2012

Annual Report

- Sales reach record high
- Earnings per shares increased
- Further growth expected

your connection to excellence

Consolidated Key Figures

		2012	2011	2010	2009
Revenue	(EUR million)	49.39	41.15	31.67	23.66
EBIT	(EUR million)	4.92	4.25	1.53	-2.46
Consolidated profit / loss	(EUR million)	3.50	3.05	0.99	-1.85
Non-current assets	(EUR million)	10.48	9.47	9.98	9.70
Current assets	(EUR million)	27.42	21.49	16.27	10.95
Equity	(EUR million)	22.19	17.20	14.96	13.62
Cash and cash equivalents	(EUR million)	11.52	7.30	4.27	4.17
Number of employees (annual average)		296	258	224	227
DVFA/SG earnings per share	(EUR)	0.59	0.58	0.19	-0.33

Title photo: Third-generation automobile diagnostic module (vehicle communication interface)

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Dear Shareholders, Employees, Partners and Friends of Softing,

The best figures in the company's history! Is there a more exciting way to start an annual report? But you're familiar with this sentence already: Over the past three years, our sales have grown between 20 % and 30 % each year. I want all of our future annual reports to start with this sentence as well.

In 2012, our incoming orders rose by 17 % and our sales grew by 20 % to reach EUR 49.4 million. Earnings before interest and taxes (EBIT) increased by over 15 % to EUR 4.9 million. This means that despite the 20 % growth in sales, we confirmed our goal of a double-digit EBIT margin, even though many new developments for the future were financed from our ongoing business. This success has resulted in a high dividend for our shareholders. Our employees will also enjoy more performance-based bonuses this year. Details can be found in the overview table inside the cover of this report.

This success is all the more remarkable considering the economic environment in which Softing operates. In 2012, most of our competitors posted declining or stagnating sales figures. Some have already reacted to the end of their growth streak by making panicky purchases at absurd prices. Softing, however, has taken a different approach: With a sense of focus and an eye for opportunities, we have managed to significantly increase our relevant key figures once again. We have also hired around 40 new employees to fuel our growth from 2014 onwards.

Based on stable incoming orders and the mood in discussions with our customers, we believe growth in the international automation markets has cooled off slightly in the short term, but we are cautiously optimistic about what the rest of the year will bring. There are exciting new business models in communications technology on the horizon for which Softing is in an excellent position and already has a clear competitive advantage thanks to its technologies. This will support our sales growth from the second half of 2013, and we can expect a significant growth in volume here from 2014 onwards. Internally, we have improved our capabilities through the tight-

er integration of our business units – by merging Softing Industrial Networks with its parent company, for example.

2013 looks promising for the Automotive Electronics segment, too, even though large manufacturers are curbing their costs. The drivers here will be the ongoing major projects for key customers who are entrusting entire segments of their control unit communication company-wide to Softing. We will also expand some pilot projects and anchor Softing Automotive Electronics in the passenger car production sector. With products like the third-generation diagnostic interface depicted on the cover of this report, we are well ahead of the competition in technological terms. Interest among our customers is correspondingly high. Here, too, we are already laying the business foundations for growth in the upcoming years.

As has often been the case in recent years, politics are the cause of much uncertainty. In addition to the debt crisis in southern Europe, there are concerns about Germany's continued stability following the parliamentary elections. The increasingly left-leaning agenda of the SPD and the Green Party is an economic cabinet of horrors. We can look to our French neighbors to see the effects of the failure of the policies now being pursued here, like pointless dirigiste measures such as the introduction of minimum wages, massive tax burdens from the middle class up and a variety of financially unfeasible campaign promises. It seems as though they want to take everything that has made us strong and exchange it for the formulas of the Mediterranean countries. As if that weren't bad enough, the "social democratization" of the conservative parties continues. We can only hope that the majority of voters will recognize the dangers and refuse to give their vote to the charlatans.

Out of necessity, we have learned to live with the uncertainties. We anticipate further significant growth in the coming year, although we have traditionally not wanted to pin ourselves down to specific figures until later in the year. We are also striving to support our growth through targeted acquisitions. We have the means to do this, and there are already some interesting possibilities emerging at sight.

At this point, I would like to say thank you – thank you to all of our employees for their hard work and outstanding achievements. Together we have managed to set another new record and greatly benefit our customers with our services. Record figures always raise expectations, but they also increase our own ambition and confidence in our abilities. I am convinced that Softing meets all the conditions for continuing its success story in 2013.

While presenting to investment houses in the City of London, I recently read some advice about capital investments from John Pierpont Morgan, the legendary founder of the world's leading investment bank. The inscription on a bronze plaque read: "It takes three things to make a fortune: The vision to see, the courage to buy and the patience to hold." Describing each step in just four words over 100 years ago, J.P. Morgan said everything there is to say about amassing wealth in the capital market.

I cordially invite you to follow this path with us, and I hope you have the patience that J.P. Morgan mentioned so that price fluctuations in any direction do not sway you from your investment – it will be worth it. We are counting on your continued loyalty!

Sincerely yours,

Dr. Wolfgang Trier
(Chief Executive Officer)

Group Management Report of the Executive Board

for the 2012 Financial Year

BUSINESS MODEL AND GROUP STRUCTURE

Business Model

Softing is an established international 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 developed by Softing itself; production takes place externally.

Through its *Industrial Automation* segment, Softing is a leading provider worldwide of industrial communications solutions and products for the process and manufacturing industry. The products are tailored to the requirements of system and device manufacturers, machinery and plant engineers as well as end users, and they are known for being extremely user-friendly and offering functional advantages. It focuses on components and tools for fieldbus systems and industrial control systems, as well as on solutions for production automation.

Comprised of the Company's core competence in diagnostics, measurement and testing, Softing's *Automotive Electronics* segment stands for key technologies in automotive electronics as well as such closely related areas in electronics as the commercial vehicle or agricultural machinery industry. The Company's range of products and services encompasses hardware and software, customized solutions as well as on-site consulting and engineering.

Softing specializes in the entire life cycle of electronic control units and systems – from development to production all the way to services.

Development work in *Automotive Electronics* is focused on standardization. Softing is an active member in the major standards bodies for automotive electronics such as ASAM and ISO.

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, as are the Asian markets such as China, Japan and Korea.

SOFTING GROUP

* Merger into Softing Industrial Automation GmbH was filed for entry in the commercial register in January 2013

** Until January 1, 2012 hard&soft Salwetter-Rottenberger GmbH (Germany)

Legal structure of the Group

The Softing Group comprises the following entities:

- Softing AG domiciled in Haar near Munich and the following subsidiaries:
- Softing Industrial Networks GmbH domiciled in Nuremberg and with branches in Erkrath near Düsseldorf
- Softing Industrial Automation GmbH domiciled in Haar near Munich
- Softing Automotive Electronics GmbH domiciled in Haar near Munich
- Softing Services GmbH domiciled in Haar near Munich
- Softing Project Services GmbH domiciled in Haar near Munich
- Softing Messen & Testen GmbH in Reutlingen
- samtec automotive software & electronics GmbH domiciled in Filderstadt
- Softing Italia s.r.l. domiciled in Boscone (Italy)
- SoftingROM s.r.l. domiciled in Klausenburg (Romania)
- Softing North America Inc. domiciled in Newburyport (USA)
- Buxbaum Automation GmbH domiciled in Eisenstadt (Austria)

On the Presentation of the Segments

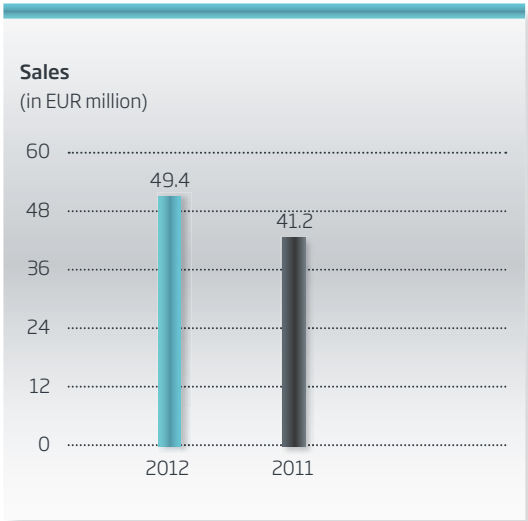
Segmentation of the Softing Group is based on its internal reporting and organizational structure, taking into account the different risks and income structures of each individual division. Segmentation by divisions entails allocating Softing's activities to the *Automotive Electronics* and *Industrial Automation* segments. Please see the section on "Segment Reporting" in the notes to the consolidated financial statements for further details as well as quantitative disclosures on the Softing Group's segments.

Softing AG

Softing AG is the Group's central management holding company.

Softing Italia s.r.l. and Softing North America, Inc.

In 2009, Softing AG acquired all equity interests in OEM Automazione s.r.l., a company domiciled in Cesano Boscone, Italy; it is now named Softing Italia s.r.l. and 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 2012, both companies made a positive contribution to the overall earnings of the Softing Group.

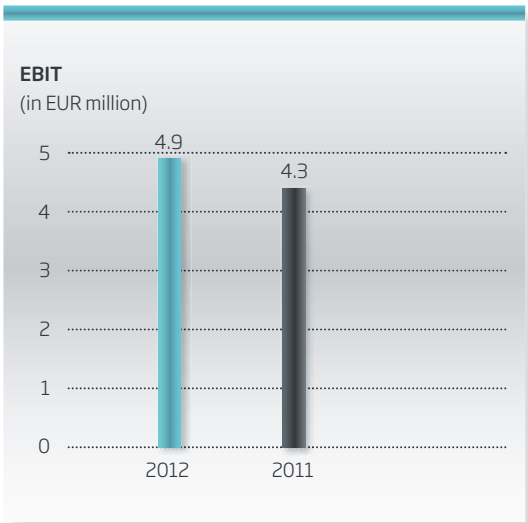
Softing Industrial Automation GmbH
Softing Industrial Automation GmbH is a leading provider worldwide of industrial communications solutions and products for the process industry and the manufacturing industry. The products are tailored to the requirements of system and device manufacturers, machinery and plant engineers or end users, and they are known for being user-friendly and offering functional advantages.

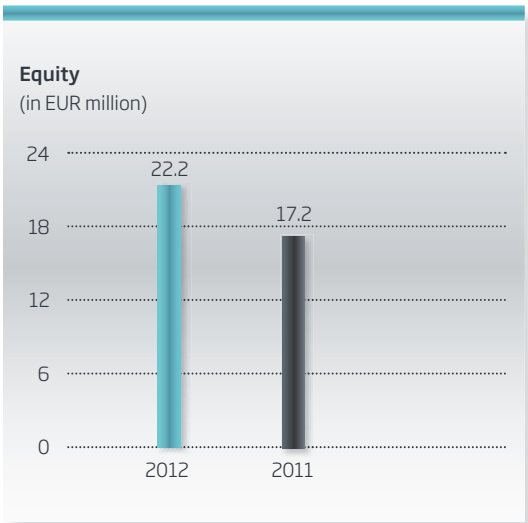
Softing Industrial Networks GmbH
In January 2011, Softing AG acquired the remaining equity interest of 12.5 % in former INAT GmbH, which was renamed Softing Industrial Networks GmbH on March 2, 2011. Softing Industrial Networks has been a subsidiary of Softing Industrial Automation since December 31, 2011. The products of Softing Industrial Networks GmbH are well positioned in industrial automation. The company's focus is on products for industrial communication and OPC software. The acquisition of the additional equity interest in Softing Industrial Networks GmbH further strengthens Softing's *Industrial Automation* segment. At the same time, the sales organizations of both companies will benefit from synergies. In 2012, this company also made a positive contribution to the overall earnings of the Softing Group.

Buxbaum Automation GmbH
The sales office Buxbaum Automation GmbH, Eisenstadt now allow Softing to serve customers in Austria locally.

Softing Automotive Electronics GmbH
Softing Automotive Electronics GmbH offers products and services for diagnostics and test automation. The comprehensive process-based approach of the Softing solutions enhances quality and reliability in control unit communications.

With over 80,000 installations, Softing holds a leading position in the growth market for diagnostic and test systems in the field of automotive electronics. Automobile manufacturers and system and control unit suppliers around the world rely on Softing's proven hardware and software tools and solutions.





Softing Messen & Testen GmbH

The renaming of hard&soft Salwetter-Rottenberger GmbH produced Softing Messen & Testen GmbH in January 2012. Softing continues to develop and refine this company's products and services. A measurement technology unit has been added.

Softing has successfully engaged in the field of automotive test solutions for more than 20 years and offers extensive expert knowledge on every aspect of automated testing of automotive electronics. The Company has already implemented functional tests and test designs for many control units used in motor vehicles.

Softing Services GmbH

Softing Services GmbH provides services for Softing AG's operating companies.

SoftingRom s.r.l.

The subsidiary SoftingROM s.r.l. (SoftingROM), which is domiciled Klausenburg, Romania, is a subsidiary of Softing Services GmbH. By now it has grown to more than 60 developers. SoftingROM forms an important pool of IT specialists for complex development tasks within the Softing Group. The company is also strategically important to the Group for competitive reasons.

Softing Project Services GmbH

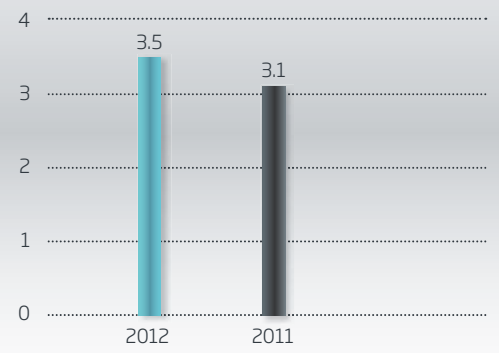
To offer the best possible support, Softing Project Services GmbH provides high-quality services directly on customers' premises. Competent consulting and engineering services focused on the Company's core competence – diagnostics, measurement and testing – are rendered to customers.

Well-trained staff work directly on site. Establishing close links between all important participants is a hallmark of the approach of Softing Project Services GmbH and plays a decisive role in the success of its projects.

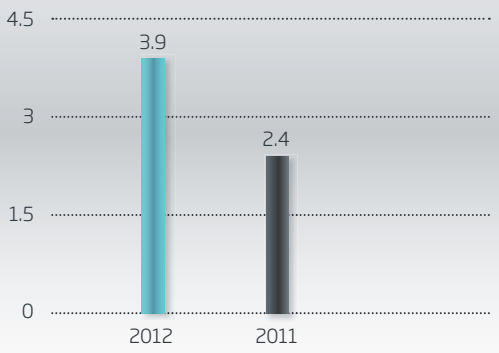
samtec automotive software & electronics GmbH

Samtec automotive software & electronics GmbH (samtec) has been an established automotive diagnostics specialist for the past 25 years. samtec develops hardware and software for communicating with automotive control units on all relevant bus systems. Softing AG acquired all equity interests in samtec in the fall of 2011, having entered into a strategic partnership with the company years earlier. The family of modern HS interfaces ideally complements Softing's diagnostic interfaces. The companies have already engaged in the joint development of such solutions as TestCUBE2.

Consolidated profit
(in EUR million)



Research and development expenses
(in EUR million)



These consolidated financial statements were prepared in accordance with Section 315a para 1 German Commercial Code subject to application of the International Financial Reporting Standards (IFRS) as applicable within the European Union.

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. Working capital mainly comprises inventories as well as trade receivables and trade payables.

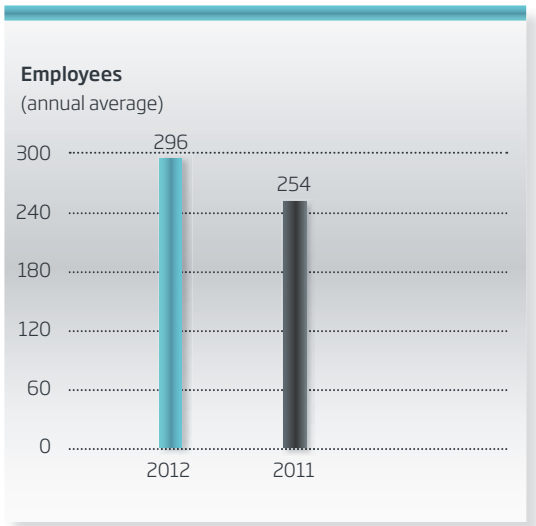
Inventories are analyzed on an ongoing basis, and any need for writedowns is determined based on inventory coverage. Short-term sales forecasts are used to manage orders for new goods based on inventory availability. Trade receivables are periodically monitored based on their aging structure and tested 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. Trade payables are mostly settled using available cash discounts.

Goals

While the Softing Group aims for sustained, profitable growth in both sales and profits, profitability has priority over mere growth. The Company's sustained and long-term goal is to achieve a return on equity of about 10 percent before taxes and interest.

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. Expanding Softing's current market positions through ongoing development of existent customer relationships and targeted acquisition of new customers is a key goal.



ECONOMIC ENVIRONMENT AND PERFORMANCE

Global Economy Slows Down Considerably in the Course of 2012

"An uneasy calm" was how IMF Chief Economist Olivier Blanchard described the situation of the global economy in 2012. The risks arising from national debt and shaky financial systems, especially in Europe, are far from being overcome. The individual regions around the world also demonstrated uneven growth, with the euro zone entering a recession and the United States witnessing muted growth. Only emerging economies and developing countries continue to expand rapidly, though at a slower pace than before.

According to the Institute for the Global Economy (IfW) based in Kiel, Germany, after moderate growth of 3.8 % in 2011, the global economy expanded by only 3.2 % in the past year. The IfW stated that in 2012 the economy grew by 2.2 % in the United States, 2.2 % in Japan and 7.8 % in China. By contrast, the growth of euro zone GDP decreased by 0.5 %.

The economy of the monetary union thus saw the largest contraction in four years. Between October and December, GDP in the 17 countries fell by 0.6 % quarter-on-quarter. This was the third consecutive decrease, according to Eurostat, the European Statistical Office. In 2012 as a whole, economic output was down 0.5 % after increasing by 1.4 % in 2011.

Not only did the German economy shrink in the fourth quarter, but the other important euro markets also suffered losses. France's economic output decreased by 0.3 %, Italy's by 0.9 % and Spain's by 0.7 %. Portugal reported at the end of 2012 that its economic output had fallen by as much as 1.8 %.

The German Economy was No Longer Able to Escape the Crisis at the End of 2012

German GDP fell considerably by 0.6 % at the end of 2012. The Federal Statistical Office reported that a drop of this magnitude had not been seen since the financial crisis.

The euro debt crisis and the global economic downturn hit the German economy unexpectedly hard in the closing quarter of 2012. The economy had grown in the first three quarters of the year, even though the pace of growth had steadily tapered off: Following an increase of 0.5 % in the first three months, growth from April to June initially slipped to 0.3 % and then to 0.2 % in the third quarter.

On balance, the German economy therefore grew by 0.7 % for 2012 as a whole, compared with 3.0 % in 2011. The statisticians attribute the slump in the fourth quarter to weak exports. As a consequence of the euro crisis, German companies sold far fewer products to their European neighbors. Private consumption in Germany edged up slightly, however.

The automation industry witnessed an upswing in 2012, with the German Engineering Federation (Verband Deutscher Maschinen- und Anlagenbau – VDMA) reporting growth of 4 % for 2012. Even though this industry's expansion was significantly slower than the 14 % reported for 2011, the sector outperformed the market as a whole for the third year in a row. The greatest increases in machinery exports were seen in NAFTA, ASEAN and OPEC countries, but even in the euro zone exports were up by 4.5 %. For some time now, exports to the United States have been growing by over 20 %, which reflects strong demand for machine tools, handling technology and drive systems. According to the VDMA, the United States is in the process of halting its deindustrialization. Nevertheless, there is an unusually large gap between the strong export business and the declining domestic business, say VDMA experts.

According to the German Electrical and Electronic Manufacturers' Association (ZVEI), revenues in the German electrical and electronics industry decreased by 3 % last year to EUR 173 billion. This stands in contrast to 2011 and 2010, when revenues were up 9 % and 13 %, respectively. In 2012, Germany's electrical industry saw its order intake drop by almost 9 % year-on-year. However, according to Dr. Andreas Gontermann, Chief Economist at the ZVEI, this decrease is exaggerated because in 2011 large orders were placed in Germany at a level that was well above average, while in 2012 there were hardly any major orders. Production in the electrical industry also declined by 3 % in 2012. The fourth quarter in particular had a negative effect: In the months from October to December 2012, production was down 8 % on the prior-year period. Even so, German electrical and electronic production remained at the same level as in 2008, the year preceding the financial crisis.

According to the ZVEI Electronic Components and Systems Trade Association, demand for components for industrial electronics, which had risen in 2011, weakened in 2012, when the German electronics components market contracted by 3 % to approximately EUR 16.9 billion. The decrease in revenue can be attributed to the weaker growth of the German economy year-on-year as a consequence of the euro zone sovereign debt crisis and the global economic slowdown. Automotive electronics were not impacted by the crisis to the same extent in 2012. According to the market experts from ZVEI, this segment declined by just 1 % last year.

Softing's Earnings in 2012:
Record EBIT of EUR 4.9 million Once Again

In spite of the economic slowdown in Germany in the second half of 2012 and the declining economic growth, especially in the euro zone, the *Industrial Automation* and *Automotive Electronics* segments were still able to benefit from the economic situation and generate substantial growth as well as record earnings for Softing in 2012. Not just newly acquired customers but also new products contributed to the increase in sales. Consolidated sales climbed from EUR 41.1 million by 20 % to EUR 49.4 million.

This increase was reflected in both segments. Sales in the *Industrial Automation* segment rose from EUR 23.0 million by 15 % to EUR 26.3 million, and in the *Automotive Electronics* segment from EUR 18.2 million by 27 % to EUR 23 million. Softing profited, in particular, from rising demand for both hardware and software products. The sales growth in the *Automotive Electronics* segment was also due to higher sales from samtec automotive software & electronics GmbH, which had been recently acquired in November 2011. This company's entire sales in 2012 were included in the consolidated financial statements.

Own work capitalized rose on account of the increase in product developments, which essentially led to higher depreciation and amortization.

Other income declined in 2012, from EUR 1.7 million to EUR 0.9 million. This was mainly due, for one thing, to a receivable reinstated in 2011 in the amount of EUR 0.3 million and, for another, to lower income from funded projects as well as lower currency gains.

The cost of materials climbed by EUR 2.8 million, an increase of 23 %. This was mainly due to the 20 % rise in sales. The cost of materials ratio (cost of materials relative to sales) rose from 29.3 % to 30.1 %. This slight increase is due to changes in the product mix sold.

Employee benefit costs climbed 21.4 % to EUR 23.6 million, partly on account of the 17 % increase in the Group's average headcount from 254 to 296, but also due to an increase in employee benefits and salaries.

Other expenses were up EUR 0.7 million, mainly as a result of the growing volume of business.

Earnings before interest and taxes (EBIT), i. e. profit from ordinary business activities, rose by EUR 0.7 million, from EUR 4.2 million to EUR 4.9 million. In this connection, the return on sales in the *Industrial Automation* segment increased from 7 % to 9 %. The return on sales in the *Automotive Electronics* segment narrowed from 14 % to 11 %, mainly due to the integration of samtec into this segment as well as to increased investment in new proprietary products. In the short term, customer projects generate significantly higher returns than investments in new products.

Consolidated net profit for the year after taxes was EUR 3.5 million (previous year: EUR 3.1 million).

Assets, Liabilities and Cash Flows

The Softing Group had equity of EUR 22.2 million at the end of 2012 (previous year: EUR 17.2 million), an increase of EUR 5.0 million or 29 %. The consolidated equity ratio was 58.5 % (previous year: 56 %) owing to higher total assets.

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 2012 represented 27.6 % of total assets (previous year: 38.8 %). This is offset by equity and non-current liabilities representing 67.6 % (previous year: 63.1 %) of total equity and liabilities. The increase by EUR 4.2 million in cash and cash equivalents largely accounts for the EUR 6.9 million increase in total assets. The increase in cash and cash equivalents is mainly due to the increase in earnings and the capital increase executed in 2012.

Cash and cash equivalents at year's end were EUR 11.5 million (previous year: EUR 7.3 million).

The cash flow from operating activities rose from EUR 6.3 million to EUR 7.8 million, an increase of EUR 1.5 million or 23 %. Consolidated profit, which was EUR 0.7 million higher year on year had a positive effect here. In addition, inventories fell by EUR 0.3 million compared with the previous year, in which they had risen by EUR 0.8 million. The total effect of the change in inventories on the cash flow from operating activities for 2012 was EUR 1.1 million.

The cash outflow from long-term investing activities rose by EUR 1.5 million on account of increased investment in the company's own product developments. This was up by EUR 1.5 million in 2012, from EUR 2.4 million to EUR 3.9 million.

The cash flow from financing activities has a positive effect of EUR 0.9 million on the net position, with the capital increase in 2012 contributing a total of EUR 3.5 million. Dividends of EUR 1.4 million paid in 2012 and the loan repayment of EUR 1.2 million had a negative effect.

In sum, it may be stated that the Company's assets, liabilities and cash flows remain very solid and that its profits continued to grow in the financial year just ended.

There were no other events in general, particularly no risks to the Company, that deviated materially from the Executive Board's earlier assessments.

Research and Product Development
For years, the Softing Group has invested a large portion of its sales in research and development. In total, Softing invested EUR 3.6 million (previous year: EUR 2.3 million) in the development of new products and the enhancement of existing ones. In addition, non-capitalizable research and development expenses totaled EUR 2.4 million (previous year: EUR 1.5 million).

The *Industrial Automation* segment made investments of EUR 1.9 million in 2012 (previous year: EUR 1.7 million), predominantly in new functions and complementary tools that directly boost sales volumes of existing core products.

For the diagnosis of PROFIBUS installations, version 2.10 of the PROFIBUS Diagnostics Suite was launched on the market with many expanded functions. Because our product is the market leader in this segment, we are striving to maintain this position in the future with enhancements and improvements.

The new version 5.0 of NetSpector®, a modular software package for analyzing Ethernet protocols, provides detailed decoding of PROFINET telegrams. This allows protocol errors to be analyzed easily even without expert knowledge, which leads us to expect that the customer group will be expanded.

CANpro USB embedded is an interface that for the first time enables access to CAN and CANopen networks using a PC's internal USB connection. This gives in particular OEMs, such as the manufacturers of industrial PCs, a powerful, easy-to-use solution for an integrated CAN interface with a high data throughput and very low response times.

The current version 7.01 of echocollect, a gateway for the vertical integration of process data, now supports control systems from over 50 manufacturers. Support of the current version 11 of Oracle databases was also implemented.

In version 1.01, the OPC UA .NET Development Toolkits were expanded to include support of the OPC UA Historical Access specification. This gives users access to historical data such as for calculating average temperatures over a defined period. The package includes demo OPC clients and servers as well as a programmer's guide with programming examples and detailed documentation for explaining the possible uses as well as the security aspects of Historical Access.

The function library FF-CIT for FOUNDATION FIELDBUS systems, which specifically addresses the manufacturers of control and host systems in the field of process automation, was expanded to include additional functionality. For Softing, FF-CIT holds the key to further sales of gateways. Users thus receive vendor-neutral device diagnoses and/or access to asset management services.

In 2012, the *Automotive Electronics* segment invested a total of EUR 2.2 million (previous year: EUR 0.9 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 solutions in place, the Company invested in product developments in close coordination with potential customers.

The Diagnostic Tool Set (DTS), which is already established on the market, now exists in version 8. DTS8 was enhanced in line with specific customer requirements and made more attractive for new customers. It will be rolled out in the current financial year, and the latest version once again comprises the entire DTS family including the ODX data editor DTS Venice, the development tester DTS Monaco and the ASAM MCD 3D server. Even OTX has also found its way into the DTS family.

The OTX studio was refined in line with market requirements and put into operation at a premium manufacturer in southern Germany. OTX is a description format for test sequences that can run in workshop testers, experimental setups or in production automation, for example.

A new interface of the HS family was launched at the Filderstadt site. The HSC interface was successfully introduced in production at a well-known sports car manufacturer and, thanks to its highly integrated design, is able to meet stringent production requirements.

We had started to focus on our core expertise (diagnosis, measurement and testing) in 2009 and continued in that vein in the financial year just ended. The DTS Monaco and DTS COS projects, in particular, were successfully brought to market in 2012. The latest version of DTS-COS – the core system for all diagnostic applications, as it were – fulfills the requirements of ISO 22900/22901. The world's largest automotive group, which is based in Germany, signed an agreement with Softing in 2012 concerning the supply of DTS7-COS. This contract is the second of its kind after a very similar agreement was concluded in 2011 with a German manufacturer of premium vehicles – though for the DTS8 version. This creates future opportunities for us with respect to all major manufacturers of passenger cars and commercial vehicles.

Softing *Automotive Electronics* complemented its existing portfolio of products and services through the addition of measurement technology. To this end, Softing entered into a strategic partnership with Dr. Ing. h.c. F. Porsche AG in 2011. The new Softing measurement technology (SMT) concerns both mobile and stationary modular measurement systems that are connected via a serial high-speed BUS. SMT also includes a plug 'n play concept, which can be calibrated at any time, as well as a transducer electronic data sheet (TEDS). Series production with EMC tests was implemented in 2012, with larger numbers of units being delivered to one German automaker. Softing's measurement technology portfolio was also enhanced by the addition of the EDAG measurement technology system EDfuse. Softing is the official distribution partner for EDAG measurement technology.

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 and 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. Networked tools were further expanded in 2012. The entire business is underpinned by providing local customer support via resident engineers and test installations at the Reutlingen site.

Softing continued to raise its profile in 2012 by focusing on its core areas of expertise. This entailed developing the market through partnerships, where Softing's portfolio of products and services was combined with or expanded by the given partner's products and services in targeted ways. This enabled Softing to achieve important

project wins with leading companies. It shows that Softing has established itself further 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. In 2013, the Softing Group will invest in the development of new products and the refinement of existing products in amounts roughly equivalent to 2012.

Employees

At the end of 2012, the Softing Group had a total of 316 full-time employees (previous year: 293). There were 198 employees working in research and development (previous year: 143), and 72 in marketing and sales (previous year: 60).

Softing once again invested in employee training in 2012. 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 too.

OPPORTUNITIES FOR THE COMPANY'S FUTURE DEVELOPMENT

Softing AG – Positioning of the Operating Segments

Besides the four core companies at its Haar headquarters, the Softing Group also comprises six subsidiaries. Softing AG acquired all equity interests in samtec automotive software & electronics GmbH in the fall of 2011, having entered into a strategic partnership with the company earlier. In January, the merger of Softing Industrial Networks GmbH into Softing Industrial Automation GmbH was resolved with retroactive effect to January 1, 2013 and filed for entry in the commercial register. The new structure imposes clear parameters on the subsidiaries, making it easier to generate further growth

Focus within *Automotive Electronics*

We continued to focus on our core areas of expertise, i. e. data communication, diagnostics, test systems – and the measurement expertise acquired in 2011 – during the financial year just ended, as we have been doing since 2009. Increased productivity and ongoing quality assurance measures will form a solid foundation for the future improvement of the division's performance, thus firmly anchoring the segment among key customers.

Product Range in the *Industrial Automation* segment

Softing has made several organizational and operational adjustments in the *Industrial Automation* segment in recent years, including focusing more heavily on the market by moving away from pure technology-oriented solutions towards products with strategic, market-oriented components that offer customers a direct benefit. We will pursue this realignment in 2013 also. In 2012, our investments served first and foremost to further 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.

New Technologies

Softing is continuing to broaden new technologies by refining wireless technologies and developing communication devices for extreme applications. We launched the development of a complex communications system for the oil and gas industry in 2011. Certification for use at sites exposed to high risk of explosions is a special characteristic of this system. Delivery of this system began in 2012, and sales figures are scheduled to rise considerably during the current financial year.

Softing Industrial Networks GmbH
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. INAT GmbH was renamed Softing Industrial Networks GmbH in March 2011. In January 2013, the merger of Softing Industrial Networks GmbH into Softing Industrial Automation GmbH was filed for entry in the commercial register. Softing Industrial Networks specializes in industrial automation with a focus on the manufacturing and process industry. The company 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 relatively quickly and inexpensively from Munich. There are also many well-educated engineers and computer scientists in the region. The workforce was expanded considerably in 2012. The Romanian subsidiary has thus evolved into an important pillar of the Softing Group.

Softing North America, Inc. Subsidiary
Softing North America generated clearly positive earnings in 2012. The Company's product business is now established in the US market. We see particular potential for further sales growth in 2013. New products will support this development in the medium and long term. Smart alliances and matching product policies will provide good opportunities for gaining market share at the expense of competitors in 2013 as well.

RISK MANAGEMENT AND INDIVIDUAL RISKS

Softing is an internationally operating 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

In 2012, both sales and profits substantially improved year on year. A particularly strong fourth quarter again contributed to this result.

Nonetheless, there is always a general risk both of underutilization of capacities and 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.

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 2012.

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 2012 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 damage to our IT infrastructure, pose a serious threat to the Company's ability to function. In addition, we implemented IT security measures which so far prevented damage caused by computer viruses and sabotage. This is why we believe that the probability of a threat to the security of our data inventories or information systems is rather low.

Personnel Risks

The financial success of the Softing Group is rooted to a large extent in the skills and qualifications of its employees. For this reason, our employees are trained on an ongoing basis to ensure that the quality of their performance corresponds to the requirements of our customers.

There is keen competition for highly qualified professionals and executives in the labor market at this time. Qualified staff are a material prerequisite for boosting the Company's shareholder value. Hence we always seek to recruit new, very well trained personnel; integrate them as best as possible; promote them and establish a long-term collaboration with them. In addition to attractive employment conditions, we also offer our staff targeted training and continued education. But there is the potential risk that suitable professionals or executives cannot be recruited in the market in due time, and that this might have a negative effect on the Company's assets, liabilities, cash flows and profit or loss.

Compliance

Even though not a single compliance case has so far arisen at Softing despite a high level of awareness by Controlling and the Executive Board, the Executive Board and the legal department continue to take the issue of compliance very seriously. Through workshop participation and a series of presentations, we ensure that current trends and issues are taken on board and adapted to the situation at Softing. In 2012, the list of compliance risks was refined further by focusing on the relevant topics that are conceivable for us. Furthermore, in view of compliance as a preventive measure, procurement was centralized to a greater extent in the Softing Group and the compliance officer has also reported directly to the Executive Board since the beginning of 2013.

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

Risk Analysis and Risk Assessment

Risk analysis entails assessing identified risks in terms of the probability of their occurring (quantitative dimension) and the potential loss (dimension of intensity). Risk assessment is subject to practical limits, however – especially in the area of operating risks – because the number of potential risks is high but, more often than not, the available risk data is incomplete. As a result, subjective risk assessments must be made in many areas exposed to risk because the expenditure for risk management should be reasonable.

EVENTS OF SPECIAL IMPORTANCE AFTER THE END OF THE FINANCIAL YEAR

In January, the merger of Softing Industrial Networks GmbH into Softing Industrial Automation GmbH with retroactive effect to January 1, 2013 was filed for entry in the commercial register.

FORECAST FOR THE COMPANY'S FUTURE DEVELOPMENT

2013: German Growth Engine in Euro Zone Feels Economic Downturn

According to the Hamburg Institute of International Economics (HWWI), the global economy will probably pick up slightly again in 2013. Once more, the turnaround will start in the emerging economies. Individual euro zone countries will remain in recession in 2013. The Institute for the Global Economy (IfW) based in Kiel is forecasting global economic growth of 3.4 % for 2013 after 3.2 % in 2012. The growth in Asia (excluding Japan) will once again rise by an above-average 7.3 %, while growth of 1.5 % is projected for the US, down from 2.2 % in 2012.

These forecasts assume that the European sovereign debt crisis will progressively ease and that the US administration will reach a compromise regarding its fiscal policy that although acting as a damper on the economy in the coming year will improve its prospects in the medium term. The IfW is forecasting a 0.2 % decline in economic output for the euro area, mainly due to negative growth in Greece (– 4.0 %), Cyprus (– 1.9 %), Slovenia (– 1.8 %) and Portugal (– 1.5 %). For Germany, the IfW anticipates a modest expansion of the economy of 0.3 %, the federal government envisages growth of 0.4 %, and Deutsche Bank expects economic growth of as much as 0.8 %.

Reliable economic forecasts are difficult to come by, given the current fiscal and political environment – specifically, the sovereign debt crisis in the euro zone. However, both the engineering and the electrical and electronics industry are going into 2013 with an optimistic outlook. While German machinery and plant engineers are adopting a more conservative outlook than recently, they are still banking on growth. Hannes Hesse, chief executive of the VDMA industry association, expects his sector to post growth of 4 % to 5 %.

The ZVEI is forecasting a slight improvement once more for the current year. Dr. Andreas Gontermann, Chief Economist at the ZVEI, believes that price-adjusted production will increase by one-and-a-half percent. The business climate in the German electrical and electronics industry also brightened slightly at the beginning of the year: In January, companies rated the current economic situation as better on the whole than in December 2012. Eighty-three percent of enterprises considered the situation to be either good or stable.

In Technological Terms, Softing is Still Ideally Positioned for 2013

The forecast for the short- and medium-term growth of the international markets for state-of-the-art automation technology is unreservedly positive. Thanks to its unique technological expertise that covers all relevant communication technologies for factory and process automation, Softing's *Industrial Automation* segment is ideally positioned to benefit from this trend across various industries and sectors.

In 2013, the *Industrial Automation* segment will continue to extend its product portfolio, adding further FPGA-based solutions for PROFIBUS, PROFINET IRT and ETHERNET Powerlink to its range of embedded products targeted at system and device manufacturers as well as mechanical engineers. Large expansions of services for end users in the areas of data integration and network diagnosis are planned.

The *Automotive Electronics* segment is equally optimistic about its prospects in 2013. The current 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's *Automotive Electronics* segment is in a strong position thanks to its focus on its core competencies – diagnosis, measurements and test systems.

New products based on an innovative diagnostic framework for diverse solutions ranging from production to service solutions are planned for 2013.

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, Japan and China – and Softing is pursuing it systematically and pushing ahead with its marketing activities 2013.

DTS8 comprises the DTS Venice ODX data editor, the DTS Monaco development tester and the ASAM MCD-3D DTS COS server. Data will be supplied through ODX, and CANdb data can be integrated into the system for purposes of rest bus simulation and measurement. This interplay will be further expanded in 2013.

Softing Automotive Electronics 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 2013 Financial Year

Softing expects to boost both incoming orders and sales to more than EUR 50 million in 2013 on the whole through higher penetration of the relevant markets and on the basis of its customers' estimates. In that connection, Softing expects EBIT to remain at the current level in 2013. On account of our excellent positioning in our target markets, we assume that sales will growth will be stable again and that EBIT will rise in 2014 as well.

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

We also believe that the current 2013 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.

Of course, the Company's continued development hinges largely on the continued positive development of the global economy. This is why the Company's actual performance might deviate from the Executive Board's expectations.

DISCLOSURES UNDER SECTION 315 PARA 4 GERMAN COMMERCIAL CODE

1. The share capital of Softing AG in 2012 was EUR 5,637,198 until March 05, and, as a result of a capital increase by EUR 805,314, has been EUR 6,442,512 since March 05, in each case 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 that exceed 10 % of the voting rights:

   Helm Trust Company Limited, St. Helier, Jersey, Great Britain, notified us in accordance with Section 21 para 1 German Securities Trading Act that its voting shares in our Company exceeded the threshold of 25 % on December 5, 2011, and were 26.69 % on that date (1,504,720 voting shares).

   Of this amount, 26.69 % (1,504,720 voting shares) must be allocated to it in accordance with Section 22 para 1 sentence 1 no. 1.

   Attributed voting shares are held by the following companies it controls and whose interest in the voting shares of Softing AG is three percent or more in each case:
   - Trier Familienstiftung
   - Trier Asset Management GmbH
   - Trier Vermögensverwaltung GmbH & Co. KG

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 exercised on March 05, 2012. At that day, the Executive Board of Softing AG had resolved, with the approval of the Supervisory Board granted at the same day, to increase the Company's share capital from

EUR 5,637,198.00 by up to EUR 805,314.00 to a maximum of EUR 6,442,512.00 by issuing up to 805,314 new no-par bearer shares with a pro-rata interest of EUR 1.00 per share in the Company's share capital at an issue price of EUR 4.40 in return for cash contributions. Shareholders were granted their statutory subscription right. The subscription ratio was 7:1. Trading in subscription rights was not offered. The subscription period was two weeks. After the execution of the capital increase was recorded in the Company's Commercial Register on April 02, 2012, the new shares were listed immediately on the Regulated Market of the Frankfurt/Main Stock Exchange.

In May 2012, the General Shareholders' Meeting authorized the Executive Board to increase the Company's share capital with the approval of the Supervisory Board once or several times by a total of EUR 3,221,256 by issuing new no-par value bearer shares against contributions in cash and/or in kind until May 8, 2017. Said authority was not exercised to date.

In May 2012, the General Shareholders' Meeting authorized the Executive Board to purchase own shares until May 8, 2017, 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 Company held a total of 307,602 treasury shares as of 31 December 2012.

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

9. An agreement with one member of the Executive Board gives him the right to terminate his employment for cause if at least one shareholder or a shareholder group acting in a coordinated way reaches 1.4 million voting shares through possession or attribution. 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 consolidated profit. 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.

One member of the Executive Board was granted a loan of EUR 695 thsd. (previous year: EUR 875 thsd.) at interest of 4.1 % in 2007 (term: December 31, 2016; collateralized by shares). A portion of EUR 180 thsd. of this loan was repaid during the financial year.

Pension obligations for former members and one current member of the Executive Board as of December 31, 2012 totaled EUR 3,128 thsd. (previous year: EUR 3,025 thsd.).

The Executive Board's director's contracts run until 2014 and 2016, respectively.

For more details regarding the Executive Board's compensation, please see the notes to the consolidated financial statements. 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 per financial year.

DESCRIPTION OF THE MAIN FEATURES OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM RELEVANT TO THE FINANCIAL REPORTING PROCESS 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 audit of the consolidated financial statements by the auditor is a process-independent monitoring activity that is 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. The system from software manufacturer Lucanet was introduced as the consolidation system in 2012. 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 Group's financial reporting process may arise from unusual or complex transactions. 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 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, the statement of comprehensive income, the statement of changes in equity and segment reporting, taking requirements under EU law into account.

Softing's accounting standards 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 intra-group 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 12, 2013
Softing AG

The Executive Board

Dr. Wolfgang Trier

Maximilian Prinz zu Hohenlohe-Waldenburg

Consolidated Balance Sheet

as of December 31, 2012

Assets		Note	Dec. 31, 2012 EUR	Dec. 31, 2011 EUR
A.	**Non-current assets**			
	I. Intangible assets			
	1. Goodwill	C 1	2,438,951	2,438,951
	2. Development costs	C 2	4,788,686	3,569,823
	3. Other intangible assets	C 3	554,551	726,858
			7,782,188	6,735,634
	II. Property, plant and equipment			
	Other equipment, furniture and fixtures and office equipment	C 4	1,380,196	1,125,472
	III. Other financial receivables	C 9	695,000	875,000
	IV. Deferred tax assets	D 9	624,208	730,034
			10,481,592	**9,466,141**
B.	**Current assets**			
	I. Inventories	C 6		
	1. Raw materials and consumables		598,966	575,295
	2. Finished goods		2,746,243	3,067,022
			3,345,209	3,642,317
	II. Trade receivables			
	1. Trade receivables	C 7	8,706,175	7,417,704
	2. Receivables from customer-specific construction contracts	C 8	1,141,573	877,054
			9,847,748	8,294,758
	III. Other financial receivables	C 9	1,038,042	338,855
	IV. Tax assets	C 11	62,722	95,629
	V. Securities	C 12	1,063,758	1,241,780
	VI. Cash and cash equivalents	C 12	11,515,761	7,300,619
	VII. Other assets	C 10	545,509	571,609
			27,418,749	**21,485,570**
		▸	**37,900,341**	**30,951,711**

Equity and liabilities	Note	Dec. 31, 2012 EUR	Dec. 31, 2011 EUR
A. Equity			
I. Issued capital	C 13	6,442,512	5,637,198
II. Capital reserves	C 13	4,396,103	1,683,819
III. Retained earnings	C 13	12,126,241	10,639,511
IV. Treasury shares	C 13	-771,735	-771,735
Attributable to shareholders of Softing AG		22,193,121	17,188,793
V. Minority interest		-3,075	10,114
		22,190,046	**17,198,908**
B. Non-current liabilities			
1. Employee benefits	C 14	1,750,311	1,021,966
2. Other financial liabilities	C 15	107,695	107,694
3. Deferred tax liabilities	D 9	1,589,836	1,189,591
		3,447,842	**2,319,253**
C. Current liabilities			
I. Other provisions	C 16	296,731	281,009
II. Trade payables			
1. Trade payables	C 17	2,667,424	2,668,814
2. Payables from customer-specific construction contracts	C 8	283,459	187,179
III. Other borrowings	C 18	368,498	1,655,577
IV. Other financial liabilities	C 19	6,274,195	5,295,811
V. Tax liabilities	C 20	925,415	430,953
VI. Other liabilities	C 21	1,446,731	914,205
		12,262,453	**11,433,549**
	▸	**37,900,341**	**30,951,711**

Consolidated Income Statement

for the 2012 Financial Year

		Note	2012 EUR	2011 EUR
1.	Revenue	D 1	49,387,854	41,147,914
2.	Other own work capitalized	D 2	3,171,602	2,046,325
3.	Other income	D 3	925,529	1,735,828
			53,484,985	**44,930,068**
4.	Cost of materials	D 4		
	a) Cost of raw materials, consumables and purchased goods		-14,120,387	-11,217,653
	b) Cost of purchased services		-765,457	-854,741
			-14,885,844	-12,072,394
5.	Employee benefit costs	D 5		
	a) Wages and salaries		-20,323,877	-16,125,503
	b) Social security and retirement benefit costs		-3,256,656	-3,288,428
			-23,580,533	-19,413,931
6.	Depreciation, amortization and impairment losses	D 6	-3,340,619	-3,130,548
7.	Other expenses	D 7	-6,755,235	-6,066,185
8.	**Earnings before interest and taxes (EBIT)**		**4,922,754**	**4,247,007**
9.	Finance income	D 8	250,565	254,788
10.	Finance costs	D 8	-245,285	-253,308
			5,280	1,479
11.	**Earnings before taxes (EBT)**		**4,928,034**	**4,248,487**
12.	Tax expense (previous year: tax income)	D 9	-1,429,817	-1,194,168
13.	**Consolidated profit / loss**	►	**3,498,216**	**3,054,318**
	Distribution of consolidated profit / loss			
	Losses attributable to minority interest		-13,189	-13,014
	Profits attributable to the shareholders of the parent company		3,511,396	3,067,333
		►	**3,498,206**	**3,054,318**
	Earnings per share (diluted = basic)	E 4	0.59	0.58

Consolidated Statement of Comprehensive Income

for the 2012 Financial Year

	Note	2012 EUR (in thsds.)	2011 EUR (in thsds.)
Consolidated profit / loss		3.498	3.054
Currency translation differences			
(changes in unrealized gains / losses)		-17	6
Actuarial gains / losses from pensions			
(change in actuarial gains / losses)		-810	-22
Tax effect		226	1
Total actuarial gains / losses from pensions	C 14	-584	-21
Losses from the measurement of securities			
(changes in unrealized gains / losses)		16	-14
(other changes)		-	1
Other comprehensive income		**-585**	**-28**
Consolidated total comprehensive income	▸	**2.913**	**3.026**
Non-controlling interests		-13	-13
Attributable shareholders of Softing AG		2.926	3.039
Consolidated total comprehensive income	▸	**2.913**	**3.026**

Consolidated Statement of Changes in Equity

for the 2012 Financial Year

	No-par bearer shares	Subscribed capital	Capital reserves	Retained earnings			Other comprehensive income			Treasury shares	Shares of equity holders of Softing AG	Non-controlling interests	Total equity
				Retained earnings	Actuarial gains/losses	Total	Currency translation	Available-for-sale financial assets	Total				
	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.)	EUR (in thsds.)	EUR (in thsds.)
December 31, 2010/January 1, 2011	5,637,198	5,637	1,684	990	-346	644	-104	7,784	7,680	-772	14,873	90	14,963
Changes in equity 2011													
Consolidated profit/loss 2011	0	0	0	3,067	0	3,067	0	0	0	0	3,067	-13	3,054
Actuarial gains and losses	0	0	0	0	-22	-22	0	0	0	0	-22	0	-22
Tax effect	0	0	0	0	1	1	0	0	0	0	1	0	1
Available-for-sale financial assets	0	0	0	0	0	0	0	-14	-14	0	-14	0	-14
Currency translation	0	0	0	0	1	1	6	0	6	0	7	0	7
Other comprehensive income	0	0	0	0	20	20	6	-14	-8	0	-28	0	-28
Total comprehensive income	0	0	0	3,067	-20	3,047	6	-14	-8	0	3,039	-13	3,026
Change in non-controlling interests	0	0	0	0	0	0	0	0	0	0	0	-67	-67
Dividend payment	0	0	0	-620	0	-620	0	0	0	0	-620	0	-620
Addition from change in non-controlling interests	0	0	0	-103	0	-103	0	0	0	0	-103	0	-103
	0	**0**	**0**	**2,344**	**-20**	**2,324**	**6**	**-14**	**-8**	**0**	**2,316**	**-80**	**2,236**
December 31, 2011	5,637,198	5,637	1,684	3,334	-366	2,968	-98	7,770	7,672	-772	17,189	10	17,199
Changes in equity 2012													
Consolidated profit/loss 2012	0	0	0	3,511	0	3,511	0	0	0	0	3,511	-13	3,498
Actuarial gains and losses	0	0	0	0	-810	-810	0	0	0	0	-810	0	-810
Tax effect	0	0	0	0	226	226	0	0	0	0	226	0	226
Available-for-sale financial assets	0	0	0	0	0	0	0	16	16	0	16	0	16
Currency translation	0	0	0	0	0	0	-17	0	-17	0	-17	0	-17
Other comprehensive income	0	0	0	0	-584	-584	-17	16	-1	0	-585	0	-585
Total comprehensive income	0	0	0	3,511	-585	2,926	-17	16	-1	0	2,926	-13	2,913
Dividend payment	0	0	0	-1,439	0	-1,439	0	0	0	0	-1,439	0	-1,439
Addition from capital increase	805,314	805	2,712	0	0	3,517	0	0	0	0	3,517	0	3,517
	0	**0**	**0**	**2,072**	**-585**	**1,487**	**-17**	**16**	**-1**	**0**	**5,004**	**-13**	**4,991**
December 31, 2012	**6,442,512**	**6,443**	**4,396**	**5,406**	**-951**	**4,455**	**-115**	**7,786**	**7,671**	**-772**	**22,193**	**-3**	**22,190**

Consolidated Cash Flow Statement

for the 2012 Financial Year

	2012 EUR (in thsds.)	2011 EUR (in thsds.)
Consolidated profit	3,498	3,054
Adjustments		
Interest income	-251	-255
Interest expense	245	253
Income tax	1,430	1,194
Depreciation and amortization	3,341	3,131
Change in provisions	16	168
Change in inventories	297	-788
Change in trade receivables, financial receivables and other assets	-1,837	-202
Change in financial and other liabilities	1,088	-188
Interest received	251	255
Interest paid	-99	-135
Income tax reimbursed	19	0
Income tax paid	-213	-178
Cash flow from operating activities	**7,785**	**6,309**
Cash receipts from the disposal of intangible assets and property, plant and equipment	5	2
Cash payments for investments in property, plant and equipment	-733	-700
Cash payments for investments in intangible assets	-3,914	-2,406
Cash payments for the acquisition of consolidated companies, less cash and cash equivalents	0	2
Cash flow from non-current investing activities	**-4,642**	**-3,102**
Cash receipts from the sale of securities classified as current assets	194	609
Cash flow from investing activities	**-4,448**	**-2,493**
Cash receipts from capital increase	3,517	0
Cash payments for dividends	-1,439	-620
Payments to owners and non-controlling interests	0	-170
Cash payments for the repayment of loans	-1,200	0
Cash flow from financing activities	**878**	**-790**
Net change in funds	4,215	3,026
Cash and cash equivalents at the beginning of the period	7,301	4,275
Cash and cash equivalents at the end of the period ▸	**11,516**	**7,301**
For further information, please see item E3 of the Notes.		

Notes to the Consolidated Financial Statements for the 2012 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 Standards Interpretations Committee (IFRS IC) 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 (IASs). 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 2012 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 5, 2013. 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. The results of these activities are incorporated into the products marketed by Softing.

3. NEW AND REVISED STANDARDS

Changes in Accounting Policies Due to New Standards and Interpretations

In the 2012 financial year, the Company applied the IFRS whose application is mandatory for financial years beginning on or after January 1, 2012. 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 2012 provided they were material to its activities:

There are no new or amended Standards and Interpretations effective for 2012 that have a material impact on the Group.

Standards and Interpretations not applied early

A number of new Standards and amendments to Standards and Interpretations are effective for financial years beginning after January 1, 2012, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

Amendment to IAS 1, 'Presentation of Financial Statements,' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently. The amendments do not address which items are presented in OCI.

- IFRS 13, 'Fair Value Measurement,' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP.

- IAS 19, 'Employee Benefits,' was amended in June 2011. The impact on the Group will be as follows: to immediately recognize all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability. The Group has yet to assess the full impact of the amendments.

- IFRS 9, 'Financial Instruments,' addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39, 'Financial Instruments: Recognition and Measurement,' that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the Group's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the Standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group intends to adopt IFRS 9 no later than the financial year beginning on January 1, 2015. The Group will also consider the impact of the remaining phases of IFRS 9 when completed by the IASB.

- IFRS 10, 'Consolidated Financial Statements,' builds on similar principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The Standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group has yet to assess IFRS 10's full impact and intends to adopt IFRS 10 no later than the financial year beginning on January 1, 2013.
- IFRS 12, 'Disclosures of Interests in Other Entities,' combines the revised disclosures requirements from IAS 27 / IFRS 10, IAS 31 / IFRS 11 and IAS 28 in a single Standard. The Group has yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the financial year beginning on January 1, 2013.

There are no other Standards or Interpretations that are not yet effective that would be expected to have a material impact on the 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. Revenue from other services are recognized as soon as the service has been rendered.

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 using the effective interest method only 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, 2012 include Softing AG and the following subsidiaries, over which Softing AG directly or indirectly exercises control:

Softing Group	Capital share	
	2012 %	2011 %
Softing AG, Haar/Germany		
Softing Industrial Automation GmbH, Haar/Germany	100	100
Softing Automotive Electronics GmbH, Haar/Germany	100	100
Softing Services GmbH, Haar/Germany	100	100
Softing Project Services GmbH, Haar/Germany	100	100
Softing North America Inc., Newburyport/USA	100	100
Softing Messen und Testen GmbH, Reutlingen/Germany[1]	100	100
SoftingROM s.r.l., Cluj-Napoca/Romania	100	100
Softing Industrial Networks GmbH, Nuremberg/Germany	100	100
Buxbaum Automation GmbH, Eisenstadt/Austria	65	65
samtec automotive software & electronics GmbH, Filderstadt/Germany	100	100
Softing Italia s.r.l., Cesano Boscone/Italy	100	100

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
- Softing Industrial Networks GmbH
- Softing Messen & Testen GmbH

[1] hard& soft 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.

Government Grants

Government grants are only recognized if there is reasonable assurance that the entity will comply with the conditions attaching to them and the grants will be received. Investment grants are recognized as reductions in the cost of the respective assets and reduce depreciation and amortization in subsequent periods accordingly.

Development Costs

Development costs aimed at a material refinement of a product or process are capitalized if the product or process is technically and financially feasible; if there is an intention to complete it; if the development is marketable; if the costs can be reliably determined; and if the Group possesses sufficient resources to complete the development project. All other development costs are immediately recognized as expenses in the income statement. Capitalized development costs for completed projects are reported at cost net of accumulated amortization. In that connection, the costs also include allocable material and production overheads besides the costs of material and direct production. Administrative costs are capitalized only if there is a direct relationship to production. Softing amortizes the development costs for new product lines and product versions over three years using the straight-line method; for purposes of simplification, six months of amortization are taken in the year the product lines or versions are completed.

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 bottom-up planning for the next four financial years as approved by the management of Softing AG, the future cash flows (after 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. Regarding the assumptions, please see the chapter "Forecast for the Company's Future Development" in the management report. In order to carry out the impairment test, the management estimated the cash generated beyond the planning period, assuming that growth of 1.5 % (previous year: 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. Two items of goodwill exist within the Group. They are attributable to Softing Messen und Testen GmbH and I Softing Industrial Networks GmbH. The cash flows were discounted at a rate of 8.99 % (previous year: 9.58 %) after taxes. The discount rate follows from comparative peer group figures.

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 Group reviews the carrying amounts of intangible assets and property, plant and equipment at each reporting date for indications of impairment. In this case, the recoverable amount of the relevant asset is determined for the purpose of determining the scope of the potential impairment loss. The recoverable amount corresponds to the fair value less costs to sell or the value in use, whichever is higher. The value in use corresponds to the present value of the estimated cash flows. An interest rate after taxes that corresponds to market rates is used as the discount rate. If no recoverable amount can be determined for an individual asset, the recoverable amount for the smallest identifiable class of assets (cash generating unit – CGU), to which the respective asset can be allocated, is determined. Goodwill resulting from acquisitions are allocated to the CGUs that are to reap the benefits from the synergies arising from the acquisition. Such cash generating units represent the lowest reporting level in the Group at which management monitors the goodwill for internal control purposes. The recoverable amount of a CGU that contains goodwill is tested for impairment on an annual basis. An impairment loss is recognized for an asset immediately if its recoverable amount is lower than its carrying amount. If the recoverable amount of the asset or the CGU is determined to be higher after an impairment loss has been recognized, the write-down of the asset or the CGU is reversed up to no more than the recoverable amount. The reversal of the write-down is limited to the carrying amount that would have applied absent the write-down. The write-up is recognized in profit or loss. Write-downs of goodwill may not be reversed.

7. LEASES

The Company has only entered into operating leases. The lease payments are recognized over the relevant term on a straight-line basis. 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 using the effective interest method. 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. Objective indications include, for example, a considerable or long-term decline in the fair value of a financial asset to a level lower than the carrying amount, a high probability of insolvency or other types of restructuring, or a breach of contract by the issuer such as considerable payment delays.

Financial assets held for sale are recognized at fair value, with unrealized gains and losses from exchange rate changes being shown in other comprehensive income 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 other comprehensive income 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, securities and other financial receivables.

Softing reverses the accumulated loss recognized in other income and reports it in the consolidated income statement if the fair values of financial assets available for sale are less than the cost and if there are objective indications that the respective asset is impaired. The Company includes all available information such as market conditions and prices, factors specific to the given investment as well as duration and scope of the decline in the fair value below the cost to assess whether the financial assets available for sale are impaired. Softing considers any decline that exceeds 20 % of the cost or continues for more than six months as an objective indication of impairment. Softing reverses a write-down in subsequent periods if the reasons for the impairment no longer exist.

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 fair value. Unrealized gains and losses are recognized in other comprehensive income as part of the revaluation surplus, allowing for deferred taxes. In case of impairment, the revaluation surplus is adjusted 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 their nominal value.

Classes of Financial Instruments

Classes of financial instruments	**Measurement categories of financial instruments**
Non-current financial assets	
Other non-current financial assets	
Other financial receivables (> 1 year)	Loans and receivables
Current financial assets	
Trade receivables	Loans and receivables
Receivables from customer-specific construction contracts	Loans and receivables
Other current financial assets	Loans and receivables
Financial receivables (< 1 year)	Loans and receivables
Securities classified as current assets	Available-for-sale current financial assets
Cash and cash equivalents	Loans and receivables
Non-current liabilities	
Other financial liabilities (> 1 year)	Measured at amortized cost
Current financial liabilities	
Trade payables	Measured at amortized cost
Payables from customer-specific construction contracts	Measured at amortized cost
Other borrowings	Measured at amortized cost
Other financial liabilities (< 1 year)	Measured at amortized cost
Other	Measured at amortized 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 in other comprehensive income.

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," "other borrowings" and "other financial liabilities."

16. OTHER BORROWINGS

Other borrowings include current liabilities to banks. The initial recognition of other borrowings is made at fair value.

17. OTHER LIABILITIES

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

18. 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. The weighted average cost of capital (WACC) and the tax rates are the material parameters for carrying out the annual impairment test of goodwill. Recognizing sales based on the percentage-of-completion method entails recognizing them based on the stage of completion. This method requires careful assessment of the stage of completion. Factors such as contract revenue, total contract costs, costs yet to be incurred until completion and contract risks are material to the estimate. There is discretion in assessing the criteria relevant to the capitalization of development costs and the amount of the hourly rates for personnel used in the capitalization. The following assessments, in particular, are subject to our discretion: whether the given asset possesses technical and commercial utility for sale or own use; whether we plan on and are capable of completing the intangible asset and either using or selling it; and whether the asset will generate a future economic benefit.

19. 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 primarily in their respective economic environment.

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 in other comprehensive income.

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

	USD / EUR		RON / EUR	
	2012	2011	2012	2011
Closing rate (Dec. 31)	1.32	1.29	4.45	4.31
Average exchange rate	1.30	1.40	4.46	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. The goodwill of hard&soft Salwetter-Rottenberger GmbH was written down by EUR 296 thsd. in 2009. In 2008, goodwill increased by EUR 384 thsd. through the acquisition of 51 % of the shares in INAT Industrielle Netze für Automatisierungstechnik GmbH (now: Softing Industrial Networks 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.

A change in the interest rate after taxes by 100 basis points would not lead to a write-down of goodwill, neither would a decrease in the planned revenue by 5 %.

The material planning premises include, in particular, the expected development of the market in relation to the performance of Softing AG, the change in both sales and profits and the weighted average cost of capital. Please see the Group management report of Softing AG for the assumptions underlying our planning. General market forecasts and current developments as well as historical experience are used to establish the assumptions. In particular, the long-term growth rates reflect circumstances specific to the business.

Besides sales, the margin is the material driver of value in the determination of the recoverable amount. The discount rate also has a significant impact on the measurement gain or loss. The margin is adjusted to expected developments in the market during the budgetary period.

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 2,365 thsd. (previous year: EUR 1,497 thsd.).

In the 2012 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 159 thsd. (previous year: EUR 290 thsd.). The grants are offset against the cost of capitalized development costs. Applications for further government grants were not submitted. No write-downs were recognized in addition to amortization.

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).

No write-downs were recognized in addition to amortization.

4. PROPERTY, PLANT AND EQUIPMENT

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). No write-downs were recognized in addition to amortization.

5. LEASES

The other operating expenses contain lease expenses for a building and cars of EUR 1,110 thsd. (previous year: EUR 964 thsd.).

6. INVENTORIES

A valuation allowance of EUR 309 thsd. (previous year: 304 thsd.) was recognized on inventories in 2012. As in the previous year, no reversals of impairment losses were recognized in profit or loss.

7. TRADE RECEIVABLES

	Dec. 31, 2012 EUR (in thsds.)	Dec. 31, 2011 EUR (in thsds.)
Trade receivables	8,706	7,418
of which:		
Services not yet billed	0	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 past due within the following time bands			
			Less than 11 days	11 to 60 days	61 to 90 days	More than 90 days
December 31, 2012						
Trade receivables	8,706	7,903	380	433	-28	18
Receivables from customer-specific construction contracts	1,142	1,142	0	0	0	0
Other financial receivables	1,038	1,038	0	0	0	0
Other assets	546	546	0	0	0	0
	11,432	**10,629**	**380**	**433**	**-28**	**18**
December 31, 2011						
Trade receivables	7,418	6,712	481	177	9	39
Receivables from customer-specific construction contracts	877	877	0	0	0	0
Other financial receivables	339	339	0	0	0	0
Other assets	572	572	0	0	0	0
	9,206	**8,500**	**481**	**177**	**9**	**39**

The maximum default risk corresponds to the receivables' carrying amount. All of the receivables shown are due and fully recoverable.

Impairment losses changed as follows:

	As of Jan. 1 EUR (in thsds.)	Use EUR (in thsds.)	Reversal EUR (in thsds.)	Addition EUR (in thsds.)	As of Dec. 31 EUR (in thsds.)
2012	102	9	57	2	38
2011	83	0	22	41	102

Impairment losses are recognized exclusively on receivables that are past due.

8. RECEIVABLES AND PAYABLES FROM CUSTOMER-SPECIFIC CONSTRUCTION CONTRACTS

	Dec. 31, 2012 EUR (in thsds.)	Dec. 31, 2011 EUR (in thsds.)
Total construction work in progress	3,179	1,773
Less: Advances received	-2,320	-1,083
Net amount	859	690
Of which reported under:		
Receivables from customer-specific construction contracts	1,142	877
Payables from customer-specific construction contracts	-283	-187

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 3,361 thsd. (previous year: EUR 1,677 thsd.) and a result of EUR – 183 thsd. (previous year: EUR 96 thsd.). All of the receivables shown are due and fully recoverable.

9. OTHER FINANCIAL RECEIVABLES

	Dec. 31, 2012 EUR (in thsds.)	Dec. 31, 2011 EUR (in thsds.)
Receivables from employees	40	40
Other receivables	998	299
	1,038	339
Non-current receivables	695	875
	1,733	1,214

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. All of the receivables shown are due and fully recoverable. The one exception are the non-current financial receivables, which are due on December 31, 2016.

10. OTHER ASSETS

	Dec. 31, 2012 EUR (in thsds.)	Dec. 31, 2011 EUR (in thsds.)
Accruals	542	262
Other	4	310
	546	572

11. CURRENT INCOME TAX ASSETS

The current income tax assets concern corporation tax receivables amounting to EUR 63 thsd. (previous year: EUR 96 thsd.).

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

	Dec. 31, 2012 EUR (in thsds.)	Dec. 31, 2011 EUR (in thsds.)
Securities classified as current assets	1,064	1,242
Cash and cash equivalents	11,516	7,301
	12,580	8,543

Securities essentially concern short-term corporate bonds which are listed on a German stock exchange.

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 significantly by foreign currencies. The maximum default risk corresponds to the carrying amounts.

13. EQUITY

Subscribed Capital

As of the balance sheet date, the fully paid-in share capital of the Company was EUR 6,442,512.00 (previous year: EUR 5,637 thsd.). It is divided into 6,442,512 (previous year: 5,637,198) no-par-value bearer shares. As previously, a total of 5,931,927 shares were outstanding in the reporting year.

In 2012, the share capital of Softing AG was EUR 6,442,512, 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.

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.

For more information, please see the disclosures under Section 315 para 4 German Commercial Code in the management report.

Capital Management

Softing AG's capital management aims first and foremost at ensuring that the Company maintains a solid equity ratio to support its business activities. The Group manages its capital structure and makes adjustments, allowing for changes in economic conditions. To maintain or adjust its capital structure, the Group may make repayments of capital to its shareholders or issue new shares. There were no changes in the objectives, guidelines and procedures as of December 31, 2012, and December 31, 2011.

The Group monitors its capital using the equity ratio. But the Executive Board does not define a specific target to that end. The equity ratio in the financial year was 59 % (previous year: 56 %).

The capital of Softing AG relevant for controlling purposes encompasses the subscribed capital, the capital reserves, the retained earnings, the equity from unrealized gains and losses, treasury shares and non-controlling interests. Softing AG funds the development of its business to the greatest extent possible from its own cash flow.

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 3,221,256.00 by issuing up to 3,221,256 new no-par bearer shares against contributions in cash and/or in kind (authorized capital) until May 08, 2017. 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, 2012, was EUR 3,221,256.

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. This position also includes the offsetting of actuarial gains and losses on pension provisions.

Pursuant to Section 150 German Stock Corporation Act, profit distribution is restricted to ten percent of the subscribed capital.

Other Comprehensive Income
Retained earnings include the differences from the currency translation of transactions made by foreign subsidiaries, changes in the market value of financial instruments, and actuarial gains and losses from pension commitments, all of which were recognized in other comprehensive income.

The other comprehensive income is shown in the statement of comprehensive income.

Non-controlling Interests
The non-controlling interests in the amount of EUR – 3 thsd. (previous year: EUR 10 thsd.) concern other shareholders in Austria.

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
17, December 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 2, 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
December 31, 2010	307,602		772
December 31, 2011	307,602		772
December 31, 2012	**307,602**	►	**772**

The market price of the treasury shares was EUR 2,095 thsd. as of the balance sheet date, which is EUR 1,323 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 members and one current member of the Executive Board, 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 2,456 thsd. (previous year: EUR 2,285 thsd.) was offset against pension provisions in accordance with IAS 19.54. Actuarial gains and losses were recognized immediately in retained earnings in accordance with IAS 19.93D. The cumulative gains and losses reported in this item were EUR – 1,280 thsd. as of December 31, 2012 (previous year: EUR – 469 thsd.).

The variable commitments increase or decrease in line with the change in the Consumer Price Index for Germany (2005=100); It rose from 110.5 points to 112.7 points on average between 2011 and 2012.

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

Basis of calculation	Dec. 31, 2012 %	Dec. 31, 2011 %
Assumed interest rate	3.00	4.50
Salary trend	0.0	0.0
Expected rate of pension increase	2.25	2.25
Anticipated employee turnover rate	0.0	0.0
Biometric basis of calculation	Mortality Tables 2005 G / Prof. Dr. Heubeck	

Development of the obligation	2012 EUR (in thsds.)	2011 EUR (in thsds.)
DBO as of January 1	3,307	2,679
Service cost	65	611
Interest expense	146	118
Pension payments to pensioners	-121	-123
Expected DBO as of December 31 ▸	**3,397**	**3,285**
Actual DBO as of December 31	4,206	3,307
Loss /(-) gain, of which	810	22
Effects from adjusting actuarial assumptions	-30	0
Experience assumptions	840	22

Calculation of annual income and annual expense	2012 EUR (in thsds.)	2011 EUR (in thsds.)
Interest income	73	71
Interest expense	146	118
Service cost	65	611
Annual expense ▸	**211**	**729**

Development of pension provisions	2012 EUR (in thsds.)	2011 EUR (in thsds.)
DBO as of January 1	3,307	2,679
Annual expense	210	729
Pension payments to pensioners	-121	-123
Actuarial losses	810	22
DBO as of December 31 ▸	**4,206**	**3,307**

Reconciliation with the balance sheet	Dec. 31, 2012 EUR (in thsds.)	Dec. 31, 2011 EUR (in thsds.)
Present value of the defined benefit obligations (DBO)	4,206	3,307
Fair value of the external plan assets as of December 31, 2012	-2,456	-2,285
Provision ▸	**1,750**	**1,022**

The present value of the DBO 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, 2008	2,142	1,541
December 31, 2009	2,512	1,520
December 31, 2010	2,679	1,533
December 31, 2011	3,307	2,285
December 31, 2012	4,206	2,456

Pension payments of EUR 133 thsd. (previous year: EUR 122 thsd.) and interest income of EUR 75 thsd. (previous year: EUR 73 thsd.) are expected for the 2013 financial year.

15. OTHER FINANCIAL LIABILITIES (NON-CURRENT)

The other non-current financial liabilities include financial obligations that are due within more than one year.

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. 1 EUR (in thsds.)	Use EUR (in thsds.)	Reversal EUR (in thsds.)	Addition EUR (in thsds.)	As of Dec. 31 EUR (in thsds.)
Operational provisions	278	7	40	2	233
Contingent loss	3	0	0	61	64
	281	7	40	63	297

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 exclusively concern current liabilities toward non-Group third-parties for supplied goods and services. All trade payables are due and payable within one year.

18. OTHER BORROWINGS

The other borrowings concern EUR 368 thsd. (previous year: EUR 456 thousand) in current liabilities to banks of foreign subsidiaries and the German subsidiary acquired in 2012.

19. OTHER FINANCIAL LIABILITIES (CURRENT)

	Dec. 31, 2012 EUR (in thsds.)	Dec. 31, 2011 EUR (in thsds.)
Liabilities related to social security	68	36
Wages and salaries payable	2,895	2,756
Deferred income	2,741	1,809
Other	570	695
	6,274	5,296

20. TAX LIABILITIES

In the financial year just ended, liabilities of EUR 925 thsd. (previous year: EUR 431 thsd.) were recognized for expected tax payments.

21. OTHER LIABILITIES

	Dec. 31, 2012 EUR (in thsds.)	Dec. 31, 2011 EUR (in thsds.)
Other tax liabilities	1.447	914

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

D. NOTES TO THE CONSOLIDATED INCOME STATEMENT

1. REVENUE

Revenue by regions:	2012 EUR (in thsds.)	2011 EUR (in thsds.)
Germany	29,493	24,742
Abroad	19,895	16,406
	49,388	**41,148**

Revenue by products and services:	2012 EUR (in thsds.)	2011 EUR (in thsds.)
Products	41,241	34,231
Services	8,147	6,917
	49,388	**41,148**

For detailed information operating segments, we refer to the segment reporting.

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:	2012 EUR (in thsds.)	2011 EUR (in thsds.)
Reversal of provisions and liabilities	104	148
Other income not related to the accounting period	122	29
	226	**177**
Income from exchange differences	117	220
Revenue from the provision of automobiles	216	154
Revenue from a reinstated receivable	0	294
Revenue from subsidized projects	159	209
Revenue from the reduction of specific valuation allowances	57	22
Revenue from letting training premises	16	14
Income from subsequent claims	0	163
Payments from reinsurance coverage	0	70
Other income	135	413
	700	**1,559**
►	**926**	**1,736**

4. COST OF MATERIALS

	2012 EUR (in thsds.)	2011 EUR (in thsds.)
Purchase of components and products	14,121	11,217
Third-party services	765	855
	14,886	**12,072**

5. EMPLOYEES

	2012 EUR (in thsds.)	2011 EUR (in thsds.)
Current salaries	17,037	12,977
Social security and retirement benefit costs	3,305	3,288
Profit-sharing, royalties	2,955	2,928
Provision of automobiles to employees	196	146
Temporary workers	77	53
Other	11	22
	23,581	**19,414**

The statutory pension scheme in Germany is treated as a defined contribution scheme. Expenses recognized for the statutory pension scheme total EUR 1,205 thsd. (previous year: EUR 1,038 thsd.).

6. DEPRECIATION AND AMORTIZATION

Depreciation and amortization are listed in detail in the statement of changes in assets (appendix to the notes to the consolidated financial statements). As in the previous year, impairment losses were recognized.

7. OTHER EXPENSES

The other operating expenses are as follows:	2012 EUR (in thsds.)	2011 EUR (in thsds.)
Operating expenses	2,728	2,521
Distribution costs	1,720	1,457
Administrative expenses	997	877
Expenses resulting from exchange differences	134	132
Leasing costs	1,110	964
Expenses unrelated to the accounting period	66	115
	6,755	**6,066**

8. FINANCE INCOME/FINANCE COSTS

The financial result is composed of finance costs and finance income.

Finance costs are composed of the following items:	2012 EUR (in thsds.)	2011 EUR (in thsds.)
Pension provisions	146	118
Discounting of corporation tax premium	0	1
Other interest	99	134
	245	**253**

Finance income is composed of the following items:	2012 EUR (in thsds.)	2011 EUR (in thsds.)
Interest income from securities	0	6
Interest income from corporate bonds	122	109
Interest income from taxes	4	4
Interest income from loans of financial assets	36	34
Other interest	89	102
	251	**255**

9. TAX EXPENSE

The income tax expense breaks down as follows:	2012 EUR (in thsds.)	2011 EUR (in thsds.)
Deferred taxes on temporary differences	522	-287
Deferred taxes on tax loss carryforwards	211	904
	733	**617**
Tax expense financial year	719	586
Tax income from previous years	-23	-9
Tax expense	696	577
►	**1,429**	**1,194**
Effective tax rate	28.98 %	28.10 %

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:

	2012 %	2011 %
Corporation tax including solidarity surtax	15.83	15.83
Trade income tax rate	12.25	12.25
	28.08	**28.08**

A tax rate of 29.65 % was assumed for samtec automotive software & electronics GmbH.

The tax rate for Softing North America was 25.76 % and the tax rate for Softing ROM s.r.l. was 16.0 %. The tax rates for the other European entities are 25.0 % for Buxbaum Automation GmbH/Austria and 31.40 % for Softing Italy 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 226 thsd. (previous year: EUR 963 thsd.), which were fully taken into account at the time the deferred taxes were determined.

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

	Dec. 31, 2012	Dec. 31, 2011	Usable until
Softing AG, trade tax loss carryforward	0	717	Unlimited
Softing AG, corporation tax loss carryforward	0	778	Unlimited
Buxbaum Automation GmbH, loss carryforward	226	215	Unlimited

Deferred tax assets were recognized on tax loss carryforwards in the reporting year. Due to tax profits of Softing AG, all of the remaining tax 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.

The Company has tax loss carryforwards of EUR 215 thsd. (previous year: EUR 963 thsd.), which were fully taken into account at the time the deferred taxes were determined.

	2012 EUR (in thsds.)	2011 EUR (in thsds.)
Earnings before taxes	4,928	4,249
Anticipated tax expense (28.08 %)	1,384	1,192
Tax additions and deductions	86	51
Different tax rates	6	8
Non-recognition of deferred taxes on temporary differences, Group	0	-68
Taxes, previous years	-23	-9
Other	-24	20
Tax expense disclosed in the income statement	**1,429**	**1,194**

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

Deferred tax assets	Dec. 31, 2012 EUR (in thsds.)	Dec. 31, 2011 EUR (in thsds.)
Intangible assets	17	23
Property, plant and equipment	0	0
Pension provision	472	393
(Of which recognized directly in equity)	330	127
Trade receivables	2	0
Other provisions	18	0
Current assets	30	14
Deferred income	32	35
Future tax benefits from loss carryforwards	53	264
Other	0	1
	624	**730**

Deferred tax liabilities	Dec. 31, 2012 EUR (in thsds.)	Dec. 31, 2011 EUR (in thsds.)
Intangible assets	1,364	1,071
Trade receivables	218	106
Other	7	12
	1,589	**1,189**

No deferred taxes were recognized on EUR 3,182 thsd. (previous year: EUR 1,277 thsd.) in temporary differences related to investments in subsidiaries.

E. OTHER DISCLOSURES

1. SEGMENT REPORTING

Segment reporting aims to furnish information on the Group's material divisions. The activities of the Group are segmented in accordance with IFRS 8 using the management approach. Segmentation is based on the Group's internal reporting and organizational structure, taking into account the different risks and income structures of each individual division.

Since there is only one segment requiring disclosure (European Union), regional 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	
	2012 EUR (in thsds.)	2011 EUR (in thsds.)	2012 EUR (in thsds.)	2011 EUR (in thsds.)	2012 EUR (in thsds.)	2011 EUR (in thsds.)	2012 EUR (in thsds.)	2011 EUR (in thsds.)
External sales	26,345	22,996	23,043	18,152	-	-	49,388	41,148
Depreciation/amortization	2,020	2,296	1,137	714	184	121	3,341	3,131
Segment result (EBIT)	2,436	1,663	2,487	2,585	-	-	4,923	4,248
Segment assets	13,080	10,243	12,962	12,152	11,858	8,557	37,900	30,952
Segment liabilities	4,696	4,075	6,035	4,842	4,979	4,836	15,710	13,753
Capital expenditure	1,948	1,722	2,165	892	714	493	4,827	3,107

The column entitled "Other consolidation" comprises the business activities of Softing AG's centralized units. Their costs are allocated to the respective operating segments that caused the expenses to be incurred.

Earnings before interest and taxes (EBIT) and revenue are the key parameters for evaluating and managing a segment's earnings. With the exception of the write-downs, other income and expense items are not regularly reviewed at the segment level by the responsible corporate department, given their secondary importance to the Group, and thus are not broken down by segment.

Segment information is based on the same accounting principles as the consolidated financial statements.

2. SEGMENT ALLOCATION OF PRODUCTS

Industrial Automation

Products and services for integrating communication functions in automation systems and devices, specifically for standards such as PROFIBUS, PROFINET, EthernetIP, EtherCAT, Powerlink, Modbus, CAN, CANopen, DeviceNet, FOUNDATION Fieldbus, (wireless) HART;

Interface cards, integration modules, chip solutions and communications software (stacks) for implementing bus links in systems and devices used in process and production automation;

Gateways for linking fieldbuses to Ethernet-based communication systems and groupwide planning and administration systems;

Tools for configuring networks, as well as toolkits for integrating configuration functions into the engineering systems of automation system manufacturers;

Tools and devices for signal and protocol analysis of industrial communication networks; and

OPC servers, OPC middleware and development tools for OPC Clients and Servers (Toolkits).

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. ODX and OTX solutions play an important role in this context.

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, trade fairs and test systems.

Measurement technology

Softing measurement technology (SMT) represents a unique system whose development was driven entirely by automotive developments. This results in a broad range of applications for test rigs or "raw" mobile applications in vehicle testing. The areas where this comprehensive measurement and automation system can be used are not in the least limited to automotive technology; indeed, it is well suited for applications in any industrial environment.

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

		2012	2011
Consolidated profit	EUR (in thsds.)	3,498	3,054
Minority interest	EUR (in thsds.)	-13	-13
Basic earnings (= diluted earnings)	**EUR (in thsds.)**	**3,511**	**3,067**
Weighted average number of shares			
Basic	Number	5,931,927	5,329,596
Potential stock options	Number	0	0
Diluted	Number	5,931,927	5,329,596
Basic earnings per share	EUR	0.59	0.58
Diluted earnings per share	EUR	0.59	0.58

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

No options rights exist as of December 31, 2012, 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 695 thsd. (previous year: EUR 875 thsd.) at interest of 4.1 % (until December 31, 2012: 3.0 %) in 2007 (term: December 31, 2016; collateralized by shares). The interest accrued thereunder in 2012 was EUR 36 thsd. (previous year: EUR 37 thsd.).

The Chairman of the Company's Executive Board, Dr. Wolfgang Trier, held 26,063 shares in Softing AG as of December 31, 2012 (previous year: 4,528).

The Supervisory Board member, Dr. Fuchs, held 273,886 shares in Softing AG as of December 31, 2012 (previous year: 225,000).

One Supervisory Board member rendered tax consulting and accounting services for Samtec GmbH. Expenses in the amount of EUR 16 thsd. (previous year: EUR 9 thsd.) were incurred for this.

As of December 31, 2011, there were EUR 0 thsd. (previous year: EUR 6 thsd.) in liabilities outstanding.

Transactions with related parties are carried out at market terms.

6. CONTINGENT LIABILITIES

As of the balance sheet date, Softing AG has provided EUR 140 thsd. (previous year: EUR 140 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 commitments in the amount of EUR 4,122 thsd. under long-term contracts (previous year: EUR 3,253 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:

	2012 EUR (in thsds.)	2011 EUR (in thsds.)
< 1 year	871	831
1 – 5 years	2,072	1,936
> 5 years	1,163	1,476
Total	**4,106**	**4,243**

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

Fair values of financial instruments

The following table shows both the carrying amounts and the fair values of all financial instruments recognized in the consolidated financial statements that fall within the scope of IFRS 7. 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 current 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). As in the previous year, there were no financial instruments as of December 31, 2012, for which IFRS 7 is not applicable.

	Dec. 31, 2012		Dec. 31, 2011	
	Carrying amount EUR (in thsds.)	Fair value EUR (in thsds.)	Carrying amount EUR (in thsds.)	Fair value EUR (in thsds.)
Non-current financial assets				
Other non-current financial receivables	695	695	875	875
Current financial assets				
Trade receivables	8,706	8,706	7,418	7,418
Receivables from customer-specific construction contracts	1,142	1,142	877	877
Other current financial assets				
Financial receivables	1,038	1,038	339	339
Securities classified as current assets	1,064	1,064	1,242	1,242
Cash and cash equivalents	11,516	11,516	7,301	7,301
Total	**24,161**	**24,161**	**17,177**	**17,177**
Non-current financial liabilities				
Other non-current financial liabilities	108	108	108	108
Current financial liabilities				
Trade payables	2,667	2,667	2,669	2,669
Payables from customer-specific construction contracts	283	283	187	187
Other borrowings	368	368	1,656	1,656
Other financial liabilities	6,274	6,274	5,296	5,296
Total	**9,700**	**9,700**	**9,916**	**9,916**

No further disclosures on the fair value have to be made pursuant to IFRS 7.29a if the carrying amount is a reasonable approximation of fair value.

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.

Risk analysis entails assessing identified risks in terms of the probability of their occurring (quantitative dimension) and the potential loss (dimension of intensity). Quantitative risk assessment is subject to practical limits, however – especially in the area of operating risks – because the number of potential risks is high but the available risk data is often incomplete. As a result, subjective risk assessments must be made in many areas exposed to risk because the expenditure for risk management should be reasonable.

There are no major concentrations of risk in the Group.

Please also see the disclosures on risks and opportunities in the management report.

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, 2011, and December 31, 2012, there was no material default risk. While the Executive Board therefore believes the risk of nonfulfillment 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, 2012, totaled EUR 39 thsd. (previous year: EUR 102 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 11,516 thsd. (previous year: EUR 7,301 thsd.) and securities totaling EUR 1,068 thsd. (previous year: EUR 1,242 thsd.) bear interest of 0.1 % to 1.25 % (previous year: 0.0 % to 1.25 %) and 0.090 % to 9.5 % (previous year: 0.987 % to 9.5 %), respectively. No material interest rate risks result from subsidiaries' liabilities to banks in the amount of EUR 368 thsd. (previous year: EUR 456 thsd.). The loan of EUR 1,200 thsd. granted by Postbank has a nominal interest rate of 4.05 % and was repaid as of December 30, 2012.

An increase of the market interest rate by 50 basis points would have an impact of EUR 2 thsd. (previous year: EUR 8 thsd.) on interest expense relating to other borrowings.

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's liquidity requirements are met primarily through its operating business. Softing AG continuously monitors the risk of a potential liquidity bottleneck using its liquidity planning. The Group's goal is to continue meeting its liquidity requirements through its own cash flow.

The Group possesses sufficient liquidity and credit lines to meet its obligations over the next four years in line with its strategic plans. For disclosures on maturities, please see section C.

Cash and cash equivalents at year's end were EUR 11,516 thsd. (previous year: EUR 7,301 thsd.), accounting for 30.4 % (previous year: 23.3 %) of the Group's total assets. Securities classified as current assets account for 2.89 % (previous year: 4.0 %) of the Group's total assets.

10. PERSONNEL

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

	2012	2011
As of the balance sheet date	316	293
Annual average	296	258

11. EXECUTIVE BOARD

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

Dr.-Ing. Dr. rer. oec. Wolfgang Trier, Munich, Germany
Mr. Maximilian Prinz zu Hohenlohe-Waldenburg, Pfaffenhofen, Germany

Compensation of the Executive Board amounted to EUR 2,385 thsd. (previous year: EUR 1,836 thsd.). Of this amount, fixed compensation accounts for about one third and variable compensation for two thirds.

In accordance with the resolution adopted by the General Shareholders' Meeting on May 09, 2012, 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 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 695 thsd. at interest of 4.1 % in 2007 (term: December 31, 2016; collateralized by

shares). The interest accrued thereunder in 2012 was EUR 36 thsd (previous year: EUR 37 thsd.).

An agreement with one member of the Executive Board gives him the right to terminate his employment for cause if at least one shareholder or shareholder groups acting in a coordinated way reaches 1.4 million voting shares through possession or attribution. 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 and one current member of the Executive Board as of December 31, 2012 totaled EUR 1,750 thsd. (previous year: EUR 1,022 thsd.). The total compensation of former members of the Executive Board amounted to EUR 121 thsd. (previous year: EUR 123 thsd.).

12. SUPERVISORY BOARD

The following persons were members of the Supervisory Board of Softing AG in the 2012 financial year:

Dr. Horst Schiessl, attorney at law, Munich, Germany (chairman)
Michael Wilhelm, certified public accountant/tax advisor, Munich, Germany (deputy chairman)
Dr. Klaus Fuchs, graduate computer scientist and graduate engineer, Helfant, Germany

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 (member of the Supervisory Board)
Dussmann Stiftung, Berlin (member of the foundation council)
Dussmann Stiftung & Co. KG, Berlin, Germany (member of the advisory board)

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

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 157 thsd. (previous year: EUR 140 thsd.) and is distributed as follows:

	Fixed		Variable		Total	
	2012	2011	2012	2011	2012	2011
Dr. Horst Schiessl (chairman)	20	20	50	42	70	62
Michael Wilhelm (deputy chairman)	15	15	37	32	52	47
Dr. Klaus Fuchs	10	10	25	21	35	31

13. AUDITOR'S FEES

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

	2012 EUR (in thsds.)	2011 EUR (in thsds.)
Audit of annual financial statements	60	70
Other confirmation services	0	25
Tax consultancy services	0	14
	60	**109**

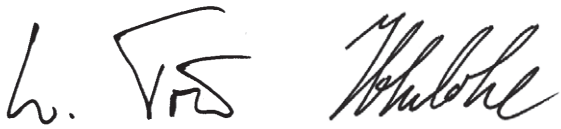
14. DECLARATION REGARDING THE GERMAN CORPORATE GOVERNANCE CODE PURSUANT TO SECTION 161 GERMAN STOCK CORPORATION ACT

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 12, 2013

Softing AG

The Executive Board



Dr. Wolfgang Trier Maximilian Prinz zu Hohenlohe-Waldenburg

Softing AG, Haar, Germany
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 12, 2013

Softing AG

The Executive Board

Dr. Wolfgang Trier

Maximilian Prinz zu Hohenlohe-Waldenburg

Changes in Intangible Assets and Property, Plant and Equipment

in the 2012 Financial Year

		Cost					
		Jan. 1, 2012	Acquisitions from business combinations	Additions	Currency differences	Disposals	Dec. 31, 2012
		EUR	EUR	EUR	EUR	EUR	EUR
I.	Intangible assets						
	1. Goodwill	2,734,952	0	0	0	0	2,734,952
	2. Development costs	49,916,475	0	3,613,744	0	0	53,530,219
	3. Other intangible assets	4,975,212	0	300,344	-30	1,826	5,273,700
		57,626,639	**0**	**3,914,088**	**-30**	**1,826**	**61,538,871**
II.	Property, plant and equipment						
	Other equipment, furniture and fixtures and office equipment	5,737,059	0	733,357	-92	124,856	6,345,468
		63,363,698	0	4,647,445	-122	126,682 ►	67,884,339

	Accumulated depreciation/amortization					Carrying amounts	
Jan. 1, 2012	Acquisitions from business combinations	Currency differences	Depreciation/ amortization in the financial year	Disposals	Dec. 31, 2012	Dec. 31, 2012	Dec. 31, 2011
EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
296,000	0	0	0	0	296,000	2,438,952	2,438,952
46,346,652	0	0	2,394,881	0	48,741,533	4,788,686	3,569,823
4,248,352	0	60	472,611	1,874	4,719,150	554,551	726,860
50,891,004	**0**	**60**	**2,867,492**	**1,874**	**53,756,683**	**7,782,188**	**6,735,635**
4,611,586	**0**	**-11**	**473,126**	**119,429**	**4,965,272**	**1,380,196**	**1,125,473**
55,502,590	**0**	**49**	**3,340,618**	**121,303** ▸	**58,721,955**	**9,162,384**	**7,861,108**

Changes in Intangible Assets and Property, Plant and Equipment

in the 2011 Financial Year

		Cost					
		Jan. 1, 2011	Acquisitions from business combinations	Additions	Currency differences	Disposals	Dec. 31, 2011
		EUR	EUR	EUR	EUR	EUR	EUR
I.	Intangible assets						
	1. Goodwill	2,734,952	0	0	0	0	2,734,952
	2. Development costs	47,652,270	0	2,264,205	0	0	49,916,475
	3. Other intangible assets	4,771,617	61,780	142,485	-90	580	4,975,212
		55,158,839	**61,780**	**2,406,690**	**-90**	**580**	**57,626,639**
II.	Property, plant and equipment						
	Other equipment, furniture and fixtures and office equipment	4,901,256	143,797	700,192	90	8,276	5,737,059
		60,060,095	205,577	3,106,882	0	8,856 ►	63,363,698

	Accumulated depreciation/amortization					Carrying amounts	
Jan. 1, 2011	Acquisitions from business combinations	Currency differences	Depreciation/ amortization in the financial year	Disposals	Dec. 31, 2011	Dec. 31, 2011	Dec. 31, 2010
EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
296,000	0	0	0	0	296,000	2,438,952	2,438,952
43,986,545	0	0	2,360,107	0	46,346,652	3,569,823	3,665,725
3,805,010	0	33	443,259	-50	4,248,352	726,860	966,607
48,087,555	**0**	**33**	**2,803,366**	**-50**	**50,891,004**	**6,735,635**	**7,071,284**
4,289,999	**0**	**163**	**327,183**	**5,759**	**4,611,586**	**1,125,473**	**611,257**
52,377,554	**0**	**196**	**3,130,549**	**5,709** ▸	**55,502,590**	**7,861,108**	**7,682,541**

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 cash flow statement, the statement of changes in equity and the notes as well as the Group management report of Softing AG for the financial year from January 1 to December 31, 2012. 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 Executive Board. 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 combined 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 in 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 the Executive Board, 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.

Our 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 12, 2013

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Stefano Mulas
Wirtschaftsprüfer

ppa. Thomas Gillitzer
Wirtschaftsprüfer

Report of the Supervisory Board

for the 2012 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 2012. 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 5 Supervisory Board meetings were held in the 2012 financial year: on March 5, 2012 (conference call), March 26, 2012, May 9, 2012, July 26, 2012 and December 18, 2012.

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. 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 deliberations and reviews of the full Supervisory Board also 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.

Main Focus of the Meetings

At its meeting on March 5, 2012, the Supervisory Board approved the capital increase from authorized capital resolved by the Executive Board. At that day, the Executive Board had resolved to increase the Company's share capital from EUR 5,637,198.00 by up to EUR 805,314.00 to a maximum of EUR 6,442,512.00 by issuing up to 805,314 new no-par bearer shares with a pro-rata interest of EUR 1.00 per share in the Company's share capital at an issue price of EUR 4.40 in return for cash contributions. Shareholders were granted their statutory subscription right. The subscription ratio was 7:1. Trading in subscription rights was not offered. The subscription period was two weeks. The capital increase was executed in full. After the execution of the capital increase was recorded in the Company's Commercial Register on April 02, 2012, the new shares were listed immediately on the Regulated Market of the Frankfurt/Main Stock Exchange.

At the Supervisory Board meeting on March 26, 2012 and in the presence of the auditor of the Company's annual financial statements the Supervisory Board dealt mainly with the Company's performance and the financial reports in the 2011 financial year; risks related, for example, to defaults among key suppliers and customers; as well as the development of business in the first few months of 2012. The annual financial statements and the consolidated financial statements, both as of December 31, 2011, were also adopted and approved, respectively, at this Supervisory Board meeting. The Supervisory Board concurred with the Executive Board's proposal for the appropriation of profits. Furthermore, the Supervisory Board reviewed the efficiency of its work and came to the conclusion that its work was efficient. The Supervisory Board also approved the agenda for the 2013 General Shareholders' Meeting and obtained a detailed report from the Executive Board on the development of business in the first months of the current year.

In addition to commenting on the General Shareholders' Meeting, the Supervisory Board meeting on May 9, 2012 focused on both the status of and the outlook for the Company's operating business. In this context, key product developments and business opportunities were discussed in detail.

The Supervisory Board meeting on July 26, 2012, dealt with a detailed presentation on the Group's business in the year's first half. Key cooperation and customer projects were also deliberated in detail.

An initial assessment of the annual results was presented by the Executive Board at the Supervisory Board meeting on December 18, 2012. The Executive Board presented both its business plan for 2012 and its multi-year planning. Both plans were reviewed and subsequently adopted at this Supervisory Board meeting.

Furthermore, the Supervisory Board addressed compliance with the recommendations of the German Corporate Governance Code in detail. It approved the Declaration of Compliance with the German Corporate Governance Code, which it had prepared jointly with the Executive Board; it is permanently available to the public at the Company's website.

The Supervisory Board also discussed the adequacy of the Executive Board's compensation. Based on expert opinions and a comparison with other companies, the Supervisory Board came to the conclusion that the Executive Board's compensation is adequate.

All members of the Supervisory Board attended all Supervisory Board meetings in 2012. There was no conflict of interest of members of the Supervisory Board in the financial year just ended. The independence of the financial expert on the Supervisory Board was monitored on an ongoing basis and was assured.

Committees

The Supervisory Board again did not establish any committees in 2012, given its size.

Composition of the Supervisory Board and the Executive Board

There were no personnel changes on the Supervisory Board or Executive Board in the 2012 financial year.

Annual Financial Statements and Consolidated Financial Statements

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, 2012, were audited as required by law by PricewaterhouseCoopers AG, Wirtschaftsprüfungsgesellschaft, Munich, Germany, the auditors appointed by the General Shareholders' Meeting. The auditors issued an unqualified auditor's opinion each 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 12, 2013, 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 the 2012 financial year at its meeting on March 12, 2013. The annual financial statements are therefore formally adopted. The Supervisory Board agreed with the appropriation of the net retained profits proposed by the Executive Board.

Thank you

The Supervisory Board would like to thank the Executive Board and all employees for their extraordinary and excellent work in the past financial year. They enabled the Company to generate growth far exceeding the industry average and record new record earnings in 2012.

Haar, Germany, March 12, 2013

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 2012 financial year, taking into account the exceptions and comments listed below. The Executive Board and Supervisory Board issued the Declaration of Compliance in December 2012. 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.

1. Softing AG (hereinafter: the Company) will comply with the recommendations of the German Corporate Governance Code, as amended on May 15, 2012, with the following exceptions:

a. 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 Company's Supervisory Board in carrying out their duties.

b. The Company does not maintain Declarations of Compliance with the German Corporate Governance Code at its website for five years (Section 3.10 sentence 3 of the Code).

   It does not believe that it is necessary to store non-current Declarations of Compliance with the German Corporate Governance Code on its website for five years. Such postings do not offer new information relevant to the capital market.

c. Severance payment cap
   (Section 4.2.3 para 4 and para 5 of the Code)

   There are no plans to establish a severance payment cap. In the Supervisory Board's view, however, the extant provisions in the director's contracts of the Executive Board members comply with the adequacy requirements such that it does not see any need to amend them. Stipulating a severance payment cap also contradicts the fundamental principle that director's contracts are generally closed for the term of the appointment and cannot be terminated, in principle, except for cause. Early termination of a director's contract absent cause requires that it be mutually rescinded by the parties thereto. Even if a severance payment cap were stipulated, any such stipulation would not preclude including the severance payment cap in the negotiations at the time the given Executive Board member steps down. The Supervisory Board will continue to review implementing the recommendation in future director's contracts.

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. Furthermore, the Company does not regard the observance of quotas of any kind as a corporate goal.

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 Executive Board and the Supervisory Board (section 5.1.2 para 2 sent. 3 and section 5.4.1 para 2 of the Code).

A specific age limit could be an undesired criterion to exclude qualified members of the Executive Board or 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 Company's Supervisory Board 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. Independence of Supervisory Board members (Section 5.4.2 of the Code)

The Supervisory Board believes that all current members of the Supervisory Board are independent in terms of the criteria mentioned in the German Corporate Governance Code. Nevertheless, the Company does not believe that it would make sense to introduce restrictions for the future by determining a number of dependent or independent members.

i. 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.

j. Performance-related compensation shall be oriented toward sustainable growth of the enterprise (Section 5.4.6 para 2 sent. 2 of the Code)

   In addition to fix compensation, the members of the Supervisory Board also receive performance-related compensation based on consolidated EBIT before taking into account the Supervisory Board's variable compensation. The Company's Articles of Incorporation thus do not expressly require orientation toward sustainable growth of the enterprise. The Company continues to believe that basing performance-related compensation on consolidated EBIT of the respective financial year is a sensible approach. Consolidated EBIT is a key performance indicator. Furthermore, no generally accepted model for basing the compensation of Supervisory Board members on a company's sustainable development has established itself in the capital markets to date. For the time being, the Company will continue to monitor the situation.

k. 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.

2. Since the publication of its previous Declaration of Compliance in December 2011, Softing AG has generally been in compliance with the recommendations contained in the German Corporate Governance Code as amended on May 15, 2012. The Company has not observed the following recommendations: section 3.8 para 3; section 3.10 sentence 3; section 4.2.3 paras 4 and 5; section 5.1.2 para 1 sentence 2 and para 2 sentence 3; section 5.3.1; section 5.3.2; section 5.3.3; section 5.4.1 paras 2 and 3; section 5.4.2; section 5.4.3; section 5.4.6 para 2 sentence 2; and section 7.1.2 sentence 2.

Please see the explanations under no. 1 for the reasons for not observing the recommendations of the Code stated under no. 2.

Compensation for the active members of the Supervisory Board in the 2012 financial year is presented on page 69 of the 2012 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, 2012 Number	Dec. 31, 2012 Number	Sep. 30, 2012 Number	Dec. 31, 2012 Number
Supervisory Board				
Dr. Horst Schiessl (chairman), attorney at law, Munich	–	–	–	–
Michael Wilhelm (deputy chairman), CPA / tax advisor, Munich	–	–	–	–
Dr. Klaus Fuchs (member), graduate computer scientist and graduate engineer, Helfand	273,886	273,886	–	–
Executive Board				
Dr.-Ing. Dr. rer. oec. Wolfgang Trier, Munich	24,663	26,063	–	–
Maximilian zu Hohenlohe, Pfaffenhofen	–	–	–	–

EXECUTIVE BOARD – ALLOCATION OF RESPONSIBILITIES

Dr. Wolfgang Trier	Industrial Automation Investor Relations Automotive Electronics
Maximilian zu Hohenlohe	Finance, Human Resources

FINANCIAL CALENDAR

March 27, 2013	2012 Annual Report
May 7, 2013	General Shareholders' Meeting in Munich
May 15, 2013	Quarterly Report 1/2013
August 14, 2013	Quarterly Report 2/2013
November 15, 2013	Quarterly Report 3/2013

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