FINANCIAL REPORT 2018

CENIT Key Data 2014-2018

in million EUR	2018	2017	2016	2015	2014
Total revenue	169.99	151.70	123.77	121.47	123.39
EBITDA	11.95	15.27	14.06	12.69	11.66
EBIT	9.03	12.84	11.85	10.60	9.33
Net income	6.13	8.99	8.15	7.31	6.36
Earnings per share in EUR	0.73	1.07	0.97	0.87	0.76
Dividend per share in EUR	Proposal: 0.60	1.00	1.00	1.00	0.90
Equity ratio in %	49.4	46.8	56.2	59.6	58.8
Number of employees	757	764	615	628	659
Number of shares	8,367,758				

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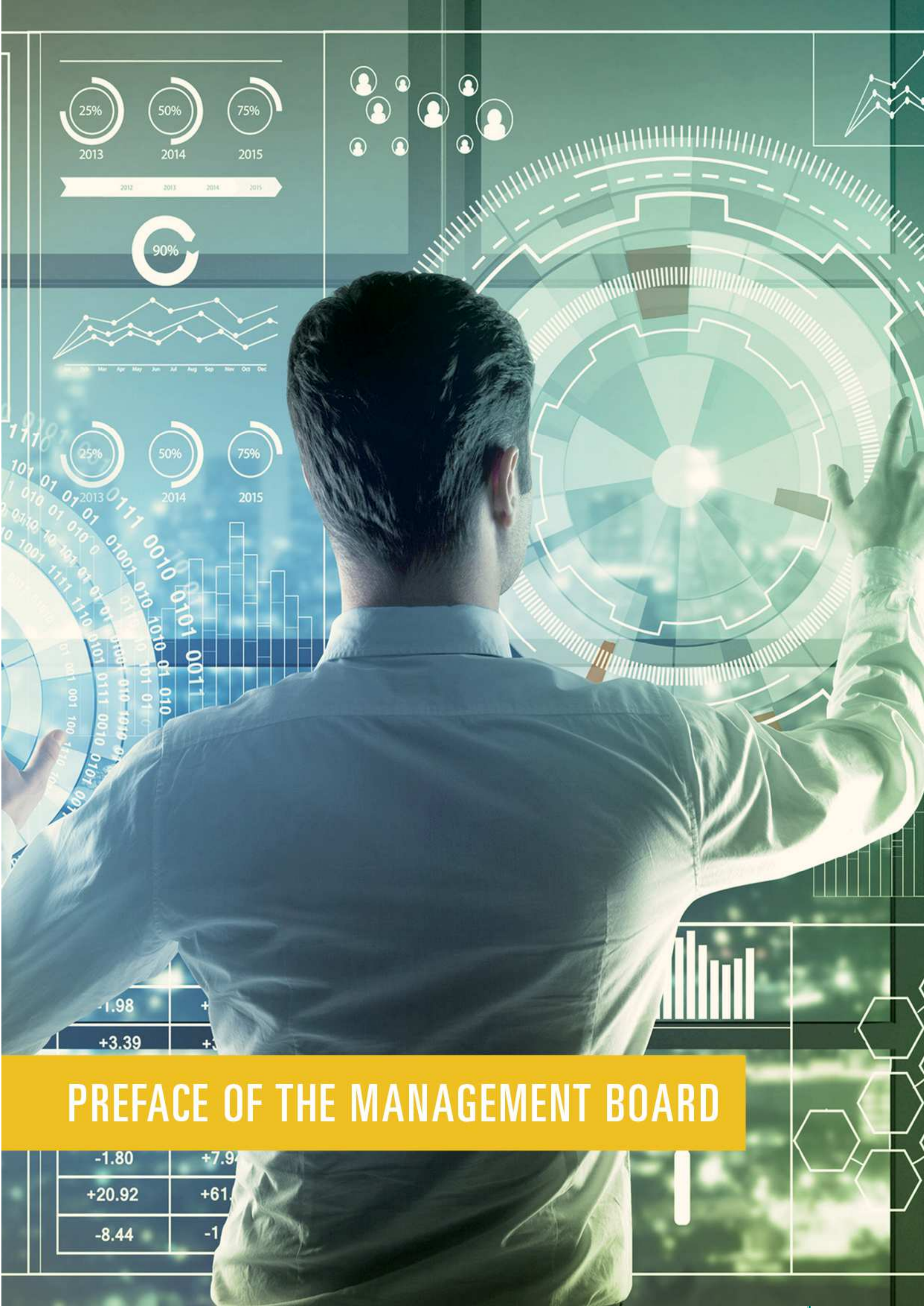


PREFACE OF THE MANAGEMENT BOARD

Preface of the Management Board

Ladies and Gentlemen,

Even more than in past years, today we need to say “Thank you”. Thank you for what we are proud to be able to call an exceptionally successful history of our company, CENIT AG, spanning 30 years. Founded as a start-up in 1988 and listed on the stock exchange since 1998, CENIT has tenaciously developed into a down-to-earth Swabian SME that is traditional in the best possible sense but that – like its customers – feels, thinks and acts globally. To this end, we have established a presence on all of the world’s major markets and are delighted that diversity is embraced in practice by our employees. With prudent management, CENIT has grown profitably and sustainably, with all the inevitable highs and lows that every company experiences.

Today, CENIT provides several hundred loyal and dedicated staff with a secure job with good prospects. For its customers and partners, CENIT is a reliable partner in challenging markets. Additionally, we are working consistently on developing our CENIT brand, which boasts unique selling propositions on the market thanks to an increasing number of proprietary software solutions. We are focused on *the* paradigm shift that is currently all-encompassing, namely the digital transformation of the Company and virtually all areas of its value chain. For us, acronyms such as IoT (Internet of Things), Industry 4.0 and AI (Artificial Intelligence) are more than mere buzzwords. Like our customers, we view this development as a tangible technological upheaval that is omnipresent and that offers an important impetus for commencing on a journey to a smarter world.

CENIT has invested heavily but also sensibly in these topics of the future. We pay for our investments using money that we have already earned. Instead of capitalizing our development expenses as assets in the balance sheet, we record them as an expense in our income statement. As a result, we consider ourselves to be in an excellent position to help shape the digital transformation to benefit our company and its owners. Together with our partners, we want to provide valuable assistance to our customers in the implementation of challenging projects in the coming years.

At present, the global economic mood is rather subdued. All of the well-respected national and international research institutes have been forced to adjust their growth forecasts downwards several times, both for last year and for the current year and beyond. Decision makers, in particular in the industrial sectors, have recently become more cautious and are decreasing their capital expenditure budgets. Having become somewhat accustomed to years of robust growth, economic stakeholders are understandably responding sensitively to signs of a cooling economy. We too must assume that growth in CENIT’s environment will become a little more modest. It is not possible to say with certainty at present whether the dampened mood is possibly more pessimistic than the actual situation. If this is the case, we could assume that the numerous structural investment requirements will quickly help to overcome the current downturn.

In terms of operations, CENIT participated at an above-average rate in the boom years of late. After the record years in 2016 and 2017, the current reporting year is characterized by a certain degree of consolidation at the existing level. Sales grew by 12.1% to EUR 170.0 million, chiefly on the back of acquisitions. By contrast, the operating result – measured as EBIT – dropped by 29.7% to EUR 9 million. This was mainly attributable to development delays for our proprietary software.

Consequently, this major source of income for our overall profitability did not contribute to sales and earnings in the scope originally expected. Accordingly, we adjusted our capital market outlook for sales and EBIT downwards in July of last year, in conjunction with the expectation of business picking up in the final quarter of the reporting year as is customary for the IT sector. Despite an exemplary end-of-year sprint thanks to the combined efforts of all of our resources, the seasonal component was ultimately not favorable enough to meet our expectations as of year-end to the full.

However, if we look at longer periods, for example from 2010 to 2018, we are convinced that the earnings from our business activities are quite good. Revenue CAGR and EBIT CAGR (Compound Annual Growth Rate) as the annual average growth rate for this period came to 7.8% and 10.8% respectively. Our headcount only increased by 2.2% on average p.a. over the same period. CENIT has distributed EUR 5.25 in gross dividends to our long-standing and loyal shareholders since 2010. At the same time, our company’s market capitalization rose from EUR 47.9 million to EUR 112.1 million with an unchanged number of shares outstanding. Analysts monitoring our company still give our share a ‘Buy’ rating.

On 14 January 2019, CENIT reported that the Supervisory Board passed a resolution to extend the Company’s contracts for the Management Board prematurely. We viewed this move as a declaration of trust in the work we have done thus far and as an advancement of trust in our future dealings. The Management Board will do everything in its power to show itself deserving of this trust. We are more than willing to continue to take responsibility and to move our company forward. This involves thinking in development stages that span several years, maintaining what we have achieved, making a clear commitment to growth and earnings power, setting realizable and motivating targets and a self-critical continuous process of comparing where we are against where we want to be.

With our current multi-year plan “CENIT 2025”, we want to be the partner for successful digital transformation and create competitive leads for our customers in the connected future by means of our digital processes. We have set ourselves quantitative and qualitative targets as a result:

We are endeavoring to generate sales of EUR 300 million and have set a range of sub-targets to achieve this: enhancing the market position in terms of our three revenue sources VAR business/technology consulting/proprietary software, expanding areas of competency, and customer references as well as geographical expansion. Some milestones have already been achieved in this context. The KEONYS acquisition in France catapulted CENIT to Number 1 on the list of global Dassault VAR partners. CENIT is becoming the leading PLM partner for the software suite 3DExperience and for SAP-PLM in Europe. The cooperation with DELTA Management is allowing us to tap into valuable expertise in the “digital twin” field. The majority interest in SynOpt gives CENIT access to important simulation knowledge, allowing CENIT to position itself as a provider for predictive maintenance solutions. German Electrical and Electronic Manufacturers’ Association ZVEI (‘Zentralverband Elektrotechnik und Elektronikindustrie’) considers this area to be one of three core trends in the Industry 4.0 environment. As far as geographical expansion is concerned, CENIT has alongside its presence in Japan now also taken successful steps in the direction of the Chinese market.

We intend to achieve a share in sales of more than 10% with proprietary CENIT software. To do this, we will maintain our investing activities at a high level. The positive attention garnered by our Industry 4.0 flagship product “FASTSUITE Edition 2” at relevant trade fairs such as “Automatica” in Munich has copper-fastened our intentions in this regard. Another factor is that, here too, the KEONYS acquisition gives us a huge competitive edge, as it provides CENIT with an additional distribution channel for the proprietary software products.

Our profitability target is to achieve an EBIT margin of between 8 and 10%. The key factor here will be to achieve our sales target for proprietary software. Additionally, we will consistently always examine potential sales for their earnings strength, utilize internal synergy potential and continuously optimize our competency portfolio.

As in the prior year, please allow us at this point to mention something that is very close to our hearts. We are referring to a labor of love for everyone in our company, a project that cannot be overstated in terms of its importance for feeling part of something greater than ourselves: CENIT Cares. These two words stand for social involvement from the midst of our workforce. The initiative is carried by all of our staff and implemented by alternating teams. This demonstrates that projects of this special nature are not part of a controlled ‘top-down’ action plan, but instead arise from a common need. We are proud that, even as a small company, our streamlined structures put us in a position to push the envelope and achieve great things through this initiative.

Projects like CENIT Cares are not the only way to show that we put people at the heart of what we do. We also want to provide proof of this by means of attractive personnel work on a day-to-day basis, as ultimately our staff are our most valuable resource. It is true that it’s not easy for an SME to compete with the pay structures offered by large players in the same location. But there are other means by which to accomplish the aim of establishing CENIT as the “Best Place To Work”. These include benefits that are not one-size-fits-all, flexible working time models, continuous vocational training and further education, personnel development through mindset building, i.e. developing creativity in interdisciplinary teams to come up with new solutions, fast career progression/more responsibility, a collegial and open atmosphere based on partnership, and the possibility to act in an entrepreneurial manner with short decision-making paths and flat hierarchies. These measures have worked well, with employee turnover at CENIT running at a comparatively low level. We are bound together by the conviction that together we are strong.

We want to take this opportunity to thank all of the employees in the CENIT Group most sincerely for their dedication and loyalty over the past year. We also extend our thanks to all shareholders, customers and business partners that placed their trust in CENIT in the past fiscal year. Stay with us on our journey of digital transformation.

Yours sincerely,

The Management Board

Kurt Bengel
Spokesman, Management Board

Matthias Schmidt
Member, Management Board

REPORT OF THE SUPERVISORY BOARD

Report of the Supervisory Board

Dear Shareholders,

After the record years in 2016 and 2017, the year 2018 was not quite so successful for the CENIT Group. The current worsening of the global economic environment meant that the Company did not achieve its targets. While sales rose by twelve percent in the CENIT Group, EBIT was down by roughly 30 percent, chiefly due to the weak business with CENIT's proprietary software.

In the past fiscal year, the Supervisory Board duly and conscientiously performed all duties to which it is obliged by law and the articles of incorporation and bylaws. We regularly advised the Management Board on its governance of the Company, carefully and continually monitored its conduct of business and in doing so satisfied ourselves as to the lawfulness, expediency and correctness of its activities. The Management Board directly involved the Supervisory Board in all decisions of fundamental importance to the Company. In the Supervisory Board meetings, the Management Board informed us orally and in writing on all relevant aspects of business strategy and enterprise planning, including financial, investment and personnel planning, the course of business and the financial situation and profitability of the Group. The reports from the Management Board also examined the risk situation as well as risk management and compliance matters. We were always informed in good time of variances between the business planning and the actual course of business.

The Supervisory Board was reappointed and constituted at the General Meeting of Shareholders on 18 May 2018. More details of these changes will be discussed later in this report.

Before the meetings, all members of the Supervisory Board were each provided with comprehensive written reports by the Management Board, excerpts from letters by the Company and in particular documents from the accounting department. Based on these as well as other information requested by the Supervisory Board at and outside of the meetings, the Supervisory Board was able to carry out its supervisory task in a due and timely manner.

Outside of the meetings, the Management Board kept the Supervisory Board constantly informed of the key performance indicators by providing monthly reports, and duly presented for our consideration such matters as required the approval of the Supervisory Board. The reports by the Management Board on the business situation and presentations on special matters of interest were supported by written presentations and documents; these were duly provided to each member of the Supervisory Board before each meeting. The collaboration between the Management and Supervisory Boards is characterized by respectful and trust-based cooperation and an open and constructive dialog.

Over the past year, the Supervisory Board held eight regular meetings and one conference call for detailed discussions on the economic situation, the strategic development and the long-term positioning of the CENIT Group. With the exception of the conference call, all members of the Supervisory Board participated in each of these events. In its own estimation, the Supervisory Board has an appropriate number of members who maintain no business or personal relationships with the Company or members of the Management Board that could give rise to a conflict of interest. As in prior years, the Supervisory Board did not consider it necessary to form committees in view of the low number of members on the Supervisory Board.

Matters addressed by meetings of the Supervisory Board

The Management Board provided information on the development of sales and earnings in the CENIT Group to all meetings of the Supervisory Board held during the reporting year 2018. Additionally, it explained the course of business in the individual business segments and reported on the assets, liabilities, financial position and performance. In this context, the Supervisory Board placed particular emphasis on potential consequences for risk and liquidity management.

Financial reports / audits

During its balance sheet meeting on 29 March 2018 and in the presence of the auditor/group auditor, the Supervisory Board considered the Company's annual financial statements. The annual financial statements of CENIT Aktiengesellschaft and the consolidated financial statements for the fiscal year 2017, both prepared by the Management Board, were audited by BDO Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Stuttgart, which was appointed auditor at the ordinary General Meeting of Shareholders on 12 May 2017, including the accounting and the management report and group management report. In particular, and in detailed discussions with the Management Board and the auditor, the Supervisory Board reviewed the annual financial statements and consolidated financial statements presented as well as the management report and the group management report, also taking underlying accounting policy into consideration. On the basis of the audit reports and in individual discussions, the Supervisory Board further considered the results of the audit of the annual financial statements. The Supervisory Board was satisfied that the audit and the audit reports fulfilled the requirements of Secs. 317, 321 HGB. The financial statements for 2017, prepared by the Management Board and on which an unqualified audit opinion was issued by the auditor, were conclusively reviewed during the balance sheet meeting. On 29 March 2018, the Supervisory Board approved the 2017 annual financial statements of CENIT Aktiengesellschaft and noted the 2017 consolidated financial statements with approval. Upon review, the Supervisory Board endorsed the Management Board's proposal for the appropriation of profits.

In its meeting on 29 March 2018, the Supervisory Board also considered the business situation and outlook during the first quarter of 2018. The status of current M&A activities, in particular the status of the negotiations with DELTA Management Beratung GmbH, was also on the agenda.

Further matters addressed by the meetings

During the course of the year, the Supervisory Board was continually kept informed of periodic financial results and undertook detailed discussions with the Management Board on the 2018 semi-annual financial statements as well as interim reports for the individual quarters. A consistent focus of these discussions was on the review of developments in earnings and sales during 2018.

The constitutive meeting of the new Supervisory Board and the appointment of the Chairperson of the Supervisory Board took place in follow-up to the General Meeting of Shareholders on 18 May 2018. In addition, the meeting dates for 2018 were set and the status of current M&A activities were discussed.

At the meeting on 20 June 2018, the Management Board reported to us in detail on the course of business in the first half of the year and the status of the current integration of KEONYS and the cooperation with DELTA Management Beratung GmbH. Another topic discussed at the meeting was the situation concerning the lease agreement for the Toulouse branches.

On 27 July 2018 we consulted with the Management Board during an extraordinary conference call on adjusting the earnings forecast for the 2018 fiscal year as well as on the plan of action for the Digital Factory Solutions business division. The division then presented itself to us on 10 August 2018 at an extraordinary meeting in a presentation by the division head.

At the meeting on 12 September 2018, the Management Board presented the first draft of the multi-year plan CENIT Strategy 2025 to us. In addition to the report on the current business situation, the dates for the Supervisory Board meetings in 2019 were set.

On 8 November 2018, the major topics at the meeting included CENIT's risk and compliance management as well as the outlook for the SAP business division.

At the last meeting of the year on 14 December 2018, the main topics were CENIT's planning for the 2019 fiscal year and continued collaboration with auditing firm BDO.

Risk management

An important topic addressed at several meetings was risk management within the Group. The Management Board reported on the chief risks for the Group and the risk monitoring system put in place to address these risks. In a series of discussions with the Management Board and several meetings with the auditor, the Supervisory Board satisfied itself of the effectiveness of the risk monitoring systems.

Personnel changes

A new Supervisory Board was appointed at the General Meeting of Shareholders on 18 May 2018. At the subsequent first constitutive meeting, Univ.-Prof. Dr.-Ing. Oliver Riedel was appointed as the Chairperson of the Supervisory Board. The Deputy Chairperson is Dipl.-Kfm. Stephan Gier. Dipl.-Ing. Ricardo Malta, Service Manager, was elected by the employees of CENIT AG in the past year to represent the employees on the Supervisory Board.

Corporate Governance

On several occasions in the course of the fiscal year, we reviewed particulars of corporate governance matters with the Group, including the amendments of the German Corporate Governance Code adopted by the Government Commission. The Supervisory Board is convinced that good corporate governance constitutes a significant foundation for the success, reputation and self-image of the Group. For this reason, the Supervisory Board has continually monitored and considered the ongoing development of corporate governance standards and their implementation within CENIT. This also included regular verification of the efficiency of our own activities. In numerous discussions – also with the auditor – particular attention was paid to the continual lawfulness of business management and the efficiency of the organization.

An awareness of continually responsible and lawful conduct and of its existential significance for CENIT are well entrenched within the Group and its corporate bodies. In accordance with Article 3.10 of the German Corporate Governance Code, the Management and Supervisory Boards report on corporate governance at CENIT in their Corporate Governance Report. On 13 February 2018, the Supervisory Board issued its Declaration of Conformity with the German Corporate Governance Code as amended on 7 February 2017 in accordance with Sec. 161 AktG, and has made this declaration available to the Company's shareholders on the Company's website.

Balance sheet meeting 2019 on the annual and consolidated financial statements 2018

The accounting, the annual financial statements with the management report for the 2018 fiscal year, the consolidated financial statements with explanations and the group management report for the 2018 fiscal year were audited by BDO Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Stuttgart, which was appointed as auditor of the annual financial statements and consolidated financial statements at the General Meeting of Shareholders on 18 May 2018. In accordance with its duties, the Supervisory Board reviewed the qualifications, independence and efficiency of the auditor.

The auditor issued unqualified audit opinions on the 2018 annual financial statements and consolidated financial statements of CENIT prepared by the Management Board, including the management report and group management report. The annual financial statements of CENIT Aktiengesellschaft were prepared in accordance with the principles of commercial law (HGB). The consolidated financial statements comply with the International Financial Reporting Standards (IFRS). All members of the Supervisory Board had full and timely access to the financial statements documents and audit reports. The Supervisory Board has discussed the audit report intensively with both the Management Board and the auditor in order to satisfy itself as to its propriety. The Supervisory Board is confident that the audit reports for 2018 were fully compliant with statutory requirements.

During the balance sheet meeting on 21 March 2019, the auditor reported on the main findings of the audits of the separate financial statements of CENIT Aktiengesellschaft and was available to provide additional information and respond to queries. On that occasion, all members of the Supervisory Board were able to satisfy themselves that the audit has been conducted in compliance with statutory requirements and in an adequate manner.

As a conclusive result of its own reviews in accordance with Sec. 171 AktG, the Supervisory Board noted that it had no objections.

In its meeting on 21 March 2019, the Supervisory Board approved the annual financial statements prepared by the Management Board for CENIT Aktiengesellschaft for the 2018 fiscal year, thus ratifying the financial statements pursuant to Sec. 172 AktG. Likewise on 21 March 2019, the Supervisory Board approved the consolidated financial statements for the 2018 fiscal year.

Upon review, the Supervisory Board approves the Management Board’s proposal for the appropriation of profits.

The Supervisory Board wishes to thank the Management Board and all CENIT employees throughout the world for their personal commitment, their achievements and their performance in the past fiscal year.

Stuttgart, March 2019

On behalf of the Supervisory Board

Oliver Riedel

Univ.-Prof. Dr.-Ing. Oliver Riedel
Chairperson of the Supervisory Board

MANAGEMENT REPORT

Combined management report of the CENIT Group and CENIT AG for the fiscal year from 1 January 2018 to 31 December 2018

The CENIT Group is managed globally by the parent company CENIT AG as an operating company. The Group's economic situation is shaped by the economic situation of the parent, CENIT AG. For this reason, the Management Board of CENIT AG combines the management report of the Group and of CENIT AG together in one report.

Fundamental information about the Group

Business model of CENIT

CENIT has two business divisions – Product Lifecycle Management (PLM) and Enterprise Information Management (EIM).

CENIT is the specialist for the core processes of its customers, focusing on the manufacturing industry and the financial services industry. The consultancy, service and software offering of the CENIT Group is based on standard products by its software partners as well as CENIT's own solutions based on those standard products. Leading software providers such as Dassault Systèmes, IBM and SAP are partners to the Company. The employees in the CENIT Group have a deep understanding of the processes and technologies in the target industries and thus provide the customers with tailored industry support in the planning, implementation and optimization of their business and IT processes.

To allow the customers to concentrate on their core competences, the CENIT Group also manages the applications and the related IT infrastructures.

CENIT's strategy is geared to sustainable profitable growth. For this reason, we focus just as much on the employees and technology partnerships with the partners as on efforts to give the customers a competitive edge with CENIT solutions.

Equity investments / Subsidiaries

CENIT is headquartered in Germany (Stuttgart) and represented in the principal industrial centers there. CENIT has expanded its presence in Europe through the KEONYS Group. Through KEONYS, CENIT is also represented in the Netherlands and Belgium with its own local companies. CENIT has further locations in the USA, Switzerland, Romania, Japan and France. The domestic and foreign companies included in the consolidated financial statements are consolidated in accordance with the uniform accounting and valuation methods in the CENIT Group. The companies use the same accounting and valuation methods as CENIT AG in Germany. The subsidiaries specialize in services and software. In addition, CENIT AG holds one third of the joint venture CenProCS AIRliance GmbH. The joint venture provides services and consulting for the joint major customer Airbus Group.

Control system

The Management Board of CENIT AG is responsible for the overall planning and the realization of the long-term objectives of the Group. The uppermost goal of corporate development is to raise the business value on a long-term basis by means of profitable growth. The planning required to control the operational units as well as the resulting measures are derived from the long-term corporate planning, taking into account the developments in the competitive and market environment.

The key performance indicators for the economic objectives are sales, profit contribution and earnings before interest and taxes (EBIT). An individualized system of profit participation is in place to motivate employees to be committed to meeting the agreed targets. On an annual basis, the Management Board defines measures and measurable milestones for CENIT to use to reach its long-term objectives. Short-term control takes the form of a variance analysis with the annual plan. As part of this planning process, the persons responsible make an initial assessment of the development of major indicators such as sales, profit contribution, selling and administrative costs, EBIT as well as of the employment situation.

The fiscal year is planned by the business units and by the Management Board by means of a separate bottom-up and top-down planning process. At joint planning rounds, these assessments are tested for plausibility, supported and finally presented by the Management Board to the Supervisory Board for approval. As part of this planning process, the current five-year plan is also examined and rolled forward every two years.

To assess the business development at regular intervals – variance analysis – the operating units are provided with detailed reports in order to allow the best possible business control. The Management Board analyzes variance analyses every month together with each operating unit in order to initiate necessary adjustment measures on a timely basis.

However, many financial ratios that are critical to success are not quantifiable or can only be quantified indirectly. These include factors such as the reputation of the brand, customer satisfaction, employee qualifications, experience and motivation as well as their leadership qualities, and also the corporate culture. All of these factors can only be described in qualitative terms at best. To do this, CENIT uses tools such as customer surveys and the employee survey, which takes place every two years, in order to counter adverse developments.

Research and development

A further goal is to continue to strengthen innovative power. For this reason, CENIT raised its research and development expenses (R&D) to EUR 10,123 k in the fiscal year 2018. The business units of CENIT focus their R&D efforts on the next generation of their products and solutions and prepare for their successful market launch. The close cooperation with the product and client-facing areas allows CENIT to offer customized solutions. In addition to selling standard software, the CENIT Group develops its own programs to supplement and extend these solutions. The software expertise and decades of industry experience allow CENIT to optimize the productivity and data quality of its customers with its own CENIT solutions. The CENIT Group offers more than 20 of its own solutions in total in its business divisions.

Innovation is progress. Consequently, research and development are of central importance for the further achievement of the Group’s objectives. CENIT’s activities in this area are constantly being expanded. At the same time, CENIT thus enhances its position in relation to its competitors. A rise in innovation costs is planned once again in the fiscal year 2019.

Report on economic position

Overall economic conditions

The global economy lost ground over the course of 2018, with the economic mood dampening significantly virtually everywhere in the world.

A 3.7% increase in global production was achieved in 2018, which was 0.2% lower than forecast. In view of a range of indicators and a host of global risks, most economic experts have revised their growth forecast for the coming two years downwards and are consequently predicting that the global economy will develop less dynamically but still positively, with a respective rise of roughly 3.4% in global gross domestic product (GDP).

The reasons for the slower expansion are related primarily to the fluctuations on the financial markets in the industrialized nations as well as the increasing trade conflicts – such as those between the USA and China. While foreign trade between developed national economies began to slow, the intensity of trade between the emerging economies continued its upward trend.

The IMF (International Monetary Fund) has also lowered its growth forecasts. Introducing the forecast in Davos, IMF boss Christine Lagarde apprised the world leaders of the need to work together quickly to resolve their trade disputes and the resulting political uncertainty instead of creating harmful barriers and thus destabilizing an already weakened global economy. According to the IMF, further sources of risk to the outlook include a no-deal Brexit and an economic downturn in China that is more severe than expected.

Germany

In 2018, the Germany economy continued on its growth trajectory for the tenth year in a row. However, growth was comparatively low at 1.5% after a figure 2.2% in each of the boom years of 2016 and 2017. The chief reasons for the slower pace of growth were a globally weakened economy, low water levels on account of the prolonged drought period as well as sales problems in the automotive industry. The domestic economy was the only source of more positive impetus.

Weaker global trade meant that German exports were also negatively affected. There was a particularly sharp decline in exports of vehicles that had not yet undergone the new WLTP certification (worldwide harmonized light vehicles test procedure). The rise in exports was thus considerably weaker than expected, at just 2.4%.

Thanks to strong employment trends and the considerable increase in disposable income, consumer spending rose by 1.0% in 2018.

The labor market proved entirely resistant to weakening global growth, returning the best figures since German reunification. For example, employment figures climbed dramatically once again in 2018. There were 44.8 million persons employed, up roughly 562,000 on the prior year. Unemployment dropped by approximately 193,000 persons year on year, with annual average unemployment running at 5.2% in 2018.

Global competition, the palpable effects of demographic change and the rapid progression of digitalization are nevertheless bringing about fundamental changes in the labor market, creating a greater risk of scarcity of qualified labor and further amplifying the discrepancy between the types of requirements that companies have on the one hand and the qualifications of jobseekers on the other.

Most economic experts and research institutes adjusted their forecasts downwards for 2019. Although growth is still expected, it is predicted to fall considerably short of original forecasts at just 1.0% to 1.3%. Economists are in agreement that Germany's economy is cooling. They say that in order for the forecast to be met, there will need to be an orderly Brexit as well as a recovery in the first half of 2019 from the production and sales losses suffered by the German automotive industry through the switch to the new emissions testing standard WLTP. They also list international trade disputes, the development of interest rates, a slowing of growth in China (which would hamper German exports), Italy's budget deficit and a potential no-deal Brexit as variables that could endanger the European economy.

Europe

The pace of growth eased off in the euro-zone in the past year. All of the major countries recorded a lower rate of expansion than in the prior year, with euro-zone growth standing at 1.8% in 2018. For the year 2019, the EU Commission is reckoning with growth of just 1.3% rather than the original estimate of 1.9% last fall. It states the principal reasons for this development as the bleaker outlook in the largest European national economies of Germany, Italy and France. Domestic demand also created less economic stimulus than originally expected. Additionally, the Commission said that the forecast was subject to major uncertainties due to international tensions and a potentially chaotic Brexit.

One positive aspect is the increase in employment, with unemployment dropping once again in the euro-zone in 2018 to reach its lowest level since the financial crisis. Capacity utilization in industry has almost returned to pre-crisis levels. By contrast, wage increases remained moderate, and the rise in inflation meant that purchasing power decreased accordingly.

USA

The US economy accelerated markedly in the past year, also thanks to stimulus from an expansive fiscal policy. The US economy thus grew 2.9% in 2018. However, economic experts are only predicting growth of between 1.7% and 2.5% for 2019. This is also the direction indicated by the US yield curve, which reflects the less optimistic growth expectations of market participants. Private consumption displayed stable growth rates in recent years, and is buoyed by the continued strong development on the labor market. Another factor is the continued low interest rate, despite four interest rate increases in 2018. Pressure on prices is gradually increasing, and this is reflected in the higher inflation rate.

Despite recent indicators that the US economy is slowing down, the labor market is booming at a level not seen in almost a year. The government in Washington reported 312,000 new jobs for December 2018. This is the largest increase since February 2018.

The IMF (International Monetary Fund) cites the main risks to the US economy as the trade dispute with China and the over five-week long government shutdown due to budget disagreements. Because the Republicans and the Democrats failed to agree on a budget, 800,000 state employees have not been getting their salary. This shutdown started back on 22 December 2018 and, at five weeks, is the longest in US history. The dispute is a particular threat to private spending, which contributes 70% to US economic output.

Japan

In general, the situation in Asia appears to be bleaker than expected. For example, Japanese exports to mainland China have fallen by 7%, while exports are down 17.3% to Hong Kong and down 11.6% to South Korea. These export figures show that the trade war between China and the USA could fan the flames of a potential recession.

Despite continued excellent growth figures from China with economic growth of more than 6%, figures like these ones from Japan appear to indicate that the situation Asia is no longer so robust. The Japanese central bank (BoJ) has retained its extremely relaxed monetary policy because inflation is still low. At the same time, it lowered its inflation forecast for the fiscal years up to March 2021. This means that the central bankers' inflation target of two percent will not be met any time soon.

Commercial banks can still borrow money from the central bank practically for free, as loans for investments in the economy and for consumers are to remain cheap. The risks to Japan's economy as listed by BoJ include economy policy in the USA, which is embroiled in a trade dispute with China, as well as a planned increase in excise duties.

For the fiscal year ending 31 March, the monetary authorities in the third-largest national economy after the USA and China lowered their growth forecast from 1.4 to 0.9%. The central bank expects growth of 0.9% in the coming fiscal year and of 1.0% in the following year.

BoJ is predicting an inflation rate of just 0.8% instead of the estimated 0.9% for the 2019 current fiscal year. The reason for the decrease is the drop in oil prices. Inflation in the coming 2020 fiscal year is likely to total just 0.9% rather than the 1.4% originally hoped for.

Economic conditions in the industry

Germany's ITC market remains unscathed by the global trade disputes, Brexit and recessionary tendencies. According to the industry association BITKOM, sales with products and services in information technology and telecommunications rose by 2.0% to EUR 166.0 billion in 2018.

ITC sales are to rise globally by 3.2% to EUR 3.36 billion in 2019. The largest increases are set to be achieved in India (+6.4%) and China (+5.0%). The USA remains by far the world's largest ITC market, with an expected sales increase of 3.7% and a 31.3% share of the global market.

According to BITKOM, Germany's share of the global market dropped below the 4% mark for the first time to 3.9%. The industry association expects growth of 1.5% to EUR 168.5 billion in 2019 for the ITC market as a whole in Germany. Information technology will remain the growth driver of the ITC industry, with expected sales of EUR 92.2 billion and growth of 2.5%. Significant growth of 2.3% is likewise expected from IT services, which are expected to reach a market volume of EUR 40.8 billion. IT hardware will slip slightly to EUR 25.4 billion (down 0.7%).

Telecommunications should see marginal growth of 1.1% to EUR 67.3 billion. While the market for telecommunications infrastructure is supposed to grow 1.6% to EUR 7.1 billion, the market for telecommunications services is expected to stabilize after a downward trend in recent years and to experience modest growth of 0.8% to EUR 49.2 billion.

In the field of consumer electronics, this year's sales are expected to decline further by 5.0% to EUR 9.0 billion.

1,174,000 persons are predicted to be employed in the industry at the end of the year. This constitutes growth of 40,000 jobs and a 3.5% rise on 2018, when 36,000 additional jobs were created according to BITKOM calculations. “Digitalization is driving the market and is a guarantee of more jobs”, says BITKOM President Achim Berg. “Business is especially good for software houses and IT service providers. These are the areas where by far the most jobs are being created”, according to Berg. More than 150,000 jobs have been created in the past five years. Berg says that this figure could even be higher if there were enough skilled specialists available. According to a current BITKOM study, 82,000 positions for IT experts were vacant at the end of the past year. This figure stood at 55,000 in 2017 and has risen by 49% within a year.

Summary of business development

2018 was not a satisfactory year for CENIT AG, and the planned sales and EBIT targets were not met.

The CENIT Group fell short of its planned target of EUR 185,000 k for sales by EUR 15,010 k (down 8% from budget). Budgeted EBIT was around EUR 12,000 k, but actual EBIT was just EUR 9,028 k, thus constituting a drop of almost 25% compared to budget.

EBIT amounted to EUR 9,028 k, which is nearly 30% less than in the prior year. This decline is due in the main to lower sales with proprietary software, which dropped below the prior-year level. This is due first and foremost to the delay in completing new software functions, in particular in the field of software solutions for the digital factory. The EBIT margin fell from 8.5% in 2017 to 5.3% in the past reporting period.

PLM grew sales by 16.2% in the past year as a result of the KEONYS acquisition last year; without KEONYS, sales would be down 2.2%. EBIT in PLM decreased by 37%.

EIM made further progress in a realignment in favor of software in the past fiscal year. The EBIT margin rose to 16.1% in 2018 (prior year: 13.2%). Sales declined on account of the focus on higher-end services.

Earnings per share decreased by 32% to EUR 0.73 per share.

CENIT AG was likewise unable to realize its planned sales increase of 4% and stable EBIT. Sales at CENIT AG decreased by 4% to EUR 93,808 k year on year, with EBIT of EUR 4,605 k down almost 29% on the prior-year level and compared to budget. The drop in sales and EBIT is chiefly attributable to the decline in sales of proprietary software.

Results of operations of the CENIT Group (in accordance with IFRS)

Breakdown of sales by product/income type

in EUR k	2018	2017
CENIT software	15,449	17,559
Third-party software	104,299	82,362
CENIT consulting and service	49,776	51,618
Merchandise	466	162
Total	**169,990**	**151,701**

Breakdown of sales by business segment

in EUR k	2018	2017
EIM sales	15,853	19,051
PLM sales	154,137	132,651
Total	**169,990**	**151,702**

53.7% (prior year: 61.1%) of sales was generated in Germany, 38.6% (prior year: 28.0%) in other EU countries and 7.7% (prior year: 10.9%) in other countries.

In the fiscal year 2018, the CENIT Group recorded revenue of EUR 169,990 k (prior year: EUR 151,701 k or 12.1%). Revenue from CENIT consulting and services declined. Sales with third-party software rose by 26.6%. At EUR 15,449 k compared with EUR 17,559 k in the prior year, sales with CENIT's own software were down (by 12.0%). It was chiefly the software products FASTSUITE and CENITCONNECT in the area of PLM and IBM ECM System Monitor as well as ECLISO in the area of EIM that were marketed to the end customers.

Sales were improved considerably by 16% in the PLM segment. This increase is attributable to the acquisition of the KEONYS Group in France, which was completed as of 30 June 2017. That group contributed to revenue for the full twelve months for the first time in 2018. In particular sales with third-party software were expanded on the back of the acquisition.

The EIM segment proved once again in 2018 that a focus on profitability is being implemented in a sustainable manner. EBIT increased at a rate of 1.2% year on year. This was accompanied by a 16.8% decline in sales.

KPIs relating to the development of earnings

Gross profit (operating performance less cost of materials) totaled EUR 87,632 k (prior year: EUR 83,839 k), thus increasing by 4.5%. Gross profit margin as a percentage of operating performance declined from 54.7% to 51.0% on account of the larger share of third-party software. Personnel expenses rose year on year by EUR 5,511 k or 10.4% due to the increased headcount from the KEONYS transaction. Performance-based pay edged up to EUR 4,132 k (prior year: EUR 4,076 k). CENIT achieved EBITDA of EUR 11,947 k (prior year: EUR 15,269 k or -21.8%) and

EBIT of EUR 9,028 k (prior year: EUR 12,836 k or -29.7%). As a percentage of operating performance, the EBITDA margin slipped from 10.0% to 7.0%.

in EUR/share	2018	2017
EPS	0.73	1.07

Earnings per share (EPS) were down in a year-on-year comparison from EUR 1.07/share to EUR 0.73/share.

Development of orders

Order intake in the CENIT Group amounted to EUR 177,902 k in the past fiscal year 2018 (prior year: EUR 161,955 k). The order backlog as of 31 December 2018 amounted to EUR 53,389 k (prior year: EUR 45,477 k).

Results of operations in CENIT's separate financial statements

(in accordance with HGB)

Breakdown of sales by product/income type

in EUR k	2018	2017
CENIT software	13,643	15,357
Third-party software	44,052	43,933
CENIT consulting and service	35,411	37,916
Merchandise	438	138
Other revenue	264	383
Total	**93,808**	**97,727**

CENIT AG generated revenue of EUR 93,808 k in the fiscal year 2018 (prior year: EUR 97,727 k). Consulting and service experienced a year-on-year decline of 6.6% on account of focusing on higher-end services. The share of sales with third-party software amounted to EUR 44,052 k (prior year: EUR 43,933 k), while sales of CENIT's own software decreased by -11.2% to EUR 13,643 k (prior year: EUR 15,357 k).

Breakdown of sales by business segment

in EUR k	2018	2017
EIM sales	13,652	16,983
PLM sales	80,156	80,744
Total	**93,808**	**97,727**

KPIs relating to the development of earnings at CENIT AG

in EUR k	2018	2017
Gross profit	54,292	56,950
EBITDA	6,036	7,794
EBIT	4,605	6,464
Total financial result	2,480	6,577
Net income for the year	**5,449**	**10,716**

The Company's gross profit amounted to EUR 54,292 k in 2018 (prior year: EUR 56,950 k). The gross profit margin in relation to total performance stood at 57.5% (prior year: 57.8%).

CENIT AG achieved EBITDA of EUR 6,036 k after a figure of EUR 7,794 k in 2017 (down 22.6%). The EBITDA margin in 2018 is 6.7%. EBIT stood at EUR 4,605 k compared to EUR 6,464 k in the prior year (down 28.8%). Amortization of intangible assets and depreciation of property, plant and equipment rose marginally by EUR 101 k to EUR 1,431 k.

In a year-on-year comparison, personnel expenses fell in 2018 by EUR -235 k (down 0.6%). There was a minimal drop in average headcount from 485 to 484 in a year-on-year comparison.

The financial result contains distributions of the subsidiaries in the USA amounting to EUR 1,786 k (prior year: EUR 4,912 k), in Romania amounting to EUR 421 k (prior year: EUR 340 k) and of Coristo amounting to EUR 153 k (prior year: EUR 153 k). The subsidiary in Switzerland did not distribute any dividend in the 2018 fiscal year (prior year: EUR 1,185 k).

Development of orders

Order intake at CENIT AG amounted to EUR 98,671 k in the past fiscal year 2018 (prior year: EUR 103,883 k). As of 31 December 2018, the order backlog at CENIT AG amounted to EUR 38,340 k (prior year: EUR 33,025 k).

Financial position of the CENIT Group (IFRS)

The Group still has a comfortable level of cash and cash equivalents. Credit lines of EUR 2,382 k granted are not being utilized on the balance sheet date. The amount of cash and cash equivalents that is temporarily not required to finance operations is invested on a short-term and sometimes also on a medium-term basis with an adequate risk/return ratio. All of the capital expenditure in non-current assets was financed without external funding in the reporting year. The strong financial position allows financing to come from company funds on a long-term basis.

KPIs from the statement of cash flows in the Group

in EUR k	2018	2017
Cash flow from operating activities	9,617	3,917
Capex (investments)	-3,826	-7,744
Free cash flow*	5,791	-3,827
Free cash flow per share in EUR	0.69	-0.46
Cash flow from financing activities	-8,515	-8,515
Cash and cash equivalents as of the balance sheet date	18,038	20,540

*operating cash flow less capex

The cash flow from operating activities increased on the prior year. This was mainly attributable to the decrease in receivables. The net cash used for investing activities dropped from EUR 7,744 k to EUR 3,826 k. The prior-year figure was burdened by the acquisition of shares in fully consolidated entities. Cash and cash equivalents at the end of the reporting period thus total EUR 18,038 k, decreasing by a total of EUR 2,502 k compared to the previous year.

Securing liquidity

Any liquidity surplus is used in a targeted manner for the financing of projects, software developments, investments and the expansion of local companies.

Both CENIT AG and its group entities were always able to meet their payment obligations in the fiscal year 2018.

Financial position of CENIT AG (in accordance with HGB)

The liquidity as of the balance sheet date fell from EUR 15,072 k in the prior year to EUR 8,071 k in the past fiscal year. The drop in cash and cash equivalents stems firstly from the cash outflow of EUR 2,000 k from the cash outflow from the acquisition of shares in DELTA Management Beratung GmbH and secondly mainly from the dividend of EUR 1,00 per share passed at the last General Meeting of Shareholders. This led to a cash outflow of EUR 8,368 k.

Proposed dividend

The Management Board and Supervisory Board will propose to the General Meeting of Shareholders on 24 May 2019 that a dividend of EUR 0.60 per share be distributed from the retained earnings of CENIT AG of EUR 7,823 k. The Group continues to assume that the economic development will be stable in the coming months. Experience has shown that it makes sense to secure liquidity for the long term and to maintain financial independence in times of crisis. Ultimately, CENIT’s strong financial position also constitutes a decisive competitive advantage in the awarding of contracts, in that it lends the necessary security to customers’ investment projects, also with a view to the services and software products of the CENIT Group. The other existing cash and cash equivalents should enable CENIT to continue to participate in the growth of the target markets going forward – in the interest of the Group and its shareholders and to the extent that this appears sensible. This includes, for example, measures to expand service and software activities. Interesting acquisitions will therefore be viewed and examined on a continuous basis. But the further technological expansion in terms of new areas and software development also requires capital.

Consequently, the financial strategy remains geared to maintaining a strong credit rating in the long term that does, however, also take into account the interests of the shareholders in receiving a dividend.

Net assets of the CENIT Group (in accordance with IFRS)

in EUR k	2018	2017
Non-current assets	19,584	18,504
Current assets	59,491	68,760
Total assets	**79,075**	**87,264**
Equity ratio	49.4%	46.8%
Equity	39,102	40,855
Non-current liabilities	3,227	4,430
Current liabilities	36,746	41,979
Total assets	**79,075**	**87,264**

As of the balance sheet date, equity came to EUR 39,102 k (prior year: EUR 40,855 k). The equity ratio stands at 49.4% (prior year: 46.8%). Bank balances and cash and cash equivalents totaled EUR 18,041 k as of the balance sheet date (prior year: EUR 23,692 k). There are also overdrafts of EUR 3 k (prior year: EUR 3,152 k). There are still sufficient overdraft facilities amounting to EUR 2,382 k.

Net assets in CENIT's separate financial statements (in accordance with HGB)

in EUR k	2018	2017
Fixed assets	14,707	13,165
Inventories and receivables and other assets	23,913	22,903
Cash and cash equivalents	8,071	15,072
Prepaid expenses	2,844	4,095
Total assets	**49,535**	**55,235**
Equity ratio	63.7%	62.4%
Equity	31,538	34,457
Provisions	5,085	7,332
Liabilities	6,991	6,938
Deferred income	5,920	6,508
Total equity and liabilities	**49,535**	**55,235**

As of the balance sheet date, equity came to EUR 31,538 k (prior year: EUR 34,457 k). The equity ratio stands at 63.7% (prior year: 62.4%). Cash and cash equivalents totaled EUR 8,071 k as of the balance sheet date (prior year: EUR 15,072 k). In addition to the cash and cash equivalents, the Company still has sufficient overdraft facilities amounting to EUR 1,932 k. At EUR 2,303 k (prior year: EUR 3,195 k), trade payables are in line with business development, as are prepaid expenses and deferred income. The rise in fixed assets is mostly attributable to the acquisition of the equity investment in DELTA Management Beratung GmbH.

This financial independence constitutes a future competitive advantage for CENIT AG and guarantees customers the necessary investment security.

Financial and non-financial performance indicators

Financial performance indicators

As already presented in the Control system section, the financial performance indicators are sales, profit contribution and earnings before interest and taxes (EBIT).

Capital expenditures

Capital expenditure on property, plant and equipment generally plays a lesser role at CENIT. It mainly involves investments in the furniture and fixtures of the sales branches and the administrative headquarters. Of these, most investments were replacement investments in the technical infrastructure.

In the CENIT Group (IFRS)

Capital expenditure on property, plant and equipment and intangible assets amounted to EUR 1,626 k in 2018 (prior year: EUR 12,594 k). Amortization of intangible assets and depreciation of property, plant and equipment came to EUR 2,919 k (prior year: EUR 2,433 k).

Investments break down by segment as follows:

Investments by business segment in the Group

in EUR k	2018	2017
EIM	161	200
PLM	1,465	12,394
Total	**1,626**	**12,594**

In CENIT AG, Germany (HGB)

Capital expenditure on property, plant and equipment and intangible assets amounted to EUR 914 k in 2018 (prior year: EUR 1,219 k). Amortization of intangible assets and depreciation of property, plant and equipment came to EUR 1,431 k (prior year: EUR 1,330 k).

Investments (in intangible assets and property, plant and equipment) break down by segment as follows:

in EUR k	2018	2017
EIM	140	195
PLM	774	1,024
Total	**914**	**1,219**

Investments were financed in full by the cash flow from operating activities.

Financial assets noted a EUR 2,500 k increase stemming from the equity investment in DELTA Management Beratung GmbH. Financial assets were reduced by the purchase price adjustments of KEONYS SAS amounting to EUR 103 k and of Coristo GmbH amounting to EUR 306 k.

Foreign exchange management

The high level of volatility on the foreign exchange markets and the resulting uncertainty surrounding exchange rate developments also have an influence on CENIT. Among others, the business activities of the CENIT Group also generate cash in US dollars (USD), Swiss francs (CHF), Romanian leu (RON) and Japanese yen (JPY). CENIT is thus exposed to a certain currency risk. Risk management monitors and assesses the respective foreign exchange fluctuations and ensures hedging on a timely basis as needed.

Procurement and purchasing policy

CENIT trusts its partners and suppliers and expects fair and long-term cooperation. Performance, counterperformance and risks are appropriately balanced. Partners and suppliers are expected to participate in recognizing potential for reducing costs. CENIT thus applies a purchasing policy that is precisely tailored to the specific requirements of each project.

CENIT's procurement staff members have a wealth of experience in the provision of goods and services for all customer projects. The Group works with reputable partners in procurement that are either market or industry leaders in their product area. Currency risks from procurement in the CENIT Group occur when goods and services are procured in a currency other than the functional currency of the respective company. We minimize this risk by concluding corresponding purchase and sales agreements in the same currency. Our purchasers try to prevent this risk through their purchasing policy. Since procurement focuses primarily on the euro-zone, foreign exchange risks are negligible at CENIT AG, Germany. The cost of goods and services came to EUR 84,238 k in the CENIT Group in 2018 (prior year: EUR 69,325 k) and to EUR 40,053 k (prior year: EUR 41,556 k) at CENIT AG, Germany. At EUR 30 k (prior year: EUR 87 k) in the CENIT Group as of year end, the inventory value and the amount of capital tied up as a result is kept at a low level thanks to project-based procurement.

Quality assurance

The success of CENIT hinges primarily on meeting customer requirements. In the field of business process consulting, we want to win customers with high-quality and economical solutions. By carrying out operating activities for the customer or at the customer, we want to raise the efficiency of the processes assumed.

The motivation of each and every employee lies in exceeding customer objectives. To achieve this, CENIT has designed its own processes to meet these requirements. To this end, CENIT has drafted and enforced key process descriptions applicable to the entire Group. All employees are instructed to implement these processes and to improve them constantly by means of specified methodical procedures.

Continuous monitoring and improvement thus forms an important component of the quality management system. This ongoing process allows potential for improvement to be identified, evaluated and implemented.

Quality management is headed up by a member of the Management Board. This ensures that the Management Board has direct influence and control over the Group's quality management system and that any management errors can be detected and corrected immediately.

CENIT has documented quality management rules in a management manual. It takes account of the ISO 9001:2015 standard.

The Management Board defines the corporate policies, strategy and objectives while ensuring awareness and implementation at all levels of the Group. Furthermore, the Management Board defines the organization and areas of responsibility and provides the necessary financial and human resources.

Each year, management specifies detailed targets for the next year – as well as a five-year plan as a guideline.

The annual targets are then broken down at the level of the individual employees.

The Management Board examines regularly – but at least once a year – whether the agreed targets have been met or whether they have been missed or exceeded, and whether the process descriptions, laws and standards have been complied with.

Compliance with the requirements of ISO 9001:2015 is assessed annually, both by internal audits and by an independent external certification body.

Information safety

To ensure compliance with legal, official and contractual requirements and to safeguard the protection of customer information and CENIT's own information, an information safety management system was installed based on ISO/IEC 27001:2013. ISO 27001 is an internationally recognized standard and involves a systematic process-based approach for implementing an information safety management system that takes into account both the technology and the employees while at the same time establishing a continuous monitoring and optimization process.

The information safety management system is thus a combination of a management system and specific measures, such as physical and personnel safety, the security of IT operations as well as physical and virtual access protection.

The employees are informed of current company developments at information events that take place at regular intervals. The information required for day-to-day business is either communicated at regular meetings or during individual meetings. Open communication that is based on dialog is valued.

Compliance with the requirements of ISO/IEC 27001:2013 is assessed annually, both by internal audits and by an independent external certification body.

Employees

Breakdown of employees by local companies:

	31 Dec. 2018	31 Dec. 2017
CENIT AG	489	484
Coristo	7	6
SynOpt	4	3
CENIT NA	37	39
CENIT CH	19	18
CENIT F	20	21
CENIT RO	45	43
CENIT J	8	6
KEONYS F	112	128
KEONYS BE	9	9
KEONYS NL	7	7
CENIT Group	**757**	**764**

Employees

The Group's total headcount as of 31 December 2018 stood at 757 (prior year: 764). CENIT AG, Germany, had 489 employees as of 31 December 2018 (prior year: 484). The majority of those employees have third-level qualifications. Employee turnover stood at around 9% (prior year: 8%). The Group continues to record a very low number of sick days. The average length of service was ten years with an average age of 43.5.

Again in 2018, the Management Board and Supervisory Board continued to speak out in favor of qualifications being the decisive criterion for appointing a Supervisory Board member, a Management Board member or for hiring or appointing executives. The Supervisory Board defined a target share of women of at least 0% for appointments to the Supervisory Board or Management Board. A percentage of women of 10% was achieved in filling executive positions (prior year: 8%).

Personnel expenses in the reporting period came to EUR 58,571 k in the CENIT Group (prior year: EUR 53,060 k) and to EUR 36,214 k at CENIT AG (prior year: EUR 36,449 k).

One focus area for HR work in 2018 was on recruiting highly qualified staff for CENIT in Germany and around the world and to reduce employee turnover. Alongside standard tools, new ways were also tried out to recruit staff for CENIT. For example, the program incentivizing employees to refer new staff will be a more and more important part of our recruiting efforts in order to win the war for talents. Likewise, we participated in several recruitment events again in 2018 and also organized our own in-house events for students. The employer branding project was continued in 2018 in order to raise the market profile of the CENIT brand.

Vocational training has been one of the strategic investment areas of CENIT AG for many years. The Group considers this to be part of its responsibility to society and is actively involved in making it easier for young people to start their career through qualified training. In 2018, CENIT AG in Germany had trained a total of 52 young people in various professions by the end of the year (prior year: 42). In 2019, 25 apprentices and students from the DHBW (Duale Hochschule Baden-Württemberg – University of Cooperation Education) are to be recruited for CENIT AG. The focus is on technical courses of study, such as computer science, information systems or industrial engineering. In addition, the Group continuously hires working students as well as interns and students completing their Bachelors and Masters degrees.

CENIT's existing employee programs were expanded further in 2018 to continue to establish CENIT as the "best place to work". For example, we have introduced measures such as subsidized travel to work for our employees via a company travel ticket. We want to use this measure to encourage our staff to use public transport to travel to work and thus make an active contribution to protecting the environment.

Another strategic area for HR work alongside the employee programs is employee development. At the end of 2018, the already expansive suite of employee development measures, such as our employee appraisals as a central management instrument, the CENIT Campus as a training program for employees as well as the continuation of the Talents@CENIT and Leaders@CENIT programs was broadened to include another central element, namely Skill and Organizational Development. The primary focus here is on refining methodological skills and on technical training. Numerous employees already took advantage of the advanced training offering in the reporting year, participating in courses and seminars in order to expand their professional qualifications.

Advanced training

CENIT offers a comprehensive advanced training program to broaden the qualifications of its employees and provide them with access to current knowledge and expertise. A large number of employees took advantage of the various advanced training programs and participated in courses and seminars in the reporting year in order to improve their qualifications. These focused on the topics of quality management, project management, certification for products of the strategic software partners and training for executives.

Social responsibility

Social and societal responsibility is an important matter for the Management Board, executives and employees of CENIT and is actively supported. In order to extend the Group's social involvement, which itself has a long tradition, on a long-term basis and to anchor it as a fixed part of CENIT's corporate culture, the Group launched the initiative "CENIT Cares" in November 2013. As part of the initiative, CENIT and its employees have since provided financial support or specific hands-on assistance to community projects.

Remuneration system / Profit sharing

Apart from performance-based career opportunities and assumption of responsibility at an early stage, CENIT offers its employees an attractive remuneration policy. Remuneration comprises a fixed salary, which is governed by individual employment agreements, and remuneration components in amounts based on EBIT and on other quantitative and qualitative targets.

The remuneration system for the Management Board of CENIT AG comprises a performance-based component and a component that is independent of performance. The performance-based part is based on the Group's earnings for the year.

Pursuant to the articles of incorporation and bylaws, the Supervisory Board receives fixed compensation. Each member of the Supervisory Board receives a fixed amount of EUR 15,000 payable after the end of the fiscal year. The chairperson of the Supervisory Board receives twice that amount, while the deputy chairperson receives one and a half times that amount.

Forecast for 2019

The German economy is forecast to grow by approximately 1.0% in 2019. According to BITKOM, the ITC industry itself is somewhat more optimistic about 2019 and expects IT growth to amount to roughly 1.5%.

Based on these expectations, the picture for CENIT is as follows:

Expected results of operations

CENIT has a solid basis with an equity ratio in the Group of almost 50%. This allows CENIT to be a strong and reliable partner to its customers.

In the CENIT Group, the planning for the fiscal year 2019 assumes sales growth at the prior-year level of around EUR 170,000 k. The changed product mix is expected to yield EBIT of EUR 10,000 k (+16%).

For CENIT AG, the year 2019 is expected to yield a marginal sales increase of 1%. EBIT is to rise to somewhere in the region of EUR 5,500 k in line with the Group.

The Company is using its own products and solutions to cover a market that is currently very significant. Developments have to be implemented more and more quickly, and existing processes have to be optimized on a constant basis. This is exactly where CENIT AG supports its customers. CENIT's products are competitive and are subject to constant further development. CENIT will step up capital expenditure on software development once again in 2019. The employees of CENIT are competent and possess a high level of technical understanding as well as excellent industry knowledge. With their know-how and their customer gearing, they are essential for the success of the Group.

As was already the case in 2018, 2019 will also see a special focus on further alignment in software development. In order to be competitive on this market in the long term, it is essential to act innovatively and to integrate new technologies in development.

In this way, the Company wants to raise its share of its own software in earnings in the long term. The cooperation with the partners Dassault Systèmes, IBM and SAP will be continued on a lasting basis in order to position the Group as a long-term strategic partner.

Employees

The personnel expenses will be adjusted in accordance with growth. In 2019, the Group will continue to search for more skilled staff for various areas. CENIT has been successfully training apprentices for years, and training young people is still very important to the Company. Education and training is a component of the long-term personnel policy and the social responsibility towards the young people in our country.

Expected financial position and liquidity

We consider CENIT's liquidity to be very healthy, both in the separate financial statements and at group level. The Group's financial situation gives it a competitive edge in tenders and the awarding of projects. It gives CENIT's customers the security they require for their investment decisions.

The CENIT Group's financing is on a secure basis. The finance policy has been managed conservatively for years now, and this is reflected in the continued strong and long-term credit rating as well as the short-term and medium-term provision of sufficient liquidity for a positive development of the Group. The investments in property, plant and equipment and intangible assets in 2019 will be at a similar level to 2018. They will be funded by cash flow from operating activities.

The liquidity lost by paying a dividend can be funded from existing cash and cash equivalents and from the expected cash flow from operating activities in 2019.

Risks/opportunities report

Risks/Opportunities management

With a group-wide opportunities and risk management system, the Group identifies any opportunities and risks at an early stage in order to assess them correctly and limit them or use them to the extent possible. CENIT observes the risks continuously in order to always assess the probable overall status on a systematic and timely basis and to better judge the effectiveness of corresponding countermeasures. In doing so, the Group takes into account operational risks as well as financial, economic and market-related risks. Opportunities result from the complementary view of the operational and functional risk structure in all risk areas.

CENIT makes appropriate provision at an early stage for all recognizable and accountable risks. Currency risks and default risks are monitored systematically on the basis of guidelines that set out the fundamental strategy, the rules on the structure and organization of procedures and competence rulings.

The Management Board of CENIT AG has installed a systematic risk management system. Operational risk management encompasses early warning, risk communication and the sustainability of risk control. Risk reporting means that the managers responsible for the business units inform the Management Board continuously of the current risk situation. Moreover, risks that occur suddenly and risks with implications for the Group as a whole are communicated directly to the risk managers responsible at CENIT in urgent cases, bypassing normal reporting channels. In accordance with the statutory provisions, the Management Board and the Supervisory Board of CENIT AG are informed in detail of the risk situation of the business divisions. These reports are supplemented with up-to-date notices as soon as risks change or no longer exist or if new risks emerge. This ensures a continuous flow of information to the Management Board and the Supervisory Board. Compliance with the risk management system by the group companies and their risk management is reviewed using continuous internal quality inspections. The findings obtained in this manner are used for the further improvement of the early detection and controlling of risk.

We consider CENIT to be well positioned in its target markets. The Company has a strong market position in Product Lifecycle Management (PLM) and in Enterprise Information Management (EIM) with regard to medium-sized and larger customers. CENIT makes consistent use of these opportunities to secure its market position. The Group's own software helps in particular in this regard, as it gives CENIT a unique selling proposition in relation to its competitors and increases customer loyalty. Existing opportunities are exploited to the full when the opportunities to create corresponding added value outweigh any risk. The Group implements this concept by regularly and continuously identifying, assessing and monitoring opportunities and risks in all material business transactions and processes. The functioning of the system is examined at regular intervals. A risk inventory is also carried out regularly. The annual risk reporting documents and assesses the risks identified. An ad hoc risk report is also available to ensure that action can be taken rapidly and informally. A detailed report on the status of the material risks to be monitored documents the assessment, the action taken and planned as well as the persons responsible.

The Management Board examines the classified risks together with the department heads and the employees responsible in that business unit. The Supervisory Board is also informed regularly of the risk situation.

Thanks to the excellent capital gearing and available liquidity, the focus is on the acquisition of new technologies for extending and supplementing the Group's own software portfolio. CENIT regularly assesses the opportunities that the market offers in order to take appropriate action in this regard.

There is additional potential to increase the share of CENIT software further by continuing to extend international market coverage, e.g. through local sales partners.

To strengthen the competencies and the commitment of its executives, CENIT will continue to position itself as an attractive employer and strive to keep the executives in the Group for the long term. The elements of consistent management development include in particular creating opportunities, support and advice geared towards specific target groups, early identification and promotion of high-potential staff as well as attractive incentive systems for executives. CENIT employs specialists with several years of professional experience in all of its business units.

Risk monitoring

Risk monitoring is the task of decentralized and centralized risk management. To do this, the decentralized risk manager defines early warning indicators for the critical success factors. The task of centralized risk management is to monitor the defined early warning indicators. As soon as the specified thresholds are met, a risk report is prepared by the decentralized risk manager, i.e. a forecast of the expected impact on CENIT if the risk occurs. Ideally these forecasts are supplemented with scenario analyses that take into account different constellations of data. Using this information and the measures proposed by the decentralized risk managers and the central risk management system, the Management Board decides whether and to what extent measures should be taken to mitigate the risk or whether it is perhaps necessary to adjust the corporate objectives. Tracking the early warning indicators and monitoring the corresponding threshold values as well as carrying out the scenario analyses is the responsibility of decentralized risk management.

Finally, it should be noted that the Company and the Group use numerous management and control systems that are continually refined to measure, monitor and control risks. These include a uniform group-wide strategy, planning and budgeting process dealing mainly with opportunities and risks from operations. The risks identified and the risk management measures defined within the strategy, planning and budgeting process are monitored. Tracking and mitigating risks pays off, for example in the change request process for certainty as regards deadlines and technical risks. With large projects in particular, the certainty that the contract will be continued is checked.

Further growth and, in turn, lasting economic success are affected not just by the economic risks on global markets, but to a large extent also by the successful marketing of CENIT solutions and consultancy services as well as of the IT services. Among other things, this is to be achieved by expanding the Group's own sales and consultancy know-how and by entering into strategic partnerships. Two thirds of the customers come from the manufacturing industry. Fluctuations in the business cycle in the manufacturing industry can, in some cases, have an impact on the business situation. The Company has concluded insurance policies to cover potential cases of damage and liability risks and to ensure that the financial consequences of any potential risks are limited. The scope of these policies is regularly reviewed and adjusted if required. With respect to the necessary IT security, CENIT has also made extensive risk provision and continually develops this further.

Opportunities / risks relating to future development

A review of the current risk situation has shown that there were no risks in the reporting period that jeopardized the continued existence of the Group as a going concern and that no such risks are foreseeable at present for the future. All recognized risks were taken into account appropriately in the financial and consolidated financial statements, and provisions were created as necessary. Furthermore, as of the balance sheet date there are no other risks that could have a material impact on the net assets, financial position or results of operations. The risk management and early warning system makes transparent corporate governance and early detection of risks possible. Due to the fact that most purchase and sales contracts are denominated in euro and in light of the current financing structure, no use has currently been made of derivative financial instruments to hedge currency risks.

An overall analysis of risk shows that CENIT is primarily exposed to market risks. These mainly include price and quantity developments linked to the business cycle, dependence on the development of key accounts or important industries and dependence on strategic suppliers. There is also a risk in specializing with technology partners and the related dependence on their business development.

There is an opportunity to optimize the daily rates achievable by means of a high-quality service. This can only be implemented based on the sustained good level of training for our employees.

By raising its profile on the labor market in a contemporary manner, CENIT takes advantage of the opportunities on offer to recruit high-quality specialist staff.

There are significant market opportunities for CENIT in connection with the unique selling proposition that is offered by the long-term focus on its own software and the related services.

Alongside the risks described, ever-shorter innovation cycles open up the possibility to progress with the digitalization of our society and offer our business customers solutions with our own software products that will make them more competitive. Consequently, our activities relating to innovation and product development are decisive when they involve recognizing and using opportunities and establishing them in the face of increasing competition. To safeguard this and to respond to the growing convergence of networks and IT, we have combined the functions of technology, innovation and IT in our new Technology and Innovation division.

Internal control and risk management system in relation to the accounting and group financial reporting process, Sec. 315 (4) HGB (CENIT AG: Sec. 289 (4) HGB)

The main features of the internal control system and the risk management system in place at CENIT in relation to the accounting respectively group financial reporting process can be described as follows:

There is a clear management and corporate structure at CENIT AG and in the other group companies. The functions of the main areas in terms of the accounting respectively group financial reporting process, namely accounting and taxes, consolidation and controlling as well as investor relations, are clearly separated. The areas of responsibility are clearly allocated.

The financial systems used are protected from unauthorized access by corresponding IT systems. Standard software is used in the finance area in as far as possible. An appropriate system of guidelines ensures uniform treatment within the Company/Group and is constantly updated.

The departments and areas involved in the accounting respectively group financial reporting process are suitably equipped from both a quantitative and a qualitative perspective. Accounting data received or passed on are checked constantly for completeness and accuracy, e.g. by means of spot checks. The software used carries out automatic plausibility checks.

The principle of dual control is complied with for all accounting-related processes. In terms of the propriety and reliability of the internal accounting and external financial reporting, the corresponding supervisory committees (Supervisory Board) are in place.

The internal control and risk management system in relation to the accounting respectively group financial reporting process, the main features of which were described above, ensures that company matters are always recorded, compiled and evaluated correctly and transferred to the accounting and financial reporting. Appropriate personnel capacities, the use of suitable software and clear statutory as well as internal company regulations provide the basis for an orderly, uniform and consistent accounting respectively financial reporting process. The clear demarcation of the areas of responsibility as well as various control and monitoring mechanisms ensure specific and responsible accounting. In detail, this ensures that business transactions are recorded, processed and documented in accordance with the statutory provisions, the articles of incorporation and bylaws as well as internal guidelines and that they are recorded correctly for accounting purposes and on a timely basis. At the same time, it ensures that assets and liabilities are disclosed, recognized and valued accurately in the annual and consolidated financial statements and that reliable and relevant information is provided in full and on a timely basis.

Disclosures pursuant to the ÜbernRLUG [“Übernahmerichtlinie-Umsetzungsgesetz”: German Takeover Directive Implementation Act]

Sec. 315a (1) No. 1 HGB (CENIT AG: Sec. 289a (1) No. 1 HGB)

As per the most recent entry in the commercial register on 14 August 2006, the capital stock of the Company amounts to EUR 8,367,758.00 and has been fully paid in. It is divided into 8,367,758 no-par value shares of EUR 1.00 each. The shares are made out to the bearer and are all no-par value common shares. The rights and duties relating to possession of the common shares stem from the AktG.

Sec. 315a (1) No. 6 HGB (CENIT AG: Sec. 289a (1) No. 6 HGB)

The appointment and dismissal of Management Board members is regulated in Sec. 84 AktG. Furthermore, Article 7 Nos. 1 and 2 of the articles of incorporation and bylaws states that the Supervisory Board appoints the Management Board members and determines the number of Management Board members. Pursuant to Article 7 No. 1 of the articles of incorporation and bylaws, the Management Board comprises at least two persons.

The provisions to amend the articles of incorporation and bylaws are regulated in Secs. 133, 179 AktG. Additionally, Article 21 No. 1 of the articles of incorporation and bylaws states that resolutions of the General Meeting of Shareholders require a simple majority of the votes cast and, where required, the simple controlling interest, unless legal regulations or the articles of incorporation and bylaws prescribe otherwise. The Supervisory Board is entitled pursuant to Article 16 of the articles of incorporation and bylaws to make amendments to the articles of incorporation and bylaws that only affect the version.

Other notes

Secs. 289f, 315d HGB – Corporate governance statement

The Management Board and Supervisory Board of the Company have issued the corporate governance statement for 2018 prescribed by Sec. 289f resp. 315d HGB and have made it available on the homepage at: http://www.CENIT.com/en_EN/investor-relations/corporate-governance.html.

Sec. 315c HGB – Non-financial group statement

The Management Board will prepare the non-financial group statement prescribed by Sec. 315b HGB and will make it available permanently on the homepage by 30 April 2019 at: http://www.CENIT.com/en_EN/investor-relations/corporate-governance.html.

Stuttgart, 15 March 2019

CENIT Aktiengesellschaft
The Management Board

Kurt Bengel	Matthias Schmidt
Spokesman, Management Board	Member, Management Board

GROUP FINANCIAL STATEMENT

CENIT Aktiengesellschaft, Stuttgart
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (in accordance with IFRS)

in EUR k		31 Dec. 2018	31 Dec. 2017
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	F1	13,518	14,839
Property, plant and equipment	F2	2,653	2,711
Investments in joint ventures	F3	60	60
Other financial assets	F3	2,500	0
Deferred tax assets	F4	853	894
NON-CURRENT ASSETS		**19,584**	**18,504**
CURRENT ASSETS			
Inventories	F5	30	87
Trade receivables	F6	24,989	28,551
Receivables from joint ventures	F6	5,026	2,975
Current tax assets	F9	2,315	1,729
Other receivables	F7	891	2,384
Cash and cash equivalents	F10	18,041	23,692
Prepaid expenses	F11	8,199	9,342
CURRENT ASSETS		**59,491**	**68,760**
TOTAL ASSETS		**79,075**	**87,264**

CENIT Aktiengesellschaft, Stuttgart CONSOLIDATED STATEMENT OF FINANCIAL POSITION (in accordance with IFRS)			
in EUR k		**31 Dec. 2018**	**31 Dec. 2017**
EQUITY AND LIABILITIES			
EQUITY			
Subscribed capital	F12	8,368	8,368
Capital reserves	F12	1,058	1,058
Currency translation reserve	F12	1,009	801
Legal reserve	F12	418	418
Other revenue reserves	F12	13,663	13,242
Profit carryforward	F12	7,361	6,926
Net income of the Group for the year	F12	5,948	8,803
Equity attributable to shareholders of the parent company		**37,825**	**39,616**
Non-controlling interests		1,277	1,239
TOTAL EQUITY		**39,102**	**40,855**
NON-CURRENT LIABILITIES			
Other liabilities	F15	2,950	3,842
Deferred tax liabilities	F4	277	588
NON-CURRENT LIABILITIES		**3,227**	**4,430**
CURRENT LIABILITIES			
Overdrafts	F10	3	3,152
Trade payables	F14	7,922	7,922
Liabilities to joint ventures	F14	44	35
Other liabilities	F15	14,058	17,059
Current income tax liabilities	F13	789	460
Other provisions	F13	137	192
Deferred income	F16	13,793	13,159
CURRENT LIABILITIES		**36,746**	**41,979**
TOTAL EQUITY AND LIABILITIES		**79,075**	**87,264**

CENIT Aktiengesellschaft, Stuttgart
CONSOLIDATED INCOME STATEMENT (in accordance with IFRS)

in EUR k			**2018**	**2017**
1. **REVENUE**	**E1**		**169,990**	**151,701**
Total operating performance			**169,990**	**151,701**
2. Other income	E3		1,880	1,463
Operating performance			**171,870**	**153,164**
3. Cost of materials	E4	84,238		69,325
4. Personnel expenses	E5	58,571		53,060
5. Amortization of intangible assets and depreciation of property, plant and equipment	F1+F2	2,919		2,433
6. Other expenses	E7	17,114		15,510
			162,842	140,328
NET OPERATING INCOME (EBIT)			**9,028**	**12,836**
7. Other interest and similar income	E8	0		4
8. Interest and similar expenses	E8	71		166
9. Profit share of joint ventures accounted for using the equity method	E8	0		0
			-71	-162
NET PROFIT OR LOSS FOR THE PERIOD BEFORE TAXES (EBT)			**8,957**	**12,674**
10. Income taxes	E9		2,828	3,686
NET INCOME OF THE GROUP FOR THE YEAR			**6,129**	**8,988**
thereof attributable to the shareholders of CENIT			5,948	8.803
thereof attributable to non-controlling interests			181	185
Earnings per share in EUR				
basic	E10		0.73	1.07
diluted	E10		0.73	1.07

CENIT Aktiengesellschaft, Stuttgart CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (in accordance with IFRS)			
in EUR k		2018	2017
Group net income for the year		**6,129**	**8,988**
Other comprehensive income			
Items that will be reclassified to the income statement in the future under certain circumstances			
Currency translation reserve of foreign subsidiaries	208		-478
Items that will not be reclassified to the income statement in the future			
Actuarial gains/losses from defined benefit obligations and similar obligations	561		198
Deferred taxes recognized on other comprehensive income	-136		-45
Other comprehensive income after tax		**633**	**-325**
Total comprehensive income		**6,762**	**8,663**
thereof attributable to the shareholders of CENIT		6,577	8,478
thereof attributable to non-controlling interests		185	185

CENIT Aktiengesellschaft, Stuttgart
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (in accordance with IFRS)

	Equity attributable to shareholders of the parent company								
in EUR k	Subscri-bed capital	Capital reserves	Currency translation reserve	Revenue reserves		Profit carry-forward	Net income of the Group for the year	Non-controlling interests	Total
				Legal reserve	Other reserves				
As of 31 December 2016	**8,368**	**1,058**	**1,279**	**418**	**13,099**	**7,213**	**8,080**	**1,063**	**40,578**
Reclassification of net income of the Group from prior year						8,080	-8,080	0	0
Total comprehensive income			-478		153		8,803	185	8,663
Acquisition of a subsidiary								128	128
Purchase of additional shares by minority interests					-10			10	0
Dividend distribution						-8,368		-147	-8,515
As of 31 December 2017	**8,368**	**1,058**	**801**	**418**	**13,242**	**6,926**	**8,803**	**1,239**	**40,855**
Reclassification of net income of the Group from prior year						8,803	-8,803	0	0
Total comprehensive income			208		421		5,948	185	6,762
Dividend distribution						-8,368		-147	-8,515
As of 31 December 2018	**8,368**	**1,058**	**1,009**	**418**	**13,663**	**7,361**	**5,948**	**1,277**	**39,102**

CENIT Aktiengesellschaft, Stuttgart
CONSOLIDATED STATEMENT OF CASH FLOWS (in accordance with IFRS)

in EUR k	2018	2017
Cash flow from operating activities		
Earnings before interest and taxes	9,028	12,836
Adjusted for:		
Amortization of intangible assets and depreciation of property, plant and equipment	2,919	2,433
Gains (-) and losses (+) on disposals of assets	94	12
Earnings from joint ventures	0	1
Increase/decrease in other non-current assets and liabilities and provisions	-382	154
Interest paid	-36	-166
Interest received	0	4
Income tax paid	-3,534	-3,268
Cash flow before changes in net working capital	**8,089**	**12,006**
Increase/decrease in trade receivables and other current non-cash assets	4,543	-2,513
Increase/decrease in inventories	58	386
Increase/decrease in current liabilities and provisions	-3,073	-5,962
Net cash flows from operating activities	**9,617**	**3,917**
Cash flow from investing activities		
Purchase of property, plant and equipment and intangible assets	-1,626	-1,554
Purchase of shares in fully consolidated entities (net cash outflow)	-200	-6,197
Purchase of equity investments	-2,000	0
Income from the sale of property, plant and equipment	0	7
Net cash paid for investing activities	**-3,826**	**-7,744**
Cash flow from financing activities		
Dividends paid to shareholders	-8,368	-8,368
Dividends paid to minority interests	-147	-147
Net cash paid for financing activities	**-8,515**	**-8,515**
Net decrease/increase in cash and cash equivalents	**-2,724**	**-12,342**
Change in cash and cash equivalents due to foreign exchange differences	222	-724
Cash and cash equivalents at the beginning of the reporting period	20,540	33,606
Cash and cash equivalents at the end of the reporting period (F10)	**18,038**	**20,540**

See note G. in the notes to the consolidated financial statements for explanations.

Notes to the consolidated financial statements of CENIT AKTIENGESELLSCHAFT for 2018

A Commercial register and purpose of the Group

The parent company of the Group, CENIT Aktiengesellschaft (hereinafter the “Company” or “CENIT”), has its registered offices at Industriestrasse 52 - 54, 70565 Stuttgart, Germany, and is filed in the commercial register of Stuttgart local court, department B, under No. 19117. The shares of CENIT are publicly traded.

The business purpose of the group entities is to provide all types of services in the field of introducing and operating information technology and to sell and market information technology software and systems. With a focus on product lifecycle and document management solutions as well as IT outsourcing, CENIT and its subsidiaries (hereinafter the “CENIT Group”) in the two business units PLM (Product Lifecycle Management) and EIM (Enterprise Information Management) offer tailored consultancy services from a single source. The focus of the CENIT Group is on business process optimization and computer-aided design and development technologies.

B Accounting principles

The consolidated financial statements of CENIT Aktiengesellschaft, Stuttgart, are prepared and published in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB [“Handelsgesetzbuch”: German Commercial Code], and are released by the Management Board to the Supervisory Board for approval. The consolidated financial statements are thus approved for publication. This will take place on 21 March 2019.

The consolidated financial statements are prepared in euro. To aid clarity, all figures are presented in thousands of euro (EUR k) unless otherwise indicated. The end of the reporting period is 31 December of any given year.

For the classification for the statement of financial position, a distinction is made between current and non-current assets and liabilities; in the notes, they are broken down in detail by their term to maturity in some cases. The income statement is classified using the nature of expense method.

The consolidated financial statements have been prepared on the basis of historical cost (acquisition cost principle) apart from financial assets that are held for trading or are classified on initial recognition as financial assets at fair value through profit or loss and are thus measured at fair value.

The annual financial statements of the entities included in the consolidated financial statements have been prepared on the basis of the parent company’s uniform accounting policies as of the end of its reporting period.

Amended or new IFRSs issued by the EU and the resulting presentation, recognition and measurement changes

Compared with the consolidated financial statements as of 31 December 2017, the following standards and interpretations were mandatory for the first time and had material effects on the consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers.

IFRS 15 replaces IAS 11, Construction Contracts, and IAS 18, Revenue, as well as the corresponding interpretations. The standard is effective for the first time for reporting periods beginning on or after 1 January 2018. The objective of the standard is in particular to standardize the existing rules in IFRS on the one hand and the very detailed and partly industry-specific rules in US GAAP on the other hand and thus to improve the transparency and comparability of financial information. In accordance with IFRS 15, revenue is to be recognized when the customer obtains control of the agreed goods or services and can benefit from such control. Unlike under the old rules of IAS 18, Revenue, the transfer of substantially all risks and rewards is no longer authoritative.

Upon first-time application of IFRS 15, CENIT must apply the standard in full to the current reporting period. This also includes the retrospective application to all contracts not yet fulfilled at the beginning of the reporting period. With regard to earlier reporting periods, the transitional provisions provide for two options:

1. Full application of IFRS 15 to earlier reporting periods (with certain limited practical expedients); or
2. Retaining the earlier amounts reported in accordance with the previously applicable standards, and recognizing the cumulative effects from the application of IFRS 15 as an adjustment to the opening balance for equity on the date of initial application (beginning of the current reporting period).

CENIT chose the second option. The transitional effect resulting from first-time application is recognized cumulatively directly in revenue reserves at the beginning of the comparative period on 1 January 2018. Comparative figures from prior-year periods are not restated. Since the date of first-time application, CENIT has only applied the new rules to contracts that were not yet completed by the date of first-time application pursuant to the financial reporting principles at the time. CENIT performed a group-specific analysis of the theoretical basis and requirements as well as an evaluation of all types of contracts.

As a result of this impact analysis, it was found that IFRS 15 does not require the identification of performance obligations that under the applicable rules are not already performance obligations to which revenue is allocated as part of a multiple element arrangement.

At the same time, no performance obligations were identified under the applicable rules that are not also performance obligations under IFRS 15.

The licensing of software does not include any obligations for CENIT in relation to software extensions with improved functionality; as a result, revenue recognition for this income still takes place on the date the software is delivered.

When measuring progress towards complete satisfaction of a performance obligation, CENIT generally uses the input methods. If CENIT's customer contracts include an entitlement to consideration from customers that corresponds directly to the value of the service provided by the Company, sales are recognized at the amount that the Company is permitted to charge.

In relation to the provision of third-party software, CENIT still acts as the principal, since CENIT is responsible for providing the third-party software. CENIT acts as a direct contact partner for the customer and CENIT is also responsible for the correct implementation in the company.

In a small number of cases, CENIT receives sales-based license fees. CENIT recognizes the revenue once the subsequent sale has been made and the performance obligation has been met. Otherwise there are generally no variable purchase price components in the Group.

CENIT does not expect financing components as part of the transaction price and contract costs.

Based on this analysis, CENIT does not have any material effect from the transition to IFRS 15 that would need to be reported in the revenue reserves as of 1 January 2018. The transition to IFRS 15 resulted in changed disclosure of the following items in the statement of financial position as of 1 January 2018:

ASSETS	31 Dec. 2017	Transitional effect	1 Jan. 2018
Trade receivables	28,551	-569	27,982
CURRENT ASSETS	**68,760**	-569	**68,191**
EQUITY AND LIABILITIES			
Other liabilities	17,059	-569	16,490
CURRENT LIABILITIES	**41,979**	**-569**	**41,410**
TOTAL ASSETS/TOTAL EQUITY AND LIABILITIES	**87,264**	**-569**	**86,695**

IFRS 9 Financial Instruments

In July 2014, the IASB published the final version of IFRS 9 Financial Instruments, which replaces all previous versions and thus concludes the project for replacing IAS 39 Financial Instruments. IFRS 9 introduces a standardized approach for classifying and measuring financial assets. It also introduces a new impairment model based on the expected credit losses. In addition, IFRS 9 contains new rules on hedge accounting. The standard provides an option for the date of first-time adoption of IFRS 9 whereby hedging relationships can either be recognized in accordance with the rules in IFRS 9 or continue to be recognized in accordance with the rules in IAS 39. IFRS 9, Financial Instruments, was adopted for the first time as of 1 January 2018. The earnings effects from the first-time application of IFRS 9 are immaterial. This low earnings effect is due to the historically low rates of default on trade receivables. In addition, trade and other receivables do not contain any significant financing component.

The effects from the reclassification were as follows as of 1 January 2018:

Reconciliation of the financial assets in accordance with IAS 39 to IFRS 9 in EUR k						
Measurement category IAS 39	Carrying amount 31 Dec. 2017 (IAS 39)	Reclassification	Effect from the change in measurement category	Effect from impairment model	Carrying amount 1 Jan. 2018 (IFRS 9)	Measurement category (IFRS 9)
Cash and cash equivalents	23,692	0	0	0	23,692	Financial assets measured at amortized cost
Receivables	33,910	0	0	0	33,910	
Thereof:						
• Trade receivables	28,551	0	0	0	28,551	Financial assets measured at amortized cost
• Receivables from a joint venture	2,975	0	0	0	2,975	Financial assets measured at amortized cost
• Other receivables	2,384	0	0	0	2,384	Financial assets measured at amortized cost

There was no impact for financial liabilities.

Compared with the consolidated financial statements as of 31 December 2017, the following standards and interpretations were also mandatory for the first time but did not have any material effects on the consolidated financial statements.

- Amendments to IAS 40: Transfers of Investment Property
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions
- Amendments to IFRS 4: Application of IFRS 9 Financial Instruments together with IFRS 4 Insurance Contracts
- Clarifications to IFRS 15: Revenue from Contracts with Customers
- Annual improvements to IFRS (AIP) – 2014 to 2016 cycle
- IFRIC 22 Foreign Currency Transactions and Advance Consideration

Upcoming IFRS amendments

The following IFRSs adopted by the EU were issued by the end of the reporting period but are not mandatory until later reporting periods. The CENIT Group decided not to early adopt the standards and interpretations that are not mandatory until later reporting periods.

Amendment/Standard	Date of publication	Date of transposition into EU law	Effective date
IFRIC 23 Uncertainty over Income Tax Treatments	7 June 2017	23 October 2018	1 January 2019
Amendments to IFRS 9 Prepayment Features with Negative Compensation	12 October 2017	22 March 2018	1 January 2019
IFRS 16 Leases	13 January 2016	31 October 2017	1 January 2019

IFRS 16 was published by the IASB in January 2016 and replaces IAS 17 and IFRIC 4. For lessees, IFRS 16 removes the previous classification of leases into operating and finance leases. Instead, IFRS 16 introduces a standardized measurement model where lessees are obliged to recognize assets for the right of use and lease liabilities for leases with a term of more than twelve months. This means that lease relationships not recognized in the past will have to be recognized in future – in a manner broadly comparable with the current accounting for finance leases. For all leases, the lessee will recognize in its statement of financial position a lease liability for the obligation to pay future lease payments. At the same time, the lessee will recognize an ROU (right-of-use) asset for the underlying asset that corresponds to the present value of the future lease payments plus directly attributable expenses. Similar to the guidelines on finance leases in IAS 17, the lease liability is adjusted for each remeasurement over the term of the lease, while the ROU asset is written down. Compared to current lease expenses, this leads to higher expenses on the date of concluding the contract.

As part of a contract analysis, the total scope of contracts to be measured in accordance with IFRS 16 was identified, clustered by contract type and classified according to the contractual term. The following contract types were identified and measured:

- Leases for offices and parking spaces
- Leases for passenger cars
- Leases for hardware and software

The practical expedients are used for leased items of low value and for short-term leases (less than twelve months).

In 2018, CENIT has to carry out a detailed impact assessment for IFRS 16. Because the modified retrospective method is used, there are no effects on equity. In conclusion, the effects of the adoption of IFRS 16 are as follows:

In EUR k	
ASSETS	1 January 2019
Property, plant and equipment	16,120
NON-CURRENT ASSETS	16,120
EQUITY AND LIABILITIES	
Lease liabilities	16,120
NON-CURRENT LIABILITIES	16,120
TOTAL ASSETS/TOTAL EQUITY AND LIABILITIES	16,120
Income statement 2019	
Amortization expense	2,999
Operating lease expenses	-3,120
Operating income	121
Finance costs	33
Net profit for the year	88

- The transition results in a positive effect on group earnings in the initial three years that will amount to approximately EUR 186 k.
- Due to adopting IFRS 16, the repayment share of the lease payments must be recognized in the cash flows from financing activities in the statement of cash flows, while the interest payments must be recognized in the cash flows from operating activities. The cash flow from operating activities improves in the next three years by EUR 8,069 k.
- Total assets and total equity and liabilities will increase moderately on account of recognizing leased assets and the corresponding liabilities. On the whole, the CENIT Group does not expect any material effects from the transition to IFRS 16.

EUR k	1 January 2019
Gross lease liability	16,995
Discounting	875
Lease liabilities as of 1 January 2019	16,120
Present value of finance lease liabilities as of 31 December 2018	16,120

IFRIC 23 clarifies the requirements for the recognition and measurement of uncertain income tax positions. When making assumptions and estimates, a company must assess whether it is probable that the tax authorities will accept the income tax treatment. CENIT is currently examining the effects of applying the interpretation to the consolidated financial statements, but only expects minor effects, as the Group was already following the interpretation pursuant to IFRIC 23.

The other published standards not yet endorsed by the EU are not expected to have a material impact on the financial position or performance of the Group.

Changes in the presentation of the consolidated financial statements

The following accounting policies principally used in the prior year have been used without change to prepare the consolidated financial statements.

C Consolidation principles

1. Consolidation principles and basis of consolidation

The consolidated financial statements include the financial statements of the parent and of the entities it controls (its subsidiaries).

CENIT obtains control when it has power over the investee, is exposed to variable returns from its involvement with the investee and has the ability to affect the amount of those returns through its power over the investee. If CENIT does not hold the majority of voting rights, it still controls the investee if it has the unilateral ability to direct relevant activities of the investee through its voting rights in practice.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control by the parent ceases.

The Group’s investments in joint ventures are accounted for using the equity method.

Intercompany sales, income and expenses and all intercompany assets and liabilities as well as equity between the consolidated entities were eliminated in full as part of the consolidation.

The following entities have been included in the consolidated financial statements of CENIT in accordance with IFRS 10 or IFRS 11/IAS 28 respectively (shareholdings pursuant to Sec. 313 (2) HGB):

No.	Entity	Cur-rency	%	from	Subscribed capital LC k	Date of purchase accounting
1	CENIT Aktiengesellschaft Stuttgart, Germany	EUR	---	---	8,368	Parent
2	CENIT (Schweiz) AG Effretikon, Switzerland	CHF	100	1	500	26 October 1999
3	CENIT NORTH AMERICA Inc. Auburn Hills, USA	USD	100	1	25	29 November 2001
4	CENIT SRL Iasi, Romania	RON	100	1	344	22 May 2006
5	CENIT France SARL Toulouse, France	EUR	100	1	10	26 April 2007
6	CENIT Japan K.K. Tokyo, Japan	YEN	100	1	34,000	13 May 2011
7	Coristo GmbH Mannheim, Germany	EUR	51.0	1	25	1 January 2016
8	KEONYS SAS Suresnes, France	EUR	97.76	1	155	1 July 2017
9	KEONYS Belgique SPRL Waterloo, Belgium	EUR	97.76	8	19	1 July 2017
10	KEONYS NL BV Houten, Netherlands	EUR	97.76	8	18	1 July 2017
11	SynOpt GmbH Stuttgart, Germany	EUR	55.0	1	50	1 July 2017
12	CenProCS AIRliance GmbH Stuttgart, Germany	EUR	33.3	1	150	16 November 2007

2. Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange.

The goodwill resulting from the acquisition of a subsidiary or of an entity under common control is initially measured at cost, being the excess of the cost of the business combination over the Group’s share in the net fair value of the acquiree’s identifiable assets, liabilities and contingent liabilities. If the acquirer’s share in the total net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of acquiring the company, the excess amount remaining after reassessment is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less accumulated impairment losses. For the purpose of the impairment test, the goodwill acquired as part of the business combination is allocated from the acquisition date to the Group’s cash-generating units that are expected to benefit from the business combination. This applies regardless of whether other assets or liabilities of the acquiree are allocated to these cash-generating units.

Each impairment loss on goodwill is recognized directly in profit or loss. Any impairment loss recognized for goodwill can no longer be reversed in future periods.

3. Investment in a joint venture

CENIT has held a 33.33% investment in a joint venture, CenProCS AIRliance GmbH (CenProCS), since 16 November 2007. A contractual agreement has been signed by the shareholders, CENIT AG Stuttgart, PROSTEP AG Darmstadt and CS SI LePlessis Robinson, France, on the provision of packaged services by the shareholders in the area of information technology as well as the coordination and marketing of these services.

The CENIT Group accounts for its investment in CenProCS using the equity method. Under the equity method, the investment in CenProCS is carried in the statement of financial position at cost plus post-acquisition changes in the CENIT Group’s share of net assets of CenProCS. During formation of the entity, CENIT AG made a cash contribution of EUR 50 k.

The statement of comprehensive income reflects the CENIT Group’s share of CenProCS’s profit. Where there has been a change recognized directly in equity, the Group recognizes its share of such changes and discloses this, when applicable, in the statement of changes in equity. Gains and losses on transactions between the Group and the joint venture are eliminated in proportion to the investment in CenProCS.

The financial statements of CenProCS are prepared with the same end of the reporting period as the financial statements of the parent. Where necessary, adjustments are made to comply with the Group’s uniform accounting policies.

After application of the equity method to the CENIT Group’s investment in CenProCS, the parent company determines whether it is necessary to recognize an additional impairment loss on the investment. The Group determines at the end of each reporting period and as the need arises whether there is any objective evidence that the investment in the joint venture is impaired. For example, objective evidence exists in the case of payment difficulties. If this is the case, the Group recognizes the difference between the fair value of the investment in CenProCS and the cost of the investment as an impairment loss in the income statement.

4. Foreign currency translation

The presentation currency is the parent company’s functional currency. The functional currency concept is applied to translate the financial statements prepared in foreign currency by the entities included in the basis of consolidation. The functional currency of the group entities is their respective local currency. Financial statements prepared in functional currency are translated to the Group’s presentation currency using the modified closing rate method. Assets and liabilities are translated at the closing rate, with equity translated at the historical rate and income and expenses at the annual average rate.

The difference arising from translation of the individual financial statements is recognized directly in equity. When subsidiaries are sold, the exchange differences recognized in equity relating to these entities are released to profit or loss.

Foreign currency transactions are generally translated at the current rate as of the transaction date. At the end of the reporting period, monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the annual closing rate. Non-monetary items that were measured at their historical cost are translated at the rate of the transaction date, while non-monetary items that were measured at their fair value are translated at the rate which was current at the time the fair value was determined. Differences arising from currency translation at closing rates are recognized in profit or loss.

The following exchange rates were used for currency translation:

in EUR	Closing rate		Annual average rate	
	31 Dec. 2018	31 Dec. 2017	2018	2017
CHF	1.1269	1.1702	1.1548	1.1116
USD	1.1450	1.1993	1.1815	1.1293
RON	4.6635	4.6585	4.6541	4.5689
YEN	125.85	135.01	130.41	126.68

D Accounting policies

Purchased intangible assets with finite useful lives are recognized at cost less accumulated amortization and impairment. Amortization not acquired as part of a business combination is performed systematically using the straight-line method over the expected economic useful life, which is generally three years.

In the case of intangible assets acquired for consideration in connection with a business combination, the acquisition costs of the intangible assets are equal to their fair value. They are reduced by amortization over the expected useful life using the straight-line method. The useful life of the identified customer base is five to twelve years depending on the base. CENIT determines the useful life based on the expected period in which cash inflows can be generated from the respective customer base. The useful life of software is ten years, while it is one year for the identified order backlog and generally three years for other intangible assets.

Purchased intangible assets with indefinite useful lives are recognized at cost less accumulated impairment. These intangible assets are not amortized. They are tested for impairment at least once a year for the individual asset or at the level of the cash-generating unit. The useful life of an intangible asset with an indefinite useful life is checked once a year to determine whether the assessment of an indefinite useful life is still justified. If this is not the case, a prospective change of the assessment from an indefinite to a definite useful life is made.

As in the prior year, there are no intangible assets with indefinite useful lives as of the reporting date except for goodwill.

Gains or losses from the derecognition of intangible assets are determined as the difference between the net realizable value and the carrying amount of the asset and are recognized in income in the period in which the asset is derecognized.

Internally generated intangible assets are not capitalized due to non-fulfillment of the cumulative criteria in IAS 38.57. Like costs incurred for research activities, non-capitalizable development costs are also recognized in the period incurred.

Property, plant and equipment are recognized at cost, net of accumulated straight-line depreciation and/or accumulated impairment losses. Cost comprises expenses directly attributable to the acquisition of the items. Subsequent costs are only recognized in the carrying amount of the asset or as a separate asset if it is probable that future economic benefits that are attributable to the asset will flow to the Group and the cost of the asset can be reliably measured. Maintenance costs are recorded directly as expenses. Items of property, plant and equipment are depreciated on the basis of their estimated useful lives. The useful life of plant and machinery is three to five years, and five to ten years for furniture and fixtures. Buildings on the Group's premises are depreciated over a period of 33 years, or eight to 15 years for land improvements. Buildings on third-party land (leasehold improvements) are depreciated over the terms of the lease agreements. No material residual values had to be considered when determining the amount of depreciation.

Residual values, depreciation and amortization methods and the useful life of property, plant and equipment and intangible assets are reviewed annually and adjusted if changes take place. A write-down to the recoverable amount is thus performed in accordance with IAS 36.59 if the carrying amount is higher. Any changes required are taken into account prospectively as changes in estimates.

Intangible assets or property, plant and equipment are derecognized either upon disposal or when no further economic benefits are expected from their further use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the period in which the asset is derecognized in the items for other income or other expenses.

An **impairment test** is performed at the end of each reporting period for all intangible assets and property, plant and equipment if events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized in profit or loss for items of property, plant and equipment and intangible assets carried at cost.

A reversal of impairment losses recognized in prior years is recorded for assets, with the exception of goodwill, when there is an indication that the impairment losses no longer exist or could have decreased. The reversal is posted as a gain in the income statement. The increased carrying amount cannot exceed the carrying amount that would have been determined, net of amortization or depreciation, if no impairment loss had been recognized for the asset in prior years.

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an estimate of whether fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Leases are classified as finance leases if substantially all risks and rewards incidental to ownership are transferred to the lessee as part of the lease. All other leases are classified as operating leases.

Operating lease payments are recognized as an other operating expense in the income statement on a straight-line basis over the lease term. There were no finance leases in the reporting period. In addition, the Group does not act as a lessor.

Financial instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets include in particular cash and cash equivalents, trade receivables and other loans and receivables originated by the entity, held-to-maturity investments and primary and derivative financial instruments held for trading. Financial liabilities generally give rise to the right to receive settlement in cash or another financial asset. Financial instruments are recognized as soon as CENIT becomes party to the contractual provisions of the financial instrument.

Investments and other financial assets

Financial assets are classified as financial assets at fair value through profit or loss, at amortized cost or as at fair value through other comprehensive income. All financial assets are recognized initially at fair value plus, in the case of financial assets which are not at measured fair value through profit or loss, any directly attributable transaction costs. The Group determines the classification of its financial assets upon initial recognition and, where allowed and appropriate, reassesses this designation at the end of each reporting period.

Regular way purchases and sales of financial assets are recognized as of the trading date, i.e. the date on which the entity entered into the obligation to purchase the asset ("trade date accounting").

Financial assets at amortized cost (debt instruments)

This category is the most relevant for the consolidated financial statements. The Group measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortized cost are measured using the effective interest method and must be tested for impairment. Gains and losses are recognized through profit or loss in the period when the asset is derecognized, modified or impaired. Measurement of the expected credit loss is carried out using a provision matrix in line with the practical expedient in accordance with IFRS 9 B5.5.35.

The Group's financial assets measured at amortized cost mainly comprise trade receivables, receivables from joint ventures and other financial assets.

Financial assets measured at fair value through other comprehensive income (debt instruments)

The Group measures debt instruments at fair value through other comprehensive income if both of the following conditions are met:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

In the case of debt instruments measured at fair value through other comprehensive income, interest income, remeasurements of exchange gains and losses as well as impairment losses or reversals of impairment losses are recognized in the income statement and calculated in the same way as for financial assets measured at amortized cost. The remaining changes in fair value are recognized as other comprehensive income. Upon derecognition, the cumulative gain or loss from changes in fair value recognized as other comprehensive income is reclassified to the income statement.

Financial assets measured at fair value through other comprehensive income (equity instruments)

Upon initial recognition, the Group can choose irrevocably to classify its equity instruments as equity instruments measured at fair value through other comprehensive income if they meet the definition of equity in accordance with IAS 32, Financial Instruments: Presentation, and are not held for trading. Classification is carried out separately for each instrument.

Gains and losses from these financial assets are never reclassified to the income statement. Dividends are recognized as other income in the income statement if the legal right to receive payment exists, unless part of the cost of the financial asset is recovered through the dividends, in which case the gains are recognized in other comprehensive income. Equity instruments measured at fair value through other comprehensive income are not tested for impairment.

Derecognition of financial assets and financial liabilities

Financial assets are derecognized when the contractual rights to receive cash flows from the financial asset have expired or the financial asset and substantially all the risks and rewards of the asset are transferred to a third party. If the Group has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group recognizes an asset to the extent of the Group’s continuing involvement in the asset and a corresponding liability for any consideration that the Group could be required to pay. If the Group retains substantially all risks and rewards of a transferred financial asset, the Group must continue to recognize the financial asset and a secured loan for the consideration received.

Financial liabilities are derecognized when the obligations specified in the contract have been discharged, canceled, or have expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the income statement.

Impairment of financial assets

The Group assesses at the end of each reporting period whether a financial asset or group of financial assets is impaired. Any impairment losses as a result of fair value falling short of the carrying amount are recognized in profit or loss.

Financial liabilities

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, as loans, as liabilities or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and liabilities, net of directly attributable transaction costs.

The Group’s financial liabilities include trade and other payables, loans including bank overdrafts and derivative financial instruments.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and other financial liabilities designated upon initial recognition as at fair value through profit or loss. Transaction costs are recognized directly in the income statement.

Loans are initially recognized at fair value less transaction costs. Loans are subsequently measured at amortized cost using the effective interest method (EIR). Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The EIR amortization is included in finance cost in the income statement.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or canceled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the income statement.

Derivative financial instruments are generally used to increase the return on investment and for hedging purposes. These derivative financial instruments are initially carried at the fair value on the date on which the relevant contract was concluded and are then subsequently remeasured at fair value. Derivative financial instruments are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

If derivative financial instruments do not satisfy the criteria for hedge accounting, any gains or losses from changes in fair value are immediately recognized in profit or loss.

As in the prior year, there are no derivative financial instruments as of the reporting date.

The **inventories** reported are measured at the lower of cost and net realizable value. Costs of conversion are determined on the basis of full production-related costs. Net realizable value is the estimated sales proceeds less estimated costs of completion and the estimated costs necessary to make the sale.

Cash and cash equivalents are measured at cost. They comprise cash on hand, bank balances and short-term deposits with an original maturity of less than three months.

Pension obligations and similar obligations result from obligations to employees. The amounts payable in connection with defined contribution plans are expensed as soon as the obligation to pay arises and reported as personnel expenses. Prepayments of contributions are capitalized to the extent that these prepayments will lead to repayment or a reduction in future payments.

The LOB pension plans in place in Switzerland qualify as defined benefit plans in accordance with IAS 19 due to the statutory minimum interest and conversion rate guarantees. Likewise, the pension payment that employers in France must pay when an employee enters retirement must be recognized as a defined benefit plan in accordance with IAS 19. The cost of providing benefits under these benefit plans is determined using the projected unit credit method. The Group recognizes actuarial gains and losses in full in other comprehensive income in the period in which they occur. Such actuarial gains and losses are also immediately recognized in revenue reserves and are not reclassified to profit or loss in subsequent periods. The plan assets available to cover the pension obligations are offset against the pension obligations in accordance with the rules in IAS 19.

Provisions are reported at the best estimate of the amount required to settle the obligation. They are created for legal or constructive obligations resulting from past events when it is probable that the settlement of the obligation will lead to an outflow of resources and the amount of the obligation can be reliably estimated. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to the provision is presented in the income statement net of any reimbursement. Provisions are discounted where the remaining term is longer than one year. The discount rate chosen is a pre-tax rate that reflects the risks specific to the liability. Discount rate adjustments are recorded as an interest expense.

Liabilities are disclosed in the notes to the financial statements as **contingent liabilities** for possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

A contingent liability is not disclosed if the possibility of an outflow of resources embodying economic benefits is remote.

Tax assets and liabilities

Current **tax assets and liabilities** for the current and prior periods should be measured at the amount expected to be recovered from or paid to the taxation authorities. The **current tax expense** is determined on the basis of taxable income for the year. Taxable income differs from earnings before taxes (EBT) in the consolidated income statement because it excludes expenses and income that will be taxable or deductible in later years or never. Current tax expense is calculated on the basis of the tax rates and tax laws enacted or substantively enacted at the balance sheet date.

Deferred taxes are recorded on temporary differences between the tax base and the carrying amount in the consolidated financial statements according to the balance-sheet-oriented liability method described in IAS 12.

Deferred tax liabilities are recognized in principle for all taxable temporary differences.

Deferred tax assets are recognized in principle for all deductible temporary differences, unused tax losses and unused tax assets to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the unused tax losses and unused tax assets can be utilized. In the case of entities with a history of losses, profits are recognized only if it is very likely that they can be realized within three years.

The carrying amount of the deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be realized.

Deferred taxes on temporary differences are calculated at the tax rate that is expected to apply for the period when the asset is realized or the liability is settled. Deferred tax assets and deferred tax liabilities are calculated according to the laws and regulations enacted or substantively enacted at the end of the reporting period.

Income tax implications related to the items posted directly to equity are also recorded directly under equity.

Deferred tax assets and deferred tax liabilities are offset if the Group has a legally enforceable right to offset current tax assets and current tax liabilities and these relate to income taxes levied by the same taxation authority on the same taxable entity.

Value added tax (VAT)

Revenue, expenses and assets are recognized net of VAT. The following are exceptions to this rule:

- where the VAT incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the VAT is recognized as part of the cost of the asset or through profit and loss; and
- where receivables and liabilities are stated with the amount of VAT included.

The amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Revenue recognition

Revenue is recognized at the amount of consideration expected for the performance obligations assumed, i.e. the transfer of goods or the rendering of services. This core principle is implemented using a five-step model:

1. Identifying the contract with a customer,
2. Identifying the distinct performance obligations in the contract,
3. Determining the transaction price,
4. Allocating the transaction price to the performance obligations,
5. Recognizing revenue when the performance obligations are satisfied.

1. Identifying the contract with a customer

A contract exists once there is an agreement between two or more parties that creates enforceable rights and obligations.

2. Identifying the distinct performance obligations in the contract

As soon as CENIT has determined the contract with a customer, the terms of the contract and its customary business practices are considered in order to identify all promised goods or services in the contract and to determine which of the promised goods or services are treated as a distinct performance obligation. A good or service is distinct if

a) the customer can benefit from the goods or services either on its own or together with other resources that are readily available to the customer, and
b) the promised goods and services are separately identifiable from other promised goods or services.

3. Determining the transaction price

The entire transaction price for a contract is first determined and then broken down into the distinct performance obligations. The transaction price is the amount of consideration to which CENIT expects to be entitled in exchange for transferring goods or services. The effects of variable consideration, significant financing components, non-cash consideration and consideration payable to the customer must be taken into account for the amount of consideration. However, CENIT has not identified any material variable consideration.

4. Allocating the transaction price to the performance obligations

The transaction price is allocated to each performance obligation at the amount that corresponds to the consideration to which CENIT expects to be entitled. The rules on allocating the transaction price do not apply if the contract comprises just one distinct performance obligation. The transaction price is allocated to each performance obligation based on a relative stand-alone selling price.

5. Recognizing revenue when the performance obligations are satisfied

Revenue is recognized when the performance obligation is satisfied by transfer of a promised good or service to a customer. An asset is deemed transferred when the customer obtains control of that asset.

Control of a good or a service is transferred over time, thus satisfying a performance obligation and recognizing the revenue over time if one of the following criteria is met:

a) the customer simultaneously receives and consumes the benefits provided by the company's performance as the company performs;

b) the company’s performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or

c) the company’s performance does not create an asset with an alternative use to the entity and CENIT has an enforceable right to payment for performance completed to date.

If the performance obligation is not satisfied over time as set out by these criteria, it is satisfied at a point in time at which the customer obtains control of that asset.

Sale of goods and products

Revenue is reported at the fair value of the consideration received or to be received net of VAT and after deduction of any rebate or discount granted. Sales of goods are recognized when the substantial risks and rewards of ownership of the goods are transferred to the purchaser, no control or effective control is retained, the amount of revenue can be measured reliably and the costs incurred or yet to be incurred in connection with the sale can be measured reliably.

The average payment term of customers is between five and 30 days after transfer of control.

Service contract

Income received for the provision of services is recognized in accordance with the percentage of completion to the extent that the result of a service transaction can be measured reliably. When the outcome of a service contract can be estimated reliably, contract revenue and contract costs associated with the service contract should be recognized as part of the contract costs incurred for the work in relation to the expected contract costs by reference to the stage of completion of the contract activity at the end of the reporting period. Changes to contracted work, claims and bonus payments are included to the extent that they are agreed with the customer. If the outcome of a service contract cannot be measured reliably, contract revenue is recognized only to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognized as expenses in the period in which they are incurred. If it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately. An expected loss on a service contract is recognized as an expense immediately as soon as this loss is probable.

The average payment term of customers is between five and 30 days after performance or after reaching a milestone.

Royalties

Revenue is recognized on an accrual basis in accordance with the substance of the relevant agreement. Royalties from the granting of temporary and permanent licenses are recognized once the software has been provided in line with the terms of the agreement. Royalties from the granting of temporary and permanent licenses are charged after control is transferred. The average payment term of customers is between five and 30 days.

Royalties from software maintenance and support are recognized pro rata over the term of rendering the service. Time-based usage fees are recognized on a straight-line basis over the term of the agreement. Royalties from software maintenance and support are charged on an annual or quarterly basis in advance. The average payment term of customers is between five and 30 days.

Government grants

Government grants are recognized once there is reasonable assurance that CENIT will meet the conditions tied to the grant and receive the grants materially. Income is recognized in the same way as expenses associated with the grants.

Dividends and interest income

Dividend income is recognized when the Group's right to receive the payment is established.

Interest income is recognized as the interest accrues (using the effective interest method, i.e. the rate used to discount estimated future cash flows over the expected life of the financial instrument to the net carrying amount of the financial asset). Interest paid or received is disclosed as interest income and interest expenses through profit and loss.

Significant accounting judgments, assumptions and estimates

According to the opinion of the Management Board of CENIT, the following judgments had the most significant effect on the amounts recognized in the consolidated financial statements.

- It is not permissible to recognize research costs as assets. Development costs may only be recognized as an asset if all of the conditions for recognition pursuant to IAS 38.57 are satisfied, if the research phase can be clearly distinguished from the development phase and material expenditure can be allocated to the individual project phases without overlap. On account of numerous interdependencies within development projects and uncertainty about whether some products will reach marketability, some of the conditions for recognition pursuant to IAS 38 are not currently satisfied. Development costs are consequently not capitalized.
- Determining the percentage of completion is subject to certain discretionary decisions with regard to calculating the contract costs yet to be incurred. The estimate is made conscientiously based on the knowledge available as of the end of the reporting period.
- The cost and present value of defined benefit obligations is determined using actuarial valuations. An actuarial valuation involves making various assumptions that can differ from actual developments in the future. These include the determination of the discount rates, future wage and salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at the end of each reporting period.
- When determining provision amounts to be recognized, assumptions must be made on the probability that there will be an outflow of resources. These assumptions constitute the best estimate of the situation underlying the matter, but are subject to uncertainty because of the necessary use of assumptions. When measuring the provisions, assumptions also have to be made on the amount of the possible outflow of resources. A change in the assumptions can therefore lead to a difference in the amount of the provision. The use of estimates thus also leads to uncertainties here.

- Determining the recoverable amount of the cash-generating units “SAP-PLM” and “KEONYS FR” for impairment testing of the goodwill is based on a value in use calculation using cash flow projections based on 5-year financial plans approved by management. The gross profit is derived from the strategic orientation of the respective business division and the strategy of the CENIT Group on the basis of the expected product mix and the expected costs are calculated on this basis. The discount rate is 6.91%. Cash flows after the period of five years are extrapolated using a growth rate of 1%. We refer to further explanations in note F1.

E Income statement

1. Revenue

The breakdown of revenue by business unit and region is presented in the segment reporting in note H. Revenue is also broken down into the following categories:

Breakdown of sales by product/income type

	2018	2017
CENIT software	15,449	17,559
Third-party software	104,299	82,362
CENIT consulting and service	49,776	51,618
Merchandise	466	162
Total	**169,990**	**151,701**

Breakdown of sales by contract type

in EUR k		2018	2017
Sale of goods and services		**46,758**	**48,019**
	PLM	39,932	41,459
	EIM	6,826	6,560
Fixed-price projects		**3,485**	**3,761**
	PLM	3,174	3,495
	EIM	311	266
Royalties		**119,747**	**99,921**
	PLM	111,028	87,697
	EIM	8,719	12,224
Total		**169,990**	**151,701**

The revenue results from ordinary activities.

There are contract assets of EUR 3,364 k (prior year: EUR 4,700 k) and contract liabilities of EUR 16,313 k (prior year: EUR 17,739 k) as of the reporting date. There were no significant changes in balances for contract assets and contract liabilities in the reporting period. Contract liabilities of EUR 17,739 k recognized at the beginning of the year are included in full in income.

Development of orders

Order intake in the CENIT Group amounted to EUR 177,902 k in the past 2018 reporting period (prior year: EUR 161,955 k). The order backlog as of 31 December 2018 amounted to EUR 53,389 k (prior year: EUR 45,477 k). Of the order backlog, EUR 53,389 k (prior year: EUR 45,477 k) will be turned into sales within one year. The Group did not make use of the practical expedients for allocating the transaction price to the remaining performance obligations.

2. Research and development costs

Pursuant to IAS 38, non-project-related development costs must be capitalized if the prerequisites of IAS 38.57 are fulfilled.

In 2018, all of the product development was non-project-related, which does not, however, meet the recognition criteria in IAS 38.57. The development costs incurred for the projects of EUR 10,123 k (prior year: EUR 9,206 k) were recognized as an expense in the reporting period.

3. Other income

Other income breaks down as follows:

in EUR k	2018	2017
Income from the cross-charging of marketing and administrative costs	321	210
Income from pre-school subsidy, investment subsidy	602	355
Income from sub-lets, including incidental costs	9	13
Income from insurance refunds/damages	153	66
Income from exchange differences	391	191
Income from the reversal of provisions	298	563
Income from receivables written off	103	52
Income from the sale of non-current assets	0	7
Other income	3	6
Total	**1,880**	**1,463**

The income from exchange differences stemmed in particular from the translation of US dollars and Swiss francs.

In France, entities are granted two types of government grant: the R&D tax credit (CIR) and the tax credit for promoting employment and competitiveness (CICE).

The R&D tax credit amounts to 30% of the qualifying expenses. These include expenses for basic research, applied research and development costs. The tax credit is taken into account by crediting it to the corporate tax liability or – if it cannot be credited in full – by payment of the receivable. In 2018, KEONYS SAS reported income of EUR 563 k from this tax credit (prior year: EUR 676 k, of which EUR 326 k relates to the period of its belonging to the CENIT Group), in other income. The tax credit for promoting employment and competitiveness is reported expense-reducing in personnel expenses.

4. Cost of materials

This item contains the cost of purchased third-party software of EUR 78,705 k (prior year: EUR 62,942 k) and the cost of purchased services of EUR 5,533 k (prior year: EUR 6,383 k).

5. Personnel expenses

The disclosure essentially relates to salaries, voluntary social benefits, allocations to the provision for vacation, profit participations and Management Board bonuses as well as welfare expenses and pension costs.

in EUR k	2018	2017
Wages and salaries	47,968	43,889
Social security, pension and other benefit costs	10,603	9,171
Total	**58,571**	**53,060**

Pension costs mainly include employer contributions to statutory pension insurance. With the exception of Switzerland, the statutory pension insurance is organized as a defined contribution plan. CENIT also offers its employees in Germany the option of making contributions to a pension trust fund or direct insurance by means of deferred compensation. For these defined contribution plans, the employer does not enter into any obligations. The value of future pension payments is based exclusively on the value of the contributions paid by the employer for the employees to the external welfare provider, including income from the investment of said contributions.

The Swiss LOB pension plans and the pension payments in France are designed as defined benefit plans in accordance with IAS 19. We refer to the comments in note F17.

An annual average (on a quarterly basis) of 751 (prior year: 682) persons were employed by the Group, plus 52 trainees (prior year: 42).

The number of employees as of the end of the reporting period came to 757 (prior year: 764). 500 of those were employed in Germany, 193 in other EU countries and 64 in other countries.

Personnel expenses comprise termination benefits totaling EUR 201 k (prior year: EUR 259 k). EUR 72 k (prior year: EUR 200 k) are reported under liabilities as of the end of the reporting period, as they did not yet affect cash. In the reporting period, the liabilities include severance payments of EUR 356 k from earlier reporting periods (prior year: EUR 0 k).

In France, entities are granted two types of government grant: the R&D tax credit (CIR) and the tax credit for promoting employment and competitiveness (CICE). The tax credit for promoting employment and competitiveness amounts to one percent of the gross remuneration paid out from 1 January 2013. The tax credit is taken into account by crediting it to the corporate tax liability or – if it cannot be credited in full – by payment of the receivable. Because the income is based on gross pay, this income was deducted from personnel expenses. In 2018, KEONYS SAS reported income of EUR 66 k from this tax credit (prior year: EUR 114 k, of which EUR 53 k relates to the period of its belonging to the CENIT Group), and CENIT FR recorded income of EUR 35 k (prior year: EUR 37 k). The R&D tax credit (CIR) is reported in other operating income.

6. Amortization of intangible assets and depreciation of property, plant and equipment

Amortization and depreciation is broken down in the statement of changes in non-current assets presented in notes F1 and F2.

7. Other expenses

in EUR k	2018	2017
Motor vehicle costs	1,332	1,252
Travel expenses	2,794	2,630
Advertising costs	1,673	1,788
Telecommunication and office supplies	929	831
Premises expenses	1,158	1,004
Rent and lease expenses	3,677	3,241
Expenses from exchange losses	447	177
Other personnel expenses	646	713
Legal and consulting fees	1,477	1,429
Training	409	451
Insurance	461	435
Repairs and maintenance	1,139	958
Payment of the Supervisory Board	68	72
Impairment losses and bad debts	203	75
Losses from disposals of assets	96	13
Internal events	383	139
Other	222	302
Total	**17,114**	**15,510**

8. Interest result

The total interest income and total interest expenses for financial assets and financial liabilities measured both at amortized cost and at fair value through profit or loss break down as follows:

in EUR k	2018	2017
Interest income from bank balances	0	3
Interest income from business taxes	0	1
Total interest income	**0**	**4**
Interest expenses from the utilization of loans and guarantees	10	98
Interest expenses for business taxes	1	11
Interest expenses from unwinding of the discount on accrued liabilities	40	43
Net interest from the measurement of pension obligations	20	14
Total interest expenses	**71**	**166**
Interest result	**-71**	**-162**

9. Income taxes

Income taxes contain German corporate income tax including solidarity surcharge and trade tax. Comparable taxes of foreign subsidiaries are also shown in this item.

Expenses from income taxes break down as follows:

in EUR k	2018	2017
Current tax expense	3,245	3,943
Change in deferred taxes	-417	-257
Total	**2,828**	**3,686**

The current tax expense includes expenses of EUR 374 k relating to other periods (prior year: EUR 17 k).

Deferred taxes are calculated using the individual company tax rate. These are as follows:

in %	2018	2017
CENIT	31.00	31.00
CENIT CH	22.00	22.00
CENIT NA	24.00	24.00
CENIT RO	16.00	16.00
CENIT F	28.00	33.00
CENIT J	39.43	39.43
CORISTO	31.00	31.00
SYNOPT	31.00	31.00
KEONYS FR	28.00	28.00
KEONYS BE	33.99	33.99
KEONYS NL	25.00	25.00

The expected tax burden is 31% as of the end of the reporting period (prior year: 31%) and is calculated as follows:

in %	2018	2017
Trade tax at a rate of 433.6% (prior year: 433.6%)	15.17	15.17
Corporate income tax	15.00	15.00
Solidarity surcharge (5.5% of corporate income tax)	0.83	0.83
Effective tax rate	**31.00**	**31.00**

The difference between the current tax expense and the theoretical tax expense that would result from a tax rate of 31% (prior year: 31%) for CENIT AG breaks down as follows:

in EUR k	2018	2017
Net profit or loss for the period before taxes (EBT)	8,957	12,674
Theoretical tax expense based on a tax rate of 31% (prior year: 31%)	-2,777	-3,929
Non-deductible expenses	-88	-151
Tax-free income	57	179
Use of unused tax losses	175	323
Expenses relating to other periods	-141	-52
Effects of different tax rates within the Group and tax rate changes	-61	-56
Effects of the changed tax rate on deferred taxes of CENIT NA	0	23
Non-deductible/creditable taxes	-3	-7
Other	10	-16
Income tax expense according to the consolidated income statement	-2,828	-3,686
Tax rate	31.6%	29.1%

10. Earnings per share

Earnings per share are calculated in accordance with the rules in IAS 33, Earnings per Share, by dividing the group earnings by the weighted average number of shares outstanding during the reporting period. Basic earnings per share do not take into account any options, and are calculated by dividing the net earnings attributable to shares after non-controlling interests by the average number of shares. Earnings per share are diluted if, in addition to ordinary shares, equity instruments are issued from capital stock that could lead to a future increase in the number of shares. Options or warrants are taken into account only if the average share price for the ordinary shares during the reporting period exceeds the strike price of the options or warrants. This effect is calculated and stated accordingly.

The following reflects the underlying amounts used to calculate the basic and diluted earnings per share:

in EUR k	2018	2017
Net profit/loss attributable to ordinary shareholders of the parent	5,948	8,803
Weighted average number of ordinary shares used to calculate basic earnings per share	8,367,758	8,367,758

No treasury shares were held as of the end of the reporting period.

There have been no transactions involving ordinary shares or potential ordinary shares between the end of the reporting period and the date of preparing the consolidated financial statements. Based on IAS 33.49, basic and diluted earnings per share total EUR 0.73 (prior year: EUR 1.07).

11. Dividends paid and proposed

Declared and paid dividends on ordinary shares during the reporting period:

in EUR k	2017	2016
Final dividend for 2017: EUR 1.00 (2016: EUR 1.00)	8,368	8,368

The Management Board and Supervisory Board of CENIT AG will propose to the General Meeting of Shareholders on 24 May 2019 that a dividend of EUR 0.60 be distributed from the retained earnings of CENIT AG.

in EUR k	2018	2017
Final dividend for 2018: EUR 0.60 (prior year: EUR 1.00)	5,021	8,368

The payment of dividends by CENIT AG to the shareholders does not have any income tax implications for CENIT AG.

F Statement of financial position

1. Intangible assets

Intangible assets developed as follows in 2018:

in EUR k	Software and licenses	Customer base	Order backlog	Goodwill	Total
Cost					
As of 1 January 2018	**7,372**	**12,664**	**0**	**6,905**	**26,940**
Exchange difference	5	73	0	0	78
Additions	536	0	0	0	536
Disposals	26	0	0	0	26
As of 31 December 2018	**7,887**	**12,737**	**0**	**6,905**	**27,529**
Accumulated amortization					
As of 1 January 2018	**5,342**	**6,481**	**0**	**278**	**12,101**
Exchange difference	5	73	0	0	78
Additions	916	936	0	0	1,852
Disposals	20	0	0	0	20
As of 31 December 2018	**6,243**	**7,490**	**0**	**278**	**14,011**
Net carrying amounts	**1,644**	**5,247**	**0**	**6,627**	**13,518**
Cost					
As of 1 January 2017	**5,112**	**7,848**	**88**	**1,272**	**14,320**
Exchange difference	-17	-171	0	0	-188
Additions from business acquisition	1,689	4,987	0	5,633	12,309
Additions	621	0	0	0	621
Disposals	33	0	88	0	121
As of 31 December 2017	**7,372**	**12,664**	**0**	**6,905**	**26,940**
Accumulated amortization					
As of 1 January 2017	**3,072**	**5,930**	**88**	**0**	**9,090**
Exchange difference	-11	-171	0	0	-182
Additions from business acquisition	1,528	0	0	278	1,806
Additions	774	722	0	0	1,496
Disposals	21	0	88	0	109
As of 31 December 2017	**5,342**	**6,481**	**0**	**278**	**12,101**
Net carrying amounts	**2,030**	**6,182**	**0**	**6,627**	**14,839**

Amortization was reported in the income statement under amortization of intangible assets and depreciation of property, plant and equipment.

The customer base from purchase accounting of Conunit GmbH has a remaining amortization period of one year and six months as of the end of the reporting period. The residual carrying amount as of the end of the reporting period totals EUR 354 k (prior year: EUR 590 k). In addition, software acquired as part of the business combination was capitalized which has a residual carrying amount of EUR 32 k as of the end of the reporting period (prior year: EUR 53 k). The remaining amortization period also amounts to one year and six months.

The software from purchase accounting of SPI Numérique SARL has a residual carrying amount of EUR 366 k as of the end of the reporting period (prior year: EUR 437 k). The remaining amortization period as of the end of the reporting period is five years and three months.

The customer base from purchase accounting of Coristo GmbH has a remaining amortization period of two years as of the end of the reporting period. The carrying amount was EUR 546 k as of 31 December 2018 (prior year: EUR 819 k). The acquired goodwill of Coristo GmbH with a carrying amount of EUR 1,272 k (prior year: EUR 1,272 k) was allocated to the cash-generating unit “PLM-SAP” to test for impairment, which also constitutes a reportable business segment.

The customer base of KEONYS SAS identified as part of purchase accounting of the KEONYS Group has an amortization period of ten years and six months as of the end of the reporting period. The carrying amount is EUR 4,132 k as of the end of the reporting period (prior year: EUR 4,525 k). The goodwill with a carrying amount of EUR 5,355 k (prior year: EUR 5,355 k) acquired as part of the acquisition was allocated to the cash-generating unit “KEONYS FR” to test for impairment.

The customer base from purchase accounting of SynOpt GmbH has an amortization period of six years and six months as of the end of the reporting period. The carrying amount is EUR 215 k as of the end of the reporting period (prior year: EUR 248 k).

Impairment losses

The Group carried out an impairment test for goodwill.

The recoverable amounts of the cash-generating units “PLM-SAP” and “KEONYS FR” are determined based on a value in use calculation using cash flow projections based on 5-year financial plans approved by management. The discount rate before taxes used for the cash flow projections is 6.91%. Cash flows after the period of five years are extrapolated using a growth rate of 1%. This growth rate corresponds to the long-term average growth rate based on the market environment. The test showed that the fair value is higher than the value in use. As a result, there was no indication of a need to recognize an impairment loss since the date of purchase accounting, and goodwill remains unchanged. Management is of the opinion that no reasonably possible change in the basic assumptions made to determine the value in use could lead to the carrying amount of the cash-generating unit significantly exceeding its recoverable amount.

As far as intangible assets with a finite useful life are concerned, there was no indication of impairment in the current 2018 reporting period.

2. Property, plant and equipment

Property, plant and equipment developed as follows in 2018:

in EUR k	Buildings including buildings on third-party land	Plant and machinery	Furniture and fixtures	Total
Cost				
As of 1 January 2018	**2,619**	**7,198**	**1,128**	**10,945**
Exchange difference	6	20	7	33
Additions	320	624	146	1,090
Disposals	164	15	135	314
As of 31 December 2018	**2,781**	**7,827**	**1,146**	**11,754**
Accumulated depreciation				
As of 1 January 2018	**1,602**	**5,728**	**905**	**8,235**
Exchange difference	3	17	5	25
Additions	151	757	159	1,067
Disposals	101	6	119	226
As of 31 December 2018	**1,655**	**6,496**	**950**	**9,101**
Net carrying amounts	**1,126**	**1,331**	**196**	**2,653**
Cost				
As of 1 January 2017	**1,967**	**5,723**	**797**	**8,487**
Exchange difference	-17	-49	-21	-87
Additions from business acquisition	668	861	265	1,794
Additions	7	781	154	942
Disposals	6	118	67	191
As of 31 December 2017	**2,619**	**7,198**	**1,128**	**10,945**
Accumulated depreciation				
As of 1 January 2017	**1,154**	**4,491**	**634**	**6,279**
Exchange difference	-5	-40	-18	-63
Additions	105	673	159	937
Additions from business acquisition	354	710	193	1,257
Disposals	6	106	63	175
As of 31 December 2017	**1,602**	**5,728**	**905**	**8,235**
Net carrying amounts	**1,017**	**1,470**	**223**	**2,710**

3. Investments in joint ventures and non-current other financial assets

CENIT AG holds a share of 33.3% in CenProCS AIRliance GmbH, an entity domiciled in Stuttgart. This entity specializes in providing packaged services in the field of IT, as well as coordinating and marketing said services.

The joint venture listed above is included in these consolidated financial statements using the equity method.

The assets, liabilities and revenue of CenProCS AIRliance GmbH are as follows as of 31 December 2018:

in EUR k	2018	2017
Current assets (thereof cash: EUR 183 k (prior year: EUR 245 k))	7,999	5,949
Non-current assets	0	0
Current liabilities	7,827	-5,777
Non-current liabilities	0	0
Net assets	**172**	**172**
Revenue	48	48
Total comprehensive income	0	-1
Carrying amount of the investment	**60**	**60**
Share of profit of the joint venture	0	0

Other **non-current financial assets** include the equity investment in DELTA Management Beratung GmbH. In the fiscal year, CENIT acquired 5% of the capital shares at a purchase price of EUR 2,500 k. The purchase price of EUR 2,500 k was paid in cash. Of this amount, EUR 2,000 k was already due for payment. The EUR 500 k due in 2019 is still carried as a liability under other liabilities. By dovetailing the solution expertise of DELTA Management GmbH and CENIT, both companies, as PLM experts, want to build up a clear lead in the areas of Digital Twin as well as real-time data integration and thus advance the digital transformation of companies in the manufacturing and industry 4.0 sector.

4. Deferred taxes

The recognition and measurement differences determined between the profit in the tax accounts and the financial statements under German commercial law and the adjustments of the financial statements under German commercial law of the consolidated entities to IFRS led to deferred taxes of the following amounts in the following items:

in EUR k	Deferred tax assets		Deferred tax liabilities	
	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017
Deferred tax assets on unused tax losses	1,432	1,530	0	0
Property, plant and equipment	0	0	0	30
Intangible assets	0	0	1,513	1,796
General valuation allowances	0	0	71	63
Receivables from service agreements	0	0	150	154
Other provisions and accrued liabilities	469	245	0	0
IAS 19 pension obligations	379	579	0	0
Consolidation procedures	30	0	0	5
Total	**2,310**	**2,354**	**1,734**	**2,048**
Netting	-1,457	-1,460	-1,457	-1,460
Total	**853**	**894**	**277**	**588**

The change in deferred taxes on actuarial gains/losses from defined benefit obligations recognized in other comprehensive income of EUR 136 k (prior year: EUR 45 k) was recognized directly in equity.

As of 31 December 2018, no deferred income tax payables for taxes on untransferred profits were recognized (outside basis differences). As of the end of the reporting period, the latter amount to EUR 44 k (prior year: EUR 41 k).

As of the end of the reporting period, the Group had unused tax losses of EUR 7,611 k (prior year: EUR 7,820 k) for which deferred tax assets of EUR 1,432 k (prior year: EUR 1,530 k) were recognized. These relate to KEONYS FR, KEONYS NL and CENIT JP. KEONYS FR has unused tax losses of EUR 7,178 k. Because the entity has recorded losses in the past, the figure was recognized at the amount of taxable temporary differences of the entity (EUR 2,954 k) and for the planned future use of losses of EUR 1,950 k. The excess amount of EUR 2,274 k was not recognized. Recognition took place only to the extent that there is persuasive evidence that sufficient taxable profit will be available against which the unused tax losses can be offset. In the case of entities with a history of losses, profits are recognized only if it is very likely that they can be realized within three years.

5. Inventories

in EUR k	31 Dec. 2018	31 Dec. 2017
Merchandise (measured at cost)	0	0
Payments on account	30	87
Total	**30**	**87**

No write-downs to the net realizable value were recorded in the 2018 reporting period (prior year: EUR 0 k).

6. Receivables

Trade receivables totaling EUR 24,989 k (prior year: EUR 28,551 k) are due from third parties, as well as EUR 5,026 k (prior year: EUR 2,975 k) from joint ventures.

Receivables include contract assets from ongoing projects totaling EUR 3,364 k (prior year: EUR 4,700 k). Before changing the financial reporting to IFRS 15, receivables from ongoing projects amounting to EUR 4,657 k would have had to be reported here instead. These would not have been netted with payments on account, as these do not constitute progress billings based on the stage of completion and as such would have been reported as other liabilities in the statement of financial position.

Specific valuation allowances not tied to any periods were recognized for specific default risks (settlement, insolvency). As of the end of the reporting period, valuation allowances were recognized for EUR 22 k of trade receivables (prior year: EUR 45 k).

The age structure of trade receivables and receivables from joint ventures was as follows at the end of the reporting period:

in EUR k	Total	thereof: impaired	thereof: neither past due nor impaired at the end of the reporting period	thereof: past due but not impaired			
				less than 30 days	between 30 and 60 days	between 61 and 90 days	more than 90 days
2018	30,060	22	20,262	4,937	1,839	882	2,118
2017	31,571	45	23,437	5,472	1,528	374	715

The ten largest accounts receivable represent a receivables balance of EUR 14,671 k as of the end of the reporting period. This represents a share of 49%. The credit quality of the receivables as of the end of the reporting period which were neither past due nor impaired is seen as appropriate. There are no indications of impairment. The credit ratings of the debtors are monitored on an ongoing basis. Future expected bad debts are covered by the valuation allowances created.

Bad debts are recognized when the customer has initiated court insolvency proceedings and payment is thus no longer expected. Net bad debts of EUR 208 k were recognized as an expense in the reporting period (prior year: EUR 101 k).

As of the end of the reporting period, EUR 22 k of trade receivables was impaired (prior year: EUR 45 k). The allowance account developed as follows:

in EUR k	Impairment loss
As of 1 January 2017	7
Addition from purchase accounting	12
Addition (+)/reversal (-)	26
As of 31 December 2017	45
Addition (+)/reversal (-)	-23
As of 31 December 2018	**22**

When testing trade receivables for impairment, any change in the credit rating that has occurred by the end of the reporting period since the payment term was granted is taken into account. There is no notable concentration of credit risk, as the customer base is diverse and there is no overlapping.

There are no trade receivables due in more than one year that are reported under non-current assets.

A breakdown of receivables by regional aspects is as follows:

in EUR k	31 Dec. 2018	31 Dec. 2017
Germany	14,968	16,883
Europe	13,047	11,444
Third countries	2,000	3,199
Total	**30,015**	**31,526**

7. Other receivables

Other receivables break down as follows:

in EUR k	31 Dec. 2018	31 Dec. 2017
Receivables from staff	16	21
Receivables from deposits	710	1,904
Receivable from insurance refund	36	20
Repayment receivable	126	437
Other	3	2
Total	**891**	**2,384**

Other receivables are all short term, not past due and not impaired. As in the prior year, there are no long-term receivables in the reporting period.

8. Other financial assets at fair value through profit or loss

As in the prior year, there are no financial assets at fair value through profit or loss as of the end of the reporting period (prior year: EUR 0 k).

9. Current tax receivables

There were no long-term income tax receivables either in the current reporting year or in the prior year.

The short-term current income tax receivables of EUR 2,315 k in total (prior year: EUR 1,729 k) relate to claims for prepayments for corporate income tax and trade tax of EUR 1,034 k in total (prior year: EUR 138 k), receivables from the VAT prepayment amounting to EUR 647 k (prior year: EUR 691 k) as well as the capitalization of a tax credit for research projects in France of EUR 634 k (prior year: EUR 902 k).

10. Cash and cash equivalents

Cash and cash equivalents break down as follows:

in EUR k	31 Dec. 2018	31 Dec. 2017
Bank balances	18,037	23,687
Cash on hand	4	5
Cash in the statement of financial position	18,041	23,692
Overdrafts used via cash management	-3	-3,152
Cash and cash equivalents presented in the statement of cash flows	**18,038**	**20,540**

Bank balances earn interest at the floating rates based on daily bank deposit rates. The fair value of cash amounts to EUR 18,041 k (prior year: EUR 23,692 k).

The Group has credit lines of EUR 2,382 k as of the end of the reporting period (prior year: EUR 4,806 k). In addition to the overdrafts reported above, there is a figure of EUR 1,500 k that can be availed of either as a loan or as a guarantee. The Group utilized EUR 568 k of this amount as a guarantee as of the end of the reporting period (prior year: EUR 667 k).

11. Prepaid expenses

Prepaid expenses break down as follows:

in EUR k	31 Dec. 2018	31 Dec. 2017
Prepaid maintenance fees	6,873	8,365
Prepaid rights of use and car insurance	1,226	977
Total	**8,199**	**9,342**

The prepaid maintenance fees involve prepayments by the CENIT Group for the 2019 period that will be recorded as expenses in the following year.

12. Equity

Capital stock

Since the resolution adopted on 13 June 2006 to increase capital from company funds and entry in the commercial register on 14 August 2006, the capital stock (issued capital) of CENIT AG amounts to EUR 8,367,758.00 and is fully paid in. It is divided into 8,367,758 no-par value shares of EUR 1.00 each (prior year: 8,367,758 no-par value shares of EUR 1.00 each). The shares are bearer shares and are no-par value common shares only.

CENIT AG still holds no treasury shares.

Notes on the components of equity

The capital reserves contain the share premium realized from issuing shares of the parent company in excess of their nominal value. If the legal reserve and the capital reserves pursuant to Sec. 272 (2) Nos. 1 to 3 HGB together do not exceed a tenth of the capital stock or any higher amount stipulated in the articles of incorporation and bylaws, they may only be used in accordance with Sec. 150 AktG to offset a net loss for the year or an unused tax loss that is not covered by net income for the year or an unused tax profit respectively, and cannot be offset by releasing other revenue reserves. The capital reserves were last increased in the 2007 reporting period by EUR 195 k by pro rata posting of the stock options granted under the stock option plan 2002/2006.

Other revenue reserves and the legal reserve pursuant to Sec. 150 AktG contain the profits transferred to reserves.

The unrealized actuarial gains/losses from defined benefit obligations included in other revenue reserves developed as follows in the 2018 reporting period:

in EUR k	
As of 1 January 2018	703
Addition/disposal	-561
Deferred taxes	136
Of which attributable to non-controlling interests	4
As of 31 December 2018	**282**

The currency translation reserve contains the net differences resulting from translation of the subsidiaries' financial statements to the Group's functional currency that are offset against equity.

As of the end of the reporting period, there are total non-controlling interests of EUR 1,277 k in equity amounting to EUR 39,102 k.

13. Current income tax liabilities and other provisions

in EUR k	31 Dec. 2018	31 Dec. 2017
Current income tax liabilities	789	460
Other provisions	137	192
Total	**926**	**652**

The current income tax liabilities developed as follows:

in EUR k	
As of 1 January 2018	460
Utilization	322
Reversal	0
Addition	651
As of 31 December 2018	**789**

The other provisions cover all identifiable obligations to third parties in accordance with IAS 37. They developed as follows:

in EUR k	General Meeting of Shareholders	Return of vehicles	Outstanding sales credits	Personnel-related measures	Total
As of 1 January 2018	**80**	**83**	**32**	**26**	**221**
Utilization	80	53	32	26	191
Reversal	0	0	0	0	0
Addition	87	56	5	0	148
As of 31 December 2018	**87**	**86**	**5**	**0**	**178**
of which long-term	0	41	0	0	41
of which short-term	87	45	5	0	137

The provisions will mainly be used in the following reporting period. Due to the volume involved, long-term provisions are reported under other non-current liabilities.

14. Trade payables and liabilities to joint ventures

The liabilities are subject to customary retentions of title to the delivered goods.

in EUR k	31 Dec. 2018	31 Dec. 2017
Trade payables	7,922	7,922
Liabilities to joint ventures	44	35
Total	**7,966**	**7,957**

Of the total liabilities, EUR 7,966 k is due within one year (prior year: EUR 7,957 k). These are not subject to interest.

15. Other liabilities

Other current liabilities break down as follows:

in EUR k	31 Dec. 2018	31 Dec. 2017
VAT/wage tax payables	3,809	3,056
Liabilities for social security	538	618
Employer's liability insurance, compensatory levy in lieu of employing severely disabled persons	184	180
Vacation and bonus entitlements	3,938	4,901
Long-service awards	55	75
Personnel adjustment measures	428	774
Supervisory Board compensation	42	68
Outstanding purchase invoices	1,018	1,967
Travel cost liability for employees	85	96
Contract liabilities*	2,520	0
Payments on account received**	0	4,011
Financial statements costs	136	151
Purchase price liability	790	510
Individual warranty cases	22	310
Other	493	342
Total	**14,058**	**17,059**

* Before changing the financial reporting to IFRS 15, payments on account received amounting to EUR 3,813 k would have been reported here instead. These would not have been netted with receivables from construction contracts, as the payments on account do not constitute progress billings based on the stage of completion.

** After changing the financial reporting to IFRS 15, in the prior year contract liabilities amounting to EUR 3,442 k would have been reported here.

Other non-current liabilities break down as follows:

in EUR k	31 Dec. 2018	31 Dec. 2017
Long-service awards	349	331
Pension obligations	1,504	2,378
Long-term Management Board remuneration	1,022	1,069
Archiving costs	34	34
Other	41	30
Total	**2,950**	**3,842**

The long-service awards total EUR 404 k. Of this figure, EUR 349 k is reported in non-current and EUR 55 k in current other liabilities. There are no written commitments to the employees for the long-service awards. These were recognized as liabilities on account of the payment method and the resulting indication of company practice.

16. Deferred income

Deferred income breaks down as follows:

in EUR k	31 Dec. 2018	31 Dec. 2017
Deferred maintenance income and royalties	13,793	13,159

The deferred maintenance fees involve prepayments by customers for the 2018 period that will not be recorded as income until later periods.

17. Pension plans

Defined contribution plans

The Group offers all employees in Germany with an unterminated and permanent employment relationship the possibility to participate in an employer-funded pension scheme. CENIT voluntarily pays, with a right of revocation, a pre-defined fixed amount each month into a defined contribution pension insurance policy of an insurance firm. This resulted in expenses of EUR 203 k (prior year: EUR 201 k) for CENIT in the reporting period.

In addition, for all employees with the exception of CENIT CH, there is a defined contribution plan as part of statutory pension insurance. The employer has to pay the respective contributory rate applicable (employer contribution) of the remuneration subject to pension contributions.

Defined benefit plans

Companies in Switzerland must grant their employees minimum old-age pension payments, and the pension plan payments often exceed the statutory minimum payments. Although the future pension payments depend in principle on the contributions saved, including the interest on the retirement assets, there is a residual risk for a company that it will in future have to make further contributions to the pension plan for service periods already worked by the employee. This is on account of the guarantees contained in pension law. These guarantees relate among other things to the minimum interest on retirement assets in the statutory field, the balance of retirement assets and the (minimum) conversion rate. Together with the remedial duty in the event of a (potential) shortfall in the pension plan, these guarantees mean that LOB old-age pensions in Switzerland are classified as defined benefit plans in accordance with IAS 19 and are presented accordingly in the statement of financial position. Actuarial gains and losses are recognized in other comprehensive income taking into account deferred taxes.

In France, the statutory basic pension is supplemented by obligatory additional pensions which, like the basic pension, are financed using the cost sharing method. The 2010 pension reform act raised the statutory minimum pension age. If an employee decides to enter retirement, he or she receives a pension payment from the employer. The amount is variable, but is based on the number of years of service and amounts to between one and six months' salary.

The following tables summarize the components of net benefit expense recognized in the income statement and amounts recognized in the statement of financial position for the respective plans.

The total obligation recognized in the statement of financial position from the defined benefit plans is as follows:

in EUR k	2018	2017
Present value of the defined benefit obligation	6,323	6,783
Fair value of plan assets	4,819	4,405
Benefit liabilities	**1,504**	**2,378**

The net liability developed as follows:

in EUR k	2018	2017
Net liability as of 1 January	2,378	1,753
Addition from business acquisition	0	925
Net income/expense recognized	-214	220
Contributions by the employer	-145	-178
Actuarial losses/gains	-560	-198
Net foreign exchange difference	45	-144
Net liability as of 31 December	**1,504**	**2,378**

Changes in the present value of the defined benefit obligation are as follows:

in EUR k	2018	2017
Present value of defined benefit obligation as of 1 January	6,783	6,728
Addition from business acquisition	0	925
Current service cost	424	370
Interest expense	42	38
Contributions by plan participants	145	169
Actuarial gains/losses	-597	-213
Benefits paid/reimbursed	-39	-523
Past service cost	-657	-164
Net foreign exchange difference	221	-547
Present value of defined benefit obligation as of 31 December	**6,322**	**6,783**

The weighted average duration of the obligations is 8.82 years.

The changes in fair value of the plan assets are as follows:

in EUR k	2018	2017
Fair value of plan assets as of 1 January	4,405	4,975
Expected return on plan assets	23	24
Actuarial gains/losses	-37	-15
Contributions by the employer	145	178
Contributions by plan participants	145	169
Benefits paid	-38	-523
Net foreign exchange difference	176	-403
Fair value of plan assets as of 31 December	**4,819**	**4,405**

All of the plan assets come from other insurance contracts. Consequently, there are no special risks from plan assets. The total return expected on plan assets is calculated on the basis of past experience. This is reflected in the principal assumptions (see below). The actual return on plan assets come to EUR 6 k in total (prior year: EUR 6 k).

in EUR k	2018	2017
Current service cost	424	370
Interest expense	42	38
Expected return on plan assets	-23	-24
Past service cost	-657	-164
Net benefit expense	**-214**	**220**

The Group expects to contribute EUR 201 k in total to its defined benefit pension plans in the 2019 reporting period.

The principal assumptions used in determining the pension obligation of CENIT CH are shown below:

%	2018	2017
Discount rate	0.6	0.5
Expected return on plan assets	1.0	1.0
Anticipated rate of salary increase	1.0	1.0
Lump-sum payment	30	0
Probability of reaching retirement	20% each in the last 5 years before retirement	100

The pension plan for management was dissolved as of the end of 2017. The retirement assets available from this contract were transferred to the basic plan. This change resulted in subsequent income of EUR 164 k. This reduction in expenses was recognized immediately in profit or loss in 2017. The lump-sum payment option as well as early retirement are being introduced from 2018, leading to subsequent income of EUR 657 k.

The following basic assumptions were made for the pension obligation of KEONYS FR.

%	2018	2017
Discount rate	1.57	1.3
Anticipated rate of salary increase	0.5	1.0
Average rate of employee turnover	9	9

The amounts for the current and prior reporting periods are as follows:

in EUR k	2018	2017	2016	2015	2014
Present value of the defined benefit obligation	6,322	6,783	6,728	5,574	5,187
Plan assets	4,819	4,405	4,975	4,272	3,968
Deficit	-1,503	-2,378	-1,753	-1,302	-1,219
Experience adjustments on plan liabilities	-528	-271	119	-228	-107
Experience adjustments on plan assets	-37	-15	-86	71	-445

The authoritative actuarial assumptions used to calculate the defined benefit obligation are the discount rate and the rate of salary increase. The sensitivity analyses presented below were carried out on the basis of the changes in the respective assumptions as of the end of the reporting period that are reasonably possible, with the other assumptions remaining unchanged in each case.

In the case of the obligations of CENIT CH of EUR 5,526 k, if the discount rate were to go up by 0.5% or down by 0.5%, the obligation would decrease by 4.3% and increase by 4.8% respectively. If the rate of salary increase were to rise by 0.5% or drop by 0.5%, the obligation would increase by 0.3% or fall by 0.3% respectively.

In the case of the obligations of KEONYS FR of EUR 797 k, if the discount rate were to go up by 0.5% or down by 0.5%, the obligation would decrease by 5.54% and increase by 5.97% respectively. If the rate of salary increase were to rise by 0.5% or drop by 0.5%, the obligation would increase by 6.2% or fall by 5.8% respectively.

18. Financial risk management objectives and policies

The aim of the disclosures required in accordance with IFRS 7 is to provide information relevant for decision making on the amount, timing and probability of occurrence of future cash flows that result from financial instruments, and to assess the risks resulting from financial instruments.

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Apart from cash, financial assets primarily involve non-securitized receivables, such as trade receivables, loans and loan receivables, and securitized receivables, such as checks, bills of exchange or debenture bonds. Financial assets can also include held-to-maturity investments and derivatives held for trading. Financial liabilities on the other hand generally give rise to a contractual obligation to return cash or other financial assets. These include in particular trade payables, liabilities to banks, bonds, liabilities on bills accepted and drawn as well as written options and derivative financial instruments with a negative fair value.

The Group’s principal financial instruments comprise trade receivables, receivables from joint ventures as well as cash and cash equivalents, overdrafts and trade payables. The main purpose of these financial instruments is to finance the Group’s business activities. The Group has various financial assets such as trade receivables, cash and short-term deposits which arise directly from its business activities.

There are no significant differences between the carrying amount and fair value of receivables and liabilities due to their short term.

The Group is exposed to credit and liquidity risks as well as interest and exchange rate fluctuations in the course of its operations.

The general regulations for the group-wide risk policy are contained in the group guidelines. The group-wide risk policy also provides for the use of derivative financial instruments. The corresponding financial transactions are only concluded with counterparties with excellent credit ratings.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: currency risk, interest rate risk and other price risks, such as the equity price risk. The Group does not envisage any material market price risk. For the other market risks listed above, we refer to the following comments.

Credit risk

The credit risk results from the possibility that business partners may fail to meet their obligation under financial instruments and that financial losses could be incurred as a result.

The Group obtains credit ratings from external agencies before accepting a new customer in order to assess the creditworthiness of prospective customers and define their credit limits.

Credit ratings for major new customers are made by Creditreform e.V. For new and existing customers, the credit risk is reduced among other things by issuing invoices for downpayments. The payment behavior of existing customers is analyzed on a constant basis. In addition, the credit risk is controlled using limits for each contractual party, which are examined annually.

No credit rating is carried out for contracts won by our contractual partners, since this is already done at contractual partner level.

In addition, receivables balances are monitored by us on an ongoing basis, with the result that the Group’s exposure to risk of default is not significant.

As we do not conclude any general netting agreements with our customers, the sum of the amounts reported under assets also represents the maximum credit risk. There are no identifiable concentrations of credit risk from business relationships with single debtors or groups of debtors. With respect to the other financial assets of the Group, such as cash, the Group’s maximum exposure to credit risk arising from default of the counterparty is equal to the carrying amount of these instruments.

Apart from customary retention of title, the Group does not have any collateral or other credit enhancement measures that would reduce this default risk.

Currency risk

The currency risk exposure mainly arises where receivables or liabilities exist or will be generated in the ordinary course of business in a currency other than the local currency of the Company.

In addition, there are currency risks from domestic bank balances denominated in USD. The resulting risks amount to EUR 93 k (prior year: EUR 326 k) with a total volume of USD 1,066 k (prior year: USD 3,914 k) and a change of +/- 10%. The risk from cash on hand is considered immaterial on the whole. The currency risk from bank balances of subsidiaries in the respective local currency mainly involves figures of CHF 2,193 k (prior year: CHF 453 k) and USD 2,577 k (prior year: USD 3,139 k) and amounts to EUR 420 k (prior year: EUR 300 k) with a change of +/- 10%.

There are no other risks from foreign currencies.

Interest rate risk

The Group is generally not exposed to any risk from changes in market interest rates because it has not borrowed any non-current financial liabilities with floating interest rates. Because the Group does not use any non-current financial liabilities, it only sees an interest rate risk from investing cash and cash equivalents. This risk is not deemed material.

The CENIT Group's policy is to manage its interest income using a mix of fixed and floating-rate investments. The Group uses financial instruments where necessary to achieve this goal.

As of the end of both reporting periods, there were no derivative financial instruments for hedging against interest risks.

Liquidity risk

The Group needs sufficient liquidity to meet its financial obligations. Liquidity risks arise from the possibility that customers may not be able to settle obligations to the Group under normal trading conditions. The Group manages liquidity risk by maintaining adequate reserves, credit lines from banks and by constantly monitoring forecast and actual cash flows and reconciling the maturity profiles of financial assets and liabilities. The credit rating of the Group allows sufficient cash to be procured. Moreover, the Group has lines of credit that have not yet been used.

Thanks to the large amount of cash and cash equivalents, there are currently no liquidity or refinancing risks at group level.

The financial liabilities all fall due within a maximum of one year.

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and a maximum equity ratio in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group can adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made to the objectives, policies and processes as of 31 December 2018 and 31 December 2017.

The Group monitors its capital in relation to total assets.

in EUR k	31 Dec. 2018	31 Dec. 2017
Total assets	79,075	87,264
Equity	39,102	40,855
Equity as a percentage of total assets (%)	**49.4**	**46.8**

19. Financial instruments

The table below shows the carrying amounts and fair values of all of the Group's financial instruments included in the consolidated financial statements.

in EUR k	Carrying amount 2018	Carrying amount 2017	Fair value 2018	Fair value 2017
Financial assets				
Non-current other financial assets	2,500	0	2,500	0
Cash and cash equivalents	18,041	23,692	18,041	23,692
Receivables	30,906	33,910	30,906	33,910
thereof:				
• Trade receivables	24,989	28,551	24,989	28,551
• Receivables from a joint venture	5,026	2,975	5,026	2,975
• Other receivables	891	2,384	891	2,384
	51,447	**57,603**	**51,447**	**57,603**

Financial liabilities				
• Overdrafts	3	3,152	3	3,152
• Trade payables	7,922	7,922	7,922	7,922
• Liabilities from a joint venture	44	35	44	35
• **Other liabilities**				
• Outstanding purchase invoices	1,018	1,967	1,018	1,967
• Purchase price liabilities	790	510	790	510
	9,777	**13,586**	**9,777**	**13,586**

The fair value of the financial assets and financial liabilities corresponds to their carrying amount at amortized cost because this is a strategic investment acquired under market conditions (non-current other financial assets) and is furthermore only a current asset and a current liability. The fair value of financial assets measured at fair value results from the observable prices on the market.

G Statement of cash flows

The statement of cash flows shows how the cash and cash equivalents of the CENIT Group changed during the course of the reporting period and the prior year as a result of cash inflows and outflows. Cash flows were broken down into cash flow from operating, investing and financing activities in accordance with IAS 7. The amounts reported from foreign entities are generally translated at the annual average rates. However, as in the statement of financial position, liquidity is reported at the closing rate. The effects of exchange rate changes on cash are shown separately if they are material.

The cash flow from investing activities and financing activities is determined directly on the basis of payments made or received. The cash flow from operating activities, on the other hand, is derived indirectly from the Group's net income or loss for the year. When performing the indirect calculation, changes in items in the statement of financial position considered in connection with operating activities are adjusted for effects from currency translation and changes in the basis of consolidation. There are therefore differences compared to changes in the relevant items in the consolidated statement of financial position.

Investments in property, plant and equipment and intangible fixed assets and other financial assets are included in the cash outflow from investing activities.

Only assets that can be readily converted into cash without significant deductions and that are subject to minor fluctuations in value are included in cash and cash equivalents.

Cash and cash equivalents include all cash and cash equivalents reported in the statement of financial position (F10) provided they have an original maturity of less than three months, as well as overdrafts repayable on demand.

H Segment reporting

Pursuant to IFRS 8, business segments must be demarcated based on the internal reporting from group divisions that are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance.

For management purposes, the Group is organized into business units based on its products and services, and has two reportable operating segments as follows:

- EIM (Enterprise Information Management)
- PLM (Product Lifecycle Management)

The presentation is based on internal reporting.

The PLM (Product Lifecycle Management) segment focuses on industrial customers and the corresponding technologies. Its industry focus is on the automotive, aerospace, mechanical engineering and shipbuilding industries. Special emphasis is placed on products and services in product lifecycle management, such as CATIA from Dassault Systèmes or SAP, and internally developed software such as cenitCONNECT and FASTSUITE. The Enterprise Information Management (EIM) segment focuses on the customer segment of trade and commerce, banks, insurance firms and utilities. The focus here is on products of the strategic software partner IBM and internally developed software and consultancy services in the fields of document management and business intelligence.

In the segmentation by business unit and by region, those financial assets and tax reimbursement rights as well as current and deferred income tax liabilities and other liabilities are disclosed in the "Not allocated" column for segment assets and segment liabilities respectively that could not be attributed to the respective business units.

The segmentation by region is based on the location of the Group's assets. Sales to external customers disclosed in geographical segments are based on the geographical location of the respective group company of the individual segment.

SEGMENT REPORTING BY BUSINESS UNIT (in accordance with IFRS)

in EUR k		EIM	PLM	Recon-ciliation	Group
External revenue	2018	15,853	154,137	0	169,990
	2017	19,050	132,651	0	151,701
EBIT	2018	2,549	6,479	0	9,028
	2017	2,519	10,317	0	12,836
Share of profit of the joint venture	2018	0	0	0	0
	2017	0	0	0	0
Other interest result and financial result	2018	0	0	-71	-71
	2017	0	0	-162	-162
Income taxes	2018	0	0	2,828	2,828
	2017	0	0	3,686	3,686
Group earnings	2018	2,549	6,479	-2,899	6,129
	2017	2,519	10,317	-3,848	8,988
Segment assets	2018	4,595	53,211	21,209	79,015
	2017	7,915	52,974	26,315	87,204
Investment in a joint venture	2018	0	60	0	60
	2017	0	60	0	60
Segment liabilities	2018	4,632	34,267	1,074	39,973
	2017	6,275	35,933	4,201	46,409
Investments in property, plant and equipment and intangible assets	2018	161	1,465	0	1,626
	2017	200	12,394	0	12,594
Amortization and depreciation	2018	458	2,461	0	2,919
	2017	521	1,912	0	2,433

EIM = Enterprise Information Management; PLM = Product Lifecycle Management

The segmentation by region is shown below:

in EUR k		Germany	Switzerland	North America	Romania	France	Belgium	Netherlands	Japan	Reconcil-iation	Consoli-dation	Group
External revenue	2018	91,234	10,635	11,860	2,040	46,620	4,289	2,116	1,196	0	0	169,990
	2017	92,742	11,089	14,641	2,106	25,867	2,202	1,203	1,850	0	0	151,701
Non-current segment assets	2018	16,241	70	127	97	4,868	21	15	19	853	-2,727	19,584
	2017	14,865	40	160	67	5,192	6	1	11	894	-2,732	18,504
Investment in a joint venture	2018	60	0	0	0	0	0	0	0	0	0	60
	2017	60	0	0	0	0	0	0	0	0	0	60
Investments in property, plant and equipment and intangible assets	2018	914	55	18	87	504	20	16	11	0	0	1,626
	2017	1,543	42	34	57	10,904	9	3	2	0	0	12,594

The reconciliation of segment assets breaks down as follows:

in EUR k	31 Dec. 2018	31 Dec. 2017
Deferred tax assets	853	894
Current income tax receivables	2,315	1,729
Cash and cash equivalents	18,041	23,692
Total	**21,209**	**26,315**

The reconciliation of segment liabilities breaks down as follows:

in EUR k	31 Dec. 2018	31 Dec. 2017
Deferred tax liabilities	277	588
Current income tax liabilities	789	460
Overdrafts	3	3,152
Other liabilities	5	1
Total	**1,074**	**4,201**

The reconciliation of non-current segment assets breaks down as follows:

in EUR k	31 Dec. 2018	31 Dec. 2017
Deferred tax assets	853	894

There were no material non-cash expenses in the reporting period or in the prior year except amortization and depreciation and additions to provisions.

I Other notes

1. Contingent liabilities and other financial obligations

As of the end of the reporting period there were no contingent liabilities that would require disclosure in the statement of financial position or in the notes.

The Company has other financial obligations in connection with rental and lease agreements. The resulting financial obligations have been taken into account in the table below:

in EUR k	2018	2017
Rental and lease obligations		
Due in less than 1 year	3,742	3,396
Due in 1 to 5 years	9,126	6,588
Due in more than 5 years	1,622	206
Total	**14,490**	**10,190**

Other financial obligations principally consist of tenancy obligations entered into for the office buildings rented in Germany of EUR 7,461 k (prior year: EUR 5,978 k) and in France of EUR 3,330 k (prior year: EUR 727 k) and vehicle lease agreements of EUR 1,420 k (prior year: EUR 1,507 k). The agreements include options to extend the terms and price escalation clauses as are customary in the industry.

The company cars and communications equipment were also leased by means of lease agreements in order to guarantee that these are always up to date and to avoid tying up liquidity. These agreements result in cash outflows in future periods that are included in the above list.

No material income from sublease agreements is expected in future periods.

2. Related party disclosures

Balances and transactions between CENIT and its subsidiaries that are related parties were eliminated as part of consolidation and are not explained in the notes.

Related parties of the CENIT Group within the meaning of IAS 24 thus only concern the members of the Management Board and Supervisory Board, their dependents and joint ventures.

Transactions with related parties were conducted by CENIT with one member of the Supervisory Board who stepped down in the reporting period. This resulted in consulting expenses of EUR 17 k in the 2018 reporting period (prior year: EUR 18 k) due to CENIT and consulting expenses of EUR 1 k (prior year: EUR 2 k) due to a joint venture. The business was transacted at arm's length conditions. Furthermore, CENIT recorded sales with joint ventures amounting to EUR 9,343 k (prior year: EUR 9,691 k).

As of the end of the reporting period, there were liabilities to related parties of EUR 2 k (prior year: EUR 23 k). The receivables from and liabilities to a joint venture are recognized separately in the statement of financial position.

The Company's Management Board members were:

- Dipl.-Ing. Kurt Bengel, Waiblingen, spokesman of the Management Board of CENIT AG. Responsible for: operations, investor relations and marketing.
- Dipl.-Wirt.-Inf. Matthias Schmidt, Bad Liebenzell, member of the Management Board of CENIT AG. Responsible for: finance, organization and personnel.

The Company's Supervisory Board members were:

- Dipl.-Ing. Andreas Schmidt (independent management consultant), Ahrensburg, chairman, from 30 May 2008 to 18 May 2018
- Dipl.-Kfm. Hubert Leypoldt (independent German public auditor, tax advisor, legal counsel), Dettingen/Erms, deputy chairman, from 6 May 1998 to 18 May 2018
- Dipl.-Ing. Andreas Karrer (Head of Department at CENIT Aktiengesellschaft, Stuttgart), Leinfelden-Echterdingen, employee representative, from 30 May 2008 to 18 May 2018
- Prof. Dr. Oliver Riedel (university professor), Pfaffenhofen a.d. Ilm, chairman since 18 May 2018
- Dipl.-Kfm. Stephan Gier (independent German public auditor, tax advisor), Stuttgart, deputy chairman since 18 May 2018
- Dipl.-Ing. Ricardo Malta (Service Manager CENIT Aktiengesellschaft, Stuttgart), Munich, employee representative since 18 May 2018

In the reporting period, the remuneration of the Management Board members was as follows:

in EUR k	2018	2017
Kurt Bengel		
Fixed	242	242
Fringe benefits	28	25
Performance-based	134	191
Long-term incentive	137	194
Total remuneration for Kurt Bengel	**541**	**652**
Matthias Schmidt		
Fixed	215	215
Fringe benefits	22	21
Performance-based	134	191
Long-term incentive	137	194
Total remuneration for Matthias Schmidt	**508**	**621**
Total	**1,049**	**1,273**

The variable remuneration component breaks down into a short-term and long-term incentive component, which is based on the Group EBIT, with the short-term portion being paid out in the subsequent year. The long-term portion is paid out after three years provided that other criteria have been met. Total annual remuneration is capped in each case to EUR 750,000.00. No minimum remuneration has been agreed for performance-based pay and remuneration with a long-term incentive effect.

The fringe benefits relate to the provision of company cars and subsidies for pension insurance.

The following remuneration was paid out to the Management Board members in the reporting period:

in EUR k	2018	2017
Kurt Bengel		
Fixed	242	242
Fringe benefits	28	25
Performance-based	191	176
Long-term incentive from 2015/2014	160	126
Total remuneration for Kurt Bengel	**621**	**569**
Matthias Schmidt		
Fixed	215	215
Fringe benefits	22	21
Performance-based	191	176
Long-term incentive from 2015/2014	160	130
Total remuneration for Matthias Schmidt	**588**	**542**
Total	**1,209**	**1,111**

The employment contracts of Mr. Bengel and Mr. Schmidt provide for compensation payments pursuant to Sec. 74 HGB for the term of a one-year ban on competition and full remuneration paid to the surviving dependents of deceased Management Board members for a six-month period.

No further pension obligations or benefits were promised in the event of termination of service. In the event that the Company terminates the agreement before its expiry without good reason, the Management Board member receives a severance payment of no more than twice the annual fixed remuneration set out in the agreement for the remainder of the employment agreement. In any case, no more than the remaining term of the employment agreement will be remunerated.

The employment contract of Mr. Bengel was extended prematurely for a further three years with effect as of 1 January 2019. The employment contract of Mr. Schmidt was likewise extended prematurely for a further two years with effect as of 1 January 2019. The cap on total remuneration was raised to EUR 900,000.00 in Mr. Bengel’s contract and to EUR 800,000.00 in Mr. Schmidt’s contract.

The short-term variable remuneration of the Management Board depends on the Group EBIT and is capped at EUR 230,000 from the 2019 financial year. From 2020, the maximum amount will increase by 5% in each case. The long-term variable remuneration also depends on the Group EBIT and is capped at EUR 350,000. The maximum amount will increase by 5% from 2020 onwards. The long-term variable remuneration will be paid out after three years only if the average Group EBIT of the last three years amounts to at least EUR 9,000,000. This limit is also increased by 5% annually.

In accordance with Article 14 of the articles of incorporation and bylaws, the amounts paid to the Supervisory Board were as follows in 2017:

in EUR k	2018	2018	2017	2017
	Fixed	Performance-based	Fixed	Performance-based
Andreas Schmidt	11.5	0	30.0	0
Hubert Leypoldt	8.5	0	22.5	0
Andreas Karrer	5.5	0	15.0	0
Oliver Riedel	18.5	0	0	0
Stephan Gier	14.0	0	0	0
Ricardo Malta	9.5	0	0	0
Total amount	**67.5**	**0**	**67.5**	**0**

The D&O insurance was continued in 2018 for Management Board members, Supervisory Board members as well as other executives. The premiums of EUR 40 k (prior year: EUR 51 k) were borne by the Company.

The Management Board held 7,670 shares as of the end of the reporting period (0.09%). The Supervisory Board members held 80 shares.

3. Notifications pursuant to Sec. 21, 22, 25 WpHG

LOYS Investment S.A., Munsbach, Luxembourg, informed us on 6 February 2018 pursuant to Sec. 40 WpHG that its share of voting rights in CENIT AG, Stuttgart, Germany, exceeded the threshold of 5% of voting rights on 6 February 2018 and amounted to 5.19% on that date (corresponding to 434,239 voting rights). The shares are contained in the portfolio of the following funds managed by LOYS Investment S.A.: LOYS FCP - LOYS GLOBAL L/S, LOYS EUROPA SYSTEM, LOYS Sicav - LOYS Global System.

Mr. Jos B. Peeters, born on 11 January 1948, informed us on 1 August 2018 pursuant to Sec. 40 WpHG that his share of voting rights in CENIT AG, Stuttgart, Germany, fell below the threshold of 3% on 30 July 2018 and amounted to 2.80% on that date (234,180 voting rights).

4. Group auditor’s fees

in EUR k	2018	2017
Audit fees (annual financial statements and consolidated financial statements)	112	97
thereof relating to other periods: EUR 13 k (prior year: EUR 0 k)		
Fees for other services	3	14
Total	**115**	**111**

Other services relate to the preparation of the appraisals for the measurement of the long-service award provision (in the prior year, the item also included brought-forward audit of selected matters relating to the purchase price allocation for KEONYS SAS). The long-service award provision only has an immaterial effect on the financial statements.

5. Events after the reporting period

There were no reportable subsequent events.

6. Declaration pursuant to Sec. 161 AktG on the German Corporate Governance Code

The Management Board and Supervisory Board of the Company have issued the declaration for 2018 required by Sec. 161 AktG and made it available on the Company's homepage (http://www.cenit.com/en_EN/investor-relations/corporate-governance.html).

Stuttgart, 15 March 2019

CENIT Aktiengesellschaft

The Management Board

Kurt Bengel Spokesman, Management Board	Matthias Schmidt Member, Management Board

Independetn Auditor's Report

To CENIT Aktiengesellschaft, Stuttgart

Report on the audit of the consolidated financial statements and of the combined management report of the CENIT Group and of CENIT AG

Opinions

We have audited the consolidated financial statements of CENIT Aktiengesellschaft, Stuttgart, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the fiscal year from 1 January 2018 to 31 December 2018 as well as the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report of the CENIT Group and of CENIT AG for the fiscal year from 1 January 2018 to 31 December 2018. In accordance with the German legal requirements, we have not audited the content of the components of the combined management report listed under "Other notes".

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

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB ["Handelsgesetzbuch": German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2018 and of its financial performance for the fiscal year from 1 January 2018 to 31 December 2018, and
- the accompanying combined management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the combined management report does not cover the content of the components of the combined management report listed under "Other notes".

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

Basis for the opinions

We conducted our audit of the consolidated financial statements and of the combined management report in accordance with Sec. 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and of the combined management report of the CENIT Group and of CENIT AG" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements.

In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the combined management report.

Key audit matters in the audit of the consolidated financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from 1 January 2018 to 31 December 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

Below, we describe what we consider to be the key audit matters:

Revenue recognition

Background

The CENIT Group generates revenue from the sale of hardware, the licensing of software and the provision of consulting services for the planning, implementation and optimization of business and IT processes.

In addition to cash and cash equivalents, it is the assets resulting from the sales process and deferred revenue that make up the main asset items in the statement of financial position.

Because of the importance of the matter for the users' understanding of the financial statements as a whole, the audit of revenue recognition and deferred revenue required our special attention and was considered a key audit matter as part of our audit.

The disclosures on revenue recognition are contained in the notes to the consolidated financial statements in D. Accounting policies.

Auditor's response and findings

We assessed the compliance of the recognition and measurement policies applied by CENIT AG for the recognition of revenue with IFRS 15.

We made a record of the internal control system in relation to revenue recognition. We assessed the structure and effectiveness of the main controls for recognizing revenue.

For a selection of the sales recognized, we also obtained an understanding of the transaction by examining the underlying contractual agreements and other related documents and from explanations by employees of CENIT AG from the accounting and sales departments, obtained transaction confirmations from selected customers, carried out cut-off audits for selected revenue and assessed whether the respective revenue recognition guidelines were applied appropriately in order to ensure that revenue is recognized in the correct period.

Other information

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

- the non-financial group statement published separately and referred to in the "Other notes" section of the combined management report
- the corporate governance group statement published separately and referred to in the "Other notes" section of the combined management report
- the other parts of the annual report, with the exception of the audited consolidated financial statements and combined management report as well as our auditor's report

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

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

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

If we conclude, based on the work carried out by us, that this other information is materially misstated, we are obliged to report this fact. We do not have anything to report in this regard.

Responsibilities of the Executive Directors and the Supervisory Board for the consolidate financial statement and the combined management report of the CENIT Group and of CENIT AG

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

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

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

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

Auditor's responsibilities for the audit of the consolidated financial statements and of the combined management report of the CENIT Group and of CENIT AG

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

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

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

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

report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

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

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

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

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

Other legal and regulatory requirements

Further information pursuant to Art. 10 of the EU audit regulation

We were elected as auditor by the Annual General Meeting of Shareholders on 18 May 2018. We were engaged by the Supervisory Board on 8 August 2018. We have been the auditor of CENIT Aktiengesellschaft without interruption since fiscal year 2009.

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

German public auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Mr. Christof-Martin Preis.

Stuttgart, 15 March 2019

BDO AG

Wirtschaftsprüfungsgesellschaft

signed Steffen Walter	signed Christof-Martin Preis
Wirtschaftsprüfer [German Public Auditor]	Wirtschaftsprüfer [German Public Auditor]

Corporate Governance Report

At CENIT AG, good corporate governance is a core component of management. The Management and Supervisory Boards of CENIT AG welcome the model set by the German Corporate Governance Code and have resolved to widely implement and observe the regulations of the Code in the CENIT Group. In this way, CENIT AG documents the fact that responsible, value-based corporate governance, and its consistent monitoring, are given top priority within the CENIT Group.

As a listed company, CENIT AG is aware that it is the shareholders who provide the necessary growth capital and thus also assume part of the entrepreneurial risk. For this reason, maximum transparency, open and timely communication with investors, efficient risk management, compliance with stock exchange rules and management that focuses on creating added value are therefore already essential components of the corporate philosophy.

Additionally, CENIT AG is already subject to a number of strict reporting requirements as a result of its listed status on the Prime Standard of the Regulated Market. This means that CENIT AG already fulfills many of the recommendations of the German Corporate Governance Code.

Declaration of Conformity in accordance with Sec. 161 AktG

The Management and Supervisory Boards of CENIT AG have issued the Declaration of Conformity with the Corporate Governance Code as prescribed by Sec. 161 AktG [“Aktiengesetz”: German Stock Corporation Act], and made it accessible on the Company’s homepage (www.cenit.com).

Declaration on Corporate Governance

For the year 2018, the Management and Supervisory Boards of the Company have issued the Declaration on Corporate Governance prescribed by Sec. 289f HGB [“Handelsgesetzbuch”: German Commercial Code] and have made it permanently accessible on the CENIT homepage via the following link: http://www.cenit.com/en_EN/investor-relations/corporate-governance.html. The Declaration on Corporate Governance (Sec. 289f HGB) includes the Declaration of Conformity, information on corporate governance practices and a description of the operating principles of the Management and Supervisory Boards.

Operating principles of the Management and Supervisory Boards

The Supervisory Board and the Management Board work in close cooperation for the greater benefit of the Company.

The Management Board informs the Supervisory Board in a regular, timely and comprehensive manner as to the course of business, the economic and financial development of CENIT as well as on the risk situation, risk management, compliance topics and fundamental matters of business strategy. Decisions of a substantial nature require approval by the Supervisory Board.

The chief task of the Supervisory Board is to advise and supervise the Management Board. Employee interests are appropriately represented by the employee representative on the Supervisory Board. Supervisory Board meetings are held on a regular basis, and where required supplemented by conference calls. Due to the low number of Supervisory Board members, committees have not been formed.

In filling management positions and when taking other personnel decisions, the Supervisory and Management Boards are guided solely by the capabilities and qualifications of the available candidates, without according any special or elevated significance to gender.

The same is true for the selection of the members of the Company's bodies. Members are selected primarily based on suitability and qualifications. In the opinion of CENIT AG, the special weighting of further criteria, as prescribed by the Code, would unduly restrict the selection of potential candidates for the Management/Supervisory Boards. The fact that the Management Board is currently made up of only two members and the Supervisory Board of three members also deserves mention in this context.

The Supervisory and Management Boards expressly welcome all endeavors which promote diversity and counteract discrimination on the basis of gender or any other form of discrimination.

Again in 2018, the Management Board and Supervisory Board continued to speak out in favor of qualifications being the decisive criterion for appointing a Supervisory Board member, a Management Board member or for hiring or appointing executives. The Supervisory Board defined a target share of women of at least 0% for appointments to the Supervisory Board or Management Board and of at least 8% for executive positions. CENIT exceeded these targets in the fiscal year with 10%.

Supervisory Board

The Supervisory Board advises and supervises the Management Board. The Supervisory Board of CENIT AG is composed of three members. Two of these are elected by the General Meeting of Shareholders, one by the employees of the Company. The Chairperson of the Supervisory Board is elected from among its members.

The Supervisory Board appoints the members of the Management Board. It supervises and advises the Management Board in its governance of the Company. Substantial decisions by the Management Board require the approval of the Supervisory Board. Members of the Supervisory Board receive compensation that is not performance-based.

A new Supervisory Board was elected at the Annual General Meeting on 18 May 2018. In the following first constituent meeting, Prof. Dr. Oliver Riedel was appointed Chairman of the Supervisory Board. The Deputy Chairman is Dipl.-Kfm. Stephan Gier. Dipl.-Ing. Ricardo Malta, Service Manager, was elected last year as employee representative on the Supervisory Board by the employees of CENIT AG.

In accordance with Article 14 of the articles of incorporation and bylaws, the amounts paid to the Supervisory Board were as follows in 2018:

in EUR k	2018	2018	2017	2017
	Fixed	Performance-based	Fixed	Performance-based
Andreas Schmidt	11,5	0	30,0	0
Hubert Leypoldt	8,5	0	22,5	0
Andreas Karrer	5,5	0	15,0	0
Oliver Riedel	18,5	0	0	0
Stephan Gier	14,0	0	0	0
Ricardo Malta	9,5	0	0	0
Total amount	**67,5**	**0**	**67,5**	**0**

Management Board

The Management Board is the management body of the Company. It conducts the business of the Company on its own responsibility and within the framework determined by stock corporation law. It is obliged to further the interests of the Company and bound by principles of business policy. It reports to the Supervisory Board in a regular, timely and comprehensive manner on all substantial matters of business development, business strategy and potential risks. The remuneration of members of the Management Board is made up of fixed and performance-based components. During the reporting year, there were no changes in the composition of the Management Board.

During the reporting year, the members of the Management Board received the following remuneration:

in EUR k	2018	2017
Kurt Bengel		
Fixed	242	242
Finge benefits	28	25
Performance based	134	191
Long-term incentive	137	194
Total remuneration for Kurt Bengel	**541**	**652**
Matthias Schmidt		
Fixed	215	215
Fringe benefits	22	21
Performance-based	134	191
Long-term incentive	137	194
Total remuneration for Matthias Schmidt	**508**	**621**
Total	**1.049**	**1.273**

The variable remuneration of the Management Board is divided into a short-term component and a long-term incentive component, which is based on the Group EBIT, with the short-term component being paid out in the following year. The long-term portion is paid out after three years provided that other criteria have been met. Total annual remuneration is capped in each case to EUR 750,000.00. No minimum remuneration has been agreed for performance-based pay and remuneration with a long-term incentive effect.

The fringe benefits relate to the provision of company cars and subsidies for pension insurance.

The following remuneration was paid out to the Management Board members in the reporting period:

in EUR k	2018	2017
Kurt Bengel		
Fixed	242	242
Fringe benefits	28	25
Performance-based	191	176
Long-term incentive from 2015/2014	160	126
Total remuneration for Kurt Bengel	**621**	**569**
Matthias Schmidt		
Fixed	215	215
Fringe benefits	22	21
Performance-based	191	176
Long-term incentive from 2015/2014	160	130
Total remuneration for Matthias Schmidt	**588**	**542**
Total	**1,209**	**1,111**

The employment contracts of Mr. Bengel and Mr. Schmidt provide for compensation payments pursuant to Sec. 74 HGB for the term of a one-year ban on competition and full remuneration paid to the surviving dependents of deceased Management Board members for a six-month period.

No further pension obligations or benefits were promised in the event of termination of service. In the event that the Company terminates the agreement before its expiry without good reason, the Management Board member receives a severance payment of no more than twice the annual fixed remuneration set out in the agreement for the remainder of the employment agreement. In any case, no more than the remaining term of the employment agreement will be remunerated.

The employment contract of Mr. Bengel was extended prematurely for a further three years with effect as of 1 January 2019. The employment contract of Mr. Schmidt was likewise extended prematurely for a further two years with effect as of 1 February 2019. The cap on total remuneration was raised to EUR 900,000.00 in Mr. Bengel’s contract and to EUR 800,000.00 in Mr. Schmidt’s contract.

The short-term variable remuneration of the Management Board depends on the Group EBIT and is capped at EUR 230,000 from the 2019 financial year. From 2020, the maximum amount will increase by 5% in each case. The long-term variable remuneration also depends on the Group EBIT and is capped at EUR 350,000. The maximum amount will increase by 5% from 2020 onwards. The long-term variable remuneration will be paid out after three years only if the average Group EBIT of the last three years amounts to at least EUR 9,000,000. This limit is also increased by 5% annually.

Shares held by the Management and Supervisory Boards

Share portfolios as of 31 December 2018

Total number of shares: 8,367,758

Management Board:		**Supervisory Board:**	
Kurt Bengel:	6,000	Prof. Dr. Oliver Riedel:	80
Matthias Schmidt:	1,670	Stephan Gier:	0
		Ricardo Malta:	0

Shareholders and General Meeting

Our shareholders exercise their rights during the Company's General Meeting of Shareholders. The annual General Meeting of Shareholders takes place during the first six months of the fiscal year and is chaired by the Chairperson of the Supervisory Board. The General Meeting of Shareholders decides on all matters assigned to it by law (including election of the members of the Supervisory Board, amendments to the articles of incorporation and bylaws, appropriation of profits, capital measures).

All documents and information pertaining to the General Meeting of Shareholders are duly made available to the shareholders via our website.

Accounting and auditing

The consolidated financial statements of CENIT Aktiengesellschaft, Stuttgart, are prepared by the Management Board in accordance with the International Financial Reporting Standards (IFRSs) as adopted in the EU and in compliance with the supplementary provisions of commercial law that apply pursuant to Sec. 315a (1) HGB. The consolidated financial statements are audited by the auditor and approved by the Supervisory Board. The consolidated financial statements are made publicly available within 90 days of approval.

The auditor is BDO Aktiengesellschaft Wirtschaftsprüfungsgesellschaft.

An agreement was reached with the auditor to the effect that the Chairperson of the Supervisory Board will be immediately informed of any grounds for exclusion or exemption as well as any errors or omissions in the Declaration of Conformity as may be discovered during the course of the audit. The auditor will also immediately inform the Chairperson of the Supervisory Board of any and all matters and events related to the Board's tasks that may arise during the course of the audit.

Transparent Corporate Governance

Comprehensive and timely reporting on the business situation and the business results of CENIT AG is conducted by way of the annual report, the quarterly reports and the mid-year financial statements. The respective dates of publication are published at the beginning of each fiscal year in our financial calendar. The articles of incorporation and bylaws, presentations, press releases and ad hoc notifications are also made accessible. All reports and communications can be accessed online at www.cenit.com/en_EN/investor-relations.html. CENIT AG has also prepared the prescribed insider directory. The individuals concerned have been informed as to their statutory duties and fines.

Development of CENIT shares on the financial markets

Chart: Share price development in 2018

(Source: wallstreet online CENIT Aktiengesellschaft, Stuttgart)

CENIT shares began the 2018 stock market year at a price of EUR 21.40 and ended the year at EUR 13.30. The 52 weeks of the year saw an average trading volume of 8,764 shares per day on all German stock markets (prior year: 17,027 shares per day). The annual average price of CENIT AG shares for 2018 was EUR 18.32, with an annual high of EUR 23.20 and an annual low of EUR 12.45. Around 2.2 million shares were traded in total. Due to the high free-float level, only rough data is available regarding shareholder structure. This yields the following overview in terms of shareholder size and composition:

Distribution of the shares by shareholder group as of 31 December 2018

The following investors hold a share of stock subject to a reporting requirement:

Company	Reported on	Number	Percent
LOYS AG	12 February 2018	434,239	5.19
Mainfirst	28 October 2015	422,792	5.05
Allianz Global Investors	1 July 2014	420,958	5.03
LBBW Asset Management	15 November 2011	385,421	4.61
Baden-Württembergische Versorgungsanstalt für Ärzte, Zahnärzte	21 July 2016	287,000	3.43

Source: CENIT AG, Stuttgart

Currently, three banking and analysis agencies publish research reports on CENIT. These include recommendations from ODDO SEYDLER BANK AG, Frankfurt, M.M. Warburg, Hamburg, and GBC AG, Augsburg. The CENIT share is listed on the Prime Standard of the German stock exchange and fulfills the applicable international transparency requirements.

Responsibility Statement in the Annual Financial Report

(Group Financial Report)

After considering comments received, the German Accounting Standards Board (GASB) agreed at its 114th meeting on the following wording of the responsibility statement required by section 37y no. 1 of the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act) in conjunction with sections 297(2) sentence 2 and 315(1) sentence 6 of the Handelsgesetzbuch (HGB – German Commercial Code) for the Group financial statements:

“To the best of our knowledge, and in accordance with the applicable reporting principles, the Group financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the group management report includes a fair review of the development and performance of the business and the position of the group, together with a

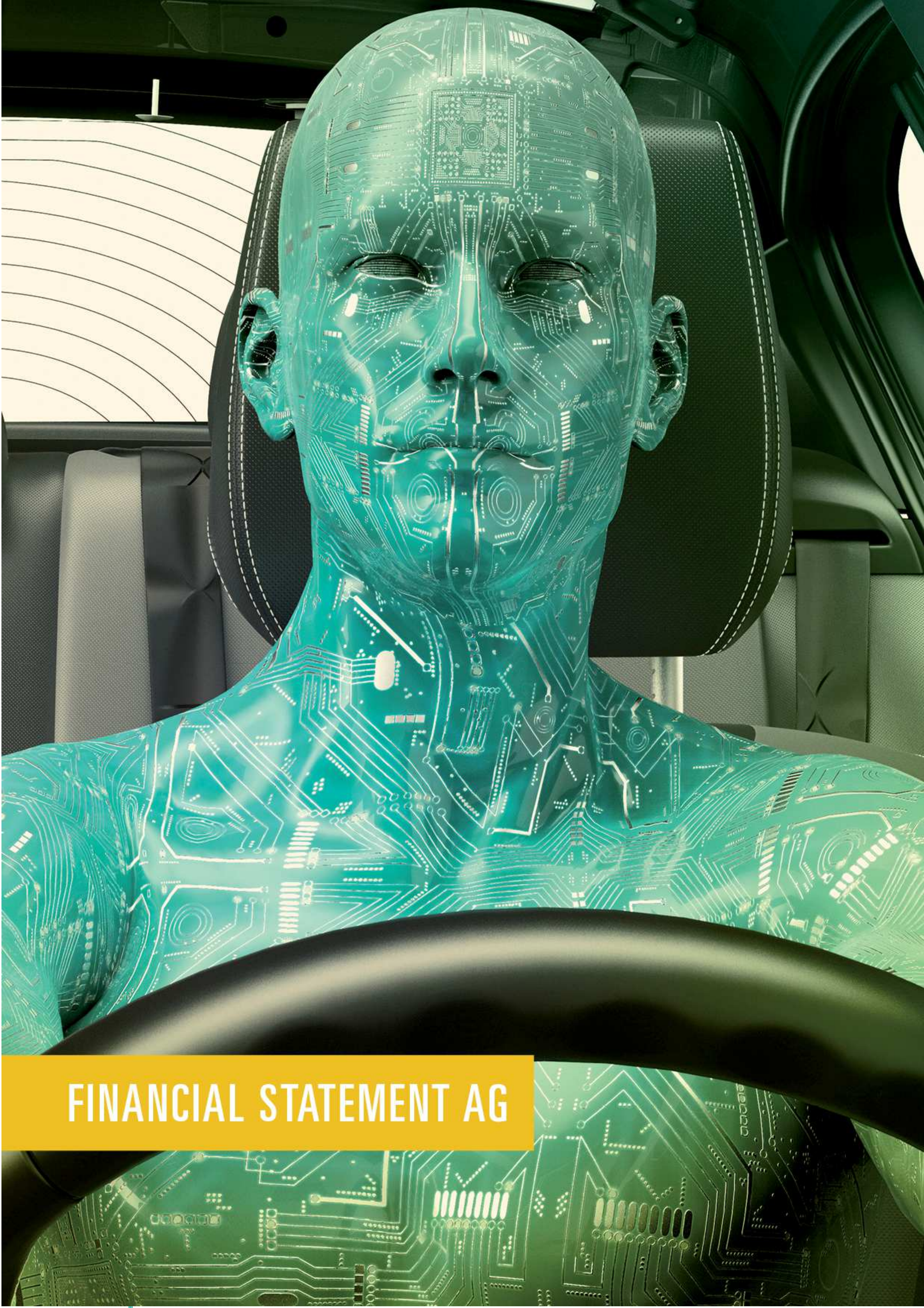
description of the principal opportunities and risks associated with the expected development of the group.”

For the sake of completeness, it should be noted that if an entity is obliged to prepare an annual financial report in accordance with section 37v(1) and (2) of the WpHG, it must also comply with the requirements of sections 264(2) sentence 3 and 289(1) sentence 5 of the HGB (single-entity financial statements).

The Management Board

Kurt Bengel
Spokesman, Management Board

Matthias Schmidt
Member, Management Board



FINANCIAL STATEMENT AG

CENIT Aktiengesellschaft, Stuttgart
BALANCE SHEET

		31 Dec. 2018	31 Dec. 2017
ASSETS	EUR	EUR	EUR
A. FIXED ASSETS			
I. Intangible assets			
Franchises, industrial and similar rights and assets and licenses in such rights and assets		**1,491,489.91**	**1,814,239.02**
II. Property, plant and equipment			
1. Land and buildings, including buildings on third-party land	584,493.84		648,516.24
2. Plant and machinery	1,048,116.20		1,190,738.26
3. Other equipment, furniture and fixtures	53,423.64		73,354.78
		1,686,033.68	**1,912,609.28**
III. Financial assets			
1. Shares in affiliates	8,976,362.90		9,385,592.21
2. Equity investments	2,552,554.25		52,554.25
		11,528,917.15	**9,438,146.46**
B. CURRENT ASSETS			
I. Inventories			
1. Work in process	446,527.07		530,371.23
2. Payments on account	29,593.99		80,658.00
		476,121.06	**611,029.23**
II. Receivables and other assets			
1. Trade receivables	10,929,231.06		13,749,867.59
2. Receivables from affiliates	6,599,296.56		5,488,363.18
3. Receivables from other investees and investors	4,984,007.10		2,950,599.26
4. Other assets	924,085.68		103,286.35
		23,436,620.40	**22,292,116.38**
III. Cash on hand, bank balances		**8,071,431.22**	**15,071,571.31**
C. PREPAID EXPENSES			
		2,844,188.49	**4,095,379.95**
		49,534,801.91	**55,235,091.63**

CENIT Aktiengesellschaft, Stuttgart
BALANCE SHEET

			31 Dec. 2018	31 Dec. 2017
EQUITY AND LIABILITIES		EUR	EUR	EUR
A.	**EQUITY**			
I.	**Subscribed capital**		8,367,758.00	8,367,758.00
II.	**Capital reserves**		1,058,017.90	1,058,017.90
III.	**Revenue reserves**			
	1. Legal reserve		418,387.90	418,387.90
	2. Other revenue reserves		13,870,955.48	13,870,955.48
IV.	**Net retained profit**		7,823,109.88	10,741,476.79
			31,538,229.16	**34,456,596.07**
B.	**PROVISIONS**			
	1. Tax provisions	84,228.81		119,797.81
	2. Other provisions	5,000,842.22		7,212,508.59
			5,085,071.03	**7,332,306.40**
C.	**LIABILITIES**			
	1. Payments received on account of orders	1,371,155.41		1,687,935.41
	2. Trade payables	2,303,176.82		3,195,080.08
	3. Liabilities to affiliates	212,417.05		309,341.43
	4. Liabilities to other investees and investors	44,290.90		35,116.53
	5. Other liabilities	3,060,366.63		1,710,455.80
	thereof for social security: EUR 0.00 (prior year: EUR 0 k)			
	thereof for taxes: EUR 2,337,735.71 (prior year: EUR 1,510 k)			
			6,991,406.81	**6,937,929.25**
D.	**DEFERRED INCOME**			
			5,920,094.91	**6,508,259.91**
			49,534,801.91	**55,235,091.63**

CENIT Aktiengesellschaft, Stuttgart
INCOME STATEMENT

			2018	2017
		EUR	EUR	EUR
1.	Revenue	93,808,099.69		97,727,374.95
2.	Decrease in inventories of work in process	-83,844.16		-50,529.46
3.	Other operating income	620,945.93		828,500.83
	thereof income from currency translation: EUR 251,522.10 (prior year: EUR 92 k)			
	Total operating performance		**94,345,201.46**	**98,505,346.32**
4.	**Cost of materials**			
a.	Cost of raw materials, consumables and supplies and of purchased merchandise	33,571,868.64		33,901,705.65
b.	Cost of purchased services	6,481,607.04		7,653,896.67
			40,053,475.68	41,555,602.32
5.	Personnel expenses			
a.	Salaries	30,877,818.44		31,148,208.09
b.	Social security and pension costs	5,335,717.11		5,300,594.23
			36,213,535.55	36,448,802.32
6.	Amortization of intangible assets and depreciation of property, plant and equipment	1,431,387.41		1,330,042.62
7.	Other operating expenses	12,041,937.54		12,707,092.54
	thereof from currency translation: EUR 212,156.04 (prior year: EUR 214 k)			
	Operating result		**4,604,865.28**	**6,463,806.52**
8.	**Income from equity investments**		2,359,898.41	6,589,602.55
	thereof from affiliates: EUR 2,359,898.41 (prior year: EUR 6,590 k)			
9.	Other interest and similar income		149,252.37	32,379.53
	thereof from affiliates: EUR 149,218.37 (prior year: EUR 29 k)			
10.	Interest and similar expenses		29,280.67	44,832.90
	thereof from unwinding of the discount on provisions: EUR 22,967.33 (prior year: EUR 26 k)			
11.	Income taxes		1,584,975.01	2,274,036.73
12.	**Earnings after taxes**		**5,499,760.38**	**10,766,918.97**
13.	Other taxes		50,369.29	50,887.79
14.	**Net income for the year**		**5,449,391.09**	**10,716,031.18**

NOTES TO THE FINANCIAL STATEMENTS FOR 2018

A General

CENIT AG has its registered offices in Stuttgart and is entered in the commercial register at Stuttgart local court (HRB 19117). It is a major listed corporation within the meaning of §267b (3) HGB in conjunction with §264 d. HGB.

These financial statements have been prepared in accordance with Sec. 242 et seq. and Sec. 264 et seq. HGB [“Handelsgesetzbuch”: German Commercial Code] in the version of the BilRUG [“Bilanzrichtlinie-Umsetzungsgesetz”: German Act to Implement the EU Accounting Directive] as well as in accordance with the relevant provisions of the AktG [“Aktiengesetz”: German Stock Corporation Act] and the supplementary provisions in the articles of incorporation and bylaws. The Company is subject to the requirements for large corporations.

The income statement is classified using the nature of expense method.

For the sake of clarity, some of the "thereof" notes to be disclosed in the balance sheet and income statement are included in the notes.

B Accounting principles

The following accounting and valuation methods, which essentially remained unchanged in comparison to the prior year, have been used to prepare the financial statements.

Acquired **intangible assets** are recognized at acquisition cost and are amortized over their useful lives using the straight-line method if they have a limited life. Additions are amortized pro rata temporis. The depreciation tables published by the German Ministry of Finance serve as a guide here. The rates provided are maximum rates.

Property, plant and equipment are recognized at acquisition cost and are depreciated if they have a limited life. Depreciation is recorded over the customary useful life using the straight-line method. Additions are amortized pro rata temporis. The depreciation tables published by the German Ministry of Finance serve as a guide here. The rates provided are maximum rates.

Low-value assets with an individual net value not exceeding EUR 150 were fully expensed in the year of acquisition. Assets with an individual net value not exceeding EUR 410 in value are fully expensed in the year of acquisition with their immediate disposal being assumed.

Financial assets are recognized at acquisition cost. Unscheduled depreciations to the lower fair value are only made in the case of probable permanent impairment.

Work in process is valued at production cost or, in the case of third-party work, at acquisition cost. Own work comprises direct labor and appropriate, proportionate overheads for personnel, write-downs and rent as well as general and administrative expenses.

Receivables and other assets are stated at their nominal value. All recognizable specific risks are taken into account with specific bad debt allowances. A general bad debt allowance of 1% (prior year: 1%) was established for the general credit risk. Non-interest bearing receivables due in more than one year are discounted.

Cash on hand and **bank balances** are each stated at nominal value.

Provisions account for all foreseeable risks and contingent liabilities and are recognized at the settlement value deemed necessary according to prudent business judgment. Expected future price and cost increases are included in valuing the provisions. Provisions with a residual term of more than one year were discounted at the average market interest rate of the last seven fiscal years published by the German Central Bank for their respective residual term. The discounting expense is disclosed in the financial result, while effects from the change in the interest rate or the change in the term are presented in the operating result. The provision for general warranties is recorded in the reporting year at a lump sum of 0.5% (prior year: 0.5%) of sales. A provision of EUR 21 k was recognized in the fiscal year for individual cases of warranty (prior year: EUR 122 k).

Liabilities are recorded at the settlement value.

To determine **deferred taxes** arising due to temporary or quasi-permanent differences between the carrying amounts of assets, liabilities, prepaid expenses and deferred income in the statutory accounts and their tax carrying amounts, the resulting tax burden and relief are valued using the company-specific tax rate at the time the differences reverse; these amounts are not discounted. The option not to recognize deferred tax assets was exercised.

Foreign currency assets and liabilities were translated using the mean spot rate on the balance sheet date. If they had residual terms of more than one year, the realization principle (Sec. 252 (1) No. 4 Clause 2 HGB) and the historical cost principle (Sec. 253 (1) Sentence 1 HGB) were applied.

Revenue is generated by the sale of software and hardware and the provision of services. Revenue is reported as a net figure, i.e. excluding VAT and less sales deductions. Revenue is recognized when the transfer of risk to the customer has taken place in the case of a supply of goods, or when the contractually owed performance has been provided in the case of services. The recognition of revenue from license transactions depends on whether a temporary or permanent right of use is granted. If license transactions are carried out that grant the licensee a temporary short-term right of use, revenue is recognized on a straight-line basis over the performance period. If the licenses grant a permanent right of use, the once-off primary license charge (PLC) for software licensing payable is reported on the date of obtaining control and the annual license charge (ALC) for software maintenance and support is reported as revenue pro rata temporis.

C Notes to the balance sheet and income statement

I. Balance sheet

1. Fixed assets

The development of fixed asset items is presented separately in the statement of changes in fixed assets (see pages 134 and 135).

2. Financial assets

The information on shareholdings breaks down as follows:

No.	Name and location of registered offices	Cur-rency	Share-holding in %	Subscribed capital LC k	Equity LC k	Earnings LC k
1	CENIT (Schweiz) AG Effretikon, Switzerland	CHF	100.0	500	1,956	721
2	CENIT North America Inc. Auburn Hills, USA	USD	100.0	25	1,257	1,069
3	CENIT SRL Iasi, Romania	RON	100.0	344	2,380	948
4	CENIT France SARL Toulouse, France	EUR	100.0	10	133	113
5	CENIT Japan K.K. Tokyo, Japan	YEN	100.0	34,000	13,728	-24,250
6	KEONYS SAS Suresnes, France	EUR	97.76	155	-424	881
7	Coristo GmbH Mannheim, Germany	EUR	51.0	25	1,700	427
8	SynOpt GmbH Stuttgart, Germany	EUR	55.0	50	285	145
9	CenProCS AIRliance GmbH Stuttgart, Germany	EUR	33.3	150	172	0

3. Receivables and other assets

Trade receivables are all due in less than one year.

Receivables from affiliates include receivables from granting a loan with a residual term of more than one year to CENIT France SARL amounting to EUR 750 k (prior year: EUR 750 k), to KEONYS SAS amounting to EUR 5,000 k (prior year: EUR 4,000 k) and to KEONYS B.V. amounting to EUR 330 k (prior year: EUR 0 k). The remaining receivables from affiliates of EUR 519 k (prior year: EUR 738 k) and the **receivables from other investees and investors** valued at EUR 4,984 k (prior year: EUR 2,951 k) stem from trade and are as in the previous year due in less than one year.

Other assets primarily consist of EUR 787 k relating to trade tax refund claims from corporate income tax, solidarity surcharge and trade tax (prior year: trade tax of EUR 31 k), receivables from deposits of EUR 28 k (prior year: EUR 33 k) and repayment claims of EUR 103 k (prior year: EUR 0 k). The receivable from insurance indemnification of EUR 20 k disclosed in the prior year was refunded in the fiscal year. As in the previous year, other assets have a remaining term of up to one year.

4. Prepaid expenses

in EUR k	31 Dec. 2018	31 Dec. 2017
Accrued rights of use for licenses	2,360	3,399
Other prepaid expenses	484	696
Total	**2,844**	**4,095**

This mainly concerns prepaid expenses for licenses and for rights of use and insurance.

5. Deferred taxes

Deferred taxes stem chiefly from accounting and valuation differences between the statutory accounts and the tax accounts. These differences relate mostly to other provisions.

On the whole there are net deferred tax assets, and the option not to capitalize these deferred tax assets was exercised.

Deferred tax assets must be calculated based on a tax rate of 31% (prior year: 31%).

6. Equity

Capital stock

As per the most recent entry in the commercial register on 14 August 2006, the capital stock of the Company amounts to EUR 8,367,758.00 and has been fully paid in. It is divided into 8,367,758 no-par value shares of EUR 1.00 each. The shares are made out to the bearer and are all no-par value common shares.

7. Capital reserves

The capital reserves remained unchanged in the fiscal year, at EUR 1,058 k.

8. Legal reserve

At EUR 418 k, the legal reserve has also remained unchanged in comparison to the prior year.

9. Other revenue reserves

Other revenue reserves of EUR 13,871 k did not change since the prior year.

10. Net retained profit

Net retained profit developed as follows:

in EUR k	2018	2017
Net income for the year	**5,449**	**10,716**
Net retained earnings in the prior year	10,741	8,393
Dividend	-8,368	-8,368
Profit carryforward from the prior year	**2,373**	**25**
Withdrawals from the revenue reserves	0	0
Net retained profit	**7,823**	**10,741**

11. Provisions

Other provisions essentially comprise provisions for personnel expenses of EUR 2,891 k (prior year: EUR 3,898 k) and provisions for outstanding supplier invoices of EUR 448 k (prior year: EUR 1,384 k).

12. Liabilities

As in the prior year, **trade payables** have a remaining term of less than one year.

Liabilities to affiliates relate entirely to trade payables of EUR 212 k (prior year: EUR 309 k). As in the prior year, liabilities to affiliates are due within one year.

The **liabilities to other investees and investors** contain trade payables amounting to EUR 44 k (prior year: EUR 35 k). As in the prior year, the corresponding liabilities are due within one year.

Other liabilities include deferred items of EUR 90 k (prior year: EUR 124 k). As in the prior year, these amounts related in full to deferred rent.

EUR 3,003 k (prior year: EUR 1,620 k) of other liabilities is due within one year, while EUR 57 k (prior year: EUR 90 k) is due in more than one year. As in the prior year, liabilities due in more than one year do not include any liabilities due in more than five years.

Of the liabilities disclosed, there are no amounts (prior year: EUR 0 k) secured by liens or similar rights.

II. Income statement

1. Revenue

in EUR k	2018	2017
CENIT software	13,643	15,357
Third-party software	44,052	43,933
CENIT consulting and service	35,411	37,916
Merchandise	438	138
Other revenue	264	383
Total	**93,808**	**97,727**

87% (prior year: 85%) of sales was generated in Germany, 6% (prior year: 6%) in other EU countries and 7% (prior year: 9%) in other countries.

2. Other operating income

Other operating income includes income relating to other periods from the reversal of provisions of EUR 56 k (prior year: EUR 450 k).

Other operating income also includes income from cross-charged salary and other costs of EUR 197 k (prior year: EUR 172 k), insurance refunds of EUR 41 k (prior year: EUR 24 k), rental income from subletting of EUR 9 k (prior year: EUR 13 k), marketing and sales subsidies from partner companies of EUR 35 k (prior year: EUR 48 k) and exchange gains of EUR 251 k (prior year: EUR 92 k).

3. Personnel expenses

in EUR k	2018	2017
Salaries	30,858	31,148
Social security contributions	5,356	5,301
Total	**36,214**	**36,449**

Social security contributions include pension costs of EUR 208 k (prior year: EUR 201 k).

4. Other operating expenses

At EUR 12,042 k, total other operating expenses are down compared to the prior year (EUR 12,707 k). Other operating expenses essentially relate to premises expenses of EUR 1,896 k (prior year: EUR 2,076 k), vehicle costs of EUR 1,997 k (prior year: EUR 2,055 k), travel expenses of EUR 1,445 k (prior year: EUR 1,536 k), marketing costs of EUR 1,139 k (prior year: EUR 1,266 k) and exchange losses of EUR 212 k (prior year: EUR 214 k).

Other operating expenses also include an extraordinary expense from the retroactive purchase price adjustment of Coristo GmbH of EUR 306 k.

5. Financial and interest result

The financial and interest result breaks down as follows:

in EUR k	2018	2017
Income from equity investments		
Dividend CENIT (Schweiz) AG, Switzerland	0	1,185
Dividend CENIT SRL, Romania	421	340
Dividend CENIT North America Inc., USA	1,786	4,912
Dividend Coristo GmbH, Mannheim, Germany	153	153
Total	**2,360**	**6,590**

in EUR k	2018	2017
Other interest and similar income		
Bank interest and interest from securities	0	0
Interest on loans granted to subsidiary	149	29
Income from the tax moratorium	0	3
Interest income for business taxes	0	0
Total	**149**	**32**

in EUR k	2018	2017
Interest and similar expenses		
Guarantee commission	6	8
Interest expense from unwinding the discount on provisions/liabilities	23	26
Interest expenses for business taxes	0	11
Total	**29**	**45**

6. Income taxes

in EUR k	2018	2017
Current corporate income tax expense	763	1,082
Current solidarity surcharge expense	42	60
Current trade tax expense	802	1,128
Withholding tax	3	3
Taxes in prior years	-25	1
Total	**1,585**	**2,274**

Taxes mainly include corporate income tax and the solidarity surcharge of EUR 805 k (prior year: EUR 1,142 k) as well as trade tax of EUR 802 k (prior year: EUR 1,128 k) on the taxable income for the fiscal year 2018. On account of the tax field audit completed in 2018 and its follow-on effects, there was subsequent tax income of EUR 25 k.

7. Proposal for the appropriation of profit

The following appropriation of retained earnings will be proposed at the General Meeting of Shareholders:

in EUR k	
Net retained profit	7,823
Dividend distribution (EUR 0.60 per 8,367,758 participating no-par value shares)	5,021
Profit carryforward	**2,802**

8. Auditor’s fees

The information on auditors’ fees pursuant to Sec. 285 No. 17 HGB is provided in the consolidated financial statements of CENIT AG.

D Other notes

1. Personnel

An average of 484 (prior year: 485) members of staff were employed during the fiscal year, plus 52 (prior year: 42) trainees.

2. Other financial obligations

There are other financial obligations in connection with rental agreements and leases. The resulting financial obligations are included in the following table:

in EUR k	2018	2017
Rental and lease obligations		
Due in less than 1 year	2,646	2,629
Due in 1 to 5 years	6,209	5,546
Due in more than 5 years	1,090	192
Total	**9,945**	**8,367**

Other financial obligations chiefly comprise the rent agreements entered into for leased office buildings of EUR 7,461 k (prior year: EUR 5,978 k) as well as vehicle leases of EUR 1,420 k (prior year: EUR 1,507 k). The extension options and price adjustment clauses customary for the industry apply.

The company cars and communications equipment were leased by means of lease agreements in order to guarantee that these are always up to date and to avoid tying up liquidity. Renting office space also avoids tying up cash and cash equivalents. These agreements result in cash outflows in future periods that are included in the above list.

3. Corporate boards

During the fiscal year the following persons were **members of the Management Board**:

Dipl.-Ing. Kurt Bengel, Waiblingen, spokesman of the Management Board of CENIT AG, Responsible for: operations, investor relations and marketing.

Dipl.-Wirt.-Inf. Matthias Schmidt, Bad Liebenzell, member of the Management Board of CENIT AG, Responsible for: finance, organization and personnel.

The following members make up the **Supervisory Board**:

- Dipl.-Ing. Andreas Schmidt (independent management consultant), Ahrensburg, chairman, from 30 May 2008 to 18 May 2018
- Dipl.-Kfm. Hubert Leypoldt (independent German public auditor, tax advisor, legal counsel), Dettingen/Erms, deputy chairman, from 6 May 1998 to 18 May 2018
- Dipl.-Ing. Andreas Karrer (Head of Department at CENIT Aktiengesellschaft, Stuttgart), Leinfelden-Echterdingen, employee representative, from 30 May 2008 to 18 May 2018
- Prof. Dr. Oliver Riedel (university professor), Pfaffenhofen a.d. Ilm, chairman since 18 May 2018
- Dipl.-Kfm. Stephan Gier (independent German public auditor, tax advisor), Stuttgart, deputy chairman since 18 May 2018

- Dipl.-Ing. Ricardo Malta (Service Manager CENIT Aktiengesellschaft, Stuttgart), Munich, employee representative since 18 May 2018

Prof. Dr. Oliver Riedel is also a member of the supervisory board of PROSTEP AG Darmstadt. All other members of the Supervisory Board did not belong to any other supervisory boards or control bodies during the reporting year.

In the reporting period, the remuneration of the Management Board members was as follows:

in EUR k	2018	2017
Kurt Bengel		
Fixed	242	242
Fringe benefits	28	25
Performance-based	134	191
Long-term incentive	137	194
Total remuneration for Kurt Bengel	**541**	**652**
Matthias Schmidt		
Fixed	215	215
Fringe benefits	22	21
Performance-based	134	191
Long-term incentive	137	194
Total remuneration for Matthias Schmidt	**508**	**621**
Total	**1,049**	**1,273**

The variable remuneration component breaks down into a short-term and long-term component, which is based on the Group EBIT, with the short-term portion being paid out in the subsequent year. The long-term portion is paid out after three years provided that other criteria have been met. Total annual remuneration is capped in each case to EUR 750,000.00. No minimum remuneration has been agreed for performance-based pay and remuneration with a long-term incentive effect.

The fringe benefits relate to the provision of company cars and subsidies for pension insurance.

The following remuneration was paid out to the Management Board members in the reporting period:

in EUR k	2018	2017
Kurt Bengel		
Fixed	242	242
Fringe benefits	28	25
Performance-based	191	176
Long-term incentive from 2015/2014	160	126
Total remuneration for Kurt Bengel	**621**	**569**
Matthias Schmidt		
Fixed	215	215
Fringe benefits	22	21
Performance-based	191	176
Long-term incentive from 2015/2014	160	130
Total remuneration for Matthias Schmidt	**588**	**542**
Total	**1,209**	**1,111**

The employment contracts of Mr. Bengel and Mr. Schmidt provide for compensation payments pursuant to Sec. 74 HGB for the term of a one-year ban on competition and full remuneration paid to the surviving dependents of deceased Management Board members for a six-month period.

No further pension obligations or benefits were promised in the event of termination of service. In the event that the Company terminates the agreement before its expiry without good reason, the Management Board member receives a severance payment of no more than twice the annual fixed remuneration set out in the agreement for the remainder of the employment agreement. In any case, no more than the remaining term of the employment agreement will be remunerated.

The employment contract of Mr. Bengel was extended prematurely for a further three years with effect as of 1 January 2019. The employment contract of Mr. Schmidt was likewise extended prematurely for a further two years with effect as of 1 February 2019. The cap on total remuneration was raised to EUR 900,000.00 in Mr. Bengel's contract and to EUR 800,000.00 in Mr. Schmidt's contract.

The short-term variable remuneration of the Management Board depends on the Group EBIT and is capped at EUR 230,000 from the 2019 financial year. From 2020, the maximum amount will increase by 5% in each case. The long-term variable remuneration also depends on the Group EBIT and is capped at EUR 350,000. The maximum amount will increase by 5% from 2020 onwards. The long-term variable remuneration will be paid out after three years only if the average Group EBIT of the last three years amounts to at least EUR 9,000,000. This limit is also increased by 5% annually.

In accordance with Article 14 of the articles of incorporation and bylaws, the amounts paid to the Supervisory Board were as follows in 2018:

in EUR k	2018	2018	2017	2017
	Fixed remuneration	Performance-based remuneration	Fixed remuneration	Performance-based remuneration
Andreas Schmidt	11.5	0	30.0	0
Hubert Leypoldt	8.5	0	22.5	0
Andreas Karrer	5.5	0	15.0	0
Oliver Riedel	18.5	0		0
Stephan Gier	14.0	0		0
Ricardo Malta	9.5	0		0
Total amount	**67.5**	**0**	**67.5**	**0**

The D&O insurance was continued in 2018 for Management Board members and Supervisory Board members as well as other executives. The premiums of EUR 40 k (prior year: EUR 51 k) were borne by the Company.

The Management Board held 7,670 shares as of the balance sheet date (0.09%). The Supervisory Board members held 80 shares.

4. Changes at shareholder level

LOYS Investment S.A., Munsbach, Luxembourg, informed us on 6 February 2018 pursuant to Sec. 40 WpHG that its share of voting rights in CENIT AG, Stuttgart, Germany, exceeded the threshold of 5% of voting rights on 6 February 2018 and amounted to 5.19% on that date (corresponding to 434,239 voting rights). The shares are contained in the portfolio of the following funds managed by LOYS Investment S.A.: LOYS FCP - LOYS GLOBAL L/S, LOYS EUROPA SYSTEM, LOYS Sicav - LOYS Global System.

Mr. Jos B. Peeters, born on 11 January 1948, informed us on 1 August 2018 pursuant to Sec. 40 WpHG that his share of voting rights in CENIT AG, Stuttgart, Germany, fell below the threshold of 3% on 30 July 2018 and amounted to 2.80% on that date (234,180 voting rights).

E Group relationships

In compliance with Sec. 315a (1) HGB, the Company prepares consolidated financial statements in accordance with International Financial Reporting Standards (IFRS).

The consolidated financial statements of CENIT AG are published in the Federal Gazette.

F Subsequent events

There were no reportable subsequent events.

G Declaration pursuant to Sec. 161 AktG on the German Corporate Governance Code

The Management Board and Supervisory Board of the Company have issued the declaration for 2018 required by Sec. 161 AktG and made it available on the Company's homepage (http://www.cenit.com/en_EN/investor-relations/corporate-governance.html).

Stuttgart, 15 March 2019

CENIT Aktiengesellschaft

The Management Board

Kurt Bengel Spokesman, Management Board	Matthias Schmidt Member, Management Board

Independent auditor’s report

To CENIT Aktiengesellschaft, Stuttgart

Report on the audit of the annual financial statements and of the combined management report of the CENIT group and of CENIT AG

Opinions

We have audited the annual financial statements of CENIT Aktiengesellschaft, Stuttgart, which comprise the balance sheet as at 31 December 2018, the income statement for the fiscal year from 1 January 2018 to 31 December 2018 and the notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the combined management report of the CENIT Group and of CENIT AG for the fiscal year from 1 January 2018 to 31 December 2018. In accordance with the German legal requirements, we have not audited the content of the components of the combined management report listed under “Other notes”.

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

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to business corporations and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2018 and of its financial performance for the financial year from 1 January 2018 to 31 December 2018 in compliance with German legally required accounting principles, and
- the accompanying combined management report as a whole provides an appropriate view of the Company’s position. In all material respects, this combined management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the combined management report does not cover the content of the components of the combined management report listed under “Other notes”.

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

Basis for the opinions

We conducted our audit of the annual financial statements and of the combined management report in accordance with Sec. 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as “EU Audit Regulation”) and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the “Auditor’s responsibilities for the audit of the annual financial statements and of the combined management report” section of our auditor’s report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements.

In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and on the combined management report.

Key audit matters in the audit of the annual financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the fiscal year from 1 January 2018 to 31 December 2018. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

Below, we describe what we consider to be the key audit matter:

Revenue recognition

Background

The Company generates revenue from the sale of hardware, the licensing of software and the provision of consulting services for the planning, implementation and optimization of business and IT processes. Revenue is recognized when the transfer of risk to the customer has taken place in the case of a supply of goods, or when the contractually owed performance has been provided in the case of services. The recognition of revenue from license transactions depends on whether a temporary or permanent right of use is granted. If license transactions are carried out that grant the licensee a temporary short-term right of use, revenue is recognized on a straight-line basis over the performance period. If the licenses grant a permanent right of use, the once-off primary license charge (PLC) payable for provision of the software is reported on the date of obtaining control and the annual license charge (ALC) for software maintenance and support is reported as revenue pro rata temporis.

In addition to cash and cash equivalents, it is the assets resulting from the sales process and deferred revenue that make up the main asset items in the balance sheet. The audit of revenue recognition and deferred revenue therefore required our special attention and was considered a key audit matter as part of our audit.

The disclosures on revenue recognition are included on page 2 of the notes to the financial statements in B.

Auditor's response and findings

We assessed the compliance of the recognition and measurement policies applied by CENIT Aktiengesellschaft for the recognition of revenue with the requirements of German commercial law.

We made a record of the internal control system in relation to revenue recognition. We assessed the structure and effectiveness of the main controls for recognizing revenue.

For a selection of the sales recognized, we also obtained an understanding of the transaction by examining the underlying contractual agreements and other related documents and from explanations by employees of the Company from the accounting and sales departments, and we assessed the correct presentation in the annual financial statements. We also obtained transaction confirmations from selected customers, carried out cut-off audits for selected revenue and assessed whether the respective revenue recognition guidelines were applied appropriately in order to ensure that revenue is recognized in the correct period.

Other information

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

- the non-financial group statement published separately and referred to in the "Other notes" section of the combined management report
- the corporate governance statement published separately and referred to in the "Other notes" section of the combined management report
- the other parts of the annual report, with the exception of the audited annual financial statements and combined management report as well as our auditor's report

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

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

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

If we conclude, based on the work carried out by us, that this other information is materially misstated, we are obliged to report this fact. We do not have anything to report in this regard.

Responsibilities of the Executive Directors and the Supervisory Board for the annual financial statements and the combined management report

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to business corporations, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German legally required accounting principles. In addition, the executive directors are responsible for such internal controls as they, in accordance with German legally required accounting principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

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

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

Auditor's responsibilities for the audit of the annual financial statements and of the combined management report

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

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

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

- Identify and assess the risks of material misstatement of the annual financial statements and of the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German legally required accounting principles.
- Evaluate the consistency of the combined management report with the annual financial statements, its conformity with German law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

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

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

Other legal and regulatory requirements

Further information pursuant to art. 10 of the eu audit regulation

We were elected as auditor by the Annual General Meeting of Shareholders on 18 May 2018. We were engaged by the Supervisory Board on 8 August 2018. We have been the auditor of CENIT Aktiengesellschaft without interruption since fiscal year 2009.

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

German public auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Mr. Christof-Martin Preis.

Stuttgart, 15 March 2019

BDO AG

Wirtschaftsprüfungsgesellschaft

signed Steffen Walter	signed Christof-Martin Preis
Wirtschaftsprüfer [German Public Auditor]	Wirtschaftsprüfer [German Public Auditor]

	CENIT Aktiengesellschaft, Stuttgart STATEMENT OF CHANGES IN FIXED ASSETS				
	Acquisition and production cost				
in EUR	**As of 1 Jan. 2018**	**Additions**	**Reclassification**	**Disposals**	**As of 31 Dec. 2018**
I. Intangible assets					
Purchased franchises, industrial and similar rights and assets and licenses in such rights and assets	5,133,790.55	421,422.47	-2,251.09	36,316.08	5,516,645.85
Total	**5,133,790.55**	**421,422.47**	**-2,251.09**	**36,316.08**	**5,516,645.85**
II. Property, plant and equipment					
1. Land and buildings, including buildings on third-party land	1,810,419.02	0	0.00	0.00	1,810,419.02
2. Plant and machinery	5,794,042.06	421,568.38	2,251.09	5,098.00	6,212,763.63
3. Other equipment, furniture and fixtures	428,292.55	70,796.87	0	112,456.78	386,632.64
Total	**8,032,753.63**	**492,365.25**	**2,251.09**	**117,554.78**	**8,409,815.19**
III. Financial assets					
1. Shares in affiliates	9,385,592.21	0.00	0.00	409,229.31	8,976,362.90
2. Equity investments	52,554.25	2,500,000.00	0.00	0.00	2,552,554.25
Total	**9,438,146.46**	**2,500,000.00**	**0.00**	**409,229.31**	**11,528,917.15**
Fixed assets - total -	**22,604,690.64**	**3,413,787.72**	**0.00**	**563,100.17**	**25,455,378.19**

	Accumulated amortization, depreciation and write-downs				**Net book values**	
As of 1 Jan. 2018	**Additions**	**Additions from merger**	**Disposals**	**As of 31 Dec. 2018**	**As of 31 Dec. 2018**	**As of 31 Dec. 2017**
3,319,551.53	726,733.24	0.00	21,128.83	4,025,155.94	1,491,489.91	1,814,239.02
3,319,551.53	**726,733.24**	**0.00**	**21,128.83**	**4,025,155.94**	**1,491,489.91**	**1,814,239.02**
1,161,902.78	64,022.40	0.00	0.00	1,225,925.18	584,493.84	648,516.24
4,603,303.80	566,439.49	0.00	5,095.96	5,164,647.33	1,048,116.20	1,190,738.26
354,937.77	74,192.28	0.00	95,921.05	333,209.00	53,423.64	73,354.78
6,120,144.35	**704,654.17**	**0.00**	**101,017.01**	**6,723,781.51**	**1,686,033.68**	**1,912,609.28**
0.00	0.00	0.00	0.00	0.00	8,976,362.90	9,385,592.21
0.00	0.00	0.00	0.00	0.00	2,552,554.25	52,554.25
0.00	**0.00**	**0.00**	**0.00**	**0.00**	**11,528,917.15**	**9,438,146.46**
9,439,695.88	**1,431,387.41**	**0.00**	**122,145.84**	**10,748,937.45**	**14,706,440.74**	**13,164,994.76**

Responsibility Statement in the Annual Financial Report

(Financial Report)

After considering comments received, the German Accounting Standards Board (GASB) agreed at its 114th meeting on the following wording of the responsibility statement required by section 37y no. 1 of the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act) in conjunction with sections 297(2) sentence 2 and 315(1) sentence 6 of the Handelsgesetzbuch (HGB – German Commercial Code) for the financial statements:

"To the best of our knowledge, and in accordance with the applicable reporting principles, the financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the corporation, and the management report includes a fair review of the development and performance of the business and the position of the corporation, together with a

description of the principal opportunities and risks associated with the expected development of the corporation."

For the sake of completeness, it should be noted that if an entity is obliged to prepare an annual financial report in accordance with section 37v(1) and (2) of the WpHG, it must also comply with the requirements of sections 264(2) sentence 3 and 289(1) sentence 5 of the HGB (single-entity financial statements).

The Management Board

Kurt Bengel
Spokesman, Management Board

Matthias Schmidt
Member, Management Board

Glossary

BI	Abbreviation for Business Intelligence Business intelligence denotes procedures and processes aimed at a systematic analysis (collation, evaluation and presentation) of data electronic form.
CATIA	PLM solution by Dassault Systèmes With the aid of CATIA, users can manage the entire range of industrial design processes, from marketing and the original concept to product design, analysis and assembly, and finally to maintenance.
Digital factory	Three-dimensional graphic simulation of a factory by way of digitally integrated systems (e.g. DELMIA).
Digital manufacturing	Planning and simulation of manufacturing processes via networking of digitally integrated systems (e.g. DELMIA). Developed for purposes of optimizing production costs, ergonomics, assembly line arrangement, productivity, and scheduling.
ECM	Abbreviation for Enterprise Content Management ECM permits an enterprise to not only store all relevant information, but to also manage and reuse it. This reduces down-times and simultaneously increases the quality of products and services.
EIM	Abbreviation for Enterprise Information Management EIM extends to all solutions and consulting services that generate structured and unstructured data, both within the enterprise and externally. EIM ensures high availability and security of data and optimizes the exchange of data between users. EIM is a holistic data management concept that ensures a consistent, transparent and reliable information structure. It encompasses all current and previous solutions and consulting services related to Enterprise Content Management, Groupware, Infrastructure Management und Application Management Outsourcing, Systems Management, Hotline Service, and remote maintenance of hard- and software.
ERP	Abbreviation for Enterprise Resource Planning A business strategy which supports enterprises in managing their core business fields: acquisitions, inventory, suppliers, customer service, and order tracking. ERP can also be used in financial and staff administration. An ERP system is usually based on a series of software modules linked to a relational database.
PLM	Abbreviation for Product Lifecycle Management A business strategy which assists enterprises in exchanging product data, applying uniform processes, and making use of the enterprise's

product development knowledge, from initial concept to final redundancy, across the entire expanded enterprise. Thanks to the integration of all involved parties (enterprise divisions, business partners, suppliers, OEMs and customers), PLM offers the entire network the means to operate as a single entity and to jointly conceive, develop, build and service products.

VAR Abbreviation for Value Added Reseller

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