany – with an EBIT effect of around € 4 million, or 3 percentage points, for the 2019 fiscal year.



Dr. Andreas Schneider-Neureither, CEO

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„We achieved visible success in 2018 in establishing ourselves as a quality leader in the highly attractive market of transformation in the SAP environment.“

**What led you to this action plan?**

*Schwellbach:* First of all, it's worth mentioning that SNP was also able to increase its revenue in the 2018 fiscal year. In addition, in the second half of 2018, the operating result improved significantly by around € 10 million compared to the first half of the year. Unfortunately, we were unable to completely make up for the mid-year operating loss of around € 6 million. There were many reasons for this: Lower utilization in the consulting segment and lower-than-anticipated software license sales with SNP's in-house products led to a deterioration in the equity situation as well as decreasing liquidity.

**You carried out a capital increase at the end of the year. What will happen to the additional liquidity?**

*Schwellbach:* Looking back on the capital increase last year, I have to say that it went perfectly, exactly as we had planned. Everything went according to schedule and the result was high-quality. The capital increase allowed us to add more than € 17 million in liquidity. These funds will be used to support our own growth. We can also imagine occasional acquisitions for the future – especially in the software area, but not exclusively. In any case, next year we will be investing in our growth, as we did when we opened a new branch in Sydney, Australia.



Dr. Uwe Schwellbach, CFO

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“We improved our working capital and increased our liquidity and profitability considerably in the second half of the year. This regained financial stability provides us with a strong basis for growth, both this year and beyond.”

**What are the key challenges of the coming months?**

*Schneider-Neureither:* The top priority for us now is the long-term increase in sales and growth and the transition to sustainable profitability. In the next step, this means that we are aiming for the sales target of € 145 to 150 million for 2019. We remain firmly committed to supporting the upcoming wave of digitalization worldwide and to fueling the strong growth in demand for our high-performance software and data migration solutions, while continuing to deliver successfully implemented projects.

**But many corporations are still reluctant to switch to SAP S/4HANA because the transformation seems like open heart surgery on the company, like a feat that's hard to manage.**

*Schneider-Neureither:* Absolutely right. That's why it's still important for us to convince these companies of our highly sophisticated methodology and software. With visible success, we will demonstrate to these companies that our migration solutions are controlled and successful in a short time – whether M&A, restructuring or SAP S/4HANA.

I am confident that we now have an excellent starting position to establish ourselves as the global industry standard for data migration in the highly competitive SAP environment. The need for highly-automated and efficient transformation strategies remains enormous and holds great potential for the coming years. We are now ideally positioned to benefit from the growth drivers in the market.

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Thank you for the interview.

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In the years ahead, companies around the world will be facing enormous challenges. New technologies, digitalization, disruptive business models and changing customer requirements are already forcing companies to adapt their IT and business landscapes in order to continue to be fast and agile on the market. If they want to remain competitive and strong against global competition, they need to be able to react swiftly to current and future technical and procedural changes, and in turn be able to transform IT and business landscapes promptly and securely.

Creating the technical prerequisites for this means undertaking profound changes in company systems. These transformation projects carry many risks, and prominent examples from the recent past where millions were lost have shown how seriously poorly executed IT and business transformations can actually be. Decision-makers are therefore having a hard time introducing new technologies or intervening in systems.

With the help of advanced transformation tools, highly automated software solutions and expert knowledge, these risky projects are no longer a risk: for 25 years, SNP has been assisting companies around the world implement transformation projects and helping them to complete them quickly, safely and cost-effectively. With our innovative product portfolio and our many years of experience, we are a trusted partner in every phase of a project, protecting companies, their management, IT departments and ultimately their employees from the consequences of failed technical and process-related reorganization projects.

**SNP now has locations in all important world markets and can serve customers in Europe, the USA, Latin America and the Asia-Pacific region quickly and efficiently.**

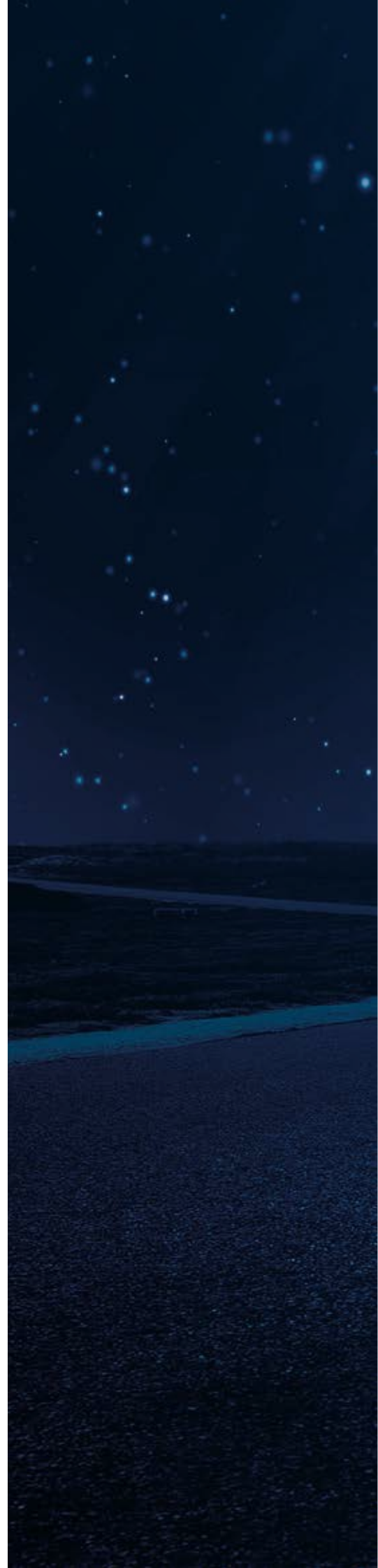
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No matter where in the world you are or how extensive the business transformation is, you have a clear advantage with SNP products and services for data migration. Changes in IT systems are automatically analyzed, implemented and tracked, making the SNP portfolio the decisive enabler and pivotal for punctual go-lives and thus for the success of M&As, carve-outs, modernization and digitalization of your business processes. SNP gives you what you need most in today's competitive environment: speed and agility, as well as the ability to respond quickly to new challenges.

#### **One Step to SAP S/4HANA With SNP BLUEFIELD™**

Many companies are in the process of preparing for the next big change, in which the digital transformation finally reaches the ERP environment. The move to SAP S/4HANA plays a key role, and, for many, transitioning to the new technology means not only modernizing and accelerating the process by increasing performance, efficiency and usability, but also provides the opportunity to improve and standardize business processes. However, despite understanding the need for transformation and S/4 implementation projects, many decision-makers are still reluctant; they are uncertain and cannot assess the risks of the changeover.

With the innovative SNP BLUEFIELD™ approach, they minimize risks and can complete a one-step S/4 implementation quickly and cost-effectively by migrating and updating features and data in a single go-live project. SNP counters concerns about not being able to estimate costs and the time to convert to S/4HANA with its highly-efficient product portfolio and experience from 10,000 successful transformation projects worldwide.



# UNLOCK THE POWER OF SAP S/4HANA®



BLUEFIELD™

# SNP PORTFOLIO AND CONSULTING IN THE CONTEXT OF TECHNICAL CHANGE

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Nothing in IT environments is as constant as change, and deep technical and procedural changes are a huge challenge for IT departments. For complex transformation projects, they need a partner specializing in change issues. SNP's product portfolio and consulting services provide the tools and expertise needed to perform critical interventions in system landscapes quickly, safely and cost-effectively.



For 25 years, we have been steadily developing our software solutions and adapting our products and approaches to the requirements of modern markets. Our portfolio also includes solutions that go beyond data migration and address the topics of digitalization, big data and artificial intelligence.

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## Analyze

Scan, profile and compare the structure, data and connections throughout your entire software landscape. Plan transformations in visualized form and gain an important insight into the use of your company software by creating a visual profile. Use interactive planning and the creation of a roadmap, and identify and document challenges in graphic form with CrystalBridge.

## Modernize

Simulate your business transformation visually and watch the effects in real time. CrystalBridge simulates your transformation project prior to its implementation. Utilize expert knowledge from thousands of projects and access precisely the information which you need in order to make the right decisions.

## Transform

Complete a company transformation such as a merger, a split, alignment, restructuring or reorganization with our one-step approach in a matter of months instead of years. In addition, artificial intelligence and big data will play an increasing role in transformations in the coming years. Our specialist teams at Innoplexia are already working on technologies that we will use for the benefit of our customers.

## Secure

Mask, encrypt and anonymize sensitive data for test and development systems. Use an object-based update to synchronize documents and data significantly faster than with a full system copy, while making the update of entire test systems for synchronization with production unnecessary. Optimize your business processes and increase the agility and security of your IT systems: With the SNP Interface Scanner, you can automatically analyze and document your interfaces with minimal effort.

## Operate

Software-based automation is the top priority. For transformation projects, the SNP Transformation Backbone® with SAP LT is strong software that clearly stands out in comparison to traditional, manual approaches. CrystalBridge's interactive approach also helps to achieve a significantly greater depth of automation here, so as to avoid typical errors at the start of a project as well as the high costs that these entail.

## Predict

With CrystalBridge, you can accelerate the creation of blueprints for transformation projects by more than 75%. In addition, transformation rules and contents can be directly produced within CrystalBridge. In the future, it will be possible to connect them with the SNP Transformation Backbone for execution. Coupled with SNP artificial intelligence and predictive analytics, you can profile, plan and predict the results of your transformation projects.

# AN EYE ON THE FUTURE OF TECHNOLOGY



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SNP is celebrating its 25th anniversary this year. Our attention has always been on continually improving our products and services to help customers better respond to ever more demanding technologies, globalization and changing markets. Our focus was and is on data migration in complex SAP ERP transformation projects, which have made a name for us worldwide. Our leading Crystal-Bridge® software suite and SNP Transformation Backbone®, as well as the innovative SNP BLUEFIELD™ approach, have been used in some of the largest IT transformations to date and helped world-renowned global companies prepare themselves as best as possible for global competition.

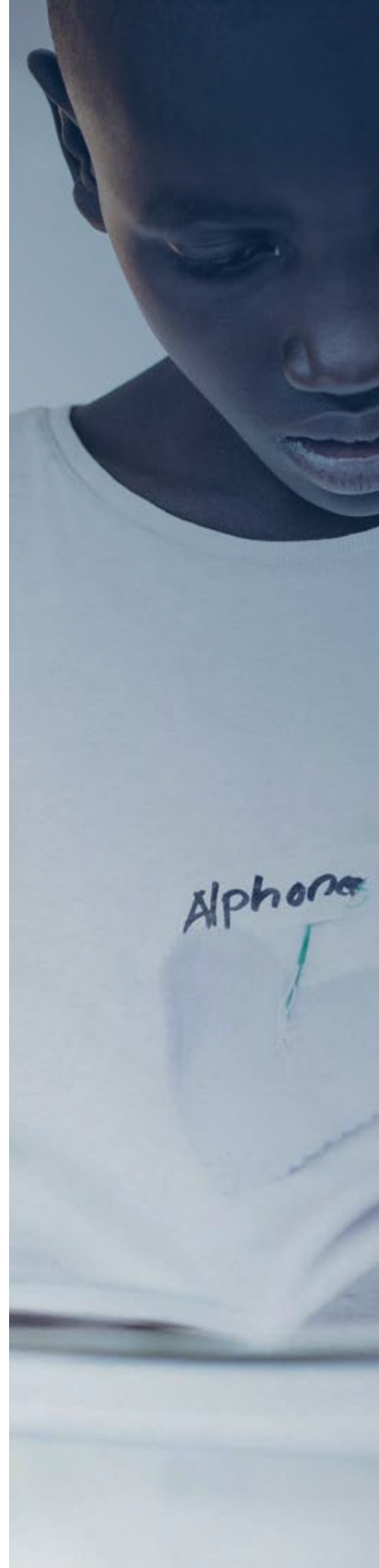
But our work doesn't stop with pure data migration. After all, besides M&As, carve-outs and the like, even greater challenges are waiting for companies: disruptive business models, digitalization, AI, the ever-increasing importance of data and its meaningful but also compliance-compatible use. We keep an eye on these and future topics for our customers. In the past few years, we have expanded our portfolio, integrated companies like Innoplexia, with their focus on data analytics and artificial intelligence, and developed new approaches like SNP BLUEFIELD.

25  
YEARS

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The economic success of the past 25 years brings with it a social responsibility that SNP takes very seriously. For this reason, SNP supports organizations and projects in the fields of art, culture, sustainability and charitable causes.

In addition, founder and CEO Dr. Andreas Schneider-Neureither always looks beyond technological horizons and gives a platform to voices from various socially relevant areas, such as the committed activist Dr. Auma Obama, who advocates for children and young people in Kenya, or the well-known computer scientist and founder of OpenLeaks, Daniel Domscheit-Berg. Because "Transformation never ends" also means the continuing evolution of our societies, and SNP understands that it is only possible to cope with the challenges of the future in context.





# FOCUS ON SOCIAL COMMITMENT





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

# REPORT OF THE BOARD OF DIRECTORS

## DEAR SHAREHOLDERS,

In the following report, the Board of Directors outlines its core activities in the 2018 fiscal year. The company is managed by the Board of Directors (“monistic system”), which determines the basic standards for its business activities and oversees their implementation by the Managing Directors. The core management, oversight and discussion issues covered in plenary meetings, the audit of the annual and consolidated financial statements, relationships with associates and changes to the company’s organs are outlined below.

Core activities this year were the reinforcement of personnel at the senior management level, the implementation of measures to improve the revenue and earnings situation and the strategic positioning of the company. We dealt with these topics in detail in a number of meetings and in-depth conferences and telephone calls with the Managing Directors. The Board of Directors shapes and supports the strategic direction of the company, and is convinced that the management structures form a good, financially stable basis for the targeted further development of SNP as well as increased long-term profitability. The long-term development of the company must be geared towards profitable and capital-efficient growth and expansion of its position in its core markets.

Other key topics in 2018 included:

- Audit and approval of the 2017 annual financial statements
- Determination of the agenda for the 2018 Annual General Meeting
- Ongoing operational business development
- Integration of acquisitions
- Financing measures via a capital increase
- Corporate planning for 2019

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

### **Board of Directors**

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

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

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

### **Meetings**

During the 2018 fiscal year, the Board of Directors held seven meetings at which members were physically in attendance. Beyond these meetings, the members also discussed additional projects of particular significance for the company via telephone. Additional resolutions were approved by written circular.

At the meeting on March 12, 2018, the Board of Directors discussed the new organizational structure of SNP SE and also determined the one-year variable remuneration of the Managing Directors / Board of Directors for 2017. The new organizational structure of SNP SE and the planned restructuring of the German companies were presented to the Board of Directors at the meeting on May 30, 2018.

The Board of Directors meeting on March 26, 2018 discussed and approved the annual financial statements and the consolidated financial statements for the 2017 fiscal year. Furthermore, the Supervisory Board approved the agenda for the 2018 Annual General Meeting and the corresponding proposed resolutions, including the two proposals put forward to the Annual General Meeting. These involved reappointing Rödl & Partner GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft as auditors, and a proposal to refrain from distributing dividends to shareholders in an appropriation of profit. The update to the declaration of conformity following the recommendations and suggestions of the German Corporate Governance Code was adopted prior to the meeting in a circular resolution.

At the meeting on August 4, 2018, revenue and earnings performance in the first half of the year, the adjusted revenue and earnings targets for the full 2018 fiscal year and the resulting financial and capital situation were discussed in particular detail. To increase financial flexibility, the Board of Directors decided to plan and prepare a capital increase. In December, the capital increase was finally successfully placed on the capital market. Operational business development and the implementation of the action plan to improve financial position and financial performance dominated the two telephone conferences that followed in August as well as the meetings in the second half of the year.

The budget and corporate planning for 2019 were discussed and approved at the meeting on November 23, 2018.

### **Composition of the Board of Directors and the Managing Directors**

In the 2018 fiscal year, there were no changes to the personnel of the Board of Directors. The members of the Board of Directors include Dr. Andreas Schneider-Neureither, Chairman of the Supervisory Board, Dr. Michael Drill, Deputy Chairman, Gerhard A. Burkhardt and Rainer Zinow.

In March 2018, the Board of Directors decided to realign the body of Managing Directors and to make personnel changes. As a result, Henry Göttler was dismissed from his position as Managing Director (COO) effective March 16, 2018. Following this decision, Dr. Andreas Schneider-Neureither was the sole Managing Director (CEO) in the interim. In August 2018, Dr. Uwe Schwellbach was appointed Managing Director effective September 21, 2018. In his position as CFO, he is responsible for the Finance and Controlling, Compliance and Legal, Investor Relations, Human Resources, and Shared Services divisions. He has already been responsible for Finance and Human Resources since joining the company in July 2018.

The Board also agreed in August to increase the number of Managing Directors. With the creation of a body of at least three members, business and corporate management will be in a position to consistently advance the necessary management structures for the targeted growth. In light of this, a renowned personnel consulting firm was commissioned to find a suitable Chief Operating Officer (COO), who will be responsible in particular for the future distribution and implementation of projects. Dr. Andreas Schneider-Neureither, as

CEO, remains the Chair of the body. Moreover, the by-laws for Managing Directors and the catalog of legal transactions requiring approval were revised.

### **Audit of the Annual Financial Statements and the Consolidated Financial Statements**

The annual financial statements and the consolidated financial statements as of December 31, 2018, and the management report and the Group management report, including the accounting records, have been audited by the auditor selected by the Annual General Meeting of the company, Rödl & Partner GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, and were awarded an unqualified auditor's opinion on March 15, 2019.

All financial statement-related documents and audit reports were made available to all members of the Board of Directors in a timely manner ahead of the meeting of the Board of Directors on the financial statements, which was held on March 15, 2019, and they carefully reviewed them. These documents were discussed in detail in the presence of the auditor. The auditor informed the Board of Directors that there were no weaknesses in the internal control system or the risk management system. The Board of Directors was convinced that the auditor's report complied with legal requirements. The Board of Directors was convinced that the auditor's report complied with legal requirements.

Following the completion of its own examination, the Board of Directors did not raise any objections to the annual financial statements, the consolidated financial statements, the management report or the Group man-


agement report. Therefore, the Board of Directors approved and accordingly adopted the annual financial statements and consolidated financial statements of SNP Schneider-Neureither & Partner SE, which were prepared by the Managing Directors. Furthermore, they agreed to the Managing Directors' proposal on the appropriation of earnings.

**Thanks to the Managing Directors and the Employees**

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

Heidelberg, Germany, March 15, 2019

For the Board of Directors

A handwritten signature in blue ink, appearing to read 'A. S. N.', written in a cursive style.

Dr. Andreas Schneider-Neureither, Chairman



# SNP IN THE CAPITAL MARKETS

The upward trend on the global stock markets of recent years did not continue in 2018. Instead, stock markets fell significantly, especially in the second half of the year. Contributing factors were the introduction of trade tariffs, the chaos surrounding Brexit, and the slowdown in economic growth in the major growth areas. The DAX closed at 10,559 points on December 28, 2018.

This represents a decrease of 18.3% compared to the 2017 closing price, which was 12,918 points. The TecDAX, which had gained just under 40% in 2017, also lost value in the course of 2018, though not as strongly as most other indexes. The closing price of 2,450 points represents a decrease of 3.1% compared to the 2017 year-end value of 2,529 points.

## KEY SHARE DATA

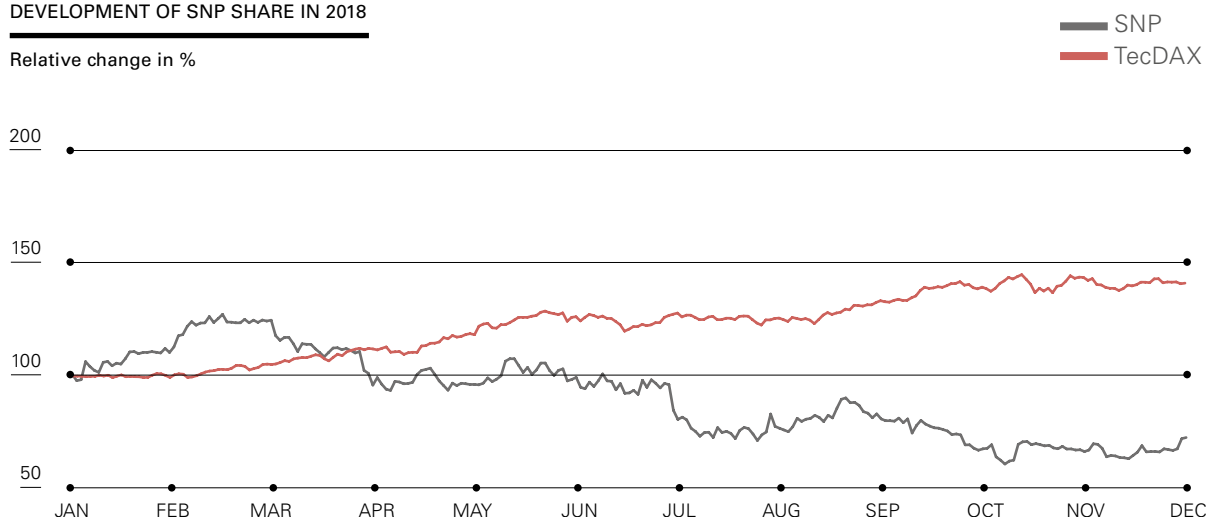
ISIN	DE0007203705
Security identification number	720 370
Shares as of December 31, 2018	6,602,447 (share capital: € 6,602,447)
Shares as of December 31, 2017	5,474,463 (share capital: € 5,474,463)
Class	No-par-value shares
Market segment	Prime Standard
Trading exchanges/ stock exchanges	Xetra, Frankfurt, Berlin, Hamburg, Munich, Stuttgart, Düsseldorf
Börsenkürzel	SHF
Bloomberg	SHF:GR
Reuters	SHFG.DE

## SHARE PERFORMANCE INDICATORS

		2018	2017
Earnings per share as of December 31	(in €)	<b>-0.26</b>	-0.47
Market capitalization as of December 31	(in € million)	<b>107.22</b>	175.18
Closing price	(in €)	<b>16.24</b>	32.00
High	(in €)	<b>36.50</b>	49.20
Low	(in €)	<b>15.84</b>	28.30

## DEVELOPMENT OF SNP SHARE IN 2018

Relative change in %



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

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

## The SNP Share

The SNP share also fell significantly in this environment in the reporting year. During the first weeks of trading in 2018, it initially performed positively, reaching its annual high of € 36.50 on March 13. However, it then subsequently steadily lost value, due in part to an adjustment to the revenue and earnings forecast for the 2018 fiscal year. The low closing price for the year was € 15.84 on October 29, 2018. The SNP share finished 2018 at a price of € 16.24 and was therefore around 49% below the 2017 year-end value of € 32.00.

A monthly average of 13,409 shares per day were traded across various stock exchanges. The comparable previous year's value was 16,431 shares traded per day. The trading volume across stock exchanges and thus the share's liquidity was therefore around 18% below the level of the previous year.

In the 2018 fiscal year, no dividend was distributed for the 2017 fiscal year. In the previous year, the dividend was € 0.35.

At the end of 2018, eight banks and investment firms monitored SNP shares: Bankhaus Metzler, Berenberg, Edison, Hauck & Aufhäuser, Mainfirst, Nord/LB//Alsterresearch, Oddo Seydler and Warburg Research.

## Capital Increase Placed

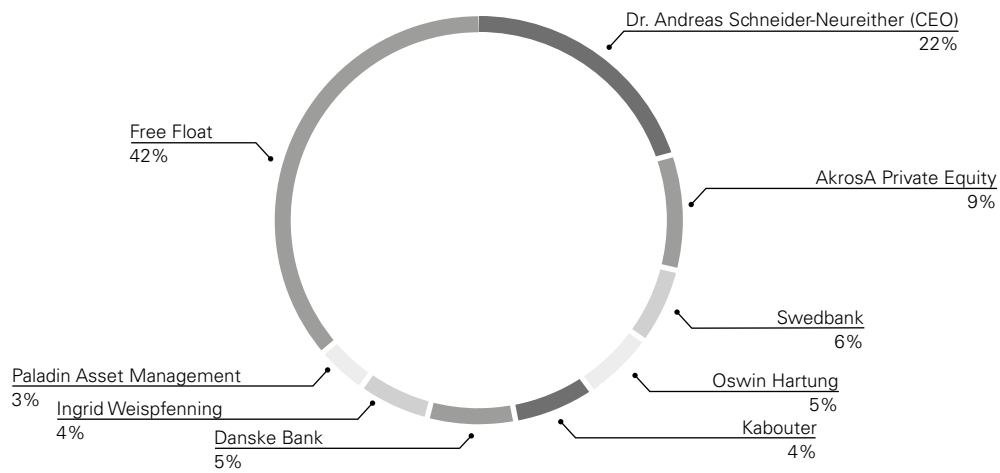
On November 21, 2018, SNP SE announced a cash capital increase, as a result of which the company's share capital increased by € 1,127,984, divided into 1,127,984 no-par-value shares, to a total of € 6,602,447, divided into 6,602,447 shares. The new shares, which were issued at a price of € 16.60 per share, are entitled to dividends in the 2018 fiscal year, beginning on Monday, January 1, 2019. The subscription rate was 90.6%. The unsubscribed new shares were sold to Dr. Andreas Schneider-Neureither (CEO) through SN Assets GmbH as per the investment agreement. The capital increase was therefore fully placed. As a result, the company generated a gross cash inflow of € 18.7 million. The capital increase was entered in the German commercial register on December 18, 2018. Since December 19, 2018, the new shares have been included in stock exchange trading.

### PARAMETERS OF THE 2018 CASH CAPITAL INCREASE

Issued shares	1,127,984 no-par-value shares
Issue price	€ 16.60
Gross issue proceeds	€ 18.7 million
Subscription ratio	5:1
Entry in the German commercial register	December 18, 2018
Issuance	December 19, 2018

SNP in the Capital Markets

## SHAREHOLDERS STRUCTURE



### Comprehensive Investor Relations Work

SNP informs all shareholders about all significant events in the company in a timely, transparent and comprehensive manner. We engage in an intensive dialogue with our shareholders, analysts and investors as well as with all other interested capital market participants. In this way, we want to maintain and strengthen the trust of our shareholders. We participated in numerous roadshows and investor conferences in the reporting year, and held numerous personal conversations with analysts, institutional investors and private investors throughout the year.

All significant company information, such as presentations, financial reports, press releases and ad-hoc announcements can be found on our home page at <http://www.snpgroup.com/en/Investor-Relations>.

Further information is also available from

Marcel Wiskow  
 Director Investor Relations  
 E-Mail: [investorrelations@snpgroup.com](mailto:investorrelations@snpgroup.com)  
 Tel.: +49 6221 6425-637

# CORPORATE GOVERNANCE

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## **Corporate Governance Report with Declaration of Conformity and Declaration on Company Management Pursuant to Section 289f and Section 315d of the German Commercial Code (HGB) for 2018**

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

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

Pursuant to Art. 9 (1) clause c (ii) of the SE Regulation, Section 22 (6) SEAG in conjunction with Section 161 of the German Stock Corporation Act (AktG), the Board of Directors of a listed German SE is obliged to issue a declaration at least once a year as to whether the company has complied and continues to comply with the German Corporate Governance Code and which recommendations of the Code it has not implemented and why not. On March 15, 2019 the Board of Directors of SNP SE issued the following declaration:

## **Declaration of conformity pursuant to Section 161 AktG for the year 2018:**

The Board of Directors of SNP SE declares pursuant to Art. 9 (1) clause c (ii) of the SE Regulation, Section 22 (6) SEAG in conjunction with Section 161 AktG that since the issuance of its most recent declaration of conformity on March 23, 2018, SNP Schneider-Neureither & Partner SE has complied and will continue to comply with the recommendations of the Government Commission on the German Corporate Governance Code (the Code) (as of February 7, 2017), while taking into consideration the specific details of the monistic system of SNP SE as outlined in Section 1 – with the exceptions indicated in Section 2 – or, where it has not complied with these recommendations, why not.

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

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

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

- In deviation from Section 2.2.1 clause 1 of the Code, the Board of Directors is required to present the annual financial statements and the consolidated financial statements to the Annual General Meeting, Section 48 (2) clause 2 SEAG.
- In deviation from Sections 2.3.1 clause 1 and 3.7 (3) of the Code, the Board of Directors is responsible for convening the Annual General Meeting, Sections 48 and 22 (2) SEAG.
- The tasks of the Executive Board prescribed in Sections 4.1.1 (management of the company) and 4.1.2 in conjunction with Section 3.2 main clause 1 (development of the company's strategic focus) of the Code are incumbent upon the Board of Directors, Section 22 (1) SEAG.
- The responsibilities of the Executive Board prescribed in Sections 2.3.2 clause 2 (voting proxy bound by instructions), 3.7 (1) (statement regarding a takeover offer) and (2) (conduct in case of a takeover offer) as well as 3.10 (corporate governance report), 4.1.3 (compliance) and 4.1.4 (risk management and control) of the Code are incumbent upon the Board of Directors of SNP SE, Section 22 (6) SEAG.
- In deviation from Sections 5.1.2 (2) clauses 1 and 2 of the Code, unlike members of the Executive Board, Managing Directors are not subject to any fixed and maximum permitted period of appointment, Section 40 (1) clause 1 SEAG.
- In deviation from Sections 5.4.2 clause 2 and 5.4.4 of the Code, members of the Board of Directors may be appointed as Managing Directors provided that the majority of the Board of Directors still is comprised of non-Managing Directors, Section 40 (1) clause 2 SEAG.

## **2. Exceptions to the recommendations of the Code**

- In deviation from Section 3.8 (3) of the Code, the members of the Board of Directors have a D&O insurance policy without a deductible. The Board of Directors considers that a deductible is not required for members of the Board of Directors since the commitment and responsibility with which the members of the Board of Directors perform their duties will not be improved through the agreement of a deductible. The existing D&O insurance policies for the members of the Board of Directors of SNP SE therefore do not include any deductibles.
- Pursuant to Section 4.2.3, the variable remuneration components for Managing Directors generally have a multi-year assessment basis, which should essentially be future-oriented. In principle, this is also complied with in the contracts for the Managing Directors by means of a long-term incentive (LTI). Following in-depth discussions with the Board of Directors, in 2018 the Managing Directors, Dr. Andreas Schneider-Neureither and Dr. Uwe Schwellbach, waived their entitlement to that portion of their variable remuneration for 2018. The Board of Directors welcomes this decision and will agree to a new LTI with the Managing Directors this year.
- Contrary to Sections 5.3.1, 5.3.2 and 5.3.3, the Board of Directors has not currently established any committees. As a result, all members bear joint responsibility for all issues to be decided upon. The Board of Directors of the company is currently comprised of four members. Due to its current size, this body has not established any committees and performs all tasks in its entirety. In these circumstances, the Board of Directors cannot see how the efficiency of its work would be improved through committees.

- Pursuant to Section 5.4.1 (2) of the Code, the Board of Directors should state concrete goals for its composition, taking into consideration the specific situation of the company's international activities, potential conflicts of interest, a fixed retirement age for Supervisory Board members, a limit to be determined for the length of membership in the Supervisory Board as well as diversity. Contrary to the Code's recommendation, the Board of Directors has not set any further targets for its composition. The Board of Directors is comprised of only four members. Given this situation, the Board of Directors does not see any advantage in being bound by specific targets. Instead, the Board of Directors should always retain the flexibility of being able to take into account individual circumstances in its proposals to the responsible election bodies and the candidates with the best possible qualifications. In the view of the Board of Directors, the statement and publication of specific goals and their regular adjustment also entail a not insignificant effort, which does not appear to be justified in view of the shareholding structure and size of the company and in view of the size of the Board of Directors.

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

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

Heidelberg, Germany, March 15, 2019

For the Board of Directors



Dr. Andreas Schneider-Neureither, Chairman

### Management and Control Structure

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

### Inclusion of diversity and international focus

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

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

In doing so, the Board of Directors adheres to its initial assessment of filling vacancies according to suitability and not according to gender requirements. In general, the Board of Directors welcomes the political efforts to ensure diversity and gender equality in the corporate world. However, the management organs of SNP SE hold the view that setting targets higher than 0% conflicts significantly with corporate interests. SNP SE operates in an industry in which the employment of properly trained technical personnel represents a critical success factor. At the same time, the industry is confronted with a lack of candidates who satisfy the require-

ments. Therefore, SNP SE faces a task that is just as critical to success as it is challenging: obtaining suitable employees in general and managers in particular.

In view of this situation, corporate responsibility rules out making an already difficult task even more difficult by imposing on the company the achievement of rigid quotas for women. Quotas for men should also be rejected for the same reason. Another special argument against female quotas is that SNP SE primarily employs staff with educational backgrounds in the fields of study of electrical engineering, computer science, computer engineering, information systems, physics and physical engineering. These fields of study are traditionally characterized by high to very high proportions of men and correspondingly low proportions of women.

### Compliance

Trust is one of our basic values. Trust assumes integrity, honesty and incorruptibility. Compliance with all statutory provisions and internal rules applicable to SNP SE and its subsidiaries on the part of the company's management and employees is a firm part of our corporate culture. Our internal rules of conduct are laid down in our Code of Conduct. To effectively ensure adherence to its compliance policies, SNP SE divides up its compliance activities into the following areas: statutory provisions, finance, contractual obligations and compliance with internal policies.

In view of its strategy of internationalization and the associated strong expansion of its operational activities, the SNP Group is continuously working to further develop its Group-wide compliance management system so as to be able to initiate and implement measures focusing on the company's risk situation. This includes providing employees with the opportunity to be able to report legal violations within the company in a protect-

ed fashion using a digital whistleblower system. This digital reporting system will be first introduced in Germany this year and will be gradually expanded to include further country units.

#### **Description of the working methods of the Board of Directors and Managing Directors**

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

In the 2018 fiscal year, no conflicts of interest appeared that required immediate disclosure to the Board of Directors. The Board of Directors and Managing Directors of SNP SE deliberated on the company's strategic positioning, its further development and a series of individual topics and approved the necessary resolutions in the 2018 fiscal year.

#### **Board of Directors**

According to its articles of incorporation, the Board of Directors is comprised of at least three members, who are selected by the Annual General Meeting without being bound by election proposals. Pursuant to the resolution passed by the Annual General Meeting on May 31, 2017, the company's first Board of Directors consists of four members: Dr. Andreas Schneider-Neureither, Dr. Michael Drill, Gerhard Burkhardt and Rainer Zinow.

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

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

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

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



## Managing Directors

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

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

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

Managing Directors may be recalled by means of a resolution passed by the Board of Directors on the basis of a simple majority. Managing Directors who are members of the Board of Directors may only be recalled for cause or in case of the termination of their employment contract. In relation to the remuneration of the Manag-

ing Directors and the noncompete clause that applies for them, the same provisions apply as for the executive board of a stock corporation in accordance with Sections 87 to 89 AktG. The Managing Directors will be liable for any damage the SE suffers as a result of a violation of their duties prescribed by law or in the company's articles of incorporation or any other duties.

In March 2018, the Board of Directors decided to realign the body of Managing Directors and to make personnel changes. As a result, Henry Göttler was dismissed from his position as Managing Director (COO) effective March 16, 2018. Following this decision, Dr. Andreas Schneider-Neureither was the sole Managing Director (CEO) in the interim.

In August 2018, Dr. Uwe Schwellbach was appointed Managing Director effective September 21, 2018. In his position as CFO, he is responsible for the Finance and Controlling, Compliance and Legal, Investor Relations, Human Resources, and Shared Services divisions. He has been responsible for Finance and Human Resources since joining the company in July 2018.

Dr. Andreas Schneider-Neureither is responsible for the Corporate Strategy, Corporate Development, Corporate Marketing, Products and IT divisions. The Field Marketing, Sales, Delivery and Quality Assurance divisions are also be the responsibility of the CEO, but will be transferred to the future Chief Operating Officer (COO).

## Disclosures on Risk Management

The business activities of SNP SE are subject to a variety of risks that are inseparably linked to its entrepreneurial activity. Good corporate governance includes dealing with these risks responsibly. In order to identify

risks at an early stage, to evaluate them and to deal with them systematically, SNP SE employs effective management and control systems that are combined into a uniform risk management system. A detailed description of risk management is contained in the report on opportunities and risks in the 2018 Group management report.

#### Further Information on Corporate Governance at SNP

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

SNP's consolidated financial statements and interim reports are prepared according to the principles of the International Financial Reporting Standards (IFRS), while the annual financial statements of SNP SE are prepared according to the provisions of the German Commercial Code (HGB). The Annual General Meeting held on May 30, 2018, elected Rödl & Partner GmbH, Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft, Stuttgart, as the auditor for SNP SE and the SNP Group for the 2018 fiscal year.

#### Shareholdings of the Board of Directors and Managing Directors

	SHAREHOLDINGS AS OF DEC. 31, 2017		SHAREHOLDINGS AS OF DEC. 31, 2018	
	Shares	%	Shares	%
Dr. Andreas Schneider-Neureither	996,718	18.21 %	1,445,560	21.89%
Dr. Michael R. Drill	15,000	0.27%	18,000	0.27%
Gerhard A. Burkhardt	5,866	0.11 %	7,044	0.11%
Rainer Zinow	0	0	0	0
Henry Göttler	9,213	0.17%	no information*	no information*
Dr. Uwe Schwellbach	no information*	no information*	0	0

\* Not a Managing Partner at this time.

## Corporate Governance

**MEMBERS OF THE BOARD OF DIRECTORS/  
MANAGING DIRECTORS**  
as of December 31, 2018

**Memberships in Other Supervisory Boards  
and Other Similar Bodies**
**Dr. Andreas Schneider-Neureither**

Chairman of the Board of Directors/  
Chairman of the Managing Directors (CEO)

Graduate physicist

Casadomus AG  
Supervisory Board

VHV insurance services GmbH  
Supervisory Board

VHV Group  
Board of Directors

**Dr. Michael R. Drill**

Deputy Chairman of the Board of Directors

Investment banker

Lincoln International AG  
Chief Executive Officer

Shareholder Value Beteiligungen AG  
Supervisory Board

Lincoln International SAS  
Supervisory Board

**Gerhard A. Burkhardt**

Member of the Board of Directors

Chief Executive Officer  
BBG Bundesbaugenossenschaft eG

Casadomus AG  
Supervisory Board Chairman

Haufe-Lexware Real Estate AG  
Supervisory Board

GWE Gesellschaft für Wohnen im Eigentum AG  
Supervisory Board

Familienheim Rhein-Neckar eG  
Supervisory Board Chairman

Wohnbau Lützen GmbH  
Supervisory Board Chairman

FF Planen und Bauen GmbH  
Managing Director

BfW Bank für Wohnungswirtschaft AG  
Supervisory Board Chairman

**Rainer Zinow**

Member of the Board of Directors

Senior Vice President, SAP SE

Business graduate

No further offices

**Dr. Uwe Schwellbach**

Managing Director (CFO)

Graduate economist

Schwellbach GmbH  
Managing Director

PelopsCar GmbH (in liquidation)  
Managing Director

Lindau Institute AG  
Supervisory Board Chairman

# REMUNERATION REPORT

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

## Managing Directors

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

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

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

tion of a guaranteed minimum bonus of € 50,000.00 for Dr. Uwe Schwellbach, which was agreed upon with the Board of Directors when he took office during the year, the Managing Directors are not entitled to annual variable compensation for the past financial year.

In view of the desired sustainability of the company's development, the variable compensation components of the Managing Directors generally have a multi-year assessment basis. In the contracts of the Managing Directors, this requirement is generally met by a long-term incentive (LTI). The Managing Directors have waived their entitlement for the year 2018.

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

On March 15, 2019, the Board of Directors determined the remuneration of the Managing Directors for the 2018 fiscal year.

## Remuneration of the Managing Directors in the 2018 Fiscal Year

The total remuneration granted to the Managing Directors in the 2018 fiscal year amounted to € 646,640.41 (previous year: € 1,445,896.29). The following tables itemize the remuneration of each individual Managing Director in the 2018 fiscal year and in the previous year.

## Remuneration Report

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

In €	2017 Initial value	2018 Initial value	2018 Minimum	2018 Maximum
Fixed remuneration	240,000.00	240,000.00	240,000.00	240,000.00
Fringe benefits*	6,515.37	5,635.99	5,635.99	5,635.99
<b>Total</b>	<b>246,515.37</b>	<b>245,635.99</b>	<b>245,635.99</b>	<b>245,635.99</b>
One-year variable remuneration	200,000.00	200,000.00	0.00	400,000.00
Multi-year variable remuneration	165,000.00	-	0.00	-
<b>Total</b>	<b>365,000.00</b>	<b>200,000.00</b>	<b>0.00</b>	<b>400,000.00</b>
Service cost	18,461.16	18,533.16	18,533.16	18,533.16
<b>Total sum</b>	<b>629,976.53</b>	<b>464,169.15</b>	<b>264,169.15</b>	<b>664,169.15</b>

**DR. UWE SCHWELLBACH**

In €	2017 Initial value	2018 Initial value	2018 Minimum	2018 Maximum
Fixed remuneration	-	55,000.01	55,000.01	55,000.01
Fringe benefits	-	7,562.26	7,562.26	7,562.26
<b>Total</b>	<b>-</b>	<b>62,562.27</b>	<b>62,562.27</b>	<b>62,562.27</b>
One-year variable remuneration	-	50,000.00	50,000.00	50,000.00
Multi-year variable remuneration	-	-	-	-
<b>Total</b>	<b>-</b>	<b>50,000.00</b>	<b>50,000.00</b>	<b>50,000.00</b>
Service cost	-	-	-	-
<b>Total sum</b>	<b>-</b>	<b>112,562.27</b>	<b>112,562.27</b>	<b>112,562.27</b>

**HENRY GÖTTLER**

In €	2017 Initial value	2018 Initial value	2018 Minimum	2018 Maximum
Fixed remuneration	194,004.00	41,152.36	41,152.36	41,152.36
Fringe benefits*	23,269.43	6,698.88	6,698.88	6,698.88
<b>Total</b>	<b>217,273.43</b>	<b>47,851.25</b>	<b>47,851.25</b>	<b>47,851.25</b>
One-year variable remuneration	135,000.00	135,000.00	-	270,000.00
Multi-year variable remuneration	110,000.00	-	-	-
<b>Total</b>	<b>245,000.00</b>	<b>135,000.00</b>	<b>0.00</b>	<b>270,000.00</b>
Service cost	151.87	37.97	37.97	37.97
<b>Total sum</b>	<b>462,425.30</b>	<b>182,889.22</b>	<b>47,889.22</b>	<b>317,889.22</b>

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

DR. ANDREAS SCHNEIDER-NEUREITHER		
In €	2018	2017
Fixed remuneration	240,000.00	240,000.00
Fringe benefits*	5,635.99	6,515.37
<b>Total</b>	<b>245,635.99</b>	<b>246,515.37</b>
One-year variable remuneration	162,399.86	219,277.11
Multi-year variable remuneration	-	232,755.99
<b>Total</b>	<b>162,399.86</b>	<b>452,033.10</b>
Service cost	18,533.16	18,461.16
<b>Total sum</b>	<b>426,569.01</b>	<b>717,009.63</b>

DR. UWE SCHWELLBACH		
In €	2018	2017
Fixed remuneration	55,000.01	-
Fringe benefits	7,562.26	-
<b>Total</b>	<b>62,562.27</b>	-
One-year variable remuneration	-	-
Multi-year variable remuneration	-	-
<b>Total</b>	-	-
Service cost	-	-
<b>Total sum</b>	<b>62,562.27</b>	-

HENRY GÖTTLER		
In €	2018	2017
Fixed remuneration	41,152.36	194,004.00
Fringe benefits*	6,698.88	23,269.43
<b>Total</b>	<b>47,851.25</b>	<b>217,273.43</b>
One-year variable remuneration	109,619.91	132,309.82
Multi-year variable remuneration	-	174,566.99
<b>Total</b>	<b>109,619.91</b>	<b>306,876.81</b>
Service cost	37.97	151.87
<b>Total sum</b>	<b>157,509.13</b>	<b>524,302.11</b>

\*The fringe benefits for the 2017 fiscal year were increased by € 2,357.97 for Dr. Andreas Schneider-Neureither and by € 231.46 for Henry Göttler, while pension expenses were reduced by the same amount. This is because of the classification of D&O insurance as fringe benefits for 2018 and retroactively for 2017.

With effect from March 16, 2018, Henry Göttler was dismissed as Managing Director. Thereafter, he was kept on the same terms until December 31, 2019. Because he left prematurely on December 31, 2018, he will receive the base salary until December 31, 2019, as a severance payment in the form of a one-time payment of € 194,004.00 in January 2019.

To make the overall remuneration clear for 2017 clear, it should be noted that Jörg Vierfuß (who left the Executive Board as of December 31, 2016) received a total of € 204,584.55 in 2017 for the 2016 fiscal year. Of this amount, € 88,206.55 was attributable to the annual variable compensation and € 116,378.00 to the long-term remuneration component.

In addition to general insurance benefits and pension commitments, the company has arranged Directors and Officers (D&O) liability insurance on behalf of the Managing Directors. The annual insurance premium of € 7,021.00 also includes the D&O insurance for the members of the Board of Directors and senior executives.

The D&O insurance from SNP Transformations, Inc. provides protection for senior executives in the USA. The annual insurance premium is € 9,992.19. It likewise provides proportionate protection for the CEO of SNP SE, who is also the Chairman of the Board of SNP Transformations, Inc.

The total amount of the D&O insurance for the Managing Directors amounts to an annual insurance premium of € 1,690.28. The table contains the pro rata insurance premium paid per person for the period of activity.

The remuneration of the Managing Directors is once again disclosed in the 2018 fiscal year in individualized form on the basis of the uniform model tables recommended by the German Corporate Governance Code.

The essential feature of these model tables is the separate disclosure of the benefits granted (benefits) and the actual allocations (allocations). In terms of benefits, the target figures (payment upon 100% target attainment) and the attainable minimum and maximum figures are also stated.

#### **Advances or Loans to Managing Directors or Contingent Liabilities Incurred on Behalf of These Persons**

As of December 31, 2018, no loans, credits or advances were granted to any Managing Directors. Furthermore, SNP SE did not incur any contingent liabilities on behalf of Managing Directors in the reporting year.

#### **Provisions for Pension Commitments to Managing Directors**

SNP SE has made provisions for the pension commitments to Dr. Andreas Schneider-Neureither and Ms. Petra Neureither (CFO until May 19, 2011) totaling € 226 thousand (previous year: € 225 thousand), in accordance with IFRS. A reinsurance policy was arranged for the pension obligations.

#### **Related Party Transactions**

SNP SE has signed several rental agreements for office space and parking spaces for cars. These agreements have been concluded between the Chairman of the Board of Directors (who is also a Managing Director) and related parties. The invoicing of services is done at arm's-length conditions as with third parties. In the 2018 fiscal year, related expenses were € 434 thousand (previous year: € 411 thousand); as of December 31, 2018, there was an outstanding receivable in the amount of € 779.47.

## THE 2018 FISCAL YEAR

In €	Fixed sum	Attendance fee	Other expenses	D&O Insurance	Total
Dr. Michael R. Drill	25,000.00	6,000.00	692.07	235.34	31,927.41
Gerhard A. Burkhardt	20,000.00	7,000.00	1,156.61	235.34	28,391.95
Rainer Zinow	20,000.00	7,000.00	924.95	235.34	28,160.29
<b>Total</b>	<b>65,000.00</b>	<b>20,000.00</b>	<b>2,773.63</b>	<b>706.02</b>	<b>88,479.65</b>

## THE 2017 FISCAL YEAR

In €	Fixed sum	Attendance fee	Other expenses	D&O Insurance	Total
Dr. Michael R. Drill	25,000.00	6,000.00	3,095.67	231.46	34,327.13
Gerhard A. Burkhardt	20,000.00	6,000.00	1,892.62	231.46	28,124.08
Rainer Zinow	15,347.22	6,000.00	2,165.74	231.46	23,744.42
<b>Total</b>	<b>60,347.22</b>	<b>18,000.00</b>	<b>7,154.03</b>	<b>694.38</b>	<b>86,195.63</b>

All of the amounts associated with these transactions were insignificant for SNP SE.

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

The remuneration of the members of the Board of Directors is based on their individual responsibility and scope of activity. In accordance with the resolution of the Annual General Meeting on May 12, 2016, the remuneration of the members of the Board of Directors was approved by the Annual General Meeting. Each member of the Board of Directors received a fixed annual remuneration of € 20,000 in the 2018 fiscal year. The Chairman receives a fixed annual remuneration of € 30,000, while the Deputy Chairman receives a fixed annual remuneration of € 25,000. Furthermore, each Board of Directors member received – in addition to the reimbursement of documented, required expenses – an attendance fee of € 1,000 for each board meeting. If a member of the Board of Directors simultaneously serves as a Managing Director, according to the articles of incorporation, their remuneration as a member of the Board of Directors is withheld. This includes both the fixed annual remuneration as well as the attendance fee.

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

### Remuneration of the Board of Directors in the 2018 Fiscal Year

The total remuneration granted to the members of the Board of Directors in the 2018 fiscal year amounted to € 88,479.65 (previous year: € 86,195.63). There were no loan receivables due from the members of the Board of Directors. The above table shows individual remuneration per member of the Board of Directors.

The company has arranged Directors and Officers (D&O) liability insurance on behalf of the members of the Board of Directors. The annual insurance premium of € 7,021.00 (€ 5,900.00 plus 19% insurance tax) also includes the D&O insurance for the Managing Directors and senior executives. The table shows the pro rata insurance premium paid per person for the period of activity.



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# GROUP MANAGEMENT REPORT FOR THE FISCAL YEAR 2018

## FUNDAMENTAL INFORMATION ABOUT THE GROUP

### BUSINESS MODEL AND ORGANIZATION

#### **SNP – The Transformation Company**

The SNP Group is a software-oriented business consulting firm that specializes in the delivery of services in the area of data processing, whereby proprietary software developments are used, particularly in the area of digital transformation management.

SNP enables companies to successfully navigate the rapidly changing digital environment and seize their opportunities on the market with a highly flexible IT infrastructure. The solutions and software from SNP allow for the integration of previously divergent IT landscapes, provide support for M&A projects and carve-outs, and promote expansion outside of the domestic market. With SNP Transformation Backbone® with SAP LT, SNP offers the world's first standardized software for automatically assessing and implementing changes to IT systems. This provides customers with clear qualitative advantages, while notably reducing the time and expense involved in transformation projects.

Its customers include corporations operating globally in the industrial, financial and service sectors. SNP SE was founded in 1994 and has been publicly traded since 2000. As of August 2014, the company is listed on the Prime Standard segment of the Frankfurt Stock Exchange (ISIN DE0007203705).

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

Agile and flexible IT landscapes are increasingly becoming a decisive factor for entrepreneurial success. The

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

#### **IT Transformations and Their Impact on ERP Systems**

From an economic perspective, transformation projects are among the most critical, complex and expensive projects that can affect the organization of companies and their business processes. "Business landscape transformation" describes the change and adaptation of enterprise resource planning (ERP) systems and represents the SNP Group's principal activity.

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

The primary task of ERP transformations is to model data completely and correctly – including the data's history – in a new IT system, to integrate data into this environment or to extract data from it. The data being worked with frequently involves critical business transactions or highly sensitive data, for example from the area of financial accounting or personnel systems. As a

result, the loss of such data could have serious consequences for the entire company. With its integrated range of software products and software-related consulting services, the SNP Group has created fitting solutions that optimally support companies in managing their IT transformations.

### **Catalyst of IT Transformations**

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

### **The Standardized Software Approach of SNP: Quick, Flexible, Inexpensive and Time Saving**

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

## **THE SNP PORTFOLIO**

The portfolio offered by the SNP Group is subdivided into two business segments: "Software" and "Professional Services". The latter segment can be further subdivided into SNP Business Landscape Transformation ("SNP BLT") and SNP Business Landscape Management ("SNP BLM"). However, there is no strict separation between software and services. In some cases, we sell our software and possibly render additional services for our customers. In many other cases, we license our software to customers within the context of a specific project we are implementing.

### **Professional Services Business Segment**

In the Professional Services business segment, we offer consulting and training services for corporate transformation processes. These mainly include the services we offer in the context of IT transformation projects, which are also referred to as "business landscape transformation" and aim to change and adapt enterprise resource planning (ERP) systems.

In the course of an IT transformation project, large volumes of data have to be analyzed and processed. The time required for a transformation project and the management attention required to implement the project can have a decisive impact on the company's business operations. As a result, it is important to ensure that (i) legacy data is seamlessly integrated into the new layout and (ii) any system downtimes during the transformation are kept at a minimum.

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

heterogeneous IT landscape and transition to a homogenized IT landscape.

The goal of our consulting and training services is to plan and implement corporate transformation processes professionally and with a high degree of automation. Our transformation consulting and training services aim to allow corporate transformation processes to be planned and implemented with the help of our software products for IT transformation. The experience gleaned from previous consulting services helps us to develop transformation tools and to refine existing tools and processes.

### **SNP Business Landscape Transformation (BLT) Business Segment**

The SNP Business Landscape Transformation business segment ("SNP BLT") encompasses all facets and consulting services that are critically needed in the course of transformation projects or that can be additionally requested by the customer. The projects are implemented using a tool-based approach within the framework of standardized tasks. Using this approach, ERP systems can be transformed and migrated using customized software. This reduces the error rate while improving the quality of the transformation.

Essential components include process consulting, implementation and data transformation.

#### **Process Consulting and Implementation**

Process consulting begins with a detailed system analysis (business landscape analysis). It establishes the basis for successful transformation processes. The next step is to reassess and redesign business processes, with the aim of improved performance and reliability. The result is a clearly defined transformation road map, which enables the customer to achieve the estab-

lished transformation goals within the time and budgetary constraints. The complexity of a transformation project can be assessed and resources can be derived from any analysis.

#### **Data Transformation**

SNP implements the process of a business landscape transformation with a standardized, software-driven approach. With SNP's software approach, transformation projects can be quickly and securely implemented – regardless of their complexity, scope and the type. SNP divides transformation projects into four types: merge, split, upgrade and align. The four standard transformation scenarios need to have an impact on business and technology processes in order to make a project successful. Each IT transformation can be performed using a combination of these four standard transformation scenarios.

### **Business Landscape Management (BLM) Business Segment**

In the SNP Business Landscape Management business segment ("SNP BLM"), we offer consulting services for IT processes in SAP and non-SAP system landscapes. For this purpose, we use the platform and functions of the SAP Solution Manager with standardized consulting, best practices and ready enhancements. SNP BLM encompasses a large number of services and activities ranging from a thorough analysis of the IT landscape and processes through to the conception and implementation of customized solutions.

In hundreds of successfully completed projects, SNP specialists have developed a variety of best practices, methods and enhancements to optimize the SAP Solution Manager. The functional scope and opportunities provided by SAP Solution Manager pose challenges to many companies. As a core system, SAP Solution

Manager can be individually adapted to specific corporate processes and organizations.

The SAP Solution Manager supports the implementation, monitoring and development of the complete system landscape of companies, in short application life cycle management (ALM). SNP BLM includes all the functions and modules of application life cycle management. SNP software and services cover all areas of application life cycle management – from SAP standard scenarios via complex, customer-specific release management to comprehensive support for S/4HANA introductions.

The SAP Solution Manager serves as a key platform for the current SAP S/4HANA projects, together with the necessary methodologies and standardized IT processes. This means that SNP BLM supports the digitalization strategy and S/4HANA transformation of its customers. Strategic consulting focuses on issues such as SAP architecture and technology consulting, as well as cloud strategies and architecture at IT decision-making level.

In addition to the strategic and technical IT process consulting services referred to above, SNP BLM supports our traditional transformation business in several ways: SAP Solution Manager is normally used as the main technical platform for transformation projects, but also supports the design, implementation, testing and operation of the customer's new business processes and system landscapes. SNP's transformation tools allow SAP Solution Manager systems that have evolved over time to be consolidated and harmonized, irrespective of the current release status.

### **SNP Academy**

SNP's extensive range of training courses are intended for customers and partners wishing to work with SNP

products. SNP offers a broad range of training options for the following areas: SNP Transformation Backbone® with SAP LT, SNP Business Landscape Transformation, SNP Business Landscape Management, SNP Drago-man and SAP Solution Manager. This training can be provided both in-house at the SNP Academy in Heidelberg and worldwide on the customers' premises.

### **Software Business Segment**

In the Software business segment, SNP mainly generates revenue from licensing and maintenance fees, as well as with its own and also external products. Our software portfolio consists of IT transformation software and proprietary add-on software. The range of IT transformation software products includes SNP Transformation Backbone® with SAP LT, SNP System Scan, CrystalBridge and SNP Automated Testing. The supplementary software supports IT transformation projects and includes the SNP Interface Scanner, SNP Data Provisioning and Masking (DPM), SNP Business Process Analysis (BPA) and SNP Drago-man, as well as other software packages acquired in the course of the most recent company acquisitions.

### **SNP Transformation Backbone® with SAP LT**

To allow for secure, cost-effective and quick transformations, the SNP Group has combined the knowledge and experience acquired in several thousand transformation projects to create an innovative software technology package: SNP Transformation Backbone® with SAP LT is the world's first standard software that provides holistic and automated support for ERP transformations. Through an ongoing improvement of the platform and close cooperation with technology and OEM partners, SNP Transformation Backbone® with SAP LT has become the international software standard for transformation processes. This software stands out due to its practical applications and supports compa-

nies' agility by way of open standards and a fully-integrated project methodology.

SNP Transformation Backbone® with SAP LT actively supports every step in a transformation project – from the ongoing analysis of company data and processes to careful planning and rapid implementation. The software has various “units” for each transformation scenario in which the methods, rules and tools used to implement the various scenarios are defined.

The SNP Transformation Backbone® with SAP LT:

- reduces project duration and cost, increases project security and safeguards compliance through transparency throughout the entire project;
- supports the various different steps in an IT transformation project – from the ongoing analysis of company data and processes to careful planning and rapid implementation;
- enables precise predictions regarding the project duration and detailed planning of the business scenario – with a reliable cost estimate;
- enables the IT departments of major companies to implement ERP transformations themselves;
- minimizes system downtimes;
- fulfills all of the statutory requirements for the migration of accounting-related data.

In 2010, the auditing firm Ernst & Young (EY) performed an extensive audit on the SNP Transformation Backbone. According to the report, the SNP Transformation Backbone supports the transformation of accounting data in accordance with the generally accepted accounting principles and the generally accepted principles of computer-based accounting systems.

In 2012, the auditing firm Pricewaterhouse-Coopers (PwC) certified the design of the SNP Transformation Backbone. According to the certification report, the

design of the SNP Transformation Backbone is consistent with the generally accepted accounting principles and other statutory and voluntary requirements in transformation projects, depending on the nature and scope of the ERP modules used.

In 2015, SNP achieved the technical integration of the SNP Transformation Backbone and SAP Landscape Transformation (SAP LT) software. SNP offers the software as SNP Transformation Backbone® with SAP LT.

SNP Transformation Backbone® with SAP LT was awarded the SAP certification “SAP Certified Powered by SAP NetWeaver” in 2017. Solutions that make use of SAP NetWeaver can be more rapidly and easily integrated in SAP solution environments. Customers benefit from improved interoperability with SAP applications and from the large ecosystem of solutions that run on SAP NetWeaver.

#### **SNP System Scan**

SNP System Scan identifies basic statistical and structural information for an SAP ERP system. System Scan serves as the basis for the preparation of an evaluation, in order to gain an overview of a customer's system. This focuses on the use of this system, such as the scope of the organizational structure, how intensively the system is used and which modules are used in the system. It is also possible to compare multiple scans of different systems or clients with one another. Particularly during the preparation phase for transformation projects, customers can use System Scan in order to draw conclusions regarding the complexity of the project.

SNP System Scan is a standalone software package that has already been integrated into CrystalBridge.

#### **CrystalBridge**

CrystalBridge offers a graphical and interactive visualization of entire SAP systems with the goal of supporting and

accelerating transformations. CrystalBridge allows corporate transformations to be visualized even prior to their implementation and simulated with the highest level of reliability. This software provides customers with intelligent recommendations as well as a more in-depth understanding of the effects of an IT transformation project on their ERP landscape.

CrystalBridge identifies every interface connected to the source ERP system; it defines the process areas used and visualizes the use of business entities. By way of example, the software visualizes a company's locations on a world map to provide a simple overview of the time zones, languages and organizational units that will be affected by a potential transformation project. CrystalBridge is offered either in the form of software as a service ("SaaS") or, for major installations, on the basis of an on-premise model – which is currently the SNP Group's preferred sales model.

### **SNP Automated Testing**

To ensure a stable system landscape, it is necessary to be able to systematically test changes and their effects on the overall system landscape. With SNP Automated Testing for SAP, SNP has developed standard software that automates regression tests for application data as well as customization. Possible errors are already identified during an early project phase. The use of SNP Automated Testing enhances project quality while significantly reducing the volume of manual testing. Developers and consultants in particular benefit from this automation, since this reveals inconsistencies in data (master and transaction data) and the related customization settings at an early stage. Further tests by expert users are more effective and can be implemented within a shorter period of time. These automated and transaction-oriented tests run entirely at the application level, i.e., fully independent of the SAP user interface. SNP Automated Testing is a standalone software package that is current-

ly only available for SAP data and is implemented in the SAP system within the customer landscape.

### **SNP Interface Scanner**

The SNP Interface Scanner analyzes the interfaces between SAP systems and their surrounding IT landscapes. The software provides a database and infrastructure for the visual representation of the systems involved and their connections. A complete interface documentation is essential for monitoring this and for planning and implementing changes to system landscapes, such as within the framework of technical or business transformation projects or for an SAP audit. The SNP Interface Scanner was awarded the SAP certification "SAP Certified Powered by SAP NetWeaver" in 2017.

The standalone SNP Interface Scanner software was integrated into CrystalBridge in 2018.

### **SNP Data Provisioning and Masking**

Meaningful, realistic test data for development, test or training systems are necessary for the optimal use of SAP systems, including for transformation processes. These data help to accelerate software development, to automate quality assurance processes and to successfully introduce new business functions.

The standard software SNP Data Provisioning and Masking provides realistic and reliable test data. The technology for the migration and reliable masking of ERP production data for tests and training and for quality assurance enables the copying and anonymization of test data from production systems.

SNP Data Provisioning and Masking helps companies to significantly shorten decision-making and change processes and enables more cost-effective test and training scenarios, all while protecting sensitive custom-

er and product data against internal and external misuse – flexibly, rapidly and simply. The standalone SNP Data Provisioning and Masking software forms part of the SNP Transformation Backbone® with SAP LT solution; the software is also to be integrated into CrystalBridge in the future.

#### **SNP Dragoman**

International companies must provide their SAP applications in the relevant local language – this represents a major challenge, particularly if they have added proprietary developments to the SAP standards. Accordingly, in international projects, a large number of documents will need to be translated into other languages: Manual translations for this purpose are time-consuming, prone to errors and expensive.

SNP Dragoman automates and simplifies the entire translation process, minimizes sources of errors and thus reduces costs considerably.

#### **SAP Solution Manager – Enhancing Functions**

The SAP Solution Manager supports the implementation, monitoring and development of the complete ERP system landscape of companies, which is known as application life cycle management. The SNP Business Landscape Management (BLM) solution includes all the application life cycle management functions and modules in the SAP Solution Manager. On the basis of best practices and around 750 successfully completed projects, the specialists at SNP BLM have developed useful add-ons for the SAP Solution Manager. These are functional enhancements in order to optimize IT processes, to simplify use of SAP Solution Manager and to make this application more user-friendly. The standardized SNP add-ons for SAP Solution Manager can be easily integrated in SAP environments and are ready for use straight away.

#### **Software and Licensing Models**

The calculation of licensing prices for perpetual and subscription licenses are generally based on the number of SAP users and the number of systems used by the customer. The license price for some products, e.g. SNP Interface Scanner, is based exclusively on the number of SAP users. The pricing for SNP Data Provisioning and Masking also takes the complexity of the SAP system landscape into account.

In addition, customers can also license the products on a module-by-module basis, allowing them to tailor their license package to meet their needs. The perpetual or subscription license price is then calculated based on the modules and the two license pricing criteria. Customers who purchase licenses have to pay a separate annual fee for maintenance services corresponding to 20% of the license price. The subscription license price already includes the maintenance costs. CrystalBridge is offered on an SaaS basis and is also available as an on-premise version in exceptional cases involving very large customers. The pricing of both the SaaS product and the on-premise version is based exclusively on the number of SAP users.

#### **COMPETITIVE STRENGTHS**

We believe that our competitive strengths lie in:

##### **Extensive Experience in IT Transformation Projects**

We have a long-standing successful track record and extensive experience in our line of business: We have been helping our customers to implement complex IT transformation projects for more than 20 years now. We have delivered several thousand global transformation projects involving highly complex data and



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**Competitive Strengths****Research and Development**

processes on time, including major and time-critical mergers and takeovers, as well as carve-out projects, across the globe.

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

Nowadays, transformation projects are among the greatest challenges facing companies and their IT departments. In the course of a transformation project, large amounts of data have to be analyzed and processed. This tends to result in substantial personnel expenses, the intensive use of management resources and operational downtime affecting ERP systems. With our standardized software approach, we ensure that IT transformation projects are implemented as part of a one-step process – significantly reducing, or even eliminating the need for, any downtime while ensuring a full backup of the historical legacy data.

This produces clear quality and cost advantages for our customers. The reduction of downtimes affecting the productive IT systems, in particular, is a decisive unique selling point. In addition, our software-based approach also reduces the error rate during a transformation project and also ensures that the original system can be restored at any time during a transformation project.

**SNP BLUEFIELD™: A Flexible and Alternative Migration Approach for SAP S/4HANA and Cloud Transformation Projects**

Many SAP customers will have to transition to the new SAP S/4HANA software generation over the next few years. Some of them, however, do not want to use the standard tools offered by SAP for their software migration projects, but rather are looking for alternative migration approaches that allow complex and flexible changes to be made to existing systems. The further development of the SNP BLUEFIELD™ transformation approach based on SNP software allows us to offer our customers a flexible and alternative SAP S/4HANA mi-

gration approach compared with conventional Brownfield and Greenfield approaches.

SNP BLUEFIELD™ has the capacity to update, convert and modernize SAP landscapes as part of a single project, while keeping operational downtime as close to zero as possible. Transformation processes using SNP software run in parallel, and not sequentially, between the current and future status. We have entered into a global partnership with IBM that allows us to offer the BLUEFIELD™ solution together and join forces in our sales activities, too. The vendor-neutral SNP BLUEFIELD™ approach is equally capable of moving companies and their IT systems into the cloud.

**Strong Consulting Basis**

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

**RESEARCH AND DEVELOPMENT**

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

In the 2018 fiscal year, the research and development costs reached a volume of € 16.0 million (previous year: € 14.0 million); the corresponding share of revenue was

12.2% (previous year: 11.4%). No development costs were capitalized in the 2018 fiscal year (previous year: € 144 thousand).

As of December 31, 2018, 99 employees worked in SNP's development department (December 31, 2017: 91). This represents 8% of the Group's total workforce (December 31, 2017: 7%).

### **Innovations**

SNP and their products help organizations respond quickly to technological and economic changes. To ensure this, the company itself must be continuously evolving and making new technologies available. Therefore, innovation is a key component of the Group's strategic development and makes a crucial contribution to the company's future growth.

The company demonstrated its ability to innovate with the market launch of the core product SNP Transformation Backbone®. This is the first standard software for IT transformations available worldwide. To satisfy increasing technological and economic change in corporate landscapes, the company is constantly working on offering its customers solutions for their transformation projects that are even more efficient in terms of cost and time. Continual investments are made in software extensions to add further application functionality and to target additional markets.

### **Partnership With SAP**

A close partnership with SAP is a key driver of the expansion of our business in the future. We cooperate with SAP at various levels:

The SAP Landscape Transformation Software (SAP LT) was integrated into the SNP Transformation Backbone® in collaboration with SAP. With this expansion, SNP has also covered highly standardized SAP LT end-to-end scenarios in its software and service portfolio since 2015. As a result of its collaboration with SAP, SNP has intimate knowledge of the latest developments in transformation software and is also the only SAP LT OEM partner in the world.

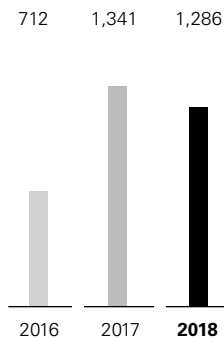
SNP Transformation Backbone® with SAP LT was awarded the SAP certification "SAP Certified Powered by SAP NetWeaver" in 2017. In 2018, this certification was also awarded to the SNP Interface Scanner. Solutions that make use of SAP NetWeaver can be more rapidly and easily integrated in SAP solution environments. Customers benefit from improved interoperability with SAP applications and from the large ecosystem of solutions that run on SAP NetWeaver.

The framework agreement with SAP SE on support in the further development of the SAP Landscape Transformation Software (SAP LT) was extended in 2018.

We are also developing supplementary technical solutions for our customers to accelerate their switch to SAP S/4HANA and their move into the cloud.

### **Artificial Intelligence**

We have started to use artificial intelligence in data conversion projects in order to achieve a higher degree of automation. We are working with the University of Mannheim on a research project that aims to develop methods and tools to facilitate the automatic derivation of IT transformation rules. This should reduce the time required for analysis in SAP S/4HANA projects, among other things.

**EMPLOYEES AT YEAR END****Innovation Partnership with Innoplexia GmbH**

In the course of the 2018 fiscal year, we took over the remaining shares in Innoplexia GmbH, meaning that the company is now a wholly-owned subsidiary of SNP SE. The company was integrated into the SNP Group, in both technological and administrative terms, as a full member in the 2018 fiscal year, creating even more potential for synergy in our collaboration.

Innoplexia was established in 2010 and provides automated digital market monitoring and cloud-based software solutions. Innoplexia also works with a whole number of companies on complex transformation projects, accompanying them as they move towards the digital working world. Experts and decision-makers from a range of sectors have been reaping the benefits of the expertise offered by the Heidelberg-based software company for years now. The state-of-the-art technological approaches that Innoplexia is contributing to the further development of SNP CrystalBridge are also worthy of particular mention. These include extremely efficient machine learning and data mining approaches.

**SUSTAINABILITY AND NON-FINANCIAL REPORT**

SNP's long-term growth is based on commercial success, the responsible use of existing resources and a commitment to assuming social responsibility. We are using sustainable actions to master the challenges of the future today. We have identified the following areas as being particularly relevant to sustainability at SNP:

- Work-family balance
- Training and education
- Shareholder value
- Marketing
- Data security

Our sustainability activities are described in detail in our Corporate Social Responsibility Report. This report also includes the Non-Financial Declaration in accordance with Sections 315 b and c of the German Commercial Code (HGB), which meets the requirements set out in the German CSR Directive Implementation Act (CSR-RUG). Our Corporate Social Responsibility Report is based on the standards set by the Global Reporting Initiative (GRI G4). The report can be found on our website at <https://www.snpgroup.com/en/corporate-governance>.

**Employees****Training and education**

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

**Development in headcount**

The Group's number of employees fell by 4% on the previous year, from 1,341 to 1,286. Despite the slight drop in the number of employees at the end of the year, further employees were recruited during the reporting period in order to establish and expand the necessary resources to drive the company's further development in a targeted manner.

Nominal personnel expenses increased 16.0% year over year to € 82.9 million (previous year: € 71.5 million). The increase is due primarily to the fact that, unlike in the previous year, two major company acquisitions were consolidated for the entire year: SNP Poland (formerly known as the BCC Group, first-time consolidation as of May 1, 2017) and the South American Adepron Group (first-time consolidation as of August 1, 2017). As of December 31, 2018, 317 employees were employed in Poland and 246 in South America.

The personnel expense ratio (personnel expenses relative to revenue) rose from 58.4% in the previous year to 63.3%.

Included among employees were two Managing Directors (previous year: two Managing Directors), 20 managers (previous year: 23) and 41 trainees, students and interns (previous year: 22). There were no employees in partial early retirement in the 2018 fiscal year (previous year: 0). The average number of employees during the reporting period, excluding the aforementioned group of individuals, was 1,289 (previous year: 1,022 employees).

### **Internationalization**

As a result of the internationalization strategy, the share of the workforce not employed in Germany has increased significantly in recent years. At the end of 2016, the SNP Group had 316 employees working in foreign subsidiaries, representing a percentage share of the total workforce of around 44%. On December 31, 2017, the number of employees working abroad had increased to 837; the percentage share therefore increased by 18 percentage points to around 62%. As of December 31, 2018, the share attributable to these employees rose by one percentage point to around 63%, although the absolute number of employees employed abroad fell slightly, namely by 3%, to 811.

In Germany, too, the number of employees dropped from 504 as of December 31, 2017 to 475 as of December 31, 2018. This represents a drop of approximately 6%. The percentage share in relation to the total workforce, however, is virtually unchanged at 37% (previous year: 38%). Austria accounts for 47 employees (previous year: 49); the Group has six employees in Switzerland (previous year: seven). Overall, the Group therefore has 528 employees in the DACH region (previous year: 560), a figure that is again down by 6%.

In Poland, the SNP Group had 317 employees at the end of the year (previous year: 292); this corresponds to an increase of 9% and a share of the total workforce of around 25% (previous year: 22%). The Southeast Asian economic zone (Malaysia, Singapore, China) accounts for a further 100 employees (previous year: 128); this corresponds to a percentage decrease of two percentage points to 8% of the total workforce.

In the USA, the number of employees fell from 90 in the previous year to 64. In South America, the SNP Group has 246 employees (previous year: 239); they account for a percentage share of 19% of the Group's workforce. You will find further information on the Group's employees in our "Corporate Social Responsibility Report", which may be downloaded from our website: <https://www.snpgroup.com/en/corporate-governance>

## ECONOMIC REPORT

### ECONOMIC ENVIRONMENT

#### Macroeconomic Environment

Global economic momentum slowed considerably in the second half of 2018 in particular. According to estimates released by the International Monetary Fund (IMF)<sup>1</sup>, price-adjusted growth came to 3.7% in 2018, down by 0.1 percentage points on the previous year's figure (2017: 3.8%). The emerging markets, in particular, were hit by weaker economic development last year. This was mainly due to the interest rate hikes in the USA and to the strong U.S. dollar. Export-oriented economies were hit particularly hard by the waning global economic momentum. As the trade conflict between the USA and China escalated, the global economic climate became increasingly gloomier in the second half of 2018.

The U.S. economy was able to buck this trend, once again reporting stronger growth (2.9%) than in the previous year in 2018 (2017: 2.2%). This development was helped along by the fiscal measures taken by the U.S. administration, primarily the tax reforms that came into effect at the start of 2018, which ushered in tax breaks for households and the corporate sector alike.

Whereas the eurozone was still characterized by considerable growth momentum in the second half of 2017, this started to taper off in 2018. Weaker foreign trade, in particular, put pressure on economic growth, which came to 1.8% for the year as a whole (2017: 2.4%). The export business was hampered by U.S. protectionism and associated fears of a further escalation of the trade conflict between the USA on the one hand, and the EU and China on the other. Other extraordinary factors, such as the problems faced by the automotive

industry in moving over to the new exhaust emission standards, meant that in Germany and Italy, growth was even in negative territory in some quarters of the year.

In 2018, the German economy expanded by only 1.5% (2017: 2.5%). This slowdown is due primarily to the economy's heavy reliance on exports. What is more, the delays in forming a government postponed government spending, meaning that federal government demand was temporarily weaker at the start of the year.

The Asian economy reported growth of 6.5%, on a par with the previous year. The rate of growth in China's gross domestic product, on the other hand, dipped slightly in a year-on-year comparison to 6.6% (2017: 6.9%). This was due to the customs measures initiated by the USA coinciding with more moderate growth in China in general.

#### Industry-Related Environment

Although SAP operates in a highly attractive market environment, we are not aware of any reliable studies or market figures that cover the IT transformation market specifically. As a result, we base our assumptions on our own assessment of the market. Most IT transformation projects are aimed at changing and adapting ERP systems. This means that our customers are companies that use ERP programs as an integral component of their IT business landscape.

SAP is the dominant player on the fragmented global ERP software market. SAP had a global market share of 22% in 2017<sup>2</sup>, which is why our product developments are systematically focused first and foremost on SAP systems. The remaining share of the ERP market consists of Oracle, Sage and a large number of specialized providers, as well as providers offering solutions

<sup>1</sup> IMF World Economic Outlook Update, January 2019

<sup>2</sup> Market Share Analysis: ERP Software, Worldwide, 2017; June 22, 2018

for small and medium-sized companies (e.g. Workday, Infor, Microsoft, Kronos, Ultimate Software, Visma and Yonyou).

SAP S/4HANA is pushing many SAP customers to consider or plan a possible migration. More and more companies are thinking about whether or not, when, and in particular how, they should migrate their existing systems to SAP S/4HANA. Some of them have already taken this step. For 76% of the 104 German companies surveyed that use SAP, the desire to establish more flexible and agile SAP processes is one of the main factors driving implementation<sup>3</sup>. The launch of SAP S/4HANA has already started, and the company believes that it will influence the markets over at least the next ten years. Companies that want to switch over to SAP S/4HANA have to look at their data structures. This is one of the core competencies of the SNP Group and our flexible SNP BLUEFIELD™ approach.

As a result, we predict that the market for our services will grow in the future thanks to the expected implementation of SAP S/4HANA. According to Gartner<sup>4</sup>, global spending on IT products and services is estimated to have totaled 4.1 trillion U.S. dollars in 2018 (based on constant foreign exchange rates). The IT services segment is likely to have made a contribution of around 1.1 trillion U.S. dollars in 2018. North America will have remained the biggest region for IT services in 2018, accounting for around 0.4 trillion U.S. dollars, followed by Western Europe at around 0.3 trillion U.S. dollars. The software segment, which consists of enterprise application software and infrastructure software, meaning that it ties in with SNP's software business field, is expected to have made a contribution of around 0.4 trillion U.S. dollars in 2018. North America is expected to remain the biggest region for software spending in 2018, accounting for around 0.2 trillion U.S. dollars, followed by Western Europe at 0.1 trillion U.S. dollars. These market fig-

ures underscore the potential that we cover with our two business fields.

## SIGNIFICANT EVENTS

### **Restructuring of the North America Region**

In January 2018, SNP resolved a reorganization and restructuring of its North American subsidiary SNP Transformations, Inc. As part of this reorganization, just under 20 full-time positions were eliminated in the first half of the year. SNP expects this to result in savings running into the lower single-digit millions in the 2019 fiscal year. These measures related to operating as well as administrative areas. The goal is to achieve a permanent improvement in competitiveness and efficiency throughout this subsidiary. In addition, core functions that were previously based at various locations were pooled. A new CEO was appointed for the North America region at the end of the year. The strategic objectives in the USA include stepping up the company's collaboration with major partner companies, expanding the sales team and increasing both revenue and earnings.

### **The 2018 Annual General Meeting**

The Annual General Meeting of SNP SE, which took place in Wiesloch for the first time on May 30, 2018, approved all the points on the agenda by a substantial majority. Among other items, the shareholders followed the proposal of the Board of Directors on the appropriation of profit and resolved not to distribute a dividend for the 2017 fiscal year (previous year: € 0.39).

### **Partnership With IBM**

Through a new partnership, SNP is working with IBM Services to help companies to accelerate the introduction of SAP S/4HANA as part of their overall digital

<sup>3</sup> PAC – a CXP Group Company, "SAP S/4HANA in Deutschland," July 2018

<sup>4</sup> Gartner Market Databook, 3Q18 Update; October, 2018

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**Significant Events**

transformation. The new SNP BLUEFIELD™ approach is used here. Unlike traditional approaches such as Greenfield and Brownfield, BLUEFIELD™ offers companies the technical capacity to migrate and update functions and data in a single, non-destructive step. The customer saves time and money and reduces the risk of errors. BLUEFIELD™ is made possible by means of a unique combination of SNP software. It is a registered trademark of SNP SE.

**Major US Order: Spectrum Brands**

An agreement was signed with Spectrum Brands Holdings, Inc. in May to spin off the company's global divisions "Batteries and Lights" and "Home and Personal Care Appliances." The order volume has a total value of around \$ 4.5 million; software licenses account for approximately \$ 1.9 million of this amount. The two transformation projects – which encompass the execution of data transformations in North America and Europe – will run for a period of one year and are expected to be completed in April 2019. Spectrum Brands is a global supplier of consumer goods with a portfolio of leading brands.

**Innoplexia GmbH: Increase in the Company's Investment to 100%**

In June 2018, SNP SE exercised the agreed unilateral purchase option and purchased the remaining 20% of the shares in Innoplexia GmbH from this company's founder and managing director. SNP SE thus increased its investment to 100% of the shares by means of a multiple-phase acquisition plan. SNP SE had already increased its investment from 20% to 80% of the shares in this company in May 2017. In 2018, the founder and managing director of Innoplexia GmbH – Prof. Dr. Herbert Schuster – was also appointed as the new CIO of SNP SE. In addition, the company was integrated into the SNP Group, in both technological and

administrative terms, as a full member in the 2018 fiscal year, creating even more potential for synergy in our collaboration.

**Expansion of the Management Structure**

Since July 2018, Dr. Uwe Schwellbach has assumed the position of SNP SE's Chief Financial Officer (CFO) and is responsible for Finance and Human Resources. He holds a doctorate in business administration and has long-standing expertise in leadership positions in the commercial area. In the past, he has supported several rapidly growing organizations, adjusted their financial structures for growth and professionalized them. On September 21, 2018, Dr. Uwe Schwellbach was appointed Managing Director.

**Program to Increase Profitability and Competitiveness**

In the second half of 2018, an internally and globally oriented program to improve cost efficiency and to increase liquidity was launched in order to adjust the internal structures and processes to reflect the demands that the rapidly growing Group has to meet. The aim was, and is, to optimize liquidity and strengthen free cash flow, in particular. Cost structures were also improved. The released liquidity will be used for necessary investments, to increase the liquidity reserve and for the repayment of liabilities.

**"Transformation World": New Visitor Record Set**

This year's "Transformation World," the largest expert-level congress for digital software transformation in the German-speaking world, was held in November 2018. With significantly more than 400 customers and a total of 500 participants from all over Europe, the USA and Asia, this two-day congress was once again com-

pletely sold out this year and has established itself as a top community in the field of business and IT transformation far beyond Germany. The increase in the number of participants from one year to the next clearly demonstrates the high level of topicality of the areas covered by this congress. SNP has now hosted this congress on five occasions.

### Capital Increase

In November 2018, SNP SE announced a cash capital increase, as a result of which the company's share capital increased by € 1,127,984, divided into 1,127,984 no-par-value shares, to a total of € 6,602,447, divided into 6,602,447 shares. The new shares, which were issued at a price of € 16.60 per share, are entitled to dividends in the 2018 fiscal year, beginning on January 1, 2018. The subscription rate was 90.6%. The unsubscribed new shares were sold to Dr. Andreas Schneider-Neureither (CEO) through SN Assets GmbH as per the investment agreement. The capital increase was therefore fully placed. As a result, the company generated a gross cash inflow of € 18.7 million. The capital increase was entered in the German commercial register on December 18, 2018. Since December 19, 2018, the new shares have been included in stock exchange trading.

### KEY PERFORMANCE INDICATORS

In order for SNP SE to achieve a sustainable increase in the company's value, its efforts are focused on further profitable growth and continuously strengthening the financial capacity of the SNP Group. An internal management system comprising both financial and non-financial performance indicators ensures that these strategic objectives are met.

The main financial performance indicators include revenue and operating earnings (IFRS) in the two business segments, Professional Services and Software, as well as order entry and the order backlog as non-financial performance indicators.

Furthermore, the capacity utilization indicator is highly significant for an understanding of the business performance of SNP SE as well as the company's position. The management registers this performance indicator only partly in a quantitative form on an ongoing basis, through KPIs.

Capacity utilization, the volume of productive working hours that can be billed, is an important yardstick of the efficiency of our consulting business. The order backlog is a key indicator of revenue development. The target revenue for the following year, on the basis of a project progressing according to plan, is determined to a considerable extent in accordance with the order backlog. The order backlog is, however, susceptible to fluctuation due to possible changes made by customers to project implementation plans or negotiations with customers or partners that take longer than expected.

At the start of the 2018 fiscal year, due to the significant acquisitions and the associated depreciation/amortization effects, EBIT (non-IFRS), EBITDA (IFRS and non-IFRS), EBIT margin (IFRS) in the two business segments, Professional Services and Software, as well as EBIT margin (non-IFRS) und EBITDA margin (IFRS and non-IFRS) were introduced as further significant financial performance indicators at Group level.

The adjusted performance indicators are not determined on the basis of IFRS accounting standards and are therefore non-IFRS performance indicators. The



Key Performance Indicators  
Overall Summary of Target Achievement by the Managing Directors  
Order Backlog and Order Entry

in € million	2018				2017			
	IFRS	Adaption	Currency impact	Non-IFRS, adjusted for exchange rate effects	IFRS	Adaption	Currency impact	Non-IFRS, adjusted for exchange rate effects
Revenue	131.0	0.0	0.0	131.0	122.3	0.0	0.0	122.3
Capitalized own services	0.0	0.0	0.0	0.0	0.2	0.0	0.0	0.2
Other operating income	5.7	-3.5	-1.2	1.0	1.9	0.0	-0.6	1.3
Cost of material	-21.2	0.0	0.0	-21.2	-19.2	0.0	0.0	-19.2
Personnel costs	-83.2	2.4	0.0	-80.8	-71.5	0.0	0.0	-71.5
Other operating expenses	-29.5	0.0	1.7	-27.8	-29.9	1.4	2.8	-25.7
Other taxes	-0.4	0.0	0.0	-0.4	-0.5	0.0	0.0	-0.5
<b>EBITDA</b>	<b>2.3</b>	<b>-1.1</b>	<b>0.5</b>	<b>1.7</b>	<b>3.3</b>	<b>1.4</b>	<b>2.2</b>	<b>6.9</b>
Depreciation	-4.9	1.5	0.0	-3.3	-3.8	1.6	0.0	-2.2
<b>EBIT</b>	<b>-2.5</b>	<b>0.4</b>	<b>0.5</b>	<b>-1.6</b>	<b>-0.5</b>	<b>3.0</b>	<b>2.2</b>	<b>4.7</b>

following expenses and income are not included in our disclosures on operating expenses and income (non-IFRS) for the 2018 fiscal year:

- Restructuring expenses;
- Amortization of identified intangible assets acquired through company acquisitions;
- Dissolution of variable purchase price liabilities.

In the 2017 fiscal year, the following operating expenses (non-IFRS) were not taken into account:

- Acquisition-related expenses;
- Amortization of identified intangible assets acquired through company acquisitions; Incidental acquisition costs;
- Expenses associated with SNP Schneider-Neureither & Partner AG's change of legal form to become a European stock corporation (Societas Europaea/SE).

This meant that, in the 2018 fiscal year, there were expenses of € 3.9 million (previous year: € 3.0 million) and income of € 3.5 million (previous year: € 0.0 million) that were not taken into account.

Disclosures concerning the EBIT, EBIT margin, EBITDA and the EBITDA margin that are reported as EBIT (non-IFRS), EBIT margin (non-IFRS), EBITDA (non-IFRS) and EBITDA margin (non-IFRS) differ from the corresponding IFRS performance indicators on account of an adjustment for the aforementioned operating expenses (non-IFRS).

In addition, the key figures thus determined are adjusted for exchange rate losses and gains. The euro is the Group's functional currency and the reporting currency of the consolidated financial statements. A result of the Group's increasing internationalization outside the euro-zone is that its operating business and financial transac-

tions involve fluctuations in currency exchange rates. In 2018, the company reported a net exchange rate loss of € 0.5 million that was neutralized in the exchange rate-adjusted non-IFRS figures (previous year: exchange rate loss of € 2.2 million).

## OVERALL SUMMARY OF TARGET ACHIEVEMENT BY THE MANAGING DIRECTORS

### Forecast/Actual Comparison

All in all, we only achieved some of our targets in the 2018 fiscal year. We were, however, successful in pushing ahead with the strategic further development of the SNP Group and implemented important measures to integrate the companies acquired in the previous years.

Operating earnings (EBIT, IFRS) were in negative territory for the year as a whole. Operating earnings in the second half of 2018, however, were up by a total of around € 10 million on operating earnings for the first half of 2018, which corresponds to a marked improvement. This is mainly due to measures to boost operational capacity and to improve and secure profitability on a sustainable basis in the second half of 2018.

### ORDER BACKLOG AND ORDER ENTRY

Order entry as of December 31, 2018 came to € 132.3 million, up by around 1.1% on the prior-year value of € 130.7 million but well below the expected order entry, which was projected to exceed the expected revenue by a figure in the low double-digit percentage range. The deviation compared with our projections is due primarily to delays in the implementation and commissioning of planned major projects. Around 45% of order entry as of December 31, 2018 is attributable to the DACH region (Germany, Austria and Switzerland).

## FORECAST/ACTUAL COMPARISON

	<b>Targets for 2018</b>	<b>Results for 2018</b>	<b>Comments</b>
<b>Revenue</b>	<b>Group:</b> € 150 million to € 155 million	<b>Group:</b> € 131,0 million	<b>Group:</b> Forecast adjusted during the year to between € 135 million and € 140 million (July 2018)
	<b>Professional Services:</b> € 114 million to € 118 million	<b>Professional Services:</b> € 101.2 million	<b>Professional Services:</b> Temporary drop in capacity utilization due to project delays and the slower implementation of major projects, particularly SAP S/4HANA projects
	<b>Software:</b> € 36 million to € 37 million	<b>Software:</b> € 29.8 million	<b>Software:</b> Software revenue fell short of expectations, particularly for in-house products
<b>EBIT margin (IFRS)</b>	<b>Group:</b> EBIT margin in the mid-single-digit percentage range	<b>Group:</b> -1.9%	<b>Group:</b> Forecast adjusted during the year to a negative figure in the low-single-digit percentage range (July 2018) to a figure that is more or less zero (October 2018)
	<b>Professional Services:</b> in the lower to mid-single-digit percentage range	<b>Professional Services:</b> -5.2%	<b>Professional Services:</b> Deviation mainly due to revenue
	<b>Software:</b> in the lower to mid-double-digit percentage range	<b>Software:</b> 30.3%	
<b>EBIT margin (Non-IFRS)</b>	<b>Group:</b> The expected IFRS and non-IFRS EBIT margins differ by around 1%; non-IFRS EBIT margin is around one percentage point higher than the IFRS EBIT margin.	-1.2%	The deviation is due to unplanned restructuring expenses in the 2018 fiscal year
<b>EBITDA margin (IFRS)</b>	<b>Group:</b> In the mid to upper-single-digit percentage range	1.8%	Deviation largely due to revenue
<b>EBITDA-Marge (Non-IFRS)</b>	<b>Group:</b> In the mid to upper-single-digit percentage range	1.3%	Deviation largely due to revenue

South America and Poland each account for around 17% of incoming orders. North America and the UK contributed 8% and 6% respectively to total order entry. Looking at the individual segments, the Software business segment accounted for 26% of order entry as of December 31, 2018, while 74% of incoming orders were attributable to the Professional Services business segment.

Order backlog as of December 31, 2018 amounted to € 56.3 million. Compared with the previous year's figure of € 61.3 million, this corresponds to a drop of around 8%, which can be primarily explained by a lower level of new/follow-up orders than expected.

## EARNINGS POSITION

After a 2017 fiscal year that saw strong growth, the revenue generated by the SNP Group increased again in the 2018 fiscal year: Group revenue rose by 7.1% to € 131.0 million (previous year: € 122.3 million). The ac-

quisitions made during the course of the previous year, which were consolidated for a full year for the first time in 2018, are the main reason behind this trend.

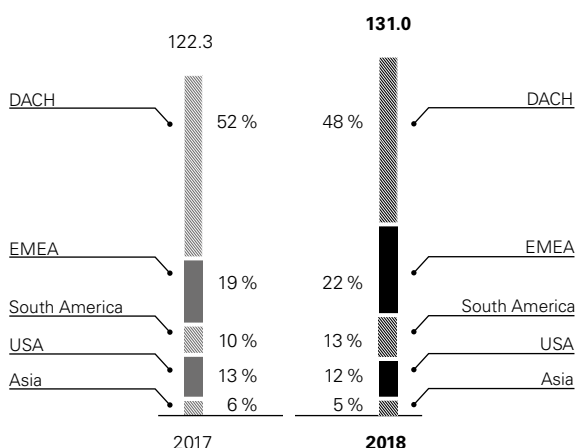
## Organic and Inorganic Allocation of Revenue

The initial consolidations of SNP Poland (formerly known as the BCC Group, initial consolidation as of May 1, 2017), the Adepcon Group (initial consolidation as of August 1, 2017), Innoplexia GmbH (initial consolidation as of May 1, 2017) and ERST GmbH (initial consolidation as of October 1, 2017) had a material impact on revenue growth. Unlike in the previous year, these acquisitions contributed to total revenue for a full twelve-month period in the 2018 fiscal year. The resulting inorganic revenue increase came to € 17.9 million in the 2018 fiscal year. This represents growth of approximately 15%. At the same time, the SNP Group reported an organic revenue increase of € 9.3 million, down by around 8%.

## Earnings Position

## REVENUES BY REGION

in € million



## Revenue Distribution by Region

In the DACH region (Germany, Austria and Switzerland), the SNP Group generated revenue of € 63.5 million (previous year: € 64.0 million). This corresponds to a share of total revenue of approximately 48% (previous year: 52%). The lower percentage of revenue in the DACH region can ultimately be connected to the SNP Group's successful internationalization strategy.

Other European countries (Poland, UK, Spain) contributed € 28.2 million (previous year: € 23.6 million); this corresponds to a share of around 22% (previous year: around 19%) of total revenue.

Through the Adepcon Group, the South America region provided a revenue contribution of € 16.8 million (previous year since August 2017: € 12.0 million); this represents a revenue share of approximately 13% (previous year: 10%). The sales contribution of the North America region of € 15.5 million is slightly below the level of the previous year (previous year: € 15.9 million). The USA contributed approximately 12% of total revenue (previous year: 13%). The Asia region generated 5% of revenue with € 6.9 million (previous year: € 6.9 million or 6%).

## Revenue Distribution by Business Segment

In the 2018 fiscal year, the **Professional Services division**, which primarily includes consulting services, contributed € 101.2 million (previous year: € 98.3 million) to revenue. This corresponds to an overall revenue share of around 77% and represents an increase of € 2.9 million, or around 3%, over the previous year. While the inorganic portion of the company's revenue growth amounted to € 13.3 million (+14%), organic revenue development was negative at € -10.5 million, or -11%. This is mainly due to a drop in orders, which can, in turn, be attributed to our customers delaying SAP S4/HANA projects.

Revenue of € 29.8 million (previous year: € 24.0 million) came from the **Software division (incl. maintenance) and cloud**. This represents an increase of € 5.8 million, or approximately 24%, over the previous year. Of this, € 4.6 million relate to inorganic growth and € 1.2 million to organic growth. In this business segment, licensing and cloud fees have increased by € 2.6 million, or 13.6%, to € 21.7 million (previous year: € 19.1 million); maintenance fees have increased disproportionately strongly, by € 3.2 million, or 64.6%, to € 8.1 million (previous year: € 4.9 million).

Revenue was increased significantly with high-margin SNP in-house products in the software and cloud division to € 21.1 million (previous year: € 15.5 million). In the same period, revenue in the amount of € 8.7 million (previous year: € 8.5 million) was registered with third-party products. The SNP Transformation Backbone® with SAP LT remained the largest revenue driver in the in-house products division in the period under review. Including maintenance, this product contributed € 11.9 million (previous year: € 10.4 million) to business segment revenue.

The standard software SNP Data Provisioning and Masking generated revenue of € 3.2 million (previous year: € 2.7 million) during the reporting period. The SNP Interface Scanner contributed revenue of € 1.0 million during the reporting period (previous year: € 1.1 million).

## Earnings Performance

In the 2018 fiscal year, SNP SE achieved an EBITDA figure (IFRS) of € 2.3 million (previous year: € 3.3 million) and an EBITDA figure (non-IFRS; adjusted for exchange rate effects) of € 1.7 million (previous year: € 6.9 million). This corresponds to a drop in EBITDA of around 30% (IFRS), or approximately 75% (non-IFRS; adjusted for exchange rate effects) as against the previous year.

Accordingly, the EBITDA margin (IFRS) is 1.8% (previous year: 2.7%); the EBITDA margin (non-IFRS; adjusted for exchange rate effects) is 1.3% (previous year: 5.7%). In the same period, the EBIT figure (IFRS) amounted to € -2.5 million (previous year: € -0.5 million) and the EBIT figure (non-IFRS; adjusted for exchange rate effects) to € -1.6 million (previous year: € 4.7 million). The operating result (IFRS) was thus € 2.0 million weaker than in the previous year, and the operating result (non-IFRS, adjusted for exchange rate effects) was € 6.3 million weaker than in the previous year. The EBIT margin (IFRS) is -1.9% and has also decreased on the previous year (previous year: -0.4%). The EBIT margin (non-IFRS, adjusted for exchange rate effects) is -1.2% (previous year: 3.8%).

On the segment side, the Professional Services business segment registered an EBIT figure (IFRS) of € -5.2 million (previous year: € 0.3 million) and the Software business segment registered an EBIT figure (IFRS) of € 9.0 million (previous year: € 4.9 million). This corresponds to an EBIT margin of -5.2% (previous year: 0.3%) for the Professional Services business segment and an EBIT margin of 30.3% (previous year: 20.4%) for the Software business segment. Specific activities such as finance, accounting and human resources, as well as IT services, are activities that are managed and supervised at Group level. They are not included in the segment earnings. Order entry in the Professional Services business segment came to € 97.7 million in 2018 (previous year: € 111.5 million). The Software business segment accounted for € 34.6 million (previous year: € 19.2 million). At the end of 2018, the order backlog came to € 42.6 million in the Professional Services business segment and € 13.7 million in the Software business segment.

The operating margin loss (IFRS) in the 2018 fiscal year is mainly attributable to delays in project completions,

particularly in connection with our customers' transition to SAP S4/HANA and the associated temporary drop in capacity utilization. Capacity utilization (ratio of invoiced hours to available hours) came to around 71% in the 2018 reporting year. Moreover, restructuring measures were performed at a small number of companies in 2018. These entailed one-off costs in the form of redundancies and severance compensation and thus had an extraordinary negative impact on earnings. Overall, costs in the amount of € 2.4 million arose for these measures. In the following, these costs and likewise acquisition-related amortization (amortization of identified intangible assets acquired through company acquisitions; in the 2018 fiscal year: € 1.5 million) will not be included in the non-IFRS figures. On the other hand, there is income from the dissolution of variable purchase price components (€ 3.5 million) in 2018 that is also not included in the non-IFRS figures.

Total expenses (IFRS; non-IFRS, adjusted for exchange rate effects) increased disproportionately strongly in comparison with revenue growth in the reporting period. Personnel expenses (IFRS) increased by € 11.7 million to € 83.2 million in the 2018 fiscal year. After adjustments to reflect restructuring expenses (€ 2.4 million), personnel expenses (non-IFRS, adjusted for exchange rate effects) rose by € 9.3 million to € 80.8 million. Personnel expenses (IFRS) totaling € 21.2 million (previous year: € 12.0 million) related to the companies acquired during the course of the previous year during the reporting period. As of December 31, 2018, the Group had 1,286 employees (previous year: 1,341).

Costs of purchased services and the cost of materials (IFRS and non-IFRS, adjusted for exchange rate effects) increased by € 2.0 million from the previous year, to € 21.2 million. Of this, € 13.1 million (previous year: € 11.0 million) related to the companies acquired during the course of the previous year.

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Earnings Position

Net Assets And Financial Position

Depreciation and amortization (IFRS) increased by € 1.1 million year-over-year to € 4.8 million. Of this, € 1.5 million is attributable to intangible assets capitalized for the first time in connection with the initial consolidation of acquisitions that are not included in the depreciation and amortization (non-IFRS, adjusted for exchange rate effects) of € 3.3 million. The depreciation and amortization attributable to those companies acquired during the course of the previous year amounted to € 0.7 million (previous year: € 0.7 million).

Other operating expenses (IFRS) fell by € 0.7 million to € 29.2 million. Of this, € 7.1 million (previous year: € 3.8 million) is attributable to the companies acquired in the course of 2017. By contrast, other operating expenses (non-IFRS, adjusted for exchange rate effects) increased by € 2.1 million to € 27.8 million. The increase is attributable to higher non-IFRS adjustments of € 1.4 million and to higher exchange rate adjustments of € 1.1 million in the previous year.

Other operating income (IFRS) increased by € 3.8 million to € 5.7 million. The increase in other operating income is due primarily to the dissolution of variable purchase price components in the amount of € 3.5 million, which is not included in the non-IFRS figures. Other operating income (non-IFRS, adjusted for exchange rate effects) fell by € 0.3 million to € 1.0 million.

Since other financial expenses of € 1.2 million were offset by only immaterial other financial income, net financial costs of € -1.1 million (previous year: € -1.4 million) were incurred, resulting in a loss before taxes of € -3.6 million (previous year: € -1.9 million). With income tax income of € 2.0 million (previous year: expenses of € -0.8 million), the 2018 fiscal year produced a net loss of € -1.6 million (previous year: € -2.7 million). This corresponds to a net margin of -1.2% (previous year: -2.2%). Accordingly, diluted and basic earnings per share amounted to € -0.26 (previous year: € -0.47).

## NET ASSETS AND FINANCIAL POSITION

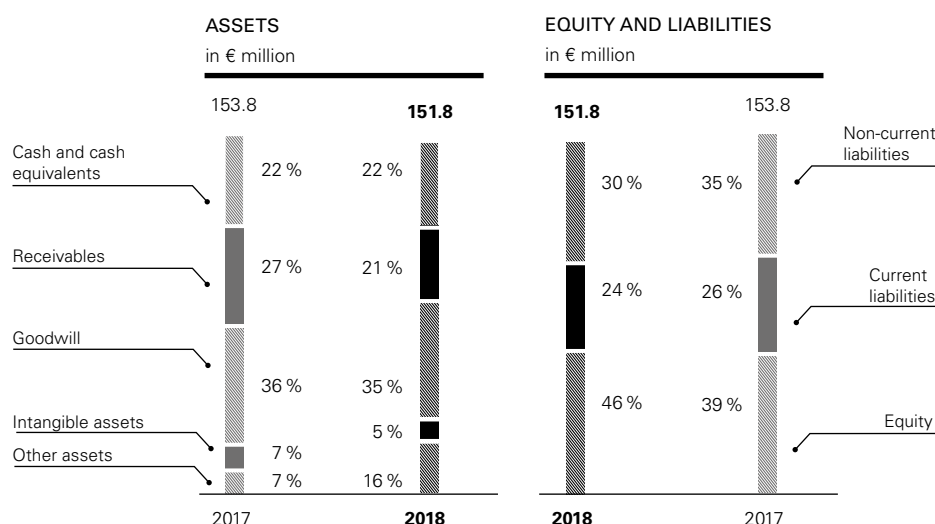
In accordance with the adopted transition options under IFRS 15, prior periods have not been adjusted in line with the new accounting and measurement method. The following comments on the net asset position therefore separately indicate the effect that would have resulted if the prior periods had been adjusted.

Total assets fell by € 2.0 million as against December 31, 2017 (by € 0.9 million if the prior periods had been adjusted) to € 151.8 million.

The decline on the asset side of the balance sheet is attributable to developments in current assets in particular. Current assets decreased by € 2.4 million (by € 0.2 million if the prior periods had been adjusted) to € 76.2 million. Cash and cash equivalents increased by € 6.1 million compared with the previous year to € 40.0 million. This was mainly due to two opposing effects: while the capital increase implemented at the end of the year produced an inflow of net liquidity totaling € 17.0 million for the company, increasing use was made of cash and cash equivalents in the current reporting period to satisfy financial obligations (loans and purchase price obligations). On the other hand, trade receivables and other receivables, as well as contract assets, were reduced considerably. As against the previous year, these balance sheet items were reduced by € 10.1 million in total (by € 7.9 million if the prior periods had been adjusted) to € 31.8 million.

Noncurrent assets increased by € 0.4 million as against December 31, 2017 (by € 0.7 million if the prior periods had been adjusted) to € 75.6 million. This increase is almost entirely attributable to higher deferred tax assets. Deferred taxes increased, due in particular to higher deferred tax assets for loss carryforwards in the USA, by € 4.8 million (by € 3.7 million if the prior periods had been adjusted) to € 6.6 million. This is offset by an

## CONSOLIDATED BALANCE SHEET STRUCTURE



exchange rate-related decrease in goodwill and a drop in intangible assets. The development in intangible assets can be traced back to amortization that was offset by only a small volume of replacements of capital assets and new investments. Goodwill accounts for € 53.7 million (previous year: € 56.1 million). Intangible assets amounted to € 8.0 million as against € 10.9 million in the previous year.

On the equity and liabilities side, current liabilities decreased from € 40.5 million as of December 31, 2017 (€ 41.9 million if the prior periods had been adjusted) to € 36.2 million as of December 31, 2018. This change is mainly attributable to the decline in financial liabilities (€ 5.9 million) and other nonfinancial liabilities (€ 0.4 million). By contrast, trade payables and other liabilities, as well as contract liabilities, rose by € 1.8 million (drop of € 0.2 million if the prior periods had been adjusted).

Financial liabilities fell, in particular, due to the payment of purchase price installments in connection with company acquisitions in the previous years.

Noncurrent liabilities fell by € 7.0 million as against the previous year to € 46.2 million. This drop is almost entirely due to the dissolution of noncurrent variable purchase price liabilities (€ 3.5 million) and to further reclassifications of noncurrent purchase price liabilities to current purchase price liabilities. Financial liabilities continue to account for the lion's share of € 42.8 million. Of this amount, € 39.7 million relates to liabilities in connection with the issuance of borrower's note loans and € 2.6 million to purchase price liabilities in connection with company acquisitions.

The equity of the Group increased year-on-year from € 60.1 million (€ 57.5 million if the prior periods had been adjusted) to € 69.4 million. Through the issuance of 1,127,984 no-par-value shares in December 2018,

issued capital increased to € 6.6 million. The capital reserves increased from € 54.3 million to € 70.8 million as a result of the capital increase. Pursuant to Section 150 (4) (1) of the AktG, the net loss incurred by the Group parent company SNP SE, to the extent that it was not covered by the profits of € 0.6 million carried forward from the previous year, was offset by way of a withdrawal from capital reserves in the amount of € 10.7 million. After these changes, capital reserves amounted to € 60.0 million as against € 54.3 million in the previous year.

Retained earnings increased by € 5.4 million (by € 8.0 million if the prior periods had been adjusted) to € 7.6 million. The € 10.7 million increase resulting from the withdrawal from capital reserves was offset by a net loss for the year of € -1.6 million. The first-time application of IFRS 15 as of January 1, 2018 resulted in an effect of € -2.8 million. The first-time application of IFRS 9 as of January 1, 2018 resulted in an effect of € +0.3 million. Further € -1.3 million are attributable to minorities. Other reserves decreased by € 2.8 million to € -4.5 million due to the adjustment item for foreign currency translation. Due to the increase in equity combined with a simultaneous reduction in total assets to € 151.8 million as of December 30, 2018 (December 31, 2017: € 153.8 million; € 152.7 million if the prior periods had been adjusted), the equity ratio rose from 39.1% (with a 37.7% increase if the prior periods had been adjusted) to 45.7%.

### Dividend Proposal

The Annual General Meeting of SNP SE, which took place in Wiesloch on May 30, 2018, approved all the points on the agenda by a substantial majority. Among other items, the shareholders followed the proposal of the Board of Directors on the appropriation of profit and approved the distribution of a dividend of € 0.00 per

share. The dividend in the previous year came to € 0.39. The total distribution therefore amounted to € 0.0 million (previous year: € 1.9 million).

### **Management of Financial, Liquidity and Capital Structure**

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

In the past few years, cash and cash equivalents have primarily been used for operating activities, the investment needs associated with growth, the acquisition of companies and for the payment of dividends. SNP assumes that its liquidity holdings together with its financial reserves in the form of various unused credit lines will be sufficient to cover its operating financing requirements in 2019 and – together with the expected cash flows from operating activities – will cover debt repayment and our planned short- and medium-term investments.

Maintenance of a strong financial profile is the overriding goal for management of our capital structure. The focus here is on equity, in order to bolster the confidence of our investors, lenders and customers and to safeguard positive business performance. SNP concen-

trates on a capital structure that enables it to cover its future potential financing requirements via the capital markets on reasonable terms. This ensures a high level of independence, security and financial flexibility.

In December 2018, SNP implemented a capital increase, as a result of which the company's share capital increased by € 1,127,984, divided into 1,127,984 no-par-value shares, to a total of € 6,602,447, divided into 6,602,447 shares. The new shares, which were issued at a price of € 16.60 per share, are entitled to dividends in the 2018 fiscal year, beginning on January 1, 2018. The subscription rate was 90.6%. The unsubscribed new shares were sold to Dr. Andreas Schneider-Neureither (CEO) through SN Assets GmbH as per the investment agreement. The capital increase was therefore fully placed. As a result, the company generated a gross cash inflow of € 18.7 million.

In February 2017, SNP issued promissory note loans with a total volume of € 40 million. The volume is spread across fixed and variable tranches in terms of three to seven years. € 5 million of these promissory note loans is to be repaid after 3 years, € 26 million after 5 years and € 9 million after 7 years. The average yield at the time of issuance of the promissory note loans amounted to 1.41% per annum. The promissory note loans include standard financial covenants that were complied with in the 2018 fiscal year. Moreover, the company assumes that it will continue to comply with the agreed financial covenants in the future.

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

Operating cash flow totaled € +3.3 million in the 2018 fiscal year (previous year: € -7.5 million). Aside from the loss for the year of € -1.6 million, other noncash expenses/revenues (including the dissolution of variable pur-

**SELECTED KEY FIGURES ON  
FINANCIAL POSITION**

in € million	2018	2017
Cash and cash equivalents on December 31	39.974	33.877
Change in cash and cash equivalents	6.097	1.962
Cash inflows from operating activities	3.326	-7.480
Cash inflows from investing activities	-12.034	-34.017
Cash inflows from financing activities	15.492	44.018
Impact of the effects of changes in foreign exchange rate on cash and bank balances	-0.687	-0.558

chase price liabilities and increase in deferred tax assets) had a negative impact of € -7.0 million. This is offset by the positive effects resulting from depreciation and amortization in the amount of € 4.9 million, the reduction in trade receivables, other current assets and other noncurrent assets of € 3.7 million, the increase in trade payables and other liabilities of € 2.8 million and the increase in pension provisions of € 0.5 million.

The negative cash flow from investing activities in the amount of € -12.0 million (previous year: € -34.0 million) is due not only to payments for investments in property, plant and equipment of € 2.8 million and for intangible assets of € 0.1 million, but also primarily to the cash outflow relating to purchase price installments for companies acquired in the previous years (€ 9.5 million in total). This contrasts with proceeds from the disposal of items of property, plant and equipment in the amount of € 0.3 million.

The cash inflow from financing activities of € 15.5 million (previous year: cash inflow of € 44.0 million) is mainly due to the capital increase (€ 17.0 million). This is offset by a net outflow of liquidity resulting from loan repayments and loans taken out in the amount of € 1.5 million.

The effects of changes in foreign exchange rate on cash and bank balances amount to € -0.7 million (previous year: € -0.6 million).

Overall cash flow during the reporting period came to € 6.1 million (previous year: € 2.0 million). Taking into account the changes presented here, the level of cash and cash equivalents rose to € 40.0 million as of December 31, 2018. As of December 31, 2017, cash and cash equivalents amounted to € 33.9 million. Overall, SNP SE remains very solidly positioned financially.

## RISKS AND OPPORTUNITIES REPORT

### RISK MANAGEMENT

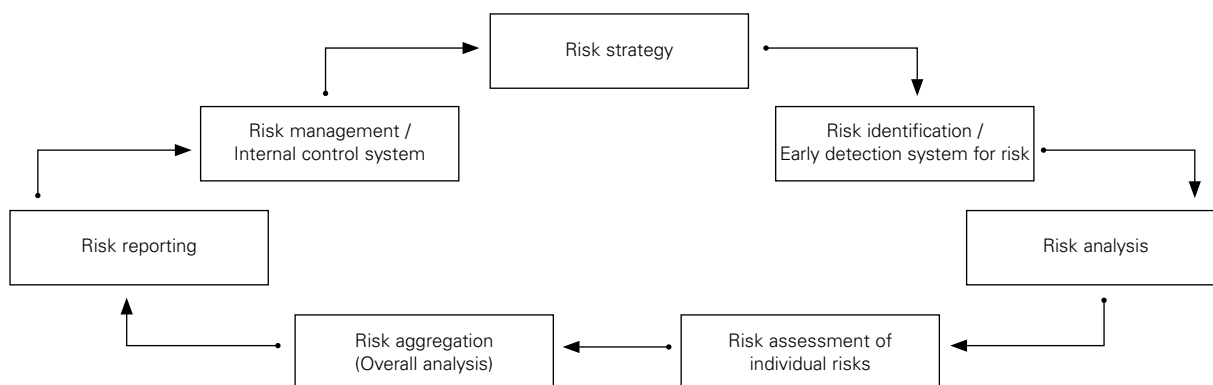
In its business activities, the SNP Group is subject to a variety of risks that are inseparably linked to its entrepreneurial activity. Risks refer to the possibility of events occurring with unfavorable consequences for SNP's economic situation. SNP employs effective management and control systems to identify risks at an early stage, to evaluate them and to deal with them systematically. They are combined into a uniform risk management system, which is presented below. SNP's risk management system essentially consists of the following three components: its risk management policy, a standardized risk identification and treatment method and the responsible departments within its organizational structure, which are entrusted with the implementation of its risk management approach. All risks are systematically identified, evaluated and monitored. Risk assessment and aggregation rules have been defined for this purpose. Risks are normally balanced out by appropriate opportunities. However, the risk management system does not address the opportunities.

Major changes were made to the risk management system during the reporting period relative to the previous year. In the 2018 fiscal year, the risk management system was expanded to cover all Group companies. In the previous year, the risk management system only covered the German-speaking DACH region (Germany, Austria, Switzerland).

In addition, the risks, which are classified based on the amount of the loss and probability of occurrence, were developed in further detail and adjusted.



## Risks And Opportunities Report



The risk management policy stipulates a risk management process that consists of the risk management cycle above.

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

The tables below show the risks broken down based on the amount of the loss and probability of occurrence.

CLASSIFICATION BY POTENTIAL LOSS	AMOUNT OF LOSS IN EUR
Low	< 1,000,000
Moderate	1,000,000 – 2,500,000
High	> 2,500,000

CLASSIFICATION BY PROBABILITY OF OCCURRENCE	PROBABILITY OF OCCURRENCE
Low	Less than once a year
Moderate	Once to twice a year
High	More than twice a year

This results in the above risk matrix for the assessment of risks as high-level risk, moderate risk or slight risk.

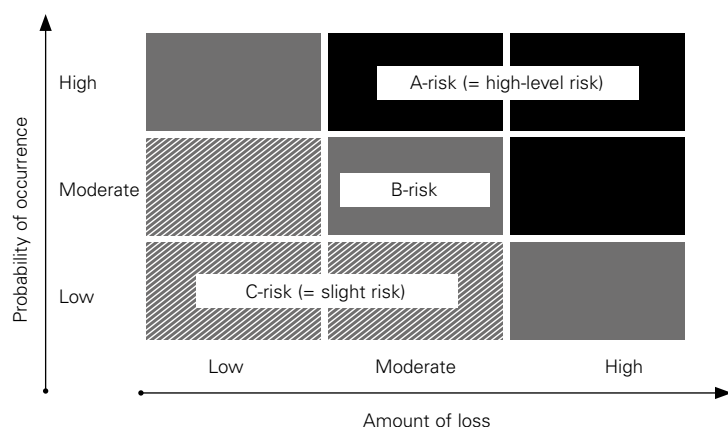
An overall analysis of the risk position is compiled in the risk aggregation. All risks are documented here and assigned to the appropriate risk areas. The risk reporting is derived from the aggregated overview, with an assessment of the situation for each of the individual areas. Twelve areas were selected for the year 2018 in the period under review. These are outlined in further detail in the risk report. Measures are implemented for each area – and also for individual risks – which are intended to be proportionate to the potential level of damage. The risk managers are responsible for implementation of these measures. The effectiveness of countermeasures, reduction strategies and SNP's internal control system are monitored and safeguarded by means of the management measures.

#### Risk Management Systems (Report and Explanations Pursuant to Section 315 (2) (5) and Section 289 (5) of the HGB)

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

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

This early detection system for risk ensures that the SNP Group can always adjust promptly to changes in its



environment. The constant refinement of the risk management system is an important step that allows the company to respond promptly to changing conditions that may directly or indirectly affect the financial position and financial performance of SNP SE.

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

The risk management system for significant risks threatening the company's survival is integrated into the SNP Group's value-oriented management and planning system. It is an important component of the overall planning, controlling and reporting process in all relevant legal entities, business fields and core functions. Its purpose is to systematically identify, evaluate, monitor and document all significant risks threatening the company's survival. The Board of Directors establishes guidelines for risk management. These guidelines serve as the basis for risk management by the risk management officer. The risk management officer ensures that the specialized departments identify risks proactively and promptly, evaluate them both quantitatively and qualitatively and develop suitable measures to avoid or compensate for risks. Using a systematic risk inventory, the employees responsible revise and reassess the risks at least once per fiscal year. In addition to routine reporting, there is a Group internal reporting requirement for risks that may occur unexpectedly. Each risk is assigned to a risk group. When providing notifications and reassessments of risks, the amount of the loss and probability of occurrence must be indicated in accordance with guideline provisions. The task of the employees responsible is to develop and, if necessary, to introduce measures corresponding to the evaluation of risks that are suited to avoiding, reducing or protecting against these risks. Significant risks and countermeasures that have been introduced are monitored regularly during the year. The Managing Directors

and the Board of Directors are regularly informed about material identified risks.

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

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

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

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

SNP is satisfied that the effectiveness of the Group's accounting-related control system was safeguarded as of December 31, 2018.

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

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

### **RISKS**

During the reporting period, there were no significant changes in risks relative to the previous year. In particular, no significant risks that might endanger the company's existence in terms of their probability of occurrence and potential damage caused arose for which no adequate measures have been taken to avoid or compensate for risks.

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

Uncertainty in the global economy and the financial markets, social and political instability – e.g. due to intrastate conflicts, terror attacks, civil unrest, war, international conflicts or the currently upcoming Brexit – may adversely affect our business activities or have a negative impact on our business activities, our financial and earnings position and our cash flows.

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

SNP's customers are primarily large companies and multinational corporations. Business cycles influence

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

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

In addition, over the course of the year, SNP is subject to the typical business cycles for the IT sector. This usually means a very strong demand in the fourth quarter. Since the company's capacities, particularly in Professional Services, are largely fixed over the entire year in order to accommodate expected peak demand, heightened risk exists here if short-term changes in investment behavior should occur. SNP tries to reduce these risks by employing freelancers. Compared to the previous year, the use of external service providers in projects increased by around 14% to € 14.0 million. SNP likewise seeks to reduce risks and their negative effects by continuously increasing the proportion of maintenance fees and recurring fees and thus revenue that can be more easily planned for. In 2018, maintenance fees increased by € 3.2 million or approximately 65% to € 8.1 million (previous year: € 4.9 million).

Similarly, it cannot be ruled out that in the Software division, scheduled software sales may fall through over the short term or purchase decisions by customers may be postponed, influencing the company's target achievement. SNP tries to reduce this risk through greater diversification of software products and strong-

er marketing of all software products. In the 2018 fiscal year, revenue from SNP's in-house products amounted to € 21.1 million (previous year € 15.5 million).

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

### **Risks of Technology Development**

With its portfolio of products and services, SNP offers specific solutions for the transformation of ERP landscapes. Therefore, it focuses on a niche market. The possibility exists that another provider may offer better or less expensive solutions so that SNP loses market share or is driven from the market entirely. SNP counters this risk by developing new products and by continuously refining and improving existing products. In 2018, research and development costs as a percentage of revenue were 12.2% (previous year: 11.4%). Given the complexity of SNP products and processes, the company has managed to achieve an innovation lead until now that generally limits the possibility of imitation. The earnings position of SNP largely depends on its success in adapting its products to changes in the market and achieving a rapid amortization on new products and services. Revenue and earnings may be adversely affected if technologies do not function properly, do not encounter the expected market acceptance or are not launched in the market at the right time.

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

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

### **Operational Risks**

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

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

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

### Risks of Dependence on SAP SE

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

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

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

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

#### Growth Risks

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

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

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

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

#### Personnel Risks

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

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

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

Moreover, SNP trains young professionals in customized training programs on a regular basis. As of December 31, 2018, SNP employed 27 students and trainees (previous year: 92).

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

#### **Insurance Risks**

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

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

#### **Legal Risks**

Legal risks primarily involve matters of company law, labor law, commercial and trademark law, contract law, product liability law, data protection law, capital market law and cases of changes to relevant existing laws and their interpretations. A violation of an existing provision may occur as a result of ignorance or negligence. SNP uses external service providers and experts to minimize most of these risks. Moreover, in 2017, SNP initiated the development of an internal legal department with its own in-house legal experts. Legal disputes can lead to significant costs and damage to the company's image even if the company's legal position is vindicated. As of December 31, 2018, significant legal risks from lawsuits and third-party claims did not exist. The negative effects expected to arise from unresolved employ-

ment law disputes have been taken into account in the "provisions" and "other liabilities" line items.

SNP classifies the legal risks for the Professional Services and Software business segments as a moderate risk, with a moderate probability of occurrence.

#### **Sales Risks**

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

Marketing via third parties also carries the general risk that the relevant products are not sold with the commitment that SNP expects. Another risk is that distributors may terminate partnerships against the wishes of SNP. This could lead to medium-term substitution problems and to significantly higher sales expenses. SNP attempts to reduce this risk by focusing on its in-house sales team, selecting partners carefully and offering attractive sales terms.

As of December 31, 2018, the number of sales employees came to 76 (December 31, 2017: 94).

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

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

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

In the 2018 fiscal year, as in the previous year, no customer generated revenue that exceeded 10% of total revenue.

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

### **IT Risks**

SNP runs its own IT systems and works on its customers' IT systems when performing its business activities. The failure of these IT systems or the loss and theft of data caused, for example, by malware, virtual attacks or destruction, could have material adverse impacts on our business activities, or on our financial and earnings position and our cash flows. SNP takes a whole range of measures to protect against IT risks. These include, among other things, systematically bringing our security mechanisms into line with the relevant IT security standards, taking numerous technical security precautions or conducting security training sessions for our employees.

We cannot rule a scenario in which IT risks materialize out entirely. However, we classify IT risks in the Professional Services and Software business segments as a moderate risk with a low probability of occurrence.

### **Financial Risks**

#### **■ Credit Risk (Default Risk)**

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

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

#### **■ Liquidity Risk/Interest Rate Risk**

SNP has a large amount of cash and cash equivalents, which are available on a daily basis or relate exclusively to investments in term deposits, overnight money or similar conservative products with maturities of up to one year. Consequently, the interest rate risk associated with such financial investments is negligible. Given the low or even negative rate of interest accruing to the specified forms of investment, SNP is exposed to the risk of a loss in purchasing power from the liquid funds it is holding in case of a concurrently high rate of price inflation (inflation rate). The default risk posed by business partners, with whom SNP has made deposits or concluded derivative financial contracts, is minimized by regular credit checks of the relevant institutions. Derivative contracts were not concluded in the 2018 fiscal year.

SNP is financed through its equity as well as external funds. As of December 31, 2017, its equity ratio amounts to 46% (previous year: 39%), while interest-bearing external funds account for 26% of total assets (previous year: 26%). The vast majority of the interest-bearing external funds relate to borrower's note loans that were issued in February 2017 with a total nominal value of € 40.0 million and varying maturities (3, 5 and 7 years). Borrower's note loans with a nominal volume of € 25 million include not only a basic interest rate, but also a variable interest rate component corresponding to the 6-month Euribor. If the 6-month Euribor is below 0%, the variable interest rate is fixed at 0%. If the 6-month Euribor rises to over 0%, then SNP is exposed to an interest rate risk. SNP keeps a close eye on market interest rate developments, the options available for, and cost development of, hedging measures and takes corresponding measures to safeguard against these risks as and when required.

The borrower's note loan contracts concluded in February 2017 for a total nominal value of € 40.0 million feature mandatory financial covenants, as is common practice in the industry, based on the figures reported in the annual financial statements as part of a two-tier system. If the first-level financial covenants are breached, the breach increases the interest rate by 0.5 percentage points in the following fiscal year. If the second-level covenants are breached, then the issuer of the borrower's note loan has a contractual termination right. In this respect, SNP is subject to an interest rate risk and to the risk of termination and the associated liquidity risk. SNP monitors and forecasts the financial covenants on a regular basis in order to take any suitable countermeasures when required.

In the context of a high volume of cash and cash equivalents (€ 40.0 million as of December 31, 2018,

previous year: € 33.9 million) and a solid financing structure, the management classifies the liquidity risk for the Professional Services and Software business segments as a moderate risk with a low probability of occurrence.

#### ■ Currency Risk

The euro is the Group's functional currency and the reporting currency of the consolidated financial statements. A result of the Group's increasing internationalization outside the eurozone is that its operating business and financial transactions in foreign currencies involve fluctuations in currency exchange rates. Operating business and financial transactions must be converted into our Group reporting currency, the euro. Exchange rate risks, which arise from orders from, and loans to, subsidiaries outside the eurozone, relate primarily to the absolute amount of the key figures reported in euros. The realization of currency risks might have a significant impact on our business activities, our financial and earnings position and our cash flows. For this purpose, SNP considers the needs-based use of derivative financial instruments to avert potential foreign currency risks. No financial derivatives were being used as of December 31, 2018.

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

#### ■ Risk of Goodwill Impairment

The "goodwill" balance sheet item comes to € 53.7 million as of December 31, 2018 (previous year: € 56.1 million). Goodwill is the result of various business combinations in the past and is measured at cost upon first-time recognition. Cost is calculated as the excess cost resulting from the business combinations over the Group's share of the fair value of acquired identifiable assets, liabilities and contingent liabilities. Good-



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**Opportunities**

will is tested for impairment at least once a year. In addition, impairment tests are carried out if issues or changes in circumstances indicate the possibility of impairment. For the purpose of impairment testing, the goodwill acquired from a merger is assigned, from the acquisition date, to cash-generating units of the Group that are expected to benefit from Group synergies. The impairment is determined by calculating the recoverable amount of the cash-generating unit to which the goodwill relates. If the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognized. Goodwill was assigned to the Professional Services business segment for the purpose of impairment testing.

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

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

## OPPORTUNITIES

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

### **Promise of Increased Benefits for our Customers Thanks to SNP Software Solutions**

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

### **Increase in Software License Revenue**

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

This is why we are constantly expanding our software portfolio and making permanent changes to adapt it to reflect the sales opportunities in our markets. We intend to enhance the benefits and uniqueness of our projects at a strategic level, while at the same time tak-

ing IT, compliance and risk aspects into account so that we can increase our license revenue and maintenance fees in the medium to long term using a value-oriented price model.

### **International Expansion**

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

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

### **Expansion of our Partner Network**

Our partner strategy is a three-pillar strategy:

(1.) We establish strong networks with customers at management level ("C Level"), (2.) we intensify our collaboration with strategic consultants and system integrators, and (3.) we continue to develop our strong relationship with SAP on an ongoing basis.

1. We are investing in establishing relationships with industry-specific networks, M&A communities, individuals that offer trusted access to major companies and supervisory boards, as well as interest groups in the fields of entertainment, sport, politics, charitable organizations and art. The aim is to achieve reliable access to the decision-making level at major international companies and, using this as a basis, to be able to position the strategic value of SNP's solutions for major companies, in particular, as part of a holistic approach.
2. We are stepping up our collaboration with strategic consultants and system integrators. These efforts are aimed at allowing us to step up our cooperation with major strategic consultants in the fields of M&A and due diligence. Medium-sized partners with strong technical industry and process expertise are another focal area. In both cases, our aim is to use SNP solutions to make a decisive value contribution for the customers of these partner companies.
3. Close, strong collaboration with SAP is one of the main drivers behind the expansion of our business in the future. We are developing supplementary technical solutions for our customers to accelerate their transition to SAP S/4HANA and their move to the cloud. Within this context, the framework agreement with SAP SE on support in the further development of the SAP Landscape Transformation Software was extended in 2018.

### **Expanding the Service and Software Portfolio Using Acquisitions**

New acquisitions give rise to additional market and sales opportunities for SNP to augment its strategic range of products and solutions, to penetrate new sales markets, to gain technical expertise and to expand capacity. In

the past, SNP has successfully taken over several companies, which now are helping improve its market penetration. A targeted market survey in search of possible target companies – focusing on the Software segment – is an objective of SNP's corporate strategy.

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

Many SAP customers will have to transition to the new SAP S/4HANA software generation over the next few years. Some companies, however, do not want to use the standard tools offered by SAP for their software migration projects, but rather are looking for alternative migration approaches that allow complex and flexible changes to be made to existing systems. The further development of the SNP BLUEFIELD™ transformation approach based on SNP software allows us to offer our customers a flexible and alternative SAP S/4HANA migration approach compared with conventional Brownfield and Greenfield approaches. This is why we have entered into a global partnership with IBM that allows us to offer the BLUEFIELD™ solution together and join forces in our sales activities, too. The vendor-neutral SNP BLUEFIELD™ approach is equally capable of moving companies and their IT systems into the cloud.

### **Cost Optimization by Expanding Nearshore Resources**

In order to achieve further cost optimization, while at the same time boosting project profitability, we are increasingly pursuing a global nearshore strategy, primarily when it comes to recruiting consultancy capacities. As a key component of the integration strategies used for those companies that have been acquired in recent years, this helps to offset staff shortages, particularly in projects requiring the intensive use of personnel re-

sources, and to cushion the blow of order peaks. As far as our segment reporting is concerned, this will help us to increase the EBIT margin in the Professional Services business segment.

## **OVERALL STATEMENT ON THE RISK AND OPPORTUNITY SITUATION**

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

Given current business fundamentals and the company's solid financial structure, management does not believe that the totality of individual risks poses a threat to the ongoing survival of the SNP Group.

No risks endangering the survival of the company occurred during the 2018 fiscal year.

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

## **FORECAST REPORT**

### **ECONOMIC OUTLOOK**

#### **Macroeconomic Outlook**

Looking ahead to the next two years, the International Monetary Fund (IMF)<sup>5</sup> has lowered its forecasts slightly for the next two years: Global economic growth is tipped to come to 3.5% in 2019 and 3.6% in 2020, compared with 3.7% in 2018. These lower expectations are due first and foremost to the trade dispute between

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5 IWF World Economic Outlook Update, January 2019

the USA and China. Other factors such as fiscal policy risks in Italy, the mounting uncertainty surrounding the economic impact of the United Kingdom's decision to leave the European Union ("Brexit") and the slowdown in Turkey are also putting pressure on expectations.

The pace of growth on the U.S. economy will slow in 2020 in particular, with growth of 2.5% predicted for 2019 and 1.8% for 2020, compared with 2.9% in 2018. The eurozone economy is to report growth that will be down slightly on the level seen in 2018 (1.8%), with growth rates of 1.6% in 2019 and 1.7% in 2020. It is predicted that the German economy will grow by 1.3% in the coming year and by 1.6% in 2020, as against growth of 1.5% in 2018. Growth in China is tipped to come to 6.2% both this year and next, which is lower than in the previous years (2018: 6.6%).

### **Outlook for SNP**

As a result of the investments in growth made in previous periods and the company's enhanced reputation in the market in the year under review, the management assumes higher sales in both the Professional Services segment and in the Software segment. In particular, the increased contribution to total sales of software license revenue and related economies of scale should result in wider operating margins over the medium to long term.

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

As in previous years, it is assumed that, in the current fiscal year, revenue will not be evenly distributed over the quarters and that the second half of the year will be much stronger. Based on improved capacity utilization as against the previous year, the management expects Group revenue of between € 145 million and € 150 million in the 2019 fiscal year. It expects to see an operating earnings margin (EBIT margin, IFRS) in the lower- to mid-single-digit percentage range, as well as an EBIT-DA margin (IFRS and non-IFRS) in the mid to upper-single-digit percentage range. Order entry is expected to come to between € 158 million and € 163 million; the order backlog is predicted to amount to between € 71 million and € 76 million at the end of 2019.

According to the Group's planning, the Software business segment will account for around 26% of this target revenue and order entry and the Professional Services business segment for approximately 74%. While the EBIT margin excluding non-segment-related expenses is expected to be largely balanced in the Professional Services business segment, for the Software business segment, the management expects an EBIT margin in the lower- to mid-double-digit percentage range.

Apart from acquisition-related expenses (amortization of identified intangible assets acquired in previous years through company acquisitions) in the amount of € 1.0 million, the current budget planning for the 2019 fiscal year does not envisage any significant operating expenses according to non-IFRS indicators. The expected IFRS and non-IFRS EBIT margins for 2019 therefore differ by around 1%.

The SNP Group is sticking to the prioritized mid-term goal of a structural increase in its profitability.

## OVERALL STATEMENT ON FUTURE DEVELOPMENT

In view of its progress with corporate structures and the corresponding increase in capacity for customers, the unchanged strong market and order situation, and the international sales and software strategy, we anticipate stable business developments in the 2019 fiscal year. We are convinced that SNP is on the right track and will continue on its growth path. Actual business developments may deviate from the current expectations due to political and economic conditions and the risks and opportunities referred to above.

## OTHER DISCLOSURES

### DISCLOSURES RELATED TO TAKEOVER LAW

The disclosures as of December 31, 2018, which are required according to Art. 9 (1) clause c) (ii) of the SE Regulation and Section 22 (6) of the SEAG in conjunction with Section 289a and Section 315a (1) of the HGB, are provided below. Those elements of Section 289a (1) and Section 315a (1) of the HGB that are not fulfilled at SNP Schneider-Neureither & Partner SE are not mentioned.

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

As of December 31, 2018, the share capital of SNP Schneider-Neureither & Partner SE amounted to € 6,602,447.00, consisting of 6,602,447 ordinary no-par-value shares with a calculated share of capital of € 1.00 per share. Each share entitles the holder to one vote. As of December 31, 2018, the company held 21,882 treasury shares.

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

- Dr. Andreas Schneider-Neureither (CEO): 21.89% (as of December 31, 2018)

According to the voting rights notification dated August 31, 2018, the total number of voting rights held directly and indirectly by Dr. Andreas Schneider-Neureither came to 1,187,998 (21.70%) on August 29, 2018. Dr. Schneider-Neureither holds 0.80% (43,689 voting rights) of the voting rights directly pursuant to Section 33 of the German Securities Trading Act (WpHG). 20.90% of the voting rights (1,144,309 voting rights) are held indirectly by Dr. Schneider-Neureither pursuant to Section 34 of the WpHG via the following entities, which are controlled by Dr. Schneider-Neureither and whose share of voting rights in SNP Schneider-Neureither & Partner SE amounts to 3% or more, in corresponding order: Schneider-Neureither GmbH, SN Verwaltungs GmbH & Co. KG, SN Holding GmbH and SN Assets GmbH.

According to the voting rights notification dated August 31, 2018, SN Assets GmbH informed the company, pursuant to Art. 19 MAR, of the further acquisition of 257,562 shares and voting rights in the company in the period leading up to December 31, 2018. These purchases have been reflected in the share reported as of December 31, 2018.

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

With regard to the appointment and dismissal of Managing Directors, reference is made to the applicable statutory provisions in Section 40 of the SEAG. In addition, Section 12 (1) of the articles of incorporation of SNP SE stipulates that the Board of Directors shall appoint one or more Managing Directors. Managing Directors may be recalled by way of a resolution of the Board of Directors by a simple majority of the votes cast. Pursuant to Section 12 (5) of the articles of incorporation of SNP SE, Managing Directors who are members of the Board of Directors may be recalled only for cause within the meaning of Section 84 (3) of the AktG or in case of the termination of the employment contract. In accordance with Art. 9 (1) clause c) (ii) of the SE Regulation, the amendment of the articles of incorporation is provided for in Sections 133 and 179 of the AktG. The Board of Directors is authorized to approve changes to the articles of incorporation that involve only wording (Section 8 (3) of the articles of incorporation of SNP SE).

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

The share capital is conditionally increased by up to € 1,869,030.00, divided into up to 1,869,030 no-par-value shares (2015 Contingent Capital). The contingent capital increase will be executed only to the extent that the owners or creditors of warrant or conversion rights or warrant-linked bonds or convertible bonds issued for cash contributions and subject to conversion obligations that were issued or guaranteed until May 20,

2020, by the company by virtue of the authorization of the Board of Directors and the resolution of the Annual General Meeting on May 21, 2015, exercise their warrant or conversion rights or fulfill their conversion obligations if applicable, or if the company exercises an option to grant shares in the company in full or in part instead of paying the amount of money due, provided that a cash contribution is not granted or the company's treasury shares are not used for this purpose. The new shares will be issued in accordance with the aforementioned authorization at option and conversion prices to be determined. The new shares participate in profits from the beginning of the fiscal year in which they arise. The Board of Directors is authorized to determine further details regarding the execution of the contingent capital increase.

On May 12, 2016, the Annual General Meeting authorized the company to acquire for the coming five years treasury shares up to a total of 10% of the outstanding share capital at the time of the resolution.

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

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

## RESPONSIBILITY STATEMENT

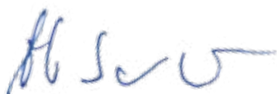
We certify to the best of our knowledge that in accordance with applicable accounting principles, the consolidated financial statements give a true and fair view of the Group's financial position and financial performance and that the business performance, including the result of operations and the position of the Group, are presented in the Group management report in a way that gives a true and fair view, and that significant opportunities and risks for the expected performance of the Group are described.

### DECLARATION ON COMPANY MANAGEMENT PURSUANT TO SECTION 315d OF THE GERMAN COMMERCIAL CODE (HGB)

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

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

Heidelberg, Germany, March 15, 2019



Managing Director  
Dr. Andreas Schneider-Neureither



Managing Director  
Dr. Uwe Schwellbach





# 03 CONSOLIDATED FINANCIAL STATEMENT

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# CONSOLIDATED FINANCIAL STATEMENT

## CONSOLIDATED BALANCE SHEET

as of December 31, 2018

ASSETS			
In €	Notes	Dec. 31, 2018	Dec. 31, 2017
<b>Current assets</b>			
Cash and cash equivalents	13.	39,973,845.35	33,876,722.70
Other current assets	14.	1,520,361.00	402,907.08
Trade receivables and other receivables	15.	26,938,057.96	32,780,594.64
Contract assets	16.	4,880,842.55	9,123,020.29
Inventories	17.	371,250.00	371,250.00
Other non-financial assets	18.	2,124,650.11	1,876,904.88
Tax receivables	26.	386,220.46	182,663.75
		<b>76,195,227.43</b>	<b>78,614,063.34</b>
<b>Non-current assets</b>			
Goodwill	9.	53,733,333.24	56,125,565.10
Other intangible assets	19.	7,979,676.89	10,886,520.40
Property, plant and equipment	20.	6,065,834.50	5,187,057.31
Other financial assets	14.	711,404.55	809,340.50
Investments accounted for under the equity method	21.	2.00	2.00
Trade receivables and other receivables	15.	409,085.23	270,000.00
Other non-financial assets	18.	34,782.01	85,654.83
Deferred taxes	26.	6,636,450.21	1,807,167.29
		<b>75,570,568.63</b>	<b>75,171,307.43</b>
		<b>151,765,796.06</b>	<b>153,785,370.77</b>
<b>EQUITY AND LIABILITIES</b>			
In €	Notes	Dec. 31, 2018	Dec. 31, 2017
<b>Current liabilities</b>			
Trade payables and other liabilities	22.	8,959,002.45	11,436,519.15
Contract liabilities	16.	4,141,896.52	330,285.71
Tax liabilities	26.	915,193.22	388,101.70
Financial liabilities	23.	5,352,534.67	11,236,382.24
Other non-financial liabilities	24.	16,002,496.42	16,447,792.69
Provisions	25.	399,378.32	105,347.49
Deferred income		437,613.63	586,982.42
		<b>36,208,115.23</b>	<b>40,531,411.40</b>
<b>Non-current liabilities</b>			
Trade payables and other liabilities	22.	273,315.85	579,811.65
Financial liabilities	16.	42,793,580.14	49,486,955.13
Provisions for pensions	23.	2,062,464.11	1,531,313.00
Deferred taxes	27.	1,014,942.94	1,524,906.53
Deferred income	26.	4,599.00	34,018.00
		<b>46,148,902.04</b>	<b>53,157,004.31</b>
<b>Equity</b>			
Subscribed capital		6,602,447.00	5,474,463.00
Capital reserve	29.	59,968,250.67	54,260,325.48
Retained earnings	31.	7,603,974.82	2,179,921.78
Other components of the equity	31.	-4,494,638.38	-1,678,503.26
Treasury shares		-414,650.19	-414,650.19
<b>Equity attributable to shareholders</b>	30.	<b>69,265,383.92</b>	<b>59,821,556.81</b>
Non-controlling interests		143,394.87	275,398.25
	32.	<b>69,408,778.79</b>	<b>60,096,955.06</b>
		<b>151,765,796.06</b>	<b>153,785,370.77</b>

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

## CONSOLIDATED INCOME STATEMENT

for the period from January 1 to December 31, 2018

In €	Notes	2018	2017
<b>Revenue</b>		<b>130,983,278.61</b>	<b>122,342,803.83</b>
Professional Services	9.	101,199,215.15	98,332,742.51
Cloud	9.	3,129,559.76	0.00
Licenses	9.	18,572,222.00	19,098,562.47
Maintenance	9.	8,082,281.70	4,911,498.85
Capitalized own services		0.00	161,419.54
Other operating income	36.	5,656,866.86	1,918,355.01
Cost of material	37.	-21,208,680.79	-19,214,860.76
Personnel costs	38.	-83,219,462.80	-71,471,700.40
Other operating expenses	39.	-29,211,920.72	-29,935,184.02
Impairments on receivables and contract-based assets		-300,654.79	0.00
Other taxes		-398,811.96	-532,878.30
<b>EBITDA</b>		<b>2,300,614.41</b>	<b>3,267,954.90</b>
Depreciation and impairments on intangible assets and property, plant and equipment		-4,849,690.05	-3,776,125.61
<b>EBIT</b>		<b>-2,549,075.64</b>	<b>-508,170.71</b>
Income from investments accounted for using the equity method		0.00	-24,053.67
Other financial income		114,883.77	57,338.72
Other financial expenses		-1,208,981.07	-1,384,119.23
<b>Net financial income</b>		<b>-1,094,097.30</b>	<b>-1,350,834.18</b>
<b>EBT</b>		<b>-3,643,172.94</b>	<b>-1,859,004.89</b>
Income taxes	26.	2,020,121.48	-806,559.02
<b>Consolidated net loss / income</b>		<b>-1,623,051.46</b>	<b>-2,665,563.91</b>
Thereof:			
Profit attributable to non-controlling shareholders		-206,042.35	-234,488.16
Profit attributable to shareholders of SNP Schneider-Neureither & Partner SE		-1,417,009.11	-2,431,075.75
<b>Earnings per share</b>	11.	<b>€</b>	<b>€</b>
- Undiluted		-0.26	-0.47
- Diluted		-0.26	-0.47
<b>Weighted average number of shares</b>			
- Undiluted		5,493,314	5,189,918
- Diluted		5,493,314	5,189,918

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

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the period from January 1 to December 31, 2018

In €	2018	2017
<b>Net income for the period</b>	<b>-1,623,051.46</b>	<b>-2,665,563.91</b>
<b>Items that may be reclassified to profit or loss in the future</b>		
Currency translation differences	-2,719,000.85	-1,420,244.61
Deferred taxes on currency translation differences	-	-
	<b>-2,719,000.85</b>	<b>-1,420,244.61</b>
<b>Items that will not be reclassified to profit or loss</b>		
Change from the revaluation of defined benefit pension plans	-102,331.12	42,943.00
Deferred taxes on revaluation of defined benefit pension plans	14,509.15	-10,553.85
	<b>-87,821.97</b>	<b>32,389.15</b>
<b>Income and expenses directly recognized in equity</b>	<b>-2,806,822.82</b>	<b>-1,387,855.46</b>
<b>Total comprehensive income</b>	<b>-4,429,874.28</b>	<b>-4,053,419.37</b>
Profit attributable to non-controlling shareholders	-196,730.05	-240,093.19
<b>Profit attributable to shareholders of SNP Schneider-Neureither &amp; Partner SE in total comprehensive income</b>	<b>-4,233,144.23</b>	<b>-3,813,326.18</b>

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

## CONSOLIDATED CASH FLOW STATEMENT

for the period from January 1 to December 31, 2018

In €	2018	2017
<b>Profit after tax</b>	<b>-1,623,051.46</b>	<b>-2,665,563.91</b>
Depreciation	4,849,690.05	3,776,125.61
Change in provisions for pensions	531,151.11	12,762.00
Other non-cash income/expenses	-6,984,713.98	-473,693.59
Changes in trade receivables, contract assets, other current assets, other non-current assets	3,669,149.90	-8,960,085.25
Changes in trade payables, contract liabilities, other provisions, tax liabilities, other current liabilities	2,884,162.14	830,139.99
<b>Cash flow from operating activities (1)</b>	<b>3,326,387.76</b>	<b>-7,480,315.15</b>
Payments for investments in property, plant and equipment	-2,786,164.58	-2,759,230.85
Payments for investments in intangible assets	-129,245.18	-2,679,765.59
Proceeds from disposals of intangible and tangible assets	332,879.64	204,837.37
Payments for the acquisition of consolidated companies and other business units	-9,451,304.08	-28,782,749.30
<b>Cash flow from investing activities (2)</b>	<b>-12,033,834.20</b>	<b>-34,016,908.37</b>
Dividend payments	-	-1,932,412.56
Proceeds from capital increase	16,970,295.05	18,293,276.92
Proceeds from loans	110,528.85	39,867,507.09
Payments on loans and other financial liabilities	-1,589,033.65	-12,210,572.71
<b>Cash flow from financing activities (3)</b>	<b>15,491,790.25</b>	<b>44,017,798.74</b>
Changes in cash and cash equivalents due to foreign exchange rates (4)	-687,221.16	-558,100.16
<b>Cash change in cash and cash equivalents (1) + (2) + (3) + (4)</b>	<b>6,097,122.65</b>	<b>1,962,475.06</b>
Cash and cash equivalents at the beginning of the fiscal year	33,876,722.70	31,914,247.64
<b>Cash and cash equivalents as of December 31</b>	<b>39,973,845.35</b>	<b>33,876,722.70</b>
<b>Composition of cash and cash equivalents:</b>	<b>2018</b>	<b>2017</b>
Cash and cash equivalents	39,973,845.35	33,876,722.70
<b>Cash and cash equivalents as of December 31</b>	<b>39,973,845.35</b>	<b>33,876,722.70</b>

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the period from January 1, 2017 to December 31, 2018

In €	Subscribed Capital	Capital reserve	Retained earnings
<b>As of January 1, 2017</b>	<b>4,976,786.00</b>	<b>36,331,446.56</b>	<b>6,913,341.27</b>
Dividend payment			-1,932,412.56
Capital increase	497,677.00	17,928,878.92	
Change consolidation group			
Total comprehensive income			-2,431,075.75
Acquisition minorities			-369,931.18
<b>As of December 31, 2017</b>	<b>5,474,463.00</b>	<b>54,260,325.48</b>	<b>2,179,921.78</b>
Adoption of IFRS 15			-2,833,485.31
Adoption of IFRS 9			268,795.46
<b>As of December 1, 2018</b>	<b>5,474,463.00</b>	<b>54,260,325.48</b>	<b>-384,768.07</b>
Capital increase	1,127,984.00	16,368,582.86	
Withdrawal from capital reserve		-10,660,657.67	10,660,657.67
Total comprehensive income			-1,417,009.11
<i>thereof hyperinflation</i>			-163,536.83
Acquisition minorities			-1,254,905.67
<b>As of December 31, 2018</b>	<b>6,602,447.00</b>	<b>59,968,250.67</b>	<b>7,603,974.82</b>

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

## Other components of equity

Currency conversion	Revaluation of performance-oriented obligations	Other components of equity Total	Treasury shares	Shareholders of SNP SE attributable capital	Non-controlling shares	Total equity
<b>130,319.22</b>	<b>-426,572.05</b>	<b>-296,252.83</b>	<b>-414,650.19</b>	<b>47,510,670.81</b>	<b>1,063,908.81</b>	<b>48,574,579.62</b>
				-1,932,412.56		-1,932,412.56
				18,426,555.92		18,426,555.92
				0.00	112,370.21	112,370.21
-1,414,639.58	32,389.15	-1,382,250.43		-3,813,326.18	-240,093.19	-4,053,419.37
				-369,931.18	-660,787.58	-1,030,718.76
<b>-1,284,320.36</b>	<b>-394,182.90</b>	<b>-1,678,503.26</b>	<b>-414,650.19</b>	<b>59,821,556.81</b>	<b>275,398.25</b>	<b>60,096,955.06</b>
				-2,833,485.31		-2,833,485.31
				268,795.46		268,795.46
<b>-1,284,320.36</b>	<b>-394,182.90</b>	<b>-1,678,503.26</b>	<b>-414,650.19</b>	<b>57,256,866.96</b>	<b>275,398.25</b>	<b>57,532,265.21</b>
				17,496,566.86		17,496,566.86
				0.00		0.00
-2,728,313.15	-87821.97	-2,816,135.12		-4,233,144.23	-196,730.05	-4,429,874.28
3,979,913.89		3,979,913.89		3,816,377.06		3,816,377.06
				-1,254,905.67	64,726.67	-1,190,179.00
<b>-4,012,633.51</b>	<b>-482,004.87</b>	<b>-4,494,638.38</b>	<b>-414,650.19</b>	<b>69,265,383.92</b>	<b>143,394.87</b>	<b>69,408,778.79</b>

## CHANGES IN CONSOLIDATED FIXED ASSETS

for the period from January 1 to December 31, 2018

In €	Acquisition-/ production costs Jan. 1, 2018	Currency differences	Additions	Disposals	Reclassifica- tion	Acquisition-/ production costs Dec. 31, 2018
<b>I. Intangible fixed assets</b>						
1. Concessions, industrial property rights and similar rights and licenses to such rights and values	14,960,417.70	-355,558.32	129,245.18	-452,717.91	12,520.65	<b>14,293,907.30</b>
2. Goodwill	56,125,565.10	-2,392,230.86	0.00	0.00	0.00	<b>53,733,334.24</b>
3. Capitalized own services	429,517.14	0.00	0.00	0.00	0.00	<b>429,517.14</b>
	<b>71,515,499.94</b>	<b>-2,747,789.18</b>	<b>129,245.18</b>	<b>-452,717.91</b>	<b>12,520.65</b>	<b>68,456,758.68</b>
<b>II. Property, plant and equipment</b>						
1. Land, rights equivalent to property and buildings on third-party land	616,270.65	9,586.27	311,362.86	-10,373.98	-35,297.08	<b>891,548.72</b>
2. Other equipment, office and factory equipment	8,479,114.36	12,668.04	2,936,425.01	-1,257,445.36	22,776.43	<b>101,93,538.48</b>
	<b>9,095,385.01</b>	<b>22,254.31</b>	<b>3,247,787.87</b>	<b>-1,267,819.34</b>	<b>-12,520.65</b>	<b>11,085,087.20</b>
<b>Total fixed assets</b>	<b>80,610,884.95</b>	<b>-2,725,534.87</b>	<b>3,377,033.05</b>	<b>-1,720,537.25</b>	<b>0.00</b>	<b>79,541,845.88</b>

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

## CHANGES IN CONSOLIDATED FIXED ASSETS

for the period from January 1 to December 31, 2017

In €	Acquisition-/ production costs Jan. 1, 2017	Currency differences	Additions	Additions from company acquisitions	Disposals	Reclassifica- tion	Acquisition-/ production costs Dec. 31, 2017
<b>I. Intangible fixed assets</b>							
1. Concessions, industrial property rights and similar rights and licenses to such rights and values	5,476,207.88	-197,084.11	2,375,419.29	7,679,409.46	-249,434.82	-124,100.00	14,960,417.70
2. Goodwill	21,563,226.63	-1,330,588.03	0.00	35,892,926.50	0.00	0.00	56,125,565.10
3. Capitalized own services	0.00	0.00	305,417.14	0.00	0.00	124,100.00	429,517.14
	<b>27,039,434.51</b>	<b>-1,527,672.14</b>	<b>2,680,836.43</b>	<b>43,572,335.96</b>	<b>-249,434.82</b>	<b>0.00</b>	<b>71,515,499.94</b>
<b>II. Property, plant and equipment</b>							
1. Land, rights equivalent to property and buildings on third-party land	383,161.67	-15,506.72	195,716.04	71,264.42	-52,123.95	33,759.19	616,270.65
2. Other equipment, office and factory equipment	6,237,427.37	-94,965.18	2,564,773.44	1,189,910.73	-1,384,272.81	-33,759.19	8,479,114.36
	<b>6,620,589.04</b>	<b>-110,471.90</b>	<b>2,760,489.48</b>	<b>1,261,175.15</b>	<b>-1,436,396.76</b>	<b>0.00</b>	<b>9,095,385.01</b>
<b>Total fixed assets</b>	<b>33,660,023.55</b>	<b>-1,638,144.04</b>	<b>5,441,325.91</b>	<b>44,833,511.11</b>	<b>-1,685,831.58</b>	<b>0.00</b>	<b>80,610,884.95</b>

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



	Depreciation and impairments cumulated Jan. 1, 2018	Currency differences	Additions	Disposals	Reclassification	Depreciation and impairments cumulated Dec. 31, 2018	Book value Dec. 31, 2018	Book value Dec. 31, 2017
	4,488,074.54	-18,576.43	2,642,809.73	-450,631.81	5,373.02	<b>6,667,049.05</b>	7,626,858.25	10,472,343.16
	0.00	0.00	0.00	0.00	0.00	<b>0.00</b>	53,733,334.24	56,125,565.10
	15,339.90	0.00	61,359.60	0.00	0.00	<b>76,699.50</b>	352,817.64	414,177.24
	<b>4,503,414.44</b>	<b>-18,576.43</b>	<b>2,704,169.33</b>	<b>-450,631.81</b>	<b>5,373.02</b>	<b>6,743,748.55</b>	<b>61,713,010.13</b>	<b>67,012,085.50</b>
	92,633.49	-5,959.60	113,979.48	-5,142.71	-12,673.19	<b>182,837.47</b>	708,711.25	523,637.16
	3,815,694.21	-12,172.36	2,031,541.24	-1,005,948.03	7,300.17	<b>4,836,415.23</b>	5,357,123.25	4,663,420.15
	<b>3,908,327.70</b>	<b>-18,131.96</b>	<b>2,145,520.72</b>	<b>-1,011,090.74</b>	<b>-5,373.02</b>	<b>5,019,252.70</b>	<b>6,065,834.50</b>	<b>5,187,057.31</b>
	<b>8,411,742.14</b>	<b>-36,708.39</b>	<b>4,849,690.05</b>	<b>-1,461,722.55</b>	<b>0.00</b>	<b>11,763,001.25</b>	<b>67,778,844.63</b>	<b>72,199,142.81</b>
	2,860,368.31	-145,204.75	2,021,120.63	-248,209.65	0.00	4,488,074.54	10,472,343.16	2,615,839.57
	0.00	0.00	0.00	0.00	0.00	0.00	56,125,565.10	21,563,226.63
	0.00	0.00	15,339.90	0.00	0.00	15,339.90	414,177.24	0.00
	<b>2,860,368.31</b>	<b>-145,204.75</b>	<b>2,036,460.53</b>	<b>-248,209.65</b>	<b>0.00</b>	<b>4,503,414.44</b>	<b>67,012,085.50</b>	<b>24,179,066.20</b>
	53,437.18	-1,794.66	47,355.01	-13,106.30	6,742.26	92,633.49	523,637.16	329,724.49
	3,406,565.20	-25,370.98	1,692,310.07	-1,251,067.82	-6,742.26	3,815,694.21	4,663,420.15	2,830,862.17
	<b>3,460,002.38</b>	<b>-27,165.64</b>	<b>1,739,665.08</b>	<b>-1,264,174.12</b>	<b>0.00</b>	<b>3,908,327.70</b>	<b>5,187,057.31</b>	<b>3,160,586.66</b>
	<b>6,320,370.69</b>	<b>-172,370.39</b>	<b>3,776,125.61</b>	<b>-1,512,383.77</b>	<b>0.00</b>	<b>8,411,742.14</b>	<b>72,199,142.81</b>	<b>27,339,652.86</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 1. BASIC INFORMATION ON THE COMPANY

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

The shares of SNP Schneider-Neureither & Partner SE are traded on the Prime Standard of the Frankfurt Stock Exchange under security identification number ISIN DE007203705.

SNP Schneider-Neureither & Partner SE is a software-oriented business consulting firm that specializes in the delivery of services in the area of data processing, whereby proprietary software developments are used, particularly in the area of digital transformation management. SNP enables companies to successfully navigate the rapidly changing digital environment and seize their opportunities on the market with a highly flexible IT infrastructure. SNP supports organizations in adapting their business models and using new technologies. SNP software and services facilitate the implementation of business or technical modifications to business applications.

The solutions and software from SNP provide support for M&A projects and carve-outs, allow for the integration of previously divergent IT landscapes and promote expansion into new markets outside the domestic space. With SNP Transformation Backbone, the company offers the world's first standardized software for automatically assessing and implementing changes to IT systems. This provides customers with clear qualitative advantages, while notably reducing the time and expense involved in transformation projects.

The consolidated financial statements of SNP Schneider-Neureither & Partner SE, Heidelberg, for the fiscal year ended December 31, 2018, were approved for publication by resolution of the Board of Directors on March 15, 2019.

## 2. GENERAL INFORMATION

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

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

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

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

The preparation of the consolidated financial statements is done using a historical cost basis, with the exception of financial assets available for sale, which are measured at market value.

### 3. APPLICATION OF NEW ACCOUNTING RULES

The following standards and interpretations of the International Accounting Standards Board (IASB) that have come into force have been adopted by the European Union (EU) and taken into consideration in the preparation of the consolidated financial statements as of December 31, 2018:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- Clarifications to IFRS 15 Revenue from Contracts with Customers
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration
- Amendments to IAS 40 Transfers of Investment Property
- Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions
- Amendments to IFRS 4 Applying IFRS 9, Financial Instruments' together with IFRS 4 'Insurance Contracts'
- Improvements to IFRS 2014-2016
  - Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures – clarification that the election to measure at fair value through profit or loss an investment in an associate or a joint venture is available for each investment on an investment-by-investment basis
  - Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – deletion of short-term exemptions for first-time adopters

The application of these new or revised standards and interpretations has only affected the consolidated financial statements within the scope of the initial application relating to IFRS 9 and IFRS 15.

#### **IFRS 15 Revenue from Contracts with Customers**

The IASB issued IFRS 15 on May 28, 2014. The new standard on revenue realization is being used for us since January 1, 2018. IFRS 15 replaces IAS 11 Construction Contracts and IAS 18 Revenue as well as the related interpretations. In 2017, in the course of our preparations for the application of IFRS 15, we developed new accounting and measurement principles for revenue realization based on IFRS 15 and adjusted the relevant business processes in line with these new accounting guidelines. These efforts were part of a project which we implemented throughout our company. We have also developed a global introduction and training

concept for all relevant stakeholder groups within SNP and introduced internal controls for application of the new accounting guidelines and processes.

We are applying IFRS 15 retrospectively with effect as of January 1, 2018, on the basis of the cumulative catch-up method. This method means that we are not making any adjustments to the prior periods (including the figures for earlier reporting periods shown in the main sections of the consolidated financial statements). We are also making use of the exemption permitting the new standard to be applied only to contracts not yet fulfilled as of January 1, 2018. This exemption affects both the cumulative effect of first-time application of this standard for retained earnings and our future revenue and expenses. Please see below for further information.

There are several differences between our accounting and measurement methods based on IFRS 15 and our previous accounting and measurement methods in line with IAS 11 and IAS 18. The key differences are as follows:

In the period up to December 31, 2017, revenue from licensing fees within the scope of multi-component contracts (project licenses) was realized on the basis of a specific date, as of the conclusion of the contract and delivery of the software. Upon the application of IFRS 15, since January 1, 2018, this revenue has been realized in accordance with the progress of the project, over the duration of the project.

In addition, we report a customer contract either as a contract liability or as a contract asset once one of the parties has begun to fulfill the contract. Legal claims to the provision of consideration by customers will only be reported as trade receivables if the legal claim is unconditional. Since January 1, 2018, we have been reporting contract assets and contract liabilities separately in the statement of financial position.

The first-time application of IFRS 15 with effect from January 1, 2018 has resulted in the following adjustments in the statement of financial position:

In € thousand	Jan. 1, 2018 before adjust- ment	Reclassification	Adjustment	Jan. 1, 2018 after adjust- ment
<b>Total assets</b>	<b>153,785</b>	<b>0</b>	<b>-1,449</b>	<b>152,336</b>
<i>Trade receivables, current</i>	41,903	-9,123	0	32,780
<i>Contract assets</i>	0	9,123	-2,543	6,580
<i>Deferred tax assets</i>	1,807	0	1,094	2,901
<b>Total liabilities</b>	<b>93,688</b>	<b>0</b>	<b>1,385</b>	<b>95,073</b>
<i>Noncurrent contract liabilities</i>	0	34	0	34
<i>Noncurrent deferred income</i>	34	-34	0	0
<i>Current trade payables</i>	11,767	-330	0	11,437
<i>Current contract liabilities</i>	0	917	1,385	2,302
<i>Current deferred income</i>	587	-587	0	0
<b>Total equity</b>	<b>60,097</b>	<b>0</b>	<b>-2,834</b>	<b>57,263</b>
<i>Retained earnings</i>	2,180	0	-2,834	-654

Due to the change in the recognition of revenue from project licenses relating to those projects that had not yet been completed by December 31, 2017, revenue in the periods prior to January 1, 2018 is € 3.9 million lower. This reduced the item "contract assets" and increased the item "contract liabilities" in our opening balance as of January 1, 2018. Equity was reduced after taking deferred taxes into account.

The table below shows what the consolidated income statement and statement of financial position would look like if IAS 18 had been applied continuously during the reporting period:

In € thousand	Dec. 31, 2018 (as reported)	Reconciliation to IAS 18	Dec. 31, 2018 Pursuant to IAS 18
Revenue	130,983	-1,216	129,767
EBIT	-2,549	-1,216	-3,765
EBT	-3,643	-1,216	-4,859
Income taxes	2,020	365	2,385
Profit or loss for the period	-1,623	-851	-2,474
Profit share of shareholders in SNP Schneider-Neureither & Partner SE	-1,417	-851	-2,268
Earnings per share in €			0
- basic	-0.26	-0.15	-0.41
- diluted	-0.26	-0.15	-0.41

In € thousand	Dec. 31, 2018 (as reported)	Reconciliation to IAS 18	Reclassification	Dec. 31, 2018 Pursuant to IAS 18
<b>Total assets</b>	<b>151,766</b>	<b>-2,759</b>	<b>0</b>	<b>149,007</b>
Trade receivables	26,938	0	1,757	28,695
Contract assets	4,881	-3,124	-1,757	0
Deferred tax assets	6,637	365	0	7,002
<b>Total liabilities</b>	<b>82,357</b>	<b>-1,908</b>	<b>0</b>	<b>80,449</b>
Noncurrent contract liabilities	4	0	-4	0
Noncurrent deferred income	0	0	4	4
Current trade payables	8,959	0	2,234	11,193
Current contract liabilities	4,580	-1,908	-2,672	0
Current deferred income	0	0	438	438
<b>Total equity</b>	<b>69,409</b>	<b>-851</b>	<b>0</b>	<b>68,558</b>
Retained earnings	7,604	-851	0	6,753

### IFRS 9 (Financial Instruments)

On July 24, 2014, the IASB issued the fourth and final version of IFRS 9. We have applied IFRS 9 since January 1, 2018. IFRS 9 introduces a consistent approach to the classification and measurement of financial assets. The standard is based on the cash flow properties and the business model used to manage these assets. Furthermore, it provides for a new model of impairment that is based on expected credit losses. IFRS 9 also includes new regulations for the application of hedge accounting in order to improve the presentation of the risk management activities of a company, particularly with regard to the management of nonfinancial risks.

SNP makes use of the exemptions from full retrospective application and thus recognizes the effect of first-time application as an adjustment to the opening balance of retained earnings. We have reviewed our financial assets and liabilities. The consistent approach to the classification and measurement of financial assets and liabilities introduced by IFRS 9 has not had any effect on SNP's financial position and financial performance.

#### Classification of Financial Assets

IFRS 9 includes three classification categories for financial assets: "measured at amortized cost", "measured at fair value through profit or loss" and "measured at fair value through other comprehensive income." Financial instruments are assigned to the IFRS 9 categories depending on the business model within which the financial instruments are held and on the basis of the contractual cash flows.

The majority of our debt instruments and all loans, trade receivables, contract assets and other financial receivables fulfill the criteria for accounting at amortized cost. A table showing a reconciliation of the measurement categories and carrying amounts from IAS 39 to IFRS 9 can be found under Point 33. Financial Instruments.

#### Financial Liabilities

IFRS 9 did not have any impact on the recognition of our financial liabilities.

#### Impairments

We have applied the simplified impairment model provided by IFRS 9 since January 1, 2018 and thus recognize any losses resulting from trade receivables and contract assets expected over the entire term. For the purposes of the impairment matrix, our local subsidiaries' customers are classified in terms of various risk classes, mainly on the basis of the information available regarding the country risk classification for their home country. We then assess the default risk for trade receivables on the basis of the historical default risks as well as information available in relation to the country risk classification. On the basis of our analyses, historical default rates generally serve in this respect as a reasonable approximation of the default risks envisaged in the future. Outstanding receivables and contract assets are continuously monitored at a local level in order to determine whether the default risk has increased significantly. Information e.g. regarding significant financial difficulties for the customer or non-compliance with a payment plan will indicate the impairment of trade receivables and contract assets. If these aspects apply,

the impairment is adjusted accordingly. Our consolidated income statement includes expenses resulting from expected credit losses due to the application of the impairment matrix as well as customers with impaired credit standing separately under "Impairments on receivables and contract assets. Outstanding debts are written off in part or entirely if we assume that their realization is improbable. For example, this may be the case if the insolvency proceedings for the customer have been completed or all of the options for the recovery of claims have been exhausted.

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

The effects resulting from the first-time application of IFRS 9 are as follows:

In € thousand	Dec. 31, 2017	IFRS 15 adjustment	IFRS 9 adjustment	Jan. 1, 2018	Dec. 31, 2018
Trade receivables, gross	42,618	-9,123	0	33,495	27,531
Contract assets, gross	0	6,580	0	6,580	4,894
Impairments on trade receivables and contract assets	-445	0	338	-107	-197
<b>Trade receivables and contract assets, net</b>	<b>42,173</b>			<b>39,968</b>	<b>32,228</b>

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

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

##### IFRS 16 Leases

The IASB issued IFRS 16 on January 13, 2016. We will apply IFRS 16 from the date on which it comes into effect (January 1, 2019), subject to the modified retrospective approach. In particular, application of the new stand-

ard will have significant effects on accounting for leases where SNP is the lessee and on real estate lease agreements, since in principle all leases must be recognized in a company's statement of financial position (in the form of rights of use and leasing liabilities). We intend to make use of the exemptions provided for in the standard (e.g., in relation to short-term leases, leases for low-value assets and in relation to the separation of components of a contract that do not constitute leasing).

We also plan to apply the practical expedient allowing IFRS 16 to be applied to all contracts concluded prior to January 1, 2019 that were considered to constitute leases under IAS 17 and IFRIC 4.

**SNP as the Lessee**

The SNP Group will recognize new assets and liabilities for operating leases involving office premises and vehicles. The type of expenses incurred in connection with these leases will change, as the Group will recognize amortization on capitalized rights of use and interest expenses for leasing liabilities, and will no longer recognize rental expenses. In the past, the Group had distributed the expenses for operating leases on a straight-line basis over the term of the lease and had only recognized assets and liabilities to the extent that there was a time lag between the actual lease payments and the recognition of the expense.

We expect to recognize right-of-use assets relating to leased items in the amount of around € 14.7 million and leasing liabilities in the amount of € 14.7 million in the statement of financial position as of January 1, 2019.

The operating result (EBIT) is likely to increase by € 0.3 million in the 2019 fiscal year due to the changes in the recognition of expenses.

The changes in the recognition of leasing expenses from operating leases will improve the cash flow from operating activities accordingly and will have a detrimental impact on the cash flow from financing activities, as the repayment of the leasing liabilities is classified as a cash flow from financing activities.

The Group does not expect the application of IFRS 16 to impact its ability to adhere to the financial covenants set out in the promissory note loan contract.

The Group does not expect any material impact regarding its finance leases.

## 5. SCOPE OF CONSOLIDATION

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

COMPANY NAME	COMPANY HEADQUARTERS	SHARE OWNERSHIP IN %
SNP Transformations Deutschland GmbH	Thale, Germany	100
SNP Business Landscape Management GmbH	Heidelberg, Germany	100
SNP Applications DACH GmbH	Heidelberg, Germany	100
SNP Applications Singapore Private Limited <sup>1</sup>	Singapore	100
SNP Applications EMEA GmbH	Heidelberg, Germany	100
SNP GmbH	Heidelberg, Germany	100
SNP Austria GmbH	Pasching, Austria	100
SNP (Schweiz) AG	Steinhausen, Switzerland	100
SNP Resources AG	Steinhausen, Switzerland	100
Schneider-Neureither & Partner Iberica, S.L.	Madrid, Spain	100
SNP Transformations, Inc.	Jersey City, New Jersey, USA	100
SNP Schneider-Neureither & Partner ZA (Pty.) Limited	Johannesburg, South Africa	100
Hartung Consult GmbH	Berlin, Germany	100
Hartung Information System Co., Ltd.	Shanghai, China	100
SNP Transformations SEA Pte. Ltd.	Singapore	81
SNP Transformations Malaysia Sdn. Bhd.	Kuala Lumpur, Malaysia	81
Harlex Management Ltd.	London, U.K.	100
Harlex Consulting Ltd.	London, U.K.	100
SNP Poland Sp. z o.o. (vormals Business Consulting Center S.P.O.O.) <sup>3,4,5</sup>	Suchy Las, Poland	100
Innoplexia GmbH <sup>2</sup>	Heidelberg, Germany	100
ADP Consultores S.R.L.	Buenos Aires, Argentina	100
ADP Consultores Limitada	Santiago de Chile, Chile	100
ADP Consultores S.A.S.	Bogotá, Colombia	100
ERST European Retail Systems Technology GmbH	Hamburg, Germany	100

<sup>1</sup> The remaining 20% of the shares in SNP Applications Singapore Private Limited were acquired in April 2018.

<sup>2</sup> The remaining 20% of the shares in Innoplexia GmbH were acquired in June 2018.

<sup>3</sup> BCC IP Sp. z o.o. was merged with SNP Poland Sp. z o.o. in November 2018 as part of an internal group restructuring measure. This did not have any impact on the Group.

<sup>4</sup> BCC Business Consulting Center GmbH i.L. was removed from the scope of consolidation in 2018 due to immateriality.

<sup>5</sup> BCC Business Consulting Center Netherlands B.V. was removed from the scope of consolidation in 2018 due to immateriality.

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

- SNP Transformations Deutschland GmbH, Thale
- SNP Applications DACH GmbH, Heidelberg
- SNP Applications EMEA GmbH, Heidelberg
- SNP Business Landscape Management GmbH, Heidelberg



## 6. PRINCIPLES OF CONSOLIDATION

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

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

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

All intragroup balances, transactions, income, expenses, profits and losses resulting from intragroup transactions that are included in the carrying amounts of assets are eliminated in full.

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

### Associates

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

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

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

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

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

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

## 7. CURRENCY TRANSLATION AND HYPERINFLATION

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

The assets and liabilities of these subsidiaries are translated into the reporting currency of SNP Schneider-Neureither & Partner SE at the closing rate on the reporting date. Income and expenses are translated at the weighted average exchange rate for the reporting month in question. The resulting differences are recognized as a separate component of equity under "Other equity effects not recognized in profit and loss."

We are applying the financial reporting for hyperinflationary economies to our subsidiary in Argentina for the first time, namely by adjusting the annual financial statements of this subsidiary for the current period taking into account the change in the general purchasing power of the local currency based on relevant price indices as of the reporting date. The adjusted annual financial statements of our subsidiary in Argentina are translated at the closing rate on the reporting date. The biggest effects resulting from this accounting method are as follows:

- Revenue (down by € 3.2 million in 2018),
- Expenses and other income (up by € 3.2 million in 2018),
- EBIT (minimal impact in 2018),
- Goodwill (up by € 3.5 million as of December 31, 2018),
- Equity (€ 4.0 million increase in other reserves as of December 31, 2018),
- Profit or loss from the net financial position (loss in an amount of € 174 thousand).

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

Company	Country	Currency	Closing rates		Average rates	
			2018	2017	2018	2017
SNP (Schweiz) AG	Schweiz	CHF	1.1269	1.1702	1.15488	1.1117
SNP Resources AG	Schweiz	CHF	1.1269	1.1702	1.15488	1.1117
SNP Transformations, Inc.	USA	USD	1.1450	1.1993	1.18149	1.1297
SNP Schneider-Neureither & Partner ZA (Pty) Limited	Südafrika	ZAR	16.4594	14.8054	15.61336	15.0490
Hartung Informational System Co., Ltd.	China	CNY	7.8751	7.8044	7.80735	7.6290
SNP Transformations SEA Pte. Ltd.	Singapur	SGD	1.5591	1.6024	1.59285	1.5588
SNP Applications Singapore Private Limited	Singapur	SGD	1.5591	1.6024	1.59285	1.5588
SNP Transformations Malaysia Sdn. Bhd.	Malaysia	MYR	4.7317	4.8536	4.76418	4.8527
Harlex Management Ltd.	United Kingdom	GBP	0.8945	0.8872	0.88475	0.8766
Harlex Consulting Ltd.	United Kingdom	GBP	0.8945	0.8872	0.88475	0.8766
Business Consulting Center Sp. z o.o.	Polen	PLN	4.3014	4.1770	4.26057	4.2570
ADP Consultores S.R.L.	Argentinien	ARS	43.0014	22.3663	*	20.5768
ADP Consultores Limitada	Chile	CLP	795.8900	735.2100	756.64482	747.7923
ADP Consultores S.A.S.	Kolumbien	COP	3,720.9640	3,578.7110	3,487.4998	3,509.3440

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

## 8. USE OF ESTIMATES

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

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

### Realization of Revenue

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

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

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

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

### Measurement of Trade Receivables

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

### Accounting for Income Taxes

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

deferred tax assets, we consider all of the available information, including taxable income realized in the past, as well as the predicted taxable income in the periods in which these deferred tax assets are expected to be realized. Our assessment of future taxable income is based on assumptions regarding the future market conditions and the future profits of SAP. Changes in these assumptions and results that differ from these assumptions may give rise to significant adjustments to the carrying amount of our deferred tax assets.

### Accounting for Business Combinations

Within the scope of accounting for business combinations, discretionary judgments are necessary within the scope of the assessment as to whether an intangible asset can be identified and should be recognized separately from goodwill. In addition, an estimate of the fair values of the identifiable acquired assets and assumed liabilities as of the date of acquisition entails significant discretionary judgments on the part of the management. The necessary assessments are based on the information that is available as of the date of acquisition, as well as the expectations and assumptions that the management deems appropriate. These discretionary judgments, estimates and assumptions may have a significant impact on our financial position and financial performance due to the following reasons, for example:

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

### Subsequent Accounting for Goodwill and Other Intangible Assets

Discretionary judgments are necessary:

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

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

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

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

## 9. KEY ACCOUNTING POLICIES

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

### Cash and Cash Equivalents

Cash and cash equivalents include short-term, highly liquid assets that can be converted into cash within a month or less without any value risk.

### Financial Instruments

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

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

Financial assets and financial liabilities are recognized in the consolidated statement of financial position when SNP becomes a contractual party to a financial instrument. Financial assets are derecognized when there are no longer any contractual rights to payments from the financial assets. By way of example, receivables are derecognized when their non-collectability is determined with definitive effect. Financial liabilities are derecognized when the contractual obligations are settled, canceled or have expired. All financial instruments are initially measured at fair value. Only trade receivables without a significant financing component are stated at the transaction price in accordance with IFRS 15.

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

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

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

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

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

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

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

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

We have applied the simplified impairment model provided by IFRS 9 since January 1, 2018 and thus recognize any losses resulting from trade receivables and contract assets expected over the entire term. For the purposes of the impairment matrix, we have assigned

our local subsidiaries to various risk classes, mainly on the basis of the information available regarding the country risk classification for their home country. We then assess the default risk for trade receivables on the basis of the historical default risks as well as information available in relation to the country risk classification. On the basis of our analyses, historical default rates generally serve in this respect as a reasonable approximation of the default risks envisaged in the future. Outstanding receivables are continuously monitored at a local level in order to determine whether there are any objective indications that the credit standing of our trade receivables and contract assets is impaired. Information e.g. regarding significant financial difficulties for the customer or non-compliance with a payment plan will indicate the impairment of trade receivables and contract assets. If these points arrive impairment is adjusted accordingly. Our consolidated income statement includes expenses resulting from expected credit losses due to the application of the impairment matrix as well as customers with impaired credit standing separately under "Impairments on receivables and contract assets." Outstanding debts are written off in part or entirely if we assume that their realization is improbable. For example, this may be the case if the insolvency proceedings for the customer have been completed or all of the options for the recovery of claims have been exhausted.

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

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

Financial liabilities measured at fair value through profit or loss include derivative liabilities. They are also measured at the value of the consideration received, as the fair value, upon initial recognition. The latter is also the measurement standard for these liabilities in the context of subsequent measurement. The Group did not carry out any derivative transactions in the reporting year or in the preceding year.

The information on the accounting policies applied in the previous year in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" is included in the 2017 Annual Report. A table showing a reconciliation of the measurement categories and carrying amounts from IAS 39 to IFRS 9 can be found under Point 33. Financial Instruments.

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

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

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

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

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

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

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

The carrying amount of noncurrent liabilities corresponds approximately to their fair value based on the market price for similar financings.

### Inventories

Inventories are measured at the lower of cost / production cost and net realizable value. In the previous year, inventories in the amount of € 372 thousand had been reported under trade receivables. These were reclassified to inventories in the past fiscal year. This reclassification was implemented in order to achieve a more appropriate presentation of the net asset position.

### Other Nonfinancial Assets

We report other nonfinancial assets at amortized cost. In the previous year, prepaid expenses had been reported under current assets. Within the scope of the changeover of the balance sheet structure, noncurrent prepaid expenses from the previous year in the amount of € 42 thousand were reclassified from current assets to noncurrent assets.

### Goodwill

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

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

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

Goodwill of € 53,733 thousand (previous year: € 56,126 thousand) was assigned to the Professional Services business segment for the purpose of impairment testing.

The Professional Services business segment represents the smallest cash-generating unit in the Group for which goodwill is monitored as part of internal management. The impairment test is based on the value in use, which is determined by discounting the planned cash flows resulting from the continuation of the individual units. Cash flow planning is based on the current operating results and a three-year business plan. Cash flows in subsequent years are updated using a constant growth rate of 1.00% (previous year: 1.00%). These cash flow forecasts are discounted to the value in use at a pretax rate of 9.36% (previous year: 10.5%). Business planning takes into account both current information and historical developments. No impairment losses were required either in the reporting year or in the previous year.

As part of a sensitivity analysis for the "Professional Services" cash-generating unit, the segment revenue was reduced by 10%, the weighted cost of capital before tax was increased by 1 percentage point or the EBIT margin was reduced by 1 percentage point. This reduces the value of goodwill by EUR 702 thousand if the weighted cost of capital before tax is increased. Otherwise, there is no need for impairment with regard to the goodwill attributable to the "Professional Services" cash-generating unit.

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

- EBIT margin
- Discount rate
- Growth rate

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

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

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

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

In reporting year 2018, there were negative currency translation effects with regard to goodwill of € -5.907 thousand (previous year: € -1,331 thousand) in accordance with IAS 21. In addition, there was a positive effect of € 3,515 thousand (previous year: € 0 thousand) in accordance with IAS 21.

### **Intangible Assets**

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

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

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

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

There are currently no intangible assets with indefinite useful lives.

### **Research and Development Costs**

In accordance with IAS 38, research costs are recognized as expenses, while development costs are capitalized if other criteria are met. If it is not possible to clearly distinguish between the research and development phases of an internal project, all of the expenses associated with this project should be treated as research expenses. In the 2017 fiscal year, research and development expenses totaling € 16,626 thousand (previous year: € 13,984 thousand) were recognized as expenses, since a clear distinction between the research and development phases was not possible. This corresponds to 12.7% of revenue (previous year: 11.4%).

In one special case, externally awarded development work was capitalized in the amount of € 144 thousand in the previous year as well as own work in the amount of € 161 thousand; this work was necessary for the completion of the project. In the 2018 fiscal year, there were no capitalizations for development work.

### **Property, Plant and Equipment**

Property, plant and equipment are measured at acquisition or production costs, less depreciation and impairments. Borrowing costs are recognized as expenses unless they are capitalized as part of the acquisition or production costs of a qualifying asset. Property, plant and equipment essentially comprise office equipment, vehicles and computers and are depreciated on a straight-line basis over an economic useful life of 1 to 20 years.

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

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

The Group did not carry out any impairments in the reporting year.



## Liabilities

### Financial Liabilities

See comments under Financial Instruments.

**Other nonfinancial liabilities** are initially recognized at fair value, adjusted for transaction costs. Subsequent measurement occurs at amortized cost using the effective interest method.

### Provisions for Pensions

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

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

### Other Provisions

A provision is recognized if the Group has a current (legal or constructive) obligation arising from a past event for which an outflow of resources with economic benefits is probable to settle the obligation and a reliable estimate of the amount of the obligation is possible. The expense involved in making the provision is disclosed in the income statement after deducting any highly probable reimbursement. If the interest effect is material, the provisions are discounted. In case of a discount, the increase in provisions over time is recognized as interest expense.

### Deferred Income

Deferrals for maintenance fees were included in deferred income up until December 2017. As these are classified as contract liabilities based on their content, they are reported under contract liabilities as of January 1, 2018.

### Treasury Shares

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

In the period up to February 21, 2013, SNP Schneider-Neureither & Partner SE bought back a total of 7,294 treasury shares. Following the allocation of bonus shares (capital increase from company funds resolved by the Annual General Meeting on May 16, 2013), the number of treasury shares currently held is 21,882. The acquisition cost of € 414,650.19 has been disclosed as a negative item in equity in accordance with IAS 32.33. There were no changes in the 2014–2018 fiscal years.

## Taxes

### Current Tax Assets and Tax Liabilities

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

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

### Deferred Taxes

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

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

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

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

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

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

### Leases

The determination as to whether an agreement is or contains a lease is made on the basis of the economic content of the agreement and requires an assessment as to whether the fulfillment of the contractual agreement is dependent on the use of a particular asset or assets and as to whether the agreement grants the right to use the asset.

Finance leases, in which essentially all risks and opportunities associated with ownership of the transferred asset are transferred to the Group, are capitalized at the fair value of the leased asset or, if lower, the present value of the minimum lease payments at the inception of the lease. Simultaneously, a matching liability is recognized that is subsequently repaid and updated using the effective interest method. Lease payments are apportioned into the components of finance costs and repayment of the lease liability, so that the remaining carrying amount of the lease liability bears interest at a constant rate. Finance costs are expensed immediately.

Expenses from operating leases are recognized directly in the income statement. The corresponding future lease obligation is reported under other financial obligations.

SNP has concluded leases under which the lessor retains beneficial ownership of the leased assets (operating leasing) as well as other leases where SNP bears all key risks and opportunities, as the lessee, and must thus be considered the beneficial owner (finance leasing).

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

### Realization of Revenue Revenue Classes

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

Our revenue is generated from the following typical performance obligations:

- Professional Services
  - consulting services
  - data center services
  - training and other services
- Cloud
- Licenses
  - licenses for proprietary developments
  - licenses for commercial transactions (reselling)
- Maintenance

Consulting fees mainly relate to the installation of software products, the implementation of transformation projects, projects associated with SAP Solution Manager and traditional IT consulting. These consulting fees include travel expenses that are charged to our customers and are paid for by them.

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

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

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

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

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

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

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

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

Revenue in the Professional Services business is realized over a specific period based on the percentage-of-completion method (PoC method). The profits are realized based on the degree of completion. This is calculated as the ratio of the order hours incurred up until the reporting date to the total order hours as estimated on the reporting date. An expected loss is expensed immediately. Invoicing is based on the contractual terms and conditions.

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

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

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

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

### **Recognition of Expenses**

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

### **Net Finance Costs**

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

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

## 10. ACQUISITIONS / BUSINESS COMBINATIONS

### **Increase in the Investment Held in SNP Applications Singapore Private Limited to 100%**

As of April 1, 2018, SNP SE acquired the remaining 20% of the shares in SNP Applications Singapore Private Limited. SNP SE has thus increased its interest in this company to 100%. Consideration of € 0 thousand was paid to noncontrolling interest holders. The carrying amount of the net assets of the noncontrolling interests amounted to € -149 thousand. The acquisition should be recognized as a transaction between shareholders, whereby a shift in shareholding occurs between the majority shareholder SNP SE and the noncontrolling interests. Noncontrolling interests of € -149 thousand were derecognized, while the remaining difference of € 149 thousand reduced retained earnings.

### **Increase in the Investment Held in Innoplexia GmbH to 100%**

As of June 1, 2018, SNP SE exercised the agreed unilateral purchase option and purchased the remaining 20% of the shares in Innoplexia GmbH from this company's founder and managing director. SNP SE thus increased its investment to 100% of the shares by means of a multiple-phase acquisition plan. SNP SE had already increased its investment from 20% to 80% of the shares in this company in May 2017. The present value of the consideration in an amount of € 1,190 thousand was agreed to noncontrolling interest holders. The carrying amount of the net assets of the noncontrolling interests amounted to € 84 thousand. The acquisition should be recognized as a transaction between shareholders, whereby a shift in shareholding occurs between the majority shareholder SNP SE and the noncontrolling interests. Noncontrolling interests of € 84 thousand were derecognized, while the remaining difference of € 1,106 thousand reduced retained earnings.

## 11. EARNINGS PER SHARE

		2018	2017
<b>Earnings attributable to SNP SE shareholders</b>	<b>€</b>	<b>-1,417,009.11</b>	<b>-2,431,075.75</b>
Weighted average number of shares (basic)	Shares	5,493,314	5,189,918
Weighted average number of shares (diluted)	Shares	5,493,314	5,189,918
Basic earnings per share	€/share	-0.26	-0.47
Diluted earnings per share	€/share	-0.26	-0.47

## 12. SEGMENT REPORTING

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

in € thousand	Professional Services	Software	Total
<b>EBIT of the business segments</b>			
2018	-5,252	9,034	3,782
Margin	-5.2%	30.3%	2.9%
2017	276	4,902	5,178
Margin	0.3%	20.4%	4.2%
<b>External revenue</b>			
2018	101,199	29,784	130,983
2017	98,333	24,010	122,343

Reconciliation in € thousand	2018	2017
<b>Result</b>		
Total reportable segment	3,782	5,178
Expenses not allocated to the segments	-6,331	-5,685
<b>EBIT</b>	<b>-2,549</b>	<b>-507</b>

### Reporting by Region

Regions in € thousand	Revenue (external)		Noncurrent assets		Investments	
	2018	2017	2018	2017	2018	2017
DACH	63,500	63,995	20,777	21,594	2,069	9,659
EMEA	28,165	23,612	28,522	29,728	835	24,118
North America	15,505	15,891	2,903	2,849	344	563
South America	16,791	11,972	12,222	14,756	59	15,807
Asia	7,022	6,873	3,355	3,272	70	128
<b>Total</b>	<b>130,983</b>	<b>122,343</b>	<b>67,779</b>	<b>72,199</b>	<b>3,377</b>	<b>50,275</b>

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

The Software business segment includes the "software licensing", "maintenance" and "cloud solutions" performance obligations. Key services include the de-

velopment and marketing of the in-house software solution for ERP transformations, SNP Transformation Backbone, and the extension to SNP Transformation Backbone with SAP LT, the software product CrystalBridge, the SNP Interface Scanner, the translation software SNP Dragoman and the SNP Data Provisioning and Masking software, a solution for the migration

and secure masking of productive ERP data for tests, training and quality assurance. In addition, sales of third-party software are also included in this business segment. Out of the total revenue in the Software business segment, € 21,983 thousand was realized over time and € 7,801 thousand at a specific point in time.

The Professional Services segment includes consulting regarding changes in a business area. Management and project management consulting plays a vital role in the services portfolio: Essentially, this consulting is divided into the two areas of Business Landscape Transformation (BLT) and Business Landscape Management (BLM).

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

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

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

### 13. CASH AND CASH EQUIVALENTS

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

### 14. OTHER FINANCIAL ASSETS

in € thousand	2018			2017		
	Current	Noncurrent	Total	Current	Noncurrent	Total
Loans and other financial receivables	1,520	123	1,643	403	337	740
Rent deposits	0	588	588	0	472	472
<b>Total</b>	<b>1,520</b>	<b>711</b>	<b>2,231</b>	<b>403</b>	<b>809</b>	<b>1,212</b>

Loans and other financial receivables comprise loans to employees and third parties, Checks with a maturity of over three months and other receivables. As of December 31, 2018, there were no other financial receivables that were overdue but not impaired. As of the reporting date, we do not have any indication of the impairment of financial receivables that are not overdue nor impaired.

## 15. TRADE RECEIVABLES AND OTHER RECEIVABLES

Trade receivables are comprised as follows:

in € thousand	2018			2017		
	Current	Noncurrent	Total	Current	Noncurrent	Total
Gross carrying amount in trade receivables	27,122	409	27,531	33,225	270	33,495
Impairments on trade receivables	-184	0	-184	-445	0	-445
<b>Total</b>	<b>26,938</b>	<b>409</b>	<b>27,347</b>	<b>32,780</b>	<b>270</b>	<b>33,050</b>

Trade receivables are non-interest bearing and are reported at amortized cost. For further information on the maturity analysis, please see Point 33.

In the previous year, receivables from POC were further reported under trade receivables. As part of the changeover to the new accounting standard, IFRS 15, the receivables from POC are reported in a separate balance sheet item: contract assets. The prior-year figures have been adjusted accordingly.

## 16. CONTRACT ASSETS AND CONTRACT LIABILITIES

The following table shows the development of contract assets and contract liabilities from customer contracts in the 2018 fiscal year:

Contract assets	in € thousand
<b>As of Jan. 1, 2018</b>	<b>6,580</b>
Current changes	-1,686
Impairments on contract assets	-13
<b>As of Dec. 31, 2018</b>	<b>4,881</b>
<b>Contract liabilities</b>	
<b>As of Jan. 1, 2018</b>	<b>2,336</b>
Revenue recognized during the reporting year	-2,302
Additions	4,550
<b>As of Dec. 31, 2018</b>	<b>4,584</b>

The changes in the total contract amounts in the 2018 fiscal year are largely the result of ongoing business operations and the associated changes in project progress and settlement. In the current reporting period, an amount of € 2,302 thousand that had been included in contract liabilities at the beginning of the period was recognized in revenue from contracts with customers. We expect more than 90% of the contract liabilities recognized on December 31, 2018 to be recognized as revenue in the next reporting period.

A total transaction price of € 56,300 thousand is allocated to those performance obligations that had not been satisfied (in full) as of December 31, 2018. The management expects 80 – 90% of this amount to be recognized as revenue in the 2019 fiscal year and the rest in subsequent periods.

In the previous year, the contract assets and contract liabilities were still reported under trade receivables/trade payables. As part of the changeover to the new IFRS 15 accounting standard, these are shown under separate items on the statement of financial position.

## 17. INVENTORIES

These inventories are software licenses that have been acquired with the intention to resell them.

## 18. OTHER NONFINANCIAL ASSETS

in € thousand	2018			2017		
	Current	Noncurrent	Total	Current	Noncurrent	Total
Prepaid expenses	1,241	30	1,271	833	80	913
Receivables from tax refunds	617	0	617	924	0	924
Miscellaneous assets	267	5	272	120	6	126
<b>Total</b>	<b>2,125</b>	<b>35</b>	<b>2,160</b>	<b>1,877</b>	<b>86</b>	<b>1,963</b>

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

## 19. INTANGIBLE ASSETS

The progress of individual items of intangible assets is presented in the analysis of changes in fixed assets for the 2018 fiscal year and for the previous year.

There are no restrictions on ownership or disposal.

## 20. PROPERTY, PLANT AND EQUIPMENT

The progress of individual items of property, plant and equipment is presented in the analysis of changes in fixed assets for the 2018 fiscal year and for the previous year.

There are no restrictions on ownership or disposal.

## 21. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

In the 2012 fiscal year, an equity investment of 24% of the share capital of Composite Design Transformation GmbH, from Walldorf, Germany, was acquired. The objective of this company is IT consulting. In the 2012

fiscal year, the value of the investment was written down to € 1.00. Based on current information, there have been no changes in the measurement of the fair value of the investment.

Following the acquisition of Hartung Consult GmbH in January 2016, SNP SE has acquired 40.02% of the shares in Polygon Solutions GmbH, Lünen, Germany. The objective of this company is IT consulting. In the 2017 fiscal year, the value of the investment was written down to € 1.00, since the management does not expect this to provide any positive long-term earnings contributions in the future and no appropriate sale price can be realized.

The investments do not entail any further risks. From the Group's perspective, these investments are classified as immaterial.

## 22. TRADE PAYABLES AND OTHER LIABILITIES

Trade payables and other liabilities are comprised as follows:

in € thousand	2018			2017		
	Current	Noncurrent	Total	Current	Noncurrent	Total
Trade payables	8,945	0	8,945	11,422	550	11,972
Payments received	0	0	0	330	0	330
Miscellaneous liabilities	14	273	287	15	30	45
<b>Total</b>	<b>8,959</b>	<b>273</b>	<b>9,232</b>	<b>11,767</b>	<b>580</b>	<b>12,347</b>



The other liabilities largely include deferred items for rent-free periods.

In the previous year, the liabilities from PoC/payments received on account of orders were still reported under trade payables. As part of the changeover to the new accounting standard, IFRS 15, the liabilities from PoC are reported in a separate balance sheet item: contract liabilities.

## 23. FINANCIAL LIABILITIES

in € thousand	2018			2017		
	Current	Noncurrent	Total	Current	Noncurrent	Total
Liabilities to banks	425	39,682	40,107	1,026	39,598	40,624
Purchase price obligations	4,533	2,606	7,139	9,751	9,067	18,818
Leasing obligations	395	359	754	318	315	633
Other financial liabilities	0	146	146	141	507	648
<b>Total</b>	<b>5,353</b>	<b>42,793</b>	<b>48,146</b>	<b>11,236</b>	<b>49,487</b>	<b>60,723</b>

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

The promissory note loans were recognized in the statement of financial position, less the brokerage commission and plus deferred interest, at € 39.6 million. As of December 31, 2018, the carrying value is € 40.0 million (previous year: € 39.9 million).

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

SNP has concluded finance leases for vehicles as well as furniture and office equipment. The Group's finance lease obligations are secured by the lessor's ownership of the leased assets. The future minimum lease payments are indicated as a leasing obligation in the above table.

No collateral is provided for financial liabilities. Instead, standard covenants are agreed that include termination options. The financial figures serving as the basis for these covenants were all fulfilled in 2018.

## 24. OTHER NONFINANCIAL LIABILITIES

in € thousand	2018			2017		
	Current	Noncurrent	Total	Current	Noncurrent	Total
Employee-related liabilities	12,629	0	12,629	12,289	0	12,289
Other taxes	2,705	0	2,705	3,160	0	3,160
Other nonfinancial liabilities	668	0	668	999	0	999
<b>Total</b>	<b>16,002</b>	<b>0</b>	<b>16,002</b>	<b>16,448</b>	<b>0</b>	<b>16,448</b>

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

## 25. PROVISIONS

in € thousand	As of Jan. 1, 2018	Additions from company acquisitions	Utilization	Reversal	As of Dec. 31, 2018
Warranty risks	5	0	-5	0	0
Archiving costs	60	-5	-12	5	48
Legal costs	40	-23	-15	180	182
Releasing employees	0	0	0	169	169
<b>Total</b>	<b>105</b>	<b>-28</b>	<b>-32</b>	<b>354</b>	<b>399</b>

## 26. TAX ASSETS AND TAX LIABILITIES

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

### Income Taxes

Income taxes are comprised as follows:

in € thousand	2018	2017
<b>Expenses for current taxes</b>		
Current income taxes, year under review	1,312	1,516
Current income taxes for prior periods	260	-195
	<b>1,572</b>	<b>1,321</b>
<b>Income from deferred taxes</b>		
Change in timing differences, year under review	571	118
Change in timing differences, prior periods	-134	262
Change in tax assets from tax loss carryforwards	-4,029	-894
	<b>-3,592</b>	<b>-514</b>
	<b>-2,020</b>	<b>807</b>

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

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

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

in € thousand	2018			2017		
	Before taxes	Taxes	After Taxes	Before taxes	Taxes	After Taxes
Remeasurement of defined benefit obligations	-102	14	-88	43	-11	32

## Tax Reconciliation

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

in € thousand	2018	2017
Earnings before taxes (EBT)	-3,643	-1,859
Expected tax income/expense at a rate of 30%	-1,093	-558
Effect of different tax rates	-57	142
Effects of changes in tax rates	-28	127
Non-period current income taxes	260	-195
Non-period deferred taxes	-134	262
Foreign withholding tax	39	19
Expenses/income not affecting taxes	-498	465
Dissolution of value adjustments on losses carried forward	-769	0
Waiver of capitalization of loss carryforwards in current year	204	701
Use of loss carryforwards not capitalized in current year	-19	-160
Other factors	75	4
<b>Indicated income taxes</b>	<b>-2,020</b>	<b>807</b>

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

in € thousand	Dec. 31, 2018	Dec. 31, 2017
<b>Deferred tax liabilities</b>		
Intangible assets	-1,250	-1,792
Property, plant and equipment	-157	-167
Receivables/Contract assets	-929	-1,219
Other nonfinancial assets	-6	-9
Noncurrent financial liabilities	-95	-121
Liabilities/Contract liabilities	-172	0
Other current financial liabilities	-12	0
Deferred tax liabilities	-2,621	-3,308
Offsetting	1,606	1,783
<b>Total deferred tax liabilities</b>	<b>-1,015</b>	<b>-1,525</b>
<b>Deferred tax assets</b>		
Intangible assets	546	691
Property, plant and equipment	148	0
Tax loss carryforwards	5,921	1,871
Receivables/Contract assets	123	98
Other nonfinancial assets	14	0
Other financial assets	48	6
Cash and cash equivalents	98	0
Pension obligations	444	369
Noncurrent financial liabilities	147	147
Other nonfinancial liabilities	754	408
Deferred tax assets	8,243	3,590
Offsetting	-1,606	-1,783
<b>Total deferred tax assets</b>	<b>6,637</b>	<b>1,807</b>

The capitalization of deferred taxes on tax loss carryforwards in the 2018 fiscal year relates to the parent company (€ 4,043 thousand) as well as the German subsidiary Innoplexia GmbH (€ 159 thousand) and the foreign entities SNP Transformations Inc., Jersey City, NJ, USA (€ 1,297 thousand), Hartung Informational System Co., Ltd. Shanghai, China (€ 159 thousand), SNP Transformations SEA Pte. Ltd. Singapore (€ 79 thousand) and ADP Consultores Limitada, Santiago de Chile, Chile, (€ 184 thousand). The loss carryforwards in Germany, Chile, Singapore and the USA can be used without any time limit. These tax loss carryforwards increased in the 2018 fiscal year. Plans assume positive taxable income in subsequent years. Therefore, it is expected that the tax loss carryforwards will be reduced again in the coming years. As regards the use of the tax benefits recognized due to loss carryforwards, because of the positive order outlook, in the future, the Group's individual companies are expected to generate sufficient taxable income. The subsidiaries in the USA and Singapore, as well as the parent company and the domestic company Innoplexia GmbH, have a history of tax losses. Due to the clearly positive revenue forecasts and cost-saving measures, the renewed adjustments made to the management and governance structure for the overall Group, the new individual appointed to assume the operational management function at the level of the overall Group, the increased use of nearshoring for project execution, as well as sales measures and the planned expansion of the SAP S4/HANA project volume, the company expects to see taxable income that will match the tax loss carryforwards reported for the foreseeable future.

An asset item for tax loss carryforwards will only be capitalized insofar as it appears probable within a planning horizon of four years that taxable income will be available that can be offset in the future. Overall, no deferred tax assets have been established for the tax loss carryforwards in the amount of € 2,804 thousand (previous year: € 4,747 thousand) that arose in previous years and in the year under review.

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

in € thousand	Dec. 31, 2018	Dec. 31, 2017
5–10 years	25	141
10–20 years	0	3,636
unlimited	2,779	970
	<b>2,804</b>	<b>4,747</b>

## 27. PROVISIONS FOR PENSIONS

Pension provisions are comprised of provisions for severance payments at SNP Austria GmbH, which by law must be established for employees in Austria, and commitments made to one member of the Board of Directors and to the Chief Financial Officer of the parent who left in 2011. In addition, due to the acquisition of RSP GmbH, its pension provisions were also assumed. These provisions were initially transferred to SNP Transformations Deutschland GmbH in 2017 and were subsequently partially transferred to SNP SE. Pension payments are currently being made only at SNP Transformations Deutschland GmbH.

In the 2018 fiscal year, pension provisions were set up for SNP (Schweiz) AG for the first time.

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

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

in € thousand	2018	2017
Defined benefit obligation (DBO)	3,448	1,692
Fair value of plan assets	1,386	161
<b>Net carrying amount of defined benefit plans</b>	<b>2,062</b>	<b>1,531</b>

The cost for defined benefit plans breaks down as follows:

in € thousand	2018	2017
Current service cost	827	65
Net interest cost*	40	20
<b>Expenses for defined benefit plans recognized in the consolidated income statement</b>	<b>867</b>	<b>85</b>
Actuarial gains (-)/ losses	100	-46
Loss on plan assets (not including interest income)	3	3
<b>Remeasurement of defined benefit plans recognized in the consolidated statement of comprehensive income</b>	<b>103</b>	<b>-43</b>
<b>Cost for defined benefit plans</b>	<b>970</b>	<b>42</b>

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

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

in € thousand	2018	2017
<b>DBO at the beginning of the fiscal year</b>	<b>1,692</b>	<b>1,664</b>
Current service cost	827	65
Interest expense	99	22
<b>Remeasurement</b>		
– Actuarial gains (-) / losses due to changes in demographic assumptions	13	0
– Actuarial gains (-) / losses due to changes in financial assumptions	21	-46
Benefit payments	796	-13
<b>DBO at the end of the fiscal year</b>	<b>3,448</b>	<b>1,692</b>

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

in € thousand	2018	2017
<b>Fair value of plan assets at the beginning of the fiscal year</b>	<b>161</b>	<b>145</b>
Interest income	59	3
<b>Remeasurement</b>		
– Gains (+)/ losses (-) from plan assets without amounts contained in net interest expense and income	-68	-3
Employer contributions	1,127	16
Employee contributions	107	0
<b>Fair value of plan assets at the end of the fiscal year</b>	<b>1,386</b>	<b>161</b>

	2018	2017
Discount rate	0.9% to 1.9%	1.5% to 1.9%
Salary trends	0% to 3.0%	0% to 3.0%
Pension trends	0% to 3.0%	0% to 3.0%
Average employee turnover*	0%	0%

\* Depending on years of service.

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

### Sensitivity Analysis:

A change in the fundamental assumptions above, with other assumptions remaining unchanged, would have increased or reduced the DBO as of December 31, 2018, as follows:

Basic assumption In € thousand	Defined benefit obligation			
	Increase	Increase in 2017	Decrease	Decrease in 2017
Discount rate (1% change)	-327	-271	404	317
Future pension trend (1% change)	177	131	-151	-114
Future income trend (1% change)	119	116	-109	-105
Future income trend (-10% change)	68	33	-	-

As of December 31, 2018, the weighted average term of the defined benefit obligations was approximately 18 years (previous year: 17 years).

The employer contributions to plan assets expected for 2019 and the subsequent nine years amount to € 96 thousand per year.

The benefit payments expected in the next few years involve provisions for severance payments for employees of SNP Austria GmbH and pension payments for employees of SNP Transformation Deutschland GmbH. The actual payments depend on other criteria being fulfilled. An average annual payment of € 93 thousand is expected for the next ten years.

### 28. CONTINGENT LIABILITIES

As well as the provisions shown in the statement of financial position, contingent liabilities amount to € 3.5 million. There is a contingent liability with an upper limit of € 3.5 million, based on a conditional purchase price clause, in connection with the acquisition of the South American Adepron Group in the previous year. The likelihood that the company will be asked to pay the conditional purchase price is considered to be very low given the developments in 2018 and projections for the coming years.

The contingent liabilities reported in the previous year for higher purchase price installments in connection with the acquisition of the Polish BCC Group (now: SNP Poland) failed to materialize and are no longer recognized.

### 29. SUBSCRIBED CAPITAL

As of December 31, 2018, the share capital of the company amounted to € 6,602,447.00 (previous year: € 5,474,463.00) and was comprised of 6,602,447 (previous year: 5,474,463) ordinary no-par-value bearer shares of SNP Schneider-Neureither & Partner SE, each with a nominal value of € 1.00. In November 2018, SNP SE announced a cash capital increase, as a result of which the company's share capital increased by € 1,127,984, divided into 1,127,984 no-par-value shares, to a total of € 6,602,447, divided into 6,602,447 shares. The new shares, which were issued at a price of € 16.60 per share, are entitled to dividends in the 2018 fiscal year, beginning on January 01, 2018. The subscription rate was 90.6%. The unsubscribed new shares were sold to Dr. Andreas Schneider-Neureither (CEO) through SN Assets GmbH as per the investment agreement. The capital increase was therefore fully placed. As a result, the company generated a gross cash inflow of € 18.7 million. The capital increase was entered in the German commercial register on December 18, 2018. Since December 19, 2018, the new shares have been included in stock exchange trading. In July 2017, subscribed capital was increased through a cash capital increase from € 4,976,786.00, divided into 4,976,786 ordinary bearer shares, by € 497,677.00, or 497,677 shares, making partial use of authorized capital, to a total of € 5,474,463.00, divided into 5,474,463 shares. The new shares, which were issued at a price of € 37.65 per share, are entitled to dividends in the 2017 fiscal year, beginning on January 01, 2017.

### 30. AUTHORIZED CAPITAL

As of January 1, 2017, the share capital of SNP Schneider-Neureither & Partner AG amounted to € 4,976,786, consisting of 4,976,786 ordinary no-par-value shares with a calculated share of capital of € 1.00 per share. At this point, the Executive Board was authorized, with the approval of the Supervisory Board, to increase the share capital of the company by May 20, 2020, by up to a total of € 630,304 against cash or in-kind contributions through the issuance of new no-par-value ordinary shares (2015 Authorized Capital).

The Annual General Meeting on May 31, 2017, authorized the Executive Board, with the approval of the Supervisory Board, to increase the share capital of the company by May 31, 2022, once or several times by up to a total of € 995,357 against cash or in-kind contributions through the issuance of new no-par-value shares (2017 Authorized Capital).

In July 2017, subscribed capital was increased through a cash capital increase from € 4,976,786, divided into 4,976,786 ordinary bearer shares, by € 497,677.00, or 497,677 shares, making partial use of authorized capital, to a total of € 5,474,463.00, divided into 5,474,463 shares.

As of January 1, 2018, the Board of Directors was authorized to increase the share capital by May 31, 2022, by up to a total of € 497,680, against cash or in-kind contributions through the issuance on one or more occasions of new no-par-value shares (2017 Authorized Capital). The Board of Directors was also authorized to increase the company's share capital by May 20, 2020, by up to a total of € 630,304, against cash or in-kind contributions through the issuance of new no-par-value shares (2015 Authorized Capital).

As of January 1, 2018, the share capital of SNP Schneider-Neureither & Partner AG amounted to € 5,474,463, consisting of 5,474,463 ordinary no-par-value shares with a calculated share of capital of € 1.00 per share.

In December, subscribed capital was increased through a cash capital increase from € 5,474,463, divided into 5,474,463 ordinary bearer shares, by € 1,127,984, or 1,127,984 shares, making full use of authorized capital, to a total of € 6,602,447, divided into 6,602,447 shares.

### Contingent Capital

The share capital is conditionally increased by up to € 1,869,030.00, divided into up to 1,869,030 no-par-value bearer shares (2015 Contingent Capital). The contingent capital increase will be executed only to the extent that the owners or creditors of warrant or conversion rights or warrant-linked bonds or convertible bonds issued for cash contributions and subject to conversion obligations that were issued or guaranteed until May 20, 2020, by the company by virtue of the authorization of the former Supervisory Board through the resolution of the General Meeting on May 21, 2015, exercise their warrant or conversion rights or fulfill their conversion obligations if applicable, or, if the company exercises an option to grant shares in the company in full or in part instead of paying the amount of money due, provided that a cash contribution is not granted or the company's treasury shares are not used for this purpose. The new shares will be issued in accordance with the aforementioned authorization resolution, at option and conversion prices that are yet to be determined. The new shares participate in profits from the beginning of the fiscal year in which they arise. The Board of Directors is authorized to determine further details regarding the execution of the contingent capital increase. No use was made of this in the 2017 fiscal year.

### Treasury Shares

On May 20, 2010, the Annual General Meeting authorized the company to acquire treasury shares up to a total of 10% of the existing share capital at the time of the resolution. In August 2011, the Executive Board resolved to initiate a share buyback program for up to 4,000 shares initially, representing approximately 0.35% of the company's share capital at the time. As part of this buyback program, a total of 3,472 shares were acquired at a price of € 210,398 in the 2011 fiscal year, plus a total of 528 shares at a price of € 35,894 in January 2012.

In February 2012, the Executive Board resolved to continue the share buyback program and acquire up to 4,000 more of the company's no-par-value shares on the stock exchange, corresponding to an additional 0.35% of the company's share capital at the time. In the 2012 fiscal year, a total of 2,551 additional shares were acquired at a price of € 133,133.22. In the 2013 fiscal year, 743 additional shares were purchased at a price of € 35,224.97. The share buyback program ended in February 2013 with 7,294 shares acquired.

The acquisition cost of € 414,650.19 for the total of 7,294 shares has been disclosed as a negative item in equity in accordance with IAS 32.33. Following the allocation of

bonus shares (capital increase from company funds resolved by the Annual General Meeting on May 16, 2013), the number of treasury shares currently held is 21,882.

On May 12, 2016, the Annual General Meeting authorized the company to acquire treasury shares for the coming five years up to a total of 10% of the outstanding share capital at the time of the resolution. This authorization was not used in the period up to December 31, 2018.

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

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

### 31. RETAINED EARNINGS AND CAPITAL RESERVES

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

The capital reserves increased to € 59,968,250.67 (previous year: € 54,260,325.48). The increase resulted from the issuance of 1,127,984 new no-par-value shares with a nominal share of share capital of € 1.00 per share. The issue price was € 16.60. As a result, subscribed capital per issued share increased by € 1.00, while capital reserves increased by the excess amount of € 17,596,550.40. This increase in capital reserves was reduced by the costs associated with the capital increase of € 1,754,239.35, less deferred tax liabilities of € 526,271.81. All in all, costs associated with capital increases of € 3,412,696.31, less deferred tax liabilities of € 1,023,808.90, have been offset in the capital reserves.

In 2018, a total of € 10,660,657.67 was withdrawn from the capital reserves and added to retained earnings.

### 32. NONCONTROLLING INTERESTS

The item involves 19% minority interests in the subsidiaries SNP Transformations SEA Pte. Ltd. and SNP Transformations Sdn. Bhd., which were consolidated for the first time in the 2016 fiscal year. The interest was increased from 51% to 81% in 2017. In the previous year, there were further 20% minority interests in SNP Applications Singapore Private Limited and Innoplexia GmbH. The interests held in both of these companies were increased to 100% in 2018.

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

	in € thousand
Revenue	2,832
Profit	-685
Profit attributable to noncontrolling interests	-130
Other comprehensive income	-30
Comprehensive income	-715
Comprehensive income attributable to noncontrolling interests	-122
Current assets	1,582
Noncurrent assets	615
Current liabilities	1,041
Noncurrent liabilities	257
Net assets	899
Net assets attributable to noncontrolling interests	143
Cash flow from operating activities	255
Cash flow from investing activities	-39
Cash flow from financing activities	0
Net increase in cash and cash equivalents	216
Dividends paid during the year to noncontrolling interests	0



### 33. FINANCIAL INSTRUMENTS

#### Objectives and Methods of Financial Risk Management

In the 2018 fiscal year, SNP used cash and cash equivalents not only to invest in new and replacement property, plant and equipment and intangible assets, but also, first and foremost, to settle purchase price installments resulting from earlier company acquisitions and to repay loans. The investments and repayments in 2018 were financed first of all using the positive cash flow from operating activities in the amount of € 3,326 thousand and by implementing a capital increase resulting in a net cash inflow of € 16,970 thousand. Furthermore, there are financial liabilities that contribute to the financing of operating business activities in the form of trade payables and obligations to employees. They are offset by various financial assets, such as trade receivables and cash and cash equivalents that result directly from business activities.

The management monitors and controls the Group's financing and capital structure on an ongoing basis. For this, it uses parameters such as the debt-to-equity ratio and the equity ratio. The Group can adjust dividend payments to shareholders in order to maintain or adjust its capital structure. As of December 31, 2018, and December 31, 2017, no changes were made to the objectives, policies or procedures for monitoring financing and controlling the capital structure.

There was no using of derivatives in the 2018 and 2017 fiscal years.

The possible risks arising from financial instruments include interest rate-related cash flow risks as well as liquidity, currency and credit risks. The Group monitors these risks on an ongoing basis and compares individual risks to the total risk exposure in order to determine risk concentrations. If necessary, management decides on strategies and procedures to manage individual types of risks, as presented below.

#### Credit Risk

The Group enters into transactions with creditworthy third parties. All customers wishing to conduct business with the Group on a credit basis are subject to a credit check. In addition, the receivables portfolio is continuously monitored so that the Group is not exposed to any significant default risks. No credit is granted without prior review and approval according to the current regulations put in place by the Managing Directors. The Group has no significant credit risk concentrations.

For receivables and other financial assets of the Group, the maximum credit risk in the event of default by a counterparty corresponds to the carrying amount of these instruments.

The following table shows the credit and default risk based on an impairment matrix as of December 31, 2018:

Classification	Loss rate in %	Carrying amounts in € thousand	Impairments in € thousand
Risk class 1 (Europe (excl. Poland), US and Singapore)	0.14	20,839	29
Risk class 2 (Chile)	0.11	1,460	2
Risk class 3 (Poland, China and Malaysia)	0.65	6,239	41
Risk class 4 (Colombia)	0.30	448	1
Risk class 5 (Argentina)	0.30	3,325	10
Risk class 6 (Loss)	100.00	114	114
<b>Total</b>		<b>32,425</b>	<b>197</b>

We have been applying the simplified impairment model provided for in IFRS 9 since January 1, 2018. See also comments under Point 9. The table shows the gross carrying amounts of the trade receivables and contract assets for each risk class before impairment.

The following table shows the trade receivables by due date:

in € thousand	Dec. 31, 2018	Dec. 31, 2017
Not due	20,897	32,389
Up to 30 days	4,219	4,518
31 to 60 days	675	2,409
61 to 90 days	510	999
More than 90 days	1,046	1,859
<b>Total</b>	<b>27,347</b>	<b>42,174</b>

The following table shows the credit and default risk of financial assets according to gross carrying amounts for the 2017 fiscal year:

in € thousand	Neither past due nor impaired	Past due and not impaired	Impaired	Dec. 31, 2017
Financial assets	1,212	0	0	1,212
Trade receivables	32,389	9,717	68	42,174
<b>Total</b>	<b>33,601</b>	<b>9,717</b>	<b>68</b>	<b>43,386</b>

The following overview shows the extent to which financial assets that are not impaired are overdue for the 2017 fiscal year:

in € thousand	Up to 30 days	31 to 60 days	More than 60 days	Dec. 31, 2017
Trade receivables not impaired	4,518	2,409	2,790	9,717

## Liquidity Risk

The Group monitors the risk of a possible liquidity squeeze through ongoing cash flow planning and monitoring. The key goal is to ensure a minimum level of liquidity in order to safeguard solvency at all times. A high volume of cash and marketable securities therefore serves as a strategic reserve, which helps to keep SNP flexible, solvent and independent. As well as effective management of capital employed and liquid assets, SNP has reduced the liquidity risk that results from normal business activity and fulfillment of financial obligations by establishing appropriate lines of credit with various credit institutions, which it may draw upon in case of need.

Cash flows from the Group's financial liabilities had the following maturity dates:

As of Dec. 31, 2018 in € thousand	Up to 1 year	1 to 2 years	3 to 5 years	More than 5 years	Total
Promissory note loans	321	4,975	25,792	8,915	40,003
Liabilities to banks	104	0	0	0	104
Trade payables	8,959	273	0	0	9,232
Contract liabilities	4,579	5			4,584
Purchase price obligations	4,533	2,606	0	0	7,139
Other financial liabilities	395	505	0	0	900
<b>Total</b>	<b>18,891</b>	<b>8,364</b>	<b>25,792</b>	<b>8,915</b>	<b>61,962</b>

<b>As of Dec. 31, 2017</b> in € thousand	<b>Up to 1 year</b>	<b>1 to 2 years</b>	<b>3 to 5 years</b>	<b>More than 5 years</b>	<b>Total</b>
Promissory note loans	310	4,940	25,711	8,947	39,908
Liabilities to banks	716	0	0	0	716
Trade payables	11,767	580	0	0	12,347
Purchase price obligations	9,751	1,421	7,646	0	18,818
Other financial liabilities	459	821	0	0	1,280
<b>Total</b>	<b>23,003</b>	<b>7,762</b>	<b>33,357</b>	<b>8,947</b>	<b>73,069</b>

Financial liabilities that can be repaid at any time are assigned to the earliest possible time period.

### Fair Value

The following table shows the carrying amounts and fair values of all financial instruments recognized in the consolidated financial statements:

#### RECONCILIATION OF MEASUREMENT CATEGORIES AND CARRYING AMOUNTS FROM IAS 39 TO IFRS 9:

in € thousand		<b>Dec. 31, 2017</b>		<b>Jan. 1, 2018</b>		<b>Dec. 31, 2018</b>	
<b>Financial assets</b>	<b>IAS 39 category</b>	<b>Carrying amount IAS 39</b>	<b>Fair Value</b>	<b>IFRS 9 category</b>	<b>IFRS 9 carrying amount</b>	<b>IFRS 9 carrying amount</b>	<b>Fair Value</b>
Cash and cash equivalents	Loans and receivables	33,877	33,877	Amortized cost	33,877	39,974	39,974
Trade receivables	Loans and receivables	42,174	42,174	Amortized cost	33,389 <sup>1</sup>	27,347	27,347
Contract assets	Loans and receivables	0	0	Amortized cost	6,580 <sup>2</sup>	4,881	4,881
Other financial assets	Loans and receivables	1,212	1,212	Amortized cost	1,212	2,232	2,232
<b>Total</b>		<b>77,263</b>	<b>77,263</b>		<b>75,058</b>	<b>74,434</b>	<b>74,434</b>
<b>Financial liabilities</b>	<b>IAS 39 category</b>	<b>Carrying amount IAS 39</b>	<b>Fair Value</b>	<b>IFRS 9 category</b>	<b>IFRS 9 carrying amount</b>	<b>IFRS 9 carrying amount</b>	<b>Fair Value</b>
Trade payables	Amortized cost	12,347	12,347	Amortized cost	12,017 <sup>3</sup>	9,232	9,232
Contract liabilities	Amortized cost	0	0	Amortized cost	2,336 <sup>3</sup>	4,584	4,584
Financial liabilities	Amortized cost	40,624	40,977	Amortized cost	40,624	40,108	39,294
Purchase price obligations	Amortized cost	18,818	18,818	Amortized cost	18,818	7,139	7,139
Other financial liabilities	Amortized cost	1,280	1,280	Amortized cost	1,280	900	900
<b>Total</b>		<b>73,069</b>	<b>73,422</b>		<b>75,075</b>	<b>61,963</b>	<b>61,149</b>

<sup>1</sup> The carrying amount of the trade receivables increased by € 338 thousand due to the first-time application of IFRS 9 as a result of lower impairment losses. It also fell by € 9,123 thousand due to the reclassification of contract assets to a separate item. (See explanatory information under Point 3.)

<sup>2</sup> The contract assets in the amount of € 6,580 thousand result of a reclassification from trade receivables in the amount of € 9,123 thousand and the first-time application of IFRS 15 in the amount of € -2,543 thousand. (See explanatory information under Point 3.)

<sup>3</sup> € 330 thousand in trade payables was reclassified to contract liabilities. In addition, deferred income of € 621 thousand was reclassified to contract liabilities. The contract liabilities also increased by € 1,385 thousand due to the first-time application of IFRS 15. (See explanatory information under Point 3.)

The following must also be mentioned:

- Interest on short-term and long-term bank loans of € 28 thousand (previous year: € 50 thousand) is recognized with effect on profit or loss.
- Interest expenses from the corporate bond (financial liability at amortized cost) of 0 T€ thousand (previous year: € 257 thousand) is recognized with effect on profit or loss.
- Interest expenses from promissory note loans in the amount of € 664 thousand (previous year: € 545 thousand) is recognized with effect on profit or loss.

## Market Price Risk

### Interest Rate Risk Management

The Group is financed in part through its operating cash flow. In order to finance organic and inorganic growth, SNP has also borrowed interest-bearing capital in the form of a bank loan and promissory note loans. The bank loan has a fixed basic interest rate and a variable interest rate based on Euribor. The yield on the various tranches of the promissory note loans consists of fixed and variable interest. The variable interest is also based on Euribor. Therefore, changes in market interest rates can lead to higher interest expense. If the six-month Euribor is positive, a 50 basis point increase in the six-month Euribor will increase interest expense by € 0.1 million p.a. Management continuously monitors the development of market interest rates and the necessity of appropriate hedging measures.

### Currency Risk

The Group companies conduct their operating business in the respective functional currency so that the corresponding foreign exchange risk is regarded as minimal. Currency risks result primarily from intragroup business relationships.

### Currency Risk Management

The euro is the Group's functional currency and the reporting currency of the consolidated financial statements. A result of the Group's increasing internationalization outside the eurozone is that its operating business and financial transactions involve fluctuations in exchange rates. Exchange rate risks, which arise from orders from, and loans to, subsidiaries outside the eurozone, relate primarily to the absolute amount of the key figures reported in euros. Management continuously monitors the performance of exchange rates and the necessity of appropriate hedging measures.

Due to the inclusion of subsidiaries, the Group is also reporting assets and liabilities outside of the eurozone, which are denominated in the respective local currency. Exchange rate fluctuations may give rise to changes in value as of the conversion of these assets into euros. The changes in these net assets are reflected in the Group's equity through other comprehensive income.

A sensitivity analysis has been carried out in order to be able to quantify the possible effects of exchange rate fluctuations on Group earnings. This shows the change in Group earnings in the event that the respective functional currency of the Group companies increases or decreases in value by 10% in relation to the foreign currency.

in € thousand	The euro loses in comparison to the currency	The euro gains in comparison to the currency
CHF	43	-53
GBP	318	418
PLN	93	-114
USD	5	-7
SGD	59	-72
MYR	-5	6
CNY	0	0
ARS	-3	4
CLP	-45	55
COP	-2	3
ZAR	0	0

### Share Price Risk

We are exposed to a share price risk in relation to our share-based payment transactions. However, share-based payment transactions only exist at SNP in a few cases. Due to the reduced level of risk which this entails, SNP does not hedge against payment flow risks arising from these programs.

As part of the presentation of market risks, IFRS 7 also requires disclosures about how hypothetical changes in risk variables affect the prices of financial instruments. Stock exchange prices are a particular concern, as risk variables. As of December 31, 2018, and December 31, 2017, the Group held no financial instruments with related share price risks.

A sensitivity analysis has not been carried out due to the insignificant share price risk.

### 34. CAPITAL MANAGEMENT

	Dec. 31, 2018		Dec. 31, 2017		Delta in %
	in € thousand	As % of the total volume of equity and liabilities	in € thousand	As % of the total volume of equity and liabilities	Total
Equity	69,409	46	60,097	39	13
Current liabilities	36,208	24	40,531	26	-12
Noncurrent liabilities	46,149	30	53,157	35	-15
Liabilities	82,357	54	93,688	61	-14
Total equity and liabilities	151,766	100	153,785	100	-1

The Group pursues the goal of safeguarding its long-term corporate survival and preserving the interests of shareholders, employees and all others who read the financial statements.

The management of the capital structure is based on changes in the macroeconomic environment and risks from the assets being held.

The Group's strategy is directed toward the continuous and sustainable increase in the company's value.

As of December 31, 2018, the equity ratio had increased to 45.7% (previous year: 39.1%).

for the market capitalization. In the event of a capital increase, the base value and the lower limit will be revised upward in percentage terms, in accordance with the percentage capital increase.

Fair values and assumptions at the end of 2017:

Weighted average fair value as of Dec. 31, 2017	€ 84 thousand
Option pricing model	Measurement according to Black-Scholes model
Risk-free interest rate	-0.73%
Expected volatility	33.38%
Expected dividend yield	0.82%
Remaining life of the option as of Dec. 31, 2017	2 years

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

The 2017 – 2019 Long Term Incentive Plan (LTI Plan) was terminated in 2018. This means that there is no share-based remuneration within the Group.

In 2017, SNP established an LTI plan 2017–2019 for its Managing Directors. This plan was linked to SNP SE's market capitalization in 2019. The right to payment has been calculated as follows:

If market capitalization on the basis of the highest 60 trading day average (Xetra) in 2019 exceeds the lower limit of € 250 million, the payment will be calculated by subtracting a base value of € 200 million from the market capitalization thus determined. The result will be multiplied by a percentage of 0.3% (CEO) or 0.2% (COO). If the market capitalization exceeds € 400 million, the percentage applied will be increased to 0.45% (CEO) or 0.3% (COO). A ceiling of € 500 million applies

Volatility has been calculated on the basis of the 60-day moving average for the yields on the SNP share in 2017.

Overall, in 2017, an amount of € 28 thousand was recognized in personnel costs for the 2017–2019 LTI plan. This amount was reversed again in the 2018 fiscal year due to the termination of the plan.

### 36. OTHER OPERATING INCOME

Other operating income breaks down as follows:

in € thousand	2018	2017
Dissolution of earnout obligation	3,480	0
Exchange rate differences	1,210	618
Proceeds from the disposal of assets	205	134
Reversal of provisions and derecognition of liabilities	158	332
Advertising allocation	57	193
Insurance compensation	28	43
Reversal of impairments for trade receivables	21	271
Discount income	2	9
Miscellaneous	496	318
<b>Total</b>	<b>5,657</b>	<b>1,918</b>

Contingent purchase prices were agreed in connection with the acquisition of the South American Adepcon Group in 2017. The realization of these purchase prices depends on a defined minimum EBIT margin and minimum revenue being attained in the years 2018 to 2020.

Given the developments in 2018 and considering the projections and economic conditions in South America, it is considered improbable that the requirements for the realization of the contingent purchase price obligation will be fulfilled.

### 37. COST OF MATERIALS

This relates to costs for the purchase of third-party consultants to implement projects (cost of purchased services) and to the purchasing of third-party licenses for resale.

### 38. PERSONNEL COSTS

Personnel costs include costs for defined contribution pension plans of € 382 thousand (previous year: € 295 thousand), not including insurance contributions to statutory pension plans. Contributions to statutory pension plans amounted to € 4,912 thousand (previous year: € 4,090 thousand).

Personnel costs include severance expenses of € 1,375 thousand (previous year: € 153 thousand).

The average number of employees in the Group changed as follows:

	2018	2017
Full-time	1,289	1,022

### 39. OTHER OPERATING EXPENSES

Other operating expenses break down as follows:

in € thousand	2018	2017
Travel costs	5,500	6,024
Rent, leases	4,978	4,327
Advertising, representation	3,434	3,467
Services	2,846	1,486
Vehicles	2,758	2,771
Other personnel costs	2,140	1,370
Foreign exchange losses	1,692	2,851
Occupancy costs, energy	1,633	1,541
Legal and consulting costs	1,091	2,343
Communications	1,077	963
Insurance policies, contributions	594	419
Office supplies	276	486
Commissions	201	197
Expense associated with the disposal of assets	130	52
Payment transaction costs	98	99
Board of Directors	90	86
Write-downs of receivables	34	358
Other	640	1,095
<b>Total</b>	<b>29,212</b>	<b>29,935</b>

### 40. NET FINANCIAL INCOME

Net financial income primarily includes interest expense and interest income as well as write-downs of financial assets.

### 41. CASH FLOW STATEMENT

Cash flow from operating activities includes the following items: interest paid of € 686 thousand (previous year: € 855 thousand), interest received of € 49 thousand (previous year: € 57 thousand), income taxes paid of € 1,526 thousand (previous year: € 1,366 thousand) and income taxes received of € 248 thousand (previous year: € 56 thousand).

Cash flow from investing activities includes payments for company acquisitions in the amount of € 9,395 thousand (previous year: € 28,783 thousand). These relate to payments for the company acquisitions made in 2016 and 2017.

Non-cash expenses and income include changes in deferred taxes in the amount of € -3,592 thousand (previous year: € -514 thousand), dissolution of earnout in the amount of € -3,480 thousand (previous year: € 0 thousand) and other items in the amount of € 87 thousand (previous year: € 40 thousand).

Financial liabilities have developed as follows:

in € thousand	Bond	Promissory note loans	Other loans	Leasing liabilities	Total
<b>As of Jan. 1, 2017</b>	<b>10,699</b>	<b>0</b>	<b>2,534</b>	<b>0</b>	<b>13,233</b>
Assumption	0	39,606	262	0	39,868
Addition from corporate acquisition	0	0	767	633	1,400
Repayment	-10,000	0	-2,211	0	-12,211
Other payments	-956	-155	-33	0	-1,144
Non-cash accruals	257	457	41	0	755
Exchange rate fluctuations	0	0	4	0	4
<b>As of Dec. 31, 2017</b>	<b>0</b>	<b>39,908</b>	<b>1,364</b>	<b>633</b>	<b>41,905</b>
Assumption	0	0	111	0	111
Addition from corporate acquisition	0	0	0	671	671
Repayment	0	0	-1,083	-506	-1,589
Other payments	0	-569	5	-23	-587
Non-cash accruals	0	665	0	0	665
Exchange rate fluctuations	0	0	-147	-21	-168
<b>As of Dec. 31, 2018</b>	<b>0</b>	<b>40,004</b>	<b>250</b>	<b>754</b>	<b>41,008</b>

The issuance of the promissory note loans includes the actual inflow in the amount of € 40,000 thousand less the fee due for the conclusion of the agreement in the amount of € 394 thousand.

The other payments comprise interest payments and fees in particular.

The non-cash deferrals comprise deferred interest expenses in particular.

#### 42. MEMBERS OF THE EXECUTIVE BOARD AND MANAGING DIRECTORS / MEMBERS OF THE SUPERVISORY BOARD AND THE BOARD OF DIRECTORS

In accordance with the resolution passed by the Annual General Meeting on May 31, 2017, and the entry made in the commercial register on December 6, 2017, SNP Schneider-Neureither & Partner AG was converted into SNP Schneider-Neureither & Partner SE, with a change of its legal form.

Up to its conversion, the company was managed by its Executive Board in accordance with the provisions of the German Stock Corporation Act (AktG). The Supervisory Board oversaw the Executive Board and advised it in relation to its management tasks. Following its conversion, the company is now managed by the Board of Directors, which determines the basic standards for its business activities and oversees their implementation by the Managing Directors.

In the period up to December 6, 2017, the Supervisory Board consisted of the following members: Dr. Michael Drill (Chairman), Gerhard Burkhardt (Deputy Chairman) and Rainer Zinow. Pursuant to the resolution passed by the Annual General Meeting on May 31, 2017, the Board of Directors consists of the following members: Dr. Andreas Schneider-Neureither, Dr. Michael Drill, Gerhard Burkhardt and Rainer Zinow.

In the period up to December 6, 2017, the Executive Board consisted of the following members: Dr. Andreas Schneider-Neureither (Chairman) and Henry Göttler. Until March 16, 2018, the same two people served as Managing Directors as had been the former Executive Board members; since this date, Dr. Andreas Schneider-Neureither has been the sole Managing Director. In August 2018, Dr. Uwe Schwellbach was appointed Managing Director effective September 21, 2018.

#### 43. RELATED PARTY TRANSACTIONS AND DISCLOSURES

According to IAS 24 "Related Party Disclosures," transactions with persons or companies that may be influenced by the reporting company or could influence the company must be disclosed unless they have not already been included as a consolidated company in the consolidated financial statements.

### **Advances or Loans to Managing Directors or Contingent Liabilities Incurred on Behalf of These Persons**

As of December 31, 2018, no loans, credits or advances were granted to any Managing Directors. Furthermore, SNP SE did not incur any contingent liabilities on behalf of Managing Directors in the reporting year.

### **Provisions for Pension Commitments to Managing Directors**

SNP SE has made provisions for the pension commitments to Dr. Andreas Schneider-Neureither and Ms. Petra Neureither (CFO until May 19, 2011) totaling € 226 thousand (previous year: € 255 thousand), in accordance with IFRS. A reinsurance policy was arranged for the pension obligations.

### **Other Transactions**

SNP SE has signed several rental agreements for office space and parking spaces for cars. These agreements have been concluded between the Chairman of the Board of Directors (who is also a Managing Director) and related parties. The invoicing of services is done at arm's length conditions as with third parties. In the 2018 fiscal year, related expenses were € 434 thousand (previous year: € 411 thousand); as of December 31, 2018, there was an outstanding receivable in an amount of € 779.47.

You will find detailed information on the remuneration of our Managing Directors and the members of the Board of Directors in the remuneration report, which is contained within the management report.

## **44. CONTINGENT LIABILITIES AND OTHER FINANCIAL OBLIGATIONS**

Obligations from rental and lease agreements essentially comprise rental agreements for office space and lease agreements for intangible assets and cars. The following payments from rental and lease agreements are contractually binding in the coming fiscal years:

in € thousand	2018	2017
Within one year	4,482	4,692
Between one and five years	8,716	9,937
After five years	1,811	2,769
	15,009	17,398

## **45. RISKS RESULTING FROM LEGAL DISPUTES**

As part of its ordinary business activities, SNP is confronted with lawsuits and court proceedings. As of the balance sheet date of December 31, 2018, the pending legal disputes relate exclusively to employment law matters.

The employment law proceedings relate primarily to cases in which claims are being asserted on the basis of discrimination or other improper treatment in connection with an employment relationship. These proceedings can include both administrative and court proceedings. SNP reviews these cases in great detail and conducts the proceedings in line with the compliance requirements and taking the litigation risk into account. The legal consequence could include legal defense costs and potentially compensation claims.

As of December 31, 2018, one legal dispute was still pending in which compensation claims have been asserted. In these proceedings, SNP is the defendant in a legal dispute involving two former employees whose contracts were terminated after only a short period. The volume of the claim has not yet been determined. The plaintiffs estimate an amount in euros that could run into the upper six-digits. The defendant believes that the claim is unfounded and is vehemently defending against it. The proceedings are currently suspended until a procedural matter is clarified and are likely to resume in mid-2019.

At present, we do not believe that the outcome of the lawsuits and proceedings pending on December 31, 2018, viewed either individually or as a whole, will have any material detrimental impact on our business activities, or on our financial and earnings position and our cash flows. Provisions for the legal disputes had been set up by the balance sheet date in the amount of the expected future burden.

## **46. SUBSEQUENT EVENTS**

No events with material impact on the financial position and financial performance occurred after the balance sheet date.



## 47. AUDITING AND CONSULTING FEES

In the fiscal year, fees for the auditor for the consolidated financial statements amounted to € 160 thousand (previous year: € 55 thousand), for tax advisory services € 0 thousand (previous year: € 0 thousand), for other assurance services € 224 thousand (previous year: € 0 thousand) and for other consulting services € 1 thousand (previous year: € 10 thousand).

## 48. CORPORATE GOVERNANCE

The Board of Directors and the Managing Directors have issued a declaration on the German Corporate Governance Code. This has been made available on the company's website at <https://www.snpgroup.com/en/investor-relations/corporate-governance/>.

Heidelberg, Germany, March 15, 2019

The Managing Directors



Dr. Andreas Schneider-Neureither — Dr. Uwe Schwellbach



## INDEPENDENT AUDITOR'S REPORT

to SNP Schneider-Neureither & Partner SE, Heidelberg

### REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

#### Audit Opinions

We have audited the consolidated financial statements of SNP Schneider-Neureither & Partner SE, Heidelberg, and its subsidiaries (the Group) – comprising the consolidated statement of financial position as of December 31, 2018, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the fiscal year from January 1, 2018 to December 31, 2018, as well as the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we audited the Group management report of SNP Schneider-Neureither & Partner SE, Heidelberg, for the fiscal year from January 1, 2018 to December 31, 2018.

In our opinion, based on the findings of the audit,

- the enclosed consolidated financial statements comply in all material respects with the IFRS as adopted by the EU and the supplementary requirements of German commercial law pursuant to Section 315e (1) of the German Commercial Code (HGB), and give a true and fair view of the net assets and financial position of the Group as of December 31, 2018, and of its results of operations for the fiscal year from January 1, 2018 to December 31, 2018, in accordance with these requirements, and
- the attached Group management report as a whole conveys an accurate view of the condition of the Group. This Group management report is consistent with the consolidated financial statements, complies with German legal requirements and accurately presents the opportunities and risks of future development in all material respects.

In accordance with Section 322 (3) (1) of the HGB, we state that our audit has not led to any objections to the correctness of the consolidated financial statements or the Group management report.

#### Basis for the Audit Opinions

We have conducted our audit of the consolidated financial statements and the Group management report in accordance with Section 317 of the HGB and the EU audit regulation (EU 537/2014; hereinafter "EU-APrVO") and in consideration of German generally accepted standards for the audit of financial statements, as promulgated by the Institute of Public Auditors in Germany (IDW). Our responsibility according to these requirements and principles is described in greater detail in the section "Responsibility of the auditor for the audit of the consolidated financial statements and the Group management report" of our audit report. We are independent of the Group companies in accordance with the requirements of European Union law as well as German commercial law and the rules of professional conduct, and we have fulfilled our other ethical responsibilities under German professional law in accordance with these requirements. In addition, pursuant to Article 10 (2) (f) EU Audit Regulation, we hereby declare that we did not provide any of the prohibited non-audit services referred to in Article 5 (1) EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and suitable to serve as the basis for our audit opinions on the consolidated financial statements and the Group management report.

#### Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are such matters that, in our dutiful judgment, were the most significant in our audit of the consolidated financial statements for the fiscal year from January 1, 2018 to December 31, 2018. These matters were considered in connection with our overall audit of the consolidated financial statements and in the formation of our audit opinion; we do not issue any separate audit opinion on these matters.

## RECOVERABILITY OF GOODWILL

For information on the accounting policies applied and the impairment tests performed, we refer to the disclosures in the notes to the consolidated financial statements under “8. Use of Estimates” and “9. Key Accounting Policies.”

### Risk for the Financial Statements

Goodwill amounted to € 53.7 million as of December 31, 2018. This corresponds to 35.4% of total assets.

The goodwill is tested for impairment at the level of the Professional Services cash-generating unit. The evaluation of the recoverability of goodwill is complex and is based on a series of discretionary factors. The most significant assumptions involve the expected future revenues, the planned earnings margin and the applied discount rate.

The impairment tests performed did not reveal any need for impairment. There is a risk, with regard to the consolidated financial statements, that the goodwill in the Professional Services cash-generating unit is not recoverable.

### Our Approach to the Audit

We have validated the planning process and the material assumptions applied based on the explanations of those responsible for planning. Using the available information, we have assessed whether the material target values contained in the budget and the underlying assumptions are appropriate. In addition, we have drawn upon extensive explanations of the legal representatives. We compared the expected future cash flows for the Professional Services cash-generating unit against the available projections.

Furthermore, we are satisfied with the reliability of the company’s budgeting through a retrospective comparison of the target values (e.g., revenue) from previous years with the values that actually occurred. We have validated the assumptions and parameters used to determine the applied discount rate, particularly the market risk premium and beta factor, and retraced the calculation method. Furthermore, we have conducted our own sensitivity analyses in order to be able to assess any potential impairment risk given a conceivable change in material measurement assumptions.

We assessed the calculation method used in the impairment test and verified the calculation of the discounted cash flow surpluses in arithmetical terms.

### Our Findings

The calculation method used in the impairment test performed on the goodwill in the Professional Services cash-generating unit is appropriate and consistent with the measurement principles to be applied. The significant assumptions underlying the impairment test are appropriate. Our audit procedures did not lead to any objections.

## RECOGNITION OF REVENUE FROM PROFESSIONAL SERVICES

For disclosures on the recognition of this revenue, we refer to the comments set out in “3. Application of New Accounting Rules,” as well as in “8. Use of Estimates” and “16. Contract Assets and Contract Liabilities.”

### Risk for the Financial Statements

The company reports revenue from Professional Services of € 101.2 million in the consolidated income statement. Revenue from Professional Services accounts for 77.3% of the Group’s total revenue.

The correct recognition of revenue in the consolidated financial statements is of particular importance to the Group’s economic position. The recognition of consulting fees depends on complex contractual agreements, resulting in different times of recognition. Revenue for the long-term consulting business is recognized in accordance with IFRS 15 “Revenue from Contracts with Customers.”

The company first of all provides consulting services that are invoiced and recognized according to the hours recorded by the employees for services rendered (cost-reimbursement projects). In addition, long-term project assignments are conducted on the basis of work contracts, the revenue for which is recognized based on the percentage-of-completion method, as the projects feature customer-specific benefits and enforceable payment claims for services already rendered. In cases involving long-term project assignments, the percentage of completion and, as a result, the extent to which revenue can be recognized is determined by comparing the hours worked on the project against the total hours expected to be spent on the project. Determining the total hours expected to be spent in order to complete the project requires discretionary decisions that involve a certain degree of estimation uncertainty and can have a material impact on the amount of revenue.

There is a risk with regard to the consolidated financial statements that the revenue from the consulting business that is reported has not been recognized.

In addition, the first-time application of IFRS 15 in the 2018 fiscal year was relevant to our audit due to the need for the Group-wide evaluation of the underlying contractual frameworks with regard to the new accounting criteria.

### **Our Approach to the Audit**

Based on our understanding of the process and the evaluation of the structure and implementation of the internal controls implemented over the accurate recording of contract-related personnel and other expenses in the internal contract accounts, we have examined their effectiveness. These controls ensure that only project-related hours and expenses are recorded in and billed to the respective contract accounts.

For a representative sample, we have examined the underlying contractual agreements as to whether the projects involve cost-reimbursement projects that are recognized upon the provision of services.

Using a combination of orders selected using mathematical and statistical processes and orders that were selected deliberately, we evaluated the underlying contractual agreements to determine whether the projects in question were projects whose revenue is recognized based on the percentage-of-completion method, taking the requirements set out in IFRS 15 "Revenue from Contracts with Customers" into account. We then performed spot checks on those project orders that have not yet been completed to evaluate the percentage of completion on which the revenue recognition is based by reviewing and verifying the total actual hours recorded, the total expected hours and the expected revenue in the client's calculation.

With regard to the first-time application of IFRS 15, we looked at the processes put in place in order to implement the new standard. As part of the assessment of the contractual analysis performed by the legal representatives, we used spot checks to evaluate, in particular, whether the requirements for revenue recognition over a certain period of time had been met with regard to contracts in the consulting business. We also evaluated the disclosures on the impact of the first-time application of IFRS 15 set out in the notes to the consolidated financial statements.

For some of the completed long-term project orders selected both deliberately and using mathematical and statistical processes, we consulted the acceptance records to evaluate whether revenue had been recognized in the proper period.

### **Our Findings**

The approach to the differentiation and revenue recognition of Professional Services is appropriate. The assessments regarding the percentage of completion are appropriate. Our audit procedures did not lead to any objections.

## RECOGNITION OF REVENUE FROM SOFTWARE LICENSES

For disclosures on the recognition of this revenue, we refer to the comments set out in “3. Application of New Accounting Rules,” as well as in “8. Use of Estimates” and “16. Contract Assets and Contract Liabilities.”

### **Risk for the Financial Statements**

The company reports revenue from software licenses of € 18.6 million in the consolidated income statement. Revenue from software licenses accounts for 14.2% of the Group’s total revenue.

The correct recognition of revenue in the consolidated financial statements is of particular importance to the Group’s economic position. The recognition of revenue from software licensing transactions depends on complex contractual agreements, resulting in different times of recognition. Revenue for software licensing transactions is recognized in accordance with IFRS 15 “Revenue from Contracts with Customers.”

The company sells its own software products in separate licensing transactions without any additional performance obligations or as part of a multi-component transaction. In cases involving licensing as a separate service, the corresponding licensing fees are billed on the basis of a specific date and are recognized when the delivery obligation is satisfied, as the customer only has a right of use insofar as the licensed software product exists at the time the license is granted.

In addition, project-related software licenses, in particular, are granted to customers as part of transformation assignments. These are granted for a fixed term corresponding to the duration of the transformation project. Project-based licensing forms part of a single performance obligation because it serves to allow consulting services to be provided in the context of transformation projects. In such cases, the revenue is recognized based on the percentage-of-completion method as standard, as the projects feature customer-specific benefits and enforceable payment claims for services already rendered. In cases involving these long-term project assignments, the percentage of completion and, as a result, the extent to which revenue can be recognized is determined by comparing the hours worked on the project against the total hours expected to be spent on the project. Determining the total hours expected to be spent in order to complete the project requires discretionary decisions that involve a certain degree of estimation uncertainty and can have a material impact on the amount of revenue.

There is a risk, with regard to the consolidated financial statements, that the revenue from the software licensing transactions that is reported has not been recognized.

In addition, the first-time application of IFRS 15 in the 2018 fiscal year was relevant to our audit due to the need for the Group-wide evaluation of the underlying contractual frameworks with regard to the new accounting criteria.

### **Our Approach to the Audit**

Based on our understanding of the process and the evaluation of the structure and implementation of the internal controls implemented over the accurate recording of contract-related personnel and other expenses in the internal contract accounts, we have examined the effectiveness of the internal control system with regard to project management. Within this context, we also evaluated the processes put in place in order to implement IFRS 15 “Revenue from Contracts with Customers” to see whether the requirements for time-related/period-related revenue recognition in the software licensing business had been met. The project management controls ensure that only project-related hours and expenses are recorded in the respective contract accounts. We also evaluated the disclosures on the impact of the first-time application of IFRS 15 set out in the notes to the consolidated financial statements.

Using a combination of orders selected using mathematical and statistical processes and orders that were selected deliberately, we evaluated the underlying contractual agreements to determine whether the software licensing transactions are a separate service giving rise to the time-related recognition of licensing fees, or whether the licensing transaction forms part of a single performance obligation in the context of transformation projects. In the latter case, we checked that revenue is recognized based on the percentage-of-completion method, taking the requirements set out in IFRS 15 "Revenue from Contracts with Customers" into account. We also performed spot checks on those project orders that have not yet been completed to evaluate the percentage of completion on which the revenue recognition is based by reviewing and verifying the total actual hours recorded, the total expected hours and the expected revenue in the client's calculation.

For some of the completed long-term transformation project orders selected both deliberately and using mathematical and statistical processes, we consulted the acceptance records to evaluate whether the licensing and consulting fees had been recognized in the proper period.

### **Our Findings**

The approach to the differentiation and revenue recognition for software licensing transactions is appropriate. The assessments regarding the percentage of completion are appropriate. Our audit procedures did not lead to any objections.

### **Other information**

The legal representatives are responsible for other information. Other information includes:

- the corporate governance report according to No. 3.10 of the German Corporate Governance Code,
- the assurance statement for the annual financial statements according to Section 264 (2) (3) of the HGB and the assurance statement for the management report according to Section 289 (1) (5) of the HGB,

which we obtained prior to the date of this audit report, and the other parts of the Annual Report that are likely to be made available to us after this date, with the exception of the audited consolidated financial statements and the Group management report, as well as our audit report.

Our audit opinions on the consolidated financial statements and the Group management report do not extend to other information. Accordingly, we are not issuing an audit opinion or any other kind of audit finding regarding such information.

### **In connection with our audit of the consolidated financial statements, we have the responsibility to read the other information and in the process to determine whether the other information**

- indicates material discrepancies from the consolidated financial statements, the Group management report or the insights gained during the audit or
- otherwise appears to display material misrepresentations.

If, on the basis of the work we perform on the other information obtained prior to the date of this audit opinion, we conclude that this other information contains significant misstatements, we are obliged to report this. We have no matters to report in this regard.

### **Responsibility of the Managing Directors and the Board of Directors for the Consolidated Financial Statements and the Group Management Report**

The Managing Directors are responsible for the preparation of the consolidated financial statements which, in all material respects, comply with IFRS, as adopted by the EU, and the supplementary requirements of German commercial law pursuant to Section 315e (1) of the HGB, and for ensuring that the consolidated financial statements give a true and fair view of the financial position and financial perfor-

mance of the Group in accordance with these requirements. Furthermore, the Managing Directors are responsible for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Managing Directors are responsible for assessing the Group's ability to continue as a going concern. In addition, they have the responsibility to report any relevant matters in connection with continuing as a going concern. They are also responsible for using the going concern basis of accounting unless the intention is to liquidate the Group or to cease operations, or there is no realistic alternative to doing so.

Moreover, the Managing Directors are responsible for the preparation of the Group management report, which conveys an overall accurate view of the condition of the Group, is consistent in all material respects with the consolidated financial statements, complies with German legal requirements and accurately represents the opportunities and risks of future development. Furthermore, the Managing Directors are responsible for taking precautions and implementing measures (systems) they have deemed necessary in order to enable the preparation of a Group management report in accordance with applicable German legal requirements and in order to provide sufficient suitable evidence for the statements in the Group management report.

The Board of Directors is responsible for overseeing the Group's accounting process in preparing the consolidated financial statements and the Group management report.

### **Responsibility of the Auditor for the Audit of the Consolidated Financial Statements and the Group Management Report**

Our objective is to obtain sufficient assurance regarding whether the consolidated financial statements as a whole are free of material misrepresentations – whether deliberate or unintentional – and whether the Group management report conveys an overall accurate view of the condition of the Group, is consistent in all material respects with the consolidated financial statements and the insights gained during the audit, complies with German legal requirements and accurately represents the opportunities and risks of future development as well as to issue an audit report that contains our audit opinions on the consolidated financial statements and the Group management report.

Sufficient assurance is a high degree of assurance, but no guarantee, that an audit conducted in accordance with Section 317 of the HGB and the EU-APrVO and German generally accepted standards for the audit of financial statements, as promulgated by the Institute of Public Auditors in Germany (IDW), will always uncover material misrepresentations. Misrepresentations can result from fraud or errors and are viewed as material if it may reasonably be expected that they – individually or collectively – could influence the economic decisions of the addressees made on the basis of these consolidated financial statements and Group management report.

#### **We exercise dutiful judgment during the audit and maintain a critical attitude. In addition:**

- We identify and evaluate the risks of material misrepresentations, whether deliberate or unintentional, in the consolidated financial statements and in the Group management report, plan and conduct audit procedures in response to these risks, and obtain audit evidence that is sufficient and suitable to serve as the basis for our audit opinions. The risk that material misrepresentations are not uncovered is higher in the case of fraud than errors since fraud can involve deceitful collaboration, falsifications, deliberate omissions, misrepresentations or the disabling of internal controls.
- We gain an understanding of the internal control system relevant to the audit of the consolidated financial statements and the relevant precautions and measures for the audit of the Group management report in order to plan audit procedures that are appropriate under the given circumstances, but not with the aim of issuing an audit opinion on the effectiveness of these systems.



- We evaluate the appropriateness of the accounting policies implemented by the legal representatives as well as the justifiability of the estimated values presented by the legal representatives and related disclosures.
- We draw conclusions about the appropriateness of the going concern accounting principle applied by the legal representatives as well as, on the basis of the audit evidence obtained, whether a material uncertainty exists in connection with events or circumstances that could cast significant doubt on the Group's ability to continue as a going concern. Should we conclude that a significant uncertainty exists, we are obligated to draw attention in the audit report to the related disclosures in the consolidated financial statements and in the Group management report or, if these disclosures are unsuitable, to modify our respective audit opinion. Our findings are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that gives a true and fair view of the financial position and financial performance of the Group in accordance with IFRS, as adopted by the EU, and the supplementary requirements of German commercial law pursuant to Section 315e (1) of the HGB.
- We obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements and the Group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- We evaluate the consistency of the Group management report with the consolidated financial statements, its consistency with the law and the view it conveys of the condition of the Group.
- We conduct audit procedures regarding the forward-looking statements made by the legal representatives in the Group management report. On the basis of sufficient, suitable audit evidence, we retrace in particular the significant assumptions underlying the forward-looking statements of the legal representatives and evaluate the proper derivation of the forward-looking statements from these assumptions. We do not issue an independent audit opinion on the forward-looking statements and the underlying assumptions. There is a substantial unavoidable risk that future events may deviate significantly from the forward-looking statements.

We discuss with those responsible for supervision the planned scope and schedule for the audit as well as significant audit findings, including possible deficiencies in the internal control system that we identify during our audit, among other issues.

We issue a statement to those responsible for supervision that we have adhered to the relevant requirements for independence and discuss with them all relationships and other matters, of which it can reasonably be assumed that they influence our independence and the protective measures taken regarding them.

From the matters communicated with the individuals responsible for governance, we determine those matters that were of most significance during the audit of the consolidated financial statements for the current period and are therefore the key audit matters. We describe these matters in the audit report unless laws or other legal requirements exclude their public disclosure.

## OTHER STATUTORY AND OTHER LEGAL REQUIREMENTS

### **Other Disclosures According to Article 10 of the EU-APrVO**

We were elected as the group auditor by the Annual General Meeting on May 30, 2018. We were commissioned by the Board of Directors on October 16, 2018. We have operated as the group auditor of SNP Schneider-Neureither & Partner SE, Heidelberg, without interruption since the 2017 fiscal year.

We state that the audit opinions contained in this audit report are consistent with the supplemental report to the Board of Directors according to Article 11 of the EU-APrVO (audit report).

### **AUDITOR RESPONSIBLE**

The German public auditor responsible for the audit is Jörg Müller.

Stuttgart, March 15, 2019

Rödl & Partner GmbH  
Auditing company  
Tax consulting company

Peter Künkele	Jörg Müller
German public auditor	German public auditor

## ANNUAL FINANCIAL STATEMENTS

SNP Schneider-Neureither & Partner SE, Heidelberg  
BALANCE SHEET (HGB) as at December 31, 2018

ASSETS	€	Financial Year €	Previous Year €k
<b>A. Fixed assets</b>			
<b>I. Intangible assets</b>			
1. Concessions, industrial property rights and similar rights and values such as licenses to such rights and values		693,671.00	1,405
		693,671.00	1,405
<b>II. Fixed assets</b>			
1. Land, rights equivalent to property and buildings including buildings on third-party land	74,691.00		88
2. Other fixed assets and office equipment	1,371,298,660.00		1,255.00
		1,445,989.66	1,343
<b>III. Financial assets</b>			
1. Shares in affiliated companies	86,487,359.43		86,204
2. Loans in affiliated companies	0.00		2,635
3. Participations	1.00		0
		86,487,360.43	88,839
<b>B. Current assets</b>			
<b>I. Inventories</b>			
1. Work in progress	56,160.37		4,601
2. Goods	371,250.00		371
		427,410.37	4,972
<b>II. Receivables and other assets</b>			
1. Trade receivables	423,666.29		2,585
2. Receivables from affiliated companies	11,961,514.93		14,011
3. Other assets	731,895.00		730
		13,117,076.22	17,326
<b>III. Cash reserves and bank balances</b>		20,419,574.17	16,969
<b>C. Deferred items</b>		803,369.38	372
		<b>123,394,451.23</b>	<b>131,226</b>
<b>LIABILITIES</b>	€	Financial Year €	Previous Year €k
<b>A. Equity</b>			
<b>I. Subscribed capital</b>			
1. Subscribed capital	6,602,447.00		5,474
2. Own shares	-21,882.00		-22
		6,580,565.00	5,452
<b>II. Capital reserves</b>		62,357,138.08	55,421
<b>III. Revenue reserves</b>			
1. Statutory reserves	19,100.00		19
2. Other reserves	52,888.55		53
		71,988.55	72
<b>VI. Retained earnings</b>		0.00	567
<b>B. Provisions</b>			
1. Provisions for pensions and similar obligations	352,568.69		309
2. Tax provisions	203,484.00		77
3. Other provisions	1,660,476.22		2,230
		2,216,528.91	2,616
<b>C. Liabilities</b>			
1. Liabilities to credit institutions	40,320,333.00		40,760
2. Payments received on orders	27,200.00		4,333
3. Trade payables	2,082,128.98		1,602
4. Liabilities to affiliated companies	1,131,205.63		151
5. Other liabilities	8,556,085.22		19,875
		52,116,952.83	66,721
<b>D. Deferred items</b>		51,277.86	377
		<b>123,394,451.23</b>	<b>131,226</b>

SNP Schneider-Neureither &amp; Partner SE, Heidelberg

## PROFIT AND LOSS ACCOUNT (HGB) from January 1 to December 31, 2018

€	2018 €	2017 €k
<b>1. Sales revenue</b>	<b>24,561,416.01</b>	<b>22,374</b>
<b>2. Increase in inventories of finished and unfinished goods</b>	4,544,649.94	702
<b>3. Other operating income</b>		
- Of which expenses from foreign currency conversion 759,994.30 € (367 T€)	1,423,636.59	999
<b>4. Material costs</b>		
Costs for purchased goods	4,827,164.27	10,807
<b>5. Personnel costs</b>		
a) Wages and salaries	9,682,946.37	9,227
b) Social security and expenses for pensions and related employee benefits	1,492,111.13	1,453
- Of which expenses for pensions 74,221.56 € (102 T€)	11,175,057.50	10,680
<b>6. Depreciation of intangible assets and fixed assets</b>	1,236,095.04	701
<b>7. Other operating expenses</b>		
- Of which expenses from foreign currency conversion 600,394.83 € (1,052 T€)	15,815,564.26	13,890
<b>8. Income from participations</b>		
- Of which from affiliated companies 0.00 € (3,292 T€)	0.00	3,292
<b>9. Received profits due to a profit transfer agreement</b>	1,380,684.24	7,810
<b>10. Income from loans of financial assets</b>		
- Of which from affiliated companies 16,756.00 € (152 T€)	16,756.00	152
<b>11. Other interest and similar income</b>		
- Of which from affiliated companies 52,270.41 € (17 T€)	88,534.33	45
<b>12. Depreciation of financial assets</b>	50,000.00	132
<b>13. Expenditure for loss assumption</b>	2,045.56	70
<b>14. Interest and similar expenses</b>		
- Of which from affiliated companies 0.00 € (0 T€)	789,970.18	888
<b>15. Taxes on income</b>	244,633.33	6
<b>16. Loss/income after taxes</b>	<b>-11,214,152.91</b>	<b>-1,800</b>
17. Other taxes	13,536.00	24
<b>18. Net income</b>	<b>-11,227,688.91</b>	<b>-1,824</b>
19. Profit carries forward from previous year	567,031.24	2,391
20. Withdrawal from capital reserves	-10,660,657.67	0
<b>21. Net profit</b>	<b>0.00</b>	<b>567</b>

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## FINANCIAL CALENDER

March 29, 2019	Publication on Annual Report 2018
April 30, 2019	Publication of the Interim Statement for Quarter I
June 6, 2019	Annual General Meeting 2019
August 2, 2019	Publication of Half Year Figures 2019
October 31, 2019	Publication of the Interim Statement for Quarter III

All dates are provisional only.  
The current financial calendar can be consulted at:  
[www.snpgroup.com/eng/Investor-Relations/Financial-calendar](http://www.snpgroup.com/eng/Investor-Relations/Financial-calendar).

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This Annual Report is also available in German. The legally binding document is the original German version, which shall prevail in any case of doubt.



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