



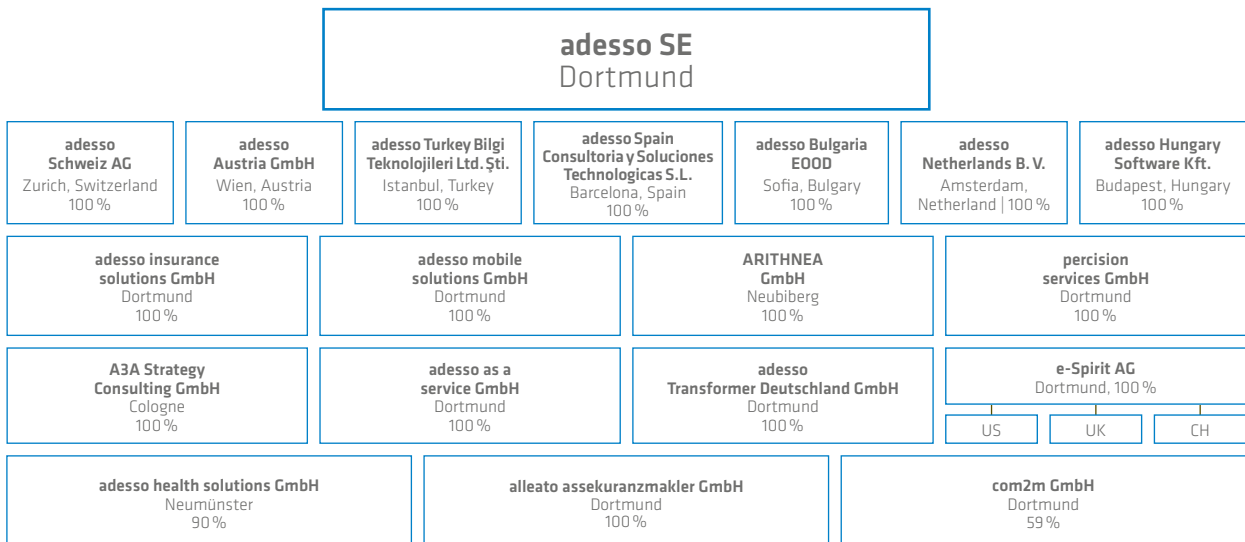
GROWING
INTERNATIONALLY

ANNUAL REPORT 2019

LOCATIONS



COMPANIES IN ADESSO GROUP



MISSION STATEMENT

adesso optimises companies' core business processes with the targeted use of information technology. We offer customers expert consulting based on our in-depth industry knowledge and use our technical knowhow to develop customised software solutions. For a defined set of operational tasks adesso provides innovative solutions and products.

As an independent partner, we aim to help our customers make the most of their business potential while retaining flexibility in the future.

GROWING INTERNATIONALLY

adesso's development to becoming one of the leading consulting and technology groups for industry-specific business processes in Central Europe continues to take shape. After focusing primarily on companies' core business processes in the German-speaking market in the first 20 years of its history, the international expansion of adesso's core business, alongside regional expansion, has been a key element of the company's growth strategy since 2018,.

Two further adesso subsidiaries opened in the Netherlands and Hungary in 2019, following the addition of branches in Spain and Bulgaria in 2018. As a result, adesso is now represented in nine European countries. This increasingly international orientation was underlined in the reporting year by the company's transformation into a *Societas Europaea*.

We would therefore like to use the Annual Report 2019 to present the internationalisation of adesso's business. In it we will also show the wide range of strategies being pursued in different countries and introduce the managers responsible for guiding the company's development. We will also delve into the specific characteristics of and opportunities presented by the markets. Last but not least, we will report on the very different development pathways and further plans moving forward. You can find out more about how the new European co-determination format is organised at adesso in our interview with the spokesman of the Europe Forum. Read more from page 16.

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To maintain a better readability, this Annual Report largely dispenses with the simultaneous use of female and male forms of language. Terms such as "employee" or "colleague" thus equally encompass both genders.

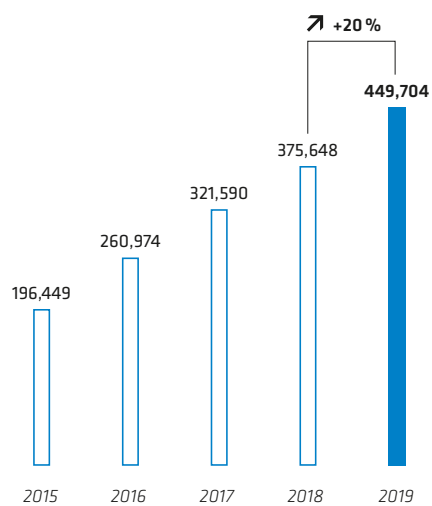
KEY FIGURES

<i>in EUR k</i>	2019	2018*	Change	in %
PROFIT SITUATION				
Sales revenues	449,704	375,648	74,056	20
domestic	360,987	308,742	52,245	17
foreign	88,717	66,906	21,811	33
EBITDA	48,131	32,975	15,156	46
EBITDA margin (in %)	10.7	8.8	1.9	22
Consolidated earnings	17,495	13,999	3,496	25
BALANCE SHEET				
Balance sheet total	320,764	226,375	94,389	42
Equity	92,482	78,407	14,075	18
Equity ratio (in %)	28.8	34.6	-5.8	-17
Liquid assets	46,352	45,912	440	1
Net cash position	-11,614	-2,196	-9,418	-429
EMPLOYEES				
Employees (FTE)	4,033	3,280	753	23
domestic	3,328	2,797	531	19
foreign	705	483	222	46
Gross profit/Employees	107	110	-3	-2
SHARE				
Number	6,176,093	6,176,093	0	0
Price at the end of the period (in EUR)	53.50	50.80	2.70	5
Market capitalisation at the end of the period (in EUR m)	330.4	313.7	16.7	5
Dividend per share (in EUR)**	0.47	0.45	0.02	4
Earnings per share (in EUR)	2.82	2.27	0.55	24
P/E ratio	19.0	22.4	-3.4	-15

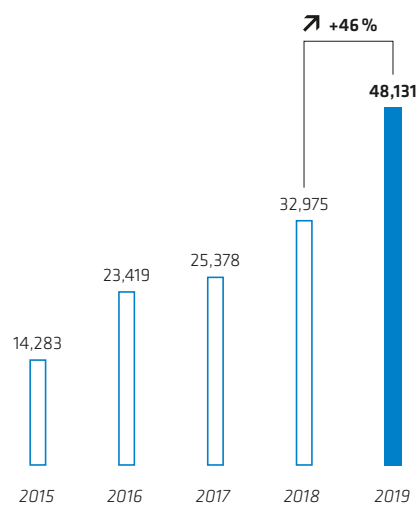
* Comparative figures adjusted according to IAS 8 (see note "3. Retroactive Change according to IAS 8")

** Subject to the approval of the Annual General Meeting in the year under review.

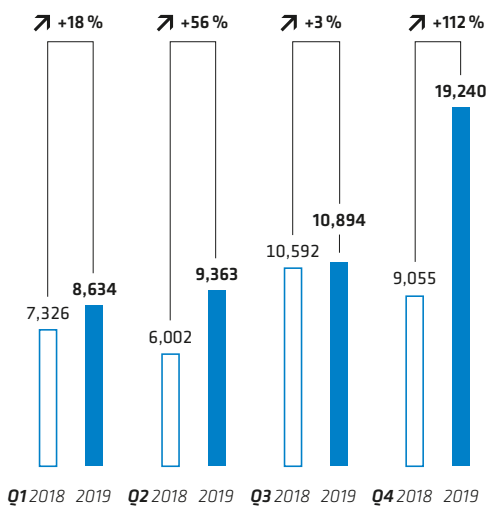
GROWTH IN SALES *in EUR k*



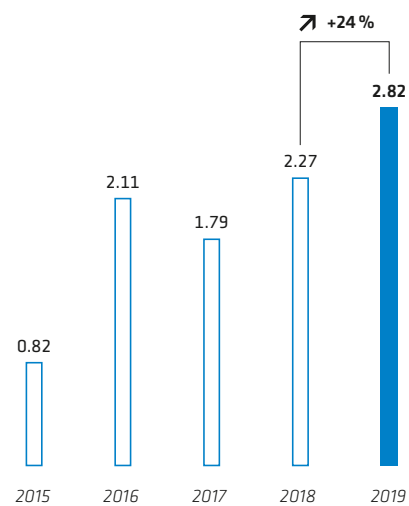
EBITDA-DEVELOPMENT *in EUR k*



EBITDA DEVELOPMENT (PER QUARTER) *in EUR k*



EARNINGS PER SHARE *in EUR*



FOREWORD BY THE EXECUTIVE BOARD

*Dear Shareholders, Employees and
Friends of the Company,*

All told, financial year 2019 was very successful for adesso. After a somewhat weaker first half of the year due to difficulties with orders on account of the economic situation, especially in the banking sector, the second half of the year proved to be excellent. New licence sales realised in the fourth quarter and a good order situation with encouragingly high employee capacity utilisation were contributing factors.

They allowed us to close out 2019 with new record figures for sales of EUR 449.7 million and operating earnings of EUR 48.1 million, thereby achieving or surpassing our annual targets. We would like to thank all our customers for the trust they have placed in us. As we face a year of challenges for Europe due to the corona crisis, we assure you that we will continue to stand by your side with the growing opportunities offered by the adesso Group in 2020.

The adesso internationalisation strategy is also bearing even more fruit. The subsidiaries in Switzerland and Austria are now well-established and growing companies in their own right, and the subsidiaries in Turkey and Bulgaria are also making positive contributions. The locations in Spain, the Netherlands and Hungary are planning to at least break even in 2020.

Earnings per share increased to EUR 2.82. In accordance with our aim of balancing growth, financial stability and shareholder participation, we will propose an increase in the dividend to EUR 0.47 per share at the Annual General Meeting. This continues the strategy of increasing dividend payments and raises the dividend for the seventh year in a row.

Strong organic growth continues to be a cornerstone of adesso's success, again displaying very pleasing results in 2019 with a growth rate of 17%. At 20%, total sales growth is well above the industry average.

We are also able to report that adesso was converted into an SE in 2019. As a Societas Europaea, adesso now also takes into account a European codetermination format. Our focus will continue to be the proportional, yet consistent, furthering of our European expansion strategy as based on the modern and recognised foundation we have established to that end.



Stefan Riedel, Jörg Schroeder, Andreas Prenneis, Dirk Pothen, Michael Kenfenheuer (v.l.n.r.)

The number of employees has grown to over 4,000. Even factoring in this growth, adesso was still able to secure the cross-industry award as “Germany’s Best Employer 2020” from the Great Place to Work® Institute in the category up to 5,000 employees. adesso had already been awarded first place in its industry category of large ITC companies in 2016 and 2018. These results are based on an anonymous survey of employees regarding their satisfaction with their employer, something that makes us very proud. We would like to express our heartfelt thanks to our employees, without whom our success would not be possible at all.

adesso has also expanded in terms of our range of services. In addition to the increasing amount of projects in the field of AI, our new lines of business for manufacturing, as well as data and analytics, have been launched very successfully. Our near-shore offering using remote teams from Germany or Europe has also been very well received by customers. adesso plans to continue its growth in 2020 on the basis of its established core values, modern technology, and implementation and software solution expertise, combined with in-depth industry knowledge in the core sectors as well as others. In addition, we will continue to invest in modern architecture and innovative strength through the mix of our experienced and young team.

We see demand for IT services and software solutions remaining very high in the years ahead and look forward to a positive future as a result. As a result of this, we expect sales growth to more than EUR 490 million and a further increase in EBITDA to more than EUR 50 million in line with our forecast for 2020. We have further increased the minimum EBITDA margin to over 10 %.

The COVID-19 (“coronavirus”) epidemic has added a new risk factor for the global economy which cannot yet be fully taken into account at the time of the publication of this report. Extensive measures have been initiated at adesso in order to bolster ourselves against potential risks that could result for our business in 2020 due to the pandemic. We are continuously monitoring the situation and will take all necessary measures to ensure the health and safety of our employees and customers, as well as the ability to maintain business operations in the familiar adesso quality.

We would like to take this opportunity to thank our employees, who – through their flexibility and great commitment – always give their all for the customers and the further development of adesso. We would all like to extend sincere thanks to our customers for their trust.

Moreover, we would like to thank you, our shareholders, for your loyalty and support on our path to growing this company into one of the leading consulting and technology groups in Europe. Thank you for your loyalty.

Dortmund, March 2020



Michael Kenfenheuer



Andreas Prenneis



Dirk Pothen



Stefan Riedel



Jörg Schroeder

REPORT BY THE ADESSO SE SUPERVISORY BOARD



Prof. Dr. Volker Gruhn

With the entry of the merger of adesso AG (Dortmund), as the acquiring legal entity, with adesso Beteiligungsverwaltung AG (Vienna) in the Dortmund commercial register on 27 November 2019, adesso AG took on the legal status of a Societas Europaea (SE) and has been operating under the title of adesso SE since then.

Advising and Monitoring of Management

In the 2019 financial year, the Supervisory Board exercised the duties incumbent on it under the law and the Articles of Association with great care. It continuously monitored the activities of the Executive Board and advised it on all important decisions concerning the management of the company. In compliance with its duty to provide information in a timely and comprehensive manner, the Executive Board informed the Supervisory Board regularly, in written and oral form, about the situation and the course of business development at the company and its key subsidiaries, and about incidents and measures that were relevant for the company. The Supervisory Board received documents about the asset, financial and earnings situation for this purpose on a quarterly basis. Additionally, it received detailed information from the Executive Board about relevant business transactions.

The Supervisory Board is thoroughly convinced that the operating and financial risks are hedged through organisational and internal approval processes. A sound reporting system and an internal control system exist for the company and the Group, both of which are subject to continued further development. The Supervisory Board was informed at regular intervals about the development of particularly relevant projects and the development of the Group companies.

The members of the Supervisory Board had sufficient opportunity at all times to critically examine the reports and proposals presented by the Executive Board and contribute their own suggestions. In particular, the Supervisory Board discussed in depth all business transactions that were of significance for the company on the basis of written and oral reports by the Executive Board. The Supervisory Board issued its consent to individual business transactions to the extent required by the law, the Articles of Association or the rules of procedure.

In addition, the Chairman of the Supervisory Board met regularly with the members of the Executive Board between meetings so as to ensure close and regular exchange of information and ideas, and he was updated on key developments.

Subjects of the Supervisory Board Meetings

In the 2019 financial year, the Supervisory Board held four regular meetings and one additional meeting, which was conducted by telephone. At this meeting, the Supervisory Board gave its approval to prepare the transformation of adesso AG into a European Company (SE). All six members of the Supervisory Board participated in all five meetings. One essential component of all regular meetings were the Executive Board's reports on the current asset, financial and earnings situation within the context of the business development of the company and the subsidiaries; on strategy; on risk management and controlling; and on personnel development and policies. The members of the Supervisory Board also discussed important individual business transactions and projects. In addition, individual current topics were discussed in regular meetings between the members of the Executive Board and the Chairman of the Supervisory Board. The Supervisory Board was informed of events of extraordinary significance for the situation and development of the adesso Group without delay. Transactions that required the approval of the Supervisory Board were always discussed before they took place and in good time. The Supervisory Board formed no committees.

As in previous years, the March meeting of the year under review focused on the financial statements of the individual companies and their development.

The CFO presented adesso AG's individual financial statements and the consolidated financial statements and discussed various aspects of development over time, certain items on the balance sheet, the income statement, liquidity and the cash flow statement. At the Group level, the development of sales of the most important customers and industries, tax effects and the contributions of the individual Group companies to the development of earnings were discussed. The current risk report, the most important areas of risk and significant changes regarding the probability of occurrence and amount of potential damage were discussed as well. The Executive Board then presented the 2019 forecast report.

The members of the Executive Board also reported on the individual companies, their business models and planned investments in this meeting. The projected 2019 figures for the individual companies were then discussed and adopted.

The presented corporate governance report was adopted. The update to the statement of compliance with the German Corporate Governance Code was also discussed and adopted.

In the context of non-financial reporting, the Executive Board provided information on environmental issues, employee concerns, social issues, respect for human rights, combating corruption and bribery. The report presented is based on the German Sustainability Code (DNK). The Supervisory Board determined that a non-financial report was available and that the legally required topics were covered and subsequently approved the report for publication.

The CFO presented the status of the planned transformation of adesso AG into a European Company (SE). The decision was made to let the Annual General Meeting vote on the merger plan presented. The agenda items and proposed resolutions for the Annual General Meeting were discussed and adopted.

The Executive Board presented the approach to the acquisition of management systems GmbH. The Supervisory Board took note of this plan with approval.

The CFO presented and discussed the quarterly financial statement for adesso AG and the Group in detail at the June meeting. Individual company analyses were presented in the CFO's report on the current business situation. The Executive Board members reported on the individual subsidiaries, growth and also capacity utilisation, which in some cases fell short of expectations. At this meeting, particular attention was paid to the German subsidiaries and their capacity utilisation, and results were analysed in relation to the budget figures. Various scenarios to boost sales in order to reach the planned results were suggested and discussed in detail. The promising sales pipeline of the product business was also discussed and, in summary, the guidance for the full year was confirmed.

Jörg Schroeder introduced himself as a new member of the adesso AG Executive Board at the meeting in September. As a member of the Executive Board, he took over responsibility for the areas of Finance & Controlling, Investor Relations and Mergers & Acquisitions from Christoph Junge, who resigned from office on 31 October 2019. The Supervisory Board regrets Christoph Junge's departure and thanks him for his many years of excellent cooperation.

Further steps towards the transformation into a European Company were presented. The employee participation agreement concluded on 25 September 2019 was discussed and positively noted.

The CFO reported on the interim and consolidated financial statements of adesso AG and presented the development of the results of the Group companies as compared to the previous year and plan. The results of the business and earnings development presented were analysed in view of the above-average speed of growth. adesso insurance solutions GmbH was able to report very good results in the second quarter due to further licence income. In addition, special attention was paid to the development of working capital and within individual fixed-price projects.

The CFO explained the effects of the merger of smarthouse adesso financial solutions GmbH on adesso AG. The Supervisory Board approved the implementation of the merger.

On 27 November 2019 adesso SE was entered in the Dortmund commercial register. The new company title will therefore be used in this report from now on.

This December meeting focused on the interim financial statements for adesso SE and the Group as of 30 September 2019. The key figures and items in the consolidated income statement were presented and discussed, and key figures in the balance sheet and the development of liquidity were analysed and discussed. Moreover, the CFO explained the current business situation of the individual companies in the Group. The members of the Executive Board reported on the development of the individual companies from both a sales and an earnings perspective. Plans for the individual companies in 2020 were presented and analysed accordingly.

As in previous years, current developments pertaining to corporate governance were also a subject of discussion. The update to the statement of compliance with the German Corporate Governance Code was also adopted during this meeting.

An update of the rules of procedure of the Executive Board including an adjusted schedule of responsibilities became necessary due to the change in legal form and the arrival of Jörg Schroeder. The reallocation of departments, responsibilities for lines of business and shareholdings regulated therein was discussed and unanimously approved.

2019 Annual Report

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Dortmund, the auditor elected by the Annual Shareholders' Meeting, has audited the Annual Financial Statements and the Management Report of the parent company (adesso SE), the Consolidated Financial Statements and the Group Management Report for financial year 2019 and has issued an unqualified audit opinion.

The responsible auditor from Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft explained the key findings of the audit and was available to answer questions from the Supervisory Board. He informed the Supervisory Board about the services performed by the auditing company in addition to the audit. The Supervisory Board thoroughly examined the annual financial statements and management report of adesso SE, the consolidated financial statements and group management report as at 31 December 2019, and the Executive Board's proposed appropriation of profit. To do so, the Supervisory Board consulted the auditor's reports. The Supervisory Board has agreed with the findings of the audit of the annual financial statements and the management report of adesso SE, and has approved the annual financial statements and consolidated financial statements for financial year 2019.

The Annual Financial Statements have therefore been approved (Section 172 of the German Stock Corporation Act – Aktiengesetz, AktG).

The Supervisory Board concurs with the Executive Board's proposed appropriation of profit.

As part of its examination, the Supervisory Board also reviewed the content of the separate consolidated non-financial report submitted by the Executive Board for adesso SE as required by Section 171 AktG and the Group as required by Sections 289b and 315b of the German Commercial Code (HGB). The report, with which adesso SE fulfils its reporting obligations under the CSR Directive Implementation Act, was prepared in accordance with the German Sustainability Code (DNK). The Supervisory Board decided that reporting of the non-financial information was legitimate, correct and appropriate.

In 2019, the Supervisory Board once again accompanied the Executive Board of adesso SE through a very strong financial year. Long-term strategic objectives continued to be pursued and the favourable market position was used for the company's further development in the interest of its shareholders.

We would like to thank the Executive Board and all employees of adesso SE and its affiliated companies for their ambitious work and high level of personal commitment and dedication, which has resulted in a successful financial year and is promising for the future.

Dortmund, 19 March 2020

On behalf of the Supervisory Board



Prof. Dr. Volker Gruhn, Vorsitzender

HIGHLIGHTS 2019

January

adesso AG plans transformation into a European Company (SE)

The Executive Board and the Supervisory Board of adesso AG have resolved to prepare the transformation of the company into a European Company (Societas Europaea, SE). This underlines the strategic orientation to further develop adesso as a leading consulting and technology group for digital, industry-specific business processes throughout Europe.

February

adesso supports Karstadt in e-commerce offensive

As a leading IT service provider, adesso announces the contract for further development of karstadt.de into an online marketplace. One especially pleasing aspect: in addition to the parent company, the subsidiaries Arithnea, e-Spirit and adesso mobile solutions are also involved in the IT project. Along with individual projects such as web shop modernisation, development of an efficient content management system and front-end optimisation for various end-user devices from PCs to smartphones, adesso will coordinate IT measures relating to the expansion of the range available from the karstadt.de web shop.

March

Increase in dividend proposed

Once again, the Executive Board and the Supervisory Board propose to increase the dividend after a successful business year. adesso shareholders can now look forward to a higher payout for the sixth year in a row. Subject to the approval of the Annual General Meeting, the proposal provides for an increase of 13 % to EUR 0.45 per share. adesso's dividend policy pursues an absolute increase on a sustainable basis.

adesso promotes further organic growth by founding new lines of business

Following its growth strategy, adesso is also laying the organisational foundations for further industry diversification and business expansion.

Plant and mechanical engineers are supported within the new Manufacturing Industry Line of Business (LoB). In addition, adesso clusters existing services relating to Business Intelligence (BI), Big Data and Data Analytics in its new Data & Analytics LoB. adesso is also establishing a new Global Business Line LoB to provide multinational clients with sales and other services in an even more holistic and cross-border framework.

April

adesso acquires majority share in management systems GmbH

adesso has acquired 90 percent of the shares in management systems GmbH (now adesso health solutions GmbH) in Neumünster, Germany. The leading provider of IT solutions to German Associations of Statutory Health Insurance Physicians (kassenärztliche Vereinigungen) fits perfectly into adesso's portfolio, expanding its range of products and services in the Health business area to include service providers. For three decades, the software company has successfully developed invoicing systems that are used by the majority of the German Associations of Statutory Health Insurance Physicians.

May

Provinzial NordWest launches new commercial insurance provider in the cloud with the help of adesso

The Provinzial NordWest Group placed its trust in adesso's IT expertise and the in|sure product family for the launch of its new digital commercial insurer andsafe. For the first time, adesso is providing the entire application landscape and IT architecture for a cloud-based insurance company and will also be taking care of platform operation. Only half a year passed between order placement and live operation.

BITMARCK confirms adesso as an important framework agreement partner

Through a Europe-wide tender, adesso has been able to position itself as one of the most important framework agreement partners with one of its largest cus-

tomers for many years. adesso will now continue to support the BITMARCK group of companies until at least the end of 2020. As in the past, the focus will be on services relating to the development of the core standard BITMARCK_21c|ng, which is used by approximately 85 percent of German statutory health insurance companies to manage more than 20 million insured persons.

July

adesso opens new subsidiaries in the Netherlands and Hungary

The international expansion of adesso is gathering pace. In future, adesso will also be represented in the Netherlands and Hungary. The two new European offices are located in the capital cities of Amsterdam and Budapest, meaning that adesso is now represented in nine European countries.

August

adesso records highest level of quarterly licence sales to date with the in|sure product family

adesso insurance solutions GmbH has recorded the highest licence sales in a single quarter to date. In the first six months of 2019 alone, the volume of sales of licences reached more than EUR 9 million. In addition to two customer situations in the health insurance division, an additional group licence extension was also concluded in the life insurance division. This dynamic business development reflects the high demand for flexible yet cost-efficient standard products to support the increasing demands of the insurance market.

November

Conversion completed: adesso is now a European stock corporation

With the entry in the commercial register on 27 November 2019, the transformation of adesso into a European stock corporation (Societas Europaea SE)

is formally completed. adesso will operate under the name of adesso SE from now on. As part of the transformation, a European employee forum was established to discuss adesso Group employee-related issues and launch initiatives together with the Executive Board and the Supervisory Board.

December

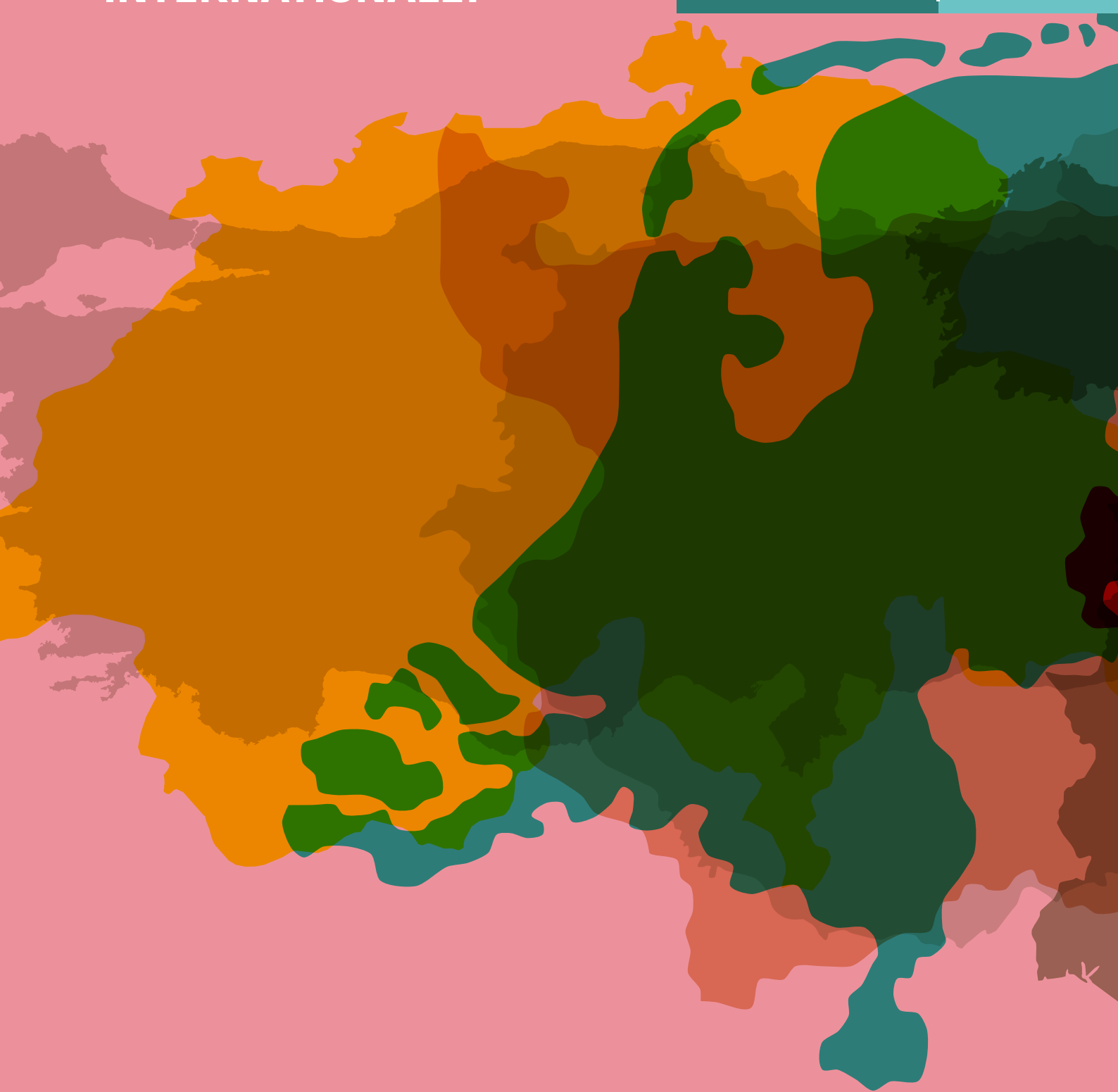
Two further contracts concluded for in|sure implementation with well-known insurance companies

In December, more well-known insurance companies opted to use the in|sure product family by the adesso Group. Continentale Krankenversicherung a.G., one of the ten largest private health insurance companies in Germany, for example, will be reshaping its existing system landscape in the area of inventory and benefits management based on in|sure by 2023. After DEVK opted for in|sure as its product for managing private health insurance in the previous year, the life insurance portfolio management system in|sure PSLife has now also been licensed for the pension fund.

GROWING INTERNATIONALLY

2007
Switzerland
Great Britain

2009
Austria



2011
USA

2013
Turkey

2018
Spain
Bulgaria

2019
Netherlands
Hungary

adesso has been represented in nine European countries since 2019, operating foreign subsidiaries in eight of them. For many years, the initial phase of adesso's internationalisation strategy was focused on marketing only the less consulting-intensive product and solutions business outside of the German-speaking market. In particular, adesso succeeded in expanding the customer base for the FirstSpirit content management system beyond Germany. Further software-as-a-service contracts were also concluded with new customers in the US in 2019. Although the expertise of adesso consultants and software developers had been in demand outside of the German-speaking market, the company did not initially pursue a targeted expansion of IT service business.

This has all changed even more since 2018, on the back of adesso's aim to turn the company into one of the leading consulting and technology groups for industry-specific business processes in Central Europe. By that time, the adesso Group had achieved sufficient growth and was ready to take the next step towards internationalisation. Bolstered by the successful development of the Turkish subsidiary, which had been operating within the scope of a near-shore business model since 2013 but was also available for local market access, adesso entered the Spanish and Bulgarian markets in 2018. One year later, new locations were opened in the Netherlands and in Hungary. In the German-speaking world, adesso has maintained a presence in Switzerland and Austria since 2007 and 2009 respectively.

Besides regional expansion, the broadening of adesso's core business on the international stage is now an additional element of the growth strategy. In 2019, adesso generated a disproportionately high amount of growth abroad. Sales with customers in Germany rose by 17%, whereas sales growth of 33% was generated outside of Germany. This is also reflected in the increasingly international adesso Group team. Of the 4,033 employees in the workforce at the end of 2019 (converted to full-time equivalents), 705 worked for adesso outside of Germany – an increase of 46% year on year. Current international locations are Amsterdam, Barcelona, Basel, Bern, Boston, Budapest, Istanbul, Jerez de la Frontera, Lausanne, London, Lugano, Madrid, Sofia, Vienna and Zurich.

The subsidiaries in Switzerland and Austria are now well-established and growing companies in their own right. The subsidiaries in Turkey and Bulgaria are also operating extremely profitably.

This successful development and positive contribution to the growth of the adesso Group are testament to the fact that the decision to expand IT service business outside of the German-speaking market was the right one. The initiated European expansion strategy is therefore being pursued systematically but always with a sense of proportion.

In line with the strategy, adesso implemented organisational and structural changes recently by transforming into a *Societas Europaea*. This transformation takes account of the increasingly international orientation of the company. With the European Forum commenced its activities, a modern form of European co-determination has also been established at adesso (read more from page 32).

In this report, the exciting development stories focusing on each country will show that economic success is a result not only of sound strategic planning, but also of the principle "management is key". Pragmatic decision-making, such as seizing opportunities to find outstanding personnel for the challenging task of developing particular regions, also plays a considerable role in development. After all, we would not be as successful as we are if employees in these regions did not show the same commitment to the adesso enterprise and corporate culture as employees in Germany. Excellent international cooperation and successful recruiting, including at foreign subsidiaries, shows that not only is adesso Germany's Best Employer 2020 (awarded by the Great Place to Work® Institute), it also enjoys an impeccable reputation beyond Germany's national borders. This helps adesso make an impact with highly qualified workers in an intense competitive environment and expand its capacities to achieve further international growth.

” Vanaf nu hebben we ook lokale specialisten voor u! “

[Now with local specialists for you!]

adesso Netherlands B.V. was launched in financial year 2019 and is one of adesso SE's two most recently founded subsidiaries. Managing Director Jan Heuker has already formulated ambitious growth targets for the company and has his eye on the interesting but challenging Dutch IT industry. The sector is currently made up of around 75,000 existing IT firms, including small companies with up to ten employees as well as major well-known IT service providers which adesso wants to blow out of the water. The market is relatively large and attractive. The industry's 400,000 employees generate an annual sales of EUR 100 billion. In order to establish itself, adesso will need to offer proven, cutting-edge services and solutions. This is exactly where Jan Heuker sees great potential for adesso Netherlands and the adesso Group. By combining adesso's proven process model with successful, tried-and-tested solutions and the wealth of innovation in the Netherlands, the young company hopes to position itself very quickly.

However, before Mr Heuker could focus entirely on market development, he had to start with the basics. The Dutch subsidiary was built virtually from scratch and was developed from the ground up. The business moved into its Dutch office in May 2019, months before the company was registered as a legal entity in July. For the office location, the Amsterdam district of Zuidas was chosen – an inspiring and attractive location for IT experts and, by no coincidence, Amsterdam's financial hub. Once it had been formally incorporated, the company began to take shape and took on its first employees. Within a few months, three Java developers and a sales manager had joined the new team. The fact that one of the Netherlands' biggest banks was already a long-standing adesso customer in Germany played to their advantage in the early phase. As a result, the first two Dutch developers were able to complement this project team. The company also won a contract to implement Microsoft Dynamics for another big customer.

Choosing the right employees can be make or break. That also goes for the managing director himself, whom adesso managed to attract via a headhunter at the start of 2019 in order to establish the subsidiary. Jan Heuker had the necessary experience, having previously spent almost 15 years in various (project) management positions at small and large companies in the banking and IT sectors. Even though he was not familiar with adesso, a few meetings in Amsterdam, Dortmund and Berlin were enough to leave him eager to take on the challenges. He was quickly won over by the open and down-to-earth culture, the incredibly ambitious but realistic vision and the proven professional and technical expertise. The biggest challenge was quickly finding the right employees. In the Netherlands, the demand for talent is huge, making recruiting highly qualified IT experts anything but easy.

POPULATION
(IN MILLIONS)**



17.3

AREA (IN KM²)**

41,543

CAPITAL

AMSTERDAM

810.7

GDP 2019*
(IN EUR BILLION)

EU MEMBER
SINCE

1985

CURRENCY/CODE

Euro (EUR) 

* GDP at market prices, partly provisional (source: Eurostat)

** Population and area (source: Wikipedia, The Free Encyclopedia)

ADESSO NETHERLANDS B.V.



REGISTERED
OFFICE/
LOCATION



MANAGING DIRECTOR

Jan Heuker

SINCE 2019

Amsterdam

Due to Heuker's background and the adesso Group's core industries, the initial focus in the Netherlands will also be on the financial services sector. The business is being developed on the back of having a major Dutch bank as a first client, a solid network in the financial services industry and an impressive portfolio of solutions and projects for banks and insurers. With a vision of soon branching out into other industries, adesso is also targeting large and medium-sized companies in sectors such as telecommunications, manufacturing, utilities and public administration. Moreover, in terms of technology, Heuker sees a huge demand for solutions based on artificial intelligence, digital innovations and Microsoft Portfolio.

Because of their geographical proximity, similar cultures and comparable prices, the partnership between the Dutch subsidiary and its German parent company has so far proven to be easy to manage. Products, knowledge and supply capacity can all be imported. This is a major advantage for the Dutch business, as the German services are valued as being of high quality. The smart-shoring offer, including capacities from Turkey and Bulgaria, has also been well received by the main customers.

All of these approaches are currently being enhanced. In five years, Heuker sees the company growing organically and through acquisitions to 250 employees, supporting larger software development projects as an IT partner of excellence in several industries. The foundations for this have been laid.

PART OF THE ADESSO GROUP SINCE

2019

” Izgalmas piac a német vállalatok számára “

[An exciting market for German companies]

The adesso subsidiary in Hungary has been operating in the capital of Budapest since the middle of 2019 as one of the two youngest offshoots. adesso was able to recruit an experienced IT and innovation expert for the founding and development of the company in the shape of information scientist Dr Udo Bub, a German professor. Bub teaches and researches at the Eötvös Loránd University of Budapest (ELTE) as a professor in computer science. His specialisms include microservices and ICT architecture with applications in the field of artificial intelligence (AI) and Industry 4.0. Previously, he worked as a technology and management consultant and as co-founder and managing director of digital innovation laboratories such as the Deutsche Telekom Laboratories in Berlin and EIT Digital. His expertise in the realm of microservices and cloud architecture, as well as applications in artificial intelligence, is internationally renowned. This connection to the world of high-tech and innovation will help to position adesso Hungary as a leader in this field and encourage the recruitment of skilled IT graduates locally.

Thanks to his time spent working in Hungary, Bub knows the country, its people and of course the IT and general market very well. His wife is Hungarian and their son was born there. Even though the professor will have less time for his research in the future as the managing director of this newly founded company, cultivating the Hungarian market is almost as exciting. Hungary has had close ties with Germany for centuries and, as an economic partner, offers foreign companies very favourable conditions for sales, procurement and investment. As a result, numerous companies are located here that already belong to adesso's customer base in the DACH (Germany, Austria and Switzerland) region. Thanks to positive recommendations, this should make the acquisition of new customers on site much easier. For example, leading German car manufacturers operate branches in Hungary. The supply industry, telecommunication companies and large German retail groups have also relocated parts of their work or production to Hungary. Last but not least, the Hungarian financial sector is particularly well represented by the IT expertise of international corporations. Membership of the European Union and the resulting common European legal framework, along with a well-developed transport and communication infrastructure, make cooperation considerably easier. Boasting consistently above-average economic growth, Hungary is increasingly developing from a near-shoring location to a promising sales market.



CAPITAL

BUDAPEST



EU MEMBER
SINCE
2004

143.8



GDP 2019*
(IN EUR BILLION)

AREA (IN KM²)**
93,030

POPULATION
(IN MILLIONS)**



9.8

CURRENCY/CODE



Forint (HUF)

* GDP at market prices, partly provisional (source: Eurostat)

** Population and area (source: Wikipedia, The Free Encyclopedia)

Budapest



MANAGING DIRECTOR
PROF. DR. UDO BUB
 SINCE 2019

**REGISTERED
 OFFICE/
 LOCATION**

PART OF THE ADESSO GROUP SINCE

2019

The economy in Hungary is generally very export-oriented and companies are highly globalised. Historically, Budapest has always been a leading city for Central Eastern Europe influencing far beyond its borders. Hungary has a good education system, creating favourable conditions for the recruitment of additional IT specialists. All these factors were compelling reasons for adesso to develop this important location for further globalisation. While the framework for further business development was initially established and first sales contacts were made in the founding year, the company is expected to generate substantial revenues as early as 2020. Initially, adesso will draw on its own strengths in the insurance and banking sectors. The local team will be able to access the expertise and innovation credentials of colleagues from the established markets at any time and thereby set themselves apart from the local competition. They are also focusing on the automotive and automotive supply industries as well as mechanical engineering, so they can make use of existing know-how in these areas too. Likewise, there are already some promising project proposals in the field of Big Data working with customers in the retail sector. With this proven track record, adesso Hungary is able to seek digital transformation projects by targeting the highest level of management. adesso Hungary combines technical expertise from the areas of Cloud native and artificial intelligence with industry knowledge in management workshops. This approach has already been used several times to set up strategically important digitalisation projects for customers.

In short, adesso Hungary is on course to position itself against the local competition as a leader in quality and innovation – not as a low-cost leader in a price-sensitive market.

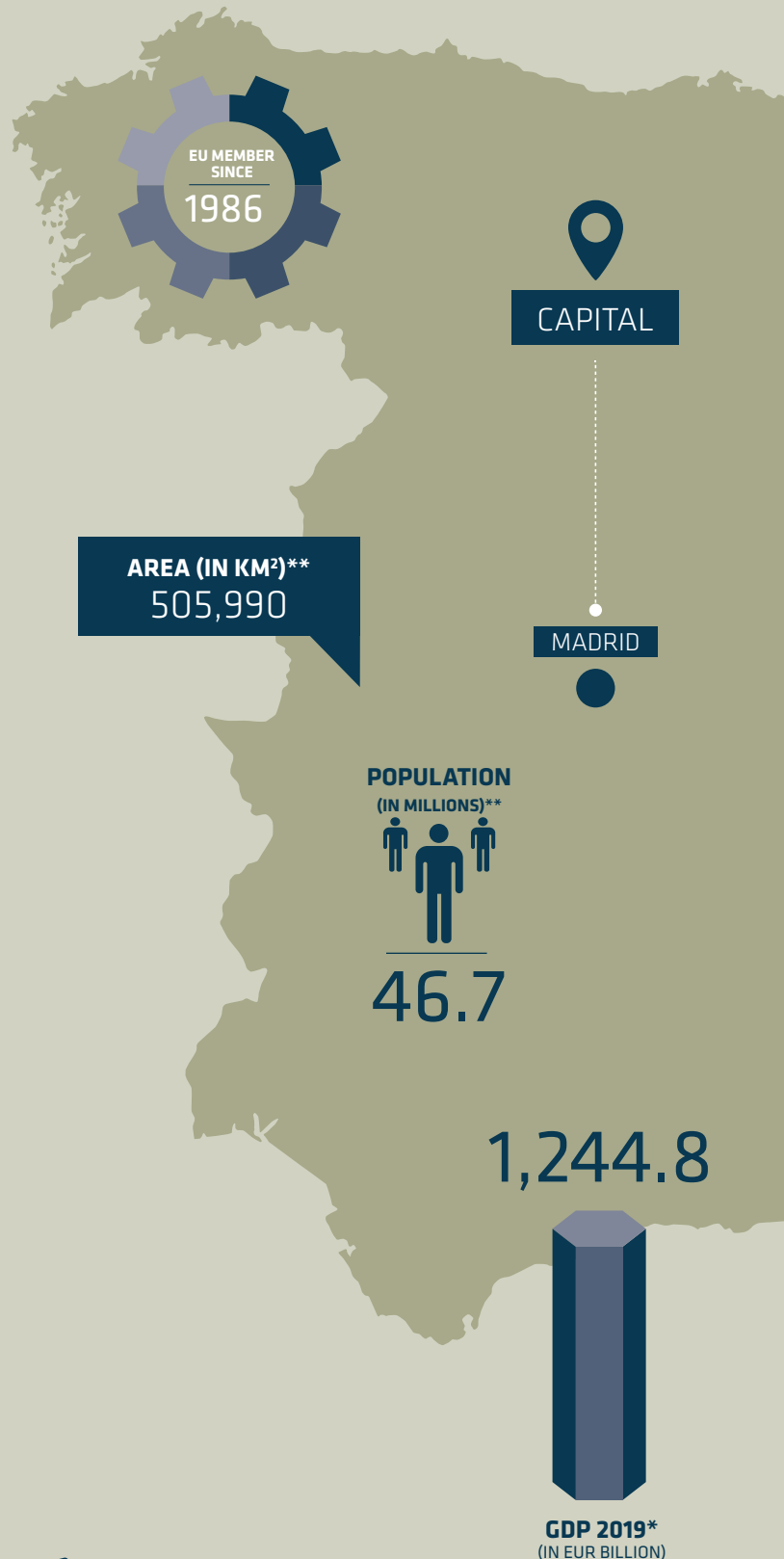
” Ya es uno de los diez principales proveedores “

[One of the top ten suppliers already]

The growth story of adesso in Spain is certainly exceptional and is based on the particular breeding ground this country offers. But the fact is, since its foundation in 2018 adesso Spain has already employed more than 75 people at three locations and has become one of the ten biggest Salesforce providers in Spain due to its large number of specialists in this technology. Inorganic growth has been a contributing factor here, too. Shortly after the company was established, a Spanish firm from the Salesforce technology field was acquired, its premises in Madrid and Jeréz de la Frontera being used in addition to the company’s own headquarters in Barcelona. adesso Spain very much continues to pursue the adesso strategy of establishing a competence centre for promising, cloud-based Salesforce applications. This enables the adesso Group to implement digitalisation projects for clients who themselves have a strong customer focus and attach importance to a positive customer experience – not least based on the global CRM market leader’s applications. This strategy has helped gain faster access than expected to larger-scale Spanish customers such as the bank BBVA, energy provider Endesa and fuel company Repsol.

What is more, Java is mainly used for development purposes in Spain and particular specialisations are offered such as cloud computing and microservices. Contrary to initial plans, a significant part of the work is also in smart-shoring. Both adesso SE and the adesso colleagues in Switzerland are happy to draw on resources provided by adesso Spain. Wage costs are lower in Spain, quality and work ethics are good. There is competition for skilled workers in the IT sector in Spain too, of course, but it is still much easier to find employees than in Germany, for example. The excellent standing of adesso SE and an extremely positive employee rating in the international arena is of course helpful in terms of recruiting, too.

While adesso in Spain initially tended to be more involved as a supporting subcontractor, the company is now doing more to acquire its own direct customers. This helps on the earnings side, since as a subcontractor much of the margin does not go to the company itself. The aim is to tap into this potential even more in the current year. Eventually, the entire adesso portfolio is to be sold in Spain as well, but this will obviously take some time.



CURRENCY/CODE

EURO (EUR) 

* GDP at market prices, partly provisional (source: Eurostat)

** Population and area (source: Wikipedia, The Free Encyclopedia)



EMPLOYEES
(As of 31.12.2019)

3.0



REGISTERED OFFICE/ LOCATIONS

Barcelona

Jerez de la Frontera

Madrid

PART OF THE ADESSO GROUP SINCE

2018

As Managing Director, Miriam Lindhorst has been involved in building up business operations in Spain from the very outset. She first came across the company as long ago as 2000 when she started studying computer science under adesso founder Professor Volker Gruhn, specialising in Java. Lindhorst then acquired more in-depth experience in various management positions in the lottery sector where she worked closely with adesso on a number of occasions. She was already living in Barcelona at the time so she was very familiar with the Spanish IT market. She was a perfect choice for adesso's expansion into the Spanish market, and Miriam Lindhorst didn't hesitate when adesso offered her this exciting opportunity.

Even if the conditions could not have been better, founding a company on the proverbial "greenfield site" is by no means to be taken for granted. Despite the support of a German-Spanish law firm, the company's capacity to act as a legal entity wasn't granted until a good two months later due to local bureaucratic obstacles. This was followed shortly afterwards by all the acquisition operations as described above – which is why the largest location is now in Madrid, even though the head office is still in Barcelona. Regardless of its national sites, adesso Spain benefits considerably from the fact that it belongs to a German corporation: German companies enjoy an excellent reputation in Spain, where many companies are still very hierarchical in structure. Quite apart from the general expectation of quality and reliability from a German company, Miriam Lindhorst personally endeavours to establish the adesso mentality and corporate culture at all the Spanish branches. This includes a great sense of appreciation and respect for each individual employee – making adesso Spain attractive to both customers and employees.

On this basis, the Spanish subsidiary is set to remain on course for pronounced growth while at the same time pursuing its own tentative internationalisation strategy: Spain is an ideal base from which to target the Latin American market, and on-site support has been commissioned via German customers in Mexico, Guatemala and Peru, for example. The growth trajectory is ambitious but realistic: by the end of 2020 Miriam Lindhorst aims to increase the company's sales to over EUR 5 million. Well then: ¡Vamos!

” Компетентен партньор в непосредствена близост “

[A competent partner in the immediate vicinity]

With the launch of the Bulgarian subsidiary in Sofia, adesso has been expanding its successful nearshore business in southeast Europe since 2018. The aim was twofold: to enlarge capacity for the successful SmartShore model, which had previously been located primarily in Turkey, and to be able to provide a base in the European Union for this purpose. The new offices in Sofia gave the opportunity to offer customers nearshore development with corresponding cost benefits within the framework of familiar EU standards, terms and conditions. For some customers this reduced the bureaucratic hurdles that they would otherwise encounter. Moreover, the proximity to the well-established base in neighbouring Turkey offered the chance to cooperate closely in the expansion of the SmartShore business. Employees of German adesso branches had already been working successfully under the adesso SmartShore brand with Turkish colleagues in Istanbul for many years, so the expansion was a win-win situation.

Yordan Terziev was recruited as managing director to help establish the company. Born in Bulgaria, he lived in Germany for more than 10 years and studied computer science there. As a post-graduate student he also got to know adesso founder Professor Volker Gruhn at the Institute for Software Engineering in the University of Duisburg-Essen. Terziev was enthusiastic about the idea of setting up a new site in Sofia. With his knowledge of the country, culture, technology and market, as well as the German language, he was the perfect pick for adesso.

The number of employees quickly grew to 17 in the founding year, and the shrewd choice of location had a positive effect straight away. In Sofia, adesso benefited from well-trained software engineers with a sound technical background and generally good language skills in German and English. The EU membership made business trips straightforward for all team members. Germany was only about two hours away by plane. There were daily direct flights to all major German cities. With over 1.6 million inhabitants, Sofia was also an important economic and cultural hub for the country and one of the world's most popular outsourcing regions. More than 20 colleges and universities offered a wide range of educational opportunities. The German-language IT degree programmes at the Technical University of Sofia, which had trained thousands of computer specialists for the IT employment market in recent years, were particularly attractive.

POPULATION**

(IN MILLIONS)



7.1

AREA (IN KM²)**

110,994

CAPITAL

Sofia

EU MEMBER
SINCE

2007

60.7

GDP 2019*
(IN EUR BILLION)

CURRENCY/CODE

Lew (BGN) 

* GDP at market prices, partly provisional (source: Eurostat)

** Population and area (source: Wikipedia, The Free Encyclopedia)

ADESSO BULGARIA EOOD

REGISTERED OFFICE/ LOCATION

Sofia



1.8



EMPLOYEES
(As of 31.12.2019)

PART OF THE ADESSO GROUP SINCE

2018

As a consequence, this connection to the network of universities was high on Terziev’s agenda from the very beginning. After the basic structures had been created by establishing the company, office location and management, prerequisites for bookkeeping, payroll accounting and much more, Terziev spent the first two years stabilising the corporate structure, procedures and delivery capacity of adesso Bulgaria. The focus then shifted to the acquisition of new SmartShore businesses in order to retain highly qualified colleagues in the company and expand the team.

By 2019 the subsidiary was already highly profitable, with a workforce more than double that of the previous year. The international configuration of the business also helped in this respect. Now Terziev has his sights firmly set on the goal of steady and sustainable growth, and the SmartShore business provides a sound basis for this. In the meantime, the company, partly in cooperation with its Turkish colleagues, is working on projects for companies in the DACH (Germany, Austria and Switzerland) region. The idea is to expand this part of the business by participating jointly with other Group companies in public tenders. Bulgarian teams offer not only software development but also IT consulting, quality assurance and Scrum organisation. In the long term, the branch is expected to offer further products from the adesso portfolio.

The local Bulgarian market is too small to target so far. It accounts for only around 20 % of the sales of the country’s software companies. The rest is exported, primarily to the EU or the US. Furthermore, the local market is comparatively unattractive due to existing and well-connected competitors, as well as lower prices. However, the location’s great potential for sustainable growth and good margins has yet to be fully tapped. adesso Bulgaria now counts a public client in Switzerland and a German financial services company among its most important customers. Further projects in the public sector, banking and retail have contributed to the growth of the Bulgarian subsidiary to date.

Terziev intends to further develop this successful cooperation within the adesso Group over the next few years, and to this end collaborates closely with the lines of business as well as the other subsidiaries. At the same time, he regards it as essential to maintain and expand the company’s good reputation as an employer in order to continue the growth curve with added capacity. The progress made so far has established a solid basis for this.

” Yalnızca yazılım geliştirmede değil, danışmanlıkta da en iyi destek “

[Excellent support – as well on the delivery side as in consulting]

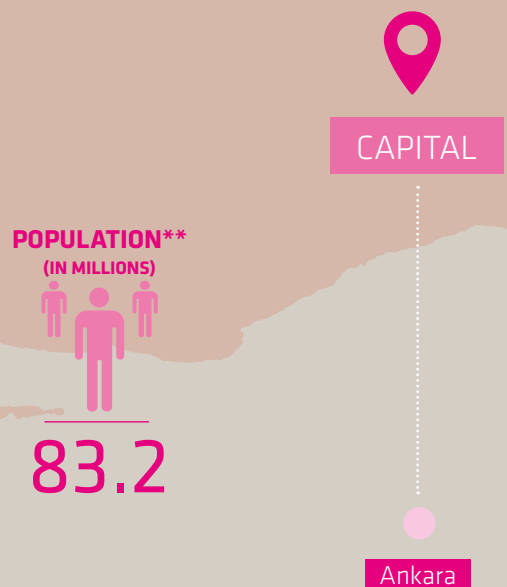
With around 300 employees and sales of more than EUR 9 million, the adesso Group’s second largest foreign subsidiary based on the number of employees is located in Turkey. Since entering the market in 2013, the company has developed extraordinarily well. The reasons for this are many and varied, but it is partly due to the fact that the company’s portfolio is fairly distinct from that of other subsidiaries.

Approximately half of sales revenue come from SmartShore engagements, so this is clearly a focus area. Mixed teams made up of German, Turkish, Bulgarian and Spanish employees are deployed to implement projects for customers outside Turkey in a particularly price-sensitive manner based on a near-shore model. Near-shoring has been one of the company’s key cornerstones since it started doing business some seven years ago, and it has been continuously optimised in line with customer requirements. Since 2018, services have also been offered under a special adesso Global Delivery Model (aGDM), which is centrally controlled, administered and expanded from out of the headquarters in Istanbul. This model follows a standardised method that aims to provide optimised and high-quality software increments on a regular basis that are of business value to customers.

What is more, the company is officially recognised as an adesso Group research and development centre. More than half of adesso’s workforce in Turkey meet the criteria for this, which means that state subsidies can be used for their work. As such, the diverse range of solutions is innovative and efficient. One particular focus area is the development of mobile applications.

In addition to country-specific products, adesso is also pursuing the increasing sector specialisation in Turkey, positioning itself as a reliable partner for the digital transformation of companies. Based on good delivery quality and international expertise and with a highly qualified team, adesso is a sought-after partner on the local market, especially in the banking, insurance and consumer goods sectors.

Experienced manager Burak Bari has been in charge of the company’s positive development right from the start. A native of Turkey who is fluent in German, Bari worked for several years in Germany with responsibility for global projects before joining adesso. His experience in leading distributed teams at several offshore and near-shore locations made him the perfect choice when it came to guiding a new adesso subsidiary in Turkey to lasting success. In retrospect, he and his employees have succeeded impressively in tapping into the potential of the Turkish economy and transforming this into entrepreneurial growth.



AREA (IN KM²)**

783,562

652.5

GDP 2018*
(IN EUR BILLION)

CURRENCY/CODE

Türkische Lira (TRY)

* GDP at market prices, partly provisional (source: Eurostat)

** Population and area (source: Wikipedia, The Free Encyclopedia)

ADESSO TURKEY BILGI TEKNOLOJILERI LTD. ŞTI.

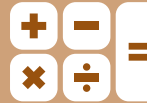
Ever since the company was founded in 2013, Burak Bari has had Mutlu Önder at his side, now responsible for local operations as Chief Operations Officer. The business strategy was developed at an early stage, before being carefully reviewed and analysed to determine what type of products and/or services best suited the Turkish market. Even though there was something of a learning curve in certain areas in the early phase, the company committed to mobile applications early on. Initially operating like a start-up, challenges of all kinds had to be tackled to set the company on a sound footing. This worked well thanks to the excellent support provided by the adesso Group. The first major reference project was a successful app developed and rolled out for a company in the consumer goods industry.

Starting in 2015, local market access was expanded and the strategy was consistently implemented to establish a near-shore model for the German market with German-speaking teams and cost-effective IT projects based at the headquarters in Istanbul. A German bank specialising in retail banking initially benefited from so-called SmartShoring. Today, the range of services includes both software development and maintenance for highly complex IT projects.

The company's advantageous geographical location is also vital to its ongoing positive development. As a bridgehead to and from Europe and due to its proximity to the MEA (Middle East & Africa) region, Turkey operates in a highly dynamic market. A young and technologically adept population demands innovative solutions, providing an excellent breeding ground for further growth – even though Turkey has faced a number of economic challenges in recent years. Digitalisation is and will remain an important driver in all sectors.

After another very substantial increase in sales in 2019, adesso is now concentrating on issues such as Big Data and Machine Learning in Turkey so as to establish these on the market with the appropriate consulting and attractive solutions. Plans also include expansion of SmartShoring to the MEA region. Here the aim is to identify projects that can be handled from Turkey. All in all, the plan is to increase the number of SmartShoring projects and their size within the adesso Group.

9.1

SALES
(in EUR m)

MANAGING DIRECTOR

Burak Bari

SINCE 2013

Istanbul

REGISTERED
OFFICE/
LOCATION

285

EMPLOYEES

(As of 31.12.2019)

PART OF THE ADESSO GROUP SINCE

2013

„Damma wos!“ [Let's go for it!]

„World-famous in Austria“ is a phrase uttered with a wry smile in Vienna. It is not easy to explain, and attempts to do so often lead to misunderstandings. In any case, it makes a person realise that the world as a whole, and Austria as a small part of it, are sometimes seen as one and the same – with a nod and a wink, of course, but also with a certain conviction.

adesso ventured into the Austrian market back in 2009 by acquiring a smaller company with 30 employees. The move was consistent with its strategy of initially expanding its IT service business to cover the whole German-speaking region. In subsequent years, the subsidiary made less progress than expected. The reasons for this were complex, and sustained growth eluded the company at first.

In June 2018, Reto Pazderka was appointed managing director to align the digital world of adesso more closely with the requirements of the Austrian market. Pazderka recognised that adesso had everything it needed to be successful in Austria – and that Austria had all the prerequisites for exciting digitalisation projects: innovative companies, outstanding specialists and a real pioneering spirit. For Pazderka, it was a case of the right task at the right time. Before joining adesso, he was managing director of a Viennese software company and well acquainted with the demands of the Austrian market. He used his many years of management experience to bring fresh momentum to the targeted areas.

Although adesso Austria's initial situation was not exactly comfortable at that point, the foundations for the positive growth of the Austrian subsidiary had already been laid. adesso Austria had made a name for itself above all in the insurance industry and the public sector, as well as among social insurers. The aim now was to harness the power of the entire adesso Group to gain broader visibility.

The long-term positioning of adesso as a digitalisation partner in Austria, both as a consulting firm and a technology company, now looks particularly exciting. This has proven to be a real advantage in many sales situations, as adesso takes an authentic, pragmatic approach to solving issues in the interests of its customers. The combination of excellent digitalisation advice and technology expertise is at its most successful when “adessi” – which is how adesso employees describe themselves – work together to focus on adding value to the customer's business. Just recently, an important customer summed up what makes working with adesso Austria so valuable to him: “We're looking for a partnership of equals, and that's exactly what adesso offers us,” says Werner Blach, head of IT and member of the extended management at Niederösterreichische Versicherung.

POPULATION (IN MILLIONS)**



8.9



CAPITAL

AREA (IN KM²)**
83,879

398.5



GDP 2019*
(IN EUR BILLION)



EU MEMBER
SINCE
1995

CURRENCY/CODE

Euro (EUR) 

* GDP at market prices, partly provisional (source: Eurostat)

** Population and area (source: Wikipedia, The Free Encyclopedia)



Wien

REGISTERED
OFFICE/
LOCATION

Wien

**EMPLOYEES**
(As of 31.12.2019)**BIGGEST CLIENTS**

Agrarmarkt Austria (AMA),
Niederösterreichische
Versicherung AG,
IT-Services der Sozial-
versicherung GmbH (ITSV)

**MANAGING DIRECTOR****Reto Pazderka**

SINCE 2018

The growth of adesso Austria's sales and earnings before taxes by more than 30 % compared to the previous year prove that adesso's great potential can also be leveraged in Austria. International cooperation within the adesso Group has also seen strong growth. The involvement of German "adessi" in adesso Austria's customer projects is particularly significant, as is the alliance with the subsidiary in Switzerland. For example, Swiss colleagues and employees from Austria worked together on overhauling software systems for a large insurance company as part of a comprehensive digitalisation programme.

Recruiting the right personnel is vitally important in Austria too, since talented people who are enthusiastic about adesso and bring this energy to customer projects are the foundation for success. While there is no general formula for attracting specialists, it does help to draw on the enormous experience of the adesso Group and make use of various services offered by the parent company. However, this is in no way a substitute for jointly building a local presence and a sense of personal identity. Despite a few difficulties along the way, the path has already become part of the goal. For new adesso employees in Austria, this pioneering spirit is a crucial reason to get involved and actively contribute as part of a team.

Other subsidiaries have shown that adesso can be taken successfully onto the world stage. As far as the Austrian market goes, Reto Pazderka sees no limits to adesso's growth in the near future. The constant expansion of the business on a sound and sustainable basis is given as much priority as the hunt for exciting digitalisation projects in an IT world that seems to be spinning ever faster. Now "World-famous in Austria" seems a fine goal indeed.

PART OF THE ADESSO GROUP SINCE

2009

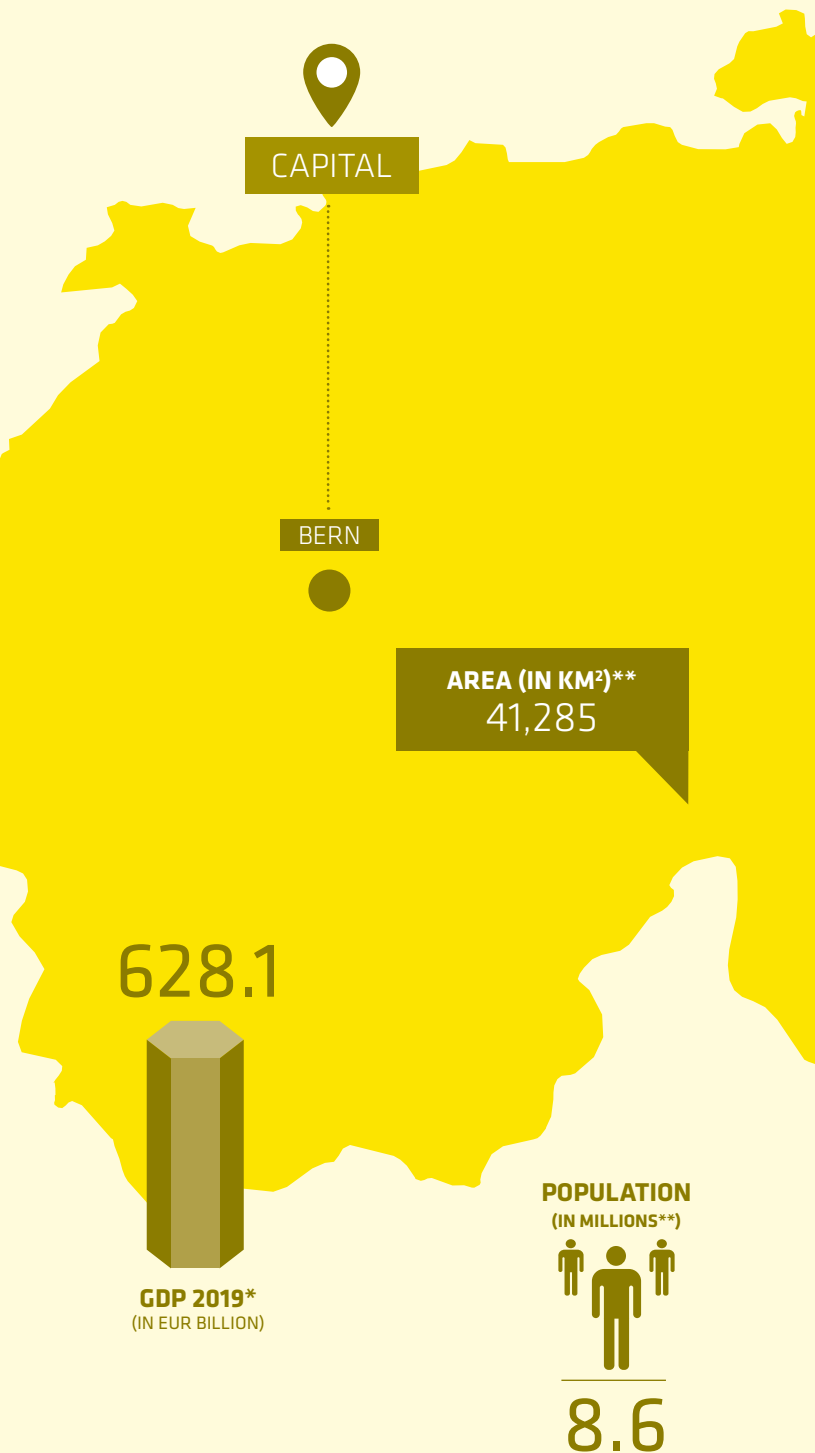
„ I würdi gern e Schwiizer Spezialität probiere. “

[I'd like to try a Swiss speciality.]

The success story of adesso in Germany's neighbouring country of Switzerland is closely linked to that of its current managing director and CEO, Hansjörg Süess. adesso took its first steps towards internationalisation in German-speaking Switzerland with the integration of a Swiss software company. The latter had been operating in the Swiss market since 1985 and became part of the adesso Group in 2007 after the acquisition and subsequent merger of its parent company. At that time, current managing director Süess was still working for global player company Cognizant, but he felt the urge to get back to being more of an entrepreneur again and acquire greater autonomy from a base in Switzerland. He got the opportunity to do just that with adesso Schweiz AG – the national subsidiary was in search of a CEO in 2009. Since then Süess has managed operations from Zurich, and went on to be appointed to the Board of Directors in 2019.

He has expanded the Swiss subsidiary from one location and 30 employees to a leading nationwide provider with over 300 employees at five locations. With annual sales of CHF 62 million in 2019, adesso Schweiz AG is now firmly established within the Swiss consulting and service industry. After the German parent company adesso SE, it is the second largest operating unit in the adesso Group and ranks among the ten largest providers in Switzerland.

Its starting situation in 2009 was anything but simple, however: with the financial crisis in full swing, adesso was under pressure, too – especially as some of the heavyweights among its Swiss customer base were from the country's traditionally strong financial industry. With the support of the adesso Group's expertise and collaboration, the portfolio was strategically diversified across other industries, enabling the company to acquire new business and establish a broad reputation throughout Switzerland. The takeover of Born Informatik AG in 2015 – a company that was almost the same size – meant that market access was expanded, especially in terms of public administration enterprises based in Bern. Growth was boosted further due to the ideal match between the two companies and their excellent collaboration throughout the successful integration process. With resources suddenly doubled, it was possible to serve new customers SBB (Swiss Federal Railways) and the telecommunications company Swisscom – still adesso's key accounts in Switzerland today, as well as being among the adesso Group's top customers. Further growth initiatives followed. Two new locations were established in Basel (2017) and another in the French-speaking part of the country for the first time – in Lausanne (2018). In the reporting review, adesso Switzerland reorganised itself along technically oriented lines of business and now operates a total of eight business areas. In order to address the ongoing lack of skilled workers while

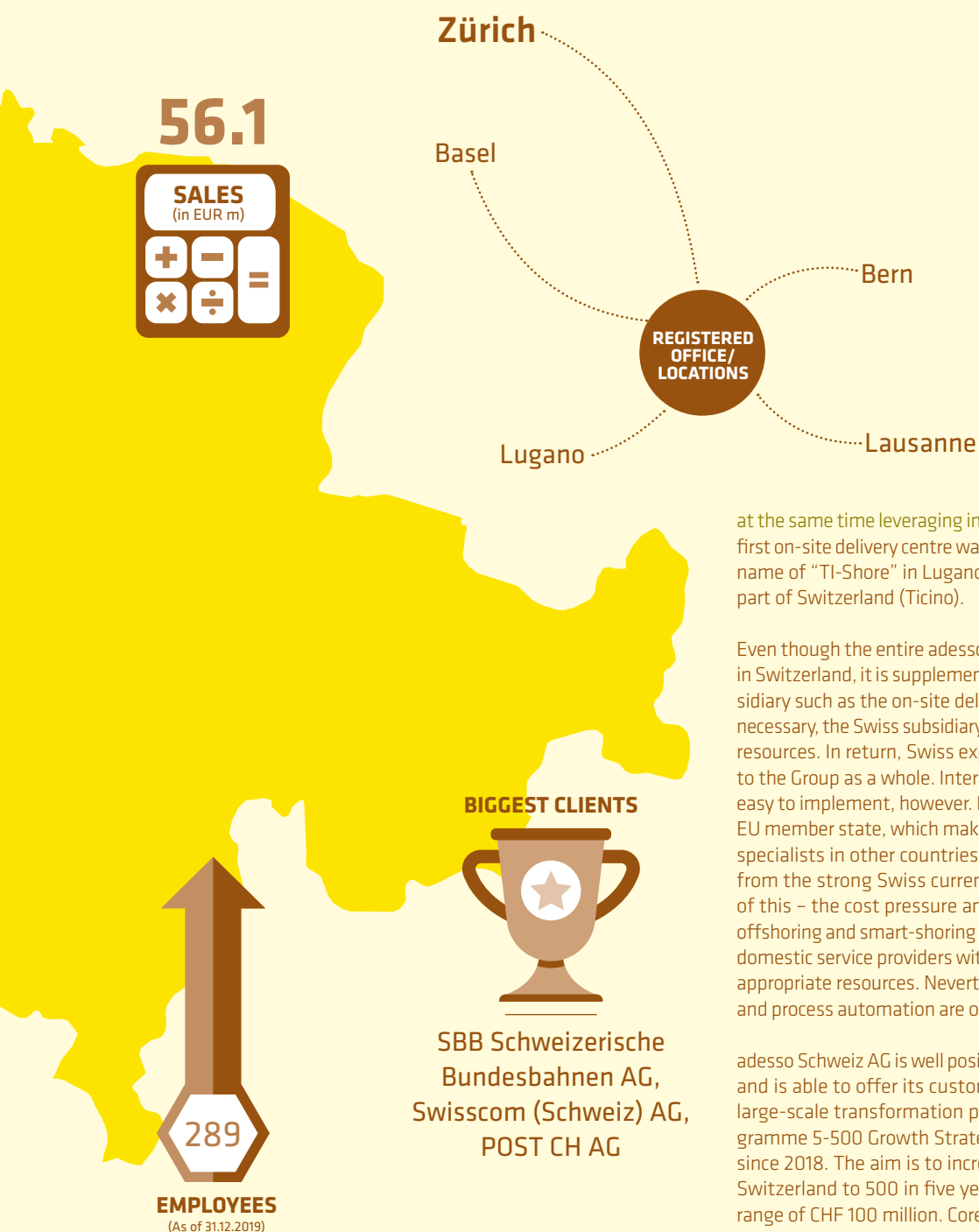


CURRENCY/CODE

Schweizer Franken (CHF) 

* GDP at market prices, partly provisional (source: Eurostat)

** Population and area (source: Wikipedia, The Free Encyclopedia)



at the same time leveraging innovation potential, the company's first on-site delivery centre was recently (2020) opened under the name of "TI-Shore" in Lugano, in the Italian-speaking southern part of Switzerland (Ticino).

Even though the entire adesso Group portfolio is essentially sold in Switzerland, it is supplemented by services specific to the subsidiary such as the on-site delivery centre. Where appropriate or necessary, the Swiss subsidiary is able to scale using adesso Group resources. In return, Swiss expertise is also frequently provided to the Group as a whole. International cooperation is not always easy to implement, however. For example, Switzerland is not an EU member state, which makes it difficult to cooperate with EU specialists in other countries. Particular challenges also derive from the strong Swiss currency and – to some extent a result of this – the cost pressure among Swiss customers. Although offshoring and smart-shoring are widely accepted, this confronts domestic service providers with major challenges if they lack the appropriate resources. Nevertheless, the issues of digitalization and process automation are omnipresent in the Swiss economy.

adesso Schweiz AG is well positioned to handle this development and is able to offer its customers the appropriate services for large-scale transformation projects. The country-specific programme 5-500 Growth Strategy has offered additional stimuli since 2018. The aim is to increase the number of employees in Switzerland to 500 in five years, achieving annual sales in the range of CHF 100 million. Core elements of the strategy include regionalisation and strengthening sales performance based on more intense content marketing, as well as expanding consulting expertise on key professional and technical issues. The range of cloud applications is to be extended, for example.

The fact that growth of approximately 20% was achieved in 2019 illustrates clearly that the Swiss specialities have been excellently received on the market and that adesso Schweiz's 5-500 Strategy was the right road to choose.

Reflecting the company's internationalisation strategy

conversion to a European public company or “Societas Europaea”

Interview with the spokesman of the new adesso SE European Forum, Michael Bünнемeyer

Michael Bünнемeyer (39) has been working for adesso since 2012. Today, as Senior Business Developer, he manages the Competence Center Sales of the insurance sector from the company's Berlin location. Bünнемeyer – who holds a degree in business administration – was elected by adesso employees to the Special Negotiating Body at the beginning of 2019 to prepare and conclude the participation agreement in connection with the conversion to an SE. Since then he has been the spokesman of the European Forum.

The conversion from adesso AG to adesso SE was formally completed with the entry in the commercial register on 27 November 2019. What changes does this involve for adesso and what are the advantages of the new legal form SE?

Michael Bünнемeyer (MB): The biggest noticeable change for employees is the creation of the European Forum, which is made up of colleagues in Austria, Spain, Switzerland, Turkey, Bulgaria and Germany. It's a platform for regular exchange between the subsidiaries. The European Forum members' job is to get proactively involved in issues such as safety at work, harassment at work and equal opportunities so as to initiate transnational guidelines for adesso. This gives us the chance to pick up on promising ideas in the individual subsidiaries and allow everyone to benefit from them – an exciting task for each and every one of us on the forum. It involves organising calls, preparing meetings on site and, of course, identifying the issues we want to tackle in the coming months together with the management representatives on the Executive Committee.

Why is it so important to adesso to have this EU-wide presence as a legal entity and an international brand?

MB: Many of our customers already operate at a global level, and the digital transformation makes international cooperation easier. This is bound to impact on us as a partner in the digital transformation too, of course. In view of this, adesso has to position itself more broadly if it wants to continue to grow and

stay on an equal footing with its customers. As such, the transformation is a clear signal to the market that adesso is getting to grips with this.

In the course of the transformation, adesso has re-established co-determination in the form of a European Forum. Perhaps you could you briefly describe what the forum does. What are its concrete objectives?

MB: From a formal point of view, the European Forum is responsible for matters that concern the SE itself or adesso employees in at least two member states (transnational matters). We also deal with subsidiaries of only one member state providing there are no company-specific or national employee representatives in that state. Particular attention is paid to employee-related aspects that impact on the entire adesso Group. At the first stage, the European Forum is focusing on issues such as occupational safety, further training and equal opportunities. We've distributed the issues among working groups, which gather impressions of how things are handled in the subsidiaries. After this, measures are derived for adesso SE in dialogue with experts. adesso-wide guidelines are to be developed in 2020. In the months to come, the European Forum will be setting out the framework on which these guidelines will focus.

The model of the classic “works council” doesn't seem to be up-to-date enough for IT companies and it's generally less widespread, too. What is the reason for this?

MB: Change and flexibility are part of the everyday life of an IT company. These are both points that are not always necessarily compatible with a works council. We want to actively contribute to the European Forum with our expertise and ideas for a successful adesso Group – in particular avoiding unnecessary complications and barriers. For adesso's European Forum, the often rigid structures and processes of a works council don't provide the right basis for contemporary participation in an IT company.

With employees from six different countries, the European Forum is geared towards international cooperation from the very outset. If this is the case, why don't all adesso subsidiaries get to be represented and have the relevant voting rights?



**Michael
Bünнемeyer**
Spokesman of the
adesso "European Forum"

MB: Ultimately you have to look at the big picture. We're not excluding anybody, but we have set ourselves the framework that a minimum number of 50 employees have to be on site in order to take up a seat on the forum. This ensures decisions are supported by a broad mass of employees. It doesn't necessarily mean that we're not involving the new and smaller subsidiaries. Here, too, close contacts already exist or are currently being established. Regardless of their country of origin, all adesso employees are invited to contribute and they are very much encouraged to do so by European Forum members.

How has cooperation and dialogue with the adesso Executive Board been shaping up so far regarding employee issues? Has there been a substantial change in the processes?

MB: We're tackling this in good adesso style – through direct dialogue with one another. We have fixed regular meetings with the Executive Committee, but there are also direct channels if necessary.

Are you involved in discussions with the Supervisory Board as well?

MB: Volker Gruhn is a member of the Executive Committee, so that gives both sides the opportunity to proactively address the issues that keep coming up. There are no current plans to set up direct dialogue with the entire Supervisory Board.

The Supervisory Board of adesso SE will continue to be elected from the ranks of the shareholders by the Annual General Meeting. How do you see this from the employees' point of view?

MB: This is valid and it also fits adesso SE perfectly in terms of the way it operates now, involving employees in numerous processes. We weighed this up in detail before the SE conversion in the Special Negotiating Body, and we firmly believe we can do more for employees by getting involved in the development of central guidelines.

adesso is looking to pursue further internationalisation in Europe. How will you meet this challenge in the European Forum?

MB: We're currently facing various challenges. We want to create visibility vis-à-vis both employees and management. We want to pick up on existing initiatives such as She for IT (the adesso programme for the empowerment and promotion of women in the IT industry) and support for adesso families in Germany, developing a process in collaboration with management so that these can be rolled out to other locations. Essentially we want to promote good ideas in the subsidiaries throughout Europe. Communication is a major issue here. We want to win employees over to our cause – and not all subsidiaries have employee participation schemes as in Germany. So it's also important to explain the work of the European Forum in all the subsidiaries and explain the opportunities for co-determination.

What was your personal motivation to run for the Special Negotiating Body, from which the European Forum later emerged?

MB: What I like about the adesso culture is that the emphasis is on common sense: rules are avoided as long as things make sense. That's enormously empowering. In such a rapidly growing company like adesso in particular, it can be quite a challenge to preserve this culture. But it's a challenge I'm more than happy to take on.

“

GROUP MANAGEMENT REPORT

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GROUP PRINCIPLES

Business model, targets and strategies

The adesso Group is a fast-growing IT company which has set its sights on becoming one of the leading consulting and technology groups for industry-specific business processes in Central Europe. To do this, the establishment of additional subsidiaries in Europe is being accelerated. With a high level of expertise in the areas it caters to, adesso operates at the interface between business processes and IT, implementing software projects at the highest technical level. The development of in-house software solutions increases the company's market penetration and strengthens its position in promising IT fields, such as mobilisation and enterprise content management. Enterprise development is complemented by a well-defined acquisition strategy.

Fuelled by past growth and growth in the making, a focused business model and an insistence on outperforming industry average margins, the adesso Group's value is continually increasing. To achieve this, adesso invests significant resources in targeted business development, the expansion of sales capacities, recruiting and marketing. These investments, coupled with extensive industry and consulting expertise, enable growth rates which exceed the industry average in Germany by far.

adesso is a leading corporate group in the field of software development and invests more than average in the training and development of our workforce and in ongoing development of the adesso model for the software development process.

The Executive Board is committed to a strategy of striving for the right balance of growth, solid finances and profitability.

As targets for 2019, the Executive Board defined sales growth of at least 9% to at least EUR 410 million, an operating profit in the form of an EBITDA of between EUR 40 million and EUR 45 million (or between EUR 30 million and EUR 35 million before IFRS 16) on achievement of a minimum EBITDA margin of 9%. With sales increasing by 20% to EUR 449.7 million,

of which 17% was organic*, an EBITDA amounting to EUR 48.1 million (EUR 36.1 million before IFRS 16) and an EBITDA margin of 10.7%, the adesso Group achieved its targets and even exceeded them..

Employees and structure

At the end of 2019, adesso had a workforce of 4,033 FTE across the Group (previous year: 3,280) in Germany, other European countries, Turkey and the US. While 705 (previous year: 483) of these employees were working abroad for the adesso Group, 2,222 (previous year: 1,852) employees in Germany were working for the parent company adesso SE, which represents the holding company and by far the largest operating unit.

adesso SE's largest location is Dortmund, which is also the city in which the company was founded and where its corporate headquarters are located. To stay close to its customers and keep travel times and costs as low as possible, adesso maintains 19 other offices in all of Germany's major economic regions. This broad local presence is also extremely important in terms of recruitment. International locations are Amsterdam, Barcelona, Basel, Bern, Boston, Budapest, Istanbul, Jerez de la Frontera, Lausanne, London, Lugano, Madrid, Sofia, Vienna and Zurich.

In addition to adesso SE, the largest operating unit and parent company, the adesso Group also included 25 subsidiaries, four associated companies and one joint venture as at the reporting date.

adesso has two different segments: IT Services and IT Solutions. While the IT Services segment offers customised, project-oriented services in the areas of consulting and software development, the IT Solutions businesses market their own solutions as home-grown products or standard software products.

* Organic sales growth: sales growth that has been achieved without company acquisitions. This is calculated by dividing the sales of the current financial year by the sales of the previous year. The sales of the current financial year are adjusted as follows: Sales of companies acquired in the current financial year are not included. In order to establish equivalence in the calculation, the sales of companies acquired in the previous year are also only taken into account from the point in the current financial year at which they were acquired in the previous year

The parent company adesso SE is publicly traded and listed on nearly all German stock exchanges (ISIN code: DE000A0Z23Q5, WKN [national security identification number]: A0Z23Q).

Management system

As the holding company of the adesso Group, adesso SE defines the strategy and operational targets of all Group companies. It controls the legally independent Group companies by implementing a target system, carrying out an ongoing reporting process and occupying positions in the supervisory bodies and management teams.

Operational control is ensured by a reporting system which has been implemented uniformly across the Group. In the process, each Group company prepares full monthly financial statements based on national legal regulations. Key performance figures for reporting are sales, EBITDA, earnings before tax (EBT), the EBT margin, number and proportion of employees not fully utilised, number of employees and net liquidity. The most important performance indicators are subject to continuous comparisons with forecast and actual data. All indicators are carried forward and subject to an internal Group benchmark. Updated forecasts are prepared for each Group company on a rolling basis for the entire year to identify possible planning deviations in a timely manner. Fixed reporting channels and cycles have been defined, and there is also a fixed appointment schedule for management meetings. There are no fundamental differences between key performance indicators in the reporting systems for each segment.

Research and Development

The bulk of the adesso Group's sales is attributable to IT services. Research costs in the IT Solutions segment are negligible in relation to Group expenses. None of the Group companies has its own dedicated research department.

BUSINESS REPORT

Macroeconomic climate and industry-specific conditions

Macroeconomic economic conditions

For the tenth year in a row, the German economy experienced growth in 2019. According to initial calculations by Germany's Federal Statistical Office, however, the rate of increase in gross domestic product of 0.6% was significantly lower than the previous year's figure of 1.5% and the 1.0% originally expected in the federal government's annual projection for 2019. The figure, which had already been halved to just 0.5% in April 2019, was only slightly exceeded. The economic momentum of the German economy therefore slowed down noticeably in 2019 and was below the average value of the past ten years of 1.3%. According to the Federal Ministry of Economics, this is due in particular to a period of weakness in the industrial sector. Weak world trade in particular burdened export-oriented German producers. Despite the still subdued outlook, the Federal Ministry for Economic Affairs and Energy does not believe there is a threat of an economic crisis. The export-oriented manufacturing sector was under pressure mainly due to trade conflicts, Brexit and uncertainties surrounding the foreign trade environment. However, the domestic economy is intact, employment and income have continued to rise, and the construction sector is booming. Development was uneven during the course of the year. While an increase of 0.5% was achieved in the first quarter of 2019, supported by special effects, the second quarter was considerably weaker with a decline of 0.2%. In the third quarter of the year, economic performance increased by only 0.2% compared to the previous quarter. In the fourth quarter of 2019, GDP stagnated after price, calendar and seasonal adjustment. A differentiated picture also emerged on the output side. Economic output in the service sectors has risen, but has fallen significantly in the industrial sector. Growth was again supported by consumption in 2019: Private consumer spending was 1.6% higher than in the previous year after adjustment for prices, while government consumption expenditure rose by 2.5%. Private and public consumer spending therefore grew more strongly than in the two previ-

ous years. Even if the weak phase of the industrial sector has not yet been overcome, stabilising tendencies in order intake and declining pessimism in business expectations sent positive signals at the turn of the year 2019/2020.

For Switzerland, the federal government's expert group expects GDP growth of 0.9 % for 2019 in its latest forecast. This means that the pace of economic growth has slowed considerably compared to the previous year (2.8 %) and to the forecast of 1.5 % for 2019 as a whole originally issued at the end of 2018. In the course of 2019, the expert group revised its economic forecast several times, as the global economy developed more weakly than previously assumed, claiming that existing uncertainty would put the brakes on exports and investment. The outlook for the domestic economy has also deteriorated.

As expected, economic momentum in Austria slowed down somewhat compared to the previous year. After GDP growth of 2.4 % in the previous year, the leading economic research institutes are expecting 1.6 % to 1.7 % for 2019. This corresponds to the lower end of the forecast originally published at the end of 2018. Compared to the previous year, the OECD issued a significantly lower GDP growth forecast for Turkey in 2019 of 0.3 % (2018: 2.8 %). A recovery is foreseeable, although the uncertainties are still estimated to be very high.

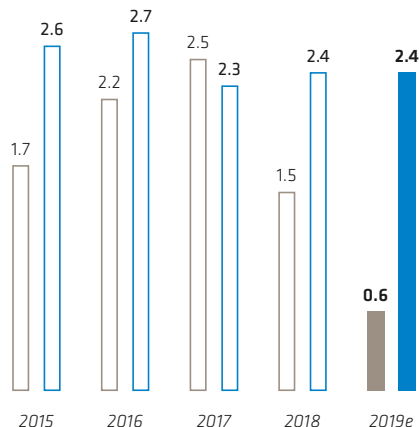
The OECD is forecasting a slight fall in momentum for GDP in the US to 2.3 % in 2019, following 2.9 % in 2018.

Despite the continued growth, the macroeconomic conditions were therefore in part considerably weaker than expected for adesso's business performance. The original prospects for the year have become noticeably gloomier in almost all economies relevant for adesso and especially in Germany during the course of the year.

GDP GROWTH RATES (REAL)
AND IT SERVICES

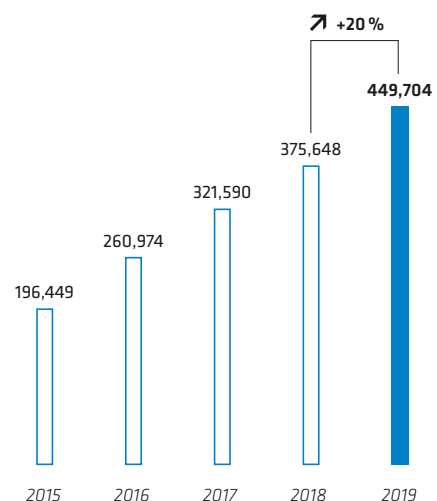
in %

■ GDP (real) ■ IT-Services



GROWTH IN SALES

in EUR k



Industry-specific conditions

The industry association Bitkom expects that the German market for information technology product and service providers grew by 2.9 % to EUR 92.9 billion in 2019. As a result, the growth dynamic has slowed compared to the previous year’s figure of 3.5 %. The main reason for this was again the lower growth in the IT hardware segment of only 0.5 % after 2.7 % in the previous year. However, the IT market grew at almost five times the rate of the economy as a whole.

The highest growth continues to be reported by the software segment, which in 2019 was able to increase by 6.3 % as in the previous year. Market volume reached EUR 26.0 billion.

Growth in the IT services area, the most important area for the adesso Group’s sales, also remained stable at 2.4 %. The market volume of this segment now amounts to EUR 40.9 billion.

Industry-specific conditions therefore continued to be positive for adesso’s business performance.

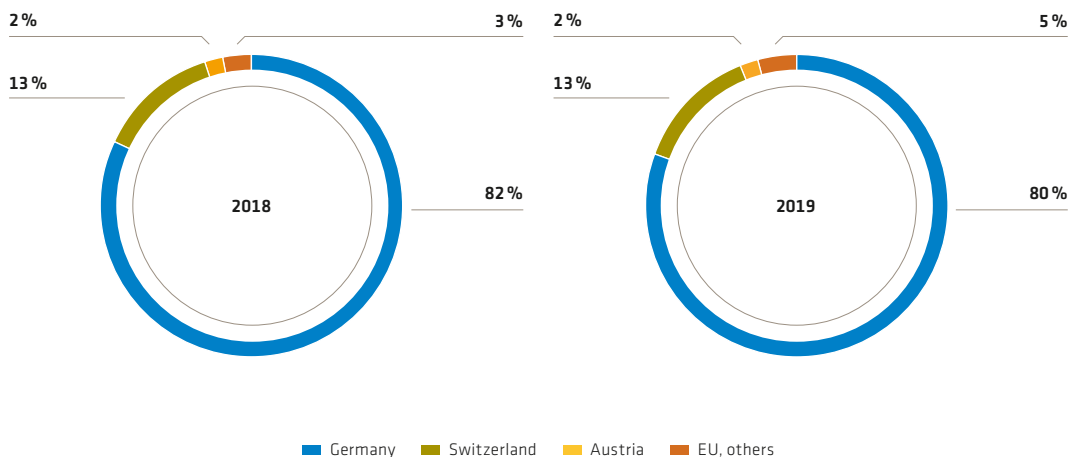
Business performance

There were no individual events that could be seen as having significantly affected the business performance in the reporting period.

In an analysis of its contracts in relation to the application of IFRS 15, adesso found that the recognition of a contract as a development project rather than a fixed-price contract provides more reliable information. adesso believes that this change will not have a significant impact on previous accounting periods on the whole and has adjusted the presentation of such items with retroactive effect in accordance with the requirements of IAS 8. In the comparative figures for 2018, this adjustment essentially leads to an increase of EUR 5.4 million in fixed assets, EUR 3.4 million in contractual liabilities and EUR 1.1 million in other reserves in the balance sheet, and to an increase of EUR 0.2 million in revenue, EUR 1.4 million in other own work capitalised, EUR 0.9 million in depreciation, as well as to a decrease of EUR 0.3 million in other operating expenses in the consolidated income statement. Overall, the comparative EBITDA figure for the previous year therefore increased by EUR 1.9 million.

SALES BY COUNTRY

in %



Overall statement on business performance by the management

Die adesso Group konnte den Umsatz um 20 % (davon 17 %-Punkte organisch) sowie das operative Ergebnis (EBITDA) um 46 % gegenüber dem Vorjahr verbessern (10 % vor IFRS 16) und die Zielwerte für 2019 für diese zentralen Kennzahlen erreichen beziehungsweise übertreffen. Auch das Ziel der Margensicherung mit einer EBITDA- Mindestmarge von 9 % wurde mit 10,7 % erreicht.

Position

Newly applied accounting standards

adesso applied the reporting standard IFRS 16 (Leases) for the first time on 1 January 2019. This first application is represented according to the so-called modified retrospective method. This involves the conversion calculations in the Group reserves to be recorded up until 1 January 2019. The previous year's figures are not adjusted. Making a comparison with the previous year's figures is therefore only possible to a limited extent. For further details, please refer to the information in the consolidated notes.

Profitability

Growth in sales

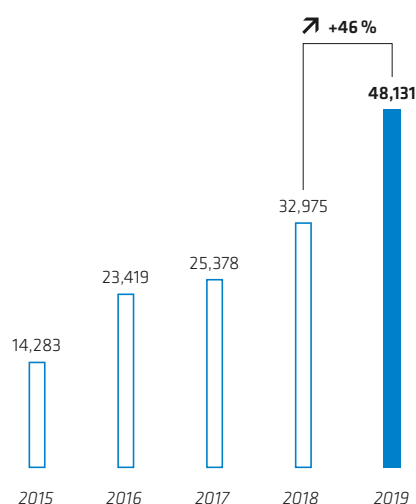
The adesso Group successfully increased its sales by 20 % to EUR 449.7 million in financial year 2019. The purely organic growth (without consideration of the company's acquisitions in 2018 and 2019) amounted to 17 %.

With estimated market growth, relevant to adesso, of 2.9 % for the industry, adesso, as it did in previous years, had significantly higher organic growth than the market in 2019. It was therefore able to gain additional market share.

In the second half of financial year 2019, revenue of EUR 236.4 million was significantly higher than in the first half of the year of EUR 213.3 million. This development is in line with the situation in previous years, as the second half of the year generally has a higher number of working days and often higher licensing revenues.

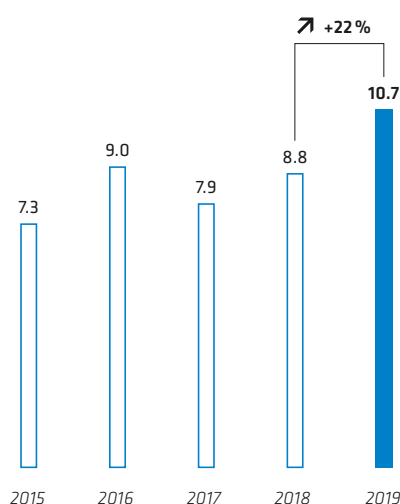
EBITDA

in EUR k



EBITDA MARGIN

in %



Sales in both segments increased, with growth in the IT Services segment at 18 % and growth of 28 % in the IT Solutions segment.

In the IT Services segment, the most significant adesso subsidiary in the Group in terms of size, adesso SE, was able to significantly expand its sales in Germany, as in the previous year, and achieved growth of 21 %. Investments in the development of additional key sector aspects and new portfolio elements, as well as the focus on recruitment and employee retention, were transferred into high growth in sales. The foreign subsidiaries in Turkey, Austria and Switzerland posted double-digit sales growth rates above Group growth.

In the IT Solutions segment, business with the adesso in-house product family in|sure for the insurance business was expanded. Sales increased again in all three revenue categories of licences, maintenance and implementation. Thanks to a strong second and fourth quarter, sales in the licence segment of in|sure more than doubled. In the Content Solutions business area, sales increased only slightly with the

in-house content management system FirstSpirit. Among other things, this is due to the increased share of contract models with distributed sales realisation, such as in the case of software as a service agreements, leading to a delay between rising order intake and rising sales revenues.

Banks/financial services and insurance account for the largest proportion of adesso's sales. While a growth rate of only 1 % was achieved in the core sector of banks/financial services due to difficult market conditions, sales in the core sector of insurance rose by 37 %.

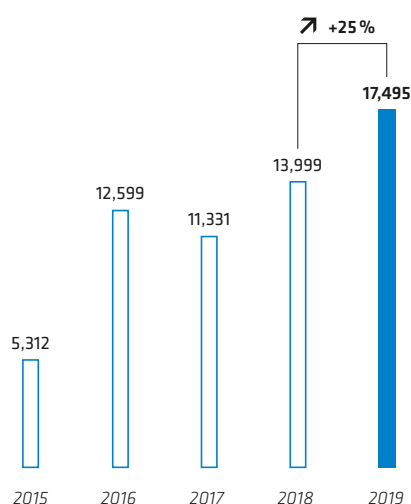
The sales with customers in Germany rose in 2019 by 17 %, and by 33 % outside Germany.

Earnings

In 2019, EBITDA increased by 46 % to EUR 48.1 million, thereby exceeding the forecast value of between EUR 40 million and EUR 45 million. The EBITDA increase excluding the IFRS 16 effects was 10% to EUR 36.1 million. Even from this perspective, the range of between EUR 30 and EUR 35 million (before IFRS 16 effects) was exceeded.

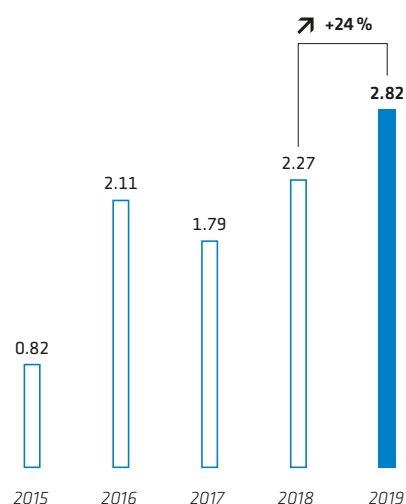
CONSOLIDATED EARNINGS

in EUR k



EARNINGS PER SHARE

in €



At sales growth of 20 %, the average number of employees (FTEs) grew somewhat faster by 23 %, or 701 employees, to 3,732 in 2019.

The material expenditure in the amount of EUR 50.5 million, mainly caused by the incorporation of subcontractors into projects, rose by 17 % and thus slightly slower than the sales revenues. Gross profit thus increased by 20 % to EUR 399.2 million. Due to the use of external labour, the material usage ratio remained more or less constant at 11.2 %, after 11.5 % in the previous year. Given the disproportionate growth in employees, the result is a downward gross profit per employee of EUR 107 thousand (previous

year: EUR 110 thousand). The inclusion of external specialists follows the demand at peak times and the incorporation of experts in some projects. From a strategic perspective, the aim is to have a high proportion of sales revenues from in-house employees.

Personnel costs increased by 21 % to EUR 293.1 million, while the average number of employees rose by 23 %. Hence, the average personnel costs per employee dropped from EUR 80 thousand to EUR 79 thousand. Compared to the same period, there was a continued noticeable rise in the number of employees in Turkey, Bulgaria and Spain accompanied by lower personnel costs.

MULTI-PERIOD OVERVIEW OF EARNINGS SITUATION

<i>in EUR k</i>	2019	2018	2017	2016	2015
Revenue	449,704	375,648	321,590	260,974	196,449
Other operational revenues	5,715	5,081	3,135	3,212	1,862
Changes in inventories (IFRS 15)	637	331			
Own work capitalised	1,405	1,913	47	0	165
OVERALL PERFORMANCE	457,461	382,973	324,772	264,186	198,476
Costs of materials	-50,487	-43,296	-37,390	-28,389	-22,975
Personnel costs	-293,110	-243,052	-206,266	-168,737	-125,144
Other operating expenses	-65,733	-63,985	-55,738	-43,641	-36,074
EBITDA	48,131	32,975	25,378	23,419	14,283
Depreciation and amortisation	-22,596	-10,002	-8,193	-6,352	-4,877
EBIT	25,535	22,973	17,185	17,067	9,406
Income from financing and investment activities	-2,230	-782	-554	-2	69
EBT	23,305	22,191	16,631	17,065	9,475
Income taxes	-5,810	-8,192	-5,300	-4,466	-4,163
Consolidated earnings	17,495	13,999	11,331	12,599	5,312
Gross profit	399,217	332,352	284,200	232,585	173,639
Gross income margin	89 %	88 %	88 %	89 %	88 %
EBITDA margin	10.7 %	8.8 %	7.9 %	9.0 %	7.3 %
Sales development	20 %	17 %	23 %	33 %	25 %
Change in personnel costs	21 %	18 %	22 %	35 %	27 %
Change in other operating expenses	3 %	15 %	28 %	21 %	14 %

Other operating expenses increased year on year by 3 % to EUR 65.7 million. Excluding the IFRS 16 reclassification effects, other operating expenses would have amounted to EUR 77.7 million, which corresponds to an increase of 22 % compared to the previous year. This is due in particular to the higher cost of premises resulting from the expansion of the site, the staging of a major staff event and higher recruitment costs. In addition, the establishment of further foreign companies in 2018 and 2019 has also contributed to an increase in the cost base.

Total operating earnings before interest, taxes, depreciation and amortisation (EBITDA) increased by 46 %, or EUR 15.2 million in absolute terms, to EUR 48.1 million in 2019. The EBITDA margin came to 10.7 %, up from 8.8 % in the previous year. Excluding IFRS 16 reclassification effects, the EBITDA increase would have been only EUR 3.2 million, or 10 %, and the EBITDA margin 8.0 %. The increase in EBITDA (excluding IFRS 16) is essentially due to the higher revenues, with the cost of materials developing at a disproportionately low rate and personnel expenses and other operating expenses developing at a disproportionately high rate compared to revenues.

Viewed over the course of the year, the fourth quarter made the largest contribution to earnings, due in particular to better capacity utilisation and significantly higher licence revenue.

A percentage improvement to the earnings contribution was found in the IT Services segment, in particular at the subsidiary in Austria, as well as in adesso as a service for the sales of applications (Smart Hosting & Cloud Services).

In the IT Solutions segment, license sales of the in|sure product family made a significant contribution to a positive increase in earnings in the fourth quarter of 2019. By contrast, the business of the Group company e-Spirit with the FirstSpirit product fell short of expectations, due among other things to the market shift from licensing to SaaS business, but also to higher than expected capital expenditure on the new product generation. The smarthouse business with solutions for the financial sector also recorded a decline in earnings caused by budget cuts for one of the most important clients.

Depreciation and amortisation rose by 126 % to EUR 22.6 million in the reporting period due to the first-time application of IFRS 16. Without IFRS 16, the increase in depreciation and amortisation amounts to only 12 % to EUR 11.2 million. This development was driven by the additional investments in property, plant and equipment, as well as depreciation and amortisation from the business combinations in 2018 and 2019. As in the previous year, no unplanned goodwill impairments were recognised.

Income from financing and investment activities amounted to EUR -2.2 million following on EUR -0.8 million in the previous year. Changes compared to the previous year are significantly attributable to the first-time application of IFRS 16 in this case, too. The increase in interest expenses in the amount of EUR 1.5 million due to the first-time recognition of lease liabilities in accordance with IFRS 16 is particularly significant here. Without taking IFRS 16 into account, income from the financing and investment activities amounts to only EUR -0.7 million, which represents only a slight change compared with the previous year.

Earnings before taxes (EBT) increased by 5 % to EUR 23.3 million (excluding IFRS 16, by 9 % to EUR 24.2 million) and therefore almost in the same amount as EBITDA. Income tax expense stood at EUR -5.8 million (previous year: EUR -8.2 million). The effective tax rate came in at 25 % (previous year: 37 %). The higher tax rate in the previous year was attributable to expenditures from the adesso SE company audit and a series of domestic Group companies for the audit period 2014 and 2015, among other factors. No such effects were recorded in 2019. In all, the consolidated earnings were positive in the amount of EUR 17.5 million after EUR 14.0 million in the previous year. The earnings per share were EUR 2.82 after EUR 2.27 in the previous year, corresponding to a rise of 24 %. Excluding IFRS 16, consolidated earnings amounted to EUR 18.7 million, and earnings per share amounted to EUR 3.02, corresponding to a 33 % rise in earnings per share.

Order development

The order intake during 2019 accompanied the increase in employees and sales. In 2019, the banking sector resulted in a difficult market environment for IT service providers. adesso was also affected by this. Contrary to the market trend, however, above-average growth was achieved in the automotive industry. Most of the other sectors developed slightly above expectations. Business activities continued at the start of 2020 with the majority of the leading customers for 2019. The average weighted volume of offers that have been made to customers but not yet accepted in the most important market, Germany, was again increased.

Employee indicators

The leading performance figures for employees developed as follows:

EMPLOYEE INDICATORS

	2019	2018	2017	2016	2015
Employees at year end	4,438	3,590	2,980	2,382	1,840
Full-time equivalents (FTE) at year end	4,033	3,280	2,748	2,174	1,702
Full-time equivalents (FTE), average for the year	3,732	3,031	2,524	1,956	1,534
Sales per Ø FTE (in EUR k)	120	124	127	133	128
Gross profit per Ø FTE (in EUR k)	107	110	113	119	113
Personnel costs per Ø FTE (in EUR k)	79	80	82	86	82

Financial position

Financial management principles and objectives

adesso pursues a balanced financial policy. The objective of financial management is to assure short-term liquidity, including a margin of safety, as well as to secure and acquire financial assets to fund medium- and long-term investment projects. In principle, the company does not enter into investment transactions with speculative elements.

There are no variable interest rates on investments. In light of the zero-percent or even lower investment interest rates for low-risk investments, the company invests the existing liquid funds almost exclusively on a daily basis so that it can flexibly take advantage of investment opportunities when they arise.

Central cash management at the level of daily account clearing has not been set up. Bank borrowing was centralised with the parent company. The account balances and financial position of all companies are transparent to the Group's Executive Board and constitute a standard element of the monthly reporting system. All interest-bearing liabilities are denominated in euros, except for the 2015 acquisition in Switzerland, which was denominated in Swiss francs. Factoring is currently only used at the subsidiary adesso Schweiz, as factoring offers more favourable conditions than financing as a loan in Switzerland.

Capital structure

The financing of accounts receivable and of not-yet-invoiced services in the amount of EUR 108.7 million (previous year: EUR 92.3) represents the most meaningful part of the borrowing requirement. The working capital (trade receivables plus contract assets minus trade payables and minus contractual liabilities) amounted to EUR 85.1 million (previous year: EUR 68.7 million) as at 31 December 2019. As a result, the need for advance financing of business operations rose by 24% year on year, while sales increased by 20%. The above-average rise is a snapshot, as there is a tendency to settle more receivables as at 31 December, especially from fixed-price projects.

At EUR 58.0 million, the entire portfolio of interest-bearing financial liabilities was EUR 9.9 million lower year on year as a result of new intake despite instalment payments carried out. Interest is fixed over the respective entire term. All interest-bearing liabilities are denominated in euros or Swiss francs. Credit balances are available in the short term. Net liquidity after deducting the financial liabilities is EUR -11.6 million (previous year: EUR -2.2 million). With a value of -0.2, or of -0.3 excluding IFRS 16 (previous year: -0.1), the net liquidity in relation to EBITDA is considerably higher than the maximum target of -1.5 the company set itself. Please note that the net liquidity as at the reporting date of 31 December regularly lies close to the maximum value over the course of a year.

DEVELOPMENT OF CASH AT BANK AND FINANCIAL LIABILITIES

<i>in EUR k</i>	<i>Cash at bank</i>	<i>Change in %</i>	<i>Financial liabilities</i>	<i>Change in %</i>
2015	28,162	+19	21,746	+280
2016	43,144	+53	48,098	+121
2017	46,497	+8	46,155	-4
2018	45,912	-1	48,108	+4
2019	46,352	+1	57,966	+20

DEVELOPMENT OF LIQUIDITY

<i>in EUR k</i>	<i>2019</i>	<i>2018</i>	<i>2017</i>	<i>2016</i>	<i>Change 2019</i>
Liquid assets	46,352	45,912	46,497	43,144	+440
(-) Financial liabilities	57,966	48,108	46,155	48,098	+9,858
(=) Net liquidity	-11,614	-2,196	342	-4,954	-9,418
Net liquidity to EBITDA	-0.2	-0.1	0.0	-0.2	-0.1
Liquid assets	46,352	45,912	46,497	43,144	+440
(+) Trade accounts receivable and contract assets	108,719	93,199	81,459	70,060	+15,520
(-) Current liabilities	114,312	101,698	92,366	80,581	+12,614
(=) Net cash position 2	40,759	37,317	35,590	32,623	+3,442

DEVELOPMENT OF THE FINANCIAL POSITION

<i>in EUR k</i>	<i>2019</i>	<i>2018</i>	<i>2017</i>	<i>2016</i>	<i>2015</i>
Cash and cash equivalents	46,352	45,912	46,497	43,144	28,162
Financial liabilities	57,966	48,108	46,155	48,098	21,746
Net cash position	-11,614	-2,196	342	-4,954	6,416
Cash flow from operating activities	22,343	16,593	20,265	15,137	16,877
Cash flow from investing activities	-15,413	-14,066	-11,017	-30,066	-26,878
Cash flow from financing activities	-6,522	-2,966	-5,594	29,929	14,081
Currency differences	32	-146	-301	-18	358
Total change in liquid assets	440	-585	3,353	14,982	4,438

In addition, the first-time application of IFRS 16 and the related recognition of lease usage rights and liabilities resulted in a significant balance sheet extension of EUR 72.2 million.

Due in particular to the positive consolidated earnings, equity increased by a further EUR 14.1 million to EUR 92.5 million (EUR 93.7 million excluding IFRS) despite the dividend distribution. As a result of the significant balance sheet extension in connection with the IFRS 16 effect, the equity ratio fell from 35 % in the previous year to 29 % (38 % excluding IFRS 16).

Investments, acquisitions and divestments

The adesso business model requires relatively low investments in property, plant and equipment. The interior finishing of a new building in Dortmund, the opening of additional locations and the further growth of the workforce contributed significantly to the increase in property, plant and equipment. There were no significant subsequent obligations from property, plant and equipment investment projects as at 31 December 2019. There is no investment backlog to report.

In April 2019, 90 % of the shares in Neumünster-based adesso health solutions GmbH (formerly: management systems GmbH) were acquired. adesso health solutions GmbH is a leading provider of IT solutions for German Associations of Statutory Health Insurance Physicians (kassenärztliche Vereinigungen). The company has approximately 70 employees and generates annual sales of roughly EUR 6.0 million. The purchase price for the majority stake was under EUR 5.0 million. With this investment, adesso SE is bolstering its portfolio in the health sector.

In addition to the establishment of two other foreign subsidiaries in Hungary and the Netherlands, investments were made over the course of the year in urban Energy GmbH, Berlin, pangenia systems GmbH, Essen, and PBM Personal Business Machine AG, Cologne.

Liquidity

Cash and cash equivalents totalled EUR 46.4 million on the reporting date (previous year: EUR 45.9 million). They were partly offset by financial liabilities, mainly from acquisition loans, in the amount of EUR 58.0 million (previous year: EUR 48.1 million). Net liquidity after deducting the financial liabilities therefore fell slightly by EUR 9.4 million to EUR -11.6 million.

The cash flow generated from operating activities amounted to EUR 22.3 million, or EUR 10.2 million without consideration of IFRS 16 (previous year: EUR 18.0 million). In contrast to the development of EBITDA, there was therefore a decline in operating cash flow compared to the previous year. This development is mainly due to the further increase in receivables and higher tax payments. Furthermore, additional phantom shares equivalent to EUR 1.5 million were returned in 2019, which led to corresponding payments. The exercising of the phantom shares had no effect on the Group result, since ultimately the amounts to be paid out over the particular vesting period are accumulated with an effect on earnings. Cash flow from investment activities stood at EUR -15.4 million (previous year: EUR -15.4 million). In particular, the interior finishing of a new building at the main location in Dortmund and the opening of new locations led to significantly higher investments in property, plant and equipment. Cash flows from financing activities amounted to EUR -6.5 million, or EUR 5.6 million excluding IFRS 16, compared to EUR -3.0 million in the previous year. Financial liabilities in the amount of EUR 20.5 million were taken up and repaid in the amount of EUR 11.7 million. The presentation of the repayment of lease liabilities attributable to IFRS 16 amounted to EUR 10.6 million. Furthermore, dividends of EUR 2.8 million (previous year: EUR 2.5 million) were paid out to adesso SE's shareholders.

MULTI-PERIOD OVERVIEW OF ASSETS AND LIABILITIES

<i>in EUR k</i>	2019	2018	2017	2016	2015
Balance sheet total	320,764	221,848	202,812	183,079	120,167
Current assets	161,957	146,226	133,357	117,897	78,656
of which liquid assets	46,352	45,912	46,497	43,144	28,162
of which trade accounts receivable and contract assets	108,719	93,199	81,459	70,060	46,730
Non-current assets	158,807	75,622	69,455	65,182	41,511
Current borrowed capital	114,312	101,698	92,366	80,581	55,540
of which loans and other financial liabilities (including leasing)	26,174	15,008	13,877	14,099	4,212
of which trade accounts payable and contract obligations	23,637	20,218	23,295	23,071	16,379
Non-current borrowed capital	113,970	42,856	43,423	44,183	22,476
of which loans and other financial liabilities (including leasing)	105,229	33,100	32,278	33,999	17,534
Equity	92,482	77,294	67,023	58,315	42,150

FINANCIAL PERFORMANCE INDICATORS

	Target 2019	Actual 2019	Target
Growth in sales (organic)	>EUR 410 million thus >9% growth	20% to EUR 449.7 million, 17 percentage points of which organic	At least double industry growth (2019: around 3.0%)
EBITDA	EUR 30 to 35 million (before IFRS 16) EUR 40 to 45 million (IFRS 16)	EUR 36.1 million (before IFRS 16) EUR 48.1 million (IFRS 16)	Increase over previous year
EBITDA margin (indirect)	>9% (IFRS 16)	10.7%	11% to 13% (non-current, IFRS 16)

Table source: adesso Group figures

PERFORMANCE INDICATOR INVERSE UTILISATION RATE

	2019	2018	2017	Target
Annual average	11.8%	9.9%	9.1%	9% to 13%
Maximum	13.0%	10.9%	10.6%	15%
Minimum	8.7%	8.9%	7.6%	7%

Table source: adesso SE

Variable salary components are paid out from cash and cash equivalents and are paid out in the first few months of 2020. This is typical for the business. Thus, as in the previous years, the net liquidity in the first half of the year 2020 is expected to experience negative developments for the time being. Overall, the liquidity of the adesso Group is adequate to carry on current business operations, for the planned redemption of liabilities and to compensate for ordinary fluctuations in capacity utilisation.

Assets and liabilities

Analysis of asset structure

Total assets as at the reporting date increased year on year by 42 %, or EUR 94.4 million, to EUR 320.8 million. This development is due in particular to the first-time application of IFRS 16. The recognition of lease usage rights and liabilities in accordance with IFRS 16 resulted in a significant balance sheet extension of EUR 72.2 million.

On the assets side, the goodwill increased largely depending on acquisitions by EUR 2.3 million. Property, plant and equipment increased significantly by EUR 4.4 million, which was mainly due to the interior finishing of a new building at the main location in Dortmund and the opening of further locations. Further sales growth caused trade receivables to increase significantly by EUR 11.1 million. Contract assets increased by a further EUR 5.3 million to a total of EUR 22.4 million.

Multi-period overview of assets and liabilities

Financial and non-financial performance indicators

The adesso Group does not use any Group-wide non-financial performance indicators for the internal control of the Group. Given the outstanding importance to the Group of adesso SE, which is responsible for over 50 % of adesso Group business, and the otherwise broad range of control-relevant performance indicators within the Group due to the business it conducts, the financial and non-financial performance indicators used for the internal control of adesso SE are reported on below.

The development of earnings generated by adesso SE depends on a number of performance indicators. In addition to the growth rate which is achieved, these are, in particular:

Employee capacity utilisation (proportion of employees working on customer projects)

The proportion of employees working on billable customer projects has a direct influence on earnings. The greatest possible constant and high utilisation, without severely limiting flexibility in staffing new projects, is our goal. Since the end and beginning of projects cannot always be optimally scheduled in sequence, some basic non-utilisation of capacity is unavoidable. Utilisation is measured biweekly according to the number of employees in operations and is reported as the proportion of employees that are not assigned to a project.

2019 again achieved high capacity utilisation rates with a higher fluctuation margin compared to the previous year. The value is within the target corridor.

Booking intensity

(average of billed hours per project day)

The number of billable customer hours as the basis for sales and earnings is subject to fluctuations which do not depend on the order situation, caused by the number of potential working days, holidays taken, illness, and capacity utilisation. When these effects are neutralised in the analysis of billable customer hours, it is possible to determine the average billable customer hours per project day for an employee assigned to a project, provided that structures remain unchanged. Changes to structures, such as the management team, career levels, and working models, are also included in the booking intensity. The booking intensity determined this way measures the development of quantitative value creation per employee in the project and structural efficiency.

Since additional or fewer hours worked per project day are accompanied by virtually unchanged costs, a change in the booking intensity has a direct impact on earnings. The booking intensity is also influenced by the intensity of pursuing internal projects for company development, business development or pre-sales. It is specified as a percentage of an eight-hour workday.

PERFORMANCE INDICATOR BOOKING INTENSITY

	2019	2018	2017	Target
Annual average	93 %	96 %	92 %	93 % to 99 %
Maximum	95 %	98 %	103 %	103 %
Minimum	90 %	94 %	85 %	83 %

Table source: adesso SE

PERFORMANCE INDICATOR T&M DAILY RATE

	2019	2018	2017	Target corridor
Annual average	-1 %	-1 %	+2 %	min. +2 %

Table source: adesso SE

PERFORMANCE INDICATOR FIXED-PRICE PROJECTS*

	2019	2018	2017	Target corridor
The proportion of employees in the overspend projects	0.5 %	1.2 %	1.4 %	<1.5 %
Arithmetical daily rates	+2 %	-3 %	+9 %	min. +2 %

Table source: adesso SE

* In 2018, the calculation of the budget overruns was converted to the average share of employees in the overspend projects (FTE in overspend projects compared to the FTE of the operative areas). The measurement was re-started in mid-2017 so that the value for 2017 originates from the projection in the months July to December 2017.

PERFORMANCE INDICATOR RECRUITMENT AND TURNOVER

	2019	2018	2017	Target corridor
Development of applications	+44 %	+18 %	+12 %	>= Gross profit increase, previous year
New appointments (permanent employees)	541	448	428	Increase over previous year
New appointments (permanent employees)	-2.2 pp; <10 %	+3.1 pp; >10 %	+0.5 pp; <10 %	Improvement; <10 %

Table source: adesso SE

PERFORMANCE INDICATOR SOFTWARE PRODUCTS

	2019	2018	2017	Target corridor
Licence revenue	+20 %	+25 %	+16 %	>5 %
Maintenance sales	+13 %	+22 %	+23 %	>5 %

Table source: e-Spirit AG and adesso insurance solutions GmbH

In 2019, the average booking intensity decreased slightly compared to the previous year. Nonetheless, it is at the lower end of the target corridor.

Average daily rates achieved

The change in the average daily rates, both in projects billed on a time and materials basis and in fixed-price projects on a calculation basis, is a key earnings driver. In particular, compared to the change in labour cost per employee as the leading cost item, it has a significant impact on the operating earnings margin. Accordingly, the daily rates are a fixed internal control element. Their development is tracked on an individual customer basis, and they are purposefully examined for improvement potential. The change in the average daily rate is reported. In 2019, the daily rate in projects billed on a time and materials (T&M) basis decreased slightly by 1 %.

Calculated daily rates and budget overruns for fixed-price projects

The number of project days in fixed-price projects that exceed the budget has a direct impact on earnings, since those days are not available for otherwise potential working hours. Even if they can be used only in combination with projects completed below budget for an overall image of the impact that fixed-price projects have on earnings, the change in budget overruns serves as a signal for progress or setbacks related to fixed-price projects. This is a qualitative assessment, as the evaluation is based on days and not on euros.

Together with the daily rates used in project calculations, the under- and over-budget ratio is used to derive the calculated daily rate on fixed-projects during post-calculation. Budget overruns in 2019 were below the target corridor and below the previous year's figure. The target value for increasing the imputed daily rate was also reached in 2019.

adesso SE examines employee aspects as non-financial performance indicators. As a fast-growing premium IT service provider, adesso depends on the ability to gain many of the best graduates and experienced experts as new employees, to extensively pursue their internal further development, and to retain them for as long as possible. Here the following performance indicators described are of particular relevance.

Recruiting performance figures and turnover

Recruiting examines the number of applications received, initial interviews conducted and new hires. The turnover ratio is based on resignations of permanent staff. In 2019, the number of applications increased significantly once again to 44 %, thereby setting a new record. The fast organic growth was continued, and thus the number of new positions filled for permanent employees increased by a further 21 %. The turnover ratio declined in 2019 and is now back within the target corridor of up to 10 %.

Management also examines the development of licence/SaaS and maintenance revenues from the FirstSpirit product from the subsidiary e-Spirit AG and from the in|sure product from adesso insurance solutions GmbH for insurance companies as internal performance indicators, since licence revenue in a short-term quarterly and financial year view have a major direct impact on earnings and because maintenance revenues form the basis for growing the development and marketing cost base of products. Licence/SaaS and maintenance revenue increased significantly above the target value in 2019.

FORECAST, OPPORTUNITIES AND RISK REPORT

Forecast Report

Strategy for the next financial year

Since 2019 was a highly successful year for the product solution in|sure, 2020 is seen as an investment year for the main products of the adesso Group. In addition to investments in the completion of in|sure modules, the modernisation of FirstSpirit is also being finalised. License revenues for both product suites are also expected in 2020.

The order situation is already very good for almost all industries in 2020. With good capacity utilisation, there is the opportunity of posting a further increase in sales and earnings, due in part to an average of four additional working days compared to 2019.

In addition, adesso is still looking for possible M&A targets to support the growth strategy.

Future sales markets

adesso is well on the way to becoming one of the leading IT service providers in Europe. Now that new subsidiaries have been established in the Netherlands and Hungary, the initial aim is to reach a critical mass of around 100 employees in each of the new countries (Spain and Bulgaria) before continuing to expand further throughout Europe.

Future Macroeconomic Situation

With an increase of 0.6% in 2019, Germany's growth rate has clearly lost momentum and is noticeably below the average value of 1.3% for the years 2008 to 2018. In its 2019 spring forecast, the German federal government reduced the original forecast for the year by half due to the continued weak development since mid-2018. At the beginning of 2020, however, the German federal government saw the first "glimmers of hope" and stabilising tendencies, even though the weak phase in the industrial sector had not been overcome. Against the background of incoming orders and sales stabilising at a low level and simultaneously brightening business expectations, there were signs of an imminent turnaround in

industrial activity. However, the foreign trade environment is still marked by considerable uncertainties and will provide only weak momentum, according to the German government. The global weakness in demand for capital goods is a burden on world trade and therefore on the export-oriented German industrial sector. Uncertainties caused by the Brexit process and trade conflicts could also cloud the foreign trade economic conditions. The COVID-19 ("coronavirus") epidemic in China and its further spread to other economies has added a new risk factor for the global economy, which cannot yet be fully taken into account at the time of this report. In view of the indicator situation at the end of February, the international organisations are still assuming that the global economy will only accelerate slightly in 2020 and 2021, but will continue to show an upward trend. Although the German economy is not in a cyclical crisis, domestic industry is undergoing a process of cyclical normalisation. On the basis of a slight upturn in world trade over the course of 2020 and continued robust growth in domestic demand, rising employment and wages, the German federal government was still expecting GDP growth of 1.1% in 2020 when the annual economic report was published at the end of January. A clear calendar effect is noticeable here due to a higher number of working days. The calendar-adjusted growth rate corresponds to 0.7%. At the time of reporting, however, the spread of the coronavirus had accelerated considerably and was paralysing social life and large parts of the economy in vast sections of Europe and Germany. The coronavirus will therefore also have economic consequences for Germany in 2020. In its current economic report for the spring, the Kiel Institute for the World Economy (IfW) predicts that gross domestic product will fall by 0.1%. Most recently, the researchers expected an increase of about 1%.

Based on the estimates of a government expert group, the Swiss State Secretariat for Economic Affairs, SECO, is expecting that the Swiss economy will develop only moderately in 2020, adjusted for the effects of the organisation and marketing of major sporting events whose income is generated by institutional units based in Switzerland. A gradual economic recovery is not expected until 2021. After 0.9% in 2019, the expert group expects GDP growth of 1.7% in 2020 and 1.2% in 2021. However, both the acceleration of GDP growth in 2020 and the slowdown in 2021 would be due to the described effects

of events and would have little economic relevance. The international environment would remain unfavourable; in particular, growth in the eurozone is expected to remain weak.

Based on projections of the Austrian Institute of Economic Research (WIFO) and the Austrian Institute for Advanced Studies (IHS), the Austrian Federal Ministry for Digitisation and Economic Affairs expects GDP growth to largely decrease to between 1.2% (WIFO) and 1.3% (IHS) in 2020. According to the projections, growth is expected to pick up again slightly in 2021. While the WIFO anticipates GDP growth of 1.4%, the IHS expects 1.6%.

In Turkey, after the heavily decreasing growth dynamic in the previous year, the OECD is estimating a significant rise in economic performance in 2020. The GDP is expected to increase by 3.0%. Acceleration is expected to increase again slightly to 3.2% in 2021.

The OECD is forecasting a further slight slowdown in growth for the US of 2.0% in 2020 and 2.0% in 2021.

As a result, adesso expects a continually growing macroeconomic market environment in 2020, which only leads to accelerated growth due to calendar effects, caused by a lack of foreign trade stimuli especially in Germany. Overall, the growth dynamic in the economic areas relevant for adesso are expected to be weaker or constant compared to the previous year. Only Turkey is expected to experience a boost to growth. For its projection, the German government explicitly states that there will be no further escalation of international trade conflicts in the projection period and therefore no sudden increase in uncertainty. At the time of this report, the effects of the coronavirus are still being analysed by the German Federal Ministry for Economic Affairs and Energy, particularly with regard to supply chains and production in Germany, but also with regard to adverse effects on trade and tourism. The effects on the German economy are difficult to assess according to current knowledge. The sectors are affected differently, contingent on their dependence on intermediate materials and supplies from the countries and regions most affected. It was not yet possible to deduce any major macroeconomic effects from the latest survey data. However, the longer the epidemic

lasts, the greater the potential impact. Economists expect that the spread of the coronavirus could delay the economic recovery they had hoped for. On the basis of the available evidence, economists are forecasting renewed stagnation in Germany in the first quarter of 2020 or a decline in economic performance compared to the previous quarter. In view of the measures introduced by the German federal government at the time of the report, which have had drastic effects on social life and parts of the economy, a decline in economic output can also be expected for the full year of 2020

Outlook for the industry

According to estimates by the industry association Bitkom, the German market for providers of services and products in the IT sector will continue to grow in 2020. Market volume is expected to increase by 2.7% to EUR 95.4 billion in 2020. Growth in the previous year still stood at 2.9%. As in 2019, the software segment will see the highest growth rates, expanding by 6.4% to EUR 27.6 billion. A stable year-on-year growth rate of 2.4% to EUR 41.9 billion of market volume is anticipated for the IT services segment in 2020. IT companies in Germany are expected to create 39,000 additional jobs by the end of the year, which would mean that more than 1.2 million people would be employed in the industry for the first time.

According to the research institute Gartner, global IT investment is expected to rise by 3.4% to USD 3.9 trillion in 2020. For IT services, Gartner predicts a growth rate of 5.0% for 2020 (2019: 3.6%) to USD 1.1 trillion.

Internally, the adesso Group anticipates the market growth relevant to adesso in 2020 will be up by 3.2% (previous year: 3.0%).

Anticipated sales and earnings situation

Based on the growth forecast for adesso-relevant markets and for adesso-specific plans, management expects the following for 2020:

- > Revenues are expected to increase to at least EUR 490 million.
- > For operating earnings, EBITDA, a value of > EUR 50 million is expected.
- > In terms of the operating EBITDA margin, a minimum value of 10.0% is expected. The EBITDA margin is expected to be increased as far as possible in line with the long-term target corridor of 11 to 13%.

This is roughly based on a segment breakdown as follows: About 15% to 20% of sales will come from IT Solutions; the majority of 80% to 85% from IT Services. On the earnings side, over 90% of earnings are expected to be generated by the IT Services segment in 2020 due to the special situation.

Due to additional license deals and improved capacity utilisation, the fourth quarter of 2019 was very good. It is assumed that the good capacity utilisation will be maintained at the start of 2020.

The year 2020 has a positive effect on the calendar for all service companies; with an average of 254 working days, it has four additional working days compared to 2019. At an average utilisation rate, this offers potential for four additional days of sales and earnings. This effect is also repeated in 2021.

In 2020, adesso plans to continue to grow and to build up additional personnel in the IT service sector in order to achieve more sales and earnings through growth.

On the cost side, new locations will be opened in Germany in 2020, while the major expansion of the head office in Dortmund was completed in 2019. The fact that a major staff event, which took place in the reporting year, is not scheduled to take place in 2020, also has a cost-reducing effect. The incentive for managers has been changed in such a way that it is assumed that fewer recruitment consultants will be engaged in 2020. Instead, adesso will intensify recruitment via direct searching.

These positive aspects are countered by an unclear economic situation, which also varies greatly from sector to sector. However, the order situation is good for all industries. There are also new orders in the banking sector, so that the signs here have improved. The COVID-19 (“coronavirus”) epidemic has added a new risk factor for the global economy which cannot yet be fully taken into account at the time of this report. The impending coronavirus pandemic in Germany and Europe is currently a great unknown. Anything from a possible recession to only slight business effects seems possible at the moment. This uncertainty cannot therefore be reliably assessed. The adesso share price – like many other stocks on the stock exchange – has clearly suffered from the outbreak of the coronavirus crisis. There are currently very few situations with customers where projects have been postponed. adesso is monitoring the situation very closely and is taking precautionary measures, such as rules of conduct for employees, checking the conditions for short-time working and ensuring that employees are able to work remotely or from home. A crisis committee has already been set up, called “resilience@adesso”, which reports directly to the Executive Board. Major internal and external events have been cancelled or changed to other formats.

Financial outlook

The adesso Group’s liquid asset base is considered to be solid in principle and will be sufficient to cover financial obligations in 2020 should the forecast business development come to fruition. The consolidated balance sheet structure at the adesso Group and the balance sheet structure at adesso SE allow them to assume additional liabilities for investment projects to ensure that there are no shortfalls in terms of financing. The equity ratio fell in 2019 only due to the one-off IFRS 16 accounting effect and would have remained at the previous year’s level after adjustment for this effect.

The adesso Group is aiming to achieve net debt of between zero and two times EBITDA in the past financial year. Moreover, the debt ratio is not driven by the operating business, but primarily by potential M&A transactions if these are not carried out from own funds. Only if there is an opportunity to acquire a company of unusual size and profitability with a high strategic value for the adesso Group would a deviation from this net debt target be considered.

The Executive Board intends to continue the dividend policy on this basis, calling for a balanced weighting of investments in growth, financial stability and shareholder participation in the company's earnings. A steady increase in the dividend is part of adesso's capital market strategy. The proposal for 2020 provides for an increase in the dividend to EUR 0.47 per share for financial year 2019 (previous year: EUR 0.45 per share).

Opportunities and risk report

Risk management is a pivotal component of all decisions and business processes. adesso takes a broad view of risk, defined as the risk of not achieving financial and operating targets as planned and, in the strictest sense, factors endangering the existence of the company. In order to safeguard the success of the company over the long term, it is therefore essential that adesso identifies and analyses risks efficiently and combats or mitigates them by implementing sufficient control measures. adesso's active risk management therefore also opens up opportunities for the company.

Risk management system

The adesso Group possesses a system of processes and data analysis structures to monitor risks posed to the Group. An exclusive risk management software system is not used. Instead, adesso uses an integrated system developed by Corporate Planning AG and a central management information system for results controlling and tracking additional key figures. All planned and actual data from all business areas are stored in a central file for the purposes of reporting. Current figures are recorded directly from the company's financial accounting. Key performance indicators such as sales per employee, available liquidity,

resources not fully utilised, incoming orders and the order backlog are registered. All companies included in the scope of consolidation are part of the reporting system.

Fixed reporting channels have been established for other risks, such as those arising from the absence of contracts, high levels of receivables from customers or projects that are threatening to go over budget. Certain reporting thresholds apply, which, if breached, result in the issue being included on the agenda of Executive Board meetings. Similar risks posed to companies in the adesso Group are identified through close cooperation with the respective responsible Executive Board member of adesso SE. adesso does not have a central risk manager. Risk reporting and assessment is documented in a risk manual. The risk manual is submitted to the Supervisory Board and to the auditor so that the risk management system can be acknowledged and reviewed.

Recognising opportunities and new areas of business are just as important for the development of the adesso Group. Working groups consisting of the Executive Board, Business Development, the management of companies in the adesso Group and heads of business areas meet on a regular basis to analyse new business opportunities and develop new business models, industries, solutions or regions. The progress made in implementing these measures is presented at regular intervals.

Within the scope of a risk inventory, the following risks were assessed as relevant to the business and subsequently assessed in view of their probability of occurrence and amount of loss. In principal, only risks that would have negative implications for the asset, financial or profit situation are listed here.

Moreover, the adesso Group is potentially exposed to further risks which may not be known or be considered as major risks at the current time. The risk factor is calculated from the probability of occurrence and the amount of loss, which determines how relevant the risk is. The following risks were identified as at the reporting date and as at the preparation of the consolidated management report as having a risk factor worthy of inclusion in this report (greater than 40):

Primary risk carriers

Project risks

In the event of the budgeted time frame and costs being exceeded, fixed-price projects can lead to project-related losses. Budget deviations are identified and analysed constantly during every fixed-price project. There is also an escalation mechanism that extends to the Executive Board.

The backlog of fixed-price projects that have yet to be invoiced in full rose year on year. The risks from projects are assessed as being unchanged, since it was possible to keep the amount of budget overruns in fixed-price projects at a low level and the increased amount of projects with agile approaches leads to earlier escalation of undesirable developments.

Aside from acknowledging the risk, the Executive Board meeting also discusses potential strategies to improve the situation by analysing the reasons for the overspending.

Depending on the project structure, sub-projects are defined and mapped on the web-based project and schedule management system. Expenses are distributed across the sub-projects and milestones are defined. Over the course of the project, actual time and expenses are compared with planning figures, the expenses are calculated and compliance with the defined schedule is documented. Additional monthly or weekly assessments of work still to be completed are used to calculate the level of completion of the project currently in progress.

The comparison of the project budget with the total production costs plus remaining expenditure indicates a possible budget overrun at an early stage. Projects that are likely to exceed the budget are given “overspend” status and are then added to the agenda of subsequent Executive Board meetings.

Aside from acknowledging the risk, the Executive Board meeting also discusses potential strategies to improve the situation by analysing the reasons for the overspending. In most cases, the estimations of remaining costs are determined and cost development displayed as a graph in order to counteract the tendency that project inconsistencies are identified too late. However, the share of projects with fixed budgets in the form of service contracts in terms of overall adesso Group sales is low at under 20%.

adesso SE has established a Project Management Office (PMO) where experts supervise particularly large or challenging projects using standardised tools and mechanisms alongside the regular project management team. These tools and processes are routinely used. Expenses arising from budget overruns for new fixed-price projects is unchanged for adesso SE compared to the average of previous years. The systemic risk evaluation remains unchanged.

Risks from a shortfall in planned sales

In the event of a high gross margin and a large proportion of fixed costs, low sales can be directly reflected in adesso's results. In 2017, 2018 and 2019, sales increased compared to the previous year and exceeded the planned sales. The cautious economic forecasts for 2020 and the uncertainties caused by the coronavirus run counter to the generally good assessment for the calendar year 2020, in which service companies benefit from four additional working days. However, a decline in order intake or the termination of important ongoing customer orders could result in idle periods with corresponding implications for the profit and financial situation within a short period of time. Given that the IT Services business area in particular generates business over specific periods of time, such idle periods are difficult to compensate for. As this risk factor is highly relevant to the company, adesso monitors the following values on a monthly and sometimes biweekly basis in order to identify trends at an early stage and take corresponding action: order intake, number of hours invoiced and capacity utilisation rates and number of employees not working at full capacity.

The IT Solutions segment pursues a product strategy. In this segment, even standard solutions developed by adesso are sold and implemented through licensing with maintenance contracts or provided with software as a service (SaaS). While the established base of maintenance contracts represents a relatively stable basis for sales, the achievement of targets and the results of product companies are reliant on order intake and are much more volatile than the service business, given the low number of new licences sold. Sales revenues from maintenance activities do not cover total ongoing costs at any of the adesso Group companies. As a result, the product companies' licence sales and related sales pipelines are monitored in detail in terms of structure and development.

over time. The planning deviation risk factor remains constant in the IT Solutions segment.

In each business area, there are detailed plans in which actual figures and previous year's figures are compared on a monthly basis. A forecast is also prepared and revised on a cycle, identifying possible future deviations in a timely manner. Corresponding reports form the basis for the monthly discussions of business development and prospects. This applies to all companies of the adesso Group.

The risk from changes to the market and competition structures as a reason for falling short of planned sales is still estimated to be medium for 2020.

Financial risks

The risks from the financial position and liquidity are estimated to be slightly higher than in the previous year due to the higher level of receivables and loans (previous year: unchanged). Liquidity risks from major projects, on the other hand, were reduced, since dependence on individual projects decreases with increasing size. The loans taken out must be repaid, regardless of the economic performance of the company.

Currency risks remain low. Only a small proportion of sales are conducted in a currency other than the euro. This concerns mainly transactions of adesso Schweiz AG and e-Spirit Schweiz AG, both in Zurich, Switzerland, which operate in Swiss francs; those of adesso Turkey Bilgu Teknolojileri Ltd., Istanbul, Turkey, which bills customers in Turkey in Turkish lira and customers in Europe in euros; those of adesso Bulgaria EOOD, Sofia, Bulgaria, which up until now has operated exclusively with customers outside of Bulgaria in euros; those of e-Spirit UK Ltd., London, UK, which operates in pounds Sterling; and those of e-Spirit Inc., Boston, USA, which operates in the US dollar currency zone. These companies process the majority of their business in the respective national currency. No currency hedging transactions were carried out.

As part of the review into the allocation of costs of the market launch and entry of the FirstSpirit content management system in the US, it was determined within the scope of an arm's length comparison that the adesso Group company e-Spirit AG must bear significant shares of the losses that were incurred

and continue to be incurred by the US subsidiary e-Spirit Inc. (categorised as a limited-risk distributor). All losses incurred in the US have so far been fully financed by compensation payments to e-Spirit Inc. by e-Spirit AG. For the years 2011 to 2019, the market entry compensation invoiced to e-Spirit AG by e-Spirit Inc. amounted to USD 11.3 million, including the reversal of impairments in previous years. This results in a temporary reduction in the total tax burden of adesso SE (as the controlling entity of the Group taxation relationship for income tax purposes with, among others, e-Spirit AG) as well as the adesso Group. The reported tax rate for adesso SE and the adesso Group would be too low in the event of an incomplete or only partial tax recognition.

Financial risks can arise from the payment terms of service agreements for projects with significant volumes. In addition to prepayments and instalments, payments are often linked to the completion of the project. In the case of delayed completion, significant liquidity shortfalls can arise. The resulting risks can be predicted in the scope of project controlling, but possibly not prevented. In some cases, project completion bonds must be deposited and are paid out if a project fails. In the case of major projects, service agreements can lead to large receivables, for example, if a customer has not paid two monthly invoices and the third month of service is already being provided.

The level of unpaid receivables and their development are included in monthly reporting at the individual company level. The CFO includes major receivables on the part of adesso SE in the agenda of Executive Board meetings, where individual strategies for collection are determined. There are currently several major projects (previous year: several) that could have a significant negative effect on adesso's liquidity. Projects relating to adesso solutions for the insurance industry in particular involve flows of liquidity that are largely independent of the provision of services. The risk factor in question remained unchanged compared with the previous periods.

There were no notable risks from financial instruments.

Der Bestand an offenen Forderungen sowie deren Entwicklung sind Bestandteile des monatlichen Reportings auf Ebene der Einzelgesellschaften. Der Finanzvorstand bringt größere Forderungspositionen der adesso SE auf die laufende Agenda der Vorstandssitzungen, in denen individuelle Strategien der Geldbeibringung festgelegt werden. Derzeit sind mehrere Großprojekte (Vorjahr: mehrere) geeignet, maßgebliche negative Auswirkungen auf die Liquidität von adesso zu entwickeln. Insbesondere die Projekte im Zusammenhang mit den adesso-Lösungen für die Versicherungswirtschaft bringen in erheblichem Umfang vom Leistungserbringungsprozess entkoppelte Geldflüsse mit sich. Der betreffende Risikofaktor wurde im Vergleich zu den Vorperioden nicht verändert.

Über nennenswerte Risiken aus Finanzinstrumenten ist nicht zu berichten.

Personnel risks

The adesso Group is an IT company, its most important asset being its own employees. As a result, adesso constantly monitors and assesses a number of key performance indicators such as headcount, number of unproductive employees, number of employees on sick leave and holiday, costs/sales per employee and capacity utilisation.

The top-level management is always informed about every dismissal and new recruit. The Executive Board regularly analyses trends and discusses measures in its meetings. This allows any potential loss of knowledge and expertise to be identified promptly. In the product segments, essential knowledge is concentrated around a small group of key developers. These developers are a particular focus of human resources activities.

The search for suitable, experienced employees remains characterised by a demand surplus from companies. Circumstances remain difficult, with no change compared to the previous year. As in the past, the resulting entry-level salary expectations expressed by new recruits, as well as existing employees' expectations regarding pay rises, cannot always be compensated through a corresponding adjustment of market prices, meaning that the operating margin can be negatively impacted as a result.

adesso is able to maintain its position as a premium IT service provider thanks to its extraordinarily talented

employees, who have a vast amount of experience in their respective fields. In this area in particular, the competition for employees continues to be at a high level. This applies not only to IT service providers, but also between user companies and the IT industry. A small number of employees are responsible for adesso's outstanding position in its core industries. The simultaneous departure of more than one of these employees would expose the company to medium-term risks in terms of its further development. Such risks are combated through active recruiting, strategies to intensify employee loyalty and excellent career prospects at a prospering company. The numbers of incoming applications and new hires were further increased in 2019 over the already high level in the previous year.

Employee turnover decreased year on year in 2019 (previous year: increased) and is currently within the target corridor. The risk of insufficient availability of experienced employees for adesso SE remains unchanged year on year in view of the new high number of new appointments in 2019 (previous year: remains unchanged). The risk of high employee turnover and salaries increasing disproportionately to market prices remains unchanged (previous year: increased). Personnel risk remains one of the Group's highly weighted main risks.

Internationalisation/risks from business activities in other legal systems

The adesso Group has expanded internationally in past years and entered new legal systems. This involves potential risks related to a lack of knowledge of legal affairs and business practices, as well as difficulties with direct supervision by adesso SE's Executive Board due to distance.

In 2012, e-Spirit AG established the business operations of a company in the US – e-Spirit Inc., based in Boston – and has continuously expanded its structures and customer base. In the US, the risk of product manufacturers taking legal action is greater than it is in Germany. e-Spirit Inc. has an insurance policy with the maximum amount of liability that could be granted to it. In terms of both the legal structure of the company, as well as internal cost allocation, it has been ensured that the potential for any problems to spread across to e-Spirit AG is as marginal as possible. In 2019, new customers were acquired in the US, which – thanks to SaaS contract models – will gen-

erate ongoing sales in subsequent years as well and continue to reduce the shortfalls in the US.

In 2013, the company established an adesso subsidiary in Istanbul, Turkey, and began operations there in the same year. In 2018, two additional subsidiaries were founded in Barcelona, Spain, and Sofia, Bulgaria. Subsidiaries were set up in the Netherlands and Hungary in 2019. The risk in conjunction with internationalisation or risks from other legal systems is thus higher compared to previous risk inventories. With a view to the outlook, the defined strategy of continued internationalisation is causing the potential level of loss to be assessed as on the rise.

Risks from the development of new products and solutions

In 2018, this risk category was for the first time classified among the main risks. In recent years, the adesso Group has significantly increased its initiatives for the development of new core products and solutions and has therefore expanded the risk profile of its heavily service-oriented business model by adding elements. With adesso insurance solutions GmbH, the adesso Group is pursuing the following strategy from now on: in addition to providing service business, it shall become an important provider of software solutions for the insurance sector. With this aim in mind, the company is carrying out major development projects for customers in the health insurance, property insurance and vehicle insurance segments. The existing systems for life, health and property insurance are already being marketed on a large scale. All these products involve increasing risk from service and maintenance obligations. In the development phase, there is also increased risk from the higher-than-planned development costs, for which adesso is partially responsible. In 2019, the expenses for the development of additional modules increased. Further increased investments are planned in 2020 to complete the product suite. However, these risks are offset by increasingly considerable income from licences and maintenance. Investments in the development of additional functionalities of the content management system FirstSpirit from e-Spirit AG will be lower in 2020 than in 2019, but will still be substantial. In all, the assessed risk with regard to the probability of occurrence compared to the previous period is higher (previous year: higher). However, the loss amount is estimated to be lower (previous year: higher), since large parts of the investments have

already been realised and the new products are therefore already being sold.

Other relevant risks

Risks from the customer structure

As sales from individual customers or customer groups increase, so does the risk posed by such customer relationships owing to potential project terminations or normal project expiry. In 2019, the largest customer accounted for 3 % (9 months; previous year: 4 %) of total sales. A total of 25 % of total sales were generated with the ten largest customers (9 months; previous year: 27 %). Customer structure risks tend to decrease with adesso's growth, and the proportion of sales with the top ten customers is stable as well as relatively low. Continued cooperation with most of the ten largest customers was agreed for 2020.

The risk is assessed as unchanged compared to the previous year (previous year: unchanged) and remains in the other relevant risks group. However, the abrupt loss of one of the top five customers or more than one of the ten largest customers would have the potential to have a considerable negative impact on earnings and the situation of the Group, at least in the short term. The relationship to each of these top customers is managed by a member of the Executive Board or by the management of the respective subsidiary in order to recognise potential risks promptly and take appropriate action.

The top ten customers are regularly listed by sales, with each customer's share of overall sales also being calculated. This avoids concentration on a small number of customer relationships and therefore allows a cluster risk to be recognised promptly.

Declining or insufficiently increasing daily rates

A significant proportion of sales is generated by service agreements and the charging of hours or days of service provided to the customer. With rising salaries and prices providing the basis for other costs, increases in nominal hourly and daily rates are essential in order to maintain the earnings margin and ultimately the existence of the Group. However, it is important to differentiate between a change in the daily rate for a certain activity for a certain customer and a change in average daily rates resulting from a different combination of orders or changes in the customer structure.

At adesso SE, volumes and daily rates are recorded for all service agreements and analysed in terms of their development. The volume-weighted average daily rate of the contract is thus calculated on a monthly, quarterly and annual basis and reflected in the historical development. This does not include orders based on framework agreements or public tenders, which implies that the figures are suitable for general statements only. The daily rate of the contracts recorded in this way in 2019 decreased by 0.6% compared to 2018 (previous year: -1%). Essentially, however, the invoiced daily rates have hardly changed in the last three years.

The realised daily rates at customer level are also periodically recorded at adesso SE and analysed by the Executive Board in terms of necessary adjustments for the key customers. Any identified need for action will be implemented by sales wherever possible, which has the relevant elements in the target-based system.

Risks from regulatory law

As a listed company on the regulated market, adesso SE is subject to a number of additional legal regulations and obligations, such as those resulting from the Market Abuse Regulation (MAR), the German Securities Trading Act (WpHG), the German Securities Acquisition and Takeover Act (WpÜG) and the German Stock Corporation Act (AktG). adesso follows corresponding developments in case law, obtains assessments from experience lawyers and raises the awareness of its employees with respect to legal obligations of listed companies. Thus, adesso has established the position of a Compliance Officer, maintains an insider directory and continuously identifies transactions that could, over time, either

constitute insider offences or lead to imbalances in the information supplied to the capital market.

In 2019, there was no change in the assessment of potential extent of loss due to risks from regulatory law.

Risks from technical infrastructure

As an IT company, adesso SE has extensive technical expertise and resources in the area of internal IT infrastructure. Since a large part of customer-relevant added value is created on the basis of IT infrastructure, the availability of the latter is of considerable significance. System failure therefore entails a significant financial risk. The internal IT operations department is equipped with full-time administrators who are supported by several trainees, students and other employees from operational areas. Disciplinary and organisational responsibility are addressed in a separate management position. In 2016, the new position of CISO (chief information security officer) was established and staffed at adesso SE. The data on the productive servers is incrementally backed up on a daily basis and on suitable media. The file systems of all servers are also mirrored so they are fail-safe. Once a week, a copy is stored outside of adesso's premises where it cannot be accessed by third parties.

The systems available on the Internet are protected against unauthorised access via a multi-level firewall system, and adesso operates a VPN to protect communication between the branches and subsidiaries. All systems have virus scanners from various product manufacturers whose virus signatures are automatically updated to comply with the latest standards.

At its main office in Dortmund, adesso has a data centre with safety procedures such as electronic access control, temperature-controlled server racks, fire extinguishing systems, uninterrupted power supply and flood protection. All external data connections are secured in compliance with the relevant technical standards and are redundantly structured. Most of the holding companies have their own IT systems and departments. Their risk statuses are not reported to adesso SE in any regular form. adesso is working towards an increasingly interconnected collaboration between the IT departments at adesso and the holdings. adesso has been certified to ISO 9001 and ISO 14001. The processes that have been documented and more strictly defined have maintained a constant risk position in terms of technical infrastruc-

ture in spite of increasing complexity. In the previous period, customers' increasing awareness regarding data protection and data integrity was assessed as an increasing risk. This was especially true for banks and insurance companies as a result of extended regulation requirements and a rise in cyber risks. There is currently no cause for a renewed increase in the assessed risk. There were no known instances in 2019 (previous year: no instances) during which unauthorised third parties were able to implant harmful software in adesso SE's servers. There were no known instances in 2019 (previous year: no instances) during which unauthorised third parties were able to implant harmful software in the adesso Group's networks and servers.

Other risks

The risk manual specifies a number of other risks as at the balance sheet date, the risk factor (probability of occurrence multiplied by the expected average loss) of which has not changed compared to the previous year and is lower than average. These risks are:

- > risks from falling order backlog
- > risks from insufficient sales pipeline
- > change to market and competition structure
- > liquidity risks from bank credit lines
- > risks from falling market volume
- > risks from lack of insurance cover

Overall Statement Concerning the Group's Risk Situation

Every risk is evaluated by estimating the probability of occurrence and the possible extent of damage. The risk factor of every risk can be calculated by multiplying the probability of occurrence (1-10) by the extent of damage (1-10). The overall risk profile of adesso, the sum of all risk factors, is assessed as having risen by 1 point or 0.2% compared to the previous year to 526 points (previous year: increased by 38 points or 8% to 525 points). Therefore, the overall risk profile is in the upper range of previous evaluations.

None of the identified risks can be considered at the current point in time as risks that endanger the existence of the company as a going concern. However, the risks detailed above could have a negative impact on the asset, financial and earnings situation, as well as on business performance of adesso SE or the adesso Group.

Opportunities

adesso SE has introduced a series of measures to identify, assess and monitor opportunities for positive development. In order to do so, organisational units have been established to monitor portfolio development within a particular industry, to assess new technological developments and to evaluate the suitability of other industries for adesso. With the Group further increasing in size, the systematic networking of all units within the adesso Group is leading to ever-increasing synergy effects, particularly in sales, and an integrated service approach for major customers.

In 2020, there will be a wide range of further opportunities to expand business activities and increase profits. Despite investments in adesso Group products, new licensing revenues for in|sure and First-Spirit are also expected in 2020. The foreign subsidiaries are planning further growth, especially in Turkey, Bulgaria and Spain. Switzerland and Austria are also planning moderate growth. The new subsidiaries in the Netherlands and Hungary are planning an almost neutral result as early as 2020.

The order situation in nearly all of adesso SE's industries presents good opportunities to make 2020 a good year. The calendar effect of an average of four additional working days compared to 2019 provides sales and earnings leverage. A new incentive system is designed to make personnel recruitment costs more controllable, with the result that the parent company in Germany is planning significant growth and a significant improvement in earnings.

In addition to organic growth, adesso is also looking for suitable targets on the M&A market for certain technologies and regions.

Forecast, Opportunities
and Risk Report
Control System and
Risk Management System

INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT SYSTEM IN TERMS OF THE CONSOLIDATED ACCOUNTING PROCESS

In the accounting process, there is a risk that the financial reports based on the accounts could contain misrepresentations of facts that could have a significant influence on decisions made by the intended recipients of the reports.

These can include the misallocation of resources and non-performance of certain measures by the Executive Board in terms of the internal operational management of the Group, as well as misinterpretation on the part of report recipients, particularly existing and potential shareholders. The processes and systems established at adesso are geared towards identifying potential sources of errors in the accounting process and thus limiting the resulting risks. They are intended to ensure that the annual report and consolidated financial statements are prepared in accordance with legal requirements. The report is standardised and identical in form for both the management report of the annual financial statement, as well as for the group management report of adesso SE.

At adesso, no control and risk management system was defined and documented especially for the purposes of the accounting process. There is no internal auditing structure or risk committee. No external advisors or auditors were regularly engaged to review the efficiency of the controls in place as part of the consolidated accounting process.

A separate IT audit took place as part of the audit of the annual financial statements in 2017, which focused on the accounting system and the completeness and transparency of accounting systems due to the introduction of a new ERP system at adesso SE in mid-2016.

The structure of the internal control mechanisms and risk management system is primarily the result of how the accounting and reporting processes are organised. Accounting is typically handled locally by each of the

Group's subsidiaries. As the parent company, adesso SE performs accounting services for some adesso Group companies together with centralised administrative processes such as payroll accounting. These companies' accounts are primarily kept on the same accounting system as clients. The fact that the same people are responsible for this process throughout the Group and that the adesso SE CFO has ongoing, direct access provides a good basis for the standardised, correct representation of facts.

Almost all companies use a standardised consolidated accounts system, minimising the number of discrepancies from the standard style of accounts. The detailed coverage of Group accounts means that it is simple to coordinate internal Group performance processes. The respective management teams are responsible for individual annual financial statements. Each annual financial statement that forms part of the consolidated financial statement is reviewed by the Group auditor in terms of its plausibility and compliance with Group standards, irrespective of any audits performed by the local auditor or tax consultant. For this purpose, the auditor of the consolidated financial statements visits the respective local auditor and inspects the documentation of key Group companies.

All individual financial statements are submitted to a centralised consolidation system in adesso SE's Finance department and consolidated into the consolidated financial statement in accordance with the IFRS reconciliation statement. The software solution specially procured for this purpose was audited and certified in accordance with the "Erteilung und Verwendung von Softwarebescheinigungen" auditing standards ("Issuance and Use of Software Certificates") published by the Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW PS 880). All IFRS reconciliation and consolidation processes are fully documented and traceable.

The core elements of the control and risk management system when it comes to accounting is the monthly, standardised reporting of full monthly financial statements on the basis of the consolidated accounts system, the comparison of actual data with plan data and the update to the full-year forecast. A member of the adesso SE Executive Board is directly responsible for every company in the adesso Group. These Executive Board members discuss monthly financial statements with the respective company management and are thus able to identify abnormal developments and discrepan-

cies in a timely manner. The monthly financial statements of all companies are analysed monthly by the adesso SE Executive Board. For the quarterly financial statements, each company must prepare an extensive IFRS package containing information for consolidation and details of the notes. This allows the Finance department of adesso SE to carry out a further audit of all information intended for external reporting during the financial year. The auditor of the consolidated financial statement is referred to for selected issues.

TAKEOVER-RELEVANT INFORMATION

adesso SE reports in accordance with Section 315a (1) HGB and Section 289a (1) HGB with the aim of providing potential takeover bidders with a complete overview of adesso as well as any potential takeover hurdles before they submit an offer.

There is only one type of share. Each common share grants one vote. adesso shares do not have restricted transferability. The Executive Board is authorised to increase the share capital until 4 June 2023 with the consent of the Supervisory Board in the amount of up to EUR 2,469,681 by issuing 2,469,681 new bearer shares on one or more occasions in exchange for cash contributions and/or contributions in kind. Shareholders' subscription rights can be excluded for contributions in kind in the form of companies, parts of companies and investments in companies, licence rights or receivables, as well as capital increases for cash which are smaller than 10 % of the share capital.

The Executive Board is authorised to acquire own shares of up to 10 % of the share capital with the consent of the Supervisory Board until 1 June 2020. This authorisation for the acquisition and utilisation of own shares can be exercised one or more times, at once or in several partial amounts, or for one or more purposes. When own shares are acquired through the stock exchange, the consideration paid per share is not permitted to exceed the opening price on the acquisition date by more than 10 %, nor fall more than 20 % below it.

In case of acquisition through a public offer to buy, the offered purchase price or the limits of the purchase price range offered per share may not be more than 20 % higher or lower than the average values of the closing auction prices during the last three trading days in Frankfurt am Main prior to the day the offer is publicly announced. The own shares can be utilised by the Executive Board within the scope of stock option plans, sold to third parties with the consent of the Supervisory Board for cash or contributions in kind, especially in the context of company mergers or the acquisition of companies, offered to employees or managers, either to buy or as compensation elements, or also surrendered or withdrawn without consideration. As at the reporting date, adesso SE itself held none of its own shares. In addition, the company is not aware of any other restrictions with regard to voting rights. In principle, there are no restrictions in respect of the transfer of adesso shares. The company is not aware of any further restrictions that could arise from agreements between shareholders.

Further information on equity and the company's capital measures can be found in the equity section of the notes.

As at 31 December 2019, founding shareholder and Supervisory Board Chairman Prof. Dr Volker Gruhn held 27.9 % of share capital through a company he controls. Founding shareholder and Supervisory Board member Mr Rainer Rudolf held 17.6 % of shares as at 31 December 2019. Please refer to the notes to the consolidated financial statements for more information on the company's ownership structure.

The company is not aware of any other direct or indirect share capital participations which exceed 10 % of voting rights. As the shares in the company are bearer shares, the company is in principle only notified of changes to share ownership insofar as the changes of ownership are subject to notification obligations and the respective parties fulfil these obligations. The company is only made aware of transactions that are completed within minimum and maximum notification thresholds in exceptional cases. Voting rights announcements and the shareholder structure derived as a result are always kept up to date and can be accessed via the Investor Relations section of the website at www.adesso-group.de.

Control System and
Risk Management System
Takeover-relevant Information
Declaration of Conformity

The Articles of Association do not permit any adesso shareholder to appoint members of the Supervisory Board. No shareholder possesses any other special rights that confer them powers of control. There are no restrictions to the voting rights of the adesso shares held by our employees.

Members of the Executive Board are appointed or dismissed in accordance with Sections 84 and 85 AktG. The Executive Board consists of at least one person in accordance with Article 7 of the Articles of Association. The Supervisory Board determines the number of Executive Board members, as well as the appointment and dismissal of members and the appointment of a member of the Executive Board as CEO. Changes to the Articles of Association are carried out in accordance with Sections 133 and 179 AktG by means of a resolution by the General Meeting passed with a majority of at least three-quarters of the share capital represented at said meeting. The Articles of Association do not contain any derogative provision. The Supervisory Board is entitled to resolve changes to the wording of the Articles of Association (Article 11 (7) of the Articles of Association). The resolutions of the General Meeting are decided on the basis of a simple majority of submitted votes, unless a different voting system is stipulated by law (Article 16 of the Articles of Association).

The company is not part of any material agreement containing special provisions in the event of a change of control or acquisition of control, such as in the event of a takeover bid. Our Articles of Association do not contain any provisions which grant the Executive Board special powers in the event of a takeover bid. Agreements concerning the phantom share plan stipulate a shorter waiting period of phantom share-holders in the event of a change of control. Moreover, there are no agreements with members of the Executive Board or the Supervisory Board or any employees concerning compensation in the event of a change of control.

DECLARATION OF CONFORMITY (SECTIONS 289F, 315D HGB) AND STATEMENT OF COMPLIANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE (SECTION 161 AKTG) AND NON-FINANCIAL GROUP DECLARATION (SECTION 315B HGB)

In accordance with No. 3.10 of the German Corporate Governance Code, the Executive Board and Supervisory Board of adesso SE report on an annual basis regarding the corporate governance of the company and publish this report in conjunction with the Declaration of Conformity in accordance with Section 289f or Section 315d HGB. In addition, as the parent company of the adesso Group, adesso SE issues a special, non-financial Group report as per Section 315b Paragraph 3 HGB with exempting effect for Group companies subject to reporting. The reports and the declaration, including the Declaration of Conformity, have been made permanently available on the Internet at www.adesso-group.de/corporate-governance/.

REMUNERATION REPORT

Principles of the Remuneration System

At adesso, variable remuneration systems are in place throughout the Group for a variety of functions. Management remuneration is primarily geared toward the success of the company and industry standards.

In addition to fixed remuneration, the adesso SE Executive Board is compensated depending on the amount of operating earnings (in reference to EBITDA), as well as earnings per share at the Group level, constituting performance-based remuneration. The Executive Board participated in the company-wide stock option scheme open to many employees and which expired at the end of 2013. This was replaced by a model of virtual stock options for the Executive Board. Because this model has expired, no new virtual stock options are being issued.

The members of the Supervisory Board are reimbursed for their expenses and also receive annual remuneration.

Remuneration of members of the Executive Board

Basic remuneration is paid as a monthly salary and is related to performance. The members of the Executive Board also receive payments in kind and other remuneration, including the use of a company car, the reimbursement of travel expenses, coverage of direct insurance premiums, a personal pension and reimbursement of half the documented premiums for voluntary health and nursing care insurance.

Variable, performance-based remuneration

The variable remuneration model for the Executive Board is based directly on the relevant metrics of EBITDA and earnings per share (EPS), which are reported to adesso SE shareholders in the consolidated financial statements according to IFRS. Variable remuneration increases proportionally to EBITDA and EPS. As of a defined point, the increase sinks. One of two different variants, which are differentiated by the rate of increase and watershed, can be selected each year. In addition, individual Executive Board members have been granted the option of

including performance-related bonuses in the variable compensation, the amount of which is measured according to the key figure “adesso SE’s profit before taxes under commercial law”. The maximum bonus is limited to 15 % of the fixed remuneration. If this option is exercised, the EBITDA and EPS-based variable component of the performance-related remuneration is reduced.

Long-term remuneration

A phantom share programme for certain members of the Executive Board and employees at the first management level of adesso SE was approved by the Supervisory Board in financial year 2009. It was intended to help bind managers to the company in the long term. The phantom shares participate in dividends just like actual shares but the payments are included in salaries. After being with the company for a term of five to eight years, the holders of phantom shares have a right to receive the value represented at the time by the number of phantom shares and the underlying share price. Payment is included in salaries. The members of the Executive Board obtained additional rights from these phantom shares in 2019. In case a board member leaves the Executive Board, the following has been established with regard to the phantom share programme: If a board member leaves before the end of three years (for a member of the Executive Board: three years and eight months) after the start of the programme due to termination of contract, the board member only has to return the shares in exchange for compensation in case of a change of control. This is the case if shareholders Prof. Volker Gruhn and Rainer Rudolf (or companies through which they hold their shares) hold less than 35 % of the company’s share capital through the sum of their shares. If a board member leaves after at least three years (for a member of the Executive Board: three years and eight months) because the Supervisory Board dismisses the member, or due to the termination of their contract, or if the company fails to make a contract renewal offer at terms and conditions at least equivalent to those of the current contract, the board member has to return the shares. Compensation is 75 % of the applicable value. If a board member leaves after the end of at least eight years (for a member of the Executive Board: six years and eight months), he must return the shares in exchange for compensation.

In 2017, several entitled parties from phantom shares, including the two members of the Executive Board

who were entitled as a result, agreed to an adjustment of the regulations. The adjustment curbed the effect on the Group earnings statement resulting from changes in the exchange rate above or below an exchange rate corridor.

In 2019, a member of the Executive Board returned his phantom shares in full, in adherence to the minimum waiting period, against payment via his salary. To do this, corresponding accruals were formed in the previous periods.

The 2010-2013 share option plan of adesso SE duly expired on 31 December 2013. In view of the granted stock options, the Executive Board received virtual stock options for financial year 2014. The aim of the virtual stock options was for them to be financially equal to option rights when post-tax income is used for subscribing the virtual stock options in order to buy adesso SE shares on the market. The same conditions apply to virtual stock options as for stock options granted by the programme expiring on 31 December 2013. The number of virtual stock options issued to the Executive Board depends on the variable performance-based remuneration component, which means it is also performance-based. The virtual stock options result in cash value compensation only if the exercise criteria are met after the end of the minimum holding period. One hundred forty virtual stock options are granted for each EUR 1,000 paid as the performance-based variable remuneration component 1 for a year. The virtual stock options remain valid even if a board member leaves before exercising the virtual stock options. Due to the further development of the variable remuneration model based on EBITDA and earnings per share, the virtual stock options programme was terminated as well. This means the members of the Executive Board did not earn any new claims under this programme for 2019.

Former members of the Executive Board who have left the company do not receive any remuneration and were not granted any pension commitments. No loans or advances were granted to members of the Executive Board. A former member of the Executive Board has continued to work in the company as a manager since 1 July 2015 at adapted terms without Executive Board membership.

With respect to non-financial reporting, the company has stated that the total remuneration per member of

the Executive Board in 2019 was 12% lower than the value in the previous year as a result of decreased growth in the value of long-term, share-based variable salary. Taking only the performance-dependent remuneration and short-term variable salary components into consideration, the total amount of payment per member of the Executive Board increased by 6%, which remains below the increase in the EBITDA (+10% excluding IFRS 16), Group sales (+20%) and the number of employees as at the reporting date (+24%).

Supervisory Board remuneration

According to Section 12 of the Articles of Association, the members of the Supervisory Board are reimbursed for their expenses and also receive annual remuneration. This consists of a fixed component of EUR 5 thousand, plus variable remuneration at a rate of 0.275% of the company's balance sheet profit, reduced by 4% of contributions to share capital. The chairperson receives one and a half times this remuneration. Supervisory Board members who have not held their position for a full financial year receive remuneration according to their term in office. The chairperson of the Supervisory Board receives additional remuneration under a consulting and brokerage agreement.

adesso SE has neither granted loans or advances to members of the Supervisory Board nor issued bonds or guarantees on their behalf. There are no family ties between members of the Supervisory Board, nor between members of the Supervisory Board and the Executive Board. There are no service agreements between the Supervisory Board members and adesso or its subsidiaries that call for remuneration upon termination.

For further information regarding Supervisory Board and Executive Board remuneration, including detailed tables regarding individual remuneration of Supervisory Board and Executive Board members, information pursuant to Section 314 (1) No. 6 HGB and further information pursuant to the German Corporate Governance Code, refer to the consolidated notes.

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CONSOLIDATED BALANCE SHEET

OF ADESSO GROUP AS OF 31 DECEMBER ACCORDING TO IFRS

ASSETS

<i>in EUR k</i>	<i>Notes</i>	<i>31/12/2019</i>	<i>31/12/2018*</i>
NON-CURRENT ASSETS			
Goodwill	7.	48,557	46,228
Intangible assets	7.	17,392	19,355
Property, plant and equipment	8.	14,254	9,884
Right-of-use from leasing**	34.	72,504	0
Shareholdings recognized under the equity method	9.	3,059	3,322
Financial assets	10.	1,755	1,208
Deferred tax assets	11.	1,286	1,025
		158,807	81,022
CURRENT ASSETS			
Cash on hand and at bank	12.	46,352	45,912
Trade accounts receivable	13.	86,272	75,162
Contract assets	14.	22,447	17,164
Receivables from income taxes	11.	1,543	1,836
Financial assets	15.	423	404
Other assets	16.	4,920	4,875
		161,957	145,353
TOTAL ASSETS		320,764	226,375

* Comparative figures adjusted according to IAS 8 (see note "3. Retroactive Change according to IAS 8")

** Reported initially as of 01.01.2019 due to transition to IFRS 16.

Consolidated Balance Sheet

EQUITY AND LIABILITIES

<i>in EUR k</i>	<i>Notes</i>	<i>31/12/2019</i>	<i>31/12/2018*</i>
EQUITY			
	17.		
Subscribed capital		6,176	6,176
Capital reserve		16,306	16,540
Other retained earnings		69,687	55,056
Reserve for currency conversion		313	576
Non-controlling interests		0	59
		92,482	78,407
NON-CURRENT LIABILITIES			
Financial liabilities	19.	43,565	33,100
Pensions and similar liabilities	23.	166	165
Provisions	21.	5,523	5,931
Contract liabilities	20.	7	365
Leasing liabilities**	19./34.	61,664	-
Other liabilities	22.	0	55
Deferred tax liabilities	11.	3,045	3,783
		113,970	43,399
CURRENT LIABILITIES			
Financial liabilities	19.	14,401	15,008
Trade accounts payable	20.	14,274	14,651
Contract liabilities	20.	9,363	8,953
Leasing liabilities**	19./34.	11,773	-
Liabilities from income taxes	11.	4,995	7,719
Provisions	21.	9,498	8,421
Other liabilities	22.	50,008	49,817
		114,312	104,569
TOTAL EQUITY AND LIABILITIES		320,764	226,375

CONSOLIDATED INCOME STATEMENT

OF ADESSO GROUP FROM 1 JANUARY TO 31 DECEMBER ACCORDING TO IFRS

<i>in EUR k</i>	Notes	2019	2018*
Sales revenues	24.	449,704	375,648
Other operating income	25.	5,715	5,081
Change in inventory	26.	637	331
Own work capitalised	26.	1,405	1,913
TOTAL INCOME		457,461	382,973
Costs of material	27.	-50,487	-43,296
Personnel costs	28.	-293,110	-243,052
Other operating expenses	29.	-65,733	-63,650
EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTISATION (EBITDA)		48,131	32,975
Depreciation on property, plant and equipment	30.	-22,596	-10,002
EARNINGS BEFORE INTEREST AND TAXES (EBIT)		25,535	22,973
Earnings from shares recognized under the equity method	31.	38	-171
Interest income and similar income	31.	203	131
Interest expenses and similar expenses	31.	-2,471	-742
INCOME FROM ORDINARY ACTIVITIES (EBT)		23,305	22,191
Income taxes	32.	-5,810	-8,192
CONSOLIDATED EARNINGS		17,495	13,999
of which attributable to shareholders of adesso AG		17,419	14,046
of which attributable to non-controlling interests		76	-47
Number of shares at the end of the period		6,176,093	6,176,093
UNDILUTED EARNINGS PER SHARE (IN EUR)	33.	2.82	2.27
Diluted earnings per share (in EUR)	33.	2.82	2.27

CONS. STATEMENT OF COMPREHENSIVE INCOME

OF ADESSO GROUP FROM 1 JANUARY TO 31 DECEMBER ACCORDING TO IFRS

<i>in EUR k</i>		2019	2018*
Consolidated earnings		17,495	13,999
OTHER COMPREHENSIVE INCOME, NOT SUBSEQUENTLY TRANSFERRED TO THE INCOME STATEMENT			
Actuarial gains (+) and losses (-)	23.	-12	-9
Deferred taxes on actuarial gains and losses		3	2
OTHER COMPREHENSIVE INCOME, SUBSEQUENTLY TRANSFERRED TO THE INCOME STATEMENT			
Currency translation differences		-263	-114
OTHER COMPREHENSIVE INCOME		-272	-121
TOTAL INCOME		17,223	13,879
of which attributable to shareholders of adesso AG		17,147	13,928
of which attributable to non-controlling interests		76	-49

* Comparative figures adjusted according to IAS 8 (see note "3. Retroactive Change according to IAS 8")

Consolidated Income Statement
 Cons. Statement of Comprehensive Income
 Consolidated Cash Flow Statement

CONSOLIDATED CASH FLOW STATEMENT*

OF ADESSO GROUP FROM 1 JANUARY TO 31 DECEMBER ACCORDING TO IFRS

<i>in EUR k</i>	2019	2018**
EARNINGS BEFORE TAX	23,305	22,191
Income from financing activities	2,268	611
Scheduled depreciation and amortization on property, plant and equipment and intangible assets	22,596	10,002
Result from shares recognized under the equity method	-38	171
Non-cash income (-)/expenses (+)	613	2005
Change in pension provisions	-14	-14
Change in other provisions	364	-190
Tax payments	-9,947	-5,075
Losses (+)/Gains (-) from the disposal of property, plant and equipment	0	29
Change to net operating assets	-16,804	-11,756
CASH FLOW FROM OPERATING ACTIVITIES	22,343	17,974
Sale of property, plant and equipment	77	37
Sale of shares recognised at equity	75	0
Payments for shares recognised at equity	-363	-2,007
Investments in property, plant and equipment	-9,095	-5,369
Investments in intangible assets	-2,360	-3,567
Acquisition of subsidiaries (less cash and cash equivalents acquired)	-3,747	-4,541
CASH FLOW FROM INVESTMENT ACTIVITIES	-15,413	-15,447
Dividend payments	-2,818	-2,521
Dividends from shares recognised under the equity method	470	536
Capital increase	0	14
Purchase of non-controlling interests	-201	-750
New liabilities to banks	20,505	7,700
Repayment of financial liabilities	-11,674	-7,438
Repayment of leasing liabilities***	-10,620	0
Interest paid	-2,367	-571
Interest received	183	64
CASH FLOW FROM FINANCING ACTIVITIES	-6,522	-2,966
Currency differences	32	-146
CHANGE IN CASH AND CASH EQUIVALENTS	440	-585
Cash and cash equivalents at the beginning of the period	45,912	46,497
Cash and cash equivalents at the end of the period	46,352	45,912

* See notes section „Information on the Consolidated Cash Flow Statement“

** Comparative figures adjusted according to IAS 8 (see note „3. Retroactive Change according to IAS 8“)

*** Reported initially as of 01.01.2019 due to transition to IFRS 16.

CONSOLIDATED SHAREHOLDERS EQUITY STATEMENT*

OF ADESSO GROUP FROM 1 JANUARY TO 31 DECEMBER ACCORDING TO IFRS

<i>in EUR k</i>	<i>Share capital</i>	<i>Capital reserves</i>
01.01.2018	6,174	17,226
Adjustments due to change in accounting policy**	0	0
01.01.2018 adjusted	6,174	17,226
Share-based compensation	0	74
Effects from the purchase of additional shares in subsidiaries	0	-772
Increase in share capital by exercises of stock options	2	12
Other results at the end of the financial year	0	0
Consolidated result	0	0
Total	0	0
Dividends	0	0
31.12.2018 adjusted	6,176	16,540
01.01.2019	6,176	16,540
Share-based compensation	0	89
Effects from the purchase of additional shares in subsidiaries	0	-324
Effects from the purchase of subsidiaries	0	0
Other results at the end of the financial year	0	0
Consolidated result	0	0
Total	0	0
Dividends***	0	0
31.12.2019	6,176	16,306

* See notes section „17. Equity“

** Comparative figures adjusted according to IAS 8 (see note „3. Retroactive Change according to IAS 8“)

*** Dividend payment of EUR 2.779 thousand corresponds to EUR 0.45 per share

Cons. Statement of Changes in Equity

	<i>Other reserves</i>	<i>Reserves for Currency translation</i>	<i>Equity of adesso SE shareholders</i>	<i>Non-controlling shares</i>	<i>Total Equity</i>
	43,036	690	67,126	137	67,263
	448	0	448	0	448
	43,484	690	67,574	137	67,711
	0	0	74	0	74
	0	0	-772	22	-750
	0	0	14	0	14
	-5	-114	-119	-2	-121
	14,047	0	14,047	-47	14,000
	14,042	-114	13,928	-49	13,879
	-2,470	0	-2,470	-51	-2,521
	55,056	576	78,348	59	78,407
	55,056	576	78,348	59	78,407
	0	0	89	0	89
		0	-324	-326	-650
	0	0	0	230	230
	-9	-263	-272	0	-272
	17,419	0	17,419	76	17,495
	17,410	-263	17,147	76	17,223
	-2,779	0	-2,779	-39	-2,818
	69,687	313	92,482	0	92,482

CONSOLIDATED NOTES

OF ADESSO GROUP FOR FINANCIAL YEAR 2019

I. General Information

The adesso Group (hereinafter referred to as adesso) is an IT service provider independent of manufacturers. It focuses on consulting and software development. adesso uses information technology to provide optimised core business process design and support to its customers.

adesso SE (formerly adesso AG) is a public limited company (Aktiengesellschaft) under European law. Its registered office is in Dortmund, Germany. The address is: adesso SE, Adessoplatz 1, 44269 Dortmund, Germany. The commercial register is likewise located in Dortmund (HRB 20663).

The declaration on the German Corporate Governance Code required pursuant to Section 161 of the German Stock Corporation Act (AktG) has been issued and was made permanently available to the shareholders at www.adesso-group.de/corporate-governance/.

The consolidated financial statements and the group management report were approved by the Supervisory Board on 19 March 2020 and released for publication by the Executive Board.

II. Summary of Significant Accounting Principles

The consolidated financial statements prepared by adesso SE have been prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), as adopted by the EU and applicable as at 31 December 2019, as well as the supplementary provisions of section 315e (1) of the German Commercial Code (HGB). adesso meets all requirements of the standards and interpretations applied.

The consolidated financial statements for the year ended 31 December 2019 have been prepared in euros. The financial statements have been prepared on the historical cost basis except for where IFRS requires the use of different valuation principles. Uniform accounting methods based on IFRS were applied to the assets and liabilities of the companies included in the consolidated financial statements. The individual financial statements of the companies included in the consolidated financial statements are issued for the reporting date of the consolidated financial statements.

Assets and liabilities are classified in the consolidated balance sheet as current or non-current items according to their maturities. In principle, assets and liabilities are classified as current insofar as they are realised or mature within the normal business cycle or within twelve months after the end of the reporting period. The consolidated income statement has been prepared using the nature of expense method. Unless otherwise stated, the accounting policies have been consistently applied to all periods presented.

Unless otherwise stated, all amounts are given in thousands of euros (EUR thousand). As a result of rounding, some amounts may not add up to the disclosed sums. Where it is determined in the course of preparing the financial statements that prior-year figures have not been presented correctly, these are generally adjusted. adesso has not made any material adjustments with the exception of a change in accounting policy (see section 3. Retrospective changes in accordance with IAS 8).

1. Accounting standards applied for the first time

> In January 2016, the IASB issued IFRS 16 (Leases), which is to be adopted for financial years beginning on or after 1 January 2019; the standard establishes new provisions for the recognition, measurement, presentation and disclosure of leases. According to IFRS 16, all leases generally have to be included on the

balance sheet of the lessee. A right-of-use asset and the corresponding leasing liability are recorded on the lessee's balance sheet. Solely in the case of leases with a term of up to twelve months (short term leases) or leases in which the leased asset has only a low value (low value leases) may the Group deviate from this rule and in principle recognise the lease expense on a linear basis over the term of the lease. adesso makes use of these exemptions. Lessor accounting has remained largely unchanged, with leases classified either as finance leases or operating leases. adesso generally does not function as a lessor, but in some cases does sub-let leased assets or parts thereof to third parties. Rental income is generated for these sub-leases. Income from subleases of company cars to employees cannot be shown in terms of amount because the consideration is part of the employees' performance. adesso has applied the standard since 1 January 2019 and makes use of the simplification to determine the leased assets and lease liabilities as at 1 January 2019 (so-called modified retrospective method). In accordance with IFRS 16, the lease term as at 1 January 2019 is based on the respective remaining useful lives of the contracts for simplification purposes. adesso has significant leases with regard to the leasing of office space and vehicles.

Compared to accounting prior to 1 January 2019, the presentation in the income statement changes as follows:

- Lease payments are not recognised as other operating expenses. Lease payments are to be split up into the interest portion and the principal portion. This does not apply to payments relating to low value leases or short-term leases.
- The recorded right-of-use assets are to be depreciated on a scheduled basis and, if necessary, written down on an unscheduled basis.
- Deferred taxes are recognised on temporary differences between the carrying amount and the amount of tax of the right-of-use assets and the lease liabilities.

As a result of the transition to IFRS 16 as at 1 January 2019, right-of-use assets and lease liabilities of EUR 57,374 thousand were recorded. This reduced the equity ratio by 7.0 percentage points from 34.6% to 27.6%. In addition to the following overview of the effects of IFRS 16 in 2019, we refer to Note 34. Lease disclosures.

	Change in EUR k	
	1 January 2019	31 December 2019
<i>Consolidated Balance Sheet</i>		
Non-current assets	57,374	72,504
Deferred tax assets		267
Equity including currency translation reserve		-666 10
Liabilities	57,374	73,437
<i>Consolidated Income Statement</i>		
		2019
Other operating expenses		11,983
EBITDA		11,983
Depreciation and amortisation		-11,388
EBIT		595
Interest expenses		-1,538
EBT		-943
Deferred tax income		267
CONSOLIDATED EARNINGS		-676

- > In October 2017, the IASB published the amendment to IFRS 9 (Financial Instruments – Prepayment Features with Negative Compensation). This amendment clarifies whether payments for the possibility of early termination (e.g. a loan agreement) should be classified as interest and principal payments. The interpretation, which was adopted by the European Union on 26 March 2018, is applicable to annual reporting periods beginning on or after 1 January 2019. The amendments do not affect adesso's consolidated financial statements.
- > In June 2017, the IASB published interpretation IFRIC 23 (Uncertainty over Income Tax Treatments), which contains clarifications on the question of how uncertain tax positions under IAS 12 should be reported in financial statements. The interpretation, which was adopted by the European Union on 24 October 2018, is applicable to annual reporting periods beginning on or after 01 January 2019. The amendments do not affect adesso's consolidated financial statements.
- > In October 2017, the IASB adopted amendments to IAS 28 (Investments in Associates and Joint Ventures). The IASB clarifies that IFRS 9 (Financial Instruments), including the impairment provisions for long-term financial assets, must be applied to associate companies or joint ventures (e.g. lending to these companies). The provisions of IFRS 9 (and thus, if applicable, an impairment) must be applied before the provisions of IAS 28 (according to which pro-rata additional losses of the associate or joint venture may have to be recognised). The amendment, which was adopted by the European Union on 11 February 2019, is applicable to annual reporting periods beginning on or after 1 January 2019. The amendments do not affect adesso's consolidated financial statements.
- > In December 2017, the IASB adopted amendments as part of the annual improvement project for 2015–2017. In particular, the amendments include clarifications to provisions of IFRS 3 (Business Combinations), IFRS 11 (Joint Arrangements), IAS 12 (Income Taxes) and IAS 23 (Borrowing Costs). The interpretations, which were adopted by the European Union on 15 March 2019, are applicable to annual reporting periods beginning on or after 1 January 2019. The amendments do not affect adesso's consolidated financial statements.
- > In February 2018, the IASB adopted an amendment to IAS 19 (Employee Benefits), which specifies the provisions for accounting for plan amendments, reductions and settlements. The interpretation, which was adopted by the European Union on 14 March 2019, is applicable to annual reporting periods beginning on or after 1 January 2019. The amendments do not affect adesso's consolidated financial statements.

2. Regulations that have been issued, but not yet adopted

The IASB has issued standards, amendments to standards and interpretations that are to be adopted to financial years beginning on or after 1 January 2020. Adoption of the following regulations is not yet mandatory, and adesso has not yet adopted these.

2.1 Endorsed by the EU:

- > In March 2018, the IASB published a revised “Conceptual Framework for Financial Reporting”. The framework provides guidance on the application of IFRS. Entities shall apply the revised Conceptual Framework for the first time on or after 1 January 2020. Numerous standards and interpretations refer to the Conceptual Framework. These references therefore need to be adapted to fit the standards and interpretations. The proposed amendments to the standards and interpretations were published in March 2018. The amendments, which were adopted into European law on 6 December 2019, do not affect adesso's consolidated financial statements.

- > In October 2018, the IASB issued amendments to IAS 1 (Presentation of Financial Statements) and IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors). The amendments clarify the definition of “material”, which is an important accounting concept in IFRS standards. The amendments are applicable to financial years beginning on or after 1 January 2020 and were adopted into European law on 10 December 2019. The amendments are not expected to have any impact on adesso’s financial statements.
- > In September 2019, the IASB published the amendments to IFRS 9 (Financial Instruments), IAS 39 (Financial Instruments: Recognition and Measurement) and IFRS 7 (Financial Instruments: Disclosures). The amendments relate to reporting uncertainties arising in relation to the reference interest rate reform (IBOR reforms), and in particular concern certain simplifications in relation to the regulations on hedge accounting. In addition, as part of an expansion of reporting obligations, further disclosures are planned regarding the extent to which companies’ hedging relationships are affected by the changes. The amendments are applicable to financial years beginning on or after 1 January 2020 and were adopted into European law on 16 January 2020. The amendments are not expected to have any significant impact on adesso’s financial statements.

2.2 Provisions not yet endorsed by the EU:

- > In January 2020, the IASB published amendments to IAS 1. The amendments concern clarifications regarding the classification of a liability as current or non-current. The amendments not adopted by the EU are to be applied for fiscal years beginning on or after 1 January 2022. They are not expected to have any appreciable effect on adesso’s financial statements.
- > In October 2018, the IASB published amendments to IFRS 3 (Business Combinations). The amendments clarify the definition of “business” in IFRS. This is necessary for the presentation of an acquisition transaction as a business combination or acquisition of individual assets (and liabilities). The amendments are applicable to annual reporting periods beginning on or after 1 January 2020. The amendments are not expected to have any impact on adesso’s consolidated financial statements.
- > In May 2017, the IASB adopted Standard IFRS 17 (Insurance Contracts), which will replace IFRS 4 (Insurance Contracts). IFRS 17 applies to insurance contracts, reinsurance contracts and investment contracts with discretionary participation features. IFRS 17 is applicable to annual reporting periods beginning on or after 1 January 2021. The amendments are not expected to have any impact on adesso’s financial statements.

3. Retrospective amendments in accordance with IAS 8

In an analysis of its contracts in relation to the application of IFRS 15, adesso found that the recognition of a contract as a development project rather than a fixed-price contract provides more reliable information. As a consequence, sales for such projects are recognised at a specific point in time and not over time. adesso believes that this change will not have a significant impact on previous accounting periods and has adjusted the presentation of such items with retroactive effect in accordance with the requirements of IAS 8.42. The change had the following effects for 1 January 2018 and 31 December 2018:

<i>in EUR k</i>	<i>1 January 2018</i>	<i>31 December 2018</i>
Non-current intangible assets	+ 4,924	+ 5,400
Contract assets	- 1,051	- 873
Total Assets	+ 3,873	+ 4,527
Other reserves	+ 448	+ 1,113
Current provisions	- 180	- 515
Contract liabilities	+ 3,386	+ 3,386
Deferred tax liabilities	+ 219	+ 543
Total Equity and Liabilities	+ 3,873	+ 4,527
Sales revenue		+ 178
Own work capitalised		+ 1,381
Depreciation and amortisation		+ 905
Other operating expenses		- 335
Earnings before tax		+ 989
Tax expenses		+ 324
CONSOLIDATED EARNINGS		+ 664
EARNINGS PER SHARE (IN EUR)		
undiluted		+ 0.10
diluted		+ 0.11

In the course of analysis, it was also determined that services finally rendered but not yet invoiced to the customer at the balance sheet date should be reported under contract assets. In the previous year these were reported under trade receivables. The following provides an overview:

<i>in EUR k</i>	<i>31 December 2018</i>	<i>Reclassification</i>	<i>31 December 2018 (adjusted)</i>
Trade receivables	80,253	-5,091	75,162
Contract assets	12,073	5,091	17,164

4. Acquisitions

On 24 April 2019, adesso acquired 90% of the shares in management systems GmbH, Neumünster, Germany. This company was renamed adesso health solutions GmbH on 3 December 2019. adesso health solutions is a leading provider of IT services for medical associations in Germany. The purchase price amounts to EUR 4,048 thousand. The consideration paid in cash amounts to EUR 3,850 thousand. A further EUR 200 thousand is due for payment after one year. There are no other purchase price payments for the 90% share in adesso health solutions GmbH. The remaining 10% of non-controlling shares in adesso health solutions GmbH is subject to a combined call/put option. The exercise price is EUR 450 thousand. The options can be exercised at any time after a period of three years following purchase. Certain EBIT targets

have been agreed in order for the put options to take effect, the achievement of which the adesso SE management regards as extremely likely. Given that the structure of the combined call/put options does not result in adesso being seen as the economic owner of the 10 % stake, the combined call/put options were not taken into account in the presentation of the acquisition. Meanwhile, as at 31 December 2019, the financial statements are presented as if adesso had acquired 10 % of the shares. As a result, non-controlling interests are reduced by EUR 240 thousand and the capital reserve by EUR 210 thousand.

adesso health solutions GmbH is allocated to the IT solutions segment.

The fair value of the acquired trade receivables was EUR 1,084 thousand. This corresponds to the contractual cash flows from receivables. Ancillary acquisition costs totalled EUR 19 thousand. They are recognised under “Other operating expenses” in the consolidated income statement.

Goodwill resulting from the merger mainly represents the workforce of the company and other synergy effects, which cannot be capitalised. The option to recognise goodwill for the non-controlling interests has not been exercised. The goodwill is not tax-deductible.

<i>in EUR k</i>	<i>adesso insurance solutions GmbH</i>
Goodwill	1,976
Customer contracts	1,750
Order backlog	330
Other non-current assets	133
Trade receivables	1,084
Contract assets	478
Deferred tax assets	29
Other current assets	16
Cash and cash equivalents	103
Total Assets	5,899
Provisions	305
Trade payables	149
Tax liabilities	92
Financial liabilities	300
Other liabilities	96
Deferred tax liabilities	679
Total Liabilities	1,621
Net Assets	4,278
Net assets attributable to	4,048
Consideration	4,048
of which made in cash	3,850
Cash and cash equivalents received	103
CASH OUTFLOWS FROM ACQUISITIONS	3,747

The sales revenues and earnings contribution of adesso health solutions GmbH recorded in the consolidated financial statements of adesso amount to EUR 4,115 thousand and EUR 102 thousand respectively. If the company had already been included in the consolidated financial statements as at 1 January 2019, consolidated sales revenues would have amounted to EUR 451,366 thousand and consolidated earnings to EUR 17,319 thousand.

Acquisitions in previous year

On 8 February 2018, adesso acquired 100% of the shares in Fabis Sales Solutions GmbH & Co.KG and the general partner company Fabis Verwaltung GmbH (Bamberg, Germany), which were merged into adesso insurance solutions GmbH in the second half of 2018. On 13 July 2018 adesso acquired the assets and liabilities of Collogia Trianova GmbH, Cologne, Germany. On 03 December 2018 adesso acquired 100% of the shares in SunnyTrail Consulting S.L. with its registered office in Madrid, Spain.

The following assets and liabilities were recognised in business combinations. The purchase price allocation is final. There have been no changes compared to the previous year.

<i>in EUR k</i>	<i>Fabis companies</i>	<i>SunnyTrail</i>	<i>Collogia</i>
Goodwill	1,531	0	1,502
Customer contracts	72	288	271
Order backlog	20	105	1,007
Software	59	0	322
Other fixed assets	0	4	30
Deferred tax assets	4	0	60
Trade receivables	314	79	0
Other current assets	14	15	74
Liquid assets	1	18	0
Total assets	2,015	509	3,266
Provisions	3	10	84
Trade payables	283	0	0
Contract liabilities	227	0	334
Other liabilities	2	73	0
Deferred tax liabilities	0	98	0
Total Liabilities	515	181	418
Net assets	1,500	328	2,848
Consideration	1,500	328	2,848
of which made in cash	1,500	212	2,848
Übernommene liquide Mittel	1	18	0
ACTUAL CASH OUTFLOWS FROM ACQUISITIONS	1,499	194	2,848

5. Consolidation

5.1 Subsidiaries

Subsidiaries are companies that are directly or indirectly controlled by adesso. A company is deemed to be controlled by adesso if adesso has decision-making powers over this company, adesso is exposed and/or entitled to variable returns and it can use its decision-making power to influence the variable returns. adesso has decision-making powers over a company if existing rights mean that adesso has the ability to direct the relevant activities of the company. Relevant activities are activities that significantly affect the company's variable returns. Potential voting rights from options or convertible bonds need to be taken into account in addition to current voting rights, irrespective of whether these are held by adesso SE itself or one of its subsidiaries.

Subsidiaries are fully consolidated from the date on which adesso obtains control. This means that assets, liabilities, income and expenses are recognised in the consolidated financial statements from that date.

Pursuant to IFRS 3, mergers are reported using the acquisition method. The consideration for the acquired shares is comprised of the fair values of the assets acquired, received and acquired debt, equity instruments issued and any agreed contingent consideration, each measured at fair value. Pursuant to IAS 9, assets and liabilities from contingent considerations are measured at fair value, while income and expenses are recognised in the consolidated income statement. Where contingent consideration is to be classified as equity, current changes in value are not recognised, and differences are recognised in equity when the contingent consideration is paid. Shares previously held in a subsidiary (successive share purchase) must be measured at fair value immediately before the business combination and recognised in profit or loss. The acquisition costs of a business combination are recognised directly in the consolidated income statement. Pre-existing relationships at the time of acquisition of control have to be eliminated prior to consolidation. The resulting profit contributions are recognised directly in the consolidated income statement.

The acquired assets and liabilities have to be recognised insofar as they meet the definition of an asset or a liability. In general, the acquired assets and liabilities are recognised at fair value. Non-controlling interests can be valued according to the pro-rata net assets measured pursuant to IFRS 3 or at fair value. The latter option also in principle includes the recognition of goodwill for the non-controlling interest. adesso values non-controlling interests according to the pro-rata net assets measured pursuant to IFRS 3.

With regard to non-controlling interests, an analysis must be performed to determine whether adesso is the beneficial owner of the shares. This is assumed if adesso has access to the variable returns from the shares. This can result from put options, call options or a combination of these options. If adesso holds a call option on the remaining shares, this only constitutes beneficial ownership of the outstanding shares in exceptional cases. This is the case if, for example, the options have been agreed with a favourable strike price and it has been agreed that no dividends will be paid out until the options are exercised or the option price is adjusted by dividend payments. If the non-controlling shareholders have a put option over their shares and adesso is to be considered the beneficial owner of the shares, the financial statements are prepared as if adesso had directly acquired the shares upon which the put option is based. If adesso is not the beneficial owner of the shares, the financial statements are presented as if adesso had acquired the non-controlling shares at the end of the financial year. As a result, the net profit for the year is allocated to the non-controlling interests, and the liability from the put option is reported in the consolidated balance sheet rather than the non-controlling interests. Any difference between the liability and the non-controlling interests is recognised in equity in the capital reserve. From the beginning of the respective following financial year, non-controlling interests are considered outstanding until the end of the relevant accounting period or until they are exercised. Where a combination of call and put options exists, these are generally analysed as described.

The goodwill attributable to the shareholders of the parent company is generally equal to the difference between the value of the consideration paid plus the fair value of the shares held in the subsidiary prior to the business combination and the proportionate share of net assets of the acquired company measured in accordance with IFRS 3.

If the identification and measurement of the acquired assets and liabilities and/or the determination of the consideration given is not completed on the balance sheet date following the business combination, the business combination must be provisionally recognised in the consolidated financial statements. Reporting for the business combination has to be completed within twelve months of the business combination date (measurement period).

Intra-group relationships between the consolidated companies are eliminated. As part of the consolidation of capital, participations in subsidiaries are offset against the acquired pro-rata equity of the respective subsidiary allocated to adesso. Obligations between the companies included in the consolidated financial statement are eliminated in the course of debt consolidation. Intercompany profit and loss from intra-group transactions included in the assets and liabilities is eliminated as part of the elimination of interim results; income and expenses from intercompany transactions are eliminated in the course of income and expense consolidation.

Changes in the participating interest in a subsidiary that does not result in a loss of control are recognised as equity transactions. Differences between the fair value of the consideration and the carrying amount of the pro-rata equity are recorded in capital reserves.

A company is deconsolidated when adesso no longer exercises control. From this date onwards, the assets and liabilities, as well as income and expenses, are no longer attributed to adesso. Any share in the former subsidiary remaining with adesso is measured at fair value. The difference between the net assets attributable to the remaining shares at the date of deconsolidation and the fair value of the shares is reported in the consolidated income statement. A reserve from currency translation differences recognised in equity in connection with the deconsolidated subsidiary must be recognised in the consolidated income statement with an effect on income.

adesso holds the majority of the voting rights in all subsidiaries. This enables adesso to direct the relevant activities of the subsidiaries.

The number of subsidiaries to be fully consolidated increased to 25 (previous year: 24).

There are no significant non-controlling interests in the adesso consolidated financial statements.

In respect of the list of companies included in the consolidated financial statements we refer to the list of shareholdings in accordance with section 313 (2) HGB under 46. Subsidiaries or 47. Associated companies and joint ventures.

adesso Beteiligungsverwaltung AG was founded on 4 January 2019 in Vienna, Austria, and was merged with adesso AG on 27 November 2019. Subsequently, adesso AG became a European stock corporation (Societas Europaea) – adesso SE.

On 18 April 2019 and 8 July 2019 respectively, adesso founded the subsidiaries in Budapest, Hungary, and Amsterdam, in the Netherlands. The newly founded companies will be integrated into adesso Group's sales organisation to maximise the potential of the local markets.

SunnyTrail Consulting S.L. in Madrid, Spain, acquired in 2018, was merged with adesso Spain Consultoria y Soluciones Tecnologicas Sociedad Limitada in Barcelona, Spain, on 6 August 2019. nhs informatik GmbH in Bern, Switzerland, was merged with adesso Schweiz AG, Zurich, Switzerland, with effect from 1 December 2019.

In 2019, adesso acquired the outstanding shares of alleato assekuranzmakler GmbH, Dortmund, Germany (+ 26 %), inQventures GmbH, Berlin (+ 15 %) and gadiv GmbH, Much, Germany (+ 39 %) for EUR 201 thousand. The financial statements are also prepared as if adesso had acquired the outstanding 10 % of the shares in adesso health solutions GmbH for EUR 450 thousand. At the same time, non-controlling interests were increased by a total of EUR 326 thousand. The difference of EUR 324 thousand between the purchase price for the additional shares and the amount of the non-controlling shares is recorded in the capital reserve.

5.2 Joint arrangements and associates

Pursuant to IFRS 11, joint arrangements are classified as joint operations or joint ventures. Joint operations are joint arrangements where the joint operators have rights to the assets and liabilities relating to the joint arrangements. In the case of joint ventures, the partner companies have rights to the net assets included in the arrangement. In the case of joint operations, the joint operator accounts for the assets and liabilities, including its share of those held jointly, its income and its share of the joint income of the arrangement, as well as its expenses, including its share of any expenses incurred jointly. Pursuant to IFRS 11, interests in joint ventures are consolidated using the equity method described in IAS 28.

A company is considered to be an associate of adesso if adesso has significant influence over the company, does not control the company and does not control the company together with another. Where adesso holds 20 % to 50 % of the shares in a company, it is assumed under IAS 28 that adesso can exert a significant influence on the company. Like joint ventures, associates are consolidated using the equity method.

According to the equity method, the interests are recognised at cost when they are recognised. If, at the time that the company is consolidated using the equity method for the first time, the cost exceeds the pro-rata fair value of the net assets of the company, the share must include fair value. An amount equal to the difference is to be recognised if the reverse is true. As a result, the results of joint ventures and associated companies are recognised pro rata in adesso's financial statements, while any hidden reserves and encumbrances discovered upon acquisition are carried forward.

The profits and losses of the joint venture and associated companies are recognised pro rata in the consolidated income statement, while other comprehensive income of the joint venture and associated companies is to be recognised pro rata in other period sales results; in both cases, an adjustment is to be made to the carrying amount of the shares. Dividend distributions from joint ventures and associates reduce with no overall effect on outcomes the carrying amount of the interests in equity. The losses that exceed net investments will not be recognised so long as the pro-rata losses recognised exceed net investment in the joint venture or associated companies (shares plus long-term loans, for example). The negative equity value is amortised by means of a separate calculation. It is included in the consolidated balance sheet once it turns positive again.

If an associate becomes a joint venture as a result of a change in the amount of the investment, or a change in contractual arrangements, or if a joint venture becomes an associate as a result of a change in contractual arrangements, the equity amount will only be adjusted only for any shares acquired or disposed of. Shares are not revalued. If shares in associates or joint ventures are sold and they continue to be consolidated using the equity method, the amounts recognised in other comprehensive income are reported pro rata in the consolidated income statement, provided that this would also be the case with the disposal of the corresponding assets and/or liabilities.

Pursuant to IAS 28, adesso conducts a check on each balance sheet date to determine whether there is any objective evidence that the carrying amount of the net investments is impaired. The impairment test is then conducted in accordance with IAS 36. An impairment loss is to be recognised in the amount of the difference between the recoverable amount of the net investment in the joint venture or associated company and the carrying amount of the net investment. As the impairment relates to the entire carrying amount and not the carrying amount of the individual assets included in the carrying amount, a reversal of impairment losses pursuant to IAS 36 may have to be recognised in the future.

Intercompany profits and losses from upstream and downstream transactions with associates and joint ventures are eliminated on a pro-rata basis.

On 29 March 2019, adesso invested a 15 % stake in urban Energy GmbH, Berlin, as part of a capital increase. Acquisition costs totalled EUR 375 thousand. The acquisition costs include conditional payments of EUR 149 thousand that are dependent on the achievement of several milestones; the fair value of these payments amounted to EUR 149 thousand at the time of the acquisition. The conditional purchase price payment of EUR 122 thousand was paid up to November 2019 and an amount of EUR 27 thousand is due in October 2020. adesso assumes that the milestones will be reached.

All shares in MediOne GmbH, Dortmund, and 1Buch GmbH, Gütersloh, Germany, were sold on 1 July 2019 and 25 September 2019 respectively. SPS Personalized Nutrition GmbH, Berlin, Germany was liquidated on 4 July 2019.

adesso does not hold any significant interests in associates and joint ventures. Information about these companies is published under 47. Associates and joint ventures.

5.3 Currency translation

Each of the companies included in the consolidated financial statements prepares its own separate financial statements in its respective functional currency. The functional currency of a company corresponds to the currency of the primary economic environment in which the company operates. This functional currency for the companies included in the adesso consolidated financial statements corresponds to the respective currency of the country where the company has its registered office. Transactions conducted in a currency other than the functional currency are translated into the functional currency using the spot and/or respective exchange rate. The expenses and income resulting from this and from the settlement of such transactions are recognised in the consolidated income statement, provided that the amounts are not recognised as respective profit amounts in other comprehensive income.

Financial statements prepared in functional currencies other than the euro are translated using the modified closing rate method. The equity of the companies with functional currencies other than the euro included in the consolidated financial statements is translated using historical exchange rates. All assets and liabilities are translated using the spot rate. The income and expenses, as well as the result for the year recognised in the consolidated income statement, are generally translated at the transaction rate; for reasons of simplification, where permissible, at the average rate. The translation differences arising in the current year are recognised correspondingly in other comprehensive income. The amounts below are stated at standard indirect quotations. This means, for example, that the valid exchange rate as at 31 December 2019 is: 1 EUR equated to 1.09 CHF.

FOREIGN CURRENCY AT EUR 1

	Closing rate		Average rate	
	2019	2018	2019	2018
Swiss franc (CHF)	1.09	1.13	1.11	1.15
British pound (GBP)	0.85	0.89	0.88	0.88
US dollar (USD)	1.12	1.15	1.12	1.18
Turkish Lira (TRY)	6.68	6.06	6.36	5.70
Bulgarian lev (BGN)	1.96	1.96	1.96	1.96
Hungarian forint (HUF)	330.53	-	327.68	-

6. Accounting policies

6.1 Sales revenue

Revenue is recognised in accordance with IFRS 15. Prerequisites for revenue recognition are as follows: a valid contract, identifiable performance obligations, clear terms of payment, the contract must have economic substance and it must be likely that the agreed consideration will be received. Where different contracts with customers that have been agreed at the same time or in a timely manner are not independent of each other, they shall be analysed as one contract. Subsequently, revenue is recognised as soon as a performance obligation has been fulfilled. Under IFRS 15, revenue is recognised at one point in time. Deviating from this, revenues are recorded over a period of time where the customer directly consumes the benefits, or adesso creates or improves an asset that is controlled by the customer, or adesso creates an asset without alternative use for a customer and adesso acquires a claim to remuneration for the respective services rendered, as is common with a contract for work and services. On this basis, revenues from performance obligations are recognised as follows:

- > Licence sale, no further obligation on the part of adesso: Once the licence key has been delivered and the customer can access the licence. This applies irrespective of whether the right of use transferred to the customer is limited in time. As far as adesso acts as an intermediary or agent in the sale of a licence, adesso only recognises a commission from the sale of the software. Invoices are always issued after delivery of the software. The payment terms are typically not longer than 30 days.
- > The right of the customer to access software that is regularly updated by adesso: For the term of the contract. Payments are generally made on a monthly basis.
- > Consulting projects:
 - Where consulting projects are agreed as time & material projects (actual number of hours worked and the resources deployed are billed), revenue is recognised based on billable hours and expenses incurred. Invoices are issued monthly and the payment terms are typically no longer than 30 days.
 - Where consulting projects are agreed as fixed-price projects, revenue is recognised on the basis of the progress made in terms of performance or the stage of completion over the term of the project. The percentage of completion generally corresponds to the costs incurred as at the reporting date as a proportion of the expected total costs for the project. Revenues cannot be recognised using the percentage-of-completion method if the expected total costs and/or the expected total income cannot be reliably estimated. In this case, revenues are recognised in an amount not exceeding the amount of expenses incurred. If the expected total expenses of a fixed-price project exceed the expected total revenue, meaning that there is a risk that the project will incur losses, the loss has to be recognised directly and in full irrespective of the percentage of completion by recognising a provision for contingent losses from pending transactions.

The resulting expense is recorded under other operating expenses. If a licence is sold together with the consulting project, the revenue for the license is recognised at the time of delivery of the licence. Deviating from this, the revenue for the license is recognised as part of consulting project revenue (a performance obligation), provided that the source code of the software is not materially adjusted as part of the consulting project. For some fixed-price contracts, progress payments are contractually agreed. The final invoice will be issued after acceptance with typical payment terms of 30 days.

- > Maintenance and hosting services are generally time-based: Revenues are recognised over the corresponding period. Payments are usually made quarterly in advance.

In determining the amount to be recognised as revenue for performance obligations, variable components of the agreed consideration are taken into account. These include, for example, discounts, performance incentives, bonuses or penalties. Revenues from variable components may only be recognised to the extent that it is highly probable that they will not be withdrawn in the future. If several performance obligations are agreed in one contract, the agreed consideration is to be allocated to the individual performance obligations for the purpose of revenue recognition on the basis of the relative individual selling prices. The negotiations usually cover prices, which are in the same league as the retail price.

Under IFRS 15, the transaction price attributable to unfulfilled performance obligations, which will be recognised as revenue in the future must be disclosed. Here, adesso uses the simplified approach to indicate this for contracts which have an original term of more than one year. Under the simplified approach, the transaction price of time & material projects is also not taken into account in this specification.

6.2 Borrowing costs

Borrowing costs are generally included as an expense in the consolidated income statement. Under IAS 23, the borrowing costs of qualifying assets make up part of the cost of acquisition or production. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. adesso did not identify any qualifying assets in the reporting period for which not insignificant borrowing costs had to be capitalised.

6.3 Goodwill

In case of a business combination, goodwill is the positive difference between the consideration rendered in the business combination plus the fair value of the shares previously held as well as the non-controlling interests measured as pro-rata net assets and the pro-rata equity of the acquired company at the time of the business combination measured according to IFRS 3. For impairment testing purposes, goodwill is not amortised, but instead assigned to the (groups of) cash-generating units that benefit from the business combination. According to IAS 36.80, the highest allocation level in the company is the level on which goodwill is observed by management, and no higher than the level of operating segments pursuant to IFRS 8 before they are combined into reportable segments. For details on the impairment test, please see 6.5 Impairment of non-financial assets.

6.4 Tangible and intangible assets

Tangible and intangible assets are recognised at historical cost. Where applicable, they are stated at amortised cost or historical cost. Assets are depreciated or amortised on a straight-line basis over their expected useful life. Where applicable, residual values are taken into account when calculating depreciation on tangible assets. For intangible assets, residual values are only taken into account insofar as a third party is obligated to assume the intangible asset at the end of its useful life. Furthermore, residual values are taken into account when there is an active market for the intangible asset, the residual value can be established in reference to said market and the active market is expected to exist at the end of the useful life of the intangible asset.

Whenever possible, the recognition of non-current intangible assets is broken down into a research and a development phase. Expenditure in the research phase must always be recognised as expenses. Expenditure in the development phase is to be capitalised from the date on which the following can be satisfied:

- > The technical feasibility of completing the intangible asset so that it is available for use or sale;
- > The intention to complete the intangible asset and use or sell it;
- > The ability to use or sell the intangible asset;
- > How the intangible asset will generate future economic benefits;
- > adesso has sufficient resources to complete the intangible asset; and
- > The cost of the intangible asset can be measured reliably.

Intangible assets are typically amortised on a straight-line basis over three years. Exceptions are additions through business combinations such as customer contracts, software and order backlogs. The carrying amount of the order backlog is written off as soon as the revenue on the respective order is realised. Customer lists have a useful life of five to six years. The PSLife software acquired in 2015 is being amortised over ten years.

Property, plant and equipment is classified as technical equipment and machinery, which is generally depreciated over three years, as well as office and other equipment, which is depreciated on a straight-line basis over five to 20 years.

The total development expense recognised in the financial year is the amortisation of internally generated intangible assets. This amounts to EUR 1,237 thousand (previous year: EUR 1,014 thousand).

See the comments below on impairment of non-current intangible assets and property, plant and equipment.

6.5 Impairment of non-financial assets

Under IAS 36, goodwill, non-current tangible and intangible assets all have to be tested for impairment. A review must be performed to determine at the balance sheet date if there are indications of an impairment. An impairment test is to be performed where such indications exist. In derogation of this, impairment tests are performed at least once a year for goodwill, intangible assets with an indefinite useful life and intangible assets not yet available for use. The date on which the mandatory impairment tests are performed can be selected at will and must be applied consistently. For all assets within the scope of IAS 36, an impairment test should also be performed if there are indications of impairment.

Impairment tests are performed for individual assets. If this is not possible, the impairment test must be performed at the level of a cash-generating unit. Such a unit is the smallest group of assets that comprise the asset to be tested and for which cash flows that are largely independent from other assets can be identified. Goodwill is always to be tested for impairment on the basis of a single cash-generating unit or a group of cash-generating units.

When testing for impairment, the carrying amount of an asset and/or a cash-generating unit including, where appropriate, the carrying amount of goodwill is compared to the recoverable amount of the cash-generating unit. The recoverable amount is the higher value in use and the fair value less disposal costs.

An impairment loss is to be recognised should the carrying amount be higher than the recoverable value. The carrying amount of an asset is to be reduced if an individual asset is tested for impairment. If an impairment loss is recognised in a cash-generating unit, the carrying amount of the goodwill may have to be reduced to EUR 0. If an additional impairment loss has to be recorded, the carrying amounts of the assets of the cash-generating units covered by IAS 36 have to be reduced on a pro-rata basis according to the total carrying amounts. This may not be lower than the recoverable amount of the respective asset. If the fair value rises again after an impairment loss has been recognised, the assets will be written up. A write-up of goodwill is not permitted.

6.6 Costs of obtaining a contract

Costs of obtaining a contract (commissions) are capitalised in accordance with IFRS 15 to the extent that they are directly attributable to the conclusion of a contract with a customer. adesso uses the simplified approach to capitalise and amortise the costs of obtaining a contract only for those contracts for which the amortisation period is longer than one year. They are reported under intangible assets. adesso amortises these costs of obtaining a contract on a straight-line basis over the life of the underlying contract. If, as a result, the expected term of the contract deviates significantly from the originally estimated term of the contract, the residual carrying amount of the costs of obtaining a contract is amortised over the newly estimated residual term. When calculating impending losses from a contract, the carrying amount of the costs of obtaining a contract will be recognised as contract costs. The carrying amount of the costs of obtaining a contract are EUR 598 thousand (previous year: EUR 605 thousand). The amortisation for the financial year amounted to EUR 499 thousand (previous year: EUR 477 thousand).

6.7 Leasing

Accounting until 31 December 2018 (IAS 17)

Lease transactions are classified as financing leases or operating leases based on the economic nature of the transaction. The transaction is classified as a financing lease insofar as all material risks and opportunities are transferred to the lessee, and otherwise as an operating lease.

When a lease transaction is classified as a financing lease, the lease object is recognised by the lessee at the present value of the minimum lease payments or the lower fair value. A lease liability of the same amount is recognised. The lease object is depreciated over the shorter of the economic useful life and the lease term. Since the lease payments are allocated to interest and redemption, interest on the remaining lease liability remains constant.

Gains on sale and leaseback transactions are deferred as liabilities and allocated over the lease term insofar as the new lease transaction is classified as a financing lease.

When a lease transaction is classified as an operating lease, the lease payments are recorded over the lease term on a straight-line basis. The benefits of agreed rent-free periods are allocated over the course of the rent term.

Accounting from 1 January 2019 (IFRS 16)

IFRS 16 is generally applicable to all leasing contracts. However, if for example the lessee has a right of use under a licence agreement, this right must be accounted for in accordance with IAS 38.

In the case of lease transactions, a distinction must be made between the lessee's and the lessor's recognition of lease agreements.

The lessee capitalises an asset (Right of Use asset – RoU) and a lease liability for the right to use the leased asset in the future. Exceptions to the recognition principle apply to what are known as low value and short-term leases. A lease transaction is deemed low value if the new value of the leased asset does not exceed EUR 5 thousand. A short-term lease transaction is deemed to exist insofar as the lease term does not exceed twelve months. In the case of low value and short-term leases, the lease payments are generally recognised as an expense on a straight-line basis over the lease term.

A RoU asset is initially recognised at cost. Among other things, the cost of acquisition includes the initial carrying amount of the corresponding lease liability, lease payments made prior to provisioning less lease incentives received, the initial costs incurred by the lessee, and any future restoration or reclamation costs associated with the leased asset recognised as a provision. The initial carrying amount of the lease liability is the present value of the future lease payments calculated at the lease's internal rate of return or, if this

cannot be readily determined, at the marginal lending rate. Lease payments include fixed and variable lease payments, expected payments from residual value guarantees and sufficiently secure payments from agreed purchase options. In measuring the lease liability, the effects of extension and termination options must be taken into account, insofar as there is sufficient certainty that they will be exercised. The management of adesso SE is of the opinion that a rent extension option that can be exercised in more than ten years is generally not exercised with a sufficient level of certainty. Therefore, adesso typically does not take such extension options into consideration.

The RoU asset is subsequently depreciated over the expected lease term and, if necessary, amortised on an unscheduled basis. If the lease liability has to be revalued due to a reassessment of the lease liability or a modification of the lease, the carrying amount of the RoU asset must in essence be adjusted. After initial recognition, the lease liability must be increased by the interest expense to be recognised and reduced by redemption repayments.

In the case of sale and leaseback transactions, an analysis must be made as to whether a sale has taken place in accordance with the provisions of IFRS 15. If this is the case, the lessee must measure the RoU asset on a pro rata basis based on the carrying amount for the retained right of use. A loss or gain is recognised from the transaction for the right of use transferred to the lessor. If a sale and leaseback transaction does not qualify as a sale under IFRS 15, the lessee must measure the right of use at the carrying amount of the underlying asset and recognise a financial liability measured in accordance with IFRS 9 in the amount of benefit received.

Lease transactions are classified as financing leases or operating leases based on the economic nature of the transaction. The transaction is classified as a financing lease insofar as all material risks and opportunities are transferred to the lessee, and otherwise as an operating lease.

If a lease is classified as a finance lease, the leased asset is derecognised and a receivable is recognised.

When a lease transaction is classified as an operating lease, the lease payments are recorded over the lease term on a straight-line basis. The benefits of agreed rent-free periods are allocated over the term of the rent period.

There are no hidden lease transactions.

6.8 Financial assets

Financial assets include debt instruments (e.g. loans and receivables), equity instruments and cash and cash equivalents. They are recognised as soon as adesso becomes a contractual partner for a corresponding financial instrument. Depending on the classification of the cash flows arising from a financial asset and the business model within which the financial asset is held, the financial asset is classified after initial recognition as follows:

- > Measured at amortised cost (AC)
- > Measured at fair value through other comprehensive income (FVOCI)
- > Measured at fair value through profit and loss (FVPL)

Debt instruments, classification

Debt instruments are classified in the AC and FVOCI measurement categories if the cash flows arising from the debt instrument qualify as principal and interest payments. Where future cash flows contain speculative components in addition to principal and interest payments, the IASB is of the opinion that this is not consistent with a “basic lending arrangement” and the debt instrument should, therefore, be classified in the FVPL category. Where the cash flows arising from the debt instrument are classified as payments of principal and interest, further classification will depend on the specific business model. IFRS 9 identifies the following types of business models:

- > “Hold to collect”: The objective is to collect principal and interest, rather than to sell the debt instruments. Typically classified under the AC category
- > “Hold and sell”: The objective is both to collect interest and repayment and to sell debt instruments. Typically classified under the FVOCI category
- > “Other business models”: Collecting interest and principal is not an objective pursued by this business model. The aim is rather to sell debt instruments. Typically classified under the FVPL category

An entity may use different business models to pursue different objectives for different debt instruments.

If debt instruments are typically classified under the AC or FVOCI categories, under the so-called fair value option, entities are permitted to elect to measure debt instruments at FVPL if doing so would eliminate or significantly reduce a measurement or recognition inconsistency. adesso does not apply this option.

Initial and subsequent valuation

Debt instruments are initially recognised at fair value (typically the transaction price) plus transaction costs. Only with respect to debt instruments classified under the FVPL category are transaction costs recognised directly as expenses.

Where debt instruments have been classified under the AC or FVOCI category, interest, impairments and foreign currency translation differences recognised on the basis of the effective interest method must be recognised in the consolidated income statement (identical effect on earnings). In the case of debt instruments classified under FVOCI, changes in value that go beyond the above changes are recognised in other comprehensive income. The debt instrument amounts recognised in OCI classified as FVOCI must be recognised in the consolidated income statement upon derecognition. According to the effective interest method, interest is recorded on the basis of the so-called effective interest rate. This reflects the interest rate at which the present value of the future expected contractual cash flows corresponds to the initial carrying amount of the debt instrument upon recognition.

Impairment losses

Impairment losses are recognised based on a three-stage impairment model. They are measured as the probability-weighted present value of future cash shortfalls. On initial recognition, debt instruments are assigned to stage 1 of the impairment model. In stage 1, interest is calculated on the gross carrying amount (before impairment). Impairment is determined on the basis of the possible loss events occurring within twelve months, taking into account the relevant probability.

If the default risk of a debt instrument has increased significantly compared to the default risk on initial recognition, the debt instrument is allocated to stage 2 of the impairment model. Interest revenue is calculated on the gross carrying amount as in stage 1, but impairment is determined by reference to any loss event that may occur throughout the life of the debt instrument and its related probability.

If there is also objective evidence of impairment (the debt instruments have an impaired credit rating), the debt instrument is allocated to stage 3 of the impairment model. Objective indications are or can be, for example, the opening of insolvency proceedings, a significant deterioration in creditworthiness or rating, trading in the debtor's securities far below the nominal amount or other identified financial difficulties of the debtor. The amount of the impairment is determined as in stage 2, but interest is recognised on the basis of the net carrying amount, i.e. after taking the impairment into account. When calculating interest based on the net carrying amount, interest income on the gross carrying amount of the debt instrument is (usually) set off against interest expense arising from the carryforward of the impairment. This does not, therefore, have any effect on earnings, but merely on disclosure. The change in the classification of debt instruments between stages is symmetrical. This means that a change to a higher stage is just as possible as a change to a lower stage if the conditions are met.

adesso uses a simplified approach for certain trade receivables as well as contract assets. Accordingly, trade receivables and contract assets are allocated to stage 2 of the impairment model upon initial recognition. The term of these financial assets is usually a maximum of one year, so that the determination of the impairment in stages 1 and 2 would be largely identical. As a result, there is no need to monitor for significant increases in default risk.

If there is objective evidence of impairment for debt instruments at the time they are acquired or issued, the impairment is immediately classified as stage 3 of the impairment model. These debt instruments may not be subsequently reclassified to stage 1 or 2. adesso does not hold any debt instruments, which were already impaired upon issuance or acquisition.

A loss event occurs when a company is no longer able to meet its payment obligations or has filed for insolvency. In addition, there is a presumption that a loss event has occurred if a financial asset is more than 90 days past due. In addition to bank balances of EUR 46 million, adesso holds only a few debt instruments that cannot be classified directly in stage 2 of the impairment test due to the simplified approach it uses. These include rent deposits amounting to EUR 1,088 thousand (previous year: EUR 1,094 thousand), loans of EUR 550 thousand (previous year: EUR 350 thousand) and short-term employee loans of EUR 188 thousand (previous year: EUR 154 thousand). The carrying amounts and impairments of these debt instruments are not considered to be material. As a result, adesso does not have a differentiated system for assessing whether the credit risk has increased significantly. adesso takes into account publicly available information about debtors, industry-related and macroeconomic information, and, where available, internal information about debtors. adesso does not have any information that would indicate that the credit risk of one of these debt instruments has increased significantly. This type of financial asset has not defaulted in the past. For the calculation of the impairment (EUR 5 thousand), adesso applies the impairment rate determined for trade receivables and contract assets.

The impairment of trade receivables and contract assets is measured primarily on the basis of past defaults on such claims. Forward-looking, industry-related and macroeconomic information is also taken into account.

The credit quality is considered to be impaired, when an event with a negative impact on future cash flows has occurred, e.g. significant financial difficulties, breaches of contract or the acquisition of debt instruments of the company far below the nominal amount.

Equity Instruments

Under IFRS, equity instruments are measured at fair value, with value changes recognised in the consolidated income statement. If the equity instruments are not held for trading purposes, there is an option to present value changes in other comprehensive income. A future reclassification of amounts recognised in other comprehensive income to the consolidated income statement is not permitted.

Derecognition/Depreciation

Financial assets are to be derecognised either when rights to future cash flows no longer exist or the asset is transferred to a third party. A financial asset is classed as having been transferred when adesso no longer has any rights to future cash flows or if adesso still has such rights but is at the same time obligated to pass these payments on to a third party.

A debt instrument is written off and derecognised if adesso has no reasonable expectations of recovering the debt instrument in its entirety or a portion thereof. In this case, the gross carrying amount is reduced rather than recognising an impairment in the amount of the virtually certain default. Where legal steps are taken to recover cash flows on a debt instrument, the instrument will not be derecognised.

Factoring

The adesso Switzerland subsidiary has concluded an agreement to sell the receivables from a specific customer to a factor within the framework of silent factoring. The decision whether to sell a receivable lies with adesso Switzerland. adesso Switzerland aims in principle to hold the receivables from this customer until payment is made, but the contract opens up another opportunity to improve liquidity in the short term.

When selling a receivable, no security deposits, credit check fees or factoring fees are incurred. adesso retains 5% of the default risk. The maximum size of the contract is CHF 2 million. The interest to be paid by adesso Switzerland amounts to 1-month Swiss franc Libor rate (31 December 2019: -0.781%) plus a margin of 2.7%. There were no receivables from the customer in question as of the reporting date.

6.9 Other assets and other liabilities

The accruals and other receivables and liabilities reported under this item are generally measured at nominal value.

6.10 Contract assets/contract liabilities

Under IFRS 15, claims against customers that are not recognised as receivables are reported as contract assets. Receivables are recognised insofar as the right to payment is merely dependent on the passage of time. adesso mainly recognises contract assets for fixed-price projects in which revenue is recognised based on the progress made. Payments from customers (or due payments) are deducted when determining the amount of contract assets. If these payments from customers exceed the underlying claim, they will be recognised as a contract liability.

The contract assets also include all finished time & material services that have not yet been invoiced to the customer as of the balance sheet date. In addition to prepayments for fixed-price projects, contract liabilities also include payments that will lead to revenue from maintenance or hosting only in subsequent periods.

6.11 Cash on hand and at bank

This item includes cash in hand and bank balances as well as current, highly liquid assets with a residual term of no more than three months from the acquisition date. These assets can be converted into a specific amount of cash at any time and are subject to immaterial valuation risk only.

6.12 Financial liabilities

Financial liabilities are recognised as soon as the adesso Group becomes a contractual partner for a corresponding financial instrument. Current liabilities are measured at amortised cost, which largely corresponds to the repayment amount. Non-current liabilities are recognised at the fair value of the consideration received on the transaction date. Transaction costs are included in the carrying amount of liabilities when they are recognised. Non-current liabilities are valued at amortised cost using the effective interest method.

A financial liability is to be derecognised when the contractual obligation ends, is met or is lifted.

The company did not make use of the option under IFRS 9 to classify financial liabilities as measured at fair value through profit or loss.

6.13 Provisions

Provisions are recognised for actual, legal or factual obligations arising from past events which are likely to result in an outflow of economic resources and the amount of which can be estimated reliably. For similar obligations, such as product guarantees, the probability of utilisation is considered on the basis of the overall group of obligations. Provisions for pending losses from pending transactions are valued on the basis of the excess obligation. If the compensation or fines resulting from non-fulfilment are less than the excess obligation, the provision is to be valued on the basis of the compensation or fine.

Provisions may be discounted when the discount amount is material. The interest rate to be applied is an interest rate before taxes, which reflects current market expectations with regard to the interest effect and the risks pertaining to the debt. Provisions are generally valued at the cash value of future expected cash flows required to settle the obligation. The determination of future cash flows must take into account cost increases.

When the amount of a provision is expected to be reimbursed, for example based on insurance coverage, a reimbursement is only recognised as a separate asset if it is as good as certain. The income of reimbursement is not offset against expenses.

6.14 Provisions for pensions

Provisions for pensions are measured at the present value of the defined benefit obligation. Plan assets were not endowed by adesso. Pursuant to IAS 19.120 (c), actuarial gains and losses are recorded in other comprehensive income in the course of the remeasurement of the net liability. The present value of provisions for pensions is determined using the projected unit credit method in accordance with IAS 19. The calculations are based on the biometric parameters of the Heubeck 2018 G mortality tables. adesso commissioned external experts to value the pension obligation as at 31 December 2019. The applied discount rate corresponds to the interest rate on corporate bonds with the best credit rating and a term corresponding to the provisions for pensions.

6.15 Share-based payment transactions

In the past, adesso has issued employee options to buy shares in adesso SE (so-called “equity-settled share-based payment transactions”). The vesting period of the options issued in accordance with IFRS 2 is four years. Total personnel costs to be recognised are determined by multiplying the fair value of the option on the grant date by the number of options expected to be exercisable after the end of the vesting period. In general, the total personnel costs are recognised on a straight-line basis against the capital reserve over the vesting period. The number of options expected to be exercised after the end of the vesting period has to be adjusted to current estimates on each reporting date.

Debt from share-based payment issued in payment instruments is remeasured at present value on each reporting date. Changes in the value of this liability are recognised in the consolidated profit and loss account. In this context, adesso has in the past issued virtual stock options and so-called phantom shares to employees and members of the Executive Board.

6.16 Income tax

Income taxes include both actual income taxes and deferred taxes. The actual tax liabilities and taxes receivable encompass all obligations and claims for domestic and foreign income tax. They are calculated based on the applicable tax laws.

Deferred taxes are recognised on deductible or taxable temporary differences. These are positive or negative differences between the carrying amount according to IFRS and the tax value of an asset or liability with a future impact on taxable income. Deferred taxes are measured at the future tax rate expected to be applicable on the date when the difference reverses. Furthermore, deferred tax assets have to be recognised for the benefit associated with a tax loss carryforward. Deferred tax assets on deductible temporary differences are recognised at least in the amount applicable to taxable temporary differences with the same tax authority and that reverse in the same period as the deductible temporary differences. Furthermore, deferred tax assets are recognised in the amount of the corresponding future economic benefit that is expected to be realised. The benefit of tax loss carryforwards eligible for capitalisation is determined by adesso over a maximum period of five years.

6.17 Government grants

According to IAS 20, government grants have to be classified as investment grants or grants for expenses. Grants are only recognised according to IAS 20 (Accounting for Government Grants and Disclosure of Government Assistance) when there is sufficient certainty that the related conditions will be met and the grants issued. They are allocated through profit or loss in the periods in which the expenses compensated by the grants are incurred. Investment grants are deducted from the acquired assets. Grants for expenses are recorded through profit or loss in the period in which the corresponding expenses are recognised.

6.18 Dividends

Dividends are recognised as liabilities as soon as a binding dividend proposal has been resolved.

6.19 Fair values

Numerous IASB regulations demand that financial and non-financial assets and liabilities be recognised at fair value or be included in the notes. According to IFRS 13, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. Determining fair values of financial assets and liabilities is based on observable parameters wherever possible. If none are available, non-observable parameters are to be applied. IFRS 13 defines a valuation hierarchy for determining fair value, which comprises three levels. Allocation to level depends on the valuation parameters.

The parameters are allocated to the following levels:

- > Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities which the company can access at the valuation date.
- > Level 2: Input parameters other than the quoted prices on level 1 which are either directly or indirectly observable for the asset or liability.
- > Level 3: Non-observable input parameters for the asset or liability.

If parameters of different levels are used for measurement, the fair value is to be assigned to the same level as the input parameter of the lowest level used for measurement.

Fair values are either determined by adesso or external specialists.

At the end of the financial year, adesso did not have any material assets or liabilities subject to the scope of IFRS 13 which are measured at fair value regularly or on the reporting date.

6.20 Estimates and assumptions

Numerous estimates and assumptions have to be made by the management of adesso SE in preparing the consolidated financial statements. These relate to the following in particular:

- > Mergers: Business combinations: In general, the identifiable assets and liabilities acquired in a business combination are measured at fair value. Since there is no active market for many assets and liabilities, the fair values have to be determined on the basis of recognised measurement methods. For example, these include the relief from royalty method and the multi-period excess earnings method. Significant valuation parameters that have to be estimated for these methods are the future cash flows resulting from the assets and liabilities as well as the applicable discount rates. In the financial year under review, adesso acquired customer lists in connection with mergers amounting to EUR 1,750 thousand (previous year: EUR 631 thousand), loans of EUR 0 thousand (previous year: EUR 381 thousand) and order backlogs in the amount of EUR 330 thousand (previous year: EUR 1,132 thousand). For the measurement of contingent payment obligations related to mergers, assumptions have to be made regarding the values of parameters underlying the valuation.

- > adesso received 20% of the shares in pangenia systems GmbH in the context of a capital increase. Acquisition costs totalled EUR 250 thousand. Based on a call option, the other shareholders of pangenia systems GmbH have the right to acquire the shares held by adesso for EUR 250 thousand plus interest from 1 June 2020. adesso is of the opinion that the shares in pangenia systems GmbH are not controlled by adesso. adesso therefore reports a receivable measured at amortised cost in accordance with IFRS 9.B3.2.15.
- > Non-current assets: The useful life of non-current assets subject to depreciation and amortisation has to be estimated. An estimate of the residual value, which has to be taken into account in calculating depreciation and amortisation, is also required.
- > Costs of obtaining a contract: adesso capitalises the cost of obtaining contracts with customers with an original term of more than one year. The sales commissions are not always directly attributable to individual customer contracts. adesso allocates the sales commissions which are not individually attributable based on commissioned revenue from a customer contract divided by the total commissioned revenue of an employee multiplied by the employee's total commission. The management of adesso SE is of the opinion that the costs of obtaining a contract are appropriately assessed on this basis.
- > Leasing: In order to present future payments from rental and lease agreements in accordance with IFRS 16 and to disclose other financial obligations, it is necessary to estimate whether and to what extent future rental extension options and termination options will be used. A consideration is only permissible, where the extension of the contract by exercising the option is sufficiently certain. The same applies to open-ended leases. The management of adesso SE is of the opinion that a rent extension option that can be exercised in more than ten years is generally not exercised with a sufficient level of certainty. Therefore, adesso typically does not take such extension options into consideration. In the run up to the upcoming application of IFRS 16, the management of adesso SE has reassessed whether rental extension options will be exercised in the future. These estimates as at 31 December 2018/1 January 2019 have not changed in 2019.
- > Impairment test: According to IAS 36, numerous parameters have to be estimated for the impairment test to verify the recoverability of the assets held by adesso. These primarily include estimates of future cash flows, growth rates as well as the interest rate applicable for the future cash flows. Here, risks are primarily associated with goodwill (carrying amount: EUR 48,557 thousand; previous year: EUR 46,228 thousand). Financing payments should not be taken into account when calculating the cash flows on which the value in use is based. At the same time, expenses necessary for generating future cash inflows must be taken into account. Payments for right of use assets must be allocated to financing (interest payments and repayment of the lease liability). They are, however, also necessary to maintain the substance of the cash-generating unit and to generate future cash flows. Until clarification by the IASB, the estimated payments from future leases for which no right of use asset has yet been recognised are taken into account when determining the value in use. Information on the impairment tests includes 7. Goodwill and intangible assets.
- > Receivables: Assessment of the recoverability of trade receivables (EUR 86,272 thousand; previous year: EUR 75,162 thousand) and contract assets (EUR 22,446 thousand; previous year: EUR 17,164 thousand). This requires an estimate of the extent to which adesso customers meet their payment obligations.
- > Provisions and contingent liabilities: Recognising provisions often requires an assessment of whether the grounds for recognising a provision are met. For example, this applies to possible provisions for contingent losses on orders, warranty provisions, provisions for removal, shut-down or similar obligations, as well as provisions for legal risks and other provisions. The measurement of provisions requires an estimate and assumptions regarding the future amount required to redeem or settle the debt. This also applies to employee benefits after the end of the employment relationship. If a reliable estimate for the amount of an obligation cannot be made, it needs to be disclosed in the notes as a contingent liability. Discount rates must also be estimated in connection with provisions.

- > Provisions for pensions and the related income/expenses are determined on the basis of actuarial calculations. The calculation of provisions for pensions (EUR 166 thousand; previous year: EUR 165 thousand) is based on actuarial assumptions (probability of death and disability, interest rate and other biometric assumptions).
- > Deferred taxes: The measurement and realisation of deferred tax assets on loss carryforwards requires a management estimate of the extent to which the benefit associated with the tax loss carryforward can be realised. The benefit of the tax loss carryforwards can only be realised to the extent these are approved by the fiscal authorities. To benefit from tax loss carryforwards in the future, a deferred tax asset is recognised in the consolidated financial statements for the tax loss carryforwards to be set off against tax loss carryforwards within a maximum of five years. Further benefits are not capitalised.
- > Current taxes: In the financial year 2016, a market entry compensation and sales promotion agreement was concluded between e-Spirit Inc. and e-Spirit AG. This results in a reduction in the total tax burden of adesso AG (as the controlling entity of the group taxation relationship for income tax purposes with, among others, e-Spirit AG) as well as the adesso Group, as the income recognised in the U.S. was set off against tax loss carryforwards. In the financial year 2019, e-Spirit AG made payments of EUR 1,147 thousand to e-Spirit Inc. under this agreement, totalling EUR 5.3 million. The management of adesso AG assumes that the specified e-spirit AG expenses are fully tax deductible. Further uncertainty in the tax position could result from future tax audits. The Executive Board estimates the probability that this could lead to individual cash outflows (in the low six-digit range) as less than 50%. In making this assessment, the Executive Board has taken into account the results of the past tax audit as well as current tax court rulings.
- > Revenue: adesso provides services to its customers. The resulting revenue is recognised based on the progress made. This means that revenues are realised according to the percentage of completion. Estimating the percentage of completion is of particular importance with this method. Furthermore, it is necessary to estimate the entire project costs that will be incurred up to completion, the entire project income, the risks associated with the project and other key parameters. adesso must indicate when future sales revenues are to be recognised from service obligations under active contracts. Estimates are required with regard to some contracts.
- > Share-based payment expenses: To recognise personnel costs from share-based payments, the management has to estimate how many rights are expected to be vested and thus exercisable after the end of the vesting period.
- > adesso aggregates the operating segments into reportable segments for segment reporting purposes. Such aggregation requires an assessment as to whether the individually identified operating segments have similar economic characteristics and whether they also qualify as similar in terms of products or services and types of customers.

III. Notes to the Consolidated Balance Sheet

7. Goodwill and intangible assets

Goodwill and intangible assets developed as follows:

2019 in EUR k	Goodwill	Customer contracts	Order backlog	Internally generated intangible assets	Other intangible assets	TOTAL
Gross value 1 January	48,623	9,298	2,121	7,337	20,447	87,826
Accumulated amortisation 1 January	2,395	4,464	1,080	1,276	13,028	22,243
Carrying Amount 1 January	46,228	4,834	1,041	6,061	7,419	65,583
Currency differences	353	29	-	-	3	385
Company acquisitions	1,976	1,750	330	-	17	4,073
Additions	-	-	-	1,405	956	2,361
Amortisation	-	1,749	633	1,237	2,832	6,451
Disposals	-	-	-	-	2	2
Gross value 31 December	50,952	10,693	1,547	8,467	21,889	93,548
Accumulated amortisation 31 December	2,395	5,829	809	2,238	16,328	27,599
CARRYING AMOUNT 31 DECEMBER	48,557	4,864	738	6,229	5,561	65,949

2018 in EUR k	Goodwill	Customer contracts	Order backlog	Internally generated intangible assets*	Other intangible assets	TOTAL*
Gross value 1 January	45,219	8,576	3,534	5,424	18,790	81,543
Accumulated amortisation 1 January	2,395	2,479	3,485	262	10,658	19,279
Carrying Amount 1 January	42,824	6,097	49	5,162	8,132	62,264
Currency differences	370	43	-	-	4	417
Company acquisitions	3,034	631	1,132	-	402	5,199
Additions	-	-	-	1,913	1,654	3,567
Amortisation	-	1,937	139	1,014	2,773	5,863
Disposals	-	-	-	-	-	-
Gross value 31 December	48,623	9,298	2,121	7,337	20,447	87,826
Accumulated amortisation 31 December	2,395	4,464	1,080	1,276	13,028	22,243
CARRYING AMOUNT 31 DECEMBER	46,228	4,834	1,041	6,061	7,419	65,583

* Comparative figures adjusted in accordance with IAS 8. See Note 3. Retrospective amendments in accordance with IAS 8.

Intangible assets mainly comprise the PSLife software acquired in 2015 (EUR 2,768 thousand, previous year: EUR 3,283 thousand), internally developed software for processing benefits in private health insurance (EUR 5,366 thousand; previous year: 5,400 thousand) and customer contracts acquired through mergers (EUR 3,990 thousand, previous year: EUR 4,834 thousand). The average remaining useful life of customer contracts is 3.9 years.

Amortisation includes impairment of EUR 37 thousand on customer contracts acquired as a result of business combinations (previous year: EUR 391 thousand). Further details on the right of use under leasing can be found under 34. Information on leasing transactions.

For impairment testing purposes pursuant to IAS 36, goodwill has to be assigned to the (groups of) cash-generating units that benefit from the merger. Under IAS 36.80, the highest allocation level in the company is the level on which goodwill is observed by management, and no higher than the level of operating segments before they are combined into reportable segments. For the purpose of impairment testing, adesso allocates goodwill to the operating segments according to IFRS 8. The following table provides an overview of goodwill for the operating segments at the end of the reporting period:

<i>in EUR k</i>	2019			2018		
	<i>Carrying amount</i>	<i>Interest before taxes in %</i>	<i>Gross margin in %</i>	<i>Carrying amount</i>	<i>Interest before taxes in %</i>	<i>Gross margin in %</i>
IT SERVICES SEGMENT						
adesso SE	7,371	7.83	5.3	7,371	8.51	4.2
adesso Austria GmbH	3,552	10.16	8.0	3,552	7.83	6.3
adesso Schweiz AG	10,312	7.70	9.5	9,959	7.54	12.6
Arithnea GmbH	5,054	7.82	8.0	5,054	8.25	10.3
Total IT Services segment	26,289	-	-	25,936	-	-
IT SOLUTIONS SEGMENT						
adesso insurance solutions GmbH	3,034	9.03	8.9 to 9.3	3,034	10.43	8.2
medgineering GmbH	464	9.61	-38.8 to 62.1	464	11.14	-25.4 to 69.6
smarthouse adesso financial solutions GmbH	16,794	8.75	10.8	16,794	9.71	10.8 to 11.2
adesso insurance solutions GmbH	1,976	8.55	8.0 to 8.7	-	-	-
Total IT Solutions segment	22,268	-	-	20,292	-	-
TOTAL	48,557	-	-	46,228	-	-

The rise in goodwill attributable to the IT Services segment was due to the acquisition of management systems GmbH and currency translation effects at adesso Schweiz AG. Due to the decision to merge smarthouse adesso financial solutions GmbH into adesso SE, the corresponding goodwill is also to be allocated to adesso SE from 2020.

An impairment test for goodwill has to be performed on this basis at least once a year and whenever there are indications of impairment. The annual goodwill impairment test is performed by adesso as at 30 June of the financial year.

The realisable value of the operating segments is the value in use determined using the discounted cash flow method. This is determined based on cash flows after taxes and interest. The management of adesso believes that the value in use of the cash-generating units mainly responds to changes in the estimated revenue growth, the estimated gross margin and the discount rate.

Estimating the value in use and therefore also estimating cash flow is based on management's most recent operational planning. Detailed planning covers one to three years. Revenue growth is calculated individually for each operating segment. If it is apparent with one year of planning and an expected increase of incoming cash flows that an impairment will not have to be recognised, further detailed planning is omitted. The average revenue growth per segment is between -17.9% and 18.1%. At medgineering GmbH, the maximum planned sales growth lies at 165%. Future sales revenues growth estimates are based on past sales revenues develop-

ment, expected sales revenues growth in the operating segments and the future development of the market and the overall economy. As in the previous year, adesso expects cash flows to grow by 1 % p.a. in the long-term. This growth rate does not exceed the long-term expected growth rate for adesso's markets. The company bases its estimates for future cash flows, where possible, on estimates by external analysts. The gross margin (EBT – sales revenues less cost of materials – above all procured services) results from the planning for the individual segments. In addition to sales revenues, they also result from the expected expenses incurred by the segments. These are determined individually on the basis of historical performance and expected future developments.

adesso conducts its impairment test based on an after tax assessment. The interest rate before taxes is then calculated as required by IFRS. This is the interest where the cash value of cash flows before taxes corresponds to the amount calculated according to an after tax assessment. This interest rate after taxes corresponds to the weighted average cost of capital determined using the capital asset pricing model. The key parameters for calculating it are the risk-free interest rate (0.6 %, previous year: 1.25 %), a beta factor derived from a representative peer group for the IT services and IT solutions segments (to represent the systematic risk), a market risk premium (6.5 %, previous year: 6.5 %; as the difference between the expected return on a reference market and the risk-free interest rate), the tax rate and the cost of debt. The parameters underlying the calculation of the weighted average cost of capital are based on sources external to the company.

adesso carried out a sensitivity analysis of all parts of goodwill allocated to the operating segments to determine whether impairment would have to be recognised if any changes were deemed possible in key parameters of the goodwill impairment test. An increase in the weighted average cost of capital by 1 percentage point before taxes, 10 % lower cash flows and a 1 percentage point lower gross margin (EBT/ (revenues less cost of materials)) were assumed as possible changes. No change in these variables would result in an impairment having to be recognised.

As at 31 December 2019, there were no indicators for an impairment of goodwill.

8. Property, plant and equipment

Property, plant and equipment developed as follows:

<i>in EUR k</i>	2019	2018
Gross value 1 January	26,045	22,543
Accumulated amortisation 1 January	16,161	13,815
Carrying Amount 1 January	9,884	8,728
Currency differences	-9	-22
Additions	9,095	5,369
Company acquisitions	116	14
Disposals	75	66
Amortisation	4,757	4,139
Gross value 31 December	34,733	26,045
Accumulated amortisation 31 December	20,479	16,161
CARRYING AMOUNT 31 DECEMBER	14,254	9,884

Property, plant and equipment mainly comprises factory and office equipment as well as IT hardware and leasehold improvements.

9. Equity method investments

adesso does not hold any shares in significant joint ventures or associates. The carrying amount as well as the comprehensive income for the period were comprised as follows:

in EUR k	2019		2018	
	Joint ventures	Associates	Joint ventures	Associates
CARRYING AMOUNT 31 DECEMBER	906	2,153	936	2,386
Share in the comprehensive income for the period	60	-30	50	-221
Share in the other comprehensive income of the financial period	0	0	0	0
SHARE IN THE TOTAL	60	-30	50	-221

10. Non-current other financial assets

Non-current other financial assets consist of the following items:

in EUR k	2019	2018
Company shares	351	-
Deposits	853	844
Loans	550	364
CARRYING AMOUNT	1,755	1,208

11. Receivables and liabilities from income taxes as well as deferred taxes

Deferred tax assets and liabilities were comprised as follows as at the balance sheet date:

in EUR k	2019	2018*
DEFERRED TAXES		
Tangible and intangible assets	839	584
Receivables and other assets	-	21
Provisions	1,115	738
Lease transactions	22,541	-
Other debts	-	14
Loss carryforwards	878	848
<i>Total (of which current: EUR 5,013 thousand; previous year: EUR 1,074 thousand)</i>	<i>25,373</i>	<i>2,205</i>
Set-offs	-24,087	-1,180
CARRYING AMOUNT	1,286	1,025
DEFERRED TAX LIABILITIES		
Intangible assets	1,772	2,589
Goodwill	112	-
Rights of use	22,274	-
Property, plant and equipment	40	-
Companies recognised at equity	9	8
Trade receivables	16	43
Contract assets	2,559	1,943
Provisions	350	380
<i>Total (of which current: EUR 7,185 thousand; previous year: EUR 3,139 thousand).</i>	<i>27,132</i>	<i>4,963</i>
Set-offs	-24,087	-1,180
CARRYING AMOUNT	3,045	3,783

* Comparative figures adjusted in accordance with IAS 8. See Note 3. Retrospective amendments in accordance with IAS 8.

Deferred taxes are measured based on the applicable future tax rates for the respective companies. The applicable overall tax rate is 32.8% (previous year: 32.8%). It is comprised of the corporate tax rate of 15.0%, the solidarity surcharge of 5.5% and the trade income tax rate of 16.98%. Deferred tax assets and liabilities are offset in accordance with IAS 12.74.

Deferred tax assets on tax loss carryforwards are capitalised based on medium-term planning over a period of one year of operation. The planning results are considered sustainable unless material reasons speak against that. Deferred tax assets on tax loss carryforwards are recognised for the benefit that can most likely be realised within the next five years. The future benefits are not sufficiently certain for further capitalisation. The recognition of deferred tax assets on tax loss carryforwards at adesso Austria (EUR 348 thousand, previous year: EUR 453 thousand), adesso Turkey (EUR 189 thousand, previous year: EUR 0 thousand), adesso Spain (EUR 132 thousand, previous year: EUR 57 thousand), adesso Transformer Austria (EUR 114 thousand, previous year: EUR 107 thousand), alleato assekuranzmakler (EUR 53 thousand, previous year: EUR 73 thousand) and medgineering GmbH (EUR 39 thousand, previous year: EUR 80 thousand) is based on the future growth of the companies, which is assessed as positive for the long term.

The tax loss carryforwards can be carried forward perpetually. Deferred tax assets of EUR 314 thousand were recognised on tax loss carryforwards of companies based in Germany (previous year: 122 thousand) and on tax loss carryforwards of companies based outside Germany amounting to EUR 1,902 thousand (previous year: EUR 1,873 thousand).

The deferred tax assets on loss carryforwards changed as follows:

<i>in EUR k</i>	<i>2019</i>	<i>2018</i>
1 JANUARY	848	662
Additions arising from business combinations	29	0
Use	-358	-171
Addition for previous years	127	67
Addition for current tax losses	283	289
Amortisation	-41	-
Currency differences	-10	1
31 DECEMBER	878	848

On 31 December 2019, a deferred tax liability of EUR 277 thousand was recognised in accordance with IAS 12.39 (previous year: EUR 216 thousand) for temporary differences of EUR 16,908 thousand (previous year: EUR 13,160 thousand) in connection with shares in subsidiaries (outside basis differences), because the management of adesso SE can control their dissolution and they will not be dissolved in the foreseeable future.

The receivables from income taxes (EUR 1,543 thousand, previous year: EUR 1,836 thousand) and liabilities from income taxes (EUR 4,995 thousand, previous year: EUR 7,719 thousand) are due in full within twelve months.

12. Cash in hand and at bank

Cash in hand and at bank is EUR 46,352 thousand (previous year: EUR 45,912 thousand).

13. Trade receivables

Trade receivables in the amount of EUR 86,272 thousand (previous year: EUR 75,162 thousand) are all due within one year. Information on impairment losses on trade receivables and other financial assets is contained in Note 36. Financial instrument disclosures.

14. Contract assets

Contract assets amounted to EUR 22,447 thousand (previous year: EUR 17,164 thousand). Information on impairment losses on trade receivables and other financial assets is contained in Note 36. Financial instrument disclosures.

15. Current financial assets

Current financial assets include:

<i>in EUR k</i>	2019	2018
Deposits	235	250
Employee loans	188	154
CARRYING AMOUNT	423	404

16. Other current assets

Other current assets comprise:

<i>in EUR k</i>	2019	2018
Accruals	4,277	3,442
Receivables from input tax surpluses	316	1,237
Receivables from employees	53	45
Miscellaneous	274	151
CARRYING AMOUNT	4,920	4,875

17. Equity

17.1 Subscribed capital

The subscribed capital of adesso SE, Dortmund, Germany, amounted to EUR 6,176,093 (previous year: EUR 6,176,093). It is divided into 6,176,093 (previous year: 6,176,093) bearer shares (no-par shares). The nominal value per share is EUR 1.

17.2 Authorised capital

The new authorised capital 2018 resolved in the Shareholders' Meeting on 5 June 2018 (EUR 2,469,681) is unchanged as at 30 June 2019 and amounts to EUR 2,469,681.

The Executive Board is authorised to increase the share capital until 4 June 2023 with the consent of the Supervisory Board in the amount of up to EUR 2,469,681 by issuing 2,469,681 new no-par bearer shares, on one or more occasions, in exchange for cash contributions and/or contributions in kind (authorised capital 2018). Shareholders are generally entitled to subscription rights. The new shares may be assumed

by one or more banks with the obligation to offer subscription rights to the shareholders. In certain individual cases, the Executive Board, with the consent of the Supervisory Board, has the right to exclude shareholder subscription rights one or more times.

The Executive Board also has the right to establish additional details of the capital increase and its realisation with the consent of the Supervisory Board. The Supervisory Board is authorised to amend Article 3 of the Articles of Association after the increase in share capital is realised in full or in part according to the respective utilisation of the authorised capital and, if the authorised capital is not utilised in whole or in part by 4 June 2023, after the end of the authorisation period.

17.3 Conditional capital

As at 31 December 2019, conditional capital amounted to EUR 500,000 (conditional capital 2015). The conditional capital is intended to exercise subscription rights granted to employees and members of the Executive Board of affiliated companies under the share option plans. The conditional capital 2009 was cancelled at the Annual General Meeting on 17 May 2019.

A detailed overview of the composition and development of equity in the consolidated financial statements is provided in the consolidated statement of changes in equity.

17.4 Other reserves

The capital reserves primarily include all premiums received from the issue of shares. The differences between the price for shares and the proportional net assets when acquiring non-controlling amounts or disposing of shares in subsidiaries, if adesso SE does not lose the controlling position with this subsidiary as a result of such a transaction, are also recognised. The retained annual results as well as actuarial gains and losses from performance-based retirement plans are recorded in other reserves. The other reserves reported in the consolidated financial statements in accordance with IFRS only provide a limited indication of the possibility of future distributions. With regard to the possibility of a future distribution as well as any existing restrictions on distribution, reference is made to the financial statements of adesso SE. The reserve for currency conversion contains differences from the conversion of the financial statements of subsidiaries to euros, whose functional currency does not correspond to the functional currency of adesso SE. Non-controlling interests contain the shares of the adesso Group's net assets attributable to the non-controlling shareholders.

18. Share-based payment

18.1 Equity-settled share-based payment – Share option plans

In the financial year under review, 14,948 options from the “conditional capital 2015” were issued with an average fair value of EUR 9.37 (previous year: EUR 10.72). The vesting period of these options is 48 months. The maximum total term is 84 months. The options can be exercised if the beneficiary has worked for adesso for 48 months and adesso SE's share price at the time the option is exercised is 10% over the exercise price. The exercise price corresponds to the average price of the adesso share in the ten trading days prior to the commitment of the option. The exercise prices of options outstanding from „conditional capital 2015“ are between EUR 22.67 and EUR 26.47 for options issued in 2016, as in the previous year, and between EUR 49.91 and EUR 62.10 for options issued from 2017 onwards (previous year: EUR 51.14 and EUR 62.10). The average weighted residual term of the outstanding options is 5.6 years (previous year: 5.4 years). The number of outstanding options developed as follows:

	2019		2018	
	Number	Average exercise price per option in EUR	Number	Average exercise price per option in EUR
As at 1 January	38,500	46.18	31,390	39.55
Committed	14,948	51.25	13,000	56.74
Exercised	0	-	-1,890	7.31
Expiry date	-3,000	58.77	-4,000	47.25
As at 31 December	50,448	46.93	38,500	46.13
Vested and exercisable on 31 December.	0		0	

The issued options were valued using the trinomial model. The valuation was based on the following factors:

	2019	2018
Average share price (in EUR)	51.78	57.00
Average exercise price (in EUR)	51.25	56.15
Average expected volatility (in %)	31.5	33
Maximum term of the options (in years)	7	7
Expected dividend yields (in %)	1	1
Average risk-free interest rate over the contractual option term	-0.5	0.09

The expected volatility corresponds to the “long run forecast” based on the GARCH model (generalised autoregressive conditional heteroscedasticity). The valuation assumes that the options are exercised as soon as the market price of the shares is 10% above the exercise price, or the options are “in the money” at the end of the term.

An expense of EUR 89 thousand for the share option programme was recognised in the financial year under review (previous year: EUR 74 thousand). The weighted average market price of the adesso share was EUR 56.50 (previous year: EUR 54.89) when the options were exercised.

18.2 Cash-settled share-based payment – Phantom shares programme/Virtual share options plan

Measurement of liabilities from the phantom shares programme resolved in 2009 is based on the market value of adesso SE shares as at 31 December 2019. Redemption of the phantom shares in exchange for payment from the company is normally possible between five and eight years (vesting period) after the start of the commitment, whereby the holder of the phantom shares may also return them at a later point in time. adesso SE has the right to pay the due amount in three annual tranches. The amount payable is accumulated during this period in profit or loss over the vesting period. The phantom shares are used to make payments to the holders of the phantom shares to secure their value, which are consistent with the approved dividends per share. These payments are expensed. During the financial year, 40,000 phantom shares were returned against payment of EUR 1,508 thousand. 6,500 new phantom shares were issued. Expenses from the phantom share programme in the amount of EUR 1,067 thousand were recognised in the financial year under review (previous year: EUR 656 thousand). Provisions totalling EUR 4,970 thousand (previous year: EUR 5,410 thousand) are recognised for 118,721 (previous year: 152,221) phantom shares.

Payments under the phantom share programme are due as follows:

in EUR k	2019				2018			
	Carrying amount	Residual term up to 1 year	Residual term 1 to 5 years	Residual term > 5 years	Carrying amount	Residual term up to 1 year	Residual term 1 to 5 years	Residual term > 5 years
Phantom provisions	4,970	966	3,748	256	5,410	576	4,120	714

Whether a payment is due depends on whether the holder of the phantom shares returns them to the company.

In the financial year under review, all virtual share options (3,885 shares) were returned against payment of EUR 130 thousand. The difference of EUR 38 thousand to the carrying amount of the previous year (EUR 168 thousand) was recognised as an expense.

18.3 Summary notes on share-based payment

In the financial year under review, the total expenses arising from share-based payments amounted to EUR 1,118 thousand (previous year: EUR 747 thousand). Earned claims amounting to EUR 971 thousand will be reported as at the reporting date (previous year: EUR 828 thousand). These refer exclusively to the phantom shares programme.

19. Financial liabilities

Financial liabilities include the following items with the indicated maturities:

in EUR k	2019				2018			
	Carrying amount	Residual term up to 1 year	Residual term 1 to 5 years	Residual term > 5 years	Carrying amount	Residual term up to 1 year	Residual term 1 to 5 years	Residual term > 5 years
Loans	56,685	14,057	32,733	9,895	45,943	13,604	23,433	8,906
Leasing contracts	73,437	11,773	30,153	31,511				
Other financial liabilities	1,281	344	937	0	2,165	1,404	761	0
TOTAL	131,403	26,174	63,823	41,406	48,108	15,008	24,194	8,906

The effective interest rate depends on the type of agreement as well as the term, and ranges between 0.44 % and 2.31 %. In the financial year under review, EUR 10,174 thousand (previous year: EUR 6,944 thousand) in loans were repaid as scheduled. Other financial liabilities include liabilities measured at fair value relating to mergers amounting to EUR 1,083 thousand (EUR 1,865 thousand). This in turn includes liabilities of EUR 450 thousand from the combined put/call option assumed to have been exercised as of the balance sheet date relating to the acquisition of management systems GmbH.

Financial liabilities can be reconciled as follows:

<i>in EUR k</i>	2019	2018
Financial liabilities at end of previous year	48,108	
Additions arising from lease transactions from initial application of IFRS 16 on 1 January 2019	5,374	
Financial liabilities as at 1 January 2019	105,482	46,155
Use of loans	20,505	7,700
Additions arising from new leasing contracts	29,473	-
Additions arising from company mergers	649	116
Other additions	634	1,157
Repayments	-22,294	-7,437
Disposal of leasing liabilities	-2,806	
Dissolution impacting net income	-666	-
Currency differences	426	417
FINANCIAL LIABILITIES AS AT 1 JANUARY 2019	131,403	48,108

20. Trade payables and other liabilities

Trade payables are all due within twelve months. Of the contract liabilities at the end of the previous year, EUR 8,450 thousand (previous year: EUR 5,929 thousand) were recognised as revenue in the financial year under review.

21. Provisions

Provisions are comprised as follows:

<i>in EUR k</i>	01/01/ 2019*	Addition	Company acquisition/ disposal	Utilisation	Rebooking	Currency difference	Reversal	01/01/ 2019
CURRENT PROVISIONS								
Warranty	1,433	1,399	10	826	-	8	49	1,975
Other provisions	6,988	4,069	295	5,575	1,915	16	185	7,523
TOTAL, CURRENT	8,421	5,468	305	6,401	1,915	24	234	9,498
NON-CURRENT PROVISIONS								
Warranty	897	476	-	-	-	-	-	1,373
Other provisions	5,034	1,159	-	-	-1,915	-	128	4,150
TOTAL NON-CURRENT	5,931	1,635	-	-	-1,915	-	128	5,523

* Comparative figures adjusted in accordance with IAS 8. See Note 3. Retrospective amendments in accordance with IAS 8.

Other non-current provisions include provisions for the phantom share programme (EUR 4,003 thousand; previous year: EUR 4,834 thousand). The amount ultimately paid and therefore the change in provisions for the phantom share programme is closely related to the change in the price of adesso SE shares. For future payment dates, see Note 18. Share-based payment transactions. The warranty provisions have a maximum term of two years. No significant effect was recorded from the amendment of the applicable discount rates.

Other current provisions also primarily include provisions from the phantom share programme (EUR 966 thousand; previous year: 576 thousand) as well as operating provisions in the form of bonuses, discounts, etc. (EUR 3,619 thousand; previous year: EUR 3,603 thousand). The remaining provisions are primarily comprised of outstanding obligations (Chamber of Industry and Commerce, Employer's Liability Insurance Association contributions, insurance premiums, taxation of corporate events and similar).

22. Other liabilities

Other current liabilities are due within twelve months. They mainly comprise liabilities to personnel (from agreements on variable salary components, bonuses and obligations arising from vacation not taken) amounting to EUR 33,614 thousand (previous year: 35,322 thousand), liabilities from value added tax amounting to EUR 6,849 thousand (previous year: EUR 5,461 thousand) and payroll taxes payable of EUR 7,588 thousand (previous year: EUR 6,691 thousand).

23. Pensions and similar liabilities

As at 31 December 2019, adesso has provisions for pensions for two former employees. They cover claims for (advanced) old age pension, disability pension and orphan's pension. Interest expense from compounding the obligation is included in the interest result. The pension obligations are recognised on the basis of an actuarial analysis prepared by an external expert. Plan assets are not endowed by adesso. The carrying amount of the pension provision thus corresponds to the so-called defined benefit obligation.

Provisions for pensions developed as follows:

in EUR k

CARRYING AMOUNT AS AT 1 JANUARY 2018	168
Interest expenses	2
Payments	-14
Actuarial loss	9
of which due to changes in financial parameters	0
of which due to changes in demographic assumptions	3
of which due to experience adjustments	6
CARRYING AMOUNT AS AT 31 DECEMBER 2018	165
Interest expenses	2
Payments	-14
Actuarial loss	13
of which due to changes in financial parameters	9
of which due to changes in demographic assumptions	0
of which due to experience adjustments	4
CARRYING AMOUNT AS AT 31 DECEMBER 2019	166

The calculation of provisions for pensions is based on the following parameters:

<i>in %</i>	2019	2018
Interest rate	0.80	1.53
Rate of pension progression	2.00	2.00

Future medical care is not part of the commitment.

The amount of provisions for pensions depends on the calculation of the underlying parameters. The following table shows the sensitivity of pension provisions to changes in parameters.

2019 (in EUR k)	Change	Increase in parameter	Decline in parameter
Interest rate	+/- 0.5 percentage points	-6	7
Rate of pension progression	+/- 0.25 percentage points	3	-3
Residual life expectancy	+/- 1 year	20	-20

2018 (in EUR k)	Change	Increase in parameter	Decline in parameter
Interest rate	+/- 0.5 percentage points	-6	7
Rate of pension progression	+/- 0.25 percentage points	3	-3
Residual life expectancy	+/- 1 year	18	-18

A sensitivity analysis shows the change in the provision according to a change in a specific parameter. The same method is used for calculating the carrying amount of provisions for pensions. It should be noted that a doubling in the change of a parameter for example, does not automatically result in a doubling of the effect of the carrying amount of the provisions for pensions. If several parameters change, this actual change in provisions for pensions does not necessarily correspond to the total of the changes stated.

The following table shows the expected cash flows from the pension liability:

<i>in EUR k</i>	Carrying amount	Residual term up to 1 year	Residual term 1 to 5 years	Residual term > 5 years
2019	166	15	55	107
2018	165	15	55	117

The weighted average residual term of the defined benefit obligations is, as in the previous year, 7.7 years.

For amounts recognised from statutory pension schemes under defined contribution plans, see Note 28. Personnel costs.

IV. Notes to the Consolidated Balance Sheet and Consolidated Income Statement

The consolidated income statement has been prepared using the nature of expense method. An overview of the earnings structures by segments is provided in segment reporting.

24. Sales revenue

Sales revenues comprise service revenues and licence sales.

<i>in EUR k</i>	2019	2018*
Services	423,351	358,208
of which maintenance/hosting revenues	30,429	23,594
Licence revenues	26,353	17,440
TOTAL	449,704	375,648

* Comparative figures adjusted in accordance with IAS 8. See Note 3. Retrospective amendments in accordance with IAS 8.

The sales revenues recognised in 2019 comprise amounts of EUR 8,450 thousand (previous year: EUR 5,929 thousand), which were included in contract liabilities as at 31 December 2018.

The following table shows the transaction price (order backlog) attributable to unfulfilled performance obligations as at 31 December 2019 and when this is expected to be recognised as revenue. Contracts with an original term of up to one year and time & material projects billable monthly in accordance with the simplified approach set out in IFRS 15 are not taken into account:

<i>in EUR k</i>	2019	2018*
Order backlog as at 31 December from contracts with an original term of more than one year	56,751	28,718
expected to be recognised in the following year	24,309	19,241
expected to be recognised in the second subsequent year	9,970	9,040
expected to be recognised after the second subsequent year	22,472	437

* Comparative figures adjusted in accordance with IAS 8. See Note 3. Retrospective amendments in accordance with IAS 8.

25. Other operating income

Other operating income is comprised as follows:

<i>in EUR k</i>	2019	2018
Income from translation differences	898	1,556
Income from derecognised receivables	0	410
Expense subsidies	681	408
Income from the reversal of provisions	362	321
Income from the release of financial liabilities	666	-
Miscellaneous	3,108	2,386
TOTAL	5,715	5,081

The reversal of provisions results largely from a number of individual items in the course of ordinary business activities.

26. Changes in inventories and own work capitalised

Changes in inventories include the production costs of work in progress. Under IFRS 15, revenues are not recorded over a period of time, but, as the performance has an alternative use to adesso in this case, at a point in time in the future at which the relevant performance obligation is fulfilled.

Own work capitalised includes the production costs of internally generated software.

27. Cost of materials

<i>in EUR k</i>	2019	2018
Expenses for purchased merchandise	1,481	1,882
Cost of purchased services	49,006	41,414
TOTAL	50,487	43,296

28. Personnel costs

Personnel costs are comprised as follows:

<i>in EUR k</i>	2019	2018
Wages and salaries	245,556	206,335
Social security contributions	47,554	36,717
of which pension insurance or pension scheme (defined contribution)	20,295	16,674
TOTAL	293,110	243,052

On average, the adesso Group had 3,634 FTE (full time equivalent) employees in 2019 (previous year: 2,946 FTE), of which 3,358 were salaried employees (previous year: 2,804 employees).

29. Other operating expenses

An overview of the other operating expenses is provided in the following table:

<i>in EUR k</i>	2019	2018*
Travel expenses	16,519	16,010
Business premises expenses	3,884	9,537
Motor vehicle expenses	5,232	6,868
Personnel recruitment	6,541	5,087
Marketing	4,718	4,155
Further training	2,647	2,570
Telephone/Internet costs	2,203	2,364
Expenses for licences and concessions	5,076	3,779
Legal and consulting costs	1,503	1,103
Insurance policies	494	400
Other	16,916	11,777
TOTAL	65,733	63,650

* Comparative figures adjusted in accordance with IAS 8. See Note 3. Retrospective amendments in accordance with IAS 8.

The expenses listed in the table under “Other” include a range of different expenses. Expenses from foreign currency differences amounting to EUR 831 thousand (previous year: EUR 1,186 thousand) are also included in these expenses.

Other operating expenses reported include expenses of EUR 1,970 thousand for short-term leasing contracts and expenses of EUR 3 thousand for leasing contracts based on a low-value asset.

30. Depreciation and amortisation

In the financial year under review, depreciation and amortisation of non-current assets amounted to EUR 22,596 thousand (previous year: EUR 9,611 thousand). The increase is mainly due to the initial inclusion of scheduled amortisation of rights of use amounting to EUR 11,388 thousand. Of the scheduled depreciation and amortisation, EUR 2,826 thousand (previous year: EUR 2,164 thousand) is accounted for by the amortisation of intangible assets capitalised in the course of company mergers. Amortisation includes write-downs on customer lists capitalised in connection with acquisitions amounting to EUR 37 thousand (previous year: EUR 391 thousand).

31. Result from investments measured using the equity method and financial result

Income from participations includes pro-rata profits from shares recognised using the equity method (see Note 9. Equity method investments). Interest income of EUR 203 thousand (previous year: 131 EUR thousand) is cash-effective in the reporting year under review to the amount of EUR 183 thousand (previous year: EUR 64 thousand). Of the total interest expenses of EUR 2,471 thousand (previous year: EUR 742 thousand), EUR 2,367 thousand (previous year: EUR 571 thousand) are cash-effective. The increase is primarily due to the initial recognition of lease liabilities in accordance with IFRS 16, for which EUR 15.38 thousand in interest expenses was recognised.

32. Income taxes

Income taxes are comprised as follows:

<i>in EUR k</i>	<i>2019</i>	<i>2018*</i>
Current tax expense	7,502	8,311
Deferred tax income	-1,692	-119
TOTAL	5,810	8,192

* Comparative figures adjusted in accordance with IAS 8. See Note 3. Retrospective amendments in accordance with IAS 8.

Current taxes include a tax expense from adjustments in previous years of EUR 1,035 thousand (previous year: EUR 603 thousand). The benefit from utilising the tax loss carryforwards, for which deferred taxes were not recognised at the end of the previous financial year, is EUR 13 thousand (previous year: EUR 0 thousand). The deferred tax revenue from the change in the temporary difference amounts to EUR 1,682 thousand (previous year: EUR 65 thousand).

The table below shows the reconciliation of the theoretically expected tax expense to actual reported income tax expense pursuant to IAS 12.81 (c):

<i>in EUR k</i>	2019	2018*
Consolidated earnings before income taxes	23,305	22,191
EXPECTED TAX EXPENSE BASED ON ADESSO SE'S TAX RATE OF 32.8 %	7,644	7,279
Effect of different tax rates	-377	-539
Non-deductible expenses	649	1,307
Tax-free income and expenses only recognised for tax purposes	-780	-431
Capitalisation of deferred taxes not recognised in previous years	-127	-117
Utilisation of loss carryforwards for which deferred taxes were not recognised in the previous year	-13	0
Non-capitalised deferred taxes on tax losses in the current financial year	123	15
Amortisation of deferred tax assets on loss carryforwards	41	0
Other taxes from the previous year	-1,422	603
Miscellaneous	71	75
TAX EXPENSE REPORTED	5,810	8,192

* Comparative figures adjusted in accordance with IAS 8. See Note 3. Retrospective amendments in accordance with IAS 8.

Deferred tax revenue of EUR 3 thousand was included in other comprehensive income in the financial year under review (previous year: EUR 2 thousand).

33. Earnings per share

	2019	2018*
Proportion of consolidated earnings allocated to adesso SE shareholders (in EUR k)	17,419	14,046
Average number of shares outstanding in the financial year	6,176,093	6,175,143
Effect of dilutive options	5,471	5,971
Average number of shares outstanding, including the dilution effect of outstanding options	6,181,564	6,181,114
Undiluted earnings per share (in EUR)	2.82	2.27
Diluted earnings per share (in EUR)	2.82	2.27

* Comparative figures adjusted in accordance with IAS 8. See Note 3. Retrospective amendments in accordance with IAS 8.

V. Information on the Consolidated Cash Flow Statement

In accordance with IAS 7, the cash flow statement shows the change in cash and cash equivalents of the Group during the reporting year as a result of inflows and outflows. Cash and cash equivalents are comprised of cash on hand and at bank. According to IAS 7 (Statement of Cash Flows), the cash flows are classified into operating, investment and financing activities.

The cash flow statement for 2019 is not directly comparable with the cash flow statement for 2018. This is due to the initial application of IFRS 16 on the presentation of leasing contracts. In the cash flow statement, payments for rental or lease agreements from the financial year 2019 onwards are no longer shown

as payments in cash flow from operating activities, but as interest and principal payments in cash flow from financing activities. IFRS 16 has no effect on the cash flow from investment activities. The cash flow from operating activities is shown as EUR 12.1 million higher and the cash flow from financing activities EUR 12.1 million lower due to the initial application of IFRS 16 (EUR 10.6 million repayment of lease liabilities and EUR 1.5 million additional interest payments). The first-time presentation as at 1 January 2019 and the recognition of additions are so-called non-cash transactions. They have no direct effect on the cash flow statement.

In addition to the effects of IFRS 16, the change in cash flow from operating activities in the financial year 2019 can be primarily attributed to higher tax payments (EUR 4,872 thousand) and the increase in net operating assets (EUR 5,048 thousand). Overall, the cash outflow from investing activities has hardly changed. Whereas cash outflows for investments accounted for using the equity method, intangible assets and subsidiaries were lower than in the previous year, cash outflows for property, plant and equipment in 2019 rose by EUR 3,726 thousand year-on-year. In addition to the application of IFRS 16, the cash flow from financing activities was primarily affected by the EUR 12.8 million increase in financial liabilities and the EUR 4.2 million higher repayment of financial liabilities.

Significant non-cash transactions include the conclusion of new lease agreements in 2019 (see Note „34. Notes on leases“). Other significant non-cash transactions include the increase in liabilities recognised in profit or loss relating to the acquisition of medgineering GmbH (EUR 509 thousand) and the reversal of the corresponding liability recognised in profit or loss (EUR 666 thousand).

VI. Notes on Segment Reporting

adesso's consolidated balance sheet and consolidated income statement present data in aggregate form. In order to better identify the risks and opportunities of the adesso business activities, information on the basis of reportable segments are disclosed in segment reporting. The first step is to determine the operating segments. According to IFRS 8, a business area is an operating segment if it is engaged in business activities that generate income and expenses, the operating earnings are monitored regularly by a person in charge and separate financial information is available.

These criteria are met by adesso SE and its subsidiaries. For segment reporting purposes, similar operating segments based on similar products and services are combined in a second step into the reportable segment's IT Services and IT Solutions. InQventures GmbH, which supports start-ups operating in adesso's core industries, is a separate, non-reportable operating segment.

The IT Services segment focuses on industry-specific, individual IT consulting as well as software development. Consulting develops concepts for the optimum and efficient support of business processes through IT systems.

The IT Solutions segment distributes standard software products and industry-specific or industry-neutral solutions.

The individual companies are assigned to these segments as follows:

<i>IT-Services</i>	<i>IT-Solutions</i>
adesso SE	adesso insurance solutions GmbH
adesso as a service GmbH	adesso insurance solutions GmbH
adesso Austria GmbH	adesso mobile solutions GmbH
adesso Bulgaria EOOD	e-Spirit AG
adesso Hungary Software & Consulting Korlatolt Felelossegu Tarsasag	e-Spirit Inc.
adesso Netherlands B. V.	e-Spirit Schweiz AG
adesso Schweiz AG*	e-Spirit UK Ltd.
adesso Spain Consultoria y Soluciones Tecnologicas S.L.**	gadiv GmbH
adesso Transformer Deutschland GmbH	medgineering GmbH
adesso Transformer GmbH	smarthouse adesso financial solutions GmbH
adesso Turkey Bilgi Teknolojileri Ltd. Şti.	
alleato assekuranzmakler GmbH	
ARITHNEA GmbH	
A3A Strategy Consulting GmbH	
percision services GmbH	

* nhs Informatik GmbH was merged with adesso Schweiz AG in the financial year under review.

** SunnyTrail Consulting S.L. was merged with adesso Spain Consultoria y Soluciones Tecnologicas S.L. in the financial year under review.

IFRS 8 consistently implements the so-called management approach for segment reporting. That means that the same information reported for internal purposes is disclosed externally. As figures are reported in accordance with local accounting regulations, segment reporting also includes figures in accordance with these local accounting regulations. Exceptions include information on revenues from external customers based on the customer's registered office and information on non-current assets based on the location of the assets. These disclosures must be based on the IFRS figures.

The published segment reporting shows the data presented to the leading decision makers in the course of internal reporting. The reported figures are determined in accordance with respective local laws. Scheduled amortisation of goodwill recorded in individual financial statements resulting from mergers is eliminated for internal reporting purposes. Accordingly, this is the same in segment reporting.

Non-consolidated figures are reported for each operating segment. This means, for example, that revenues between the individual companies are not eliminated in segment reporting. Accounting under local law differs in significant respects from accounting under IFRS. Material differences for the purpose of segment reporting are discussed below:

- > Revenues for services are generally recognised according to the completed contract method under local law. This means that revenue is only recognised when the contract is 100 % completed. Under IFRS, revenues for services and the corresponding expenses are recognised based on the percentage of completion on the reporting date. This results in a deviation in the allocation of earnings from service agreements. For clarification, it should be noted that this does not mean that revenues reported in accordance with IFRS are generally higher than revenues reported in accordance with local law.
- > Production costs according to IFRS encompass the full production-related costs. Other expenses such as general and administrative costs may be included in cost of sales under local law but not under IFRS.

- > Impairment losses on receivables are to be recognised under local law insofar that they have occurred. Under IFRS, impairment of receivables is to be recognised in the amount of the weighted, expected discounted amount.
- > According to IFRS, liabilities are not measured at the redemption amount but at the fair value of the consideration received less incidental costs. They are subsequently valued using the effective interest method.
- > According to IFRS 2, expenses equity-settled share-based remuneration are recognised through profit or loss against the capital reserve over the vesting period.

The total figures reported for the segments differ from the figures reported in the group. Differences result primarily from accounting differences between local laws and IFRS, from consolidation measures and from amounts not allocated to the reportable segments. The column “Reconciliation local laws/IFRS” included in the segment reporting contains the accounting differences between IFRS and the respective local law. The column “Consolidation/other” contains the other differences.

Transactions between the operating segments are settled at market prices.

SEGMENT REPORTING 2019

2019 (in EUR k)	IT Services	IT Solutions	Reconciliation local laws/IFRS	Consolidation/ other	Group
Revenues with external customers					
Services	353,402	59,014	7,376	3,559	423,351
Licences	667	25,686	-	-	26,353
Revenues with other operating segments	68,216	13,007	-	-81,223	0
TOTAL REVENUES	422,285	97,707	7,376	-77,664	449,704
Changes in inventories	4,572	1,809	-5,744	-	637
Own work capitalised	-	-	216	1,189	1,405
Other operating income	15,427	3,726	-7,812	-5,626	5,715
Cost of materials	-103,908	-22,094	153	75,362	-50,487
Personnel costs	-247,044	-57,139	10,441	632	-293,110
Other operating expenses	-65,085	-16,183	9,701	5,834	-65,733
Other taxes	-32	-18	50	-	0
EBITDA	26,215	7,808	14,381	-272	48,131
Depreciation and amortisation	-5,148	-1,856	-11,627	-3,965	-22,596
Amortisation of goodwill	-3,069	-588	3,657	-	0
EBIT	17,998	5,364	6,410	-4,237	25,535
Income from participations	4,119	-284	1,227	-5,024	38
Interest income	199	120	539	-655	203
Interest expense	-1,464	-168	-1,347	508	-2,471
Income from financing activities	-1,265	-49	-808	-147	-2,268
INCOME FROM ORDINARY ACTIVITIES (EBT)	20,853	5,031	6,829	-9,408	23,305
Amortisation of goodwill	3,069	588	-3,657	-	0
EBT before amortisation of goodwill	23,922	5,619	3,172	-9,408	23,305

Depreciation and amortisation in 2019 in the consolidated financial statements includes impairment losses on customer lists of EUR 37 thousand (previous year: EUR 391 thousand). Of this amount, EUR 7 thousand (previous year: EUR 105 thousand) is attributable to the IT Solutions segment and EUR 30 thousand (previous year: EUR 286 thousand) to the IT Services segment.

SEGMENT REPORTING 2019

2018 (in EUR k)*	IT Services	IT Solutions	Reconciliation local laws/IFRS	Consolidation/ other	Group
Revenues with external customers					
Services	300,451	50,189	7,753	-185	358,208
Licences	1,282	16,158	-	-	17,440
Revenues with other operating segments	48,074	11,581	-	-59,655	-
TOTAL REVENUES	349,807	77,928	7,753	-59,840	375,648
Changes in inventories	5,544	1,347	-6,560	-	331
Own work capitalised	-	-	415	1,498	1,913
Other operating income	11,314	3,262	-5,474	-4,021	5,081
Cost of materials	-86,841	-15,733	982	58,296	-43,296
Personnel costs	-203,447	-47,408	8,008	-205	-243,052
Other operating expenses	-51,754	-13,530	-2,149	3,784	-63,650
Other taxes	-30	-1	31	-	-
EBITDA	24,592	5,865	3,006	-487	32,975
Depreciation and amortisation	-4,389	-1,749	-217	-3,647	-10,002
Amortisation of goodwill	-3,045	-476	3,521	-	-
EBIT	17,158	3,640	6,309	-4,135	22,973
Income from participations	4,999	-912	-11	-4,247	-171
Interest income	121	133	536	-659	131
Interest expense	-1,336	-53	0	647	-742
Income from financing activities	-1,215	80	536	-12	-611
INCOME FROM ORDINARY ACTIVITIES (EBT)	20,942	2,808	6,834	-8,393	22,191
Amortisation of goodwill	3,045	476	-3,521	-	-
EBT before amortisation of goodwill	23,987	3,284	3,313	-8,393	22,191

* Comparative figures adjusted in accordance with IAS 8. See Note 3. Retrospective amendments in accordance with IAS 8.

The following table shows the breakdown of external revenues by domicile of the customer and non-current assets by domicile of the assets by geographical segments as required by IFRS 8.

in EUR k	External sales by customer domicile		Non-current assets	
	2019	2018*	2019	2018*
Germany	360,987	308,744	127,437	59,582
of which goodwill			34,693	32,717
Austria	8,518	7,106	4,192	3,654
of which goodwill			3,552	3,552
Switzerland	60,081	48,366	17,118	11,684
of which goodwill			10,312	9,959
Other	20,118	11,432	3,961	547

* Comparative figures adjusted in accordance with IAS 8. See Note 3. Retrospective amendments in accordance with IAS 8.

In the financial years 2019 and 2018, no customer accounted for more than 10% of adesso's sales revenues.

VII. Supplementary Information

34. Notes on leases

Significant rental and leasing agreements exist at adesso for business premises and motor vehicles. The residual terms of the contracts for business premises are between 0 and 14 years, and between 1 and 3 years for company vehicles. Leasing agreements for business premises can have extension and termination options, the use of which is assessed on a case-by-case basis.

Rights of use and leasing liabilities of EUR 57,374 thousand were recognised within the scope of the first-time application of IFRS 16 as of 1 January 2019. The leasing liability can be reconciled as follows with the liabilities from operating leases as of 31 December 2018:

in EUR k	
Operating lease liability as at 31 December 2018	64,708
Ease of application for short-term leasing contracts	-1,118
Ease of application for leases of low-value assets	0
Miscellaneous	-612
Gross leasing liability 1 January 2019	62,978
Discounting	-5,604
Leasing liability 1 January 2019	57,374

The amount included in the line "Other" results primarily from the further analysis and adjustment of the amounts included in the lease obligations as of the first quarter of 2019. The weighted average interest rate used for discounting as of 1 January 2019 is 2.01 %.

The following table gives an overview of the recognised rights of use:

<i>in EUR k</i>	<i>Land and buildings</i>	<i>Company vehicles</i>	<i>Other factory and office equipment</i>	<i>TOTAL</i>
Carrying amount 31 December 2019	66,001	5,861	642	72,504
Additions 2019	24,663	4,327	484	29,473
Depreciation 2019	8,244	2,824	321	11,388

Disposals of RoU assets amounting to EUR 2,981 thousand were recognised in 2019. Expenses for variable lease payments not included in the measurement of the lease liability amount to EUR 376 thousand. Income of EUR 368 thousand was generated from subleases of rights of use to third parties. The total cash outflow for leases amounts to EUR 14,131 thousand. Potential payments from extension options not taken into account amount to EUR 34,160 thousand, of which EUR 21,625 thousand would be due from 2030.

Further information on leasing is provided in Note 29. Other operating expenses, 30. Depreciation, 31. Results from investments measured using the equity method and financial result and 36. Financial instrument disclosures. The expected payments from leasing agreements already concluded are shown in the following section 35. Other financial obligations.

35. Other financial obligations

Other financial obligations are comprised as follows:

<i>2019 in EUR k</i>	<i>Total amount</i>	<i>of which due in year 1</i>	<i>in year 2 to 5</i>	<i>after 5 years</i>
Space and equipment rental	57,029	1,146	20,599	35,284
Other leasing contracts	1,332	360	972	
Other long-term contracts	29,585	4,352	12,291	12,942
Insurance policies	369	369	0	0
TOTAL	88,315	6,227	33,862	48,226

<i>2018 in EUR k</i>	<i>Total amount</i>	<i>of which due in year 1</i>	<i>in year 2 to 5</i>	<i>after 5 years</i>
Space and equipment rental	77,808	9,289	28,593	39,926
Other leasing contracts	6,774	3,232	3,541	1
Other long-term contracts	19,914	4,163	8,418	7,333
Insurance policies	301	300	1	0
TOTAL	104,797	16,984	40,553	47,260

The reduction in other financial liabilities from rents for premises and equipment and from other lease contracts compared with the previous year is due to the first-time application of IFRS 16 (see Note 1. Accounting standards applied for the first time), as these are now shown on the balance sheet. The remaining liabilities from rents for premises and equipment and other lease transactions include liabilities from leasing contracts that begin after 31 December 2019 and will then lead to an addition to assets and liabilities in the balance sheet. There are no significant further financial liabilities as of the balance sheet date.

Contractual penalties of up to EUR 1,308 thousand can be claimed for late software deliveries for a fixed-price project in Switzerland. There were no further contingent liabilities at the end of the financial year 2019.

36. Financial instrument disclosures

As in the previous year, financial assets held by adesso will be valued at amortised cost as at the balance sheet date ("Amortised cost" category). Financial liabilities are generally measured at amortised cost. This does not include contingent purchase price liabilities of EUR 146 thousand (previous year: EUR 116 thousand) and liabilities from mergers to be amalgamated on a pro rata basis of EUR 487 thousand (previous year: EUR 1,749 thousand), where future payments are linked to the performance of the seller.

The table below shows the carrying amounts measured at (amortised) cost as well as the fair value of the financial assets and liabilities. Determining fair values of financial assets and liabilities is based on the market rates of similar financial instruments.

in EUR k	Evaluation	2019			2018**		
		Carrying amount	Fair value	Fair value level*	Carrying amount	Fair value	Fair value level*
ASSETS							
Cash and cash equivalents	AC	46,352	46,352		45,912	45,912	
Trade receivables	AC	86,272	86,272		75,162	75,162	
Financial assets		2,178	2,178		1,612	1,612	
of which measured at fair value	FV	351	351	3	1,612	1,612	
of which others	AC	1,827	1,827				
TOTAL		134,802	134,802		122,686	122,686	
EQUITY AND LIABILITIES							
Trade payables	AC	14,274	14,274		14,651	14,651	
Loans	AC	56,685	57,531	3	45,943	46,138	3
Other financial liabilities		1,282	1,282		2,165	2,165	
of which measured at fair value	FV	1,084	1,084	3	1,865	1,865	3
of which others	AC	198	198		300	300	
TOTAL		72,240	73,087		62,759	62,954	

* Explanation in Note 6.17 Fair values.

** Comparative figures adjusted in accordance with IAS 8. See Note 3. Retrospective amendments in accordance with IAS 8.

AC: Measured at amortised cost

FV: Measured at fair value

The fair value of the loans is calculated by discounting future cash flows from the loans by adesso's current borrowing rate.

Financial leasing liabilities of EUR 10,620 thousand were repaid in the financial year under review.

They are composed as follows:

2019 in EUR k	From interest	Value adjustment	Write-up/ derecognition	TOTAL
Financial assets carried at amortised cost	203	115	-48	270
Financial liabilities carried at amortised cost	-2,471	-	-	-2,471

2018 in EUR k	From interest	Value adjustment	Write-up/ derecognition	TOTAL
Loans and receivables	65	-620	-144	-699
Financial liabilities carried at amortised cost	-742	-	-	-742

The net result of the category “Financial assets measured at amortised cost” is based on compounding of non-current financial assets, from the interest-bearing investment of financial assets, from the impairment and the derecognition of defaulted financial assets. The net result of the category “Financial liabilities measured at amortised cost” is based on interest expenses.

The Group is exposed to a variety of risks due to its business activities. These include default risk, liquidity risk and market risk.

36.1 Default risks/impairments

The Group is exposed to default risks mainly due to trade receivables, contract assets and other financial assets (deposits, loans and employee loans). Existing and major customers continued to dominate the customer portfolio in the financial year under review.

The following table shows the change in impairment of debt instruments. Stage 2 contains only trade receivables and contract assets, which were directly assigned to this stage using the simplified approach.

<i>in EUR k</i>	<i>Impairment based on 12 months (stage 1)</i>	<i>Impairment based on total duration (stage 2)</i>	<i>Credit impairment (stage 3)</i>	<i>TOTAL</i>
AS AT 1 JANUARY 2019	5	797	350	1,152
Changes from recognised or derecognised receivables	4	-128	25	-99
Reclassification		0	0	
Other changes				
from company mergers		0	0	
Currency differences		0	0	
AS AT 31 DECEMBER 2019	9	669	375	1,053

<i>in EUR k</i>	<i>Impairment based on 12 months (stage 1)</i>	<i>Impairment based on total duration (stage 2)</i>	<i>Credit impairment (stage 3)</i>	<i>TOTAL</i>
AS AT 1 JANUARY 2018	4	346	175	525
Changes from recognised or derecognised receivables	1	443	174	618
Reclassification	-	-1	1	-
Other amendments				
from company mergers	-	2	-	2
Currency differences	-	-	-	-
AS AT 31 DECEMBER 2018	5	797	350	1,152

* Comparative figures adjusted in accordance with IAS 8. See Note 3. Retrospective amendments in accordance with IAS 8.

The following table shows the development of the gross carrying amounts (without value adjustment) of the financial assets:

<i>in EUR k</i>	<i>Gross amount (stage 1)</i>	<i>Gross amount (stage 2)</i>	<i>Gross amount (stage 3)</i>	<i>TOTAL</i>
AS AT 31 DECEMBER 2018	1,617	93,093	380	95,090
Changes from recognised or derecognised receivables/contractual assets	218	14,589	-9	14,798
Reclassification		-36	36	0
Changes due to derecognition of financial assets through profit or loss		-48		-48
Other amendments				
from company mergers		1,562		1,562
Currency differences		188		188
AS AT 31 DECEMBER 2019	1,835	109,348	407	111,590

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<i>in EUR k</i>	<i>Gross amount (stage 1)</i>	<i>Gross amount (stage 2)*</i>	<i>Gross amount (stage 3)</i>	<i>TOTAL*</i>
AS AT 1 JANUARY 2018	1,243	72,219	209	73,671
Changes from recognised or derecognised receivables/contractual assets	374	20,883	-	21,257
Reclassification	-	-198	198	-
Changes due to derecognition of financial assets through profit or loss	-	-144	-27	-171
Other amendments				
from company mergers	-	393	-	393
Currency differences	-	-60	-	-60
AS AT 31 DECEMBER 2018	1,617	93,093	380	95,090

* Comparative figures adjusted in accordance with IAS 8. See Note 3. Retrospective amendments in accordance with IAS 8.

adesso has not identified any noteworthy concentrations of risk associated with its financial assets. The following table shows the maturity structure of the gross carrying amounts of financial assets:

<i>2019 in EUR k</i>	<i>Total amount</i>	<i>Not overdue</i>	<i>Not more than 3 months</i>	<i>More than 3 months and not more than 6 months</i>	<i>More than 6 months and not more than 1 year</i>	<i>More than 1 year</i>
Trade receivables	86,272	62,990	21,041	1,428	536	277
Contract assets	22,447	22,447	-	-	-	-
Other financial assets	2,178	2,178	-	-	-	-
TOTAL	110,897	87,615	21,041	1,428	536	277

<i>2018 in EUR k</i>	<i>Total amount</i>	<i>Not overdue</i>	<i>Not more than 3 months</i>	<i>More than 3 months and not more than 6 months</i>	<i>More than 6 months and not more than 1 year</i>	<i>More than 1 year</i>
Trade receivables	75,162	49,632	22,307	1,728	653	842
Contract assets	17,164	17,164	-	-	-	-
Other financial assets	1,612	1,612	-	-	-	-
TOTAL	93,938	68,408	22,307	1,728	653	842

* Comparative figures adjusted in accordance with IAS 8. See Note 3. Retrospective amendments in accordance with IAS 8.

36.2 Liquidity risks

adesso is exposed to liquidity risk due to the possibility that future financial obligations may not be met. Medium and long-term liquidity management is centralised in Dortmund, Germany, under the responsibility of the CFO. All Group companies independently plan and monitor their liquidity. Central cash management has not been implemented. Liquidity is mainly assured by cash flow from operating activities as well as a high level of cash and cash equivalents. The Group companies periodically report their short, medium and long-term liquidity to adesso SE based on various time horizons.

The tables below show the carrying amounts and cash flows (interest and repayments) of the financial liabilities. The difference between the carrying amount and the total of future cash flows corresponds to the future interest due:

2019 in EUR k	Carrying amount	Maturity up to 1 year	> 1 and < 5 years	> 5 years
Trade payables	14,274	14,274	-	-
Loans	56,685	14,764	34,270	10,020
of which interest		707	1,536	126
Lease transactions	73,437	13,237	33,978	33,644
of which interest		1,464	3,825	2,133
Other financial liabilities	1,281	344	937	-
TOTAL	145,677	42,619	69,185	43,664

2018 in EUR k	Carrying amount	Maturity up to 1 year	> 1 and < 5 years	> 5 years
Trade payables	14,651	14,651	-	-
Loans	45,943	14,186	24,782	9,216
of which interest		581	1,349	311
Other financial liabilities	2,165	1,404	761	-
TOTAL	62,759	30,241	25,543	9,216

36.3 Market risk

Revenues are largely realised in the national currencies of the respective companies. The exchange rate risk can therefore continue to be considered low. The interest rate risk can also be classified as low. The loans taken out are subject to fixed interest rates. In addition, interest expense is low in relation to cash and cash equivalents.

36.4 Information about capital management

The table below shows adesso's equity ratio for the years 2018 and 2019 in comparison with, and without the application of, IFRS 16:

	With IFRS 16	Without IFRS 16
31 December 2019	28.8 %	37.7 %
31 December 2018	27.6 %	34.6 %

Active capital management is not performed. The Executive Board manages the company using earnings, yield and liquidity indicators. No capital measures other than the authorised and conditional capital disclosed in Section 11 have currently been approved.

37. Executive Board

37.1 Composition of the Executive Board

The following persons were members of the Executive Board of adesso SE in the reporting year:

- > Michael Kenfenheuer, Frechen, Chief Executive Officer
(business areas: Banking, Insurance)
- > Dirk Pothén (graduate in economics), Düsseldorf, Member of the Executive Board
(business areas: Automotive & Transportation, Manufacturing Industry, Microsoft, Global Business Line and Human Resources)

- > Andreas Prenneis (graduate in statistics), Dortmund, Member of the Executive Board (business areas: Health, Public, Lottery, Cross Industries, IT-Management-Consulting, Data & Analytics, and Administration)
- > Jörg Schroeder, graduate in business information systems, LL.M., Executive MBA, Münster, Member of the Executive Board since 1 September 2019 (Finance and Controlling, Investor Relations and Mergers & Acquisitions)
- > Christoph Junge (graduate in industrial engineering), Münster, left adesso SE on 30 September 2019. As a member of the Executive Board, Jörg Schroeder has taken over his areas of responsibility with the exception of Human Resources, which has become the responsibility of Dirk Pothen.

All Executive Board members are authorised to represent the company alone. They are exempt from the restrictions of Article 181 of the German Civil Code (BGB).

37.2 Remuneration of members of the Executive Board

The Executive Board remuneration contains short-term and share-based components. The following tables illustrate the components of the Executive Board remuneration and benefits as well as reconciliation of the expenses to be reported in accordance with IAS 19 and IAS 24.

Remuneration for members of the Executive Board is mainly determined according to business performance and accepted industry standards. It is based on arrangements that have been contractually agreed with the Supervisory Board. In addition to the basic salary, there are other performance-related remuneration components.

In market and corporate standards, the Company grants further benefits to all members of the Executive Board under their contracts, some of which are regarded as non-cash benefits and taxed accordingly, such as the provision of a company car and additional payments towards social security contributions.

The Executive Board remuneration principles as well as other details are presented in the Remuneration Report contained in the Management Report.

In 2019, the total remuneration (inflow) of all members of the Executive Board of adesso SE appointed during this period amounted to EUR 3,364 thousand (previous year: EUR 4,230 thousand). The current total compensation for 2019 includes a payment for phantom shares of EUR 1,508 thousand to Christoph Junge; the figure for the previous year includes a payment for phantom shares of EUR 2,857 thousand to Michael Kenfenheuer. In addition, the total remuneration received in 2019 includes the payment of EUR 130 thousand for virtual share options to Michael Kenfenheuer. These one-off payments explain the significant increase in total remuneration received compared with the financial year 2017 and earlier periods. As at 31 December 2019, no more phantom shares have been issued to the Executive Board. Likewise, there are no longer any virtual share options. The total remuneration (inflow) includes dividends from the phantom share programme amounting to EUR 18 thousand (previous year: EUR 39 thousand).

The tables below provide an overview of remuneration and benefits paid to the members of the Executive Board that are recognised as an expense. The long-term variable remuneration includes the liabilities from the phantom share programme and a liability for 3,885 share options granted to Mr Kenfenheuer in the past. The figures do not include changes in the measurement of the balance sheet items resulting from the virtual share options issued and the phantom share programme. Income of EUR 38 thousand was recognised for Michael Kenfenheuer from the virtual share options (previous year: EUR 18 thousand) and EUR 0 was recognised from the phantom share programme (previous year: expense of EUR 238 thousand). Likewise, income of EUR 188 thousand was recognised from the phantom share programme for Christoph Junge (previous year: EUR 196 thousand).

REMUNERATION AND BENEFITS PAID

in T€'	Michael Kenfenheuer Vorstandsvorsitzender		Christoph Junge* Mitglied des Vorstands	
	2019	2018	2019	2018
PERFORMANCE-INDEPENDENT REMUNERATION				
Fixed remuneration	245	242	204	225
Fringe benefit	21	22	14	17
Benefit expense	9	9	7	9
TOTAL	275	273	224	251
PERFORMANCE-BASED VARIABLE REMUNERATION				
Short-term performance-related variable remuneration	189	172	243	172
Long-term performance-related variable remuneration	130	2,880	1,526	16
TOTAL	319	3,052	1,769	188
TOTAL REMUNERATION	594	3,326	1,993	440

REMUNERATION

in EUR k	Michael Kenfenheuer CEO				Christoph Junge* Member of the Executive Board			
	2018	2019	2019 (min.)	2019 (max.)	2018	2019	2019 (min.)	2019 (max.)
PERFORMANCE-INDEPENDENT REMUNERATION								
Fixed remuneration	242	245	245	245	225	204	204	204
Fringe benefit	22	21	21	21	17	14	14	14
Benefit expense	9	9	9	9	9	7	7	7
TOTAL	273	275	275	275	251	224	224	224
PERFORMANCE-RELATED REMUNERATION								
Short-term performance-related variable remuneration	187	216	0	216	192	165	0	165
Long-term performance-related variable remuneration	279	0	0	0	212	206	0	206
TOTAL	466	216	0	216	404	371	0	371
TOTAL REMUNERATION	740	491	275	491	655	595	224	595
FIGURES FOR PHANTOM SHARES								
Number of phantom shares issued	0	0	-	-	40,000	0	-	-
Provision for phantom shares	0	0	-	-	1,320	0	-	-
Provision for 3,885 virtual share options	168	0	-	-	0	0	-	-

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Andreas Prenneis Mitglied des Vorstands		Dirk Pothen Mitglied des Vorstands		Jörg Schroeder*** Mitglied des Vorstands	
2019	2018	2019	2018**	2019	2018
225	215	200	50	62	-
14	15	12	4	5	-
7	7	7	2	2	-
247	237	220	56	69	-
193	172	48	-	-	-
-	-	-	-	-	-
193	172	48	0	-	-
440	409	268	56	69	-

* until 30 September 2019 | ** from 1 October 2018 | *** from 1 September 2019

Andreas Prenneis Member of the Executive Board				Dirk Pothen Member of the Executive Board				Jörg Schroeder*** Member of the Executive Board			
2018	2019	2019 (min.)	2019 (max.)	2018**	2019	2019 (min.)	2019 (max.)	2018	2019	2019 (min.)	2019 (max.)
215	225	225	225	50	200	200	200	-	62	62	62
15	14	14	14	4	12	12	12	-	5	5	5
7	7	7	7	2	7	7	7	-	2	2	2
237	247	247	247	56	220	220	220	-	69	69	69
192	220	0	220	48	220	0	220	-	62	0	62
-	-	-	-	-	-	-	-	-	-	-	-
192	220	0	220	48	220	0	220	-	62	0	62
429	467	247	467	104	440	220	440	-	131	69	131
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-

* until 30 September 2019 | ** from 1 October 2018 | *** from 1 September 2019

Liabilities to members of the Executive Board on the reporting date were EUR 883 thousand (previous year: EUR 619 thousand) which were paid out in the following year.

The members of the Executive Board of adesso SE held the following adesso SE shares as at 31 December 2019:

<i>Executive Board</i>	<i>Number of no-par bearer shares</i>
Michael Kenfenheuer, Frechen, Germany	26,238
Jörg Schroeder, Münster, Germany (from 1 September 2019)	200
Dirk Pothen, Dusseldorf, Germany	-
Andreas Prenneis, Dortmund, Germany	-
SUMME	26,438

The members of the Executive Board, including Christoph Junge, who left the company on 30 September 2019, received dividends of EUR 18 thousand from the shares held in adesso SE in the financial year under review.

Former members of the Executive Board do not receive any remuneration and were not granted any pension commitments. A former member of the Executive Board continues to work in the company holding a different position and receives market pay rates. No loans or advances were granted to members of the Executive Board.

The members of the adesso SE Executive Board also hold the following positions on supervisory boards and other governing bodies within the meaning of Article 125 (1) clause 5 AktG:

Michael Kenfenheuer, Frechen, Germany

> Chairperson of the Supervisory Board of e-Spirit AG, Dortmund, Germany

Dirk Pothen, Germany

> Member of the Administrative Board of adesso Schweiz AG, Zurich, Switzerland

38. Supervisory Board

38.1 Composition of the Supervisory Board

The members of the Supervisory Board in 2019 were as follows:

> Prof. Volker Gruhn, Dortmund, Germany, Chairman of the Supervisory Board
Head of the Software Engineering Department at University of Duisburg-Essen, Germany

> Dr. Friedrich Wöbking, Pullach, Germany, Deputy Chairman of the Supervisory Board
Management consultant

> Prof. Gottfried Koch, Stein, Switzerland
Professor of Insurance Information Technology at Leipzig University

> Dipl.-Kfm. (business management graduate) Hermann Kögler, Bonn, Germany
Management consultant

> Dipl.-Math. (mathematics graduate) Heinz-Werner Richter, Dortmund, Germany
Actuarial trustee, management consultant

> Dipl.-Inform. (graduate computer scientist) Rainer Rudolf, Dortmund, Germany
Member of the Executive Board of W3L AG, Dortmund, Germany

The members of the adesso SE Supervisory Board also hold the following positions on supervisory boards and other governing bodies within the meaning of Article 125 (1) clause 5 AktG:

> Prof. Dr. Volker Gruhn

Member of the Supervisory Board of e-Spirit AG, Dortmund, Germany

- > Dipl.-Kfm. Hermann Kögler
Member of the Supervisory Board of Cognos AG, Köln
- > Prof. Dr. Gottfried Koch
Chairman of the Board of Directors of automobilität AG, Bühler, Switzerland
Chairman of the Board of Directors of Pfefferbeere AG, Bühler, Switzerland
- > Dr. Friedrich Wöbking, Pullach
Member of the Supervisory Board of Erste Financial Service GmbH (EFS), Düsseldorf, Germany

38.2 Remuneration of members of the Supervisory Board

Total remuneration in calendar year 2019 for all members of the adesso SE Supervisory Board appointed in this period was EUR 57 thousand (previous year: EUR 51 thousand).

Supervisory Board remuneration paid in the financial year:

<i>in EUR k</i>	<i>Basic remuneration</i>	<i>Variable share</i>	<i>TOTAL</i>
Prof. Volker Gruhn	8	-	8
Prof. Gottfried Koch	5	6	11
Hermann Kögler	5	6	11
Heinz-Werner Richter	5	6	11
Rainer Rudolf	5	-	5
Dr Friedrich Wöbking	5	6	11
TOTAL	33	24	57

All transactions with related parties are concluded at market terms and conditions. Liabilities to members of the Supervisory Board on the reporting date were EUR 221 thousand (previous year: EUR 190 thousand). Liabilities for Supervisory Board remuneration of EUR 33 thousand were created in the current financial year. Expenses of EUR 422 thousand (previous year: EUR 386 thousand) were recognised for commissions, fees and expense allowances.

adesso has neither granted loans to members of the Supervisory Board nor issued bonds or guarantees on their behalf. There are no family ties between members of the Supervisory Board, nor between members of the Supervisory Board and the Executive Board. There are no service agreements between the Supervisory Board members and adesso or its subsidiaries that call for remuneration upon termination.

Former members of the Supervisory Board do not receive any remuneration, nor were any pension commitments made.

The members of the Supervisory Board of adesso SE held the following adesso SE shares as at 31 December 2019:

	<i>Number of no-par bearer shares</i>
Prof. Volker Gruhn, Dortmund, Germany (indirectly via Setanta GmbH, Dortmund, Germany)	1,719,767
Rainer Rudolf, Dortmund, Germany	1,088,195
Prof. Gottfried Koch, Stein, Switzerland	15,921
Dr Friedrich Wöbking, Pullach, Germany	7,300
Herrmann Kögler, Bonn, Germany	-
Heinz-Werner Richter, Dortmund, Germany	-
TOTAL	2,831,183

The Supervisory Board members (excluding Setanta GmbH) received dividends of EUR 500 thousand (previous year: EUR 444 thousand).

39. Related Party Disclosures

In addition to the members of the Executive Board and Supervisory Board, the following companies are considered to be related parties of adesso:

Joint ventures/associates:

- > AISports Watch GmbH (previously: soccerwatch.tv GmbH), Essen, Germany
- > Barmenia IT+ GmbH, Wuppertal, Germany
- > com2m GmbH, Dortmund, Germany
- > TRILUX Digital Solutions GmbH, Arnsberg, Germany
- > urban Energy GmbH

Other:

- > CampusLab GmbH, Essen, Germany
- > Softwareforen Leipzig GmbH, Leipzig, Germany
- > Gesundheitsforen Leipzig GmbH, Leipzig, Germany
- > it factum GmbH, Munich, Germany
- > Setanta GmbH, Dortmund, Germany (wholly owned by Prof. Volker Gruhn)
- > Interaction Room GmbH, Essen, Germany

Receivables from and liabilities to related parties were as follows as at 31 December:

in EUR k	2019		2018	
	Receivables	Liabilities	Receivables	Liabilities
Joint ventures	456	42	326	-
Associates	121	133	67	-
Other	-	35	2	37
TOTAL	577	210	395	37

The following income (primarily from service agreements) and expenses with related parties were recognised in the financial year under review:

in EUR k	2019		2018	
	Revenues	Expenses	Revenues	Expenses
Joint ventures	441	106	495	110
Associates	288	35	34	32
Other	66	224	10	506
TOTAL	795	365	539	648

For transactions with members of the Executive Board and Supervisory Board, see Note 37. Executive Board and 38. Supervisory Board. adesso received dividend payments of EUR 470 thousand from a company measured using the equity method (previous year: EUR 537 thousand). Setanta GmbH received dividends from adesso SE of EUR 774 thousand (previous year: EUR 688 thousand), which were paid in full. No other transactions took place with Setanta GmbH in the financial year, as was the case the previous year.

40. Auditor's fee

Under German law, the auditors are elected by the Annual General Meeting on the proposal of the Supervisory Board. Once the auditor has been chosen, the Supervisory Board issues the mandate, approves the conditions and scope of the audit, as well as all audit fees, under its own responsibility, and monitors the independence of the auditor.

The Annual General Meeting elected Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Dortmund, Germany, as auditors for 2019 on the proposal of the Supervisory Board.

The activities of Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Dortmund, are subject to reporting and are disclosed in the table below.

<i>in EUR k</i>	2019	2018
Audit of the financial statements	178	148
Tax consulting services	-	-
Other consulting services	7	1
TOTAL	185	149

EUR 30 thousand of the expenses for audit services in 2019 relate to services from the previous year.

41. Events occurring after the balance sheet date

Since 1 January 2020, Stefan Riedel (business information technology graduate) has strengthened the Executive Board of adesso SE. He has taken over the Insurance business area from Michael Kenfenheuer.

With effect from midnight on 1 January 2020, smarthouse adesso financial solutions GmbH, Karlsruhe, Germany, registered in the Commercial Register of the Mannheim Local Court under HRB 109011 as the transferring company, was merged with adesso SE, Dortmund, Germany, as the acquiring company, by way of a merger by absorption. The merger agreement dated 11 November 2019 was submitted to the appropriate commercial register. It was announced in the German Federal Gazette (Bundesanzeiger) on 14 November 2019. For the purpose of the impairment test, the goodwill allocated to the smarthouse adesso financial solutions GmbH operating segment will in future be allocated to the adesso SE operating segment.

At the time of reporting, however, the spread of the coronavirus has accelerated considerably and is paralysing social life and large parts of the economy in much of Europe and Germany. The coronavirus will therefore also have economic consequences for Germany in 2020. In its current economic report for the spring, the Kiel Institute for the World Economy (IfW) predicts that Germany's gross domestic product will fall by 0.1 %. Most recently, the researchers calculated an increase of about 1 %. The impending coronavirus pandemic in Germany and Europe is currently a great unknown. Anything from a possible recession to only a mild impact on business seems possible at the moment. This uncertainty cannot therefore be reliably assessed. The adesso share price – like many other stocks on the stock exchange – has clearly suffered from the outbreak of the coronavirus crisis. At the moment there are very few situations with customers where projects have been postponed. The order situation at adesso is currently good in all sectors. New orders have even been received in the banking sector, so the signs have improved here. adesso is monitoring the situation very closely and is taking precautionary measures, such as rules of conduct for employees, checking the conditions for reduced working hours and ensuring that employees are able to work remotely or from home. A crisis committee has already been set up, called "resilience@adesso", which reports directly to the Executive Board. Major internal and external events have been cancelled or changed to other formats.

42. Appropriation of net income

On 17 May 2019, the Annual General Meeting of adesso SE resolved to pay a dividend of EUR 0.45 per share for the financial year 2018. The dividend payment made by adesso SE in the reporting period totalled EUR 2,779 thousand.

For the financial year 2019, the Executive Board and Supervisory Board will propose to the Annual General Meeting of adesso SE a dividend payment of EUR 2,902,763.71, or EUR 0.47 per share. The distribution of dividends has no income tax consequences for adesso.

43. Statement of compliance with the German Corporate Governance Code in accordance with Section 161 AktG

Pursuant to Section 161 AktG, the Executive Board and Supervisory Board of adesso SE hereby declare that adesso AG is compliant with the recommendations of the “Government Commission on the German Corporate Governance Code” in the current version published by the Federal Ministry of Justice in the official section of the electronic German Federal Gazette (Bundesanzeiger). Possible deviations from the recommendations are listed and commented on in the compliance statement.

The Executive Board and Supervisory Board of adesso SE report on corporate governance for the company annually, and publish this information as part of the management report. The report and statement, including the declaration of conformity, have been made available online under www.adesso-group.de/corporate-governance/ for an unlimited period.

44. Notification obligations

adesso SE received the following reports pursuant to Article 19 (1) MAR for financial year 2019:

<i>Transaction</i>	<i>Name</i>	<i>Type</i>	<i>Shares</i>	<i>Price</i>
1 October 2019	Jörg Schroeder	Purchase	200	51.10
30 August 2019	Christoph Junge	Purchase	500	48.73
20 May 2019	Dr Friedrich Wöbking	Purchase	300	49.00
14 May 2019	Christoph Junge	Purchase	200	48.94

45. Shareholder Structure

The shareholder structure was as follows as at the balance sheet date:

<i>Shareholder</i>	<i>Threshold value above or below</i>	<i>Share in %</i>
Prof. Volker Gruhn (Setanta GmbH)	13 August 2007	27.9
Rainer Rudolf	2 October 2007	17.6
Ludwig Fresenius	18 April 2017	9.9
Michael Hochgürtel (MIH Hochgürtel UG & Co. KG)	19 December 2016	4.8
Invesco Ltd.	15 July 2019	3.0

Based on Deutsche Börse AG’s definition, the free float is 44.6%.

In the financial year 2019, adesso SE did not receive any notification in accordance with Article 33 or Articles 38, 39 of the German Securities Trading Act (WpHG).

Invesco Ltd, Hamilton, Bermuda, submitted a notification on 17 July 2019, or, in correction, on 18 July 2019, that its voting rights in adesso SE, Dortmund, Germany, exceeded the threshold of 3% of the voting rights on 15 July 2019 and amounted to 3.02% on that day, which corresponds to 186,775 voting rights.

46. Subsidiaries

Company name	Registered office	Equity ²⁾	Annual result ²⁾	Shareholding
adesso as a service GmbH	Dortmund, Germany	EUR 1,758 k	EUR 1,056 k	100 %
adesso Austria GmbH	Vienna, Austria	EUR -2,831 k	EUR 982 k	100 %
adesso Bulgaria EOOD	Sofia, Bulgaria	BGN 708 k	BGN 643 k	100 %
adesso health solutions GmbH	Neumünster, Germany	EUR 1,215 k	EUR 378 k	90 %
adesso Hungary Software & Consulting Korlatolt Felelossegu Tarsasag	Budapest, Hungary	HUF -60 m	HUF -63 m	100 %
adesso insurance solutions GmbH	Dortmund, Germany	EUR 7,877 k	EUR 3,956 k	100 %
adesso mobile solutions GmbH ¹⁾	Dortmund, Germany	EUR 343 k	EUR 0 k	100 %
adesso Netherlands B.V.	Amsterdam, Netherlands	EUR -196 k	EUR -221 k	100 %
adesso Schweiz AG ⁵⁾	Zurich, Switzerland	CHF 1,303 k	CHF 109 k	100 %
adesso Spain Consultoria y Soluciones Tecnologicas S. L. ⁴⁾	Barcelona, Spain	EUR -223 k	EUR -299 k	100 %
adesso Transformer Deutschland GmbH	Dortmund, Germany	EUR 32 k	EUR -33 k	100 %
adesso Transformer GmbH	Vienna, Austria	EUR 60 k	EUR 121 k	100 %
adesso Turkey Bilgi Teknolojileri Ltd. Şti.	Istanbul, Turkey	TRY 5,985 k	TRY 2,798 k	100 %
alleato assekuranzmakler GmbH ³⁾	Dortmund, Germany	EUR -64 k	EUR 178 k	100 %
ARITHNEA GmbH	Neubiberg, Germany	EUR 5,517 k	EUR 941 k	100 %
A3A Strategy Consulting GmbH	Cologne, Germany	EUR 1 k	EUR 99 k	100 %
e-Spirit AG ¹⁾	Dortmund, Germany	EUR 4,895 k	EUR 0 k	100 %
e-Spirit Inc.	Lexington, USA	USD 633 k	USD 20 k	100 %
e-Spirit Schweiz AG	Zurich, Switzerland	CHF 173 k	CHF 100 k	100 %
e-Spirit UK Ltd.	London, UK	GBP -1,371 k	GBP 29 k	100 %
gativ GmbH ³⁾	Much, Germany	EUR 304 k	EUR 94 k	100 %
inQventures GmbH ³⁾	Berlin, Germany	EUR 74 k	EUR -49 k	100 %
medgineering GmbH	Dortmund, Germany	EUR -337 k	EUR -140 k	100 %
percision services GmbH	Dortmund, Germany	EUR -359 k	EUR 1,098 k	100 %
smarthouse adesso financial solutions GmbH	Karlsruhe, Germany	EUR 3,603 k	EUR 157 k	100 %

1) Result for the year is EUR 0 thousand due to a profit and loss transfer agreement with adesso SE.
2) Equity and the result for the year are stated in accordance with the respective national laws.

3) All non-controlling interests in alleato assekuranzmakler GmbH, inQventures GmbH and gativ GmbH were acquired in 2019.

4) Sunnytrail Consulting S. L. was merged with adesso Spain Consultoria y Soluciones Tecnologicas S. L. in 2019.
5) nhs informatik GmbH was merged with adesso Schweiz AG in 2019.

47. Associates and joint ventures

Company name	Registered office	Associated Company (AC)/ Joint Venture (JV)	Proportionate equity ¹⁾	Proportionate Annual Result ¹⁾	Shareholding
AlSports Watch GmbH (vormals: soccerwatch.tv GmbH)	Essen, Germany	AU	EUR 244 k	-511 k	31,3 %
Barmenia IT+ GmbH	Wuppertal, Germany	AU	EUR 975 k	EUR 525 k	24,0 %
com2m GmbH	Dortmund, Germany	GU	EUR -19 k	EUR 60 k	58,7 %
TRILUX Digital Solutions GmbH	Arnsberg, Germany	AU	EUR -27 k	EUR 5 k	20,0 %
urban Energy GmbH	Berlin, Dortmund	AU	EUR 107 k	EUR -50 k	17,9 %

1) Equity and the result for the year are stated in accordance with the respective national laws.

48. Use of exemption provisions

The following domestic group companies in the legal form of a joint-stock company satisfied the necessary conditions to make use of the exemption provisions pursuant to Article 264 (3) HGB and will thus not be preparing a management report and notes to the financial statements, nor will the annual financial statements be audited by an auditor or be disclosed for the financial year 2019:

> e-Spirit AG

> adesso mobile solutions GmbH

STATEMENT OF THE LEGAL REPRESENTATIVES

We confirm that the consolidated financial statements, in accordance with the applicable accounting principles and to the best of our knowledge, present a true and fair view of the group's net assets, financial position and results of operations, and that the consolidated management report presents a true and fair view of the group's results of operations and position in addition to describing the material opportunities and risks for the expected development of the group.

Dortmund, Germany, 21 March 2020

adesso SE



Michael Kenfenheuer



Andreas Prenneis



Dirk Pothen



Stefan Riedel



Jörg Schroeder

REPRODUCTION OF THE AUDITOR'S REPORT

For the consolidated financial statements and the consolidated management report, we have issued the following auditor's report:

„Independent auditor's report

To adesso SE

Note on the audit of the consolidated financial statements and the consolidated management report

Audit opinions

We have audited the consolidated financial statements of adesso SE, Dortmund, and its subsidiaries (the Group) – consisting of the consolidated balance sheet as of 31 December 2019, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated cash flow statement and the consolidated statement of changes in equity for the financial year from 1 January 2019 to 31 December 2019, as well as the consolidated notes including a summary of significant accounting methods. In addition, we have audited the consolidated management report of adesso SE for the financial year from 1 January 2019 to 31 December 2019. The audit did not include the non-financial declaration in accordance with Sections 289b to 289e HGB and the Declaration of Conformity in accordance with Section 289f (2) and (5) of the German Commercial Code (HGB), including the statement of compliance with the German Corporate Governance Code in accordance with Section 161 AktG.

In our opinion, based on the findings of our audit,

- > the consolidated financial statements attached comply in all material respects with the IFRS applicable in the EU and the supplementary applicable German regulations according to Section 315a (1) HGB and give a true and fair view of the asset and financial situation of the Group as of 31 December 2019, as well as its results for the financial year from 1 January 2019 to 31 December 2019, in accordance with these regulations, and
- > imparts an overall accurate impression of the Group's position. In all material respects, this consolidated management report agrees with the consolidated financial statements, complies with the German legal requirements and gives a true and fair view of the opportunities and risks associated with future developments. Our audit opinion on the consolidated management report does not extend to the content of the aforementioned non-financial declaration and the Declaration of Conformity.

In accordance with Section 322 (3) (1) HGB, we declare that our audit has not led to any objections to the regularity of the consolidated financial statements and the consolidated management report.

Basis of the audit opinions

We have carried out our audit of the consolidated financial statements and consolidated management report in accordance with Section 317 HGB and the EU Audit Regulation (no. 537/2014) in accordance with the generally accepted German standards for the audit of financial statements determined by Institut der Wirtschaftsprüfer (IDW). Our responsibilities under these regulations and principles are further described in the section of our auditor's report entitled 'Responsibility of the auditor for the audit of the consolidated financial statements and the consolidated management report'. We are independent of the Group companies in accordance with the European and German commercial and professional regulations and have fulfilled our other German professional obligations in accordance with these requirements. In addition, in accordance with Article 10 (2) (f) of the EU Audit Regulation, we declare that we have not performed any prohibited non-audit services under Article 5 (1) of the EU Audit Regulation. In our opinion, the audit evidence we have obtained is sufficient and appropriate to serve as a basis for our audit opinions on the consolidated financial statements and the consolidated management report.

Particularly important audit matters in the audit of the consolidated financial statements

Particularly important audit matters are those matters that, in our best judgement, were most significant in our audit of the consolidated financial statements for the financial year from 1 January 2019 to 31 December 2019. These matters have been taken into account in the context of our audit of the consolidated financial statements as a whole and in forming our audit opinion; we do not deliver a separate opinion on these matters.

Below we describe what we consider to be particularly important audit matters:

1. Impairment of goodwill

Reasons for determination as a particularly important audit matter

adesso performs the impairment test to be carried out in accordance with IAS 36, Impairment of Assets, as of 30 June of the financial year and additionally on an ad hoc basis. There, the recoverable amount must be compared with the recoverable amount of a goodwill-bearing cash-generating unit. The Group determines this using a discounted cash flow method. Against the background of the associated complexity and discretionary scope, the impairment test for goodwill was a particularly important issue during our audit.

The impairment test is based on assumptions that are derived from corporate planning and that are influenced by expected future market and economic conditions. The impairment test is also significantly based on the appropriate accrual of the cash-generating units carrying the goodwill. Each recoverable amount depends in particular on the future cash flows in the medium-term planning of the cash-generating units as well as on the assumed discount and growth rates. The definition of these parameters is the responsibility of the legal representatives and is discretionary. There is a risk that changes to these discretionary decisions could result in material changes to the impairment tests of the respective cash-generating units.

Auditing procedure

As part of our auditing procedures, we have reconstructed the process established by the Group for conducting impairment tests with regard to its ability to determine potential depreciation needs. In doing so, we have dealt with the planning process and the applicable integration of individual planning into Group planning. As part of this, we have discussed and documented the key planning assumptions with the legal representatives of the parent company, in consultation with our valuation experts. The focus here was on the assessment of the expected future cash flows in the medium-term planning of the major cash-generating units as well as on the discount rates and growth rates used. For this purpose, we have reconstructed the premises underlying the impairment test by comparing them with general and industry-specific market expectations. In this context, we have also reviewed the achievement of targets by comparing the medium-term plans of the previous years with the actual figures for the financial year. In addition, we have compared the medium-term plans used in the impairment tests with the medium-term plans approved by the Executive Board and the Supervisory Board and assessed the mathematical correctness of the valuation models in random samples.

The focus of our audit activities was additionally the assessment of the information provided by adesso in the consolidated notes. In this regard, we have reviewed the information provided by the legal representatives regarding their completeness and compared them with our expectations. In particular, the legal representatives' statement regarding which changes in the main planning assumptions could lead to a possible need for impairment was a major focus of the audit within the consolidated notes. In this context, due to the material significance of goodwill, we conducted our own sensitivity analyses (book value in comparison to the recoverable amount) of significant cash-generating units in order to understand the impact of changes in certain parameters on the valuation models.

Our audit procedures found no objections with regard to the recoverability of goodwill.

Reference to related information

The information provided by adesso on goodwill is contained in Sections II. 'Summary of Material Accounting Principles' under 'Consolidation' and 'Estimates and Assumptions', III.7. 'Goodwill and Intangible Assets' and VI. 'Information on Segment Reporting' of the consolidated notes.

2. Implementation of the new accounting standard IFRS 16 – Leases

Reasons for determination as a particularly important audit matter

The company introduced the new accounting standard IFRS 16 – Leases with effect from 1 January 2019 using the modified retrospective approach. The identification and the full recording of all Group-wide rental agreements and leases and the conversion effects are, due to their complexity, subject to increased risk of erroneous balancing of accounts. Against this background, we have classified the conversion of the accounting to IFRS 16 as one of the most significant matters for our audit of the consolidated financial statements.

Auditing procedure

As part of our audit, we have first of all assessed the process of identification of the material rental agreements and leases and the associated control environment, by studying the Group documentation and comparing this with our knowledge of the Group's business activities. We subjected the application used by the Group to determine the rights of use and lease liabilities, as well as depreciation and amortisation and repayments. In order to understand the completeness and correctness of the conversion effects recorded on 1 January 2019 with regard to the IFRS 16 criteria, we have performed spot checks for adesso and the included subsidiaries to examine significant contracts and the rental agreements and leases contained therein using the materiality limits. In doing so, we chiefly assessed whether the rights of use and liabilities were recorded in full. For the contracts in spot checks that we chose, we inspected original documents and retraced the recording of the associated assets and liabilities in the accounting figures. In each case, we also checked the estimation of the exercise of the option as part of the contractual review. Moreover, we verified that the exemptions under IFRS 16 had been consistently and correctly utilised.

Lastly, we have retraced the representation of the conversion effects on 1 January 2019 in the company's consolidated notes and evaluated the documentation created by the company with regards to IFRS 16 as to whether it represents a suitable basis for consolidated financial statements to be prepared according to IFRS principles.

There have been no objections resulting from the conduct of our audit with regard to the implementation of the new IFRS 16 accounting standards on 1 January 2019.

Reference to related information

The company's details on the conversion effects from the IFRS 16 are to be found in Section II. 'Summary of material accounting policies' contained within 'Accounting regulations applied for the first time' of the consolidated notes.

3. Accrual accounting and recognition of revenue

Reasons for determination as a particularly important audit matter

The significant revenue streams in the consolidated financial statements of adesso stem from licence sales, consulting projects and maintenance, SmartCloud and hosting contracts. Due to their complexity, the proper accrual and recognition of these different revenue streams are subject to an increased risk of incorrect accounting. Against this background, we have determined the accrued amortisation and recognition of significant revenue streams as one of the particularly important audit issues in our audit of the consolidated financial statements..

Auditing procedure

As part of our audit, we have first of all concerned ourselves with the accrued amortisation and recognition of significant income streams as well as the associated control environment with regard to the criteria of IFRS 15 – Revenues from Contracts with Customers. In this context, we have tested the process-related controls for complete and accrued recognition of all billable services and underlying times – also using data analysis. In order to understand the regularity of revenue accrual as of the balance sheet date, we have reviewed key contracts, identified parameters, selected and obtained external customer confirmations and performed sample-based document checks of proofs of delivery, customer invoices and incoming payments as of the balance sheet date. Furthermore, we have inspected the relevant project documents, such as contracts, customer communication, project manager confirmations and acceptance reports. With the help of analytical analyses of the entire revenue-relevant data stock of the financial years, we have performed a correlation analysis using data analysis programs as well as reviewed daily revenue bookings based on these findings using spot checks. In doing so, we compiled our expectations on the basis of industry and market-related data as well as the previous year's figures and compared these with the results of the data analyses of adesso as the largest company in the Group.

The percentage of completion determined by the Group for the application of the period-related recognition of sales revenues in the area of fixed-price projects has been examined using spot checks of the respective hourly calculations and project documents, such as contracts, customer communication and project manager confirmations. Furthermore, we have performed spot checks to make historical plan/actual comparisons of project calculations with the values actually achieved. Based on this, we have used the expenses estimated by the company and that still have to be paid before completion by confirming the expected overall project expenditure of each of the project managers to determine whether there is a need for impairment of the capitalised receivables.

The risk that manual revenue bookings could be made by the management in addition to the standardised revenue process was countered by relying on extensive surveys of legal representatives and the use of data analysis for our audit opinion. In this context, we randomly examined the database to assess whether unauthorized access was made in financial year 2019.

Our audit procedures found no objections with regard to accrual accounting and revenue recognition.

Reference to related information

The information of the company for the recognition of revenues is contained in Sections II. 'Summary of Material Accounting Principles' under 'Consolidation' and 'Accounting – Estimates and Assumptions' and IV. 'Explanations for Items on the Consolidated Income Statement' are contained within point 24 'Sales revenues' of the consolidated notes.

Other information

The legal representatives are responsible for the other information. The other information includes the non-financial declaration in accordance with Sections 315b and 315c and the Declaration of Conformity in accordance with Section 315d HGB, including the statement of compliance with the German Corporate Governance Code in accordance with Section 161 AktG. Furthermore, the other information includes the following components of the Annual Report that will probably be provided to us after issuing the auditor's report: the report by the Supervisory Board in accordance with Section 171 (2) and (3) or (4) AktG and the responsibility statement in accordance with Section 264 (2) (3) HGB.

Our audit opinions on the consolidated financial statements and consolidated management report do not extend to the other information. Accordingly, we do not issue an audit opinion or any other form of conclusion regarding audit findings on the matter.

In connection with our audit, we are responsible for reading the other information and for acknowledging whether the other information

- > contains material inconsistencies with the consolidated financial statements, consolidated management report or our findings gathered during the audit, or
- > otherwise appear materially misstated.

We are obliged to report whether we discover any material misstatements of this other information on the basis of the work performed by us. We have nothing to report in this context.

Responsibility of the legal representatives and the Supervisory Board for the consolidated financial statements and the consolidated management report

The legal representatives are responsible for the preparation of the consolidated financial statements in compliance, in all material respects, with the IFRS applicable in the EU and the supplementary applicable German regulations according to Section 315a (1) HGB and for ensuring that the consolidated financial statements give a true and fair view of the asset, financial and earnings situation of the Group in accordance with these regulations. In addition, the legal representatives are responsible for the internal controls that they have determined to be necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether intentional or unintentional.

When preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility to disclose matters relating to continuation as a going concern, if relevant. In addition, they are responsible for accounting for continuation as a going concern on the basis of the accounting principle, unless there is an intention to liquidate the Group or discontinue business operations, or if there is no realistic alternative.

In addition, the legal representatives are responsible for the preparation of the consolidated management report, which imparts an overall accurate impression of the Group's position, is in all material respects consistent with the consolidated financial statements, complies with German legal requirements and accurately reflects the opportunities and risks associated with future development. Furthermore, the legal representatives are responsible for the precautions and measures (systems) that they have deemed necessary to enable the preparation of a consolidated management report in accordance with the applicable German legal requirements and for being able to provide sufficient suitable evidence for the statements in the consolidated management report.

The Supervisory Board is responsible for overseeing the Group's accounting process for preparing the consolidated financial statements and the consolidated management report.

Responsibility of the auditor for the audit of the consolidated financial statements and the consolidated management report

Our objective is to obtain reasonable assurance as to whether the consolidated financial statements as a whole are free from material misstatement, whether intentional or unintentional, and whether the consolidated management report imparts an overall accurate impression of the Group's position and corresponds to the consolidated financial statements and the findings of the audit in all material respects, that it complies with German legal requirements and accurately reflects the opportunities and risks associated with future development, and to issue an audit report that includes our audit opinions on the consolidated financial statements and the consolidated management report.

Sufficient security refers to a high degree of security, but no guarantee that a test conducted in accordance with Section 317 HGB and the EU Audit Regulation in accordance with the generally accepted German standards for the audit of financial statements determined by Institut der Wirtschaftsprüfer (IDW) will always reveal a material misstatement. Misstatements can result from breaches or inaccuracies and are considered material if they could reasonably be expected to influence, individually or collectively, the economic decisions of addressees made on the basis of these consolidated financial statements and this consolidated management report.

During the audit, we exercise due discretion and maintain a critical attitude. Moreover,

- > we identify and assess the risks of material misstatement, whether intentional or unintentional, in the consolidated financial statements and the consolidated management report, plan and execute audit procedures in response to those risks and obtain audit evidence that is sufficient and appropriate to form the basis of our opinion. The risk that material misstatements may not be detected is higher for violations than for inaccuracies, as violations may include fraud, falsification, intentional incompleteness, misrepresentations or the discontinuation of internal controls;
- > we gain an understanding of the internal control system relevant to the audit of the consolidated financial statements and of the precautions and measures relevant to the audit of the consolidated management report in order to design audit procedures that are appropriate in the given circumstances, but not with the aim of expressing an opinion on the effectiveness of these systems;
- > we assess the appropriateness of the accounting methods used by the legal representatives and the reasonableness of the estimates and related information provided by the legal representatives;
- > we draw conclusions about the appropriateness of the accounting principle used by the legal representatives in continuation as a going concern and, on the basis of the audit evidence obtained, whether there is material uncertainty surrounding events or circumstances that could pose significant doubts about the Group's ability to continue as a going concern. If we conclude that there is material uncertainty, we are required to draw attention in the auditor's report to the related information in the consolidated financial statements and the consolidated management report or, if this information is inadequate, to modify our audit opinion. We draw our conclusions on the basis of the audit evidence obtained up to the date of our auditor's report. However, future events or circumstances may lead to the Group being unable to continue as a going concern;
- > we assess the overall presentation, structure and content of the consolidated financial statements including the information provided and whether the consolidated financial statements present the underlying transactions and events in such a way that the consolidated financial statements are prepared in compliance with the IFRS applicable in the EU and the supplementary applicable German regulations according to Section 315a (1) HGB and give a true and fair view of the asset, financial and earnings situation of the Group;
- > we obtain sufficient audit evidence for the accounting information of the companies or business activities within the Group in order to provide audit opinions on the consolidated financial statements and the consolidated management report. We are responsible for the guidance, supervision and execution of the audit of the consolidated financial statements. We are solely responsible for our audit opinions;
- > we assess the consistency of the consolidated management report with the consolidated financial statements, its legal conformity and the impression it imparts of the Group's position;

> we conduct audits of the forward-looking statements presented by the legal representatives in the consolidated management report. On the basis of sufficient suitable audit evidence, we, in particular, reproduce the significant assumptions on which the forward-looking statements are based, and assess the proper derivation of the forward-looking statements from these assumptions. We do not issue an independent opinion on the forward-looking statements and the underlying assumptions. There is a significant unavoidable risk that future events will differ materially from the forward-looking statements.

Among other things, we discuss with the supervisors the planned scope and timing of the audit, as well as significant audit findings that we identify during our audit, including any deficiencies in the internal control system.

We provide a statement to the supervisors that we have complied with the relevant independence requirements and discuss with them all relationships and other matters that can reasonably be expected to affect our independence and the protective measures taken for that purpose.

Of the matters we discussed with the supervisors, we determine those matters that were most significant in the audit of the consolidated financial statements for the current reporting period and are therefore the most important audit matters. We describe these matters in the audit report, unless laws or other legal provisions exclude public disclosure of the matter.

Other statutory and other legal requirements

Other information pursuant to Article 10 of the EU Audit Regulation

We were elected as Group auditors by the Annual Shareholders' Meeting on 17 May 2019. We were commissioned by the Supervisory Board on 24 October 2019. We have acted as the auditors of adesso continuously since financial year 2017.

We declare that the audit opinions contained in this auditor's report are consistent with the additional report to the Audit Committee pursuant to Article 11 of the EU Audit Regulation (audit report).

In addition to the audit of the financial statements, we provided the following services that are disclosed in the consolidated financial statements as other consulting services for the audited entity and/or for companies controlled by said entity:

Performance of workshops on changes in the field of compliance and corporate governance.

Responsible auditor

The auditor responsible for the audit is Andreas Muzzu."

Dortmund, 19 March 2020

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Muzzu
German public auditor

Kavun
German public auditor

INVESTOR RELATIONS

The Share

The Trading Year 2019 – General Conditions

The DAX, Germany's leading stock market index, closed at 13,249 points for 2019, marking a considerable increase of 25 % as compared to a decline of 18 % in the previous year. At 23 %, the TecDAX gained only slightly less than the DAX at the end of the year, but had only fallen by 3 % in 2018. The best performance among the stock indices was shown by the MDAX in 2019 with a gain of 31 %.

Although the DAX did not reach a new all-time high in 2019, the leading index was only slightly below its previous record of January 2018 at the end of the year. Judging by the performance of the DAX, 2019 was a more than pleasing year for most investors, especially after the turbulent performance of the previous year. The first half of 2019 was the strongest first half of the year in twelve years and the leading index continued its upward trend into May. After the massive losses of the previous year, investors therefore got off to a confident start to the new year in 2019. This was mainly due to expected progress in the customs negotiations between the U.S. and China. Isolated setbacks due to mixed company reports and weaker economic data were quickly overcome. The markets proved to be more robust than could have been expected in view of declining growth momentum, ongoing trade disputes and the UK's as yet unresolved withdrawal from the EU. An initially more marked deterioration of the generally good stock market mood was observed in the comparatively volatile month of May and, after a brief recovery, in July and August. Once again, adverse factors such as Brexit, recession fears and trade disputes caused uncertainty. In particular, their spill-over effects on the export-oriented German economy dampened expectations. Having gained 17 % in the first half of the year as compared to the close of

the previous year, the DAX lost a full 9 percentage points by mid-August. It then received a sustained boost from the emerging rapprochement in the trade conflict between the U.S. and China, which helped the index to achieve its annual high of 13,408 points on 16 December 2019. At the end of the year, the DAX closed just below this level at 13,249 points.

Over the course of the year, the TecDAX developed largely in parallel* to the performance of the DAX. However, the technology index did not benefit to the same extent from the sharp recovery from mid-August 2019 onwards, failing to catch up with this development until November, i.e. after a time lag. In the final month of the year, both indices started off at the same level again, with a performance of 25 % to date as compared to the close of the previous year. Although the TecDAX was still able to maintain its 23 % share of this at 3,015 points at the end of the year, it had to concede defeat to the DAX with a 25 % increase.

Development of adesso shares

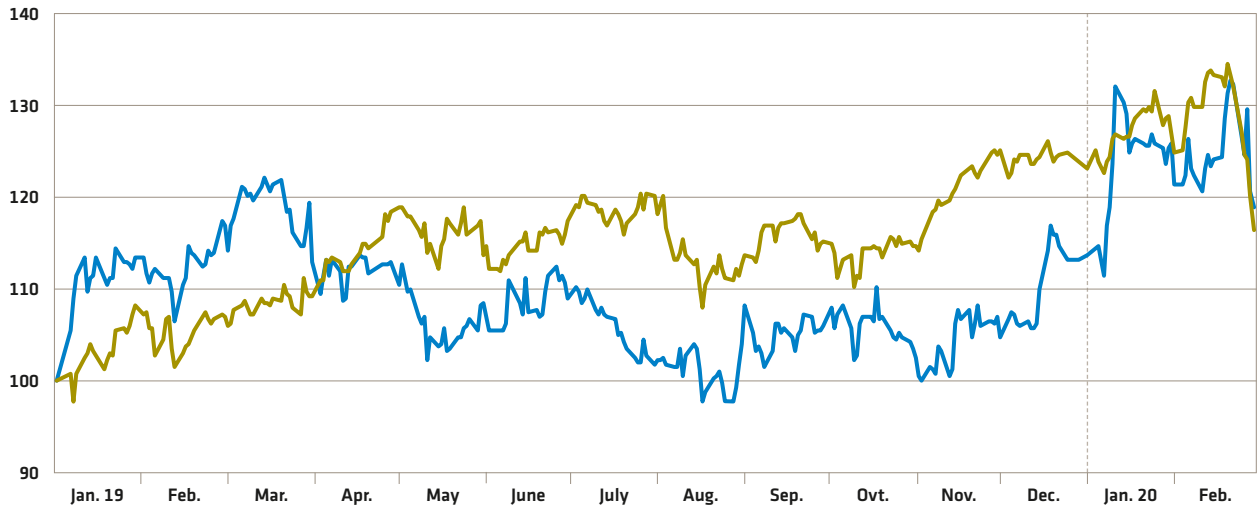
Despite a 14 % increase in the share price compared to the previous year's closing price, the adesso share underperformed the DAX in 2019 and also had to admit defeat to its reference index TecDAX, having been outperformed by 9 percentage points. At the end of 2019, the adesso share closed at EUR 53.50, but following the annual lows at EUR 46.00 on both 15 August 2019 and 16 August 2019, it was also listed below the previous year's closing price

* As a result of the new rules for the composition of the indices in force since 24 September 2018, the existing separation into the Tech and Classic segments was abolished. Since then, DAX companies that are assigned to the technology sectors can also be listed in the TecDAX at the same time and indeed have a major role to play here.

DEVELOPMENT OF THE ADESSO SHARE COMPARED TO THE TECDAX

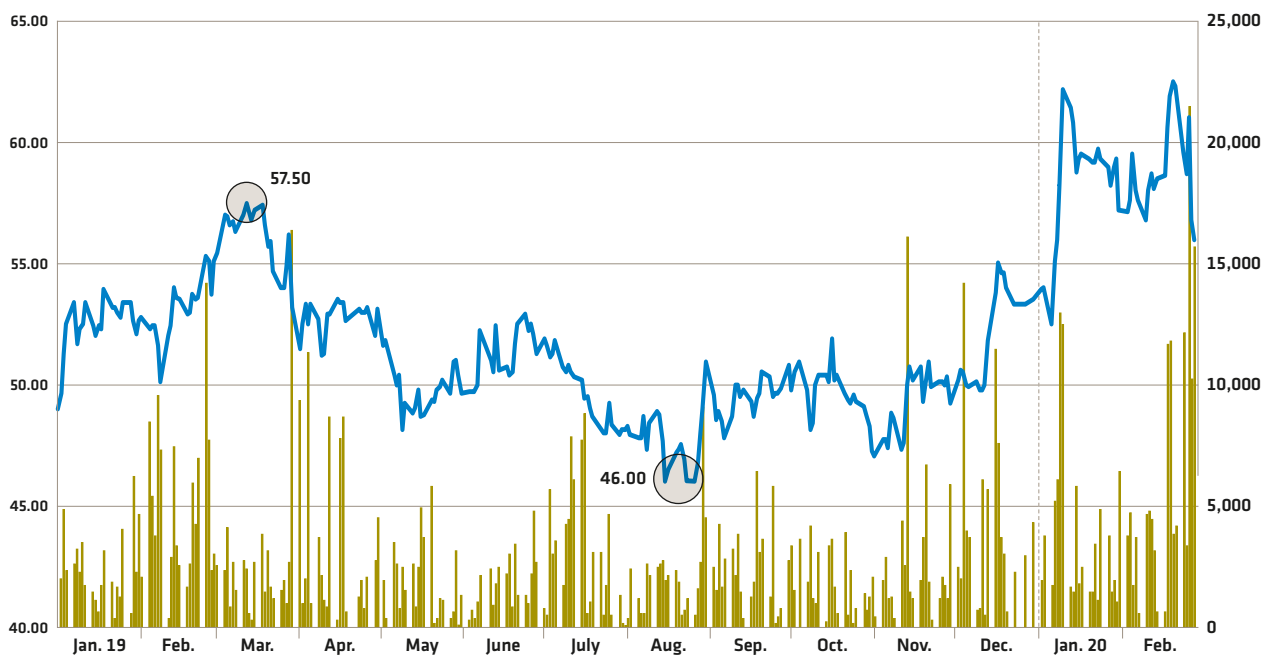
indexed

■ adesso SE ■ TecDAX



DEVELOPMENT OF THE ADESSO SHARE AND TRADING VOLUMES (XETRA)

in EUR / trading volumes in shares



of EUR 47.10 for a few days at the end of October/beginning of November. The share reached its annual high on a closing price basis on 12 March 2019 at EUR 57.50.

As such the adesso share showed an inconsistent performance over the year as a whole. Starting from a valuation of EUR 47.10, the share initially got off to a brilliant start in a favourable market environment at the beginning of the year. Driven by good company news, including the successful conclusion of contracts for the in|sure product line and a recommendation in the financial media, the price rose within the first few days of trading by up to 14 % on 18 January 2019 compared to the close of the previous year. From this level, the share gradually weakened again over the next three trading weeks in the context of a generally deteriorated stock market situation. Profit-taking on 7 February 2019 led to a significant setback in the leading indices, which in turn caused the adesso share to fall in price to EUR 50.10 on 8 February 2019. It recovered noticeably the following day, going on to increase strongly in the last three weeks of February thanks to a more favourable stock market climate and the presentation of adesso at a capital market conference. On 25 February 2019, for the first time in the year, a five-digit number of adesso shares was traded on Xetra, taking the share price up to a new level of over EUR 55.00. Despite the subsequent somewhat lower trading volume, the highest level for the year to date was subsequently reached on a closing price basis on 12 March 2019 at EUR 57.50. With a strong performance of 22 %, the share had outperformed its benchmark TecDAX index by a full 14 percentage points by that time, also outperforming the other benchmark indices by the end of March. Following the publication of the good business figures for 2018 on 29 March 2019, the share came under pressure with high trading volumes and lost its previous top position. The share price moved sideways around its new price level of EUR 52 until the end of April, while the TecDAX developed positively. The gloomy general sentiment on the stock market in May also affected the adesso share, which was now trading below EUR 50.00. After publication of the quarterly figures on 13 May 2019, the share price recovered on a volatile path until the end of June and reached EUR 52.50 on 28 June 2019. In the further course of the year, the share price essentially developed in line with the general market trend. Buoyed by higher trading volumes following the publication

of mixed six-monthly figures on 30 August 2019, the share price ventured a new attempt to catch up, but this did not result in a sustained change in the price level. The generally more pessimistic market sentiment in September hit the adesso share with a time lag at the end of October, pushing the price back to its starting level. The TecDAX was already performing positively again at this point in time, so the adesso share continued to fall behind the performance of the TecDAX. The adesso share price then initially continued to move sideways. It received a stronger boost with a higher trading volume on 16 December 2019 through the publication of new orders with a significant share of licences for the in|sure product family. On the following day the share closed at EUR 55.00. Even though the return to this level after profit-taking could not be fully maintained through to the end of the year, the adesso share was able to close the year at EUR 53.50, an increase of 14 % as compared to the previous year's closing price, therefore catching up well with the indices. The TecDAX closed at 3,015 points on the reporting date, still maintaining a lead of 9 percentage points over the adesso share.

As a result, adesso's market capitalisation increased from EUR 290.9 million at the end of 2018 to EUR 330.4 million.

Trading Volume

There was another general increase in share trading as compared to the previous year. Trading turnover in all shares on the cash market including Tradegate fell by 12.8 % to EUR 1.3 billion. Investors continued to primarily invest in the top-ranking securities. Some 91 % of the total volume was traded in the 160 largest and most heavily traded shares of the DAX, MDAX and SDAX stock indices. The remaining TecDAX stocks and second-tier stocks accounted for EUR 115.6 billion or 9 % of the total trading volume.

The trading volume of the adesso share in 2019 decreased from EUR 85.4 million in the previous year to EUR 45.8 million. As in the previous year, February was the best trading month at EUR 6.5 million. Trading in June, on the other hand, was a mere EUR 2.4 million. An average of 3,599 shares changed ownership per trading day in 2019. On average, 74,432 adesso shares were traded monthly. Some 79 % of trading took place on the Xetra trading platform. This is 4 percentage points more than in the previous year.

The following table shows the most important share data for 2018 per quarter:

SHARE DATA

	Q1	Q2	Q3	Q4	2019
Price at the end of the period	53.20	51.30	50.80	53.50	53.50
Development (in%)	13	9	8	14	14
Development of TecDAX (in%)	9	17	15	23	23
Highest price in EUR	57.50	53.50	51.90	55.00	57.50
Lowest price in EUR	49.60	48.15	46.00	47.05	46.00
Volatility (90 days at the end of the quarter in%)	38.1	26.1	25.1	27.3	27.3
Trading volumes in shares per trading day	4,238	3,248	3,251	3,500	3,559
Trading volumes in EUR per trading day	226,968	167,278	159,906	176,867	182,652
Number of shares	6,176,093	6,176,093	6,176,093	6,176,093	6,176,093
Market capitalisation in EUR million	328.6	316.8	313.7	330.4	330.4

SHARE DATA

		2019	2018
ISIN Code	DE000A0Z23Q5	6,176,093	6,176,093
WKN (national security identification number)	A0Z23Q	53.50	47.10
Symbol/Code	ADN1	330.4	290.9
Reuters Instrument Code	ADNGk.DE	2.82	2.27
Bloomberg Symbol	ADN1:GR	3.62	2.91
First day of trading	21.06.2000	19.0	20.7
Trading platforms	Xetra	14.8	16.2
Market segment	General Standard	0.47	0.45
Number of shares	6,176,093	0.9%	1.0%
Currency	EUR	* Subject to the approval of the Annual General Meeting in the year under review.	
Nominal value	Stückaktien ohne Nennbetrag; rechnerisch 1.00 €		
Share capital	6,176,093 €		
Voting rights per share	1		
Paying agent	DZ BANK AG, Frankfurt/Main		
Index	CDAX, DAXsector All Software, DAXsubsector All IT-Services, General All-Share, General Standard Index		
Reporting standard	IFRS		
End of financial year	31.12.		

Year to Date Development 2020

The positive sentiment on the stock markets at the end of 2019 continued in January 2020. The friendly start to 2020 was based on the continued low key interest rates and the partial settlement of the U.S.-Chinese trade dispute. Following the strong performance of the previous year, the DAX climbed by 2 % in the first few weeks of trading, reaching a new all-time high on a closing price basis of 13,577 points on 24 January 2020. Subsequent concerns about the new coronavirus spreading in China and its potential impact on the economy initially caused a minor setback, but investor confidence soon returned. The DAX climbed another 2 percentage points to a new record high of 13,789 points on 19 February 2020. The TecDAX had already gained 9 % by that date. The adesso share developed even more strongly in the first weeks of trading. In connection with the presentation of adesso at a capital market conference and a previous positive analyst assessment, the share price reached a closing price of EUR 62.20 on 9 and 10 January 2020 with high trading volumes. It was not possible to maintain the level above EUR 60.00 in the days that followed as trading volumes declined and the share largely moved sideways just below this level until February. The publication of preliminary figures in an ad hoc announcement on 17 February 2020 injected fresh impetus. On 20 February 2020, the share reached its highest level for the year to date on a closing price basis at EUR 62.50. Measured against the closing price of 2019, this amounted to an interim book profit of 17 %.

The positive mood on the stock markets ended abruptly with the increasing spread of the coronavirus in other countries. Massive price losses on the stock markets from 20 February 2020 onwards were evidence of investors' renewed concern regarding a pandemic and the potential consequences for global economic growth. Within a few trading days, the DAX fell by 14 percentage points to 11,890 points. With a drop of over 12 % in the last trading week in February alone, the DAX had experienced its highest weekly loss since the stock market crash in August 2011. The DAX closed a full 10 % below the previous year's closing price at the end of February. The TecDAX also lost all its gains since the start of the year and at 2,849 points was 6 % weaker than at the close of 2019. In the wake of the massive slump in the leading indices, the

adesso share fell in price to EUR 56.00 on 28 February 2020. As such it was possible to maintain book profit of 5 % on a closing price basis. Compared to the TecDAX, this is an outperformance of 11 % points to date.

Capital Measures

No capital measures were carried out in the reporting period. The share capital remains unchanged at EUR 6,176,093.

Dividends

The Annual General Meeting held on 17 May 2019 approved the proposal by the Supervisory Board and Executive Board on the appropriation of net income and distributed an 13 % higher dividend of EUR 0.45 per share. The dividend was credited to shareholders' custodian accounts from 22 May 2019.

Shareholder Structure

The largest shareholder of adesso SE, with 27.9 % of the voting rights, is Professor Dr Volker Gruhn, who holds his shares indirectly via the Setanta GmbH investment company. Professor Dr Gruhn is the Chairperson of the Supervisory Board of adesso SE and its co-founder. Rainer Rudolf as co-founder, former Executive Board member and since 2013 also Supervisory Board member holds the second-largest share of voting rights at 17.6 %. adesso SE's Supervisory Board holds 45.8 % of the company's share capital, while its Executive Board holds 0.4 % of the share capital. 71.0 % of the assigned voting rights, and therefore the majority, is held by private investors. The proportion of institutional investors increased further to 19.8 %. The remaining 9.3 % of the company's shares cannot be clearly assigned to a specific class of investor. According to Deutsche Börse AG's definition, the free float is 44.6 %. It has not changed compared to the value stated in the 2018 annual report.

Investor Relations Activities

Our investor relations activities are dedicated to active communication and ensure that our business activities are transparent. We not only strive to offer ultimate transparency and ready access to information, but also actively seek dialogue with institutional and private investors, analysts and financial media. In doing so, we regularly present the development of the company in the course of one-on-one meetings or roadshows. We also take advantage of numerous investor conferences to present adesso SE and enhance our contact to the capital market.

adesso SE was presented at the German Equity Forum in Frankfurt in 2019, and at the Spring Conference initiated by the DVFA (Deutsche Vereinigung für Finanzanalyse und Asset Management e.V.), which was also held in Frankfurt. Furthermore, presentations were made at four other conferences and investor events in Frankfurt, Paris, Lyon and Munich. A roadshow was organised in Düsseldorf and Cologne.

The financial calendar for 2020 features plans for a similarly high number of investor conferences. We also published information relevant to the capital market and presentations on our company regularly during the financial year. Interested capital market participants have access to comprehensive information in the “Investor Relations” section of the company website, which goes far beyond the mandatory disclosures. As a service, the menu item “Questions for the CFO” permits direct dialogue with the responsible Executive Board member. Distribution lists for mailing or electronically distributing company press releases and reports allow us to actively supply interested parties with the latest information

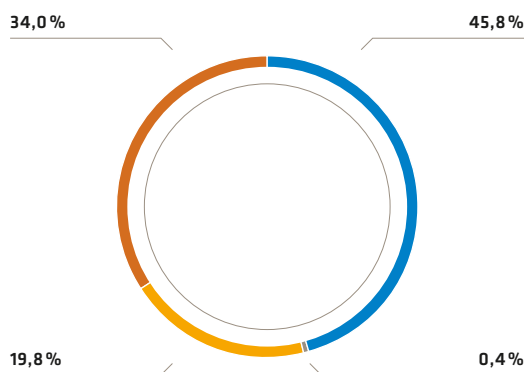
on adesso SE. More than 570 individuals and companies have already taken advantage of this service. Especially for analysts, but also for all other interested investors, adesso offers an investor folder for download which, in addition to the regular publications for the past twelve months, includes a multi-period overview of the income statement and the most important performance figures on a quarterly and annual basis, as well as the consolidated and interim financial statements in Excel format. adesso was analysed regularly in 2019 by various analysts. Updates to analyst studies are offered on the adesso website.

adesso SE is a member of the German Investor Relations Association e.V. (DIRK).

Analyses / Research

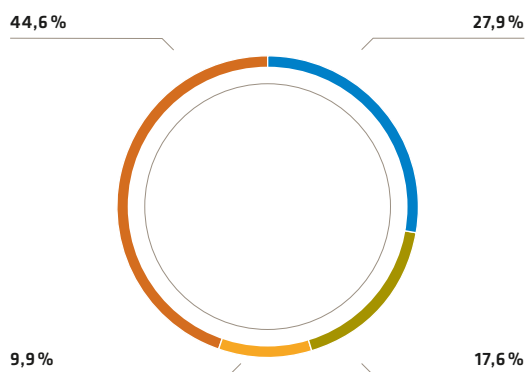
The adesso SE share has been evaluated regularly by Warburg Research with updates and comments since the publication of the baseline study in October of 2016. Furthermore, assessments are published by the independent analysts of SMC Research, who have been tracking adesso’s development since May of 2013. As part of the merger of WGZ BANK with DZ BANK, the

SHAREHOLDER STRUCTURE *in %*



■ Supervisory Board ■ Executive Board ■ Institutional Investors ■ Other

SHAREHOLDERS *in %*



■ Prof. Dr. Volker Gruhn (Setanta GmbH)* ■ Rainer Rudolf* ■ Ludwig Fresenius ■ Freefloat * Supervisory Board

new financial institution operating under the name of DZ BANK has continued the coverage of adesso SE, which began in May 2012, starting in August 2016. Following a change of analyst, DZ BANK published a new baseline study in 2017. The coverage, which has meanwhile ceased for internal reasons at DZ BANK, was resumed in the first quarter of 2018 and ceased again in March 2019 after the cooperation with DZ BANK in this area had been terminated. In order to strengthen transparency and further expand capital market relations, adesso has also collaborated with the independent European financial services company Kepler Cheuvreux as of the second quarter of 2019. The basic study was published in September 2019.

The latest updates by current analysts were published in November 2019 and February 2020. Warburg Research advises “buy” with a price target of

EUR 75.00 (18 February 2020). SMC Research also issues a buy recommendation and rates the fair value at EUR 72.30 (19 February 2020). The Kepler Cheuvreux analyst classifies the adesso shares as “buy” with a price target of EUR 66.00 (14 November 2019).

Since the beginning of 2011, trading of the adesso share has been supported by the designated sponsoring market leader, Oddo Seydler Bank AG (formerly: Close Brothers Seydler Bank AG).

Contact person:

Martin Möllmann
 Manager Investor Relations
 T +49 231 7000-7000
 F +49 231 7000-1000
 E ir@adesso.de

RECOMMENDATIONS FROM THE FINANCIAL MEDIA AND ANALYSTS' OPINIONS

Date	Subject/ Recommendation	Evaluation	Source
2020-02-19	Buy	Target Price: EUR 62.30	SMC Research
2020-02-18	Buy	Target Price: EUR 75.00	Warburg Research
2019-11-14	Buy	Target Price: EUR 66.00	Kepler Cheuvreux
2019-06-07	Heroes of the IT world: selected IT service providers at a glance	Growth trend intact. Good prospects. Stock should soon pick up speed again. Target: EUR 60.00, stop: EUR 44.00.	Der Aktionär
2019-05-22	adesso: short notice	The tribute that the strong growth, among other things due to an accelerated increase in personnel, requires (see N) 5/19) was clearly visible in Q1 2019. [...] The forecast for 2019 with sales of EUR 410 million and EBITDA of EUR 40 to 45 million was confirmed. At a price of only 48.75 euros, a 2020e P/E ratio of 13 buys is an option.	Nebenwerte Journal Extra
2019-04-10	adesso: to Holland and Hungary	The IT service provider adesso is already active in Spain and Bulgaria. In the current year the expansion into the Netherlands and Hungary is on the agenda. [...] In the current year revenues are expected to increase by nine percent to 410 million Euro. The capacity utilisation could drop slightly, as could the profit margin. Recommended on 18.7.18, issue 30/18, recommended price EUR 55.30, current price EUR 52.50, +/- in %: -5.3, New stop: EUR 46.30.	Focus Money
2019-01-09	adesso – so it went on	[...] Since the end of the year, paper recovered again and gained almost 10%. For a re-entry, however, it is too early in our opinion. Therefore wait for adesso first.	Platow Börse

MANAGEMENT AND DIRECTORS

Executive Board



Michael Kenfenheuer

CEO

Michael Kenfenheuer (born in 1958) is a member of the Executive Board and responsible for the department Banking. In the Executive Board of adesso he is furthermore in charge of the adesso subsidiaries A3A Strategy Consulting GmbH and e-Spirit AG. He was appointed as a member of the adesso SE (formerly adesso AG) Executive Board for these responsibilities in 2000. With his many years of business management and project management experience, Michael Kenfenheuer is having a major impact on the development and expansion of the company's network of technical and industry experts. From 2011 to mid-2015 Michael Kenfenheuer was the Co-Chairman of adesso SE (formerly adesso AG). Since 1 July 2015 he assumes the Chairmanship.



Dirk Pothen

Member of the Executive Board

Dirk Pothen (born 1967) is a member of the Executive Board and responsible for the business divisions Automotive and Transportation, Manufacturing Industry and Microsoft as well as for the foreign subsidiaries adesso Schweiz AG and adesso Austria GmbH. He is also responsible for the adesso subsidiaries ARITHNEA GmbH and com2m GmbH. In addition, he is responsible for the Human Resources department. Before his appointment to the Executive Board of adesso SE (formerly adesso AG) in October 2018, Dirk Pothen most recently served as Managing Director DACH at SQS Software Quality Systems AG in Cologne. Prior to this, the adesso Executive Board member held various management positions at Atos and T-Systems for fifteen years.



Andreas Prenneis

Member of the Executive Board

Andreas Prenneis (born 1965) is a member of the Executive Board and responsible for the Cross Industries, Public Administration, Health, Data & Analytics as well as IT Management Consulting divisions and is also responsible for the adesso subsidiaries adesso as a service GmbH, adesso health solutions GmbH, adesso mobile solutions GmbH, percision services GmbH and medgineering GmbH. In addition, he is responsible for administration and legal affairs. Before he was appointed to the Executive Board of adesso SE (formerly adesso AG) in April 2015, he was employed at CompuGroup Medical Deutschland, where he most recently headed various business divisions as Area Vice President Telematics & AddOn.

**Stefan Riedel***Member of the Executive Board*

Stefan Riedel (born in 1967) heads the Insurance division as a board member and is also responsible for the adesso subsidiary adesso insurance solutions GmbH, which bundles adesso's product business in the insurance sector. Before he was appointed to the board of adesso SE in 2020, Stefan Riedel was the general representative of IBM Deutschland GmbH for the insurance sector – first as vice president in German-speaking countries (DACH) and then as vice president for Europe.

**Jörg Schroeder***Member of the Executive Board*

Jörg Schroeder (born 1977) is a member of the Executive Board and responsible for the areas of Finance and Controlling, Investor Relations as well as Mergers & Acquisitions. Before Jörg Schroeder was appointed to the Executive Board of adesso SE (formerly adesso AG), the graduate in business informatics, LL.M. and executive MBA was responsible for the strategy development for the implementation of the BITMARCK group of companies as Chief Strategy Officer and member of the Executive Board since 2015. Most recently, as Chief Financial Officer of BITMARCK Holding GmbH, he was responsible for the areas of finance, controlling and purchasing of the group and all subsidiaries.

MANAGEMENT AND DIRECTORS

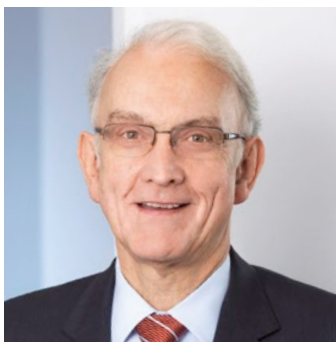
Supervisory Board



Prof. Dr. Volker Gruhn | *Chairperson of the Supervisory Board*

Prof. Dr. Volker Gruhn (born in 1963) was a co-founder of adesso SE (former: adesso AG) in 1997 and is now the Chairperson of the Supervisory Board. He is Head of the Software Engineering Department at University of Duisburg-Essen. His main researches focus on mobile applications and the examination of the effects of digital transformation, especially the development and operation of cyber physical systems. Prof. Dr. Gruhn is the author and co-author of more than 300 national and international publications and conference contributions. He is member of the University Council of Leipzig University and member of the board of trustees of the Fraunhofer Institute for Software and System Technology. Furthermore he is member of the advisory council of the BIPRO initiative. The BIPRO initiative is an association of finance companies that aim to optimize cross-company processes by developing functional and technical standards.

Further mandates in Supervisory Boards: Besides being the chairperson of the Supervisory Board of adesso SE, Prof. Dr. Gruhn is a member of the Supervisory Board of e-Spirit AG, Dortmund.



Dr. Friedrich Wöbking | *Member of the Supervisory Board (Deputy chairperson)*

Dr. Friedrich Wöbking (born in 1950) is a declared expert on information technology and the banks and insurance industries. He was member of the Executive Board at Dresdner Bank AG between 2003 and 2009 and took responsibility for the IT Services and Operations department. Previously, during the 1990s, he was member of the Executive Board at Allianz Versicherungs-AG/Allianz Lebensversicherungs-AG and Deutsche Versicherungs-AG where he was head of the Private Customer Business department as well as head of the departments IT and e-Business. Wöbking owns a doctor's degree in Information Technology and Mathematics and currently runs FW ADVISORY Management Beratung.

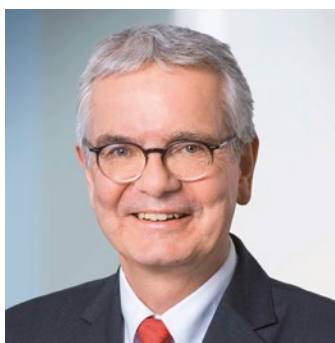
Further mandates in Supervisory Boards: Besides being a member of the Supervisory Board of adesso SE, Dr. Wöbking is a member of the Supervisory Board of Erste Financial Services GmbH, Düsseldorf.



Prof. Dr. Gottfried Koch | *Member of the Supervisory Board*

Prof. Dr. Gottfried Koch (born in 1951) is a professor of insurance IT and member of the management board of the IT institute at Leipzig University. Before he took up the professorship in 1998, he worked at Helvetia insurance group in St. Gallen and Frankfurt, and was also active as a freelance consultant. In addition, he was managing director of FJA AG in Austria and Switzerland until 2000. He studied at the German Insurance Academy in Cologne, at Goethe University in Frankfurt, and at the University of St. Gallen, where he also received his doctorate. Having initially trained as an insurance clerk, he started his career at Frankfurter-Allianz Versicherungs AG.

Further mandates in Supervisory Boards: Besides being a member of the Supervisory Board of adesso SE, Prof. Dr. Koch is chairperson of the Board of Directors of automobile AG and of Pfefferbeere AG, both in Bühler, Switzerland.

**Hermann Kögler** | *Member of the Supervisory Board*

Hermann Kögler (Born 1955) was for over 12 years Director of Finance/Controlling and Spokesman of the Board at COGNOS AG, one of the biggest privately-owned, independent education groups in Germany. After his departure from the Board of Executive Directors at his own request, he was elected Member of the Supervisory Board at COGNOS AG in 2016. After studying Business Administration at the University of Cologne, he began his career as a self-employed wholesaler. He later held a number of senior management positions, including those at the Otto Wolff Group and Rhenus AG. In early 1996 he moved to the international steel distributor Klöckner & Co., where he was an executive until 2001, most recently as Director of Finance/Controlling. Before he joined COGNOS AG in 2004 the graduate business administrator worked as a consultant and interim manager.

Further mandates in Supervisory Boards: Besides being a member of the Supervisory Board of adesso SE, Hermann Kögler is a member of the Supervisory Board of COGNOS AG, Hamburg.

**Heinz-Werner Richter** | *Member of the Supervisory Board*

Heinz-Werner Richter (born in 1951) has been a member of the management board of Barmenia Versicherungen from 1996 to 2013 and was responsible for the IT and mathematics divisions in the health and life insurance sectors. Additionally, he was a member of the management board of the German actuarial association for many years as well as a member of numerous bodies within the German Insurance Association, and the association of private health insurers. Today, Mr. Richter works as an actuarial trustee for private health insurers and works as an expert. Before starting his career at Barmenia in 1977, Heinz-Werner Richter studied mathematics and informatics at the University of Bonn where he graduated with a degree in mathematics.

**Rainer Rudolf** | *Member of the Supervisory Board*

Rainer Rudolf (born in 1962) is member of the board of the software company W3L AG. The graduated computer scientist co-founded SE (former: adesso AG) in 1997 and led the company as CEO until the end of 2010. In this capacity, he was responsible for the management of the entire company until 2007, which comprised all business and administrative activities in addition to the company's HR and legal teams. His contribution played a major role in shaping early adesso AG's solid economic growth and progress. From September 30, 2011, after stepping down from the Management Board, to October 2016, Rainer Rudolf was managing director of Stock Informatik GmbH & Co. KG, a leading software company in the field of occupational medicine and safety. The company was taken over in 2015 by CompuGroup Medical Deutschland AG and prepared for the complete integration under his direction.

GLOSSARY

Commercial terminology

Account clearing

The accumulation of the balances of various bank accounts in a target account, taking account of defined minimum levels. This produces a balance of available liquidity in the target account, which is used for various forms of investment.

Benchmark

Benchmarking describes comparative analysis on the basis of set reference values (benchmarks).

Cash flow

Cash flow is an economic measure that represents the net flow of liquidity resulting from sales and other continuing activities in a certain period.

Cash management

Cash management and liquidity management are terms used in commercial finance management. Cash management includes all measures relating to the current financial planning of a company

Cost of materials ratio

The cost of materials ratio represents the relationship between expenditure on materials and services and turnover. It is expressed as a percentage.

The DACH region

DACH is an acronym comprised of abbreviations of the German names of the countries in the region: Germany (D), Austria (A), and Switzerland (CH). The term is usually used to refer to the German speaking economic area.

Discounted cash flow method

The DCF method is used to determine the value of companies. Future cash flow is discounted by taking into account the cost of capital on a reporting date.

EBITDA

Earnings before interest, taxes, depreciation and amortisation.

EBITDA margin

The ratio of EBITDA to sales. The EBITDA margin is a measure of a company's productivity and is independent of its income from financial assets, extraordinary items, and taxes.

Factoring

Factoring is a financial service used to finance current sales. The factor purchases the accounts receivable of its factoring client vis-à-vis a debtor. In exchange for the accounts receivable the factor pays the factoring client the value of the receivable immediately.

Forecast

A forecast is a projection used in budget planning. During the progress of a period, forecasts are used to update expectations for the period compared the original budget.

Free float definition (of Deutsche Börse)

Deutsche Börse's definition for the classification of free floating and fixed share holdings. An example can be found in the "Guide to the Equity Indices of Deutsche Börse".

FTE

Abbreviation of Full Time Equivalent. The FTE value is used to compare the relative staffing levels of a company and as a basis for calculations; the FTE value is used to convert figures regarding absolute staffing levels to their equivalent in terms of full-time positions. For example, two 50 % contracts would be counted as one employee, even if two different individuals are employed.

German Corporate Governance Code

The German Corporate Governance Code (often shortened to DCGK) is a system of regulations established by a commission of the German Federal Government. It is primarily composed of guidelines regarding good corporate governance, including ethical employee behaviour and the leadership of companies and organisations.

Goodwill

Goodwill is the amount a purchaser is prepared to pay for a business or company with regard to its expected future earnings (= earnings value) above the value of individual assets after the deduction of debts (= net asset value).

Gross domestic product (GDP)

The value of all goods and services produced by an economy, as defined by its territorial border, within a given year. GDP includes the services of foreigners working in a country, whereas the services of natives working abroad are not included.

Gross profit

Gross profit is the difference between a company's revenue and its expenditure on goods and services.

IAS International Accounting Standards

See IFRS

IASB

The International Accounting Standards Board (IASB) is an independent international committee of legal experts which is responsible for the development, and where required, the revision of the International Financial Reporting Standards (IFRS).

IFRS

The International Financial Reporting Standards (IFRS) is a set of international standards used by organisations when reporting their financial results. They include the standards of the International Accounting Standards Board (IASB), International Accounting Standards (IAS), the International Accounting Standards Committee (IASC) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

Impairment Test

An impairment test is a mandatory test used to evaluate fixed assets. The accounting regulations US-GAAP and IFRS call for the periodic evaluation of possible indicators of sustained loss of value.

Working capital

Working capital refers to the difference between current realisable assets (those that can be liquidated within a year) held by a company and its current liabilities. It is the portion of current assets which are not tied up in covering current liabilities, and can therefore be "put to work" in purchasing, production, and working processes.

Xetra trading

Xetra is an electronic trading system operated by Deutsche Börse AG for the spot market. Its central servers are located in Frankfurt.

IT terminology

Bitkom

The Bundesverband Informationswirtschaft, Telekommunikation und neue Medien e. V. (the German Federal Association for Information Technology, Telecommunications and New Media) is Germany's digital association. Founded in 1999, it represents more than 2,700 companies in the digital economy.

Content solutions

In the context of its expansion strategy, adesso is developing a portfolio of solutions. The focus is on functions that are of interest to a large number of clients in the same or similar form, and can therefore be marketed as a solution. adesso's Content Solutions include solutions for the generation and management of content.

Enterprise Content Management

Enterprise Content Management (ECM) includes the methods and technologies and tools used to collect, manage, save, protect, and provide content and documentation for the support of organisational processes in a company.

FirstSpirit

The name of content management system produced by the adesso subsidiary e-Spirit AG.

Internet of Things

The term Internet of Things or in brief IoT describes that conventional personal computers (PC) are increasingly disappearing as a device and replaced with "smart objects". The "Internet of things" is meant to support people unnoticeably in their everyday activities. For this purpose, computers/sensors become smaller and smaller to be embedded in objects. Hence, they neither distract the users nor being noticed at all. They serve to collect and to process data, can be networked to communicate or initiate useful processes.

Mobile solutions

In the context of its expansion strategy, adesso is developing a portfolio of solutions. The focus is on functions that are of interest to a large number of clients in the same or similar form, and can therefore be marketed as a solution. adesso classes all solutions that help make information, content and applications remotely accessible as mobile solutions.

FINANCIAL CALENDAR

<i>Date</i>	<i>Event</i>
2020-01-09 to 10	23rd ODDO BHF Forum, Lyon
2020-02-24	Roadshow, Frankfurt/Main
2020-03-31	Publication of the 2019 annual report, financial press/analyst conference, Dortmund
2020-05-14	Interim announcement of the group within the 1st half-year
2020-05-18 to 20	Spring Conference 2020, Frankfurt/Main
2020-06-03	Regular ASM, Dortmund
2020-08-31	Publication of the 2020 half-year report
2020-09-21	Berenberg & Goldman Sachs Ninth German Corporate Conference, Unterschleißheim
2020-11-13	Interim announcement of the group within the 2nd half-year
2020-11-16 to 18	German Equity Forum, Frankfurt/Main

IMPRINT

adesso SE | Adessoplatz 1 | 44269 Dortmund | Germany
T +49 231 7000-7000 | F +49 231 7000-1000 | ir@adesso.de

Concept: adesso SE

Layout: Marcus Lazzari, www.roeske-lazzari.de

Photography: Martin Steffen Fotografie
Christian Nielinger Fotografie und Gestaltung (www.nielinger.de)
christoph meinschäfer FOTOGRAFIE

adesso SE
Adessoplatz 1
44269 Dortmund
Germany
T +49 231 7000-7000
F +49 231 7000-1000
ir@adesso.de
www.adesso-group.de/en/
www.adesso.de/en/

