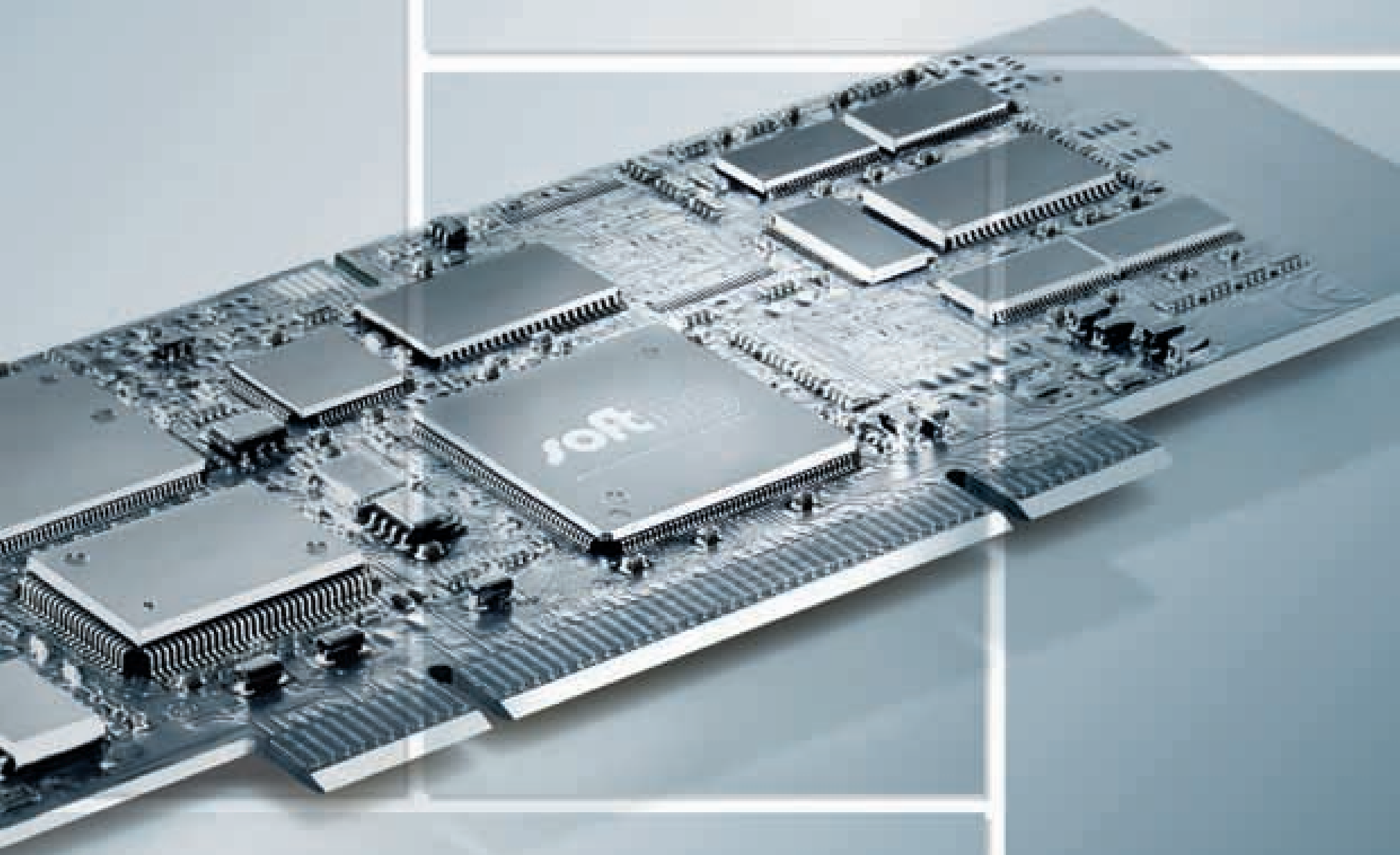
2010

Annual Report



- Growth
  Sales expanded to EUR 32 million
- Profitability
  EBIT improved by EUR 4 million
- Outlook
  Softing continues to grow!

softing
your connection to excellence

Consolidated Key Figures

		2010	2009	2008
Revenue	(EUR million)	31.67	23.66	33.36
EBIT	(EUR million)	1.53	-2.46	3.43
Consolidated profit/loss	(EUR million)	0.99	-1.85	2.44
Non-current assets	(EUR million)	9.98	10.60	8.76
Current assets	(EUR million)	16.27	10.95	14.68
Equity	(EUR million)	14.96	13.62	15.91
Cash and cash equivalents	(EUR million)	6.14	4.17	5.57
Number of employees (annual average)		224	227	235
DVFA/SG earnings per share	(EUR)	0.19	-0.33	0.46

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Dear Shareholders, Partners and Friends of Softing,

Out of the darkness and back into the light is one way of describing our performance in 2009 and 2010. These past two years could not have been more different for Softing. Following the 2009 economic crisis, in 2010 Softing posted the second-highest sales in the history of the Company, a figure just marginally short of its record to date. The light is shining brightly again.

This is demonstrated by the key indicators of incoming orders, sales, and earnings, all of which were given an unexpectedly strong boost. Incoming orders surged by around 34 %, while sales also rose 34 % to EUR 31.7 million. Standing at around EUR 1.5 million, EBIT was up no less than EUR 4.0 million. All other indicators also show that Softing is back on a healthy growth course. Details can be found in the overview table inside the cover of this annual report.

The success of the *Industrial Automation* (IA) and *Automotive Electronics* (AE) segments can be attributed to the combination of products with unique selling points, the systematic expansion of the global sales channels in 2009, and steady, cost-conscious development. So, when the economy started to recover, Softing was ideally positioned to comfortably exploit the market potential that emerged in 2010.

The brisk business freed up management capacity, which we directly channeled into preparing our business system for the future. Mid-2010, we transformed Softing AG into a management holding company under which operations were spun off into four individual companies. This will enable the IA and AE segments to take advantage of their individual opportunities for growth much better in the future. Toward the end of the year, several groundbreaking deals were concluded in these two segments that will ensure a profitable basic load for our business for years to come.

The fundamental realignment of the *Automotive Electronics* segment presented us with a particular challenge in the second half of the year. Our primary objective was to reduce the volatility that had repeatedly put enormous pressure on the Group in recent years. For this, we redefined

Softing's strategic direction and analyzed all operating activities in detail. Initial results include the re-entry into a long-term business relationship with a premium manufacturer in Germany, the renegotiation of various customer and supplier relationships with a substantial increase in profitability, and the establishment of mobile measurement technology as a completely new strategic pillar of AE. By concluding a long-term agreement with a German sports car maker, Softing secured its first reliable customer with high visibility. By the end of 2011, we will have an attractive product portfolio at our disposal in the range of high-performance measurement technology with which we will acquire more customers from 2012 onward.

Once the fundamentals of the business for 2011 have been essentially ensured, we will repeat the approach that proved successful in 2010 and, as early as the end of the first quarter, focus our management capacity on securing new business for several years that will safeguard further growth from 2012 onward. The initial success of this strategy can be seen in the partnership the IA segment has forged with Kontron that will benefit Softing substantially over the coming years. In the AE segment, several major customers will soon be awarding a number of promising tenders.

Management's specifications for our staff in 2010 were more exacting and ambitious than ever before. The success of all projects ultimately hinges on having a powerful team of competent, motivated employees able to implement our strategies in operations for the benefit of and to the elation of our customers. I am therefore particularly eager to thank employees throughout the Group for their individual contributions to helping us achieve our corporate objectives.

We have set the following main objectives for 2011:

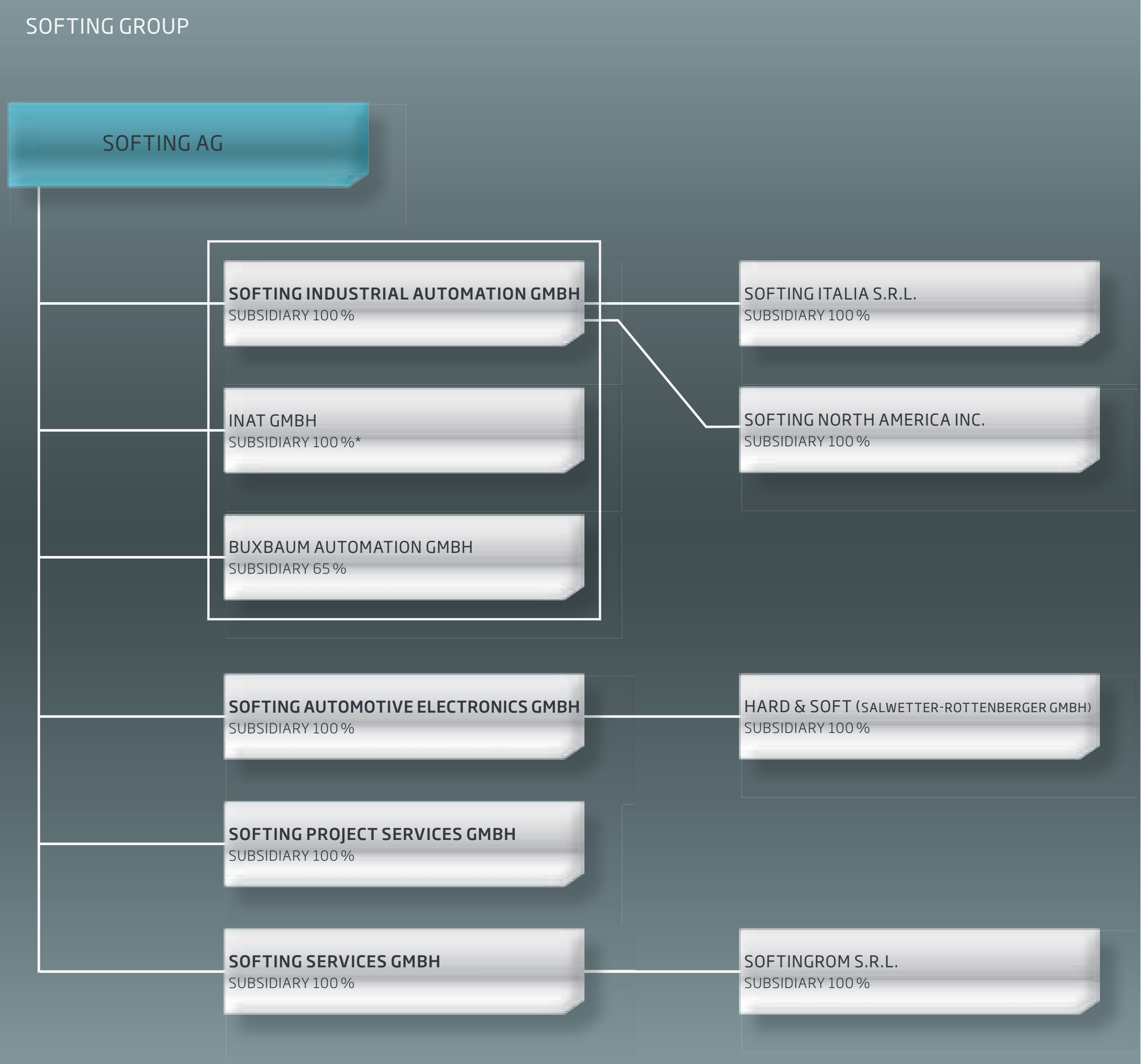
- Generate sales of around EUR 35 million and EBIT of more than EUR 1.8 million
- Continue our growth strategy – sustainable, profitable growth throughout the Group is more important than short-term margin expansion
- Pursue opportunities for non-organic growth, with particular emphasis on substantive additions and development of new regions
- Reflect our business success in share price performance

2011 will be remembered for the devastating earthquake in Japan. What is asked of people there is very difficult for us in Central Europe to conceive. This moves me particularly because I personally have close contact with our Japanese staff and customers. In economic terms, the events will also have knock-on effects worldwide. Despite our strong strategic and operating focus, we at Softing cannot avoid being influenced by the effect of major events on the global economy. Still, we intend to draw inspiration from the discipline and tenacity of the Japanese in tackling these challenges and not complain about any slowdown in economic growth.

Please continue to accompany us on our journey. It will be worth it.

Dr. Wolfgang Trier
(Chief Executive Officer)

Structure Softing Group



* since January 2011, previously 87.25 %. Renamed Softing Industrial Networks GmbH in March 2011.

Trade Fairs 2010

INDUSTRIAL AUTOMATION

March	08 - 11	SPS Industrial Automation Fair, Guangzhou, China
March	23 - 24	Fieldbus Foundation General Assembly, Houston, USA
March	23 - 25	Automation Conference, Böblingen, Germany
April	19 - 21	Process Automation (Interkama), Hanover, Germany
October	19 - 21	SPS/IPC/DRIVES Italia, Parma, Italy
November	23 - 25	SPS/IPC/DRIVES, Nuremberg, Germany

AUTOMOTIVE ELECTRONICS

February	02 - 04	Automotive Testing Expo India, Hyderabad, India
February	09 - 11	14th Annual Euroforum Meeting "Electronic Systems in Vehicles," Munich, Germany
March	17 - 18	International CTI Forum "Automotive Diagnostic Systems," Stuttgart, Germany
May	03 - 04	4th Conference "Diagnosis in mechatronic vehicle systems," Dresden, Germany
June	15 - 16	International mic Convention "Progress in Automotive Electronics," Ludwigsburg, Germany
June	16 - 17	30th Conference "Electronics in Vehicles," Dresden, Germany
June	22 - 24	Automotive Testing Expo Europe 2010, Stuttgart, Germany
September	14 - 16	Automotive Testing Expo China, Beijing, China
October	27 - 28	3rd AutoTest Conference, Stuttgart, Germany

Trade Fairs 2011

INDUSTRIAL AUTOMATION

March	01 - 03	Embedded World, Nuremberg, Germany
March	15 - 16	Automation Conference, Böblingen, Germany
April	05 - 08	Hannover Messe, Hanover, Germany
May	24 - 26	SPS/IPC/DRIVES Italia, Parma, Italy
October	01	Save, Verona, Italy
October	04 - 06	Oktober SMART Automation, Linz, Austria
November	22 - 24	SPS/IPC/DRIVES, Nuremberg, Germany
Various events:		Roadshows, Germany (Diagnostics, Process Data Management and Industrial Maintenance Days)
		Roadshows, Italy (PTO and Industrial Ethernet)
		PI North America Roadshows (18 events)
		OPC Foundation roadshows (6 events)
		Regular customer get-togethers organized by Buxbaum Automation, Austria

AUTOMOTIVE ELECTRONICS

March	23 - 24	International CTI Forum "Automotive Diagnostic Systems," Stuttgart, Germany
April	14 - 15	5th OBD Conference, Braunschweig, Germany
May	09 - 10	5th Conference "Diagnosis in mechatronic vehicle systems," Dresden, Germany
May	17 - 19	Automotive Testing Expo Europe 2011, Stuttgart, Germany
June	07 - 08	International mic Convention "Progress in Automotive Electronics," Ludwigsburg, Germany
September	14 - 16	Automotive Testing Expo China, Shanghai, China
October	12 - 13	"Electronic Systems for Vehicles," Baden-Baden, Germany

Group Management Report for the 2010 Financial Year

BUSINESS MODEL AND GROUP STRUCTURE

Business Model

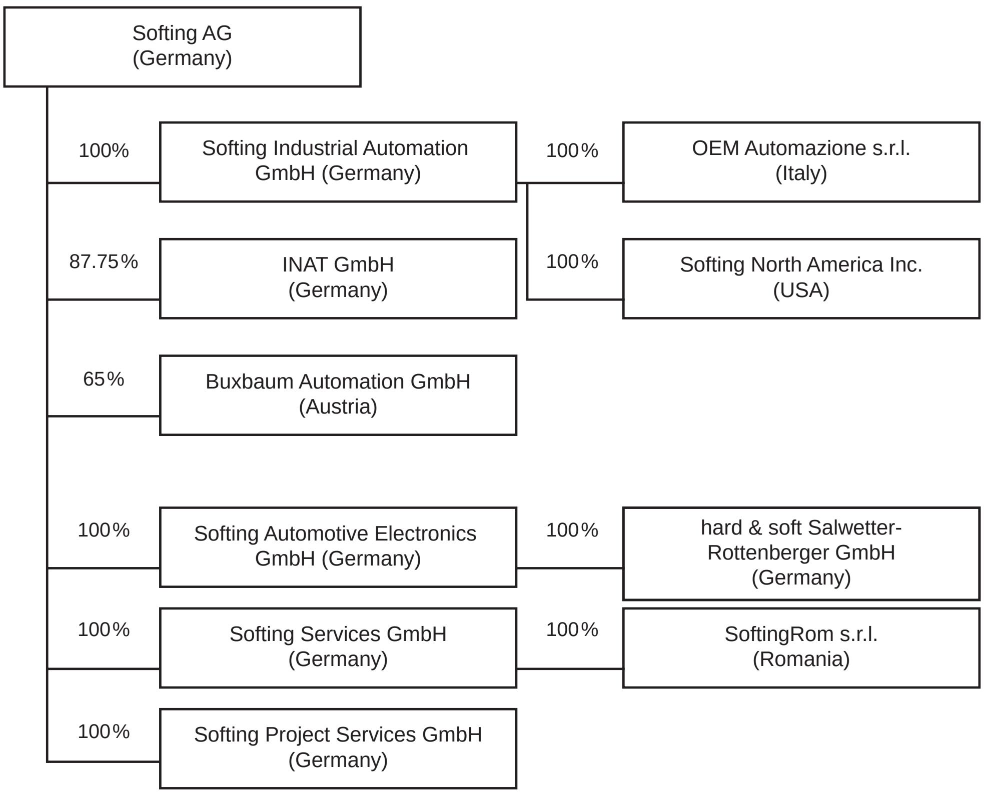
Softing has an international presence as a software and systems house in two segments. *Industrial Automation* and *Automotive Electronics*. The Company develops complex, high-quality software, hardware and complete system solutions. Hardware prototypes are typically developed by Softing itself; production takes place externally.

In the *Industrial Automation* segment, Softing has positioned itself as a leading product and technology supplier in the market. It focuses on components and tools for fieldbus systems and industrial control systems, as well as on solutions for production automation.

The powerful tools and solutions offered by its *Automotive Electronics* operating segment have made Softing a systems partner to automobile manufacturers as well as systems and control unit suppliers. Softing specializes in vehicle communication, diagnostics and test systems.

Consulting, analyses, studies and training round out the range of services offered by both operating segments. Softing primarily offers its services and products to the European market, though the North American market is becoming increasingly important. Softing has also entered Asian markets such as Japan and China.

Legal Group Structure

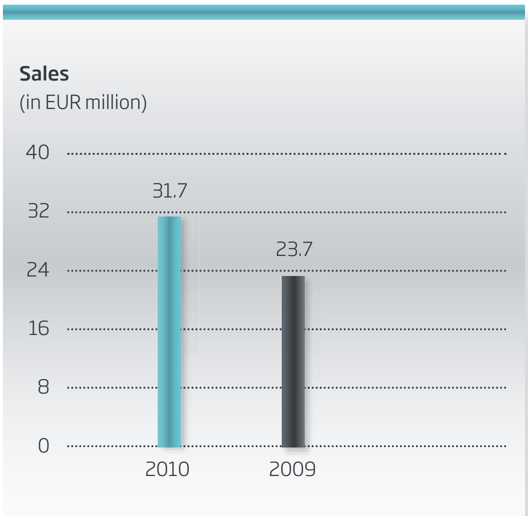


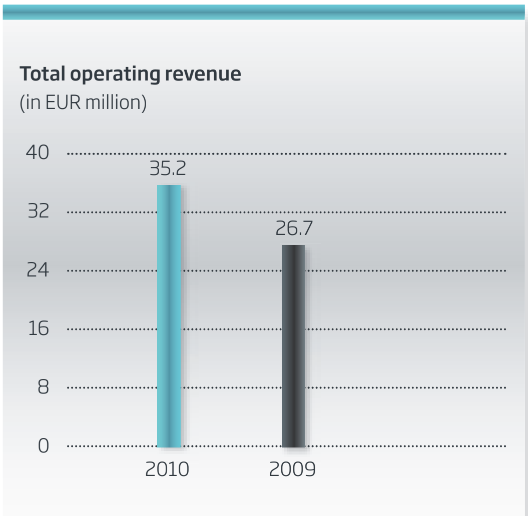
The General Shareholders' Meeting on May 31, 2010, resolved to spin off the Company's operating segments, *Industrial Automation* and *Automotive Electronics*, as well as all related services to four subsidiaries, specifically, Softing Industrial Automation GmbH, Softing Automotive Electronics GmbH, Softing Services GmbH and Softing Project Services GmbH.

The Softing Group now comprises the following entities:

- Softing AG, Haar, Germany
- Softing Industrial Automation GmbH, Haar
- Softing Automotive Electronics GmbH, Haar
- Softing Services GmbH, Haar
- Softing Project Services GmbH, Haar
- INAT GmbH, Nuremberg
- hard & soft Salwetter-Rottenberger GmbH, Reutlingen
- OEM Automazione s.r.l., Cesano Boscone, Italy
- SoftingROM s.r.l., Klausenburg, Romania
- Softing North America Inc., USA
- Buxbaum Automation GmbH, Eisenstadt, Austria

In 2009, Softing AG acquired all equity interests in OEM Automazione s.r.l., a company domiciled in Cesano Boscone, Italy; it was renamed Softing Italia s.r.l. during the financial year and made a subsidiary of Softing Industrial Automation GmbH. The Company's sales office, Softing North America Inc. (Softing North America), which is domiciled in Newburyport, MA, USA, also is a subsidiary of Softing Industrial Automation GmbH. This entity operates in the North American market. Softing's North American subsidiary focuses on the Industrial Automation segment. Softing North America has its own development facilities and offers project services in addition to overseeing our product business in North America. In 2010, both companies also made a positive contribution to the overall earnings of the Softing Group.





The subsidiary SoftingROM s.r.l. (SoftingROM), which is domiciled Klausenburg, Romania, is a subsidiary of Softing Services GmbH. Founded in 2005 to provide development and project services, it now comprises around 30 developers who form an important pool of IT specialists for complex development tasks within the Softing Group. SoftingROM is also strategically important to the Group for competitive reasons.

INAT GmbH is known as a strong brand in industrial automation. The company's focus is on products for industrial communication, OPC software and network diagnostics in the manufacturing and process industry. By acquiring INAT GmbH, Softing has strategically strengthened its *Industrial Automation* segment. At the same time, the sales organizations of both companies will benefit from synergies: INAT profits from Softing's good international position in the process and manufacturing industry, while Softing will gain access to new customers and markets through INAT's products and sales channels.

The acquisition of majority stakes in two sales offices in 2009 – Buxbaum Automation GmbH, Eisenstadt, and OEM Automazione, Milan, now allows Softing to serve customers in both countries locally. The Group's improved sales presence helped it to generate significant sales in 2010.

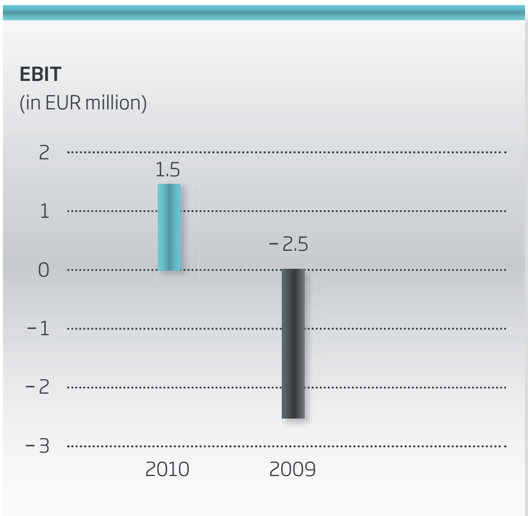
Legally a subsidiary of Softing Automotive Electronics GmbH, hard&soft Salwetter-Rottenberger GmbH complements and strengthens the *Automotive Electronics* segment in the production and distribution of test systems for ECUs in the automotive manufacturing sector.

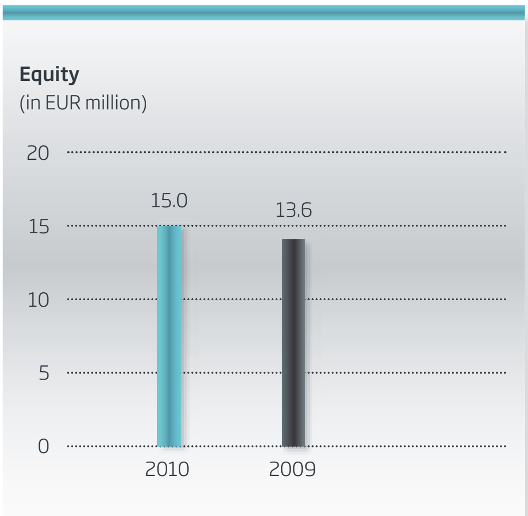
The consolidated financial statements for the reporting period were prepared in accordance with the requirements of the International Accounting Standards Board (IASB).

MANAGEMENT, GOALS AND STRATEGY OF THE SOFTING GROUP

Management

The Softing Group uses two key performance indicators (KPI) – sales, as well as earnings before interest and taxes (EBIT) – to manage its business on the whole. Working capital is also managed via KPIs, in particular, inventories and trade receivables.





Inventories are analyzed on an ongoing basis, and any need for writedowns is determined based on inventory coverage. Short-term sales forecasts are used to manage orders for new goods based on inventory availability. Trade receivables are continuously monitored based on their aging structure and tested for impairment. Receivables are usually subject to internal credit limits. Days sales outstanding (DSO) are also monitored on an ongoing basis and constitute yet another key performance indicator used to manage the Company's working capital.

Goals

While the Softing Group aims for sustained, profitable growth in both sales and profits, the profitability goal supersedes pure growth targets. The Company has specified these goals by setting a long-term target of 10 % for earnings before interest and taxes.

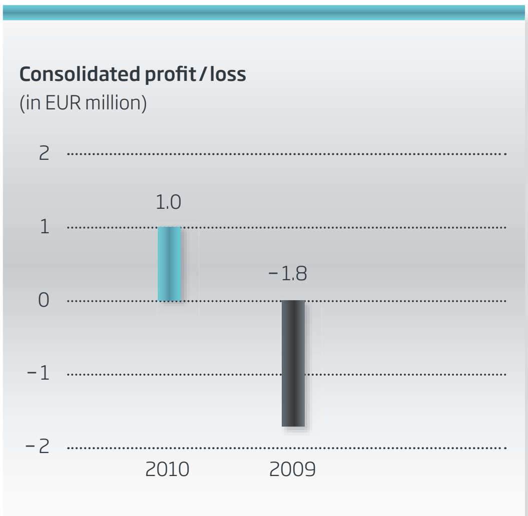
Strategy

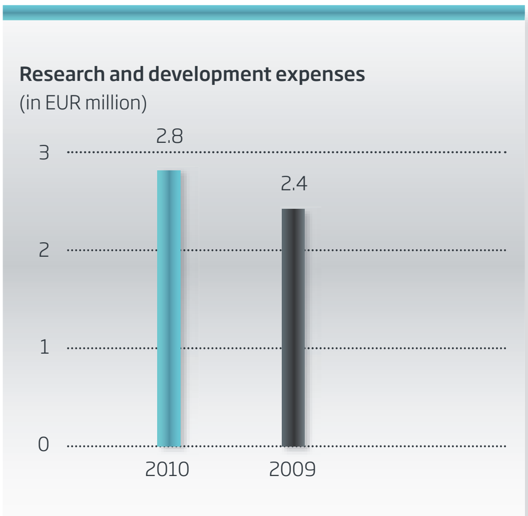
The Executive Board established the strategic goals for the Softing Group's next four years in collaboration with the Company's managers. It will oversee the implementation of the strategy at the operating level and continuously monitor it. The expansion of Softing's current market positions is a key strategic goal. Besides broadening the Company's existing customer base, this will also require working systematically to acquire new customers.

ECONOMIC ENVIRONMENT AND PERFORMANCE

The Two Faces of the Global Economy in 2010

Governments and industries have managed since the end of 2008 to avert the most onerous consequences of the global economic crisis, albeit at the price of extremely high sovereign debt levels. First signs of economic stabilization already began to appear in the second half of 2009 thanks to various stimulus packages and cheap money policies – but not everywhere. While Germany and other countries around the world generated economic growth in excess of 3 % in some cases, countries on Europe's periphery were mired in mountains of debt. This puts enormous pressure on Germany because of the common currency.





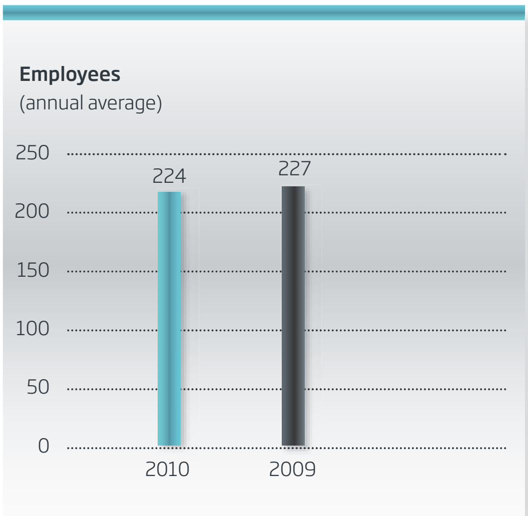
According to the International Monetary Fund (IMF), the global economy expanded by 5.0 %. It stated that in 2010 the gross domestic product (GDP) grew by 1.8 % in the euro zone, 2.8 % in the United States and 10.3 % in China. It also described the economic climate as "a two-speed global recovery." While the recovery in the industrialized countries was subdued, the upturn in emerging and developing countries was very robust, with both the Chinese and the Indian economy at risk of overheating.

The German Economy:
Largest GDP growth since reunification

In 2010, the German economy recovered much more rapidly than most industrialized economies. While the Kiel Institute for the World Economy (Kieler Institut für Weltwirtschaft – IfW) expects Germany's GDP to grow by 3.4 %, the Federal Statistical Office even anticipates GDP growth of 3.6 % in real terms. The economic recovery occurred primarily in the spring and summer of 2010. In 2009, GDP had fallen by 4.7 %.

In the view of the Federal Statistical Office, remarkably, it was not just the export industry that stimulated growth in 2010; for the first time in years, the impetus also came from domestic demand. In particular, capital expenditures were higher year on year (+ 9.4 %); then again, 2009 had seen the largest declines. While investments in construction did not expand as much (+ 2.8 %), they had not collapsed to the same extent either. Personal consumption also rose in 2010. Real personal spending rose by 0.5 %, government spending even by 2.2 %.

The German Engineering Federation (Verband Deutscher Maschinen- und Anlagenbau – VDMA) reports that the German machinery and plant engineering industry expanded by 6 % in 2010. Orders began to climb again in the summer of 2009. According to the German Electrical and Electronic Manufacturers' Association (Zentralverband der Elektroindustrie – ZVEI), rarely has the expansion of the German automation industry been so unexpectedly strong and robust as in all of 2010. The free fall in 2009, the crisis year, when production plummeted by 22 % and sales by 24 %, was followed by an equally rapid and robust upturn. On the whole, the ZVEI forecasts sales growth of 20 % and an increase in orders by 25 %.



The ZVEI's Electronic Components and Systems unit estimates that in 2010 the market for electronic components grew by a good 24 % in Germany, even by just under 30 % worldwide. It believes that the markets' recovery has been sparked by the sharp increase in demand for components in the industrial and automotive electronics segment, as well by the fact that industrialized countries' restrained investment climate is easing. The substantial increase in demand in Asia/Pacific also made a strong contribution to the recovery. At a sales gain of about 33 % in 2010, this region likely posted the highest growth worldwide.

Profit or Loss

The economy came back to life in 2010, producing high growth rates in the industrial and automotive sector, both of which had collapsed in the course of the 2009 economic crisis. The Softing Group benefitted from these developments. Consolidated sales climbed from EUR 23.7 million by EUR 34 % to EUR 31.7 million.

The increase was just about equal in both segments. Sales rose from EUR 15.0 million by 35 % to EUR 20.2 million in the *Industrial Automation* segment and from EUR 8.7 million by EUR 32 % to EUR 11.5 million in the *Automotive Electronics* segment.

The cost of materials increased by EUR 2.7 million or 43 %, due, for one, to the 34 % increase in sales and, for another, the fact that product sales accounted for a larger portion of total sales. Indeed, product sales increased by about 52.7 % in 2010 whereas project sales fell by 9.5 %. Projects use fewer goods than product sales. The cost of materials ratio (cost of materials relative to sales) rose accordingly from 26.7 % to 28.6 %.

Staff costs climbed EUR 1.2 million or 8 % for various reasons. The variable salary components that had dropped dramatically the previous year rose substantially thanks to improved profits. Our employees had agreed to voluntary salary givebacks in 2009. These givebacks ended in 2010 because the economy picked up again. Short-time work at both Softing AG and INAT GmbH also stopped during the year's second half thanks to good order levels.

Depreciation, amortization and impairment losses rose by EUR 0.2 million in 2010. The absence of impairments on goodwill in 2010 had a mitigating effect on this item, in contrast to the previous year when impairment losses were EUR 0.3 million. Depreciation and amortization rose, however, because of increased investments in new products. These exceeded the previous year's impairment losses on goodwill by EUR 0.2 million.

Other expenses rose from EUR 4.8 million by EUR 0.4 million (or 8 %) to EUR 5.2 million. This also contains the expenses for the spin-offs from Softing AG in the second half of 2010.

Earnings before interest and taxes (EBIT) climbed by EUR 4.0 million to EUR 1.5 million thanks to the reinvigorated economy.

Net profit for the year after taxes and interest was EUR 1.0 million. Given existing loss carryforwards, the tax expense largely concerns deferred taxes that will lead to lower tax payments in the future.

Assets, Liabilities and Cash Flows

The Softing Group had equity of EUR 15.0 million at the end of 2010 (previous year: EUR 13.6 million), representing an increase of EUR 1.4 million or 10 %. The Group's equity ratio fell from 63 % to 57 % as a result of the increase in total equity and liabilities.

Among others, the Group's non-current assets comprise capitalized product developments, deferred tax assets, goodwill and other intangible assets. Non-current assets at the end of 2010 represented 38,0 % of total assets. (previous year: 49.1 %). This is offset by equity and non-current liabilities representing 71,3 % (previous year: 74,8 %) of total equity and liabilities.

Cash and cash equivalents at year's end were EUR 4.3 million (previous year: EUR 3.6 million). The cash flow from operating activities rose by EUR 1.7 million to EUR 3.4 million thanks to the positive development of both the economy and consolidated profit, which was EUR 2.8 million higher year on year. But the increase in net trade receivables and provisions for variable salaries had a countervailing effect.

Cash used for investing activities rose by EUR 1.5 million to EUR 4.4 million due to investments in the development of own products that were EUR 0.5 million higher year on year and purchases of securities classified as current assets for EUR 1.3 million.

We also used a EUR 1.2 million loan in the financial year just ended to ensure our funding in the long term, and sales of treasury shares generated proceeds of EUR 0.5 million.

On balance, cash and cash equivalents rose from EUR 3.6 million by EUR 0.7 million to EUR 4.3 million in the course of the year.

Research and Product Development

For years, the Softing Group has invested more than 10 % of its product sales in research and development. In total, Softing invested EUR 2.8 million (previous year: EUR 2.4 million) in the development of new products and the enhancement of existing ones. As in previous years, these developments were financed exclusively through Softing's own resources.

Investments in the *Industrial Automation* segment totaled EUR 1.7 million (previous year: EUR 2.1 million). The main focus was on the enhancement of existing product lines and the addition of new products as well as the continued clear orientation of all development work on its earnings potential. In 2010, we worked especially to optimize the existing product portfolio of Softing *Industrial Automation* with the aim of ensuring excellent functionality and simple, uncomplicated operation.

The initial version of the OPC UA Toolkit, as well as product refinements in the Industrial Ethernet family, represented substantial innovations in the *Industrial Automation* segment: IP Cores for PROFINET; EtherNet IP; EtherCAT and MODBUS; the RTE Module; as well as the RTE Evaluation Kit, which is the development tool for Softing Industrial Ethernet products.

Large, additional investments were made in a new gateway platform for process automation, as well as in FFusb and FFblue, a new compact interface for the process industry.

In 2010, the *Automotive Electronics* segment invested a total of EUR 1.1 million (previous year: EUR 0.3 million), thus slightly strengthening the development of new products and the enhancement of existing ones compared to the previous year. In order to promote developments that are in line with market demand and ensure that

Softing has suitable concepts in place when the economy picks up again, the Company invested in product developments in close coordination with potential customers.

We had started to focus on our core expertise (diagnosis, bus communication and testing) in 2009 and continued in that vein in 2010, this time giving priority to the enhancement of the diagnostic tool set (DTS). DTS-COS – the operating system for all diagnostic applications, as it were – was further refined to fulfill the requirements of the most recent version of ISO 22900/22901. Likewise, the broadening of our universal and manufacturer-independent development tester, DTS-Monaco, will enable us to service additional customer applications. It will be brought to market in 2011. The *Automotive Electronics* segment placed comprehensive orders with a leading premium manufacturer in 2010 before the year was out. This also required integrating a new component that is based on a standard (ISO 13209 – OTX open test sequence eXchange). The OTX sequential function chart forms the basis of a new product family related to testing on the whole.

We also launched solutions that go beyond the passenger car segment (the strongest one), for instance for the utility vehicle segment, which requires testing solutions such as end-of-line test stands. The *Automotive Electronics* segment continued to focus on the open diagnostic data exchange ODX standard, as in previous years. Softing offers the entire product range related to it, from the DTS-Venice ODX-Editor, to the DTS-Monaco testing tool along with the DTS-COS D-Server, all the way to test automation solutions using the TestCASE and TestCUBE testing tools. Regarding interfaces, Softing expanded the successful EDIC hardware platform by a 32-bit platform to meet automotive customers' strict requirements in this area too.

Softing employees are participating in standardization committees to promote development work in this area. The implementation of the ODX 2.2 standard (ISO 22901) in first products shows that these committees' crucial work in recent years has paid for itself. For one, it guarantees the Softing customer's investment and, for another, warrants that Softing's products are rooted in standards, thus enabling flexible connections to third-party solutions. As a result, Softing's attractive products and solutions position it well in the revived market. This also applies to the passenger car and utility vehicle market where we offer a range of activities from vehicle development and testing, to manufacturing, all the way to after-sales and repair shops.

In 2010, Softing consolidated its strong position in the segment for vehicle interfaces for communicating with automotive electronic systems and individual control units by implementing additional functionalities. Innovative hardware and software solutions that are currently still in development will further increase the benefits for customers. Worth mentioning in this context is the development of a 32 bit platform that meets customers' increasing requirements.

The TestCUBE for simulating automotive control units and sub-networks was fundamentally redesigned, and the second generation of this product is now generating a great deal of customer interest. Flexible simulation is particularly helpful to development work when the aim is to simulate individual electronic control units or even entire ECU groups using a single device. This helps to avoid the large expense of ensuring the availability of individual ECUs all the way to entire vehicles.

Softing will strengthen its position in the field of model-based testing through research projects with vehicle manufacturers and research institutes. This is also reflected in the continued increase in the number of resident engineers among automakers in this area.

The quality initiative launched in 2007 known as a SPICE project (Software Process Improvement and Capability Determination) continued in 2010 and led to a further improvement in development processes and an increase in the achievable standard of quality. Innovative software engineering and software quality assurance methods will continue to be important in this context.

Softing continued to raise its profile in 2010, having started to focus on its core competence in 2009. To that end, the Company used its partnerships – e. g. with Robert Bosch GmbH/ETAS GmbH, TraceTronic GmbH as well as Samtec Automotive Software & Electronics GmbH – to match the given market with the respective partners' products and services and then work it using Softing's portfolio of services.

The economic crisis has been overcome. This applies to Softing too. The cuts that were made in 2009, especially in the *Automotive Electronics* segment, successfully stabilized our business and laid the foundation for expanding it in 2010. In retrospect, our success in winning key projects from leading companies is largely rooted in our focus on business activities that we are now actively pursuing. It shows that Softing has established itself as one of the market leaders, especially in automotive diagnostics. The Softing Group continues to secure its technology leadership through technological partnerships, participation in important standardization committees and involvement in innovative research projects.

Employees

At the end of 2010, the Softing Group had a total of 233 full-time employees (previous year: 219). There were 143 employees working in research and development (previous year: 135), and 60 in marketing and sales (previous year: 58).

Softing once again invested heavily in employee training in 2010. This training focused on strengthening the sales expertise and expanding the leadership skills of Softing's employees. Every year, an external ISO certification audit is carried out to ensure the quality of our development processes. Softing successfully passed this audit.

Targeted recruiting enabled us to substantially enhance the Company's recognition this past year, also among students. It is an important factor in the success of the revived resident engineering business. It helped us to expand this business in 2010. Recruiting new employees with adequate qualifications is a major challenge. We will make substantial efforts in this regard during the current year too.

OPPORTUNITIES FOR THE COMPANY'S FUTURE DEVELOPMENT

Softing AG – Enhancing the Operating Segments

Effective 1 July 2010, Softing AG elevated its former operating segments – *Industrial Automation* and *Automotive Electronics* – to separate entities that have the legal form of a German limited liability company. To this end, they were transferred in toto by law to the new companies under a spin-off agreement. Besides the four core companies at its Haar headquarters, the Softing Group now also comprises six subsidiaries. The new structure imposes clear parameters on the subsidiaries, making it easier to generate further growth.

Continued Focus on *Automotive Electronics*

After the crisis in the automobile industry had severely hit the *Automotive Electronics* segment in 2009, Softing initiated structural and personnel measures to minimize the effects of the crisis. In conjunction with this, the segment tightened its focus on its core fields of data communication, diagnosis and test systems. The resulting increase in productivity, combined with ongoing quality assurance measures form a solid foundation for the future improvement of the segment's performance. In addition, several deals of strategic importance were closed at the end of 2010, thus firmly anchoring the segment among key customers.

Product Range in the *Industrial Automation* Segment

In prior years, the Company made several organizational and operational adjustments in *Industrial Automation* – especially with the aim of intensifying its alignment with the market – by moving away from pure technology-oriented solutions toward products whose components are aligned with the market in strategic terms. We will pursue this realignment in 2011 also. In 2010, our investments served first and foremost to revamp our portfolio with a focus on our core markets – manufacturing automation and process automation – as well as harmonize all products across individual technologies. The market's response to these Softing solutions has been excellent, and the Company anticipates generating further sales growth in this area.

Use of New Technologies

Wireless communication is gradually gaining a foothold in the market. Softing adopted this technology at an early stage by establishing a wireless HART product range and developing a hardware module for wireless HART devices. Three strategic customers were acquired in the past year, so further growth can be expected in 2010.

INAT GmbH Subsidiary

In April 2008, Softing acquired a majority stake in the Nuremberg-based INAT GmbH, which has strengthened several key strategic elements of the *Industrial Automation* segment. In the meantime, Softing has acquired all shares in INAT GmbH, making this entity a wholly-owned subsidiary of Softing AG. INAT is widely known as a strong industrial automation brand that specializes in the manufacturing and process industry. INAT offers an attractive product portfolio consisting of OPC software and products for Ethernet network diagnosis and for improving the performance of industrial controllers.

SoftingROM Subsidiary

Softing continually develops new products and technologies in order to address the transition to new technologies, as well as to tap new markets and opportunities for growth. The Romanian subsidiary SoftingROM has the task of boosting the required development services. Romania is an ideal location for Softing since it can be reached quickly and inexpensively from Munich. There are also many well-educated young engineers and computer scientists in the region. The Romanian subsidiary has evolved into an important pillar of the Softing Group.

Softing North America, Inc. Subsidiary

Softing North America generated clearly positive earnings in 2010. The Company's product business is now established in the US market. We see potential for further sales growth in 2011 as well. Some of the new products developed in 2008 and 2009 will sustainably support this development in the medium and long term. Smart alliances and product policies in 2011 will provide a good opportunity for continuing to overtake competitors and evolving into the de facto standard in industrial communication for the process industry.

Sales Offices in Austria and Italy

The acquisition of majority stakes in two sales offices in 2009 – Buxbaum Automation GmbH, Eisenstadt, and Softing Italia s.r.l., Milan, now allows us to serve customers in both countries locally. Leveraging Softing's expanded and enhanced sales structures enabled the Company to acquire new customers and generate significant sales in 2010 too.

RISK MANAGEMENT AND INDIVIDUAL RISKS

Softing is an international company involved in industrial automation technology and automotive electronics. The Company is exposed to a number of risks that are inextricably linked to its entrepreneurial activities.

In particular, this concerns risks resulting from market development, the positioning of products and services, contractual and non-contractual liability, and business processes. Our business policy is to best exploit existing business opportunities . It is the task of our risk policy to carefully weigh the risks associated with this. Risk management is therefore an integral component of our business processes and company decisions.

Risk principles are defined by our Executive Board. They include statements on risk strategy, the willingness to take risks and the scope of these principles.

We use a number of control systems to monitor and control our risks. These include a centralized company planning process, among other things. We regularly monitor the achievement of our business goals and the risks that are connected to this as well as the accounting processes.

The risks involved in individual business processes were also periodically recorded, analyzed and evaluated in the reporting period. We also assessed whether individual risks which are of minor importance when viewed in isolation could develop into a risk threatening the Company's existence when combined.

The risk factors mentioned below could have a strong negative impact on the Company's business performance, cash flows and profit or loss. Risks that we believe to be of little relevance to our business at this time are not mentioned.

Business Risks

Following the dramatic downturn in 2009, both sales and earnings rose sharply in 2010, especially in the year's second half, but did not quite regain the respective level achieved in 2008, a record year.

In general, there is a risk of underutilization of capacities and the risk of sustaining pressure on realizable revenues. We meet these risks with stricter cost management measures and flexible working hour models so that we can quickly adapt to any changes in demand. We also used short-time work as a tool in 2009 to that end. Softing AG has discontinued short-time work as of July 2010. It made it possible for us to react in appropriate ways to the dramatic decline in orders in 2009 besides reducing both overtime and vacation.

The situation on the market is characterized by a rapid change of the employed technologies. This means that there is a danger that acquired know-how may prematurely lose value due to an unexpected market development. We address this risk by actively participating in a large number of national and international working groups, which enables us to recognize technological trends early on and help shape them ourselves.

Operational Risks

In certain areas of our business, we are involved in the complex development projects of our customers. These projects entail a certain realization risk regarding the planned budgets and time frames. Any deviations could lead to a deterioration of profit and claims for damages. We deal with this risk by planning such projects in accordance with a process model defined by our quality management system, and by carefully monitoring project progress with an alarm controlling system. We make continual investments to further improve Softing's already high quality standard.

Risk of Damages

Our products and services are used in the production of industrial goods. Downtime or malfunction can result in significant damage to persons and property. We reduce this risk by following a careful development process which is tailored to the specific scope of application. Significant residual risks have been covered through insurance policies.

Credit Risks

Credit risks have not played a significant role in the past. Our restrictive credit management process allows us to identify imminent insolvencies faster and thus to counteract them in due time. Together, all of these measures again helped to forestall major defaults on receivables in 2010.

Currency Risks

The constant expansion of our business with customers in the United States and other dollar countries has increased the significance of assessing currency risks. In the reporting period, we hedged most of the currency risks in connection with our US subsidiary's operating activities. During the 2010 financial year, Softing hedged the expected cash flows of Softing North America by entering into classic foreign currency forward contracts.

Supplier Risks

When manufacturing products – particularly hardware products – we make considerable use of supplies from external companies. The inclusion of third parties in our value chain naturally reduces the level of influence we have on quality, costs and adherence to schedules. Unexpected price increases can affect the result considerably. We counteract this risk through long-term supplier contracts wherever possible. Supplier failures can lead to delivery bottlenecks. We reduce this risk by regularly auditing our suppliers and consistently limiting the share of deliveries from individual suppliers.

Risks to the Existence of the IT Infrastructure

As in all companies, the smooth functioning of business processes depends on the availability of our IT infrastructure. Attacks from the Internet, as well as other IT failures or damages to our IT infrastructure, pose a serious threat to the Company's ability to function. We addressed these risks by means of systematic risk analysis, which led to the implementation of a host of individual measures aimed, in particular, at rapid recovery of all stored data. In addition, we implemented IT security measures which so far prevented damage caused by computer viruses and sabotage.

In our view, there are no acute risks that would jeopardize the Company's existence as a going concern.

EVENTS OF SPECIAL IMPORTANCE AFTER THE END OF THE FINANCIAL YEAR

Dr. Michael Siedentop left Softing AG on 31 January 2011 upon expiration of his contract; Dr. Wolfgang Trier has assumed his responsibilities since then.

INAT GmbH, which is domiciled in Nuremberg, has become a wholly-owned subsidiary of Softing AG in the meantime because the latter acquired the remaining equity interests of 12.25 % in INAT GmbH on January 1, 2011.

There were no other events of special importance after the end of the financial year.

FORECAST FOR THE COMPANY'S FUTURE DEVELOPMENT

Economic Experts Expect Stable Growth Worldwide

The Kiel Institute for the World Economy (IfW) forecasts worldwide growth of 4.4 % in 2011, specifically, 1.5 % in the euro zone and roughly 6.5 % in the developing countries. Following the burst of economic activity in 2010, the German economy is expected to slow down in 2011 and expand by 1.7 %. The IfW's forecasters expect it to remain robust, however, driven mainly by domestic demand; the impetus for growth from abroad will slowly subside. According to the experts, domestic demand will recover at a stronger pace in Germany than elsewhere in the euro zone.

The forecasts of the German Electrical and Electronic Manufacturers' Association predict further recovery in 2011, albeit at a slower pace than in 2010; their projection for growth in the German electrical and electronic industry is 7 %. The German Engineering Federation, in contrast, believes that the industry will do even better in 2011 than in 2010 and anticipates growth of 8 %.

Softing Expects Its Sales and Earnings to Increase in 2011

Softing has established itself as a competent partner to customers in industrial automation with products for the networking of installations based on relevant fieldbus systems. Drawing on its fieldbus expertise, Softing develops hardware and software products that are an important component of reliable industrial automation, both within individual fieldbus worlds and in the connection of these worlds to one another.

Industrial investments in fieldbus systems have grown at disproportionately high rates over the past years. Established standards such as PROFIBUS DP or CAN-based protocols are still being installed in major industrial plants with a useful life in excess of 20 years.

Softing *Industrial Automation* provides competitive products and services across all industries in connection with all industrial communications technologies – whether based on fieldbus or Ethernet, or wireless. Investments made at an early stage allow us to anticipate potential technological changes in a timely manner.

In 2010, we worked systematically on rounding out the range of equipment we offer and continued to refine our system concepts. Softing has already achieved its goal of becoming the market leader in the field of PROFIBUS fieldbus diagnosis. The Company will strengthen and consolidate this position in the years to come by taking a number of coordinated measures.

The *Automotive Electronics* segment is equally optimistic about its prospects in 2011. The 2011 financial year will be taken up by the implementation of key customer projects, the expansion of the resident engineer business as well as the development of new products and the refinement of existing ones. Softing *Automotive Electronics* is in a strong position thanks to its focus on its core competence – data communication, diagnosis and test systems. Its exemplary customer focus and the expansion of its networks among customers and partners alike will enable the company to further expand its strong market position.

Past and future investments are expected to yield sustained returns thanks to the global standardization of ODX (ISO 22901) in recent years and the global harmonization of the Modular Vehicle Communication Interface (ISO 22900). Important projects with major customers are now in the start-up phase. This issue has become increasingly significant to Asian markets as well – especially South Korea, India and China – and Softing is pursuing it systematically.

We are engaged in important talks with automotive companies regarding test automation. We now need to exploit these opportunities and translate them into practice with all players on board.

Softing Automotive Electronics GmbH will also continue to participate in international working groups for data communication and diagnosis to contribute new ideas and to benefit from the promising concepts which emerge.

Outlook for the 2011 Financial Year

Softing expects to boost both orders and sales in 2011 on the whole given the positive economic climate, higher penetration of the relevant market as well as its customers' estimates. In 2011, sales should rise by 10 % to roughly EUR 35 million, and EBIT to roughly EUR 1.8 million, a substantial increase by 17 %. In our view, the improvement in sales will occur more or less equally in both segments. We also expect sales and EBIT to continue growing in 2012, again in both segments.

The medium-term prospects for the Softing Group also remain positive. Softing expects to continue increasing sales and earnings in the 2012 financial year and following.

Our strategy is to systematically strengthen our own activities and expand our worldwide presence through targeted partnerships.

We also believe that the current financial year will offer new opportunities for non-organic growth. Softing will use its shareholder structure, its independence and its solid financial base in targeted ways to that end.

Thanks to a combination of its modern product portfolio, close proximity to customers and good financial reserves, Softing is in a better position than many competitors and thus will be able to benefit from opportunities in the market in the near term.

OTHER DISCLOSURES

This management report contains disclosures and forecasts that reflect the views of the Executive Board of Softing AG on both the Company's and the Group's performance in the future. It is based on the assumption that these assessments are realistic. But underlying assumptions might not materialize, and risks and uncertainties might occur. Actual events thus may deviate materially from targets for a variety of reasons such as changes in the business and economic environment, as well as material changes in the project business or in customers' investing activities.

DISCLOSURES UNDER SECTION 315 PARA 4 GERMAN COMMERCIAL CODE

1. In 2010, the share capital of Softing AG was EUR 5,637,198, denominated in the same number of no-par shares, all granting the same rights, specifically voting rights. No shareholder or shareholder group has special rights.

2. Shareholders' voting rights are not restricted by law or the Company's Articles of Incorporation. The voting rights are not limited to a specific number of shares or votes. The Executive Board is not aware of any limitations regarding the voting rights.

   The shareholders of Softing AG are not limited by law or the Company's Articles of Incorporation in their decision to purchase or sell shares. To be effective, the purchase or sale of shares does not require the approval of the Company's boards. The Executive Board is not aware of any limitations regarding the assignability of shares.

3. We have been notified of the following direct or indirect equity interests exceeding 10 % of voting rights:

   Ms. Sonia Trier informed us pursuant to Section 21 para 1 German Securities Trading Act that her voting share in Softing AG as of July 1, 2010, had fallen below the reporting thresholds of 20 % and 25 % and as of this day was 17.26 % (corresponding to 973,205 voting shares).

4. The Company has not issued any shares with special rights conferring powers of control.

5. All employees may directly exercise their control rights in connection with their equity interests.

6. In accordance with § 7 of the Articles of Incorporation of Softing AG, the Executive Board of Softing AG comprises one or more persons. Even if the Company's share capital exceeds EUR 3,000,000, the Executive Board may comprise just one person. Deputy members of the Executive Board may be appointed. The Supervisory Board appoints the members of the Executive Board and determines the number of persons serving on the Executive Board. The Supervisory Board may appoint a chairman of the Executive Board and a deputy chairman of the Executive Board.

   The Supervisory Board is authorized to make amendments to the Articles of Incorporation insofar as they concern only the wording thereof. More comprehensive amendments to the Articles of Incorporation are subject to the requirements of Sections 133 and 179 German Stock Corporation Act.

7. In May 2010, the General Shareholders' Meeting authorized the Executive Board of Softing AG to increase the Company's share capital with the approval of the Supervisory Board once or several times by a total of EUR 2,799,000 by issuing new no-par value bearer shares against contributions in cash and/or in kind until May 30, 2015. Said authority was not exercised to date. In May 2010, the General Shareholders' Meeting authorized the Executive Board to purchase own shares until May 30, 2015, provided that such purchase is not made for the purpose of trading in treasury shares, and provided that the purchase price of said shares is not more than 10 % above or below the share's average closing price at the Frankfurt Stock Exchange during the last ten days preceding the purchase. The closing price shall be determined as the share's closing auction price in electronic trading on the Frankfurt Stock Exchange (XETRA trading) or a system succeeding XETRA trading. The authorization may be exercised once or several times, in whole or in part. It is limited to purchasing shares representing no more than a total of 10 % of the Company's share capital. Any treasury shares acquired under this authorization – together with other treasury shares that the Company has already acquired and still holds – may not exceed 10 % of the Company's share capital.

   The buy-back serves to create an acquisition currency that is required in the medium term and that is available at a price which the Company believes to be considerably below fair value. The Company held a total of 307,602 treasury shares as of 31 December 2010.

8. There are no material agreements entered into by the parent company that provide for a change of control following a takeover bid.

9. According to an agreement, the sole member of the Executive Board has the right to terminate his employment for cause if a shareholder or shareholder group acting in a coordinated fashion way holds more than 25 % of the voting rights. If this Executive Board member exercises this right to terminate his employment for cause, he is entitled to compensation equaling approximately two annual salaries.

BASIC INFORMATION ON THE COMPENSATION SYSTEMS FOR MEMBERS OF CORPORATE BODIES

Compensation of the Executive Board is divided into a fixed salary component and a performance-based, i.e. variable component. The performance-based components are contingent on both consolidated profit and each individual operating segments earnings in the financial year just ended as well as on personal factors. Likewise, Softing AG's market capitalization is key to the variable component of executive compensation as well. Members of Softing AG's Executive Board are also entitled to a company car. There is no stock option plan in place. For more details regarding the Executive Board's compensation, please see the notes to the consolidated financial statements.

Each member of the Supervisory Board receives a fixed compensation of EUR 10,000 for each full financial year of service on the Supervisory Board. In addition, they also receive a variable remuneration equaling 0.5 % of consolidated EBIT before taking into account the Supervisory Board's variable compensation. The chairman receives 200 % of the fixed and variable amount, the deputy chairman 150 %. The compensation for the entire Supervisory Board is limited to a total of EUR 200,000 p. a. per financial year.

DESCRIPTION OF THE MATERIAL COMPONENTS OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM RELEVANT TO THE GROUP'S FINANCIAL REPORTING PROCESS IN ACCORDANCE WITH SECTION 315 PARA 2 NO. 5 GERMAN COMMERCIAL CODE

Definitions and Elements of the Softing Group's Internal Control and Risk Management System

The Softing Group's internal control system comprises all principles, procedures and actions required for ensuring the effectiveness, economy and propriety of the Company's financial reporting as well as compliance with material legal requirements.

Our internal control system comprises an internal management and monitoring system.

Monitoring mechanisms that are process-integrated or uninvolved in business processes constitute the elements of the Softing Group's internal monitoring system. Hence automated IT process controls besides manual process controls – such as the two-person integrity (TPI) principle – are an integral part of all process-integrated activities.

The activities of both the auditor of the Group's consolidated financial statements and other auditors (such as those tasked with performing comprehensive tax audits) are uninvolved in business processes and, as such, are part and parcel of the controls surrounding the Softing Group. In particular, the audit of the consolidated financial statements – which is performed by an entity uninvolved in business processes – is at the core of the monitoring activities that are relevant to the Group's financial reporting process.

As part of the internal control system, those aspects of the risk management system that concern financial reporting are focused on the risk of misstatements in the Group's bookkeeping as well as its external reporting system. Besides risk management at the operating level – which also includes risk transfer to insurance companies through insurance policies serving to limit the risk of loss or liability as well as through suitable hedging transactions serving to limit foreign currency risks – the Softing Group's risk management system also comprises early detection as well as management and monitoring of risks, systematically and groupwide. The Softing Group has established a monitoring system pursuant to Section 91 para 2 German Stock Corporation Act that is aimed at early detection of risks that might jeopardize the Company's existence in order to ensure systematic early detection of risk throughout the Group. For additional disclosures on the risk management system, please see the section entitled, "Risk Management and Individual Risks."

Use of IT Systems

Accounting transactions are recorded in the single-entity financial statements of the German companies' subsidiaries using IFS's bookkeeping system. Our foreign subsidiaries utilize local providers of bookkeeping systems. All subsidiaries supplement their separate financial statements by additional information using standardized reporting packages that are entered into Softing AG's consolidation system in connection with the preparation of the Group's consolidated financial statements. Softing AG has been using this consolidation system, which it developed itself on the basis of a Microsoft database system, for many years to draw up its consolidated financial statements. The auditor of Softing AG's consolidated financial statements regularly reviews the interface between the reporting system and the consolidation system as well as the reconciliation between the two. All consolidation processes required to prepare the consolidated financial statements of Softing AG – e. g. acquisition accounting, asset and liability accounting, or elimination of expenses and earnings – are generated and documented in the consolidation system.

Specific Risks Related to the Financial Reporting Process

Specific risks related to the financial reporting process may arise from unusual or complex transactions, for instance. Transactions that are not routinely processed also entail inherent risks. Additional risks related to the financial reporting process arise from the latitude that employees must be given in regards to the recognition and measurement of assets and liabilities.

Material Control and Monitoring Activities Aimed at Assuring the Propriety and Reliability of the Financial Reporting Process

All facets of the internal control system that serve to provide a proper and reliable financial reporting process ensure complete and timely recording of all transactions in compliance with all requirements under the law and the Company's Articles of Incorporation. It also assures that inventories are taken in proper fashion and that both assets and liabilities are accurately recognized, measured and shown in the consolidated financial statements. These control activities also serve to ensure that the bookkeeping records provide reliable and plausible information.

The monitoring activities serving to ensure that the financial reporting is proper and reliable also comprise the analysis of transactions and developments using specific analyses of key indicators. The separation of functions related to administration, execution, accounting and approval – as well as their perception as such by a variety of individuals – limits the possibilities for engaging in intentional acts. For example, this also ensures that bookkeeping processes are carried out both in the proper period and in full even if the IT systems that the Group companies use for the underlying accounting are changed.

The internal control system also serves to make sure that changes in the Softing Group's economic or legal environment are duly presented and that new or amended statutory requirements concerning the financial reporting process are applied.

The accounting standards of the International Financial Reporting Standards (IFRS) represent the uniform accounting policies applied by the domestic and foreign entities included in Softing's consolidated financial statements. Besides general accounting policies, in particular, this concerns requirements related to the balance sheet, the income statement, the notes, the management report, the cash flow statement and segment reporting, taking requirements under EU law into account.

Softing's accounting standards of also govern concrete formal requirements that the consolidated financial statements must fulfill. They not only determine which companies to include in consolidation, they also fix the components of the reporting packages that the Group companies must prepare in detail. Among other things, these formal requirements serve to ensure the binding utilization of a standardized and complete set of forms. Softing's accounting standards also contain specific requirements regarding the treatment and settlement of intragroup transactions and the reconciliation of accounts based thereon.

At the Group level, the specific elements of control designed to ensure the propriety and reliability of Group accounting principles comprise analyses and possibly revisions of Group companies' separate financial statements. The centralized execution of impairment tests for the cash generating units from the Group's perspective assures that uniform and standardized measurement criteria are applied. Furthermore, additional data are processed and aggregated at the Group level in regards to external information in both the notes and the management report, including information related to events after the reporting period.

Caveats

The internal control and risk management system makes it possible to record, process and measure all transactions pertaining to the Group as well as their appropriate presentation through the financial reporting process thanks to the Softing Group's organizational, control and monitoring structures.

However, personal discretion, defective controls, criminal acts or other circumstances cannot be precluded by the very nature of the matter at hand and, as a result, may limit the effectiveness and reliability of the internal control and risk management system such that even groupwide application of the systems utilized cannot guarantee with absolute certainty complete, accurate and timely recording of transactions as part of the financial reporting process.

Haar, Germany, March 7, 2011
Softing AG

The Executive Board

Dr. Wolfgang Trier

Consolidated Financial Statements of Softing AG

Consolidated Balance Sheet

as of December 31, 2010

Assets		Notes	Dec. 31, 2010 EUR	Dec. 31, 2009 EUR
A.	**Non-current assets**			
	I. Intangible assets			
	1. Goodwill	C 1	2,438,952	2,438,952
	2. Development costs	C 2	3,665,725	3,401,440
	3. Other intangible assets	C 3	966,607	1,342,657
			7,071,284	7,183,049
	II. Property, plant and equipment			
	Other equipment, furniture and fixtures and office equipment	C 4	611,258	670,873
	III. Other financial receivables	C 9	875,000	875,000
	IV. Deferred tax assets	D 9	1,425,622	1,845,003
			9,983,164	**10,573,925**
B.	**Current assets**			
	I. Inventories	C 6		
	1. Raw materials and consumables		484,707	354,387
	2. Finished goods		1,548,060	1,870,808
			2,032,767	2,225,195
	II. Trade receivables			
	1. Trade receivables	C 7	6,377,976	3,616,510
	2. Receivables from customer-specific construction contracts	C 8	422,811	472,676
			6,800,787	4,089,186
	III. Other financial receivables	C 9	997,886	273,415
	IV. Tax assets	C 11	116,529	42,937
	V. Securities	C 12	1,864,780	600,000
	VI. Cash and cash equivalents	C 12	4,274,684	3,572,317
	VII. Other assets	C 10	185,217	151,878
			16,272,650	**10,954,928**
		▸	**26,255,814**	**21,528,853**

Equity and liabilities		Notes	Dec. 31, 2010 EUR	Dec. 31, 2009 EUR
A.	**Equity**			
	I. Issued capital	C 13	5,637,198	5,637,198
	II. Capital reserves	C 13	1,683,820	1,683,820
	III. Retained earnings	C 13	8,323,112	7,541,274
	IV. Treasury shares	C 13	-771,735	-1,336,254
	Attributable to shareholders of Softing AG		14,872,395	13,526,038
	V. Minority interest		90,324	91,692
			14,962,719	**13,617,730**
B.	**Non-current liabilities**			
	1. Employee benefits	C 14	1,146,034	992,013
	2. Other financial liabilities	C 15	1,257,177	82,554
	3. Deferred tax liabilities	D 9	1,355,210	1,406,769
			3,758,421	**2,481,336**
C.	**Current liabilities**			
	I. Other provisions	C 16	113,014	99,845
	II. Trade payables			
	1. Trade payables	C 17	1,579,255	1,403,029
	2. Payables from customer-specific construction contracts	C 8	165,131	161,735
	III. Other borrowings	C 18	392,400	146,640
	IV. Other financial liabilities	C 19	4,667,727	3,082,755
	V. Tax liabilities		50,000	174,644
	VI. Other liabilities	C 20	567,147	361,139
			7,534,674	**5,429,787**
		►	**26,255,814**	**21,528,853**

Consolidated Income Statement

for the 2010 Financial Year

		Notes	2010 EUR	2009 EUR
1.	Revenue	D 1	31,673,831	23,664,893
2.	Other own work capitalized	D 2	2,709,202	2,159,435
3.	Other income	D 3	817,916	831,838
			35,200,949	**26,656,166**
4.	Cost of materials	D 4		
	a) Cost of raw materials, consumables and purchased goods		-8,373,035	-5,501,333
	b) Cost of purchased services		-679,368	-807,687
			-9,052,403	-6,309,020
5.	Employee benefit costs	D 5		
	a) Wages and salaries		-13,752,468	-12,949,340
	b) Social security and retirement benefit costs		-2,325,067	-1,971,168
			-16,077,535	-14,920,508
6.	Depreciation, amortization and impairment losses	D 6	-3,313,454	-3,066,349
7.	Other expenses	D 7	-5,224,053	-4,824,478
8.	**Earnings before interest and taxes (EBIT)**		**1,533,504**	**-2,464,189**
9.	Finance income	D 8	108,580	99,223
10.	Finance costs	D 8	-288,191	-165,560
			-179,611	-66,336
11.	**Earnings before taxes (EBT)**		**1,353,893**	**-2,530,525**
12.	Tax expense (previous year: tax income)	D 9	-368,117	683,404
13.	**Consolidated profit / loss**	▸	**985,776**	**-1,847,121**
	Distribution of consolidated profit / loss			
	Losses attributable to minority interest		-1,368	-170,919
	Profits (previous year: losses) attributable to the shareholders of the parent company		987,144	-1,676,202
		▸	**985,776**	**-1,847,121**
	Earnings per share (diluted = basic)	E 4	0.19	-0.33

Consolidated Statement of Comprehensive Income

for the 2010 Financial Year

	Notes	2010 EUR (in thsds.)	2009 EUR (in thsds.)
Consolidated profit / loss		986	-1,847
Currency translation differences (changes in unrealized gains / losses)		-31	-24
Losses from the sale of treasury shares		-34	-10
Losses from the measurement of securities		-11	
Actuarial gains / losses from pension provisions	C 14	-146	-340
		-222	**-374**
Tax items offset directly against equity		17	96
Income and expense recognized directly in equity (after taxes)		-205	-278
Total comprehensive income	▸	**781**	**-2,125**
Attributable to minority interests		-1	-171
Attributable shareholders of Softing AG		782	-1,954
Total comprehensive income	▸	**781**	**-2,125**

Consolidated Statement of Changes in Equity

for the 2010 Financial Year

	No-par bearer shares	Issued capital	Capital reserves	Retained earnings				Treasury shares	Equity before minority interest	Minority interest	Total equity
				Valuation surplus	Currency translation	Other	Total retained earnings				
	Number	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)
December 31, 2008 / January 1, 2009	5,637,198	5,637	1,684	74	-49	9,471	9,496	-1,085	15,732	176	15,908
Changes in equity 2009											
Change in minority interest	0	0	0	0	0	0	0	0	0	86	86
Purchase / sale of own shares	0	0	0	-10	0	0	-10	-251	-261	0	-261
Differences from currency translation	0	0	0	0	-24	0	-24	0	-24	0	-24
Income and expense recognized directly in equity (before taxes)	0	0	0	-340	0	0	-340	0	-340	0	-340
Tax items offset directly against equity	0	0	0	96	0	0	96	0	96	0	96
Consolidated profit / loss 2009	0	0	0	0	0	-1,676	-1,676	0	-1,676	-171	-1,847
	0	**0**	**0**	**-254**	**-24**	**-1,676**	**-1,954**	**-251**	**-2,205**	**-85**	**-2,290**
December 31, 2009 / January 1, 2010	5,637,198	5,637	1,684	-180	-73	7,795	7,542	-1,336	13,527	91	13,618
Changes in equity 2010											
Purchase / sale of own shares	0	0	0	-34	0	0	-34	564	530	0	530
Differences from currency translation	0	0	0	0	-31	0	-31	0	-31	0	-31
Income and expense recognized directly in equity (before taxes)	0	0	0	-157	0	0	-157	0	-157	0	-157
Tax items offset directly against equity	0	0	0	17	0	0	17	0	17	0	17
Consolidated profit / loss 2010	0	0	0	0	0	987	987	0	987	-1	986
	0	**0**	**0**	**-174**	**-31**	**987**	**782**	**564**	**1,346**	**-1**	**1,345**
December 31, 2010	**5,637,198**	**5,637**	**1,684**	**-354**	**-104**	**8,782**	**8,324**	**-772**	**14,873**	**90**	**14,963**

Consolidated Cash Flow Statement

for the 2010 Financial Year

	2010 EUR (in thsds.)	2009 EUR (in thsds.)
Consolidated profit / loss	986	-1,847
Adjustments		
Interest income	-109	-99
Interest expense	288	166
Income tax	368	-683
Depreciation and amortization	3,313	3,066
Exchange differences	-1	-1
Change in provisions	13	25
Change in inventories	192	293
Change in trade receivables, financial receivables and other assets	-3,450	1,790
Change in financial and other liabilities	2,052	-885
Interest received	109	99
Interest paid	-165	-35
Income tax paid	-217	-170
Cash flow from operating activities	**3,379**	**1,719**
Cash receipts from the disposal of intangible assets and property, plant and equipment	11	7
Cash payments for investments in property, plant and equipment	-243	-147
Cash payments for investments in intangible assets	-2,909	-2,449
Cash payments for the acquisition of consolidated companies	0	-264
Cash flow from non-current investing activities	**-3,141**	**-2,853**
Cash receipts from the sale of securities classified as current assets	0	575
Cash payments for the purchase of securities classified as current assets	-1,265	-600
Cash flow from investing activities	**-4,406**	**-2,878**
Cash receipts from the sale of treasury shares	530	65
Cash payments for the purchase of own shares	0	-326
Cash receipts from borrowings	1,200	0
Cash flow from financing activities	**1,730**	**-261**
Net change in funds	703	-1,420
Cash and cash equivalents at the beginning of the period	3,572	4,992
Cash and cash equivalents at the end of the period ▸	**4,275**	**3,572**
For further information, please see item E3 of the Notes.		

Notes to the Consolidated Financial Statements for the 2010 Financial Year

A. GENERAL INFORMATION

1. BASIS

The consolidated financial statements of Softing AG were prepared in accordance with all International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) that were applicable on the balance sheet date and all interpretations of the International Financial Reporting Interpretations Committee (IFRIC) that were binding for the financial year ended and applicable in the European Union in accordance with Regulation No. 1606/2002 of the European Parliament and of the Council on the application of international accounting standards. The term IFRS also includes the applicable International Accounting Standards (IAS). Furthermore, the provisions applicable under German Commercial law as defined in Section 315a para 1 German Commercial Code (HGB) were also taken into account.

The consolidated income statement is drawn up using the nature of expense format. The consolidated financial statements are structured in accordance with the provisions of IAS 1. The presentation in the consolidated balance sheet differentiates between current and non-current assets and liabilities. Assets and liabilities are classified as current if they become due within one year.

The reporting currency is the euro (EUR). All amounts are stated in thousands of euros (EUR thsd.) unless indicated otherwise. These financial statements cover the 2010 financial year based on the reporting period from January 1 to December 31 of that same year.

The consolidated financial statements and the Group management report are published in the electronic Federal Gazette.

The Executive Board of Softing AG released the consolidated financial statements to the Supervisory Board on March 7, 2011. It is the task of the Supervisory Board to examine the consolidated financial statements and declare whether it approves them.

2. PURPOSE OF THE GROUP

Softing AG, headquartered in Haar near Munich, Germany, is the Group's parent company. Softing AG is a stock corporation under German law. It is registered at Munich Local Court with the address "Richard-Reitzner-Allee 6, 85540 Haar."

The purpose of Softing AG and its subsidiaries is to provide analysis, consulting, development and implementation services in the context of IT projects as well as business studies, expert opinions and training, especially in the areas of process automation and production data acquisition, system and user software for micro- and minicomputer systems, long-distance data transmission, computer networks and commercial IT applications.

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3. NEW AND REVISED STANDARDS

Changes in Accounting Policies Due to New Standards and Interpretations

In the 2010 financial year, the Company applied the IFRS whose application is mandatory for financial years beginning on or after January 1, 2010. The International Financial Reporting Standards (IFRSs) are applied in the form they were transposed into national law by the European Commission subject to the due process of endorsement. The following standards and interpretations were applied by the Company for the first time in 2010 provided they were material to its activities:

- Newly structured IFRS 1: An amended version of IFRS 1 entailing changes in the standard's structure has replaced the previous version of IFRS 1 with the aim of designing it such that it would be easier to use and amend in the future. The new version of IFRS 1 eliminates obsolete transitional provisions and entails minor editorial changes. The currently applicable requirements were not changed however.

- IFRIC 18: IFRIC 18 clarifies and explains the accounting for transfers of items of property, plant and equipment or cash from customers in connection with the acquisition or construction of an item of property, plant, and equipment.

- IFRIC 17: IFRIC 17 clarifies and explains how to account for distributions of non-cash assets to the owners of an entity.

- Amendments to IAS 39: The amendments to IAS 39 clarify the treatment in hedge accounting of the inflation portion of financial instruments and options used as hedging instruments.

- IFRIC 15: IFRIC 15 shows when revenue from the construction of real estate must be recognized in the financial statements and whether or not an agreement concerning the construction of real estate is subject to the scope of IAS 11 Construction Contracts or IAS 18 Revenue.

- IFRIC 16: IFRIC 16 clarifies how to fulfill the requirements of IAS 21 and IAS 39 in those cases where an entity hedges the foreign currency risk arising from a net investment in a foreign operation

- Revised version of IFRS 3: The revised version of IFRS 3 establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest and the goodwill acquired in a businesscombination. It also establishes what information to disclose in connection with such a combination.

- IFRIC 12: IFRIC 12 clarifies how to apply the IFRSs that the EU has already adopted to service concession arrangements. IFRIC 12 gives guidance on the accounting by operators for infrastructure underlying such service concession arrangements. It also clarifies that a service concession agreement entails different phases (construction phase and operation services) and how to account for revenue and cost in each case. Accordingly, infrastructure and related revenue and costs can be recognized in two ways – either as a financial asset or an intangible asset – depending on the uncertainty of the operator's future revenue.

Initial application of these standards and interpretations does not have any material effects on the consolidated financial statements of Softing AG.

Standards and Interpretations Not Applied Early

The following standards and interpretations have already been transposed into EU law but must only be applied to the annual financial statements for financial years beginning after December 31, 2010:

- Amendment to IAS 32: This amendment to IAS 32 clarifies how to account for certain subscription rights if the related instruments were issued in a currency other than the entity's functional currency. If such instruments are offered to the current owners at a fixed amount, then they should also be classified as equity instruments if the subscription price is quoted in a currency other than the entity's functional currency

- Amendments to IAS 27: The amendments to IAS 27 clarify the circumstances in which an entity must prepare consolidated financial statements, a parent must account for changes in the level of ownership interest in a subsidiary and how to distribute the loss of a subsidiary between the controlling and the non-controlling interest.

- IFRIC 19 is designed to give guidance on accounting for equity instruments that a debtor issues to a creditor after renegotiating the terms of a financial liability for the purpose of extinguishing it partially or fully.

- Amendments to IFRIC 14: These amendments serve to remove an unintended consequence of IFRIC 14 in cases where an entity subject to minimum funding requirements makes a prepayment of future contributions and where entities that make such prepayments should expense them in some circumstances. If a defined benefit plan is subject to minimum funding requirements, under the present amendment to IFRIC 14 such a prepayment shall be treated like any other prepayment and recognized as an asset.

- Revised version of IAS 24: These amendments aim to simplify the definition of a related party and, at the same time, eliminate certain inconsistencies from the definition and provide a partial exemption for government-related entities from the disclosure requirements regarding transactions with related parties.

- Amendment to IFRS 1: Because first-time adopters are not exempted from comparative disclosures on fair value measurements and the liquidity risk, which IFRS 7 requires for comparative periods ending before December 31, 2009, this amendment of IFRS 1 now permits the exemption for these entities also.

- Amendments to IFRS 1: Pursuant to the amendments to IFRS 1, oil and gas entities that transition to IFRSs may apply the carrying amounts determined under previous GAAP for oil and gas assets. Entities that decide to use this exception are required to measure decommissioning, restoration and similar liabilities related to oil and gas assets in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets, and recognize the liabilities in retained earnings. The amendments to IFRS 1 also concern any reassessment of the determination whether an arrangement contains a lease.

- Amendment of IFRS 2: The amendment to IFRS 2 clarifies the method used to account for share-based payment transactions when a supplier of goods or services is paid in cash but another group entity has the obligation to settle the transaction in cash (cash-settled share-based payment transactions by a group entity).

- Improvements of the IFRS: The changes largely entail clarifications or corrections of existing IFRSs or changes arising from previous modifications of the IFRSs. The amendments to IFRS 8, IAS 17, IAS 36 and IAS 39 concern changes in the existing requirements or additional guidance on implementing them.

The new and revised standards and interpretations are not expected to have any material effects on the future consolidated financial statements of Softing AG.

The Following Standards and Interpretations Have Not Yet Been Adopted by the EU:

- In November 2009, the IASB published IFRS 9 Financial Instruments. IFRS 9 is an integral part of the complete revision of the way financial instruments are accounted for. It uses a new, less complex approach to classify and measure financial assets.

- IFRS 7: Financial Instruments: Disclosures: Transfers of Financial Assets. The standard issued in October 2010 offers guidance on disclosure requirements in connection with transfers of financial assets such as factoring or asset-backed (ABS) securities transactions. IFRS 7 now requires comprehensive qualitative and quantitative disclosures on any rights and duties possibly retained or even assumed, e. g. guarantees, in connection with the derecognition of the financial asset in its entirety.

- Annual Improvement Project (2010). The third annual collection of minor amendments to the IFRSs was published in May 2010. Most of them shall be applied for the first time retrospectively to financial years beginning after 31 December 2010.

- Modifications of IFRS 9. The IASB issued requirements related to the accounting for financial liabilities. They supplement IFRS 9, which had already been introduced in November 2009. IFRS 9 shall replace IAS 39, Financial Instruments, in the future.

- Minor Amendments to IFRS 1. The IASB published two minor amendments to IFRS 1. The first of these replaces the references to the fixed transition date, 1 January 2004, by "date of transition to IFRSs." The second modification gives guidance on the presentation of IFRS financial statements if an entity was unable to comply with IFRS requirements because its functional currency was hyperinflationary.

- Amendments to IAS 12. These modifications concern the measurement of deferred taxes. In the future, the measurement shall be based on the rebuttable presumption that the carrying amount of an asset will be recovered on disposal. Until now, in certain circumstances the measurement depended on whether the carrying amount of an asset was recovered through continuing use or a sale transaction.

We are currently reviewing the effects of the new standard and the new interpretations on the Softing Group.

B. ACCOUNTING POLICIES

The financial statements of Softing AG and its domestic and international subsidiaries have been prepared using uniform accounting policies.

The accounting policies were applied consistently for all periods presented in the consolidated financial statements.

1. RECOGNITION OF REVENUE

Revenue is measured at the fair value of the consideration received or rendered. The following details apply to the recognition of revenue:

Revenue
Revenue from the sale of products is recognized when ownership or risk has been transferred to the customer, if a price has been agreed or can be determined and if payment of such price can be expected. Revenue is shown net of discounts, including volume discounts, rebates and bonuses.

Revenue from Services
Revenue from services (= customer-specific construction contracts) is recognized using the percentage of completion method. Product sales which are directly related to a service are also recognized using the percentage of completion method in line with IAS 11.9.

Other Income
Other operating income is recognized in profit or loss once the service has been rendered.

Interest Income
Interest income from bank balances and other financial assets is recognized as income if the Company is likely to partake of the economic benefit and if the amount of income can be reliably determined.

2. BASIS OF CONSOLIDATION

The consolidated financial statements as of December 31, 2010 include Softing AG and the following subsidiaries. Softing AG directly or indirectly owns the majority of voting rights of these subsidiaries and exercises control over the companies:

Softing Group	Capital share	
	2010 %	2009 %
Softing AG, Haar/Germany		
Softing Industrial Automation GmbH, Haar/Germany	100	0
Softing Automotive Electronics GmbH, Haar/Germany	100	0
Softing Services GmbH, Haar/Germany	100	0
Softing Project Services GmbH, Haar/Germany	100	0
Softing North America Inc., Newburyport/USA	100	100
hard & soft Salwetter-Rottenberger GmbH, Reutlingen/Germany	100	100
SoftingROM s.r.l., Cluj-Napoca/Romania	100	100
INAT Industrielle Netze für Automatisierungstechnik GmbH, Nuremberg/Germany	87.75	87.75
Buxbaum Automation GmbH, Eisenstadt/Austria	65	65
OEM Automazione s.r.l., Cesano Boscone/Italy	100	100

The General Shareholders' Meeting on May 31, 2010, resolved to spin off the operating divisions as well as the related services of Softing AG to four German subsidiaries founded in the 2010 financial year. The assets and liabilities attributable to the divisions were transferred to the four subsidiaries as of July 1, 2010, pursuant to the spin off and takeover agreement dated May 31, 2010.

According to Section 264 para 3 German Commercial Code (HGB), the following subsidiaries are exempt from preparing and publishing annual financial statements and a management report:

- Softing Industrial Automation GmbH
- Softing Automotive Electronics GmbH
- Softing Services GmbH
- hard & soft Salwetter-Rottenberger GmbH

3. PRINCIPLES OF CONSOLIDATION

All business combinations are accounted for by using the purchase method, which requires the acquired assets and liabilities to be recognized at fair value. The excess of the share in net fair value over cost is recognized as goodwill and subjected to a regular review for possible impairment. In accordance with IFRS 3, goodwill is not subject to amortization.

Intragroup sales, expenses and income, receivables and payables as well as the results of intragroup transactions (intercompany profits) are eliminated during consolidation.

4. INTANGIBLE ASSETS

Intangible assets comprise capitalized development costs, goodwill resulting from acquisition accounting and other intangible assets.

Development Costs

Expenditures for research and development are recognized as expenses in accordance with IAS 38. The cost of developing new products is capitalized as development costs as of the date on which the products' technical feasibility has been established. In accordance with IAS 38, the Company has also been capitalizing its own development costs for internally generated products, if such development costs result in marketable products and if they translated into commensurate sales revenue in past periods or if the planned or anticipated contribution margins exceed the capitalized expenses. The development costs for new product lines and new product versions are amortized over three years using the straight-line method; for purposes of simplification, a half-year's amortization is charged in the year the products are completed. Government grants are offset against cost. Incomplete and capitalized development projects are subjected to an annual impairment test, taking due account of the impact of future market developments.

Goodwill

According to IFRS 3, goodwill is not amortized but subjected to an annual impairment test pursuant to IAS 36 if there is an indication of impairment. For the purpose of this impairment test, goodwill is allocated to a cash generating unit (CGU).

As a rule, the cash generating units correspond to the individual entities unless an entity's business activity covers more than one segment. In this case, goodwill is allocated based on segments.

An impairment loss is recognized if the carrying amount of the cash generating unit to which the goodwill is allocated is higher than the recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. As the fair value cannot be determined, the value in use is recognized.

The value in use of the cash generating unit was determined as follows: Based on the planning for the next four financial years, the future cash flows (before interest and taxes) of the cash generating unit were determined. The planning is based on historical data and the best possible estimates of management regarding future developments. In order to carry out the impairment test, the management estimated the cash generated beyond the planning period, assuming that growth of 1.5 % is recorded in future years. The value in use of the underlying cash generating unit was determined by applying the discounted cash flow method. The cash generated was discounted at a rate of 7.42 %.

Other Intangible Assets

Intangible assets acquired for consideration are carried at amortized cost. They are amortized in accordance with their respective useful life using the straight-line method.

Software is amortized over three years in accordance with its respective useful life using the straight-line method. Rights are amortized over a period of five to eight years.

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is measured at cost, less usage-based depreciation and impairment losses.

Property, plant and equipment is depreciated using the straight-line method in accordance with its useful life. Hardware is depreciated over three years; furniture and fixtures are depreciated over five to seven years, and new equipment installed is depreciated over the remaining term of the lease. Fully depreciated property, plant and equipment is shown in the changes of intangible assets and property, plant and equipment until it is given up. If fixed assets are disposed, cost and accumulated depreciation are deducted; income/loss from the disposal of fixed assets is recognized in the income statement under other operating income / expenses.

Costs related to repairs and maintenance work are recognized as expenses at the time they are incurred. Significant renovations and improvements are capitalized.

6. IMPAIRMENT

The recoverable amount of intangible assets and property, plant and equipment is determined if facts or circumstances indicate that they might be impaired. The recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount is lower than the carrying amount, an impairment loss is recognized which reduces the respective assets to their recoverable amount.

7. LEASES

The Company has only entered into operating leases. Leasing rates payable are recognized as expenses at the time they are incurred. There are no financing leases which would have to be capitalized under IAS 17.

8. INVENTORIES

Inventories are recognized at cost. As a rule, production supplies and goods for resale are recognized at average cost.

Production costs comprise costs directly attributable to the production process as well as reasonable amounts of the production-related overheads. Production costs do not include selling costs and general administration costs. If the net realizable value at the balance sheet date is below cost, for instance because of long periods of storage, damage or reduced marketability, inventories are written down to the lower value. Net realizable value is the estimated selling price of the item in the course of ordinary business less estimated costs incurred until completion and less estimated necessary selling costs.

9. FINANCIAL ASSETS

Financial assets are only recognized if Softing is a party to the agreement governing the financial assets. Financial assets are derecognized when the rights to cash flows from a financial asset expire or are transferred to a third party. When transferring rights, the criteria of IAS 39 with regard to the transfer of rewards and risks connected to owning the financial assets must be taken into account.

Financial assets are initially measured at fair value. For subsequent measurement, financial assets are allocated to one of the following categories: "held to maturity", "available for sale" and "loans and receivables." The following applies to subsequent measurement:

Financial assets held to maturity and loans and receivables are recognized at amortized cost. Gains and losses are recognized in profit or loss when the financial asset is derecognized or impaired, and through the amortization process. If there is objective evidence of impairment, an allowance equaling the difference between the carrying amount and present value of estimated future cash flows is recognized.

Financial assets held for sale are recognized at fair value, with unrealized gains and losses from exchange rate changes being shown in equity until realization, taking into account deferred taxes. If there is objective evidence that the financial asset is impaired, the cumulative loss that had been recognized directly in equity is removed from equity and recognized in profit or loss.

Financial assets of all categories are recognized as of their settlement date. Financial assets comprise the balance sheet items cash and cash equivalents, trade receivables, and other financial receivables.

Trade Receivables and Other Financial Receivables

Both trade receivables and other financial receivables are classified as "loans and receivables" and measured accordingly.

Securities, Cash and Cash Equivalents

Securities are classified as available-for-sale financial assets. They are recognized at the fair value if it can be reliably determined. Unrealized gains and losses are recognized in equity as part of the revaluation surplus, allowing for deferred taxes. In case of impairment, the revaluation surplus is reduced by the amount of the impairment, and the respective amount is recognized in the income statement.

Cash equivalents comprise all liquid assets with remaining maturities of less than three months on the date of acquisition or investment. Cash and cash equivalents are measured at cost.

10. CUSTOMER-SPECIFIC CONSTRUCTION CONTRACTS

Customer-specific construction contracts (software development for customers) are recognized according to the percentage of completion method under IAS 11, which stipulates that revenue must be recognized in accordance with the stage of completion. Contract revenue in this context is the revenue agreed upon in fixed-price contracts, up to the current stage of completion of such goods and services. The stage of completion is the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs (cost-to-cost method). Advances received are offset against the degree of completion of the construction contracts. Contract work is recognized under receivables arising from customer-specific construction contracts to the extent that in individual cases the degree of completion exceeds the advances received". Any negative balance remaining after deduction of the advances is recognized under liabilities arising from customer-specific construction contracts.

11. OTHER ASSETS

The other assets comprise non-financial assets. They are initially measured at fair value and then are recognized at depreciated or amortized cost.

12. DEFERRED TAX ASSETS AND LIABILITIES

Income taxes are determined using the balance sheet liability method. As a rule, deferred tax assets and deferred tax liabilities are recognized for all temporary differences between the carrying amount of an asset or liability and its fair value determined for tax purposes. Deferred tax assets are also recognized for tax loss carryforwards and tax credits.

Deferred tax assets on tax loss carryforwards must be recognized to the extent that the future use of these tax loss carryforwards is probable. All deferred tax assets on tax losses were therefore recognized taking their realizability into account.

Deferred taxes are determined on the basis of the tax rates which, based on the current legal situation, apply at the time of realization or which are expected to apply in the individual countries. The effect of changes in tax rates on deferred taxes is recognized in profit or loss, or in equity, at the time the legal changes become effective.

13. PENSION PROVISIONS

Pension provisions are measured in accordance with IAS 19 using the projected unit credit method. This method takes into account not only the pensions and benefits accrued but also expected future pension increases based on a prudent assessment of relevant factors. Calculation is based on actuarial expert opinions taking into consideration biometrical assumptions. Actuarial gains and losses are recognized directly in equity.

14. OTHER PROVISIONS

The other provisions are recognized for all other contingent liabilities and risks of the Softing Group toward third parties. They are recognized only if the current obligation (factually or legally) arises from a past event, if utilization is probable, and if the amount of the obligation can be estimated reliably. The amount recognized is the best estimate of the expenditure required to settle the present obligation at the balance sheet date.

15. FINANCIAL LIABILITIES

Financial liabilities are only recognized if Softing is a party to the agreement governing the financial liabilities. Financial liabilities are removed from the balance sheet when they have been extinguished, i. e. when the obligations specified in the contract are discharged or canceled or expire.

Financial liabilities are initially measured at their fair value. In subsequent years, all financial liabilities are measured at amortized cost.

Financial liabilities comprise the balance sheet items “trade payables“ and “other financial liabilities.“

16. OTHER LIABILITIES

The other liabilities concern non-financial liabilities and are recognized at cost.

17. EXERCISE OF JUDGMENT AND ESTIMATE UNCERTAINTIES

The preparation of the consolidated financial statements in accordance with the provisions of the IASB requires forward-looking assumptions to be made and estimates to be used that have an effect on the carrying amounts of recognized assets and liabilities, income, expenses, and contingent liabilities. The forward-looking assumptions and estimates essentially relate to the uniform determination of useful lives throughout the Group, the recognition and measurement of provisions (in particular pension provisions), and the realizability of future tax benefits. As a rule, the forward-looking assumptions and estimates are based on experience and knowledge gained from the past; they also take into account other factors which might be used as a reliable basis. In individual cases, the actual values may deviate from the assumptions and estimates. The assumptions and estimates are reviewed regularly. Changes are recognized in profit or loss as of the time better knowledge is obtained, or in the period in which better knowledge is obtained, as well as in future periods if the changes comprise several periods.

The most important forward-looking assumptions and other material sources of estimate uncertainties as of the closing date that could result in a considerable risk of having to make significant adjustments to the recognized assets and liabilities in the next financial year concern the measurement of pension provisions, the assumption of future opportunities to use tax loss carryforwards, and the possible impairment of goodwill.

18. CURRENCY TRANSLATION

Foreign currencies are translated using the functional currency method as defined in IAS 21. The functional currency of all foreign subsidiaries is the respective local currency because the material foreign companies that are included in the consolidated financial statements operate their businesses independently in financial, economic and organizational terms.

Currency gains or losses resulting from foreign currency transactions (transaction in a currency other than a company's functional currency) are reported as other operating income or other operating expenses in the individual financial statements of the Group companies.

For Group companies which do not report in euros, the assets and liabilities are translated into euros at the exchange rate applicable at the balance sheet date, and expenses and income are translated at the annual average exchange rate for the purpose of preparing consolidated financial statements. Currency translation differences, including those arising from acquisition accounting, are recognized directly in equity.

The euro exchange rates applicable for currency translation changed as follows:

	USD / EUR		RON / EUR	
	2010	2009	2010	2009
Closing rate (Dec. 31)	1.33	1.43	4.27	4.22
Average exchange rate	1.32	1.39	4.20	4.23

C. NOTES TO THE CONSOLIDATED BALANCE SHEET

1. GOODWILL

Of the goodwill amounting to EUR 2,439 thsd. (previous year: EUR 2,439 thsd.), EUR 2,351 thsd. result from the acquisition of all shares in hard&soft Salwetter-Rottenberger GmbH as of July 1, 2005. In 2008, goodwill increased by EUR 384 thsd. through the acquisition of 51 % of the shares in INAT Industrielle Netze für Automatisierungstechnik GmbH. The entities' goodwill was tested for impairment pursuant to IAS 36 based on their value in use. The impairment test did not result in any need to write down the goodwill. The goodwill of hard&soft Salwetter-Rottenberger GmbH had been written down by EUR 296 thsd. the previous year.

2. DEVELOPMENT COSTS

The change in capitalized development costs is shown in the changes in intangible assets and property, plant and equipment (appendix to the notes to the consolidated financial statements).

Expenditures for research and development (without capitalized development costs) in the financial year just ended totaled EUR 608 thsd. (previous year: EUR 781 thsd.).

In the 2010 financial year, the Company received government grants under the program "Promoting the improvement of the innovative capacities of small and medium-sized enterprises" totaling EUR 120 thsd. (previous year: EUR 90 thsd.). The grants are offset against the cost of capitalized development costs. Applications for further government grants were not submitted.

3. OTHER INTANGIBLE ASSETS

The development of other intangible assets is shown in the changes in intangible assets and property, plant and equipment (appendix to the notes to the consolidated financial statements).

4. TANGIBLE ASSETS

The development of property, plant and equipment is shown in the changes in intangible assets and property, plant and equipment (appendix to the notes to the consolidated financial statements).

5. LEASES

The other operating expenses contain lease expenses of EUR 194 thsd. (previous year: EUR 250 thsd.).

6. INVENTORIES

A valuation allowance of EUR 190 thsd. (previous year: 226 thsd.) was recognized on inventories in 2010. As in the previous year, no reversals of impairment losses were recognized in profit or loss.

7. TRADE RECEIVABLES

In 2010, a valuation allowance of EUR 83 thsd. (previous year: EUR 96 thsd.) was recognized for doubtful debts.

	Dec. 31, 2010 EUR (in thsds.)	Dec. 31, 2009 EUR (in thsds.)
Trade receivables	6,378	3,617
of which:		
Services not yet billed	95	0

Aging structure of financial instruments from trade receivables and other receivables

	Carrying amount	Of which neither past due nor impaired	Of which not impaired and due within			
			Less than 11 days	11 to 60 days	61 to 90 days	More than 90 days
December 31, 2010						
Trade receivables	6,378	3,796	1,733	541	14	294
Receivables from customer-specific construction contracts	423	423	0	0	0	0
Other receivables	1,873	1,873	0	0	0	0
Other assets	185	185	0	0	0	0
	8,859	**6,277**	**1,733**	**541**	**14**	**294**
December 31, 2009						
Trade receivables	3,617	2,803	449	218	8	28
Receivables from customer-specific construction contracts	473	473	0	0	0	0
Other financial receivables	1,148	1,148	0	0	0	0
Other assets	152	152	0	0	0	0
	5,390	**4,576**	**449**	**218**	**8**	**28**

The maximum default risk corresponds to the receivables' carrying amount.

8. RECEIVABLES FROM CUSTOMER-SPECIFIC CONSTRUCTION CONTRACTS

	Dec. 31, 2010 EUR (in thsds.)	Dec. 31, 2009 EUR (in thsds.)
Total construction work in progress	1,458	2,003
Less: Advances received	-1,200	-1,692
Net amount	258	311
Of which reported under:		
Receivables from customer-specific construction contracts	423	473
Payables from customer-specific construction contracts	-165	-162

Anticipated losses from orders are covered by write-downs or provisions, the extent of which is determined by taking into account the discernible risks. The total amount of construction work in progress includes expenses of EUR 1,168 thsd. (previous year: EUR 1,370 thsd.) and a profit share of EUR 290 thsd. (previous year: EUR 633 thsd.).

9. OTHER FINANCIAL RECEIVABLES

	Dec. 31, 2010 EUR (in thsds.)	Dec. 31, 2009 EUR (in thsds.)
Receivables from employees	36	43
Other receivables	962	230
	998	273
Non-current receivables	875	875
	1,873	1,148

Non-current receivables concern an interest-bearing loan that was granted to a member of the Company's Executive Board and is collateralized through securities. The Other Receivables basically comprise a loan to a German cooperation partner secured by customer receivables.

10. OTHER ASSETS

	Dec. 31, 2010 EUR (in thsds.)	Dec. 31, 2009 EUR (in thsds.)
Accruals	131	80
Other	54	72
	185	152

11. CURRENT INCOME TAX ASSETS

The current income tax assets concern corporation tax receivables amounting to EUR 117 thsd. (previous year: EUR 43 thsd.).

12. SECURITIES CLASSIFIED AS CURRENT ASSETS, CASH AND CASH EQUIVALENTS

	Dec. 31, 2010 EUR (in thsds.)	Dec. 31, 2009 EUR (in thsds.)
Securities classified as current assets	1,865	600
Cash and cash equivalents	4,275	3,572
	6,140	4,172

Securities essentially concern short-term corporate bonds which are listed on a German stock exchange. The other securities concern short-term fixed-interest bearer bonds that were issued by a domestic bank, which become due on October 17, 2011. The last interest rate was 0.40 % (previous year: 0.74 %). Every three months, the issuer adjusts the rate to the market interest rate.

Cash and cash equivalents include cash and bank balances and are measured at their nominal value as of the balance sheet date. Bank balances comprise time deposits and current account funds. Cash and cash equivalents are not impacted by foreign currencies.

13. EQUITY

Subscribed Capital

As of the balance sheet date, the fully paid-in share capital of the Company was EUR 5,637,198.00. It is divided into 5,637,198 no-par-value bearer shares.

Authorized Capital

The Executive Board is authorized to increase the Company's share capital with the approval of the Supervisory Board once or several times by up to EUR 2,799,000.00 by issuing up to 2,799,000 new no-par bearer shares against contributions in cash and/or in kind (authorized capital) until May 30, 2015. The Executive Board is also authorized to exclude shareholders' statutory subscription right with the approval of the Supervisory Board

- as necessary for offsetting fractional shares;
- if the shares are issued against in-kind contributions for the purpose of acquiring companies or equity interests in companies or business units or for the purpose of acquiring receivables from the given entity;
- if a capital increase against cash contributions does not exceed 10 % of the share capital and the issue price of the new shares is not substantially lower than the share price pursuant to Section 186 para 3 sentence 4 German Stock Corporation Act. The exclusion of shareholders' subscription right under other authorizations pursuant to Section 186 para 3 sentence 4 German Stock Corporation Act shall be considered in connection with any exercise of this authorization under the aforementioned statute.

The Executive Board is authorized to fix all other details of the capital increase and its implementation. The Supervisory Board is authorized to amend the Articles of Incorporation such that they reflect the extent of each capital increase from authorized capital.

The authorized capital as of December 31, 2010, was EUR 2,799,000.

Profits for the year eligible for distribution were determined based on the net retained profits of Softing AG pursuant to the German Commercial Code.

Capital Reserves

The capital reserves contain the premium on the issue of shares less transaction costs.

Retained Earnings

Retained earnings include the accumulated, undistributed profits of the companies included in the consolidated financial statements. Retained earnings also include the differences from the currency translation of transactions made by foreign subsidiaries, changes in the market value of financial instruments, actuarial gains and losses from pension commitments as well as the gains and losses from the sale of own shares, all of which were directly recognized in equity.

Pursuant to Section 150 German Stock Corporation Act, profit distribution is restricted to the amount in excess of the statutory reserve, which is ten percent of the issued capital.

Treasury Shares

Based on the authorization of the Executive Board granted by the Annual Shareholders' Meetings, the Company purchased treasury shares as follows:

Purchase date	Number	Price per share (EUR)	Price EUR (in thsds.)
November 14, 2007	5,000	3.2000	16
December 17, 2007	100,000	2.9837	298
	105,000		**314**
January 2, 2008	50,000	3.08000	154
May 21, 2008	76,700	2.74815	211
September 10, 2008	34,723	2.63263	91
September 16, 2008	20,000	2.68000	53
October 10, 2008	65,000	2.39300	156
November 6, 2008	22,300	2.22300	50
December 22, 2008	27,329	2.03650	56
	296,052		**771**
February 19, 2009	25,500	1.92192	49
March 16, 2009	125,000	2.05	256
April 02, 2009	11,050	1.94094	21
June 16, 2009	-30,000	2.51	-75
	131,550		**251**
December 13, 2010	-225,000	2.51	-564
	307,602	▸	**772**

The market price of the treasury shares was EUR 1.009 thsd. as of the balance sheet date, which is EUR 237 thsd. above cost.

The shares were purchased in order to offer them as compensation to third parties in business combinations, in the acquisition of companies by means of share or asset deals, or in the acquisition of business units.

14. EMPLOYEE BENEFITS

This item concerns the partially reinsured and defined benefit pension commitments granted to the three former Executive Board members, which provide for retirement and widow's benefits, as well as orphans' benefits in the event one or both parents are lost. There is a variable commitment in addition to a fixed commitment. The amount of benefits is determined individually. The liabilities in connection with the pension plans are determined annually by independent experts in accordance with the projected unit credit method. The capitalized value of the reinsurance cover of EUR 1,533 thsd. (previous year: EUR 1,520 thsd.) was offset against pension provisions in accordance with IAS 19.116. Actuarial gains and losses were recognized directly in equity in accordance with IAS 19.93D. The cumulative gains and losses reported in this item were EUR – 448 thsd. as of December 31, 2010.

The variable commitments increase or decrease in line with the change in the Consumer Price Index for Germany (2005 = 100); It rose from 106.9 points to 108.5 points on average between 2009 and 2010.

The actuarial assumptions on which the calculation is based are summarized in the following table:

Basis of calculation	Dec. 31, 2010 %	Dec. 31, 2009 %
Assumed interest rate	4.50	5.00
Salary trend	0.0	0.0
Expected rate of pension increase	2.0	2.0

Development	2010 EUR (in thsds.)	2009 EUR (in thsds.)
DBO as of January 1	2,512	2,142
Expense for / return on plan assets	-13	21
Interest cost	123	131
Actuarial losses	146	340
Pension payments to pensioners	-102	-102
Fair value of the plan assets as of January 1	-1,520	-1,541
Rounding difference	0	1
As of December 31 ▸	**1,146**	**992**

Reconciliation with the balance sheet	Dec. 31, 2010 EUR (in thsds.)	Dec. 31, 2009 EUR (in thsds.)
Present value of the defined benefit obligations (DBO)	2,679	2,512
Fair value of the external plan assets as of December 31, 2010	-1,533	-1,520
▸	**1,146**	**992**

The present value and the fair value of external plan assets developed as follows in the past five years:

	Present value of the defined benefit obligations (DBO) EUR (in thsds.)	Fair value of the external plan assets EUR (in thsds.)
December 31, 2006	2,492	1,354
December 31, 2007	2,336	1,522
December 31, 2008	2,142	1,541
December 31, 2009	2,512	1,520
December 31, 2010	2,679	1,533

The Company expects to record an expense of EUR 118 thsd. from additions to pension provisions in the 2011 financial year.

15. OTHER FINANCIAL LIABILITIES (NON-CURRENT)

EUR 1,200 thsd. of the other financial liabilities concern a loan from Postbank AG with an interest rate of 4.05 %; both its maturity and its fixed interest rate expire on December 30, 2012.

16. OTHER PROVISIONS

The other provisions are recognized for all other contingent liabilities and risks of the Softing Group toward third parties. They are recognized only if utilization is probable and the amount of the obligation can be estimated reliably. The amount recognized is the best estimate of the expenditure required to settle the present obligation at the balance sheet date.

	As of Jan. 01, 2010 EUR (in thsds.)	Use EUR (in thsds.)	Reversal EUR (in thsds.)	Addition EUR (in thsds.)	As of Dec. 31, 2010 EUR (in thsds.)
Operational provisions	81		-62	93	112
Contingent loss	19		-19	1	1
	100		**-81**	**94**	**113**

The operational provisions comprise provisions for guarantee obligations which were calculated based on historical values. The provisions are due within one year.

17. TRADE PAYABLES

The trade payables almost exclusively concern current liabilities toward non-Group third-parties for supplied goods and services.

18. OTHER BORROWINGS

The other borrowings concern foreign subsidiaries' current liabilities to banks in the amount of EUR 392 thsd.

19. OTHER FINANCIAL LIABILITIES (CURRENT)

	Dec. 31, 2010 EUR (in thsds.)	Dec. 31, 2009 EUR (in thsds.)
Liabilities related to social security	58	50
Wages and salaries payable	2,317	1,163
Other	2,293	1,870
	4,668	3,083

20. OTHER LIABILITIES

	Dec. 31, 2010 EUR (in thsds.)	Dec. 31, 2009 EUR (in thsds.)
Other tax liabilities	567	361

The other tax liabilities primarily comprise sales tax and wage tax.

D. NOTES TO THE CONSOLIDATED INCOME STATEMENT

1. REVENUE

Revenue by regions	2010 EUR (in thsds.)	2009 EUR (in thsds.)
Domestic	18,413	14,064
Abroad	13,261	9,601
	31,674	**23,665**

Revenue by products and services	2010 TEUR	2009 TEUR
Products	25,171	16,481
Services	6,503	7,184
	31,674	**23,665**

2. OTHER OWN WORK CAPITALIZED

Other own work capitalized concerns costs for the development of new software products.

3. OTHER INCOME

The other operating income comprises the following items:

	2010 EUR (in thsds.)	2009 EUR (in thsds.)
Reversal of provisions and liabilities	250	122
Other income not related to the accounting period	3	20
	253	**142**
Income from exchange differences	88	7
Revenue from the provision of automobiles	156	182
Revenue from subsidized projects	120	90
Other income	201	411
	565	**690**
►	**818**	**832**

4. COST OF MATERIALS

	2010 EUR (in thsds.)	2009 EUR (in thsds.)
Purchase of components and products	8,373	5,501
Third-party services	679	808
	9,052	**6,309**

5. EMPLOYEE BENEFITS COSTS

	2010 EUR (in thsds.)	2009 EUR (in thsds.)
Current salaries	11,830	11,256
Social security and retirement benefit costs	2,324	1,971
Profit-sharing, royalties	1,503	890
Provision of automobiles to employees	153	176
Temporary workers	64	44
Other	204	584
	16,078	**14,921**

The statutory pension scheme in Germany is treated as a defined contribution scheme. Expenses recognized for the statutory pension scheme totaled EUR 929 thsd. (previous year: EUR 1,005 thsd.).

6. DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES

Depreciation, amortization and impairment losses are listed in detail in the statement of changes in assets (appendix to the notes to the consolidated financial statements). In the previous year just, an impairment loss on the goodwill of hard&soft Salwetter Rottenberger GmbH totaling EUR 296 thsd. was recognized in the income statement under the item depreciation, amortization and impairment losses.

7. OTHER EXPENSES

The other operating expenses are as follows:

	2010 EUR (in thsds.)	2009 EUR (in thsds.)
Operating expenses	2,889	2,816
Distribution costs	1,513	1,487
Administrative expenses	653	444
Expenses resulting from exchange differences	158	67
Expenses unrelated to the accounting period	11	10
	5,224	**4,824**

8. FINANCE INCOME / FINANCE COSTS

The financial result comprises interest income and interest expense as well as the other financial result.

The interest expense breaks down as follows:

	2010 EUR (in thsds.)	2009 EUR (in thsds.)
Pension provisions	123	131
Discounting of corporation tax premium	17	0
Other interest	148	35
	288	**166**

9. TAX EXPENSE

The income tax expense (previous year: income) breaks down as follows:

	2010 EUR (in thsds.)	2009 EUR (in thsds.)
Deferred taxes on temporary differences	-47	-54
Deferred taxes on tax loss carryforwards	433	-592
	386	**-646**
Tax expense financial year	112	27
Tax income from previous years	-130	-64
Tax income	-18	-37
▸	**368**	**-683**

Deferred taxes are recognized for temporary differences between the amounts recognized for financial reporting purposes and the amounts recognized for tax purposes, and for any differences arising from uniform measurement and consolidation within the Group. Deferred taxes are determined based on the applicable country-specific tax rates. The underlying domestic tax rate, which has not changed compared to the previous year, is determined as follows:

	2010 %
Corporate income tax including solidarity surtax	15.83
Trade income tax rate	12.25
	28.08

A tax rate of 31.47 % was assumed for INAT GmbH.

The tax rate for Softing North America was 24.5 % and the tax rate for Softing ROM s.r.l. was 16 %. The tax rates for the other European entities are 25 % for Buxbaum Automation GmbH / Austria and 33.0 % for OEM Automazione s.r.l. / Italy.

Deferred tax assets from losses carried forward were recognized only to the extent that a company will, in all likelihood, achieve taxable income sufficient to utilize the benefit of losses carried forward. The forecasts of the tax results indicate that the loss carryforwards will be realized in the next years. The Company has tax loss carryforwards of EUR 4,195 thsd. (previous year: EUR 5,681 thsd.), which were taken into account at the time the deferred taxes were determined)

The tax loss carryforwards of the individual companies are as follows:

	Dec. 31, 2010	Usable until
Softing AG trade tax loss carryforward	3.582	Unlimited
Softing AG corporation tax loss carryforward	3.712	Unlimited
Softing Project Services GmbH trade tax loss carryforward	34	Unlimited
Softing Project Services GmbH corporation tax loss carryforward	34	Unlimited
INAT GmbH trade tax loss carryforward	352	Unlimited
INAT GmbH corporation tax loss carryforward	283	Unlimited
Buxbaum Automation GmbH loss carryforward	197	Unlimited

Deferred tax assets on tax loss carryforwards of both INAT GmbH and Buxbaum Automation GmbH were recognized for the first time in the previous financial year. Due to tax profits of Softing AG, a total of EUR 1,221 thsd. and EUR 1,375 thsd., respectively, of the loss carryforwards could be utilized in the financial year just ended. The current income tax expense is derived as follows from the expected tax expense. As in the previous year, the calculation for the Group is based on the tax rate applicable for Softing AG, as this company is responsible for the main part of the Group's business.

	2010 EUR (in thsds.)	2009 EUR (in thsds.)
Earnings before taxes	1.354	-2.531
Anticipated tax expense (28.08 %)	380	-711
Foreign withholding tax	0	-1
Tax additions and deductions	84	27
Different tax rates	-6	-12
Non-recognition of deferred taxes on permanent differences, Group	0	83
Taxes, previous years	-87	-64
Other	-3	-5
Tax expense (previous year: income) disclosed in the income statement	**368**	**-683**

Deferred tax assets and deferred tax liabilities
are allocable to the following items:

Deferred tax assets	Dec. 31, 2010 EUR (in thsds.)	Dec. 31, 2009 EUR (in thsds.)
Intangible assets	28	34
Property, plant and equipment	17	0
Pension provision	191	194
Trade receivables	9	0
Other provisions	0	5
Current assets	11	11
Future tax benefits from loss carryforwards	1,168	1,601
Other	1	0
	1,426	**1,845**

Deferred tax liabilities	Dec. 31, 2010 EUR (in thsds.)	Dec. 31, 2009 EUR (in thsds.)
Intangible assets	1,151	1,112
Property, plant and equipment	0	2
Trade receivables	200	288
Other	5	5
	1,356	**1,407**

E. OTHER DISCLOSURES

1. SEGMENT REPORTING

Since there is only one segment requiring disclosure (European Union), geographical segments are not shown. The corporate divisions are shown in the following table in accordance with IFRS 8.

Segmentation	Industrial Automation		Automotive Electronics		Holding, other consolidation		Total	
	2010 EUR (in thsds.)	2009 EUR (in thsds.)	2010 EUR (in thsds.)	2009 EUR (in thsds.)	2010 EUR (in thsds.)	2009 EUR (in thsds.)	2010 EUR (in thsds.)	2009 EUR (in thsds.)
External sales	20,194	14,983	11,451	8,682	29	-	31,674	23,665
Depreciation/amortization	2,357	2,161	859	609	97	-	3,313	2,770
Impairment	0	0	0	296	0	-	0	296
Segment result (EBIT)	1,382	-872	744	-1,592	-593	-	1,533	-2,464
Segment assets	10,088	9,061	8,768	4,965	7,400	7,503	26,256	21,529
Segment liabilities	4,429	3,809	2,411	2,374	4,453	1,728	11,293	7,911
Capital expenditure	1,876	2,193	1,135	361	140	42	3,151	2,596

The column entitled "Other consolidation" comprises Softing AG's business activities from July 1, 2010, following the spin-off of its operating business. Softing AG now serves as the holding company for the Group and as the integrated fiscal unit in Germany. In contrast to expenses for centralized intragroup services, these costs are not passed on to the subsidiaries in question.

2. SEGMENT ALLOCATION OF PRODUCTS

Industrial Automation
Interface cards (PROFIBUS, PROFINET, CAN, CANopen, DeviceNet), integration modules (Fieldbuskit) and chip solutions (Foundation Fieldbus, PROFINET) for bus interfaces in process and manufacturing technology.

Communication gateways (PROFIBUS, Foundation Fieldbus) and network configurations.

Products for physical diagnosis and protocol analysis of industrial networks (PROFIBUS, PROFINET, CAN).

OPC servers (OPC, PROFIBUS, CANopen, Modbus), OPC middleware (Connector Tools) and server/client development tools (Toolkits).

Customized hardware and software, development/portation/integration services, system solutions and training.

Automotive Electronics
Vehicle adapters and data bus interfaces: Interfaces for CAN, K-Line, LIN, MOST and FlexRay data bus systems in different form factors with a variety of PC connections such as USB, WLAN, Bluetooth, PCI, PCIexpress, PC/104 and PCMCIA. Programming interfaces compliant with ISO and other standards as well as customized adaptations. Special solutions for development/testing, production and service.

Diagnostic Tools
Diagnostic solutions for development / testing, production and service. Editors for diagnostic data. Diagnostic servers for the real-time processing of diagnostic data based on ISO and customer standards. Customized and proprietary analytic tools for diagnostic data.

Test Automation
Software interfaces for connecting diagnostic servers to production systems. Editing and runtime systems for test sequences with connections to numerous third-party products. Customized test stations for development, quality assurance and production. Solutions for the flash programming of control units. Devices for simulating electronic control units and rest bus systems.

Customized Developments
Customer-specific software and hardware developments for data communication / diagnosis / test systems.

Resident Engineering
On-site customer support in the form of consultation, project management and project participation as well as development activities in the fields of data communication, diagnosis and test systems.

3. CASH FLOW STATEMENT

The cash flow statement represents the consolidated cash flows of the consolidated companies.

The cash and cash equivalents shown in the cash flow statement comprise cash on hand and bank balances.

4. EARNINGS PER SHARE IAS 33

		2010	2009
Group income	EUR (in thsds.)	986	-1,847
Minority interest	EUR (in thsds.)	-1	171
Basic earnings (= diluted earnings)	**EUR (in thsds.)**	**987**	**-1,676**
Weighted average number of shares			
Basic	Number	5,115,693	5,123,139
Potential stock options	Number	0	0
Diluted	Number	5,115,693	5,123,139
Basic earnings per share	EUR	0.19	-0.33
Diluted earnings per share	EUR	0.19	-0.33

The change in the number of shares outstanding, which results from the purchase of treasury shares, was calculated on a pro-rated basis (to the day).

No options rights exist as of December 31, 2010, which could influence diluted earnings per share in the future.

5. RELATED PARTIES

Besides the companies included in the consolidated financial statements, the members of the Executive Board and of the Supervisory Board are considered related parties of the Softing Group as defined in IAS 24, both in their function as members of corporate boards and, in some cases, as shareholders.

One member of the Executive Board was granted a loan of EUR 875 thsd. at interest of 3.0 % (until July 31, 2010: 3.6 %) in 2007 (term: December 31, 2011; collateralized by shares). The interest accrued thereunder in 2010 was EUR 29 thsd (previous year: EUR 31 thsd.).

6. CONTINGENT LIABILITIES

As of the balance sheet date, Softing AG has provided EUR 90 thsd. in guarantees for liabilities related to bank overdraft lines of credit.

The probability of any outflow of funds in connection with these guarantees is regarded as remote.

7. OTHER FINANCIAL OBLIGATIONS

As of the balance sheet date, the Company had incurred purchase obligations in the amount of EUR 2,094 thsd. under long-term contracts (previous year: EUR 1,600 thsd.).

There were also liabilities under long-term rental and lease agreements. These liabilities stem primarily from contracts related to buildings, passenger cars and office equipment. The minimum amounts of undiscounted future payments as of the balance sheet date are as follows:

	2010 EUR (in thsds.)	2009 EUR (in thsds.)
< 1 year	910	925
1 - 5 years	2,109	562
> 5 years	180	0
Total	**3,199**	**1,487**

8. DISCLOSURE OF THE CARRYING AMOUNTS OF THE INDIVIDUAL CATEGORIES OF FINANCIAL INSTRUMENTS ACCORDING TO IFRS 7

Balance sheet item 2010

Assets

Measurement:	Nominal value		At amortized cost		Total	
Measurement category:	Cash reserve		Loans and receivables			
Class:			Not from financial services			
	Carrying amount EUR (in thsds.)	Fair value EUR (in thsds.)	Carrying amount EUR (in thsds.)	Fair value EUR (in thsds.)	Carrying amount EUR (in thsds.)	Fair value EUR (in thsds.)
Securities classed as current assets	1,865	1,865			1,865	1,865
Cash and cash equivalents	4,275	4,275			4,275	4,275
Trade receivables			6,378	6,378	6,378	6,378
Receivables from customer-specific construction contracts			423	423	423	423
Other financial assets			1,873	1,873	1,873	1,873
Other assets			185	185	185	185
Total assets	**6,140**	**6,140**	**8,859**	**8,859**	**14,999**	**14,999**

Equity and liabilities

Measurement:	At amortized cost		Total	
Measurement category:	Other liabilities			
Class:	Not from financial services			
	Carrying amount EUR (in thsds.)	Fair value EUR (in thsds.)	Carrying amount EUR (in thsds.)	Fair value EUR (in thsds.)
Other non-current financial liabilities	1,257	1,257	1,257	1,257
Trade payables	1,579	1,579	1,579	1,579
Liabilities to banks	392	392	392	392
Payables from customer-specific construction contracts	165	165	165	165
Other financial liabilities	4,668	4,668	4,668	4,668
Other liabilities	567	567	567	567
Total equity and liabilities	**8,628**	**8,628**	**8,628**	**8,628**

Balance sheet item 2009

Assets

Measurement:	Nominal value		At amortized cost		Total	
Measurement category:	Cash reserve		Loans and receivables			
Class:			Not from financial services			
	Carrying amount EUR (in thsds.)	Fair value EUR (in thsds.)	Carrying amount EUR (in thsds.)	Fair value EUR (in thsds.)	Carrying amount EUR (in thsds.)	Fair value EUR (in thsds.)
Securities classed as current assets	600	600			600	600
Cash and cash equivalents	3,572	3,572			3,572	3,572
Trade receivables			3,617	3,617	3,617	3,617
Receivables from customer-specific construction contracts			473	473	473	473
Other financial assets			1,148	1,148	1,148	1,148
Other assets			152	152	152	152
Total assets	**4,172**	**4,172**	**5,390**	**5,390**	**9,562**	**9,562**

Equity and liabilities

Measurement:	At amortized cost		Total	
Measurement category:	Other liabilities			
Class:	Not from financial services			
	Carrying amount EUR (in thsds.)	Fair value EUR (in thsds.)	Carrying amount EUR (in thsds.)	Fair value EUR (in thsds.)
Trade payables	1,403	1,403	1,403	1,403
Liabilities to banks	147	147	147	147
Payables from customer-specific construction contracts	162	162	162	162
Other financial liabilities	3,083	3,083	3,083	3,083
Other liabilities	361	361	361	361
Total equity and liabilities	**5,156**	**5,156**	**5,156**	**5,156**

The fair values correspond to the carrying amounts because, with the exception of the current securities and cash, the financial instruments recognized solely comprise primary receivables and liabilities. The fair values of the current securities are determined based on their share prices (Level 1; prices quoted on active markets for identical assets and liabilities).

The further categories according to IFRS 7:

For financial assets

- Held-to-maturity investments
- Held for trading
- Fair value options
- Available-for-sale financial assets
- Hedging derivatives in accordance with IAS 39

For financial liabilities

- Financial liabilities held for trading
- Fair value options
- Hedging derivatives in accordance with IAS 39

do not apply in the reporting year, as in the previous year.

9. OBJECTIVES AND METHODS OF FINANCIAL RISK MANAGEMENT

As an internationally operating company, Softing is exposed to a variety of risks in the course of its operations. Therefore, the objective of its financial risk management is to detect all material financial risks early on and to take appropriate measures to protect existing and future success potential.

These risks include currency risks resulting from activities in different currency regions; default risks involving non-fulfillment of contractual obligations by contracting parties; interest rate risks, where fluctuations in the market interest rate trigger changes in the fair value of a financial instrument; and interest-related cash flow risks that trigger changes in the future cash flow of a financial instrument because of changes in market interest rates. To evaluate and take into account such risks, Softing has defined principles through a centralized risk management system that serve to identify and evaluate such risks consistently and systematically. Continual reporting is used by Softing to check compliance with all principles. This enables the Company to identify and analyze risks early on.

Default Risks

Softing is exposed to default risks if contractual partners fail to meet their obligations. To avoid of risks of this nature, Softing enters into contracts only with contractual partners that have an excellent credit rating. As of the closing dates of December 31, 2009, and December 31, 2010, there was no material default risk. While the Executive Board therefore believes the risk of non-fulfillment on the part of its contractual partners to be very low, it cannot completely exclude the risk in the final analysis.

Default risks primarily concern trade receivables. Valuation allowances are recorded to allow for any discernable default risks in connection with individual financial assets. Valuation allowances as of December 31, 2010, totaled EUR 83 thsd. (previous year: EUR 96 thsd).

Regardless of any existing collateral, the carrying amount of financial assets equals the maximum default risk if the contractual partners fail to meet their payment obligations.

Interest Rate Risks

Softing is also exposed to interest rate risks. The assets subject to interest rate fluctuations essentially concern cash and cash equivalents and securities classified as current assets. Balance with banks totaling EUR 4,275 thsd. (previous year: EUR 3,572 thsd.) and securities totaling EUR 1,865 thsd. (previous year: EUR 600 thsd.) bear interest of 0.0 % to 0.25 % (previous year: 0.0 % to 0.5 %) and 0.40 % to 7.8 % (previous year: 0.74 %), respectively. No material interest rate risks result from subsidiaries' liabilities to banks in the amount of EUR 392 thsd. The loan of EUR 1,200 thsd. granted by Postbank has a nominal interest rate of 4.05 %, which is fixed until December 30, 2012.

Foreign Currency Risk

The Group's currency risks are limited to the US dollar because almost all other revenue with the exception of that generated in the U.S. is invoiced in euros. Almost all procurement is in euros as well. The Group uses foreign currency forward contracts throughout the year to manage its USD foreign currency risk from its business activities in the United States. All foreign currency forwards had been settled as of the reporting date.

Liquidity Risk

Liquidity risk is the risk that the Group might not have adequate funds to fulfill its payment obligations. The Group possesses sufficient liquidity and credit lines to meet its obligations over the next four years in line with its strategic plans. Cash and cash equivalents at year's end were EUR 4,275 thsd. (previous year: EUR 3,572 thsd.), accounting for 16.3 % (previous year: 16.6 %) of the Group's total assets. The loan of EUR 1,200 thsd. that was obtained in the 2010 financial year to ensure the Group's funding in the long term was fully reinvested in securities classified as current assets. Securities classified as current assets account for 7.1 % (previous year: 2.8 %) of the Group's total assets.

10. PERSONNEL

The number of employees (exclusively salaried employees) excluding the Executive Board was as follows:

	2010	2009
As of the balance sheet date	233	219
Annual average	224	227

11. EXECUTIVE BOARD

The following persons are members of the Executive Board of Softing AG:

Dr.-Ing. Dr. rer. oec. Wolfgang Trier, Munich, Germany
Dr.-Ing. Michael Siedentop, Neutraubling (ends on January 31, 2011)

Compensation of the Executive Board amounted to EUR 1,254 thsd. (previous year: EUR 664 thsd.). In accordance with the resolution adopted by the General Shareholders' Meeting on August 24, 2007, the compensation of individual members of the Executive Board is not disclosed. All compensation paid to the Executive Board members is of a current nature.

The two members of the Executive Board also hold the Company's key central positions.

One member of the Executive Board was granted a loan of EUR 875 thsd. at interest of 3.0 % (until December 31, 2010: 3.6 %) in 2007 (term: December 31, 2016; collateralized by shares). The interest accrued thereunder in 2010 was EUR 29 thsd (previous year: EUR 31 thsd.).

According to an agreement, one member of the Executive Board has the right to terminate his employment for cause if a shareholder or shareholder group acting in a coordinated way holds more than 25 % of the voting rights. If this Executive Board member exercises this right to terminate his employment for cause, he is entitled to compensation equaling approximately two annual salaries.

Pension obligations for former members of the Executive Board as of December 31, 2010 totaled EUR 1,146 thsd. (previous year: EUR 992 thsd.). The total compensation of former members of the Executive Board amounted to EUR 102 thsd. (previous year: EUR 102 thsd.).

12. SUPERVISORY BOARD

The following persons were members of the Supervisory Board of Softing AG in the 2010 financial year:

Dr. Horst Schiessl, attorney at law, Munich, Germany (chairman)
Michael Wilhelm, certified public accountant / tax advisor, Munich, Germany (deputy chairman)
Andreas Kratzer, certified public accountant, Zurich, Switzerland (until January 31, 2011)
Dr. Klaus Fuchs, graduate computer scientist and graduate engineer, Helfant, Germany (from February 3, 2011)

Dr. Schiessl is also a member of the supervisory board and advisory board of the following companies:
Baader Wertpapierhandelsgesellschaft AG, Unterschleißheim, Germany (chairman)
Dussmann Stiftung & Co. KGaA, Berlin, Germany (member of the supervisory board)
Dussmann Stiftung, Berlin, Germany (member of the foundation council)
Dussmann Stiftung & Co. KG, Berlin, Germany (member of the advisory board)
Trion Pharma GmbH, Munich, Germany (chairman of the advisory board)

Mr. Wilhelm is also a member of the supervisory board of the following companies:
mwb fairtrade Wertpapierhandelsbank AG, Gräfelfing, Germany
Kontron AG, Eching, Germany

Mr. Kratzer does not hold any offices on other supervisory boards.

Dr. Fuchs does not hold any offices on other supervisory boards.

Each member of the Supervisory Board receives a fixed compensation of EUR 10,000 for each full financial year of service on the Supervisory Board. In addition, each member receives variable compensation amounting to 0.5 % of Group EBIT before Supervisory Board compensation. The chairman receives 200 % of the fixed and variable amount, the deputy chairman 150 %.

Compensation for the members of the Supervisory Board in the reporting period totaled EUR 81 thsd. (previous year: EUR 42 thsd.) and is distributed as follows:

	Fixed	Variable	Total
Dr. Horst Schiessl (chairman)	20	16	36
Michael Wilhelm (deputy chairman)	15	12	27
Andreas Kratzer	10	8	18

13. AUDITOR'S FEES

The following expenditure (including expenses) was incurred in the financial year just ended for services provided by the auditor, KPMG Bayerische Treuhandgesellschaft AG:

	2010 EUR (in thsds.)	2009 EUR (in thsds.)
Audit of annual financial statements	62	58
Other confirmation services	24	0
Tax consultancy services	19	10
	105	**68**

14. DECLARATION REGARDING THE GERMAN CORPORATE GOVERNANCE CODE PURSUANT TO SECTION 161 GERMAN STOCK CORPORATION ACT

The Declaration of Compliance pursuant to Section 161 German Stock Corporation Act was issued by the Executive Board and the Supervisory Board of Softing AG and has been made permanently available to shareholders on the Internet at www.softing.com.

Haar, Germany, March 7, 2011

Softing AG

The Executive Board

Dr. Wolfgang Trier

SOFTING AG, HAAR, GERMANY

CONSOLIDATED FINANCIAL STATEMENTS IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS OF DECEMBER 31, 2010, AND GROUP MANAGEMENT REPORT

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group.

Haar, Germany, March 7, 2011

Softing AG

The Executive Board

Dr. Wolfgang Trier

Changes in Intangible Assets and Property, Plant and Equipment

in the 2010 Financial Year

		Cost					
		Jan. 01, 2010	Changes in the scope of consolidation	Additions	Exchange differences	Disposals	Dec. 31, 2010
		EUR	EUR	EUR	EUR	EUR	EUR
I.	Intangible assets						
	1. Goodwill	2,734,952	0	0	0	0	2,734,952
	2. Development costs	44,809,150	0	2,843,120	0	0	47,652,270
	3. Other intangible assets	4,708,589	0	65,589	487	-3,048	4,771,617
		52,252,691	**0**	**2,908,709**	**487**	**-3,048**	**55,158,839**
II.	Property, plant and equipment						
	Other equipment, furniture and fixtures and office equipment	4,663,788	0	242,668	3,054	-8,254	4,901,256
		56,916,479	0	3,151,377	3,541	-11,302 ▸	60,060,095

Accumulated depreciation / amortization / impairment losses							Carrying amounts	
Jan. 01, 2010	Changes in the scope of consolidation	Exchange differences	Depreciation / amortization in the financial year	Impairment loss	Disposals	Dec. 31, 2010	Dec. 31, 2010	Dec. 31, 2009
EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
296,000	0	0	0	0		296,000	2,438,952	2,438,952
41,407,710	0	0	2,578,835	0	0	43,986,545	3,665,725	3,401,440
3,365,932	0	–2,411	441,489	0		3,805,010	966,607	1,342,657
45,069,642	**0**	**–2,411**	**3,020,324**	**0**	**0**	**48,087,555**	**7,071,284**	**7,183,049**
3,992,915	**0**	**3,954**	**293,130**	**0**	**0**	**4,289,999**	**611,257**	**670,873**
49,062,557	**0**	**1,543**	**3,313,454**	**0**	**0** ▸	**52,377,554**	**7,682,541**	**7,853,922**

Changes in Intangible Assets and Property, Plant and Equipment

in the 2009 Financial Year

		Cost					
		Jan. 01, 2009	Changes in the scope of consolidation	Additions	Exchange differences	Disposals	Dec. 31, 2009
		EUR	EUR	EUR	EUR	EUR	EUR
I.	Intangible assets						
	1. Goodwill	2,734,951	1	0	0	0	2,734,952
	2. Development costs	42,441,697	0	2,367,453	0	0	44,809,150
	3. Other intangible assets	3,983,513	645,567	81,390	-873	-1,008	4,708,589
		49,160,161	**645,568**	**2,448,843**	**-873**	**-1,008**	**52,252,691**
II.	Property, plant and equipment						
	Other equipment, furniture and fixtures and office equipment	4,422,941	102,011	147,232	-845	-7,551	4,663,788
		53,583,102	747,579	2,596,075	-1,718	-8,559 ►	56,916,479

Accumulated depreciation / amortization / impairment losses							Carrying amounts	
Jan. 01, 2009	Changes in the scope of consolidation	Exchange differences	Depreciation / amortization in the financial year	Impairment loss	Disposals	Dec. 31, 2009	Dec. 31, 2009	Dec. 31, 2008
EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
0	0	0	0	296,000	0	296,000	2,438,952	2,734,951
39,391,300	0	0	2,016,411	0	-1	41,407,710	3,401,440	3,050,397
2,930,527	25,800	-701	410,306	0	0	3,365,932	1,342,657	1,052,986
42,321,827	**25,800**	**-701**	**2,426,717**	**296,000**	**-1**	**45,069,642**	**7,183,049**	**6,838,334**
3,615,766	**37,348**	**-2,201**	**343,631**	**0**	**-1,629**	**3,992,915**	**670,873**	**807,175**
45,937,593	**63,148**	**-2,902**	**2,770,348**	**296,000**	**-1,630** ▸	**49,062,557**	**7,853,922**	**7,645,509**

Auditors' Opinion

We have issued the following unqualified auditors' opinion:

"Auditors' Opinion

We have audited the consolidated financial statements of Softing AG, Haar, Germany, consisting of the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in equity, the cash flow statement and the notes as well as the Group management report for the financial year from January 1 to December 31, 2010. The preparation of the consolidated financial statements in accordance with IFRS as applicable in the EU and the supplementary provisions that are applicable under Section 315a para 1 German Commercial Code (HGB) are the responsibility of the Company's legal representatives. Our responsibility is to express an opinion, based on our audit, on the consolidated financial statements and on the Group management report.

We conducted our audit of the consolidated financial statements in accordance with Section 317 German Commercial Code and the German standards for the proper audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group management report are examined primarily on a test basis within the framework of the audit.

The audit includes assessing the annual financial statements of the companies included in consolidation, the determination of the scope of consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the Group management report.

We believe that our audit provides a reasonable basis for our opinion.

The audit has not led to any objections.

In our opinion, which is based on the findings of the audit, the consolidated financial statements are in compliance with IFRS as applicable in the EU and with the supplementary provisions applicable under Section 315a para 1 German Commercial Code, and in accordance with these provisions give a true and fair view of the net assets, financial position and results of the operations of the Group. The Group management report is consistent with the consolidated financial statements, provides a suitable understanding of the Group's situation and suitably presents the opportunities and risks of future development."

Munich, Germany, March 11, 2011

KPMG Bayerische Treuhandgesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Huber	Diepold
Wirtschaftsprüfer	Wirtschaftsprüfer

Report of the Supervisory Board

for the 2010 Financial Year

The Supervisory Board of Softing AG carried out its duties as provided by law and the company's Articles of Incorporation in financial year 2010. The Supervisory Board regularly advised the Executive Board in matters of management and diligently monitored its actions. The Supervisory Board was informed regularly about the situation of Softing AG and the Group and monitored and accompanied the work of the Executive Board as well as compliance with applicable legal provisions and the Company's internal guidelines. The Executive Board informed the Supervisory Board in writing and orally about the business policies, fundamental questions of future business activities, the economic situation and future strategic development, the risk situation and risk management as well as significant business transactions, and discussed these matters with the Supervisory Board. The Supervisory Board was involved in decisions of material significance at all times.

A total of five Supervisory Board meetings were held in the 2010 financial year: on March 4, 2010, May 31, 2010, August 2, 2010, October 15, 2010 and December 17, 2010.

The regular deliberations during Supervisory Board meetings and between the Executive Board and the Supervisory Board focused on the organizational and strategic development and orientation of the Group, the positioning and financial development of Softing AG, and significant business events for the Company. Between meetings, the Supervisory Board was also informed of plans and developments that were of particular importance.

Our deliberations and reviews focused on the entire accounting system of Softing AG and the Group, the monitoring of the internal control system as well as the effectiveness of the internal auditing and risk management system.

The Supervisory Board's activities in 2010 focused mainly on the reorganization of the Softing Group's corporate structure. Effective July 1, 2010, Softing AG spun off its operating divisions (*Industrial Automation* and *Automotive Electronics*), the project business of *Automotive Electronics* as well as all intragroup services to four companies. They are Softing Industrial Automation GmbH, Softing Automotive Electronics GmbH, Softing Project Services GmbH and Softing Services GmbH. Besides these four companies, which are domiciled at the Group's headquarters in Haar, Germany, the Softing Group currently also comprises two national and four international subsidiaries. The given operating business's spin-off to a dedicated subsidiary, which is now in place, will generate additional growth.

Prior to its meeting on December 17, 2010, and during this meeting, the Supervisory Board also dealt extensively with issues of compliance and the adequacy of the compensation paid to the members of the Management Board. In that connection, the Supervisory Board determined that compliance had taken place and that the Management Board's compensation was adequate.

The Executive Board also continually informed the Supervisory Board in its reports on the most important key figures regarding the financial development of Softing AG, especially with regard to development of liquidity. The Supervisory Board thoroughly reviewed, discussed and approved all matters which require approval under legal provisions and the Articles of Incorporation or the Rules of Procedure.

Furthermore, in regular discussions with the Executive Board, the chairman of the Supervisory Board obtained information about important decisions and business transactions of special significance. He also held separate discussions with the Executive Board on strategy to explore the perspectives for and future alignment of each individual business.

The Supervisory Board regularly discussed matters of Corporate governance. At its meeting on December 17, 2010, the Supervisory Board and the Executive Board issued an updated Declaration of Compliance regarding the German Corporate Governance Code according to Section 161 German Stock Corporation Act and explained the deviations from the recommendations of the German Corporate Governance Code. The Declaration of Compliance was published in the annual report and on Softing AG's website. All members of the Supervisory Board personally attended all meetings. The Supervisory Board conducted the efficiency review of its work required under the Corporate Governance Code at its meeting on March 14, 2011.

There was no conflict of interest of members of the Supervisory Board in the financial year just ended. No committees were formed. The independence of the financial expert on the Supervisory Board was monitored on an ongoing basis. There were no personnel changes on the Executive Board or the Supervisory Board in the 2010 financial year.

The annual financial statements of Softing AG were prepared in accordance with the German Commercial Code and the consolidated financial statements and the Group management report were prepared in accordance with International Financial Reporting Standards (IFRS). The annual financial statements and the management report of Softing AG, and the consolidated financial statements and the Group management report as of December 31, 2010, were audited as required by law by KPMG Bayerische Treuhandgesellschaft AG, Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Munich, Germany,the auditors appointed by the General Shareholders' Meeting. The auditors issued an unqualified auditor's opinion for the annual financial statements and the consolidated financial statements. The auditors performed an audit in accordance with Section 317 para 4 German Commercial Code and came to the conclusion that the Executive Board established a monitoring system which fulfills the legal requirements for the early detection of risks jeopardizing the Company's existence as a going concern and that the Executive Board took appropriate measures to detect developments at an early stage and avert risks.

The auditors stated their independence vis-à-vis the Supervisory Board as required by the German Corporate Governance Code and disclosed the audit and consulting fees received in the financial year.

The annual financial statements and the audit reports of the auditors were made available in time to all members of the Supervisory Board.

At its financials meeting on March 23, 2011, the Supervisory Board examined the annual financial statements and the management report of Softing AG as well as the consolidated financial statements and the Group management report presented by the Executive Board including the audit report prepared by the auditors of the financial statements. The auditors and the Executive Board participated in the meeting. The auditors reported on their audit in general as well as on individual focal points and the significant results of their audit. They answered the questions raised by the members of the Supervisory Board in detail. The Supervisory Board approved the result of the audit. There was no reason to raise any objections based on the final result of this examination.

The Supervisory Board approved the annual financial statements and the consolidated financial statements for 2010 at its meeting on March 23, 2011. The annual financial statements are therefore formally adopted.

The Supervisory Board would like to thank the Executive Board and all employees for their responsible and highly successful work in the past financial year. The Supervisory Board acknowledges, in particular, that the management succeeded in returning the entire Softing Group to a path of substantial growth in 2010 and generate clearly positive earnings by acting swiftly and decisively during the crisis-ridden 2009 financial year.

Haar, Germany, March 23, 2011

Dr. Horst Schiessl
Chairman

Corporate Governance Report

The Executive Board and the Supervisory Board of Softing AG support many suggestions and rules of the German Corporate Governance Code and declare that they were and will be in compliance in the future with the recommendations regarding conduct contained in the Code's current and applicable version in the 2010 financial year, taking into account the exceptions and comments listed below. The Executive Board and Supervisory Board issued the Declaration of Compliance on December 17, 2010. Below, the Executive Board and the Supervisory Board disclose and explain any deviations from the Code. You can download the full text of the Code from the Investor Relations section of our website at www.softing.com.

a. The Company will not assist shareholders in the use of postal votes (Section 2.3.3 of the Code).

   Although Softing AG's Articles of Incorporation actually allow postal votes, Softing AG already gives its shareholders the option of appointing a proxy nominated by the Company to exercise their voting rights, which means the additional option of a postal vote ultimately would not simplify the exercise of shareholders' rights.

b. The Company currently has not agreed a deductible for the D&O insurance taken out on behalf of the members of its Supervisory Board (Section 3.8 para 3 of the Code).

   The Company does not believe that such a deductible could enhance the motivation and responsibility of the members of the Supervisory Board of Softing AG in carrying out their duties.

c. The Company does not prepare a compensation report (Section 4.2.5 of the Code).

   The individualized disclosure of Executive Board compensation in the compensation report in accordance with Section 4.2.5 of the Code will be omitted because the General Shareholders' Meeting of Softing AG passed a resolution to this effect on August 24, 2007 that is valid for five years.

d. Diversity in the Executive Board (Section 5.1.2 para 1 sent. 2 of the Code)

   When appointing the members of the Executive Board, the Supervisory Board cannot also respect diversity because the Company has only two Executive Board members. Given that the Executive Board comprises just two members – a number the Company currently believes to be adequate and whose positions will be filled for the foreseeable future – the recommendations in the Code to aim for an appropriate consideration of women do not appear feasible for the time being.

e. The Supervisory Board has not set up any committees (Sections 5.3.1, 5.3.2, 5.3.3 of the Code).

   Given the size of the Supervisory Board (three members), setting up committees is not considered necessary.

f. No age limit has been specified for members of the Supervisory Board (Section 5.4.1 para 2 of the Code).

   A specific age limit could be an undesired criterion to exclude qualified members of the Supervisory Board.

g. Specification of concrete objectives regarding the composition of the Supervisory Board (Section 5.4.1 para 2 and 3 of the Code).

   The Supervisory Board of Softing AG will not specify any concrete objectives regarding its composition. Up to now, the Supervisory Board has exclusively based its proposals for the nomination of Supervisory Board members on the suitability of the male and female candidates with the aim of creating a Supervisory Board whose members as a group possess the knowledge, skills and professional experience required to properly complete its tasks. The Supervisory Board firmly believes that this approach works, which is why it does not see any need to change this practice. As a consequence, the recommendations in Section 5.4.1 para 3 based on this can also not be followed.

h. Elections to the Supervisory Board are not carried out on an individual basis. The court appointment of Supervisory Board members is not limited in time until the next General Shareholders' Meeting (Section 5.4.3 of the Code).

   The Company reserves the right to elect the Supervisory Board en bloc. The Company does not believe that time limits are appropriate when it is absolutely necessary to fill or refill positions on the Supervisory Board.

i. The Supervisory Board does not discuss quarterly or half-yearly financial reports with the Executive Board prior to publication (Section 7.1.2. sent. 2 of the Code).

   The Company believes that a separate discussion of the reports is not necessary because the Supervisory Board is informed regularly of the business transactions.

Compensation for the active members of the Supervisory Board in the 2010 financial year is presented on page 69 of the 2010 annual report.

Disclosures regarding directors' dealings pursuant to Section 15a German Securities Trading Act (WpHG) are published in the Investor Relations section of our website at www.softing.com.

CORPORATE BOARDS AND DIRECTORS' HOLDINGS

Boards	Shares		Options	
	Sep. 30, 2010 Number	Dec. 31, 2010 Number	Sep. 30, 2010 Number	Dec. 31, 2010 Number
Supervisory Board				
Dr. Horst Schiessl (chairman), Attorney at Law, Munich	–	–	–	–
Michael Wilhelm (deputy chairman), CPA / tax advisor, Munich	–	–	–	–
Andreas Kratzer (member of the Supervisory Board)	8,000	8,000	–	–
Executive Board				
Dr.-Ing. Dr. rer. oec. Wolfgang Trier, Munich	–	400,515	–	–
Dr.-Ing. Michael Siedentop, Neutraubling	–	–	–	–

EXECUTIVE BOARD – ALLOCATION OF RESPONSIBILITIES (UNTIL JULY 31, 2010)

Dr. Wolfgang Trier	Chairman Industrial Automation Finance, Human Resources Investor Relations
Dr. Michael Siedentop	Automotive Electronics

EXECUTIVE BOARD – ALLOCATION OF RESPONSIBILITIES (FROM AUGUST 01, 2010)

Dr. Wolfgang Trier	Industrial Automation Finance, Human Resources Investor Relations Automotive Electronics
Dr. Michael Siedentop	Quality Management

FINANCIAL CALENDAR

March 31, 2011	2010 Annual Report
May 13, 2011	Quarterly Report 1/2011
May 20, 2011	General Shareholders' Meeting in Munich
August 12, 2011	Quarterly Report 2/2011
November 15, 2011	Quarterly Report 3/2011
November 21 – 23, 2011	German Equity Forum in Frankfurt / Main

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