2013

Annual Report

- Record figures once again
- EBIT up around 25 %
- Growth will be continued

softing

Consolidated Key Figures

		2013	2012	2011	2010
Revenue	(EUR million)	52.55	49.39	41.15	31.67
EBIT	(EUR million)	6.21	4.92	4.25	1.53
Consolidated profit / loss	(EUR million)	4.29	3.50	3.05	0.99
Non-current assets	(EUR million)	11.60	10.48	9.47	9.98
Current assets	(EUR million)	28.63	27.42	21.49	16.27
Equity	(EUR million)	26.13	22.19	17.20	14.96
Cash and cash equivalents	(EUR million)	12.12	11.52	7.30	4.27
Number of employees (annual average)		337	296	258	224
DVFA/SG earnings per share	(EUR)	0.69	0.59	0.58	0.19

Title photo
Hardware: Softing Automotive successfully puts test field with 100 test installations in parallel operation to the test and achieves 6,000 services per second.
Software: OTX Studio, based on the new Standard OTX (Open Test sequence eXchange) in accordance with ISO 13209 enables the description of simple test sequences for functional tests as well as complete tester applications.

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Dear Shareholders, Employees, Partners and Friends of Softing,

"Same procedure as every year?" Yes! This year, Softing is continuing its growth trajectory and presenting record figures once more. We can now look back at four years of uninterrupted growth. Anyone who chose Softing and took into consideration the investment strategy of old John Pierpont Morgan alluded to in the preface to our last annual report will undoubtedly be pleased to hear about the strong increase in value in the past year.

We recorded considerable growth again in 2013. Revenue surged to a record high of EUR 52.6 million, while earnings increased by over 25 % year-on-year to EUR 6.2 million, the highest figure in Softing's 35-year history. Despite falling revenue in our industry in Europe, which is still Softing's main market, we generated organic revenue growth in excess of 6 %. Figures can be found in the table inside the cover of this report.

Both segments – Industrial Automation and Automotive Electronics – contributed approximately equal amounts to revenue in 2013. Earnings, however, were dominated by considerable growth in Automotive Electronics. Revenue and EBIT remained virtually constant in our Industrial Automation segment, which was impacted by a weaker market in addition to development and delivery delays. Revenue in the Automotive Electronics segment rose by EUR 3 million to approximately EUR 26 million due to strong fundamental business and considerably expanded demand in vehicle diagnostics. In spite of their different earnings performance in 2013, both segments show significant growth rates, though Industrial Automation can expect a surge in growth in 2014 on account of new products becoming ready to market.

Employees and shareholders will be delighted to read about our economic success. Softing will distribute a dividend of EUR 0.35 to its shareholders who can each choose whether they prefer to receive a cash dividend or new shares. Yet, the outlook for the political and economic environment in the coming year remains critical.

Through a high level of employment and tax payments, the stable economy in Germany generated considerable prosperity. However, instead of supporting this success model with structural measures, all our politicians do is to increase the financial burden on the country. Tolerated by Chancellor Merkel, SPD Labor Minister Nahles, whose resume of 20 semesters of German studies and her unfinished PhD in literature undoubtedly qualify her for positions of leadership in the highest offices, is investing her entire competence in creating laws on early retirement and minimum wage.

In times of good integration of older workers and increasingly critical demographic trends, this state-sponsored early retirement program targets the healthiest 63-year-olds that have ever lived. It comes somewhere between negligent for the economy and criminal in its impact on our children.

Then there is the more than legitimate fear of Russian imperialism. With Putin's order for Russia to invade Crimea, the old Soviet imperialism is rearing its ugly head. Even the last dreamers must now realize that military and economic leadership and hence close cooperation in the free world are required. The military repression of the Soviet successors can easily be dealt with by imposing decisive sanctions. There is nothing else that the corrupt power elite around Putin fears more. However, instead of strong concerted action, Washington, Brussels and Berlin offer weak symbolism only. More than ever we need to strengthen the market forces of the free world. Projects such as the EU-U.S. Free Trade Area TTIP are badly needed as they would stimulate these forces.

Softing relies on these market forces. We acquired Psiber Data effective January 1, 2014. The focus in the expansion of Psiber's business is on the United States and Asia. According to market studies, the U.S. market for cable certifiers is worth over USD 60 million. Psiber has by far the most efficient product, the currently unique devices for CAT 8 specifications with data speeds of up to 40 gigabits for offices and data centers. We are aiming to achieve a market share of at least 20 % in the U.S. market. To this end, we have opened a second U.S. site in Dallas, Texas.

Softing has set itself ambitious goals for 2014. We are aiming to again increase revenue to over EUR 60 million and earnings to more than EUR 7 million to drive organic and non-organic growth, to close strategic gaps, and to safeguard our revenue from a broader geographical standpoint. Our renewed success is certainly not a coincidence. It is the outcome of the skills, the creativity and, in particular, the commitment of our entire team. Many of us worked flat out last year to achieve these results. On behalf of the entire management team, I would like to thank all of you for your personal contribution to the success of the 2013 financial year. But the trust which you – our shareholders, customers and business partners – have placed in us made our success possible in the first place.

We hope that you will again enjoy your investment in Softing this year and will be pleased to hear about the compelling business figures and a good share performance. We are looking forward to this year!

Sincerely yours,

Dr. Wolfgang Trier
(Chief Executive Officer)

Combined Management Report of Softing AG and the Group for the 2013 Financial Year

FUNDAMENTAL INFORMATION ABOUT THE GROUP

BUSINESS MODEL

The Group's 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

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 Automation GmbH domiciled in Haar near Munich and offices in Nuremberg and Erkrath
- Buxbaum Automation GmbH domiciled in Eisenstadt (Austria)
- Softing Italia s.r.l. domiciled in Boscone (Italy)
- Softing North America Inc. domiciled in Newburyport (USA)
- Softing Automotive Electronics GmbH domiciled in Haar near Munich
- Softing Projekt Services GmbH domiciled in Haar near Munich
- samtec automotive software & electronics GmbH domiciled in Filderstadt
- Softing Services GmbH domiciled in Haar near Munich
- Softing Messen & Testen GmbH in Reutlingen
- SoftingROM s.r.l. domiciled in Klausenburg (Romania)

On the Presentation of the Segments

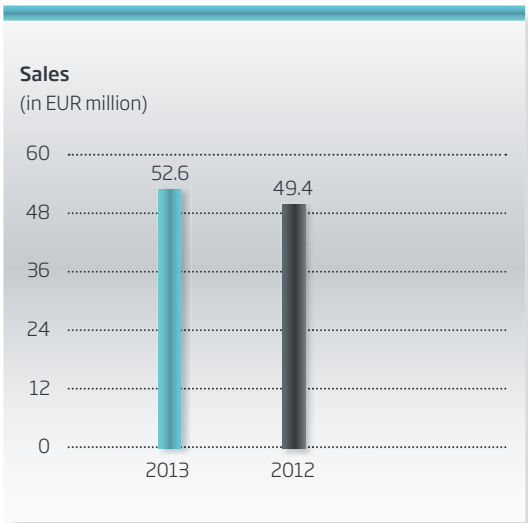
Segmentation of the Softing Group is based on its internal reporting and organizational structure, taking into account the different risks and income structures of each individual division. Segmentation by divisions entails allocating Softing's activities to the *Automotive Electronics* and *Industrial 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.

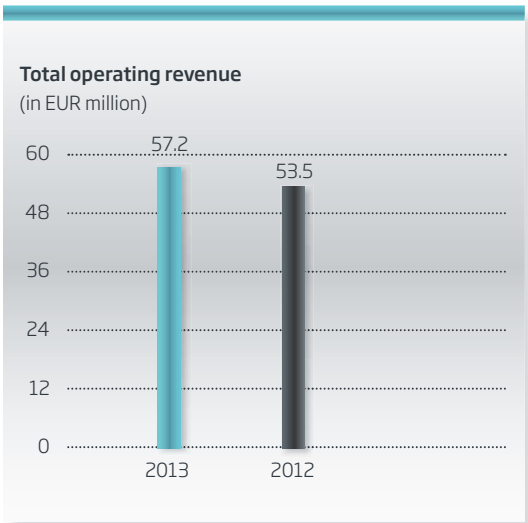
Softing AG

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

Softing 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 Italia and Softing North America, Inc.

Softing Italia s.r.l. and the Company's sales office, Softing North America Inc. (Softing North America), which is domiciled in Newburyport, MA, USA, are subsidiaries of Softing Industrial Automation GmbH. Softing Italia s.r.l., Milan, allows Softing to serve customers in Italy locally while Softing North America serves the North American market. Softing North America has its own development facilities and offers project services in addition to overseeing our product business in North America. In 2013, both companies made a positive contribution to the overall earnings of the Softing Group.

Buxbaum Automation GmbH

The sales office Buxbaum Automation GmbH, Eisenstadt allows 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

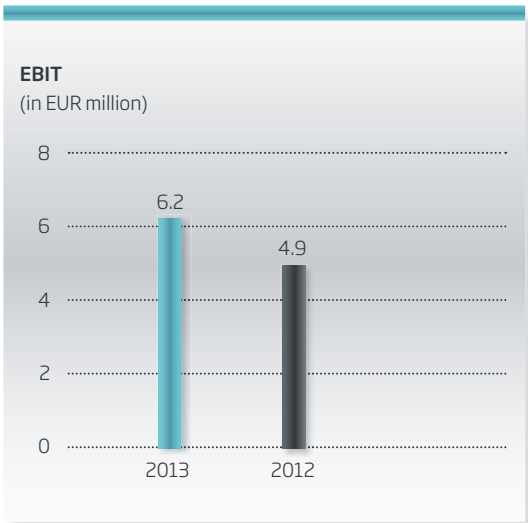
Softing Messen & Testen GmbH is organizationally is a subsidiary of Softing Automotive Electronics GmbH. Softing has successfully engaged in the field of automotive test solutions for more than 20 years and offers extensive expert knowledge on every aspect of automated testing of automotive electronics.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

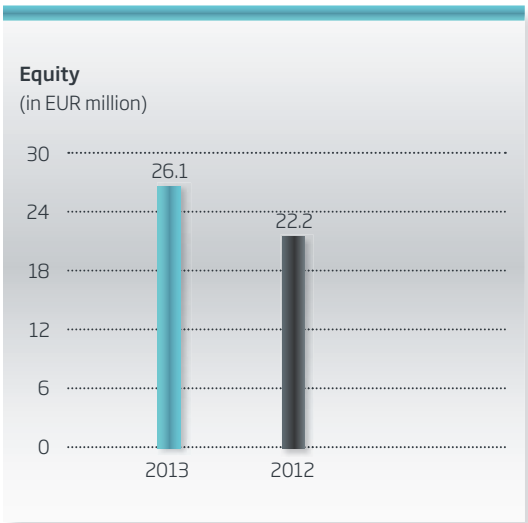
Softing Services GmbH

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 and is a strategically important part of the Softing Group.

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. The family of modern HS interfaces ideally complements Softing's diagnostic interfaces.

Psiber Data GmbH

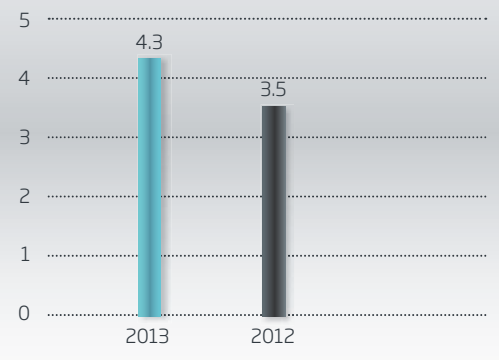
Effective as of January 1, 2014, Softing AG acquired all interests in Psiber Data GmbH, headquartered in Krailling near Munich. Psiber Data GmbH is a provider of devices for the diagnosis of Ethernet cables, which are used in industrial automation, office installations, and data centers.

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.

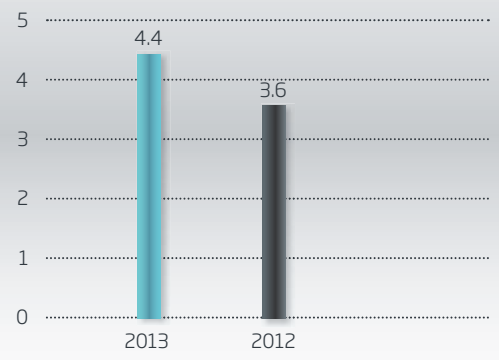
Business Model of Softing AG

Softing AG acts as a management holding company for the Softing Group. It generates revenue from invoicing for management services as well as for legal assistance and quality management services provided to the subsidiaries. Beyond this, the business model is limited to the management of the equity investments.

Consolidated profit
(in EUR million)



Research and development expenses
(in EUR million)



INTERNAL MANAGEMENT SYSTEM

The Softing Group uses two key performance indicators (KPI) – revenue, 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. The aim is to have delivery capacity at all times so that our customers can be supplied with products at short notice.

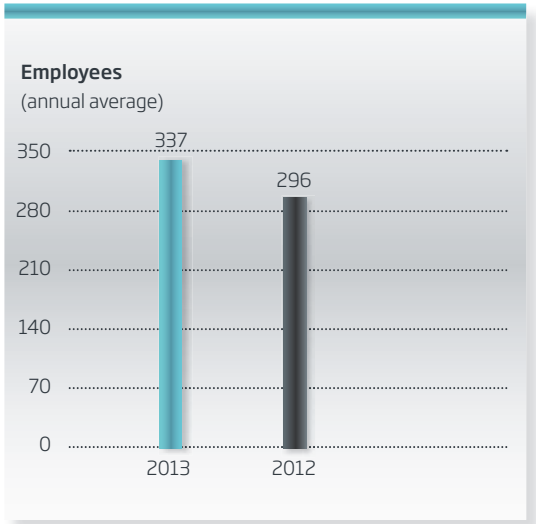
Trade receivables are periodically monitored based on their aging structure and tested for impairment. Customers are usually subject to internal credit limits. There is strict follow-up of past-due receivables.

Trade payables are mostly settled using available cash discounts.

On account of its business model, it is mainly the profits or losses under profit transfer agreements that provide the basis for internal management at Softing AG. By managing the subsidiaries as explained above, Softing AG also manages the profits or losses under profit transfer agreements in the parent company itself.

Research and Product Development

For years, the Softing Group has invested a large portion of the cash generated by its revenue in research and development. In total, Softing invested EUR 4,382 thousand in the development of new products and the enhancement of existing ones. This corresponds to an investment ratio (ratio of capitalized development costs to product revenues) of 10 % (previous year: 9 %). Adding in non-capitalized expenses gives an investment ratio of 18 % (previous year: 14 %).



	2013 EUR (in thsds.)	2012 EUR (in thsds.)
Capitalized development costs	4,382	3,614
Expenses not qualifying for capitalization	3,086	2,365
▸	**7,468**	**5,979**

In the past financial year, amortization of capitalized development costs amounted to EUR 2,349 thousand (previous year: EUR 2,395 thousand).

At year-end, 216 employees were engaged in research and development (previous year: 198).

In the 2013 financial year, the *Industrial Automation* segment invested EUR 2.7 million in the development of new products and the refinement of existing ones (previous year: EUR 1.8 million), focusing on the following developments in the reporting period:

The diagnostic concept that had been tried and tested in PROFIBUS was expanded to PROFINET with the PROFINET Diagnose Suite, and an initial version of a diagnostic tool for setting up PROFINET networks was launched.

In its communication solutions for industrial Ethernet, Softing relies on FPGA-based solutions. FPGAs (field-programmable gate arrays) are integrated circuits whose hardware functions can be configured in many ways and which can be programmed to implement a large number of communications and application functions. Their advantage for users is that all hardware and software functions needed for communications are combined in a single chip and, thanks to the flexibility of the FPGAs, the same hardware can support widely different communication protocols. Together with Altera, one of the world's leading providers of FPGAs, easy-to-integrate communications solutions were developed for PROFINET, EtherCAT, EtherNet/IP, Modbus TCP, and Ethernet POWERLINK. An FPGA-based master solution was completed for PROFIBUS-DP and successfully implemented at several pilot customers.

The communications solutions for process automation were likewise enhanced to facilitate integration. PAEasy now enables rapid, low-cost implementation of a fieldbus connection for PROFIBUS-PA devices as well based on the established FBK interface module. Furthermore, the FBK module is now also available as a "master" version, as required for portable configuration, setup, and calibration devices.

Development of the WirelessHART stack for wireless sensor connections in process automation was successfully completed when it passed the HART Communication Foundation's extensive certification tests.

New versions of all OPC toolkits were created with enhanced features.

Version 3.0 of Easy Connect, a collection of middleware products that simplify OPC communications, supports the new OPC Unified Architecture Standard with which OPC UA client applications can be connected to OPC Classic servers securely and efficiently.

Version 4.07 of the multi-protocol OPC server offering standardized access to over 50 controllers of different manufacturers also supports the Simple Network Management Protocol (SNMP), which allows network devices to be integrated into production monitoring or control.

Echograph combines data logging and data visualization in a single unit by integrating web-based visualization into the Echocollect platform – with no need for an OPC server or a complex SCADA system. The basic version of Echocollect already has a visualization function for 50 items.

In 2013, the *Automotive Electronics* segment made investments totaling EUR 1.7 million (previous year: EUR 1.8 million) in the development of new products and the enhancement of existing ones. Capital expenditure centered on the following developments:

Samtec continuously refined its now production-proven VCI family HSC in 2013. Further unique features such as "wake-up on motion" were implemented on both the software and the hardware side, giving the HSC family a very strong market position. For example, an HSC version for vehicle fleets was developed that facilitates vehicle diagnosis in fleet trials through wireless data transfer between the vehicles being driven. Following a successful test phase, this innovation will be deployed at a Southern German sports car manufacturer in 2014.

Samtec's software development activities in 2013 focused on the new VCI Communication Framework (VCF), a new middleware and development environment that provides a cross-platform basis for the development of new applications. One particular unique feature of the VCF is the parallel operation of different applications via one samtec VCI. This multi-application capability enables, for example, data logging or residual bus simulations to be operated in parallel to the diagnosis application using a single VCI. To maximize the number of applications while lowering development costs for both the customer and the Softing Group, the VCF was developed for all standard platforms (Windows / Linus / Android / iOS) and hence provides a uniform, state-of-the-art, and consequently solid basis as a Group-wide development platform in Softing's *Automotive Electronics* segment.

The Diagnostic Tool Set (DTS), which is already established on the market, now exists in version eight and was enhanced in line with specific customer requirements and made more attractive for new customers. It was rolled out in the financial year ended, 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 runtime system based on ASAM MCD-3D 3.0. Even OTX has also found its way into the DTS family. OTX is a description format for the creation, commissioning and debugging of diagnosis and test sequences that are used in workshop testers, experimental set-ups or in production automation, for example.

Softing continued to raise profile of *Automotive Electronics* in 2013 by focusing on its core areas of expertise. This entailed developing the market through additional 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. The Softing Group continues to secure its technology leadership through technological partnerships, participation in important standardization committees and involvement in innovative research projects.

Softing AG itself is not engaged any research and development activities.

REPORT ON ECONOMIC POSITION

MACROECONOMIC AND SECTOR-SPECIFIC ENVIRONMENT

Global Economy Gained Momentum in 2013 – Weak Growth in Germany

According to the Winter 2013 World Economic Report of the Institute for the Global Economy (IfW) based in Kiel, Germany, the global economy gained considerable momentum in the course of 2013. However, in 2013 average global gross domestic product (GDP) again rose more slowly than in the preceding year. According to the experts at the IfW, the global economy grew by just 2.9 % in the year under review after 3.1 % in 2012. The US and Japanese economies each expanded by 1.6 % in 2013, while China's economy grew by 7.5 %. By contrast, the growth of euro zone GDP decreased by 0.4 %.

The economy of the euro area nevertheless emerged from recession in the course of 2013. Macroeconomic output has been rising once more since the second quarter, after contracting in each of the six preceding quarters. According to figures published by the IfW, the German economy recorded only modest growth in 2013 of 0.4 %.

On Balance, 2013 Was a Difficult Year for German Engineering

The German Engineering Federation (Verband Deutscher Maschinen- und Anlagenbau – VDMA) reported a decrease of 1 % in Germany's engineering sector in 2013. This decline stems mainly from the weak first quarter, when output declined by 7 % year-on-year. In nominal terms, mechanical and plant engineering in Germany stagnated in 2013. According to figures released by the VDMA, production essentially remained flat on the previous year with a volume of EUR 195 billion. The same applies to sales, with a value of approximately EUR 207 billion.

Orders in the Electrical Industry up Substantially in 2013

In the whole of last year, the industry had 2.6 % more orders on its books than in 2012. While orders placed by German customers stagnated at +0.1 %, orders from foreign customers increased by 4.8 %. Incoming orders from the euro zone fell slightly by 0.6 %, in contrast to the order intake from non-euro countries, which rose by 8.1 %, said Dr. Andreas Gontermann, Chief Economist at the ZVEI, commenting on the figures.

According to the ZVEI (German Electrical and Electronic Manufacturers' Association), revenues in the German electrical and electronics industry narrowed by 2.2 % last year to EUR 166.3 billion, however. ZVEI figures show a 4.5 % decline in domestic revenue to EUR 84.9 billion. By contrast, foreign revenue remained stable at EUR 81.4 billion (+0.1 %). Revenue within the euro zone declined by 5.2 % to EUR 29.5 billion, whereas outside the euro zone revenue rose by 3.3 % to EUR 51.9 billion.

According to the Electronic Components and Systems unit of the ZVEI, the German market for electronic components grew by 3 % to about EUR 17.6 billion in 2013. The ZVEI reported that automotive electronics likewise expanded by 3 % on account of the increasing numbers of new passenger cars produced worldwide in 2013.

COURSE OF BUSINESS

In spite of Germany's weak economy and the slowdown in economic growth, especially in the euro zone, Softing generated further growth and achieved a record level of earnings in 2013. Consolidated revenue climbed 6 % to EUR 52.6 million, while earnings before interest and taxes (EBIT) rose by 26 % to EUR 6.2 million. The revenue forecast for 2013 of over EUR 50 million published in the last annual report was therefore exceeded. With EBIT of EUR 6.2 million, the EBIT guidance of EUR 4.9 million was clearly surpassed. Consequently, Softing's development of business in 2013 can be assessed as favorable on the whole.

While revenue in the *Industrial Automation* segment merely edged up from EUR 26.3 million to EUR 26.5 million owing to the weak economy, revenue in the *Automotive Electronics* segment was given a 13 % boost to EUR 26.1 million, mainly by existing and new products, for which there was strong demand among existing customers.

The stagnating revenue reduced EBIT in the *Industrial Automation segment* slightly by 7 % to EUR 2.3 million. EBIT in the *Automotive Electronics* segment surged by 58 % to EUR 3.9 million on account of the sharp increase in revenue.

At Softing AG, in spite of higher costs and a related increase in revenue, the forecast profit from ordinary business activities of EUR 2.4 million was modestly exceeded at EUR 2.8 million. This is thanks in particular to the strong earnings of the subsidiaries, which lifted earnings from profit transfer agreements from EUR 3.3 million to EUR 3.6 million. Consequently, Softing AG's development of business in 2013 can be assessed as favorable on the whole.

RESULTS OF OPERATIONS

Results of Operations of the Group

The financial key performance indicators are revenue and earnings (EBIT).

Revenue rose by 6 % in the past financial year to EUR 52.6 million.

Own work capitalized (product developments) rose from EUR 3.2 million to EUR 4.0 million, strengthening our product portfolio. Other income declined in 2013, from EUR 0.9 million to EUR 0.7 million, mainly due to lower income from subsidized projects and lower income from exchange differences.

The following chart shows changes in the expense items:

	2013 EUR (in thsds.)	2012 EUR (in thsds.)
Cost of Materials	15,182	14,886
Employee Benefits Costs	25,833	23,581
Depreciation, amortization and impairment losses	3,160	3,341
Other expenses	6,830	6,755
▸	**51,005**	**48,563**

The **cost of materials** rose by EUR 0.3 million, an increase of 2 %. The only minor increase in the cost of materials can essentially be attributed to the change in the product mix. A higher number of software packages was sold in the past year. Software incurs significantly lower material expenses than our hardware products. The cost of materials ratio (cost of materials relative to revenue) therefore fell from 30.1 % to 28.9 %. As a result, gross profit (revenue less cost of materials) increased by EUR 2.9 million to EUR 37.4 million.

Employee benefit costs climbed 9.6 % to EUR 25.8 million, partly on account of the 14 % increase in the Group's average headcount from 296 to 337, but also due to the usual increase in salaries.

Other expenses climbed by EUR 0.1 million. In spite of the higher business volume, other expenses were kept relatively constant by the cost discipline.

EBIT rose by EUR 1.3 million, from EUR 4.9 million to EUR 6.2 million. In this connection, the return on sales (EBIT relative to sales) in the *Industrial Automation* segment remained at 9 %. The return on sales in the *Automotive Electronics* segment rose from 11 % to 15 %, mainly on the strength of higher revenue and an improved product mix.

Consolidated net profit for the year after taxes was EUR 4.3 million (previous year: EUR 3.5 million).

Results of Operations of Softing AG

As a management holding company, Softing AG only generates revenue from the services it provides to subsidiaries. These services principally entail active corporate management of the individual subsidiaries as well as legal assistance and quality management services. In this connection, fixed portions of the costs incurred for these services are charged to the subsidiaries. The costs for general controlling activities are not allocated to the subsidiaries.

Softing AG does not itself operate directly in the market. Income from equity investments and from profit transfer agreements is significant for Softing AG.

Profit and loss transfer agreements have been signed with the following subsidiaries:

- Softing Industrial Automation GmbH
- Softing Automotive Electronics GmbH
- Softing Services GmbH
- Softing Messen & Testen GmbH

One of the key control parameters for Softing AG is the income from profit transfer that constitutes a financial key performance indicator. This rose from EUR 3.3 million to EUR 3.6 million in the past financial year, mainly on account of a substantially higher profit transfer from Softing Automotive Electronics GmbH.

Staff costs increased from EUR 2.7 million to EUR 2.9 million in 2013, primarily as a result of higher variable components stemming from an improvement in consolidated net profit.

Other operating expenses rose from EUR 1.0 million to EUR 1.2 million, chiefly on account of costs incurred for the company acquisition.

The higher costs increased revenue from EUR 2.8 million to EUR 3.4 million, as these costs are exclusively allocated costs.

Taxes on income rose by EUR 0.5 million, due among other things to the fact that in the previous year a loss carried forward could be partially utilized. Net profit for the year therefore fell from EUR 2.1 million to EUR 1.9 million.

FINANCIAL POSITION

Financial Position of the Group

Financial Management

As part of the Group's financial management, all major German companies are included in a cash pooling system. Softing AG manages the cash pool. In addition, where deemed necessary, the cash flows with our company in the United States are hedged using conventional forwards. No forward contracts were concluded in the last financial year.

Capital Structure

The equity of the Softing Group amounted to EUR 26.1 million at the end of 2013 (previous year: EUR 22.2 million). This increase of 18 % or EUR 3.9 million is mainly attributable to the consolidated net profit for 2013 of EUR 4.3 million (previous year: EUR 3.5 million) and to the sale of treasury shares (EUR +1.3 million). The payment of a dividend of EUR 1.7 million had an offsetting effect. The consolidated equity ratio rose to 65 % (previous year: 59 %).

Non-current liabilities increased slightly from EUR 3.4 million to EUR 3.7 million on account of the deferred tax liabilities on the higher development costs. Current liabilities decreased by EUR 1.9 million to EUR 10.4 million, chiefly as a result of high payments from customers in 2012 for services that Softing was only able to provide in 2013. For this reason, other non-financial liabilities decreased by EUR 1.0 million in 2013. Another important reason was the decrease in trade payables of EUR 0.3 million year-on-year.

Capital Expenditure

In the past financial year, the Softing Group invested EUR 4.4 million in developing new products and enhancing existing ones. Investments in other non-current assets amounted to EUR 0.8 million last year. Please refer to the Research and Development section for information on investments in the specific segments.

Liquidity

The cash flow from operating activities fell from EUR 7.8 million to EUR 5.9 million, a decrease of EUR 1.9 million or 24 %. The cash flow from operating activities declined mainly on account of the decrease in other non-financial obligations of EUR 1.0 million, the increase in inventories of EUR 1.3 million, and the decrease in trade payables of EUR 0.3 million. Due to rising demand on the procurement markets for components, Softing has increasingly begun to keep products available for longer periods of time so as to be able to ensure delivery capacity. This is the background to the EUR 1.3 million increase in inventories.

The cash outflow from investing activities of EUR 4.9 million rose by EUR 0.5 million, mainly on account of increased investment in the Company's own product developments. This is the reason for the increase in capital expenditure on intangible assets. This was up by EUR 0.7 million in 2013, from EUR 3.9 million to EUR 4.6 million.

The cash flow from financing activities had a negative effect of EUR 0.4 million on cash flow, due to a dividend payment of EUR 1.7 million. The sale of treasury shares had a positive effect of EUR 1.3 million.

Financial Position of Softing AG

Capital Structure

As of December 31, 2013, equity rose from EUR 17.7 million to EUR 19.2 million on the back of strong earnings and the sale of treasury shares. Consequently, the net profit for 2013 of EUR 1.9 million and the recognized effect from the sale of treasury shares in the amount of EUR 1.3 million more than compensated for the profit distribution of EUR 1.7 million for 2012.

As a result, the equity ratio remained constant at 75 %.

Provisions decreased from EUR 2.2 million to EUR 1.8 million, essentially because provisions for variable salary components fell by EUR 0.3 million.

Liabilities rose by EUR 0.9 million, largely on account of higher liabilities from cash pooling with the subsidiaries, which is also a result of a change in the offsetting practice.

Liquidity

The subsidiaries of the Softing Group are financed almost exclusively by Softing AG through the cash pooling system. Separate bank loans are taken out by individual subsidiaries only to a minor extent.

Funds at year's end were EUR 10.7 million (previous year: EUR 8.5 million). The dividend payment reduced the cash flow from financing activities by EUR 1.7 million. The sale of treasury shares in 2013 had a positive effect of EUR 1.3 million.

NET ASSETS

Net Assets of the Softing Group

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 2013 represented 28.8 % of total assets (previous year: 27.7 %). This is offset by equity and non-current liabilities representing 74.2 % (previous year: 67.6 %) of total equity and liabilities.

Non-current assets rose by EUR 1.1 million to EUR 11.6 million on the back of an increase in development activities. The development costs item consequently increased from EUR 4.8 million to EUR 6.8 million as a result of capitalized development costs. In particular, the full repayment of the loan granted to a member of the Executive Board in the amount of EUR 0.7 million had an offsetting effect. This had been reported under other financial receivables in the previous year.

Current assets, which principally comprise inventories, trade receivables, and cash and cash equivalents, edged up from EUR 27.4 million to EUR 28.6 million, mainly due to a EUR 1.3 million increase in inventories. Stocks of individual products were increased in the past year to be able to continuously ensure rapid delivery.

The EUR 2.3 million increase in total assets is largely attributable to investments in new products, higher inventories, and the increase in cash and cash equivalents.

Cash and cash equivalents at year's end were EUR 12.1 million (previous year: EUR 11.5 million).

Net Assets of Softing AG

Total assets rose by EUR 2.2 million year-on-year to EUR 25.7 million.

Cash and cash equivalents increased by EUR 2.2 million, primarily due to the high earnings of the subsidiaries affiliated with Softing AG in the cash pooling system. Receivables from affiliated companies were also up EUR 1.1 million as a result of a change in the offsetting practice.

Financial assets declined by EUR 0.9 million, largely due to the repayment in 2013 of a loan extended to a member of the Executive Board.

OVERALL ASSESSMENT OF THE GROUP'S AND THE PARENT COMPANY'S POSITION

In sum, it may be stated that the Company's net assets and financial position 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.

REPORT ON POST-BALANCE SHEET DATE EVENTS

Effective as of January 1, 2014, Softing AG acquired all interests in Psiber Data GmbH, headquartered in Krailling near Munich.

REPORT ON EXPECTED DEVELOPMENTS AND ON OPPORTUNITIES AND RISKS

REPORT ON OPPORTUNITIES

The information provided applies to the Group and to Softing AG in equal measure. The opportunities and risks arise in the individual subsidiaries of Softing AG. Through the profit and loss transfer agreements concluded, these also have a direct effect, possibly with a time lag for the IFRS accounting, on the single-entity financial statements of Softing AG.

Softing AG – Positioning of the Operating Segments

Besides the four core companies at its Haar headquarters, the Softing Group meanwhile also comprises seven subsidiaries. Effective January 1, 2013, Softing Industrial Networks GmbH was merged into Softing Industrial Automation GmbH. The new structure enables better allocation of subsidiaries, making it easier to generate further growth.

Focus within Automotive Electronics

The focusing of activities of *Automotive Electronics* on its core areas of expertise – diagnosis, measurement and testing – continued in the financial year just ended. Increased productivity and ongoing quality assurance measures will form a solid foundation for the future improvement of the division's performance. This has firmly anchored the *Automotive Electronics* segment among key customers.

The Subsidiary samtec automotive software & electronics GmbH

The current, newly developed, and planned samtec VCI product portfolio and the new VCF are generating strong interest from both existing and new customers. The sales drive in 2012 and 2013 is starting to bear fruit. samtec is also optimistic about its project business in 2014. The order books are already well filled, something that is attributable to the expertise of the company's long-serving employees on the one hand and to the refinement of the VCI software and hardware products on the other.

The Subsidiary Softing Messen & Testen GmbH

In addition to continuing to distribute Softing measurement technology, the Reutlingen site is significantly expanding its measurement technology portfolio with the µ series. Alongside the inquiries from traditional automakers and automotive suppliers, interesting inquiries have already been received from the surface and commercial vehicle segments. A high-profile manufacturer of aircraft turbines is also considering these modules in its project planning of a new test rig. The TESTING area in Reutlingen was likewise extended significantly in 2013, with additional staff being hired to meet requirements. This will enable a great many projects to be started and executed in 2014. Among other things, orders have already been placed for foreign sites of one of Germany's largest automakers. Service and support services for development test rigs up to 2016 have also been commissioned.

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 2014 also. The Company anticipates generating further sales growth in this area.

The Subsidiary Psiber Data GmbH

Psiber Data GmbH is a provider of devices for the diagnosis of Ethernet cables, which are used in industrial automation, office installations, and data centers. With the latest generation of devices, Psiber is a technology leader in this market. It is the only company with devices capable of measuring cables up to CAT 8 specifications. Through the acquisition of Psiber Data GmbH, Softing expects to increase its consolidated revenue from devices for the diagnosis of networks and cables to a total of approximately EUR 10 million in 2014. Due to the one-time integration costs, it is too early to give numbers for the additional EBIT effects of the acquisition for 2014.

The subsidiary SoftingROM – an Important Pillar of Softing

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.

RISK REPORT

The information provided applies to the Group and to Softing AG in equal measure. The opportunities and risks arise in the individual subsidiaries of Softing AG. Through the profit and loss transfer agreements concluded, these also have a direct effect, possibly with a time lag for the IFRS accounting, on the single-entity financial statements of Softing AG. The risks presented affect both segments.

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. The risk management system of the Group and of Softing AG comprises both risks and opportunities in equal measure.

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.

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.

To be able to categorize the risks, we have divided them into several categories. Multiplying the probability of occurrence by the extent of loss gives rise to the following levels of risk:

a. Minor risks
   Minor risks are insignificant for the Company and no action needs to be taken to mitigate the risk.

b. Moderate risks
   The extent of loss in moderate risks is limited and there is a moderate probability of occurrence. There is no immediate need for action. Efficient, effective measures are sufficient to reduce moderate risks or to manage them rapidly in the event of an emergency.

c. Major risks
   Major risks cause greater loss and/or have a higher probability of occurrence than moderate risks. These risks should be reduced through appropriate controls or process optimization. Where possible, appropriate measures should be taken to reduce the major gross risk to the moderate or minor level of risk.

d. Going-concern risks
   Going-concern risks could jeopardize the continued existence of an organizational unit or the Softing Group as a whole. Measures must be taken immediately to reduce the gross risk.

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.

External 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. Every year, we check if the currency risks in connection with our US subsidiary's operating activities should be hedged. If it appears necessary, Softing uses conventional forward exchange deals as hedges. During the 2013 financial year, expected cash flows of Softing North America were not hedged. We categorize this risk as a moderate risk.

Performance Risks

In 2013, 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. We categorize this risk as a moderate risk.

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. We categorize this risk as a moderate risk.

In certain areas of our business, both in the *Industrial Automation* and the *Automotive Electronics* segment, 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. We categorize this risk as a moderate risk.

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. We categorize this risk as a moderate risk.

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. We categorize this risk as a moderate risk.

Financial 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 2013. We categorize this risk as a moderate risk.

Other Risks

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. We categorize this risk as a moderate risk.

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. We categorize this risk as a moderate risk.

Even though not a single compliance case has so far arisen at Softing despite the 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. We categorize this risk as a minor risk.

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

Based on the risk policy and the current assessment of the risks, we consider the risk exposure to be manageable for both the Group and Softing AG.

On account of the strong net assets, financial position, and results of operations, we believe that the Group will be able to bear the residual risks not covered by insurance even in the event of unfavorable developments.

REPORT ON EXPECTED DEVELOPMENTS

2014: Increasing Recovery in the Euro Area

According to the Winter 2013 World Economic Report of the Institute for the Global Economy (IfW) based in Kiel, Germany, the outlook for the global economy improved at the end of 2013/ beginning of 2014. Factors that left a perceptible mark on the global economy in the past two years are decreasing in significance. In the United States, the consolidation in the private sector has made considerable advances, while in the euro area the measures taken to implement structural adjustments are proving effective. According to the experts at the IfW, the increase in global output is likely to be appreciably higher in 2014 at an estimated 3.7 % than in 2013 (2.9 %).

While the euro zone economy will remain relatively weak due to the fact that the consolidation processes are continuing to impact on domestic demand in the crisis-hit countries, the IfW predicts that economic activity will also gradually gain momentum in the euro area and even the economies of ailing countries are likely to record a progressive, visible improvement. Macroeconomic output is forecast to increase by around 0.9 % in 2014.

For Germany, the IfW forecasts that the economy will expand. An accelerating investment cycle will give a perceptible boost to economy activity in the next two years. Beyond the need for replacements, which is becoming more and more urgent, rising capacity utilization will increasingly fuel investments in expansion as well. This will be sustained by investor-friendly financing conditions. By contrast, in purely arithmetical terms, foreign trade is unlikely to have any significant effects on output. Following a very slight increase in gross domestic product in 2013, the IfW is predicting much faster expansion in the forecast period with growth rates of 1.7 % in 2014 and 2.5 % in 2015.

Economic research institutes expect investments in plant and equipment to increase by between 4 % and 7 % in the coming year. For the current year, the VDMA forecasts that the German mechanical engineering sector will grow by 3 %. The business climate in Germany's electrical industry improved again substantially in January 2014 for the third time in a row and is now at its highest point in almost two years, according to Dr. Andreas Gontermann, Chief Economist at the ZVEI. For 2014, the ZVEI again expects production to rise by 2 % in real terms and sales to increase to EUR 170 billion.

The general development in Germany and in the euro area reveals trends for Softing, showing to what extent the willingness to invest could change. This in turn will affect sales of our products, because most capital expenditures will be investments for our customers or be integrated into capital goods for our customers. The economic growth will mostly have a positive effect on the course of business of the Softing Group and consequently also on the development of business of Softing AG.

In Technological Terms, Softing Is Ideally Positioned and Excellently Aligned for 2014

The forecast for the short- and medium-term development of the international markets for state-of-the-art automation technology is positive both in process automation and the manufacturing industry. Thanks to its unique technological expertise that covers all relevant communication technologies, Softing's *Industrial Automation* segment is ideally positioned to benefit from this trend across various industries and in its main markets, the United States and Germany.

In 2014, the *Industrial Automation* segment will continue to extend its product portfolio, adding new offerings for PROFIBUS PA and HART to its range of embedded solutions for manufactur-

ers in the area of process automation and adding further FPGA-based solutions to the range of solutions for production automation manufacturers, both for classic FIELDBUSES and for ETHERNET-based communication technologies.

For end users, Softing will roll out new products for communication infrastructures and data integration in addition to other products for diagnosis in fieldbus or Ethernet networks.

In the *Automotive Electronics* segment, the main focus in the coming year will be on continued marketing of the standard products of DTS-8, OTX Studio, interfaces of the HS family, measurement technology (SMT, µ series), and Softing TDX. Preliminary versions now exist for all of the products and can also be marketed internationally. Customers include automakers as well as heavy-duty diesel manufacturers such as trucks and agricultural machinery.

The *Automotive Electronics* segment will expand its range of measurement technology products further in 2014. New components for the established Softing measurement technology (SMT) are continuously being developed and launched on the market. In addition to a module for recording FlexRay communication, additional modules are being created for the power supply in the vehicle and test bench, as are modules for digital and analog recording of measurements and set value output. The central control and data acquisition software PEA will be enhanced in 2014 through the addition of functions from Softing's tried-and-tested diagnosis portfolio. This integration will combine the core disciplines of MEASURING & DIAGNOSIS in a single classification and will constitute a unique feature.

In 2014, samtec automotive software & electronics GmbH is planning to develop a new, low-cost VCI for standard diagnostic applications with the VCI family HSD, as a successor to the HS light II. At the beginning of 2014, Softing and a well-known automotive supplier signed a master agreement for a new service tester based on HSD technology that will be deployed worldwide. In addition, the development of an independently operable FlexRay control device simulator (HSX TDA) begun in 2013 in cooperation with Softing MuT will be completed in 2014.

On the whole, the *Automotive Electronics* segment is planning further expansion of its local activities in the area of resident engineering in 2014, primarily at the Ingolstadt, Munich, and Stuttgart sites. There are plans to set up a separate office at the Ingolstadt site at the beginning of 2014.

Outlook for the 2014 Financial Year for Softing AG

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

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.

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.

Based on the projected strong earnings, especially in the *Automotive Electronics* segment, we are forecasting earnings from profit transfer agreements of EUR 4.8 million for the 2014 financial year.

Outlook for the 2014 Financial Year for the Softing Group

Softing expects to boost both incoming orders and revenue for 2014 on the whole on the basis of higher penetration of the market as well as its customers' estimates. Specifically, we are predicting revenue growth to over EUR 60 million and EBIT of around EUR 7 million for 2014 on the strength of our excellent positioning in our target markets and through the acquisition of Psiber Data GmbH at the beginning of January. We believe that both segments will be able to lift revenue. The Executive Board expects to be able to further improve EBIT in both segments. Given already existing high-margin orders, the *Automotive Electronics* segment is expected to post a particularly strong increase in EBIT.

INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT SYSTEM RELEVANT FOR THE CONSOLIDATED FINANCIAL REPORTING PROCESS

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.

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 Report."

As part of the risk reporting system, the Executive Board is regularly informed about risks. Risks are identified at an early stage and assessed. Risks are reported across all companies, with the risks recorded being listed and evaluated. The Executive Board is responsible for defining appropriate risk management measures. Significant individual risks are recorded independently of the regular cycle and reported without delay.

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 is used as the consolidation system. 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.

DISCLOSURES IN ACCORDANCE WITH SECTIONS 289(4) AND 315 (4) HGB AND EXPLANATORY REPORT.

1. In 2013, 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.

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 2012, 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 by a total of EUR 3,221,256 on one or several occasions up to May 8, 2017 by issuing new no-par bearer shares against contributions in cash and/or in kind (Authorized Capital 2012). Said authority was not exercised to date.

   The share capital is increased 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 (Contingent Capital 2013). The contingent capital increase will serve the granting of option rights or obligations to the holders of warrants arising from bonds with warrants under the terms of the respective options or the granting of conversion rights or obligations to the holders of convertible bonds under the terms of the respective convertible bonds issued by the Company up to May 6, 2018 in accordance with the resolution of the General Shareholders' Meeting on May 7, 2013. The new shares will be issued at the respective option or conversion price to be determined in accordance with the above-mentioned authorization resolution. The contingent capital increase will be implemented only in the event that bonds with warrants or convertible bonds are issued and only to the extent that the holders of the bonds with warrants or the convertible bonds make use of their option or conversion right or the holders of bonds obligated to convert or to exercise the option fulfill this obligation and the contingent capital is needed in accordance with the terms and conditions of the bond with warrants or the convertible bond. The new shares issued on the basis of the exercise of the option or conversion right or the fulfillment of the conversion or option obligation have a share in the profit from the beginning of the financial year in which they arise. The Executive Board is authorized, with the approval of the Supervisory Board, to stipulate the further details of the implementation of the contingent capital increase. Said authority was not exercised to date.

   In May 2010, the General Shareholders' Meeting authorized the Executive Board to purchase own shares until May 30, 2015, provided that such purchase is not made for the purpose of trading in treasury shares, and provided that the purchase price of said shares is not more than 10 % above or below the share's average closing price at the Frankfurt Stock Exchange during the last ten days preceding the purchase (share repurchase). 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 repurchase serves to create an acquisition currency that is required in the medium term and that is available at a price which the Company believes to be considerably below fair value. The Company held a total of 114,352 treasury shares as of December 31, 2013.

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

In the 2007 financial year, an interest-bearing loan was granted to a member of the Executive Board, which was fully repaid in 2013 (previous year: EUR 695 thousand).

Pension provisions for former members and one current member of the Executive Board were recognized as of December 31, 2013. For details, please see the disclosures on pension provisions in the notes.

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

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.

STATEMENT ON CORPORATE GOVERNANCE

The Executive Board of Softing AG reports on issues of corporate governance in this statement – also on behalf of the Supervisory Board – pursuant to both Section 3.10 of the German Corporate Governance Code and Section 289a para. 1 of the German Commercial Code (HGB). For the contents of the statement, please see this link on our website at www.softing.com: http://investor.softing.com/en/corporate-governance/erklaerung-289-a-hgb.

RESPONSIBILITY STATEMENT

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

Haar, Germany, March 10, 2014
Softing AG

The Executive Board

Dr. Wolfgang Trier Maximilian Prinz zu Hohenlohe-Waldenburg

Consolidated Balance Sheet

as of December 31, 2013

Assets		Note	Dec. 31, 2013 EUR	Dec. 31, 2012 EUR
A.	**Non-current assets**			
	I. Intangible assets			
	1. Goodwill	C 1	2,438,951	2,438,951
	2. Development costs	C 2	6,821,731	4,788,686
	3. Other intangible assets	C 3	467,687	554,551
			9,728,369	7,782,188
	II. Property, plant and equipment			
	Other equipment, furniture and fixtures and office equipment	C 4	1,366,164	1,380,196
	III. Other financial receivables	C 9	-	695,000
	IV. Deferred tax assets	D 9	509,091	624,208
			11,603,624	**10,481,592**
B.	**Current assets**			
	I. Inventories	C 6		
	1. Raw materials and consumables		872,657	598,966
	2. Finished goods		3,787,597	2,746,243
			4,660,254	3,345,209
	II. Trade receivables			
	1. Trade receivables	C 7	8,675,050	8,706,175
	2. Receivables from customer-specific construction contracts	C 8	1,353,894	1,141,573
			10,028,944	9,847,748
	III. Other financial receivables	C 9	167,498	1,038,042
	IV. Tax assets	C 11	103,359	62,722
	V. Securities classified as current assets	C 12	833,172	1,063,758
	VI. Cash and cash equivalents	C 12	12,116,145	11,515,761
	VII. Other assets	C 10	724,695	545,509
			28,634,067	**27,418,749**
		▸	**40,237,691**	**37,900,341**

Equity and liabilities	Note	Dec. 31, 2013 EUR	Dec. 31, 2012 EUR
A. Equity			
I. Subscribed capital	C 13	6,442,512	6,442,512
II. Capital reserves	C 13	4,396,103	4,396,103
III. Retained earnings	C 13	15,605,869	12,126,241
IV. Treasury shares	C 13	-286,906	-771,735
Attributable to shareholders of Softing AG		26,157,578	22,193,121
V. Non-controlling interests	C 13	-26,738	-3,075
		26,130,840	**22,190,046**
B. Non-current liabilities			
1. Employee benefits	C 14	1,504,394	1,750,311
2. Other financial liabilities	C 15	50,000	107,695
3. Deferred tax liabilities	D 9	2,182,193	1,589,836
		3,736,587	**3,447,842**
C. Current liabilities			
I. Other provisions	C 16	210,298	296,731
II. Trade payables			
1. Trade payables	C 17	2,356,915	2,667,424
2. Payables from customer-specific construction contracts	C 8	175,904	283,459
III. Other borrowings	C 18	195,149	368,498
IV. Other non-financial liabilities	C 19	5,252,029	6,274,195
V. Tax Liabilities	C 20	585,888	925,415
VI. Other Liabilities	C 21	1,594,081	1,446,731
		10,370,264	**12,262,453**
	▸	**40,237,691**	**37,900,341**

Consolidated Income Statement

for the 2013 Financial Year

		Note	2013 EUR	2012 EUR
1.	Revenue	D 1	52,550,491	49,387,854
2.	Other own work capitalized	D 2	3,965,896	3,171,602
3.	Other income	D 3	692,592	925,529
			57,208,979	**53,484,985**
4.	Cost of materials	D 4		
	a) Cost of raw materials, consumables and purchased goods		-14,125,667	-14,120,387
	b) Cost of purchased services		-1,056,111	-765,457
			-15,181,778	-14,885,844
5.	Employee benefit costs	D 5		
	a) Wages and salaries		-22,245,999	-20,323,877
	b) Social security and retirement benefit costs		-3,586,712	-3,256,656
			-25,832,711	-23,580,533
6.	Depreciation, amortization and impairment losses	D 6	-3,159,617	-3,340,619
7.	Other expenses	D 7	-6,829,662	-6,755,235
8.	**Earnings before interest and taxes (EBIT)**		**6,205,211**	**4,922,754**
9.	Finance income	D 8	153,604	250,565
10.	Finance costs	D 8	-205,041	-245,285
			-51,437	5,280
11.	**Earnings before taxes (EBT)**		**6,153,774**	**4,928,034**
12.	Tax expense	D 9	-1,860,531	-1,429,817
13.	**Consolidated profit**	▸	**4,293,243**	**3,498,216**
	Distribution of consolidated profit / loss			
	Losses attributable to non-controlling interests		-23,663	-13,189
	Profits attributable to owners of the parent		4,316,906	3,511,396
		▸	**4,293,243**	**3,498,206**
	Earnings per share (diluted = basic)	E 4	0.69	0.59

Consolidated Statement of Comprehensive Income

for the 2013 Financial Year

	Note	2013 EUR (in thsds.)	2012 EUR (in thsds.)
Consolidated profit		4,293	3,498
Items that will not be reclassified to profit or loss:			
Actuarial gains / losses from pensions			
Change in actuarial gains / losses	C 14	226	-810
Tax effect		-35	226
Total actuarial gains / losses from pensions		191	-584
Items that will be reclassified to profit or loss:			
Currency translation differences			
Changes in unrealized gains / losses		-19	-17
Losses from the measurement of securities			
Changes in unrealized gains / losses		10	16
Other comprehensive income		182	-585
Consolidated total comprehensive income	▸	**4,475**	**2,913**
Non-controlling interests		-23	-13
Attributable to shareholders of Softing AG		4,498	2,926
Consolidated total comprehensive income	▸	**4,475**	**2,913**

Consolidated Statement of Changes in Equity

for the 2013 Financial Year

	No-par bearer shares	Subscribed capital	Capital reserves	Retained earnings					Treasury shares	Attributable to share-holders of Softing AG	Non-controlling interests	Total equity
				Other	Available-for-sale financial assets	Actuarial gains and losses	Currency translation	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.)
December 31, 2011 / January 1, 2012	5,637,198	5,637	1,684	11,129	-25	-366	-98	10,640	-772	17,189	10	17,199
Changes in equity 2012												
Consolidated profit 2012	0	0	0	3,511	0	0	0	3,511	0	3,511	-13	3,498
Actuarial gains and losses	0	0	0	0	0	-810	0	-810	0	-810	0	-810
Tax effect	0	0	0	0	0	226	0	226	0	226	0	226
Available-for-sale financial assets	0	0	0	0	16	0	0	16	0	16	0	16
Currency translation	0	0	0	0	0	0	-17	-17	0	-17	0	-17
Other comprehensive income	0	0	0	0	16	-584	-17	-585	0	-585	0	-585
Total comprehensive income	0	0	0	3,511	16	-584	-17	2,926	0	2,926	-13	2,913
Dividend payment	0	0	0	-1,439	0	0	0	-1,439	0	-1,439	0	-1,439
Addition from capital increase	805,314	805	2,712	0	0	0	0	0	0	3,517	0	3,517
	805,314	**805**	**2,712**	**2,072**	**16**	**-584**	**-17**	**1,487**	**0**	**5,004**	**-13**	**4,991**
December 31, 2012	6,442,512	6,443	4,396	13,200	-9	-950	-115	12,126	-772	22,193	-3	22,190
Changes in equity 2013												
Consolidated profit 2013	0	0	0	4,316		0	0	4,316	0	4,316	-23	4,293
Actuarial gains and losses	0	0	0	0		226	0	226	0	226	0	226
Tax effect	0	0	0	0		-35	0	-35	0	-35	0	-35
Available-for-sale financial assets	0	0	0	0	10	0	0	10	0	10	0	10
Other				-135				-135		-135		-135
Currency translation	0	0	0	0		0	-19	-19	0	-19	0	-19
Other comprehensive income	0	0	0	-135	10	191	-19	47	0	47	0	47
Total comprehensive income	0	0	0	4,181	10	191	-19	4,363	0	4,363	-23	4,340
Sale treasury shares	0	0	0	825		0	0	825	485	1,310	0	1,310
Dividend payment	0	0	0	-1,709		0	0	-1,709	0	-1,709	0	-1,709
	0	0	0	3,297	10	191	-19	3,479	485	3,964	-23	3,941
December 31, 2013	**6,442,512**	**6,443**	**4,396**	**16,497**	**1**	**-759**	**-134**	**15,605**	**-287**	**26,157**	**-26**	**26,131**

Consolidated Cash Flow Statement

for the 2013 Financial Year

	2013 EUR (in thsds.)	2012 EUR (in thsds.)
Consolidated profit	4,293	3,498
Adjustments		
Interest income	-154	-251
Interest expense	205	245
Income taxes	1,861	1,430
Depreciation, amortization and impairment losses	3,160	3,341
Exchange differences	-19	0
Changes in provisions	-86	16
Change in inventories	-1,315	297
Change in trade receivables, financial receivables and other assets	1,117	-1,837
Change in financial and non-financial liabilities and other liabilities	-1,797	1,088
Interest received	80	251
Interest paid	-81	-99
Income tax reimbursed	0	19
Income tax paid	-1,332	-213
Cash flow from operating activities	**5,932**	**7,785**
Cash receipts from the disposal of intangible assets and property, plant and equipment	41	5
Cash payments for investments in property, plant and equipment	-517	-733
Cash payments for investments in intangible assets	-4,617	-3,914
Cash flow from non-current investing activities	**-5,093**	**-4,642**
Cash receipts from sale of securities classified as current assets	160	194
Cash flows from investing activities	**-4,933**	**-4,448**
Cash receipts from capital increase	0	3,517
Cash payments for dividends	-1,709	-1,439
Cash receipts from sale of treasury shares	1,310	0
Cash payments for the repayment of loans	0	-1,200
Cash flow from financing activities	**-399**	**878**
Net change in funds	600	4,215
Cash and cash equivalents at the beginning of the period	11,516	7,301
Cash and cash equivalents at the end of the period ▸	**12,116**	**11,516**
For further information, please see item E3 of the Notes.		

Notes to the Consolidated Financial Statements for the 2013 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 2013 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 10, 2014. 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 2013 financial year, the Company applied the IFRS whose application is mandatory for financial years beginning on or after January 1, 2013. 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 2013 provided they were material to its activities:

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 7, 'Financial Instruments – Disclosures on Offsetting Assets and Liabilities': These amendments include new disclosures to enhance comparability of financial statements prepared according to IFRSs and US GAAP.

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.

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, 2013, 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:

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, 2017. 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, 2014.

IFRS 11, 'Joint Arrangements,' focuses on the rights and obligations of the parties to the arrangement rather than on the legal base. There are two types of joint arrangement: joint operations and joint ventures. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint operator must account for the assets, liabilities, revenues and expenses relating to its interest in a joint operation. A joint venture, on the other hand, is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint ventures are accounted for using the equity method. Entities are no longer able to account for a share of a joint venture using the principle of proportionate consolidation. This IFRS is effective from January 1, 2014.

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, 2014.

Amendment to IAS 36, 'Impairment of Assets': Disclosures on the recoverable amount for non-financial assets. This amendment removes the obligation to make certain disclosures on the recoverable amount of cash-generating units that were required by IAS 36 in the past and are now recorded through IFRS 13. This amendment is effective from January 1, 2014.

IFRIC 21, 'Levies', contains guidance on the accounting for levies that are not taxes as defined by IAS 12, 'Income Taxes.' The Interpretation addresses the issue of what is the obligating event that gives rise to the recognition of a liability to pay a levy. As the Group is currently not obligated to pay substantial levies, the effects of the Interpretation in the Group are not significant.

In addition, the following amendments will enter into force from January 1, 2014:

IAS 27: New version of IAS 27 – Separate Financial Statements

IAS 28: New version of IAS 28 – Investments in Associations and Joint Ventures

IAS 32: Presentation – Offsetting a Financial Asset and a Financial Liability

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.

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, 2013 include Softing AG and the following subsidiaries, over which Softing AG directly or indirectly exercises control:

Softing Group	Capital share	
	2013 %	2012 %
Softing AG, Haar/Germany		
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	100	100
SoftingROM s.r.l., Cluj-Napoca/Romania	100	100
Softing Industrial Automation GmbH, Haar/Germany	100	100
Softing Industrial Networks GmbH, Nuremberg/Germany [1]	0	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

[1] Was merged into Softing Industrial Automation GmbH effective January 1, 2013.

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 (Haar)
- Softing Automotive Electronics GmbH (Haar)
- Softing Services GmbH (Haar)
- Softing Messen & Testen GmbH (Reutlingen)

3. PRINCIPLES OF CONSOLIDATION

Subsidiaries are all companies that the Group controls in terms of financial and operating policies. This is normally the case if the Group holds more than 50 % of the respective entity's voting rights. The existence and effects of potential voting rights are considered in any assessment of whether or not an enterprise holds a controlling interest.

Subsidiaries are fully consolidated from the date at which the Group assumes control over them. They are deconsolidated at the time when this control ends.

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.

The accounting policies applied by the subsidiaries were changed, if necessary, in order to ensure uniform accounting throughout the Group.

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).

At Softing, 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 less costs to sell 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 (before interest and taxes) of the cash generating unit were determined. The planning is based on historical data and the best possible estimates of management regarding future developments. In order to carry out the impairment test, the management estimated the cash generated beyond the planning period, assuming that growth of 1.5 % (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: the goodwill of Softing Messen und Testen GmbH and the goodwill of Softing Industrial Networks GmbH. The goodwill of Softing Messen und Testen GmbH was allocated to the Softing Messen und Testen cash-generating unit. The goodwill of Softing Industrial Networks GmbH was allocated to Softing Industrial Automation GmbH, into which Softing Industrial Networks GmbH was merged as of January 1, 2013.

The discount rate used is a pre-tax rate and reflects the specific risks of the Group company in question. In each case, it is calculated using the capital asset pricing model (CAPM), under which the costs of capital are comprised of the risk-free interest rate and a risk premium calculated as the difference of the average market return and the risk-free interest rate multiplied by the company-specific risk (beta factor). The beta factor for this is derived from a group of comparable companies. When determining the value in use, discount rates before taxes are taken as a basis for each cash-generating unit.

- Discount rates before taxes 12.6 % (previous year: 12.7 %)
- Risk-free interest rate: 2.76 % (previous year: 2.14 %)
- Risk premium: 6.5 % (previous year: 6.5 %)
- Beta factor (weighted average of a group of comparable companies): 1.64 % (previous year: 1.35 %)

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 before 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 that are not classified as at fair value through profit or loss are initially measured at their fair value plus transaction costs. Financial assets belonging to this category are initially measured at their fair value; associated transaction costs are recognized in profit or loss. For subsequent measurement, financial assets are allocated to one of the following categories: "held to maturity," "available for sale" and "loans and receivables." The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets upon initial recognition. The following applies to subsequent measurement:

Financial assets are derecognized when the rights to the cash flows from the financial assets have expired or were transferred and the Group has transferred substantially all of the risks and rewards of ownership. Loans and receivables are carried at amortized cost using the effective interest method.

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 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
Other borrowings	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 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 and a discount rate derived from the yield of high-quality corporate bonds with matching maturities. 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.

Upon initial recognition, general and specific financial liabilities are measured at fair value after deduction of transaction costs. They are subsequently measured at amortized cost. Any difference between the disbursement amount (after deduction of transaction costs) and the repayment amount is amortized over the term of the loan using the effective interest method.

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 their repayment amount.

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, 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.

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.

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.

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

	USD / EUR		RON / EUR	
	2013	2012	2013	2012
Closing rate (Dec. 31)	1.38	1.32	4.47	4.45
Average exchange rate	1.37	1.30	4.46	4.46

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 (now: Softing Messen und Testen GmbH) as of July 1, 2005. The goodwill of Softing Messen und Testen 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). This company was merged into Softing Industrial Automation GmbH effective January 1, 2013. The entities' goodwill was tested for impairment pursuant to IAS 36. The recoverable amount of the CGUs was determined based on a calculation of the entities' value in use. The impairment test did not result in any need to write down the goodwill.

A change in the interest rate by 100 basis points would not lead to a write-down of goodwill, neither would a decrease in the planned gross 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. 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 3,086 thsd. (previous year: EUR 2,365 thsd.).

In the 2013 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 81 thsd. (previous year: EUR 0 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 table below, which contains the changes in intangible assets and property, plant and equipment. No impairment losses were recognized in addition to depreciation.

5. LEASES

The other operating expenses contain lease expenses for buildings, office equipment and cars of EUR 1,137 thsd. (previous year: EUR 1,110 thsd.).

Changes in Intangible Assets and Property, Plant and Equipment

in the 2013 Financial Year

		Cost					
		Jan. 1, 2013	Acquisitions from business combinations	Additions	Currency differences	Disposals	Dec. 31, 2013
		EUR	EUR	EUR	EUR	EUR	EUR
I.	Intangible assets						
	1. Goodwill	2,734,952	0	0	0	0	2,734,952
	2. Development costs	53,530,219	0	4,381,563	0	0	57,911,782
	3. Other intangible assets	5,273,700	0	235,683	-624	55,985	5,452,774
		61,538,871	**0**	**4,617,245**	**-624**	**55,985**	**66,099,507**
II.	Property, plant and equipment						
	Other equipment, furniture and fixtures and office equipment	6,345,468	0	517,392	-3,715	285,584	6,573,562
		67,884,339	0	5,134,638	-4,339	341,570 ►	72,673,069

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, 2013	Acquisitions from business combinations	Currency differences	Depreciation, amortization and impairment losses in the financial year	Disposals	Dec. 31, 2013	Dec. 31, 2013	Dec. 31, 2012
EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
296,000	0	0	0	0	296,000	2,438,952	2,438,952
48,741,533	0	0	2,348,518	0	51,090,051	6,821,731	4,788,686
4,719,150	0	–320	319,624	53,365	4,985,088	467,686	554,551
53,756,683	**0**	**–320**	**2,668,142**	**53,365**	**56,371,139**	**9,728,369**	**7,782,188**
4,965,272	**0**	**–2,052**	**491,474**	**247,296**	**5,207,398**	**1,366,164**	**1,380,196**
58,721,955	**0**	**–2,372**	**3,159,616**	**300,662** ►	**61,578,537**	**11,094,532**	**9,162,384**

	Accumulated depreciation/amortization					Carrying amounts	
Jan. 1, 2012	Acquisitions from business combinations	Currency differences	Depreciation, amortization and impairment losses 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**

6. INVENTORIES

	Dec. 31, 2013 EUR (in thsds.)	Dec. 31, 2012 EUR (in thsds.)
Raw materials and consumables	872	599
Finished goods	3,788	2,746
Inventories	**4,660**	**3,345**

A valuation allowance of EUR 301 thsd. (previous year: 309 thsd.) was recognized on inventories in 2013. As in the previous year, no reversals of impairment losses were recognized in profit or loss.

The purchased inventories are subject to reservation of title until the purchase price receivable has been settled.

7. TRADE RECEIVABLES

	Dec. 31, 2013 EUR (in thsds.)	Dec. 31, 2012 EUR (in thsds.)
Trade receivables	8,675	8,706
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, 2013						
Trade receivables	8,675	7,779	350	428	53	65
Receivables from customer-specific construction contracts	1,354	1,354	0	0	0	0
Other financial receivables	167	167	0	0	0	0
	10,196	**9,300**	**350**	**428**	**53**	**65**
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
	10,886	**10,083**	**380**	**433**	**-28**	**18**

The maximum counterparty credit risk corresponds to the receivables' carrying amount.

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.)
2013	38	0	9	21	50
2012	102	9	57	2	38

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

8. RECEIVABLES AND PAYABLES FROM CUSTOMER-SPECIFIC CONSTRUCTION CONTRACTS

	Dec. 31, 2013 EUR (in thsds.)	Dec. 31, 2012 EUR (in thsds.)
Total construction work in progress	3,968	3,179
Less: Advances received	-2,790	-2,320
Net amount	1,178	859
Of which reported under:		
Receivables from customer-specific construction contracts	1,354	1,142
Payables from customer-specific construction contracts	-176	-283

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 4,533 thsd. (previous year: EUR 3,361 thsd.) and a result of EUR -565 thsd. (previous year: EUR -183 thsd.).

9. OTHER FINANCIAL RECEIVABLES

	Dec. 31, 2013 EUR (in thsds.)	Dec. 31, 2012 EUR (in thsds.)
Receivables from employees	35	40
Other receivables	132	998
	167	1,038
Non-current receivables	0	695
	167	1,733

In 2012, the non-current receivables concerned an interest-bearing loan that was granted to a member of the Company's Executive Board and was collateralized through securities.

10. OTHER ASSETS

	Dec. 31, 2013 EUR (in thsds.)	Dec. 31, 2012 EUR (in thsds.)
Accruals	721	542
Other	4	4
	725	546

11. CURRENT INCOME TAX ASSETS

The current income tax assets concern corporation tax receivables amounting to EUR 103 thsd. (previous year: EUR 63 thsd.).

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

	Dec. 31, 2013 EUR (in thsds.)	Dec. 31, 2012 EUR (in thsds.)
Securities classified as current assets	833	1,064
Cash and cash equivalents	12,116	11,516
	12,949	12,580

Securities 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 counterparty credit 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 6,443 thsd.). It is divided into 6,442,512 (previous year: 6,442,512) no-par-value bearer shares. An average of 6,274,538 shares were outstanding in the reporting year.

In 2013, 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, 2013, and December 31, 2012.

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 65 % (previous year: 59 %).

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 8, 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, 2013, 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.

Contingent Capital

The share capital is increased 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 (Contingent Capital 2013). The contingent capital increase will serve the granting of option rights or obligations to the holders of warrants arising from bonds with warrants under the terms of the respective options or the granting of conversion rights or obligations to the holders of convertible bonds under the terms of the respective convertible bonds issued by the Company up to May 6, 2018 in accordance with the resolution of the General Shareholders' Meeting on May 7, 2013. The new shares will be issued at the respective option or conversion price to be determined in accordance with the above-mentioned authorization resolution. The contingent capital increase will be implemented only in the event that bonds with warrants or convertible bonds are issued and only to the extent that the holders of the bonds with warrants or the convertible bonds make use of their option or conversion right or the holders of bonds obligated to convert or to exercise the option fulfill this obligation and the contingent capital is needed in accordance with the terms and conditions of the bond with warrants or the convertible bond. The new shares issued on the basis of the exercise of the option or conversion right or the fulfillment of the conversion or option obligation have a share in the profit from the beginning of the financial year in which they arise. The Executive Board is authorized, with the approval of the Supervisory Board, to stipulate the further details of the implementation of the contingent capital increase. Said authority was not exercised to date.

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.

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

Retained earnings also 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.

The classification and the allocation of retained earnings in the statement of changes in equity were adjusted retrospectively. This has resulted in more clarity and an improved presentation.

Non-controlling Interests

The non-controlling interests in the amount of EUR –27 thsd. (previous year: EUR –3 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 or sold treasury shares as follows:

Date of purchase or sale	Number	Price per share (EUR)	Price EUR (in thsds.)
November 14, 2007	5,000	3.2000	16
December 17, 2007	100,000	2.9837	298
	105,000		**314**
January 2, 2008	50,000	3.08000	154
May 21, 2008	76,700	2.74815	211
September 10, 2008	34,723	2.63263	91
September 16, 2008	20,000	2.68000	53
October 10, 2008	65,000	2.39300	156
November 6, 2008	22,300	2.22300	50
December 22, 2008	27,329	2.03650	56
	296,052		**771**
February 19, 2009	25,500	1.92192	49
March 16, 2009	125,000	2.05	256
April 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
April 12, 2013	-193,250	2.51	-485
December 31, 2013	**114,352**	▸	**287**

The sale of treasury shares resulted in a profit of EUR 825 thousand in 2013, which is shown in retained earnings. The market price of the treasury shares was EUR 1,637 thsd. as of the balance sheet date, which is EUR 1,350 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 life-long 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 2,558 thsd. (previous year: EUR 2,456 thsd.) was offset against pension provisions.

Actuarial gains and losses were recognized immediately in retained earnings in accordance with IAS 19.120. The cumulative gains and losses reported in this item were EUR –1,054 thsd. as of December 31, 2013 (previous year: EUR –1,280 thsd.).

The pensions under variable commitments increase or decrease in line with the change in the Consumer Price Index for Germany (2010=100); It rose from 103.9 points to 105.6 points on average between 2012 and 2013.

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

Basis of calculation	Dec. 31, 2013 %	Dec. 31, 2012 %
Assumed interest rate	3.25	3.00
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	2013 EUR (in thsds.)	2012 EUR (in thsds.)
DBO as of January 1	4,206	3,307
Service cost	94	65
Interest expense	124	146
Pension payments to pensioners	–136	–121
Expected DBO as of December 31 ▸	**4,288**	**3,397**
Actual DBO as of December 31	4,063	4,206
Loss / (–) gain, of which	–226	810
Effects from adjusting financial assumptions	–160	–30
Experience assumptions	–66	840

The average remaining life of the obligation is 15 years.

Calculation of annual income and annual expense	2013 EUR (in thsds.)	2012 EUR (in thsds.)
Interest income	74	51
Interest expense	124	146
Service cost	94	65
Annual expense ▸	**218**	**211**

Development of plan assets	2013 EUR (in thsds.)	2012 EUR (in thsds.)
Plan assets as of January 1	2,456	2,285
Payment from plan assets	-76	-73
Payments into plan assets	107	107
Interest earned from plan assets	74	73
Adjustment of plan assets	-3	64
DBO as of December 31 ▸	**2,558**	**2,456**

The effects from the net interest approach are not material.

Only reinsurance policies are taken out to hedge obligations arising from pensions. Each of these policies relates directly to the underlying pension commitment. The expected contributions to plan assets amount to EUR 107 thousand in 2014.

Reconciliation with the balance sheet	Dec. 31, 2013 EUR (in thsds.)	Dec. 31, 2012 EUR (in thsds.)
Present value of the defined benefit obligations (DBO)	4,063	4,206
Fair value of the external plan assets	-2,558	-2,456
Provision ▸	**1,504**	**1,750**

Development of the provision	2013 EUR (in thsds.)	2012 EUR (in thsds.)
Provision as of January 1	1,750	1,022
Service cost	94	65
Net interest expense/income	50	73
Actuarial (-)gains and (+)losses	-226	810
Payments made	-60	-48
Payments into plan assets	-107	-107
Adjustment of plan assets	3	-65
Provision on December 31 ▸	**1,504**	**1,750**

The sensitivity of the overall pension obligation to changes in the weighted main assumptions is:

		Effect on the obligation	
	Change in the assumption	Increase in the assumption	Decrease in the assumption
Discount rate	0.25 %	-3.7 %	3.9 %
Future salary increases	0 %		
Future pension increases	0.25 %	2.0 %	-1.9 %

The sensitivities were determined by changing one parameter while leaving all other parameters unchanged.

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, 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
December 31, 2013	4,063	2,558

Pension payments of EUR 167 thsd. (previous year: EUR 133 thsd.) and interest income of EUR 77 thsd. (previous year: EUR 75 thsd.) are expected for the 2014 financial year.

15. OTHER FINANCIAL LIABILITIES (NON-CURRENT)

Loan liabilities to a non-controlling shareholder are reported under non-current financial liabilities. The liabilities are reported under non-current financial liabilities because the loan will not be repaid within 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, 2013 EUR (in thsds.)	Use EUR (in thsds.)	Reversal EUR (in thsds.)	Addition EUR (in thsds.)	As of Dec. 31, 2013 EUR (in thsds.)
Operational provisions	233	0	72	17	178
Contingent loss	64	55	9	32	32
	297	55	81	49	210

The operational provisions comprise provisions for guarantee obligations which were calculated based on historical values.

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 amounting to EUR 195 thsd. (previous year: EUR 368 thousand) concern overdrafts with banks subject to interest rates between 2.5 % and 5.1 %.

19. OTHER FINANCIAL LIABILITIES (CURRENT)

	Dec. 31, 2013 EUR (in thsds.)	Dec. 31, 2012 EUR (in thsds.)
Liabilities related to social security	66	68
Wages and salaries payable	2,842	2,895
Deferred income	1,598	2,741
Other	746	570
	5,252	6,274

The designation of this item was changed retrospectively from "other financial liabilities" to "other non-financial liabilities".

20. TAX LIABILITIES

In the financial year just ended, liabilities of EUR 586 thsd. (previous year: EUR 925 thsd.) were recognized for expected tax payments.

21. OTHER LIABILITIES

	Dec. 31, 2013 EUR (in thsds.)	Dec. 31, 2012 EUR (in thsds.)
Other tax liabilities	1,594	1,447

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

D. NOTES TO THE CONSOLIDATED INCOME STATEMENT

1. REVENUE

Revenue by regions:	2013 EUR (in thsds.)	2012 EUR (in thsds.)
Germany	31,295	29,493
Abroad	21,255	19,895
	52,550	**49,388**

Revenue by products and services:	2013 EUR (in thsds.)	2012 EUR (in thsds.)
Products	42,336	41,241
Services	10,214	8,147
	52,550	**49,388**

Revenue includes EUR 3,968 thousand from long-term construction contracts reported using the percentage of completion method. Here, the Group estimates the proportion of the total of services to be provided that have already been performed by the reporting date.

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. These are reduced by revenue from subsidized projects.

3. OTHER INCOME

The other operating income comprises the following items:	2013 EUR (in thsds.)	2012 EUR (in thsds.)
Reversal of provisions	81	104
Other income not related to the accounting period	0	122
	81	**226**
Income from exchange differences	64	117
Revenue from the provision of automobiles	203	216
Change in warranties	55	0
Revenue from subsidized projects	84	159
Revenue from the reduction of specific valuation allowances	9	57
Insurance compensation payment	22	0
Sales commission	88	78
Other income	87	73
	612	**700**
►	**693**	**926**

4. COST OF MATERIALS

	2013 EUR (in thsds.)	2012 EUR (in thsds.)
Purchase of components and products	14,126	14,121
Third-party services	1,056	765
	15,182	**14,886**

5. EMPLOYEES

	2013 EUR (in thsds.)	2012 EUR (in thsds.)
Current salaries	19,006	17,037
Social security and retirement benefit costs	3,647	3,305
Profit-sharing, royalties	2,861	2,955
Use of company cars by employees	205	196
Temporary workers	95	77
Other	19	11
	25,833	**23,581**

The statutory pension scheme in Germany is treated as a defined contribution scheme. Expenses recognized for the statutory pension scheme total EUR 1,407 thsd. (previous year: EUR 1,205 thsd.).

6. DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES

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, no impairment losses or reversals of impairment losses were recognized.

7. OTHER EXPENSES

The other operating expenses are as follows:	2013 EUR (in thsds.)	2012 EUR (in thsds.)
Operating expenses	2,738	2,728
Distribution costs	1,691	1,720
Administrative expenses	1,061	997
Expenses resulting from exchange differences	188	134
Leasing costs	1,137	1,110
Expenses unrelated to the accounting period	15	66
	6,830	**6,755**

8. FINANCE INCOME / FINANCE COSTS

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

Finance costs are composed of the following items:	2013 EUR (in thsds.)	2012 EUR (in thsds.)
Interest from unwinding of discounts on provisions	124	146
Other interest	81	99
	205	**245**

Finance income is composed of the following items:	2013 EUR (in thsds.)	2012 EUR (in thsds.)
Interest income from pension provisions	74	51
Interest income from corporate bonds	34	122
Interest income from taxes	0	4
Interest income from loans of financial assets	20	36
Other interest	26	38
	154	**251**

9. TAX EXPENSE

The income tax expense breaks down as follows:	2013 EUR (in thsds.)	2012 EUR (in thsds.)
Deferred taxes on temporary differences	615	522
Deferred taxes on tax loss carryforwards	0	211
	615	**733**
Tax expense financial year	1,245	719
Tax income from previous years	0	-23
Tax expense	1,245	696
►	**1,860**	**1,429**
Effective tax rate	29.82 %	28.98 %

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:

	2013 %	2012 %
Corporation tax including solidarity surcharge	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 29.20 % and the tax rate for SoftingROM s.r.l. was 16.0 %. The tax rates for the other European entities are 25.0 % for Buxbaum Automation GmbH / Austria and 35.90 % for Softing Italy s.r.l. / Italy (previous year: 31.4 %).

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 Company has tax loss carryforwards of EUR 0 thsd. (previous year: EUR 226 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, 2013	Dec. 31, 2012	Usable until
Buxbaum Automation GmbH, loss carryforward	227	226	Unlimited

No deferred tax assets were recognized on tax loss carryforwards in the reporting year. 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.

	2013 EUR (in thsds.)	2012 EUR (in thsds.)
Earnings before taxes	6,153	4,928
Anticipated tax expense (28.08 %)	1,727	1,384
Tax additions and deductions	41	86
Different tax rates	30	6
Non-recognition of deferred taxes (loss carryforwards)	19	0
Taxes, previous years	0	–23
Other	43	–24
Tax expense disclosed in the income statement	**1,860**	**1,429**

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

Deferred tax assets	Dec. 31, 2013 EUR (in thsds.)	Dec. 31, 2012 EUR (in thsds.)
Intangible assets	11	17
Pension provision	403	472
(Of which recognized directly in equity)	(295)	(330)
Trade receivables	32	2
Other provisions	9	18
Current assets	26	30
Deferred income	28	32
Future tax benefits from loss carryforwards	0	53
	509	**624**

Deferred tax liabilities	Dec. 31, 2013 EUR (in thsds.)	Dec. 31, 2012 EUR (in thsds.)
Intangible assets	1,935	1,364
Trade receivables	235	218
Other assets	12	7
	2,182	**1,589**

No deferred taxes were recognized on EUR 5,512 thsd. (previous year: EUR 3,182 thsd.) in temporary differences related to investments in subsidiaries.

EUR 67 thousand (previous year: EUR 50 thousand) of the deferred tax assets and EUR 247 thousand (previous year: EUR 225 thousand) of the deferred tax liabilities are classified as current.

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	
	2013 EUR (in thsds.)	2012 EUR (in thsds.)	2013 EUR (in thsds.)	2012 EUR (in thsds.)	2013 EUR (in thsds.)	2012 EUR (in thsds.)	2013 EUR (in thsds.)	2012 EUR (in thsds.)
External sales	26,486	26,345	26,064	23,043	–	–	52,550	49,388
Depreciation/amortization	1,862	2,020	1,072	1,137	225	184	3,159	3,341
Segment result (EBIT)	2,273	2,436	3,932	2,487	–	–	6,205	4,923
Segment assets	13,702	13,080	13,349	12,962	13,188	11,858	40,238	37,900
Segment liabilities	4,847	4,696	4,791	6,035	4,469	4,979	14,107	15,710
Capital expenditure	3,025	2,163	1,842	2,165	268	319	5,135	4,647

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, Ethernet 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

		2013	2012
Consolidated profit	EUR (in thsds.)	4,293	3,498
Minority interest	EUR (in thsds.)	-24	-13
Basic earnings (= diluted earnings)	**EUR (in thsds.)**	**4,317**	**3,511**
Weighted average number of shares			
Basic	Number	6,274,538	5,931,927
Potential stock options	Number	0	0
Diluted	Number	6,274,538	5,931,927
Basic earnings per share	EUR	0.69	0.59
Diluted earnings per share	EUR	0.69	0.59

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, 2013, 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.

In 2007, one member of the Executive Board was granted a loan at interest of 4.1 % (until December 31, 2010: 3.0 %). The amount outstanding as of the end of the financial year was EUR 0 thousand (previous year: EUR 695 thousand). The interest accrued thereunder in 2013 was EUR 20 thsd. (previous year: EUR 36 thsd.).The loan was repaid in full in 2013.

The Chairman of the Company's Executive Board, Dr. Wolfgang Trier, held 84,085 shares in Softing AG as of December 31, 2013 (previous year: 26,063).

The Supervisory Board member, Dr. Fuchs, held 273,886 shares in Softing AG as of December 31, 2013 (previous year: 273,886).

The Supervisory Board member, Andreas Kratzer, held 9,976 shares in Softing AG as of December 31, 2013 (previous year: 0).

One Supervisory Board member rendered tax consulting and accounting services for Samtec GmbH. Expenses in the amount of EUR 0 thsd. (previous year: EUR 16 thsd.) were incurred for this.

Transactions with related parties are carried out at market terms.

6. CONTINGENT LIABILITIES

As of the balance sheet date, Softing AG has provided EUR 150 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 5,436 thsd. under long-term contracts (previous year: EUR 4,122 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:

	2013 EUR (in thsds.)	2012 EUR (in thsds.)
< 1 year	743	871
1 – 5 years	1,692	2,072
> 5 years	801	1,163
Total	**3,236**	**4,106**

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 almost 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, 2013, for which IFRS 7 is not applicable.

	Carrying amount Dec. 31, 2013	Amortized cost	Fair value recognized in equity	Fair value Dec. 31, 2013
Current financial assets				
Trade receivables	8,675	8,675		8,675
Receivables from customer-specific construction contracts	1,354	1,354		1,354
Other current financial assets				
Other financial receivables	167	167		167
Securities classified as current assets	833		833	833
Cash and cash equivalents	12,116	12,116		12,116
Non-current financial liabilities				
Other financial liabilities	50	50		50
Current financial liabilities				
Trade payables	2,357	2,357		2,357
Other borrowings	195	195		195

	Carrying amount Dec. 31, 2012	Amortized cost	Fair value recognized in equity	Fair value Dec. 31, 2012
Non-current financial assets				
Other financial receivables	695	695		695
Current financial assets				
Trade receivables	8,706	8,706		8,706
Receivables from customer-specific construction contracts	1,142	1,142		1,142
Other current financial assets				
Financial receivables	1,038	1,038		1,038
Securities classified as current assets	1,064		1,064	1,064
Cash and cash equivalents	11,516	11,516		11,516
Non-current financial liabilities				
Other financial liabilities	108	108		108
Current financial liabilities				
Trade payables	2,667	2,667		2,667
Other borrowings	368	368		368

For information on the measurement categories of financial instruments, please refer to the list of classes of financial instruments in B.9.

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.

Financial assets and financial liabilities measured at fair value are allocated to the following levels of the fair value hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs).
- Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly (Level 2 inputs).
- Unobservable inputs for the asset or liability (Level 3 inputs).

As in the previous year, the current securities from the available-for-sale current financial assets category were assigned to Level 1 inputs.

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; counterparty credit 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.

Counterparty Credit Risks

Softing is exposed to counterparty credit 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, 2012, and December 31, 2013, there was no material counterparty credit risk. While the Executive Board therefore believes the risk of non-fulfillment on the part of its contractual partners to be very low, it cannot completely exclude the risk in the final analysis.

Counterparty credit risks primarily concern trade receivables. Valuation allowances are recognized to allow for any discernable counterparty credit risks in connection with individual financial assets. Valuation allowances as of December 31, 2013, totaled EUR 50 thsd. (previous year: EUR 38 thsd).

Regardless of any existing collateral, the carrying amount of financial assets equals the maximum counterparty credit 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. Bank balances totaling EUR 12,116 thsd. (previous year: EUR 11,516 thsd.) and securities totaling EUR 833 thsd. (previous year: EUR 1,064 thsd.) bear interest of 0.05 % to 0.80 % (previous year: 0.1 % to 1.25 %) and 3.0 % to 9.0 % (previous year: 0.090 % to 9.5 %), respectively. No material interest rate risks result from subsidiaries' liabilities to banks in the amount of EUR 195 thsd. (previous year: EUR 368 thsd.).

An increase of the market interest rate by 50 basis points would have an impact of EUR 1 thsd. (previous year: EUR 2 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. 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 12,116 thsd. (previous year: EUR 11,516 thsd.), accounting for 30.1 % (previous year: 30.4 %) of the Group's total assets. Securities classified as current assets account for 2.1 % (previous year: 2.8 %) of the Group's total assets.

The following table shows the financial liabilities of the Group by maturity classes based on the remaining life as of the reporting date and based on the contractually agreed maturity. The amounts shown in the table are not discounted cash flows.

Dec. 31, 2013	Up to 1 year	2-5 years	More than 5 years
Non-current financial liabilities			
Other financial liabilities		50	
Current financial liabilities			
Trade payables	2,357		
Other borrowings	202		

Dec. 31, 2012	Up to 1 year	2-5 years	More than 5 years
Non-current financial liabilities			
Other financial liabilities		108	
Current financial liabilities			
Trade payables	2,667		
Other borrowings	382		

10. PERSONNEL

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

	2013	2012
As of the balance sheet date	348	316
Annual average	337	296

11. EXECUTIVE BOARD

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

Dr.-Ing. Dr. rer. oec. Wolfgang Trier, Munich, Germany, Chairman
Mr. Maximilian Prinz zu Hohenlohe-Waldenburg, Pfaffenhofen Finance and Human Resources

Compensation of the Executive Board amounted to EUR 2,602 thsd. (previous year: EUR 2,385 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 9, 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. Furthermore, service cost of EUR 94 thsd. (previous year: EUR 65 thsd.) was recognized.

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

In 2007, one member of the Executive Board was granted a loan at interest of 4.1 %. The interest accrued thereunder in 2013 was EUR 20 thsd. (previous year: EUR 36 thsd.). The loan was repaid in 2013. In the previous year, the loan amounted to EUR 695 thousand.

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 1.61 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 of the Executive Board as of December 31, 2013 totaled EUR 3,025 thsd. (previous year: EUR 3,219 thsd.). The total compensation of former members of the Executive Board amounted to EUR 136 thsd. (previous year: EUR 121 thsd.).

12. SUPERVISORY BOARD

The following persons were members of the Supervisory Board of Softing AG in the 2013 financial year:

Dr. Horst Schiessl, attorney at law, Munich, Germany (chairman)
Michael Wilhelm, certified public accountant / tax advisor, Munich, Germany (deputy chairman) left the Supervisory Board as of May 7, 2013
Dr. Klaus Fuchs, graduate computer scientist and graduate engineer, Helfant, Germany from May 7, 2013 (deputy chairman)
Andreas Kratzer, certified public accountant, Zurich, Switzerland from May 7, 2013

Dr. Schiessl is also a member of the supervisory board and advisory board of the following companies:
Baader Bank AG, Unterschleißheim (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)
Mittelstandswerk Deutschland AG (chairman)

Dr. Fuchs hold one office on other supervisory boards, specifically at ELUMIX AG, Augsburg.

Mr. Andreas Kratzer is also a member of the Board of Directors of:
Cresta Hotel Holding, Zug, Switzerland (Board of Directors)
Accu Holding AG, Emmen, Switzerland (Board of Directors)
1C Commercial Real Estate AG, Zug, Switzerland (Board of Directors)
RCT Hydraulic-Tooling AG, Klus, Switzerland (Board of Directors)
SIAT-Swiss Investment & Trade Group AG, Buchs, Switzerland (Board of Directors)
Lysys AG Baar, Switzerland (Board of Directors)
Immoselect AG, Baar, Switzerland (Board of Directors)

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 variable 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 175 thsd. (previous year: EUR 157 thsd.) and is comprised as follows:

	Fixed		Variable		Total	
	2013	2012	2013	2012	2013	2012
Dr. Horst Schiessl (chairman)	20	20	58	50	78	70
Michael Wilhelm (deputy chairman)	5	15	15	37	20	52
Dr. Klaus Fuchs	13	10	38	25	51	35
Andreas Kratzer	7	0	19	0	26	0

13. AUDITOR'S FEES

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

	2013 EUR (in thsds.)	2012 EUR (in thsds.)
Audit of annual financial statements	116	60
Other services	27	0
	143	**60**

14. EVENTS AFTER THE REPORTING PERIOD

Effective as of January 1, 2014, Softing AG acquired all interests in Psiber Data GmbH ("Psiber"), headquartered in Krailling near Munich, from the shareholders of Psiber.

Psiber is a provider of devices for the diagnosis of Ethernet cables, which are used in industrial automation, office installations, and data centers.

By acquiring Psiber, Softing will close the strategic gap in mobile devices for diagnosis of Ethernet networks in the automation industry and also enter the market for the diagnosis of copper and optical fiber networks for data centers and office installations.

The purchase price for the equity interests has a fixed and a variable component. It is expected that the entire purchase price (fixed and variable components) will be between EUR 3.0 million and EUR 9.05 million and be settled entirely from existing cash funds. It is not possible to provide additional information at the current time because the measurement of the assets and liabilities acquired by the Group has not yet been finalized and the amount of the final purchase price is still the subject of ongoing negotiations with the shareholders of Psiber.

15. 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 10, 2014

Softing AG

The Executive Board

Dr. Wolfgang Trier

Maximilian Prinz zu Hohenlohe-Waldenburg

Auditors' Opinion

We have audited the consolidated financial statements – comprising the consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated cash flow statement and the consolidated notes – as well as the Group management report of Softing AG, which has been combined with the Company's management report, for the financial year from January 1 to December 31, 2013. The preparation of the consolidated financial statements and the combined management report in accordance with IFRSs 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 combined 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 combined 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 the consolidated financial statements, the determination of the companies to be included in the consolidated financial statements, 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 combined 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 combined management report is consistent with the consolidated financial statements, as a whole provides a suitable understanding of the Group's position and suitably presents the opportunities and risks of future development.

Munich, Germany, March 11, 2014

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Stefano Mulas
Wirtschaftsprüfer

ppa. Peter Breitbeck
Wirtschaftsprüfer

Report of the Supervisory Board

for the 2013 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 2013. 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 6 Supervisory Board meetings were held in the 2013 financial year: on March 12, 2013, May 7, 2013, July 25, 2013, October 24, 2013, December 12, 2013 (conference call) and December 19, 2013.

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.

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

Main Focus of the Meetings

At the Supervisory Board meeting on March 12, 2013, following a presentation by the auditor of the Company's annual financial statements the Supervisory Board dealt with the Company's performance in the 2012 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 2013. A key item on the agenda at the Supervisory Board meeting was the adoption of the annual financial statements and the approval of the consolidated financial statements, both as of December 31, 2012, after the auditor had reported on the completed audit and extensively answered questions by the Supervisory Board. 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.

At the Supervisory Board meeting on May 7, 2013, which was held directly after the General Shareholders' Meeting, the new or partially re-elected Supervisory Board held its constituent meeting. The Executive Board was then called in. There was a recapitulation of the General Shareholders' Meeting and a report of the Executive Board on the status and outlook of operations. In this context, product developments and business opportunities were discussed in detail.

The Supervisory Board meeting on July 25, 2013, dealt with a detailed presentation on the Group's business in the year's first half. Options for non-organic growth were also discussed at length. These focused on the evaluation of candidates for acquisition in terms of their strategic importance for the Group.

At the Supervisory Board meeting on October 24, 2013, the Executive Board presented data and background information on the business figures for the first three quarters. In addition, an update on the negotiations on selected candidates for acquisition was presented and decisions on further action were made.

At the Supervisory Board meeting on December 12, 2013, which was held as a conference call, the Supervisory Board consulted on the Executive Board's decision to buy Psiber Data GmbH. After careful consideration of opportunities and risks, the purchase of this company was approved and the Executive Board was commissioned to close the deal.

An initial assessment of the annual results was presented by the Executive Board at the Supervisory Board meeting on December 19, 2013. The Executive Board presented both its business plan for 2014 and its multi-year planning. Both plans were reviewed and subsequently adopted at this Supervisory Board meeting.

The Supervisory Board then 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 review of the compensation system for the Executive Board. Based on expert opinions and a comparison with other companies, the Supervisory Board came to the unanimous conclusion that the Executive Board's compensation is commensurate with the situation at Softing and therefore adequate.

All members of the Supervisory Board attended all Supervisory Board meetings in 2013. 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 is assured.

Composition of the Supervisory Board and the Executive Board

There were personnel changes on the Supervisory Board in the 2013 financial year.
Mr. Andreas Kratzer left the Supervisory Board effective May 7, 2013. Dr. Klaus Fuchs was elected to the Supervisory Board for his first full term of office at the General Shareholders' Meeting on May 7, 2013. Dr. Horst Schiessl and Mr. Andreas Kratzer were reconfirmed for another full term of office on the Supervisory Board by the General Shareholders' Meeting on May 7, 2013. There no changes on the Executive Board.

Again, no committees were established in 2013.

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, 2013, 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 18, 2014, 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 2013 at its meeting on March 18, 2014. 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 efforts and their work in the past financial year. In 2013, they once again generated growth in excess of the industry average and an outstanding result.

Haar, Germany, March 18, 2014

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 2013 financial year, taking into account the exceptions and comments listed below. The Executive Board and Supervisory Board issued the Declaration of Compliance in December 2013. 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 13, 2013, 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. **No consideration was given to the relationship between the compensation of senior management and the staff overall, when determining the compensation for the Executive Board (Section 4.2.2 para 2 sent. 3 of the Code)**
Since its amendment on May 13, 2013, the Code has included the recommendation that the Supervisory Board shall consider the relationship between the compensation of the Management Board and that of senior management and the relevant staff overall, particularly in terms of its development over time. When the current director's contracts of the Executive Board members were concluded, the Supervisory Board ensured – in compliance with the requirements of the German Stock Corporation Act – that the overall compensation appropriately reflects the tasks and performance of the respective Executive Board member and does not exceed what is a customary level of compensation. Using the customary calculation method, the determination of the Executive Board's compensation was oriented on the Company's scope of business, its economic and financial position and the structure of the Executive Board compensation in place at comparable companies. Furthermore, consideration was given to the individual tasks and scope of responsibilities of the respective Executive Board member. To the extent that the Code, as amended, specifies reviewing the vertical appropriateness of Executive Board compensation, which is required by the German Stock Corporation Act, and provides a more detailed definition of both the peer groups relevant for comparison and the time period to which such a comparison applies, the Company as a precaution declares that it deviates from the Code. When reviewing vertical appropriateness, the Supervisory Board did not distinguish between the

peer groups of the Code recommendation and did not collect any data regarding the development over time of the wage and salary structure, either. However, when amending or preparing a director's contract in the future, the Supervisory Board intends to review the vertical appropriateness of the Management Board compensation based on the substantive and time-related criteria required pursuant to the new Code recommendation. The Management Board and the Supervisory Board also believe that this new item 4.2.2 para 2 and sentence 3 is still being discussed controversially both in practice and in the legal literature. This is also a reason why we declare – for highly precautionary reasons – that we deviate from the Code.

d. 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.

e. 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, among others 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.

f. 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.

g. 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.

h. 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 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 con-

sequence, the recommendations in Section 5.4.1 para 3 based on this can also not be followed.

i. 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.

j. 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.

k. 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.

l. 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 2012, Softing AG has generally been in compliance with the recommendations contained in the German Corporate Governance Code as amended on May 13, 2013. The Company has not observed the following recommendations: Section 3.8 para 3; Section 3.10 sentence 3; Section 4.2.2 para 2 sentence 3; Section 4.2.3 paras 4 and 5; Section 5.1.2 para 1 sentence 2; Section 5.3.1; Section 5.3.2; Section 5.3.3; Section 5.1.2 para 2 sentence 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 2013 financial year is presented on page 78 of the 2013 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, 2013 Number	Dec. 31, 2013 Number	Sep. 30, 2013 Number	Dec. 31, 2013 Number
Supervisory Board				
Dr. Horst Schiessl (chairman), attorney at law, Munich	–	–	–	–
Michael Wilhelm (deputy chairman) certified public accountant/tax advisor, Munich	–	–	–	–
Dr. Klaus Fuchs (member), graduate computer scientist and graduate engineer, Helfand	273,886	273,886	–	–
Andreas Kratzer, certified public accountant, Switzerland, member since May 7, 2013	9,976	9,976	–	–
Executive Board				
Dr.-Ing. Dr. rer. oec. Wolfgang Trier, Munich	84,085	84,085	–	–
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 28, 2014	Annual Report 2013
May 7, 2013	General Shareholders' Meeting in Munich
May 14, 2013	Quarterly Financial Report 1/2014
August 14, 2013	Quarterly Financial Report 2/2014
November 14, 2013	Quarterly Financial Report 3/2014

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