2014

Annual Report

- Revenue up more than 40 % to EUR 74.5 million
- Acquisitions make a strong contribution
- Solid starting position for 2015

softing

Consolidated Key Figures

		2014	2013	2012	2011	2010
Revenue	(EUR million)	74.53	52.55	49.39	41.15	31.67
EBITDA	(EUR million)	10.10	9.37	8.26	7.38	4.85
EBIT	(EUR million)	5.89	6.21	4.92	4.25	1.53
Consolidated profit	(EUR million)	3.80	4.29	3.50	3.05	0.99
Non-current assets	(EUR million)	44.52	11.60	10.48	9.47	9.98
Current assets	(EUR million)	32.45	28.63	27.42	21.49	16.27
Equity	(EUR million)	36.99	26.13	22.19	17.20	14.96
Cash and cash equivalents	(EUR million)	8.75	12.12	11.52	7.30	4.27
Number of employees (annual average)		411	337	296	258	224
Earnings per share	(EUR)	0.58	0.69	0.59	0.58	0.19

Title photo: Acceptance testing of Ethernet cabling in offices, data centers or industrial environments requires a "cable certifier." Only by using such a tool can the network operator ensure the installed network cabling matches the technical performance data guaranteed by the manufacturer. The WireXpert instrument from our subsidiary Psiber Data GmbH is the first cable certifier that enables the certification of cabling systems with transmission speeds of up to 40 Gbit/s (CAT 8).

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DEAR SHAREHOLDERS, EMPLOYEES, PARTNERS AND FRIENDS OF SOFTING,

Driven by the acquisitions made in the first half of the year and the strong business of the existing companies, Softing's performance took a huge step forward 2014. We finished the full year with record revenue of EUR 74.5 million, representing a year-on-year revenue jump of over 40 %.

EBIT amounted to EUR 5.9 million and provides a solid basis for subsequent years considering the fact that it includes more than EUR 1 million in direct and indirect costs of acquisitions and over EUR 0.8 million from the effects of the annual depreciation and amortization of our newly acquired assets (purchase price allocation = PPA).

In recent years, we have mainly used EBIT as the control variable for managing earnings performance. Due to the increasing relevance of PPA, which has no effect on cash, we are switching to EBITDA as a control variable because it provides a clear picture of the Company's earnings performance. Details can be found in the overview table inside the cover of this report.

In the Automotive Electronics segment, we were able to increase sales in purely organic terms by 6 % while generating a very strong EBITDA of EUR 5.3 million. This is mainly due to the strong performance of portfolio products at the end of a product lifecycle before new products assume this role in 2015, and to an even greater degree in 2016.

Revenue in our Industrial Automation segment nearly doubled. The contributions of the acquisitions clearly exceeded our expectations. On the earnings side, directly expensed acquisition and set-up costs of just over EUR 1 million had a negative impact on the segment result. In the existing business, several new products were ready for the market at the end of the year. They will contribute to growth in 2015.

The political and economic climate remains unclear. Even beyond the acute threat to Europe of open military aggression and targeted destabilization by Russia, we take a skeptical view of Europe's medium- and long-term prospects. Our skepticism is due in part to the well-known risks of the (repeatedly postponed) exit from the euro by an economically and politically bankrupt

Greece, the weakness of French reforms and the ECB's massive and politically motivated experiment, whose main impact will be lasting negative side effects. In addition, there are economic and political risks in China whose explosiveness is, in my view, underestimated. Given Europe's, and especially Germany's, significant dependence on the Chinese market, drastic corrections in China would lead to sharp declines in Europe.

In the next few years we will focus mainly on expanding our business in North America. We expect this region to offer the best environment for longer-term economic growth worldwide for a number of years. Our business will benefit from two main factors. First, we see growth potential in the process industry in North America which is not directly involved in oil and gas exploration, such as the increased development of an energy-intensive basic materials industry, the set-up of terminals for gas liquefaction and the replacement or retrofitting of old refineries. Secondly, the growing North American manufacturing industry requires comprehensive modernization. These effects will directly benefit our US subsidiaries.

A strategic goal for Softing is therefore to generate at least 50 % of all sales in the Americas in the next 2–3 years. With our investments, we have created the foundation to achieve this goal. This means that we will increase revenue there from the equivalent of just under EUR 5 million in 2013 to more than EUR 30 million as early as 2015.

We are close to achieving our vision for the next few years of sustainably breaking the EUR 100 million revenue mark and expanding the quality of our earnings. We have been working hard to implement this vision. For example, in summer 2014 we began to build up new sales channels and accelerate the development of new products for these channels and their target markets. In 2014, this led to an expansion of spending on research and development to more than EUR 15 million (previous year: EUR 11.5 million). This does not even include own work capitalized, which was virtually unchanged from the previous year. These efforts can potentially fuel double-digit growth in the coming years.

Product developments generated as part of our product offensive will have a major impact for most of 2015. We plan to launch a range of new products in both segments during the second half of the year. For this reason, we expect further excellent organic growth in 2015, even if it is not yet at the level of subsequent years.

As always, I would like to take this opportunity to thank all of you for your personal contribution to the success of the 2014 financial year. We are in an exciting phase of expansion, which will provide the Company's top performers with special personal opportunities.

But thanks also go to our shareholders. We are showing our gratitude by paying a cash dividend of 25 cents, thus continuing our dividend policy despite the financial implications of the recent acquisitions.

For investors who recognize the potential our future holds, now is an excellent time to make an investment or increase holdings. We intend to make the financial world aware of this fact in 2015 through our active investor relations policy at events, interviews and in personal conversations.

Sincerely yours,

Dr. Wolfgang Trier
Chief Executive Officer

Softing Shares

Softing's shares have been listed on the Prime Standard of the Frankfurt Stock Exchange since May 16, 2000

SHARE PERFORMANCE

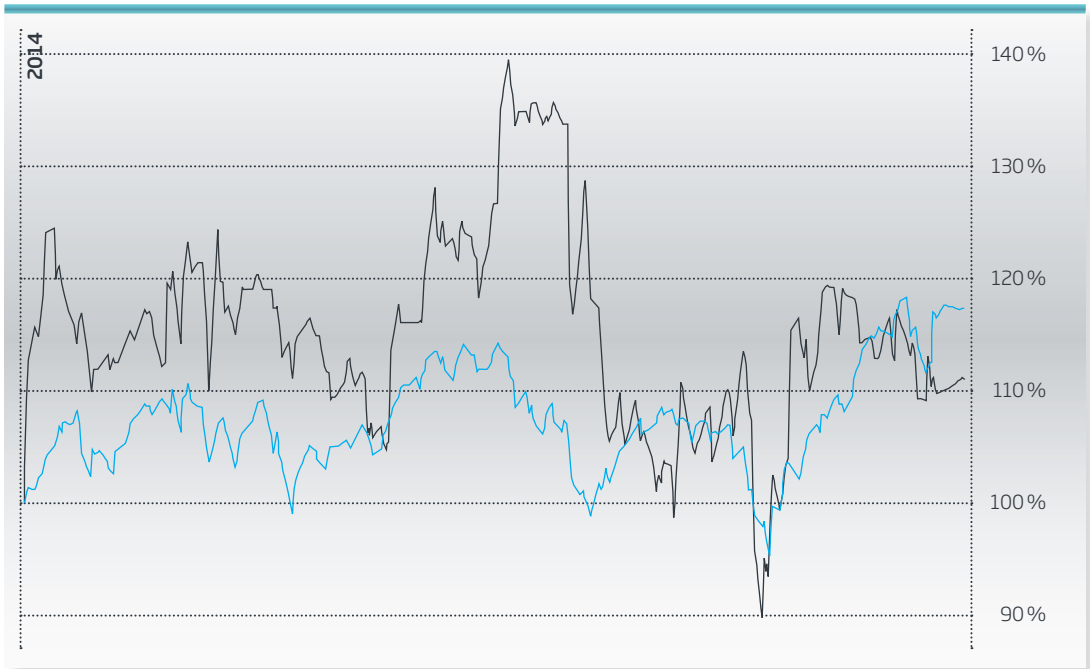
The price of Softing's shares took off right at the beginning of the year and reached a high of more than EUR 16,00 in January. Their price fluctuated considerably in the first quarter: It mainly moved between EUR 15.00 and EUR 16.00, although it went as high as EUR 16.50 at times. It fell from this level down to EUR 14.00 in May. The increase in share capital via a cash contribution in early July in the amount of EUR 451,000 then gave the share price a renewed boost. On July 7, it climbed to EUR 18.49, its high for the year. It lost steam in the third quarter and, coinciding with a sharp correction of the TecDAX, dropped to its lowest level of the year, EUR 11.81, on October 13. A recovery began immediately thereafter and the share price rose to EUR 14.73 at the end of the year, an increase of 11 % over its price at the beginning of 2014 (EUR 13.25). The Softing share price significantly outperformed the TecDAX, the relevant benchmark, for most of the year.

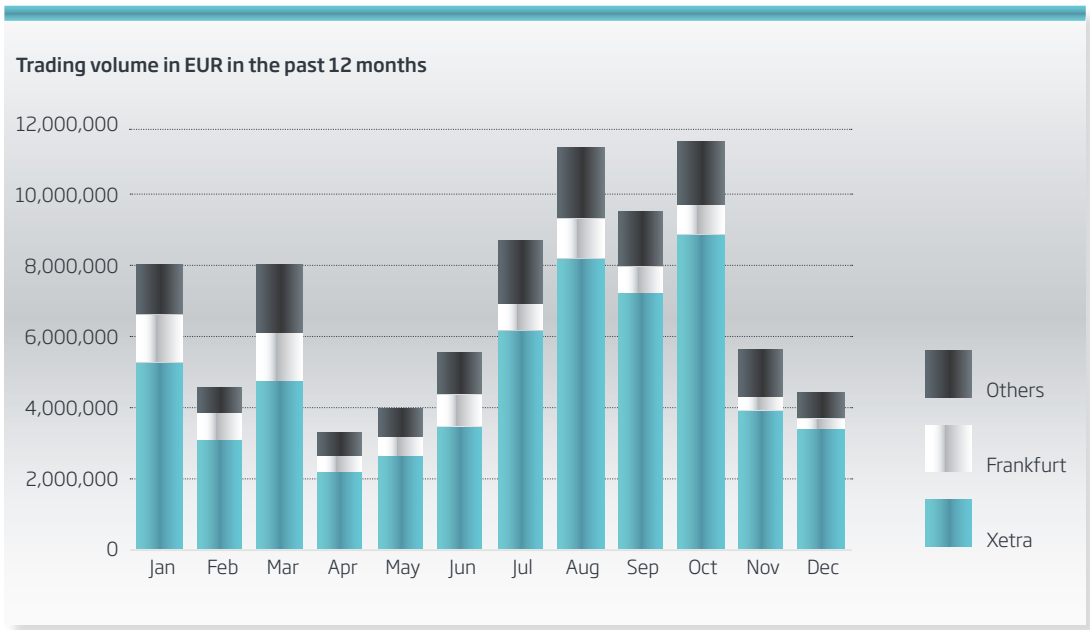
PERFORMANCE OF THE SOFTING SHARE 2014 (TECDAX INDEXED)

The market capitalization of Softing AG was EUR 102.5 million at the end of 2014, up from EUR 85.4 million on January 2, 2014. In 2014, the share capital of Softing AG was EUR 6,959,438, denominated in the same number of no-par shares. In 2013, this figure was EUR 6,442,512. With the payment of a share dividend, the share capital was increased by EUR 65,926; this transaction was entered in the commercial register on June 6, 2014. In addition, the share capital was increased by EUR 451,000 via a cash contribution; this transaction was entered in the commercial register on July 8, 2014.

TRADING VOLUME

In 2014, the average daily trading volume of Softing shares on XETRA was 15,571 shares. In the reporting year, a total of more than 3.9 million shares were traded on XETRA. Softing supports the liquidity of its shares by using two designated sponsors, ICF Kursmakler AG and Süddeutsche Aktienbank AG.





EARNINGS PER SHARE

Earnings per share (EPS) were EUR 0.58 in 2014, compared with EUR 0.69 in the previous year. Softing AG calculates earnings per share in accordance with IAS 33 on the basis of the average number of shares outstanding. There were no dilution effects in 2014.

ANALYST RECOMMENDATIONS

Warburg Research has analyzed the Softing share continuously for years in research reports and last year published nine studies and updates on the share. In all its analyses, the bank issued a strong buy recommendation and confirmed a target price of EUR 18.00 in its most recent study of November 17, 2014.

More information about analysts' reports on Softing shares is available on the Internet at www.softing.com under Investor, News & Publications, Research.

CAPITAL MARKET COMMUNICATIONS

Softing AG also conducted extensive investor relations activities in 2014. It participated in several investor and analysts' events and was represented in activities like roadshows in Germany and elsewhere in Europe (London, Paris and Warsaw) and at investor conferences, such as the German Equity Forum held in Frankfurt in November.

The activities in financial communications were complemented by numerous meetings with institutional and private investors as well as representatives of the press.

Investors can find all the key information on the Softing shares (Investor section) and about the Company on the Company's website, www.softing.com.

KEY DATA OF SOFTING SHARES

ISIN (International Security Identification Number)	DE0005178008
WKN (German SIN)	517800
Ticker symbol	SYT
Stock exchanges	Frankfurt, XETRA, Stuttgart, Munich, Hamburg, Düsseldorf, Berlin, Bremen
Sector	Industry

Creating and Keeping Top Positions – Taking Responsibility

CORPORATE SOCIAL RESPONSIBILITY (CSR) AT SOFTING

Maintaining and expanding our partnership with our customers and the technological leadership we have attained is a daily challenge for our company. For Softing's customers, it confirms and assures them that they have chosen the right partner for demanding solutions in the fields of industrial automation and automotive electronics. At the end of the day, however, behind every achievement and every product are the people that made it possible.

Our greatest capital is the expertise, dedication and loyalty of our employees. Making the effort to create an environment for our employees in which they enjoy their work and have social safeguards as well is a moral imperative, but it also makes business sense. Competitive salaries in combination with a high degree of job security provide the safety net required by the families who stand behind our employees. For many years, Softing has almost exclusively offered indefinite employment contracts. The only exceptions to this are fixed-term hires to cover maternity leave, for example. Technically and organizationally challenging tasks, relaxed interactions and fair treatment even in cases of conflict create a positive working atmosphere at Softing. In summary, this results in unusually low fluctuation and the continual growth of individual and collective knowledge. We actively shape Softing's culture in all of our subsidiaries in Europe, North America and Asia as well.

Softing supports students by cooperating with universities to offer individual programs for the best students in each class and by providing a generous number of internships. All of the technical departments offer topics and jobs for bachelor's and master's theses in coordination with university institutes. A high double-digit number of students take advantage of this each year. For several of our employees, this was their route into Softing.

Although Softing strictly rejects politically motivated quota programs on all levels, we strive to attract more female employees by offering appealing jobs with as much flexibility as possible. Every single employee is hired exclusively on the basis of their personal suitability for the job at hand. Once we have chosen someone, we try to take their individual situation into account when structuring their job. We also make an effort to adapt the nature and scope of the work

For many years, Softing has donated high four- and sometimes five-figure amounts to support polio vaccine campaigns in the few remaining infection zones (www.polioplus.de).

of our existing employees in accordance with their current life situation. There is no question that we offer equal pay to men and women with the same experience for the same job without needing to be pressured by legislators. As a result of these elements of our company policy, the proportion of female employees at Softing has risen considerably in recent years. Since this is not quota-driven, it represents a true increase in expertise for Softing.

Another cornerstone of our human resources policy is that we are not influenced by a person's age when hiring employees. All that matters are the skills they bring with them and, first and foremost, their degree of personal commitment. We regularly hire employees who are older than 50 or 55. Our company benefits greatly from their professional and life experience. We also succeed in retaining older employees in a way that is compatible with their respective phase of life.

Additionally, we are becoming more diverse in terms of our employees' regional and cultural backgrounds. Cultural diversity is not a primary corporate goal for us, it is the result of the growing internationalization of our activities, a more diversified labor market in Germany and our consistent focus on employees who are best suited to the job. Overall, therefore, our experiences here have been positive.

Softing is a global company with headquarters in Haar. Every single day, we experience a closely networked world in which even distant events have an impact on us. Although a company of our size must focus its contributions primarily on its local environment, we take our global responsibility seriously as well. In any case, it is important to us to be very confident that our donations will be allocated effectively. Years ago, we supported the construction of wells in poor rural areas of India (http://www.wirhelfenindien.de/).

Locally, we have focused on the efforts by charitable organizations to collect additional private funding for the new Hauner Children's Hospital in Munich (www.rotary4hauner.de).

We are outlining our CSR activities for the first time in our annual report because we have been asked to do so. We have not previously explicitly expressed our position here because they are self-evident elements of our profit-oriented entrepreneurial activities. We also do not want to over-emphasize CSR in the future, but instead quietly make contributions where these are reasonable, appropriate and financially viable.

In 2014, we contributed to the purchase of machine tools for a training center in the Philippines (www.thesistersofmary.com).

Combined Management Report of Softing AG and the Group for the 2014 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 and North American markets, but the Asian markets such as China, Japan and Korea are becoming significantly more important.

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
- Softing North America Holding Inc. domiciled in Knoxville, Tennessee (USA)
- Buxbaum Automation GmbH domiciled in Eisenstadt (Austria)
- Psiber Data GmbH, domiciled in Krailling near Munich
- Softing Italia s.r.l. domiciled in Cesano Boscone (Italy)
- Softing Inc. domiciled in Newburyport (USA), formerly Softing North America Inc., sold Group-internally to Softing North America Holding Inc.
- Online Development Incorporated (OLDI) domiciled in Knoxville, Tennessee (USA)
- Psiber Data Pte. Ltd. domiciled in Singapore
- Softing Automotive Electronics GmbH domiciled in Haar near Munich
- Softing Project Services GmbH domiciled in Haar near Munich
- samtec automotive software & electronics GmbH domiciled in Kirchentellinsfurt
- Softing Services GmbH domiciled in Haar near Munich
- Softing Messen & Testen GmbH in Kirchentellinsfurt
- SoftingROM s.r.l. domiciled in Cluj-Napoca (Romania)

On the Presentation of the Segments

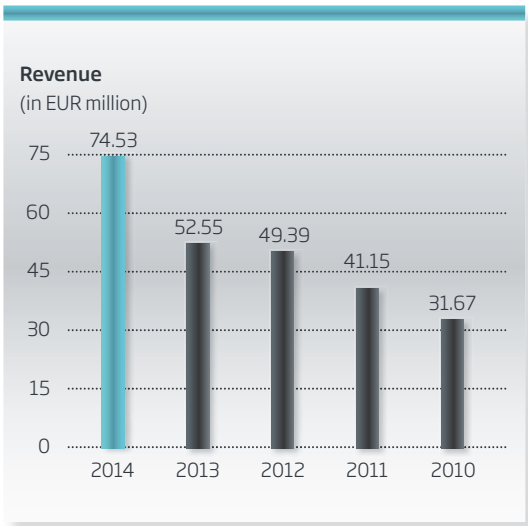
Segmentation of the Softing Group is based on its internal reporting and organizational structure, taking into account the different risks and income structures of each individual division. Segmentation by divisions entails allocating Softing's activities to the *Automotive Electronics* and *Industrial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

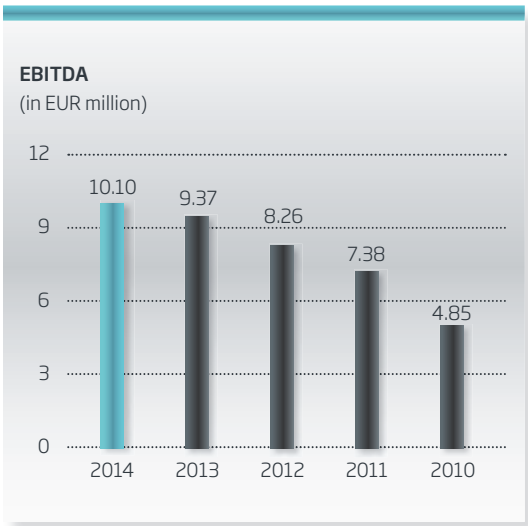
Softing AG

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

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 s.r.l.
Softing Italia is organizationally a subsidiary of Softing Industrial Automation GmbH. Softing uses Softing Italia to serve customers in Italy locally. In 2014, this company made a positive contribution to the overall earnings of the Softing Group.

Online Development Inc. (OLDI) and Softing Inc.
Online Development Inc. (OLDI) and Softing Inc., Online Development Inc. (OLDI) domiciled in Knoxville as well as the sales office Softing Inc. (Softing Inc.) domiciled in Newburyport (MA) are organizationally subsidiaries of Softing North America Holding Inc.

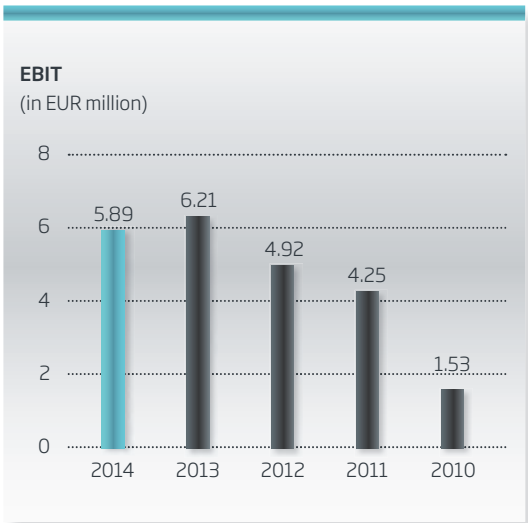
On May 22, 2014, Softing AG acquired all equity interests in OLDI. For over 20 years, OLDI has designed and manufactured factory automation products to help industrial customers simplify control and communications tasks. The company is an ideal fit with Softing's product portfolio in its core business of industrial automation. The strengthens Softing's position in two of the world's three largest automation markets – Europe and the United States.

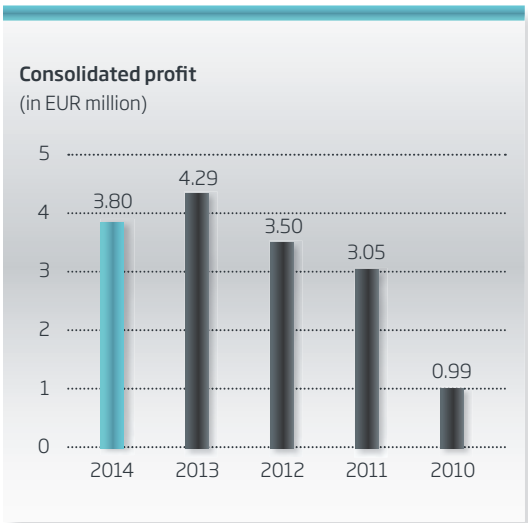
Softing North America serves the North American market. Utilizing its own capacities, Softing North America offers project services in addition to overseeing product business in North America.

In 2014, both American companies made a positive contribution to the overall earnings of the Softing Group.

Buxbaum Automation GmbH
The sales office Buxbaum Automation GmbH, Eisenstadt serves customers in Austria locally. This company also made a marginally negative, proportional contribution to the overall earnings of the Softing Group.

Psiber Data GmbH and Psiber Data Pte. Ltd.
As of January 1, 2014, Softing AG acquired all interests in Psiber Data GmbH, domiciled in Krailling near Munich. Effective November 6, 2014, Softing AG acquired the remaining shares of Psiber Data Pte. Ltd. in Singapore from the minority shareholders. Psiber Data is a provider of devices for the diagnosis of Ethernet cables, which are used in industrial automation, office installations, and data centers. The two Psiber Data entities are profitable companies with a growing product portfolio comprising own and distribution products.





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. In 2012, the new MEASURING division was integrated at Softing Messen & Testen GmbH.

Softing Services GmbH

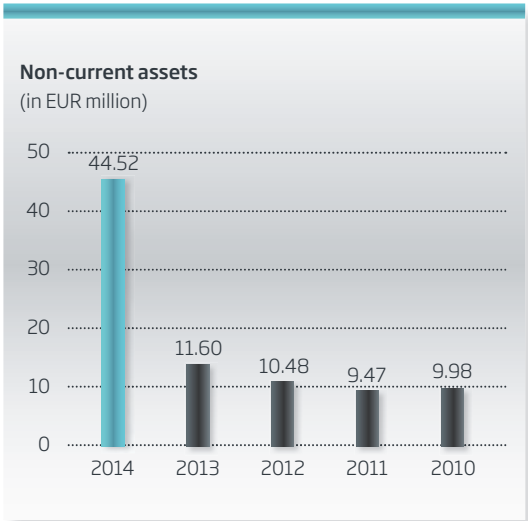
Softing Services GmbH provides services for Softing AG's operating companies.

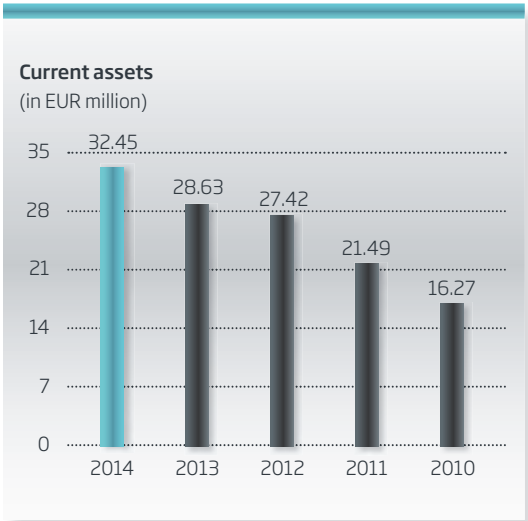
SoftingRom s.r.l.

The subsidiary SoftingROM s.r.l. (SoftingROM), which is domiciled in Cluj, 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.

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.

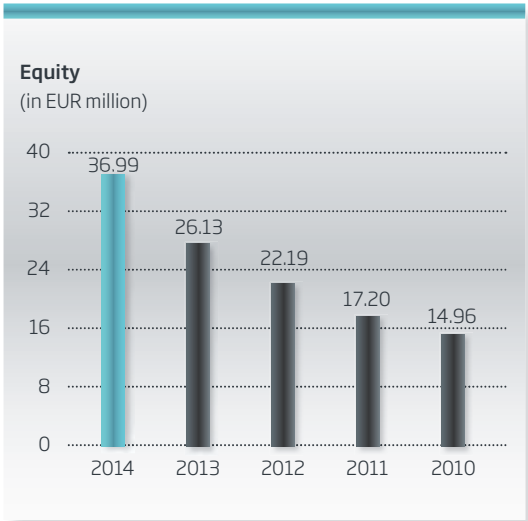
Business Model of Softing AG
Softing AG acts as a management holding company for the Softing Group. It generates revenue from invoicing for management services, legal assistance and quality management services provided to the subsidiaries. Beyond this, the business model is limited to the management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

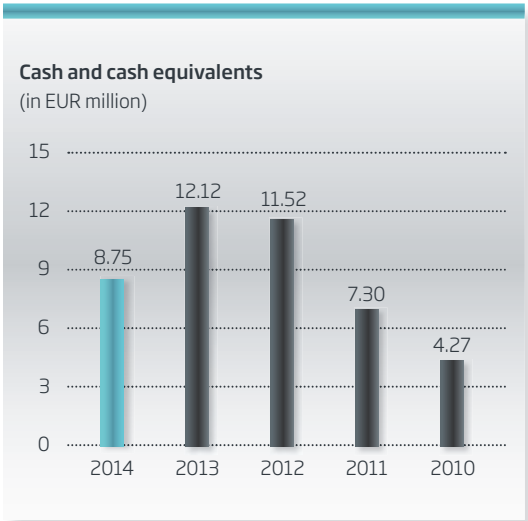
INTERNAL MANAGEMENT SYSTEM

The Softing Group uses key performance indicators (KPI) – revenue, earnings before interest, taxes, depreciation and amortization (EBITDA) 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 also 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 19,330 thsd. in the development of new products and the enhancement of existing ones. This corresponds to an investment ratio (ratio of development costs to revenue) of 26 % (previous year: 30 %).

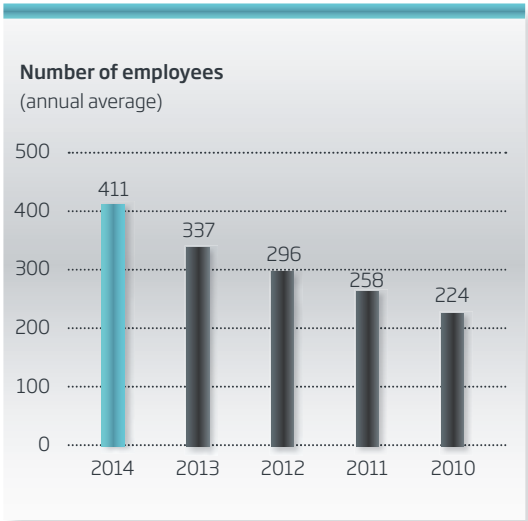
In the past financial year, amortization of capitalized development costs amounted to EUR 2,631 thsd. (previous year: EUR 2,349 thsd.).

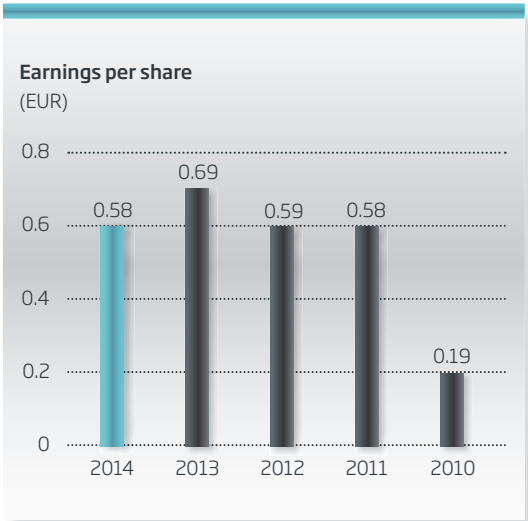
At year-end, 258 employees were engaged in research and development (previous year: 216). Softing AG itself is not engaged any research and development activities.

In the 2014 financial year, the *Industrial Automation* segment invested EUR 11.0 million in the development of new products and the refinement of existing ones (previous year: EUR 8.0 million). Key developments in the reporting year are summarized below.

One core priority was the project completion and successful market launch of the new BC-700 PROFIBUS diagnostic tester. The new BC-700 combines the feature set of the successful BC-600 with the capability to perform physical analysis of PROFIBUS networks into a single unit. The latest model also offers improvements to standalone mode, a new design philosophy featuring a scroll wheel and a color graphic display, as well as diagnosis of PROFIBUS-PA networks. As a result, Softing Industrial Automation now offers the leading device in the market.

With OPC-UA, a new technology platform has established itself as a facilitator for Industry 4.0. The goal is the "intelligent factory" characterized by a high level of flexibility and the embedding of both customers and suppliers in the value chain. Alongside the OPC-UA toolkit as a development tool, Softing has also had two new products on offer since 2014: dataFEED and echoCollect UA. These give plant manufacturers a uniform, high-





	2014 EUR (in thsds.)	2013 EUR (in thsds.)
Capitalized development costs	4,265	4,382
Expenses not qualifying for capitalization	15,065	11,489
	19,330	**15,871**

security interface to connect their machinery – located anywhere in the world – to the central IT systems. The dataFEED product uses a PC application to link non-"Industry 4.0-ready" machinery to the core IT systems, while echoCollect UA can also be used to integrate equipment situated in the most remote locations.

In 2014, Softing developed and brought to market key functional enhancements for all of its products in the dataFeed and echoCollect UA ranges, and its various OPC-UA toolkits.

To secure and broaden its technical expertise, Softing Industrial Automation has been part of the OPC Foundation for many years, and an active member of the Technical Steering Committee. This OPC Foundation partnership was bolstered in 2014 with a further collaboration agreement that gives Softing Industrial Automation responsibility for the maintenance and refinement of the OPC communications protocols and certification tests.

The portfolio for FPGA-based solutions was further expanded in the area of communications solutions for production engineering. FPGAs are programmable hardware modules that offer speed and flexibility improvements over conventional systems when implementing a wide range of communication and application functions. In partnership with Altera, a leading international FPGA supplier, an easy-to-integrate portfolio for Industrial Ethernet has already been established, and was expanded in 2014 by the communications protocol for PROFIBUS-DP. This now gives customers a cost-effective and futureproof PROFIBUS-to-PROFINET migration pathway that requires just a single hardware / software platform.

The portfolio for process automation communications solutions also saw further enhancements in 2014. The core product is the fieldbus kit (FBK), which is now available as master and slave for both FOUNDATION fieldbus and PROFIBUS-PA. The registration of the FBK-based FFeasy integration package in 2014 marked the 1,000th registration of a FOUNDATION fieldbus device, and one in which over 50 % of the technology stems from Softing Industrial Automation.

Another point of focus was set in 2014 with two new devices joining the Softing Industrial Automation Gateway family. Gateways form bidirectional bridges between non-compatible communications standards and are deployed at all levels of the automation pyramid. The market relevance of gateways is increasing, not least as a result of the growing number of communications standards.

Technologically at home in both production automation and process automation, *Industrial Automation* is optimally positioned to deliver gateways for "hybrid" scenarios, i. e. to build bridges between the process and production systems within a piece of plant or machinery – an area that is now seeing increased demand.

At the start of 2014, Softing AG acquired all interests in Psiber Data GmbH, domiciled in Krailling near Munich. Psiber is a provider of devices for the diagnosis of Ethernet cables, which are used in industrial automation, office installations, and data centers. This was an outstanding addition to Softing's portfolio, which had previously been unable to offer any own-brand mobile products in the lucrative market of Ethernet networks for industrial automation.

The mid-year acquisition of North American Online Development Inc. (OLDI) was a further milestone in developments intended to strengthen the international portfolio. For over 20 years, OLDI has designed and manufactured factory automation products to help industrial customers simplify control and communications tasks. OLDI ideally complements the product portfolio of the *Industrial Automation* segment.

In 2014, the *Automotive Electronics* segment made investments totaling EUR 8.3 million (previous year: EUR 7.9 million) in the development of new products and the enhancement of existing ones, Key developments in the *Automotive Electronics* segment are summarized below.

Improvements were made to the lead product from Softing Automotive Electronics GmbH, the Diagnostic Tool Set (DTS). A German premium manufacturer made the decision to deploy DTS as the sole in-house development tool for its entire product range, from passenger cars to utility vehicles. Progress was also made in the utilization of OTX (the Open Test sequence eXchange format), one example being the expansion of DTS Monaco to include OTX functionality. Softing TDX, a flexible diagnostic and Flash development solution for use in mobile or stationary service applications and road trials, is also based on the OTX workflows. This permits end users to deploy OTX as a format for describing the creation, implementation and debugging of diagnostic and test workflows in a wide variety of solutions and along the entire process chain.

But the PC platform is not the only recipient of Softing's many new solutions: work in the smartphones segment has also now produced the first customer-specific apps.

Last year also saw the launch of a comprehensive training program, with a broad spectrum of courses ranging from the most important standards in diagnostics to training for several of Softing's own-brand products. Courses are either held in Haar near Munich or on-site at the customer.

A host of functional enhancements were added to SMT (Softing Measurement Technology) in 2014. These include new thermocouple types for temperature measurement, additional analog inputs, other popular sensor interfaces for measurement I/O, and PC connectivity via USB 3.0 and gigabit Ethernet. The previous production-ready support for the CAN and LIN vehicle buses has also been extended to Flexray. With only minor mechanical adjustments, 100 % crash-worthiness has been achieved throughout a wide variety of test series. This is yet another USP that lets SMT stand out among its international competitors.

Test bench PSUs, intelligent battery buffer modules and other specialized components for test bench instrumentation will all be ready for mass production in 2015.

In the 2014 financial year, samtec's development of the new HSD VCI (Vehicle Communication Interface) family created attractive products for emerging markets and price-sensitive end users. Featuring the very latest componentry, the HSD products supplant the HSLightII and HS+ models for bulk business, and represent an ideal workshop / service tester VCI for OEMs and Tier 1 suppliers.

Development work in the field of test bench applications has also been expanded by the deployment of the HSX VCI family by three prestigious Tier 1 suppliers. Here, the development focus is on the continuous improvement of both stability and performance.

A production stalwart, the HSC VCI family enables heavy-duty Industry 4.0 applications and has been further optimized by implementations extending it for wireless use in the production infrastructure of a South German sports car manufacturer. Technical enhancement of the VCI to support the utility vehicle segment – which places much higher demands on bus channels – is scheduled for summer 2015.

The development of the VCI Communication Framework (VFC) into a highly capable, platform-independent development environment offers samtec an effective way of creating new customer applications and rapidly expanding its own software portfolio with high-quality products. The parallel mode – a unique selling point for samtec – can be used to control LIN-based diagnostics with just one VCI while simultaneously executing other applications on the EoL test bench. This ability to move beyond sequential use of applications to parallel execution – e.g. restbus simulation work combined with a diagnostic application – offers considerable value to customers.

The VCF development environment maximizes the number of applications while simultaneously lowering development costs – both for the customer and the Softing Group – and has been developed for all standard platforms (Windows / Linux / Android / iOS). As a uniform, state-of-the-art environment, the VCF provides a solid Group-wide development platform for Softing's *Automotive Electronics* segment.

REPORT ON ECONOMIC POSITION

MACROECONOMIC AND SECTOR-SPECIFIC ENVIRONMENT

Moderate Global Economic Growth, Weakening in the Euro Zone

In 2014, the Institute for the Global Economy (IfW) noted accelerating economic expansion worldwide. Both the global gross domestic product and international trade grew appreciably from the third quarter onward after expanding only modestly in the first half of the year. However, at 3.4 %, growth in global output remained muted in 2014 (previous year: 2.9 %). The performance of the economies in the United States and the UK was above average, whereas economic activity in the euro zone inched up only slightly in summer. Japan even slid into recession again. In emerging economies China and India, economic expansion rates were moderate. (IfW, Winter World Economic Report, December 17, 2014)

The euro zone economy grew again in 2014 after two years of recession, with the gross domestic product up 0.8 %. This by no means marks the end of the economic crisis, however. Weak growth, high unemployment rates, and increasing income inequality and poverty will continue to put a drag on the economic, social, and political situation in many EU and euro zone countries.

Record-high Production in Mechanical Engineering Sector

In 2014, German engineering companies were able to live up to their growth forecast of 1 % with sales of EUR 212 billion and a production volume totaling EUR 199 billion, reports the German Engineering Federation (Verband Deutscher Maschinen- und Anlagenbau – VDMA). Exports were up slightly (0.5 %) on the previous year. Growth was positive in major European markets (5 %), the United States (6 %), and Southeast Asia (9 %). (www.vdma.org/article/-/articleview/6436041 dated December 18, 2014)

Electrical Industry Exports Growing

Exports by the German electrical industry were up 3.9 % in 2014 as compared with the previous year, according to the German Electrical and Electronic Manufacturers' Association (Zentralverband Elektrotechnik- und Elektronikindustrie e. V. – ZVEI). Exports in the euro zone were slightly below average with an increase of 3.6 % to EUR 43.2 billion, although exports to non-euro zone countries climbed 4.1 % to EUR 93.6 billion. The main buyers were China and the USA, but growth was seen in exports to Poland, Hungary, and South Korea as well. (http://www.zvei.org/Presse/Presseinformationen/Seiten/Exporte-der-Elektroindustrie-auf-Rekordhoch-im-Oktober.aspx dated December 22, 2014)

COURSE OF BUSINESS

Despite the weakening of the economy in the euro zone, Softing was able to maintain a steady level of revenue in its existing business in 2014 thanks to further investments in growth markets in Asia and the United States. Consolidated revenue climbed 42 % to EUR 74.5 million with an EBITDA of EUR 10.1 million and EBITDA margin of 14 %, due in part to the positive contribution by acquisitions in their first year as part of the Group. This result therefore far exceeded the revenue forecast in the 2013 Report on Expected Developments. At EUR 5.9 million EBIT did not match the 2013 forecast figure of EUR 7.0 million, mainly due to one-off costs in the 2014 financial year along with increased depreciation and amortization due to purchase price allocation for the acquisitions. EBITDA (earnings before interest, taxes, depreciation and amortization) will be a key performance indicator used to manage the Group's business activities going forward due to the increased depreciation and amortization in the context of purchase price allocation.

Revenue in the *Industrial Automation* segment rose from EUR 26.5 million to EUR 46.9 million, driven by the acquisitions of Psiber Data and OLDI. *Automotive Electronics* revenue was up from EUR 26.1 million to EUR 27.6 million. Both the *Industrial Automation* (due to acquisitions) and *Automotive Electronics* segments grew their revenue as forecast in 2013.

In the *Industrial Automation* segment, EBITDA climbed from EUR 4.1 million to EUR 4.6 million, while the *Automotive Electronics* segment topped the previous year with an EBITDA increase of 6 % to EUR 5.3 million. EBIT in the *Industrial Automation* segment dropped from EUR 2.3 million to EUR 1.7 million because of the depreciation and amortization due to purchase price allocation. The *Automotive Electronics* segment saw EBIT rise from EUR 3.9 million to EUR 4.2 million.

On the whole, the Softing Group's EBITDA grew by 8 % in the past financial year to EUR 10.1 million.

Despite higher costs, mainly due to the acquisitions, Softing AG was able to increase net profit for the period by EUR 2.4 million year on year from EUR 1.9 million to EUR 4.2 million. This is thanks in particular to the strong earnings of the subsidiaries, which lifted earnings from profit transfer agreements from EUR 3.6 million to EUR 6.5 million. Softing therefore exceeded last year's forecast of EUR 4.8 million. The business performance of both the Softing Group and Softing AG was favorable.

RESULTS OF OPERATIONS

Results of Operations of the Group

The financial key performance indicators are revenue, EBITDA and EBIT.

Last financial year, consolidated revenue improved by 42 % to EUR 74.5 million, EUR 21.7 million of which was attributable to acquisitions. Own work capitalized (product developments) at EUR 3.9 million remained nearly at the prior-year level (EUR 4.0 million), but the share of total revenue accounted for by own work capitalized

	2014 EUR (in thsds.)	2013 EUR (in thsds.)
Cost of Materials	27,369	15,181
Employee Benefits Costs	32,086	25,833
Depreciation, amortization and impairment losses	4,212	3,160
Other operating expenses	9,672	6,830
Operating expenses	**73,339**	**51,004**

declined during the financial year. Other operating income was up from EUR 0.7 million to EUR 0.8 million due to exchange rate gains and the reversal of provisions.

The expense items developed as follows:

The cost of materials climbed by EUR 12.2 million year on year, an increase of 80 %. This increase was the result of new acquisitions (EUR 12.7 million), whereas this figure in the existing companies declined (EUR 0.5 million). All told, the cost of materials ratio (cost of materials relative to revenue) was up from 28.9 % to 36.7 %. As a result, gross profit (revenue less cost of materials) increased from EUR 37.4 million to EUR 47.2 million.

Staff costs increased 24 % to EUR 32.1 million, mainly due to the increase in the average workforce from 337 to 419 employees as a result of the Psiber Data and OLDI acquisitions and because of higher salaries. The Group had 411 employees as of the reporting date.

The rise in depreciation, amortization and impairment losses on intangible assets and property, plant, and equipment is due to the increase in write-downs of internally generated intangible assets and the addition of non-current assets from acquisitions / purchase price allocation.

Other operating expenses rose by EUR 2.8 million. Of this amount, EUR 2.1 million was attributable to the newly acquired companies and another EUR 0.3 million to direct acquisition costs for these companies. The rest of the cost increase was down to factors including a move by two companies into joint business premises and structural measures undertaken in the organization.

EBITDA rose by EUR 0.7 million, from EUR 9.4 million to EUR 10.1 million. The return on sales (EBITDA relative to sales) dropped in the *Industrial Automation* segment from 16 % to 10 % due to acquisition / integration costs and weaker business performance in Europe. In the *Automotive Electronics* segment, the return on sales remained at the prior-year level of 19 % thanks to sales of high-profit products.

An increase in interest expense in connection with the loan obtained to finance OLDI caused the financial result to decrease by EUR 0.2 million. After deducting taxes on income, consolidated profit amounted to EUR 3.8 million (previous year: EUR 4.3 million).

Results of Operations of Softing AG

As a management holding company, Softing AG only generates revenue from performing services for its subsidiaries. These services principally entail active corporate management of the subsidiaries as well as legal assistance and quality management services. 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, instead receiving income from equity investments and from profit transfer agreements.

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

The key control parameter for Softing AG is the income from profit transfer that constitutes a financial key performance indicator. This rose from EUR 3.6 million to EUR 6.5 million in the past financial year as a result of the sharp rise in profits transferred from Industrial Automation GmbH and Automotive Electronics GmbH.

Staff costs declined from EUR 2.9 million to EUR 2.5 million.

Other operating expenses rose from EUR 1.2 million to EUR 1.4 million, driven by costs associated with the acquisitions of Psiber Data and OLDI.

The lower costs of managing the subsidiaries led to a decline in revenue from EUR 3.4 million to EUR 3.1 million in 2014.

Taxes on income rose by EUR 0.6 million due to the increase in net profit for the year from EUR 1.9 million to EUR 4.2 million.

FINANCIAL POSITION

Financial Position of the Group

Financial Management

As part of the Group's financial management, the German subsidiaries are included in a cash pooling system managed by Softing AG. Where deemed necessary, the cash flows of companies doing business in foreign currencies are hedged using conventional forwards. No forward contracts were concluded in the last financial year.

Capital Structure

At the end of 2014, the Softing Group had equity of EUR 37.0 million (previous year: EUR 26.1 million), an increase of 42 % or EUR 10.9 million. This growth is the result of the EUR 7.9 million increase in the capital reserves, a positive exchange rate effect of EUR 2.3 million, the EUR 0.5 million capital increase in July, consolidated comprehensive income of EUR 3.8 million, and the change in treasury shares of EUR 0.5 million. The opposite effect was exerted by the EUR 2.2 million dividend in 2014, the acquisition of a non-controlling interest in Psiber totaling EUR 1.4 million, and the remeasurement of provisions for pensions (incl. tax effects) amounting to EUR 0.5 million. The equity ratio is 48 % (previous year: 65 %).

Non-current liabilities increased from EUR 3.7 million to EUR 23.1 million mainly in light of the acquisitions. These include both long-term loan liabilities from the OLDI acquisition as well as the estimated liabilities for the variable purchase prices for the acquisitions. Deferred tax liabilities rose from EUR 2.2 million to EUR 3.1 million. Pension obligations were adjusted by EUR 0.7 million to EUR 2.2 million as a consequence of a year-on-year change in interest rates.

Current liabilities were up EUR 6.8 million to EUR 16.9 million mainly due to the share of short-term bank borrowings, the increase in other liabilities as well as to tax liabilities and customer payments already received for services to be provided in 2015. In addition, there was a change in trade payables of EUR 1.7 million year-on-year resulting from the acquisitions.

Capital Expenditures

In the financial year ended, the Softing Group invested EUR 4.3 million in product development. Investments in other non-current assets amounted to EUR 1.6 million. Please refer to the Research and Development section for information on investments in the specific segments.

Liquidity
The cash flow from operating activities was up 18 % from EUR 6.0 million to EUR 6.5 million. Higher EBITDA is the main reason for this.

The cash outflow from investing activities rose by EUR 21.8 million to EUR 26.7 million primarily on account of the acquisition of OLDI and Psiber Data.

The cash flow from financing activities amounted to EUR 16.8 million and resulted from new bank borrowings of EUR 11.0 million, cash receipts from the capital increase of EUR 7.5 million, and the sale of treasury shares in the amount of EUR 0.4 million. This stands in contrast to the EUR 1.3 million dividend payment, the repayment of bank loans in the amount of EUR 0.4 million, and EUR 0.3 million in interest paid.

Financial Position of Softing AG
Capital Structure
Equity increased from EUR 19.2 million to EUR 30.1 million as of December 31, 2014. The net profit for 2014 of EUR 4.2 million and the effects of the capital increase totaling EUR 8.4 million and the sale of treasury shares in the amount of EUR 0.5 million more than compensated for the dividend of EUR 2.2 million for 2013.

The equity ratio slid to 57 % (previous year: 75 %) on account of the increase in liabilities and the associated rise in total assets due to the acquisition of new subsidiaries.

The change in provisions from EUR 1.8 million to EUR 2.3 million is principally the result of changes in provisions for taxes set up to account for the change in earnings.

Other liabilities increased from EUR 1.2 million to EUR 3.8 million because of variable purchase prices for the acquisitions made in 2014.

The liabilities to banks increased to EUR 10.6 million on account of loans taken out.

Liquidity
The subsidiaries obtain financing almost exclusively from Softing AG's cash pooling system and its own cash contributions to the operations of subsidiaries not participating in the cash pooling system. Separate bank loans are taken out by individual subsidiaries only to a minor extent. The fixed purchase price of OLDI was financed through EUR 11.0 million in total loans obtained by Softing AG from two commercial banks in Germany. The capital increases are outlined in more detail in under "Net Assets of Softing AG".

Funds at year's end were EUR 5.7 million (previous year: EUR 10.7 million).

NET ASSETS

Net Assets of the Softing Group
Non-current assets comprise items including intangible assets, goodwill, property, plant, and equipment, and deferred tax assets and at the end of 2014 represented 57.8 % of total assets (previous year: 28.8 %). This is offset by equity and non-current liabilities representing 78.1 % (previous year: 74.2 %).

Non-current assets rose by EUR 32.9 million to EUR 44.5 million owing to the increase in goodwill from the new companies acquired (EUR 12.0 million), the rise in other intangible assets (EUR 19.2 million), the growth in property, plant, and equipment (EUR 0.5 million, and higher deferred tax assets (EUR 1.1 million).

Current assets comprise inventories, trade receivables, and cash and cash equivalents. This figure rose from EUR 28.6 million to EUR 32.4 million mainly due to an increase in inventories by EUR 4.1 million. On the one hand, this increase resulted from the addition of the newly acquired subsidiaries. On the other hand, it was due to the expansion of warehouse inventories in order to ensure rapid delivery.

Total assets grew by EUR 36.7 million as a consequence primarily of the acquisitions of OLDI and Psiber Data, investments in development, and an increase in inventories.

Cash and cash equivalents at year's end were EUR 8.8 million (previous year: EUR 12.1 million).

Non-current liabilities increased from EUR 19.4 million to EUR 23.1 million. Non-current borrowings were up EUR 8.9 million which is attributable to the loan obtained to finance the purchase of OLDI. Other non-current liabilities were up EUR 8.9 million due to variable purchase prices not yet paid.

Current liabilities climbed by EUR 6.5 million. This is attributable in particular to the increase of EUR 1.6 million in trade payables, EUR 0.9 million in income tax liabilities, and EUR 2.3 million in current financial liabilities.

Net Assets of Softing AG

The total assets of Softing AG rose by EUR 26.9 million year-on-year to EUR 52.6 million.

In 2014, Softing AG received funds totaling EUR 8.0 million from capitalization measures and the sale of treasury shares. Long-term loans of EUR 11.0 million were obtained in the 2014 financial year.

These funds and not-insignificant own funds were used by Softing AG to finance the purchase of OLDI, Psiber Data, and their non-controlling interests in the subsidiary in Singapore. For this reason, investments in affiliates rose by EUR 11.0 million to EUR 17.6 million and loans to affiliates grew by EUR 15.6 million to EUR 15.7 million as of the reporting date. Cash and cash equivalents decreased because of the aforementioned investments to EUR 5.7 million.

Receivables from affiliated companies were up EUR 6.3 million as a result of increased receivables from profit and loss transfer agreements.

After the sale of other securities in the amount of EUR 0.9 million, Softing AG no longer holds any securities classified as current assets as of December 31, 2014.

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

The financial position and net assets of both the Group and Softing AG continue to be very solid, and the results of operations in the past financial year were stable.

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

REPORT ON POST-BALANCE SHEET DATE EVENTS

There are no events after the balance sheet date to report.

REPORT ON OPPORTUNITIES, RISKS AND FORECASTS

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.

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 further expansion and establishment of business. 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 order books for these products 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 January 2015, the company relocated from Reutlingen to nearby Kirchentellinsfurt. Now under the same roof as samtec GmbH, this will generate many synergies and potential for joint products or projects in the future. More premium manufacturers adopted SMT (Softing Measurement Technology) in 2014. Further repeat orders are pending for 2015. In one particular case, SMT was declared the winner of a comprehensive benchmark test.

In testing business, large purchase orders for HIL systems were placed by two major engineering service providers. Further expansion of sales activities here is very likely. At one premium manufacturer, a long-standing competitor was displaced in the mechatronics tester segment and notification of further orders has been given.

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 2015 also. And the Company anticipates generating further sales growth in this area.

Acquisition of the Industrial Communication Division from Trebing + Himstedt

Effective 1 May 2014, Softing Industrial Automation acquired the Industrial Communication division from Trebing + Himstedt Prozessautomation GmbH & Co. KG (T+H) and thus the T+H product portfolio for stationary PROFINET and PROFIBUS diagnostics. The products thereby acquired ideally supplement the existing diagnostics portfolio at Softing Industrial Automation and integration into this portfolio was completed in 2014 in full, covering both technical and sales aspects. For the rapidly growing segment of Industrial Ethernet networks in particular, this

gives Softing a range of products able to permanently monitor such networks and report problems early on, thus avoiding the costs of downtime. The significant contribution to revenue already made by these new products in 2014 will be further expanded in 2015.

Acquisition of Online Development Inc. (OLDI)
With its mid-year acquisition of the North American Online Development Inc. (OLDI), Softing took another decisive step towards the goal of strengthening its international portfolio. For over 20 years, OLDI has designed and manufactured factory automation products to help industrial customers simplify control and communications tasks. OLDI complements the product portfolio of the *Industrial Automation* segment.

As a Rockwell Automation Global Encompass Partner, a member of the Control System Integrator Association (CSIA) and ODVA, and a participant in partner programs run by IBM, Microsoft, and Oracle, OLDI generates a host of potential synergies for other Softing products in these channels.

The competencies and technologies in place at OLDI and Softing Industrial Automation complement each other so well that end-to-end communications solutions can now be offered to production and process automation customers. These potential synergies will lead to further new products in 2015.

The Subsidiary Psiber Data GmbH
Softing's wholesale acquisition of Psiber closed its strategic gap in mobile devices for Ethernet network diagnostics while opening up the similarly fast-growing – although technically more challenging – market in copper and optical fiber network diagnostics for use by data centers and office installations.

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. This creates demand for customers, especially in connection with the initial equipment of networks.

SoftingROM Subsidiary
Softing continually develops new products and technologies in order to address the transition to new technologies, as well as to tap new markets and opportunities for growth. The Romanian subsidiary SoftingROM has the task of boosting the required development services. Cluj in 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.

We see this as a moderate opportunity.

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 the ongoing business with our subsidiaries in the United States and Singapore the should be hedged. If it appears necessary, Softing uses conventional forward exchange deals as hedges. We categorize this risk as a moderate risk.

Performance Risks

In 2014, revenue was given a another substantial boost compared to 2013. Despite major investments in technologies and markets, earnings remained stable. A particularly strong third and 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 2014. 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. Softing 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

2015: Low Oil Prices and Interest Rates Spur Economy

According to the Winter 2014 World Economic Report of the Institute for the Global Economy (IfW) based in Kiel, Germany, the global economy is gradually gaining momentum. Above all, the overall still very expansive monetary policy and the decline in oil prices are reviving economic activity in the private sector. In the United States, the next two years are expected to bring GDP growth of 3.2 % and 3.5 %. (IfW, Winter World Economic Report, December 17, 2014)

The upturn in production in the euro zone will slowly increase by rates of 1.2 % (2015) and 1.5 % (2016). Inflation is being sharply curbed by the drop in oil prices, which will enable the emerging economies to also benefit from increased demand in the developed economies. According to the experts at the IfW, the increase in global output is likely to be higher in 2015 at an estimated 3.7 % than in 2014 (3.4 %).

For Germany, the IfW forecasts that the economy will expand. Thanks to low oil prices, the German economy is beginning to rebound after a mild weak period in recent months. Private consumer demand in particular is driving the economy, according to the IfW's newest forecasts for 2015. Gradually, corporate investments will also give the economy a boost, as interest rates are still low with demand growing. As a result, economic output in Germany this year will grow by 1.7 % after 1.5 % in the previous year.

For the current year, the VDMA forecasts that the German mechanical engineering sector will grow by 2 %. German machinery exports to the United States and China, the two major export markets for the industry, are already seeing growth, say economists at the VDMA. In the current year, industry association ZVEI anticipates an increase in price-adjusted electrical sector production of 1.5 % with industry sales rising to nearly EUR 174 billion accordingly. The association is only cautiously optimistic. In the first 11 months of 2014, the electrical industry boosted sales by 2.6 %, and for 2015 as a whole, ZVEI anticipates growth of EUR 4 billion to EUR 171 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 Softing's products, because most capital expenditures will be investments for customers or be integrated into capital goods for 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.

Softing Well-positioned for 2015 with Outstanding Technology Portfolio

Analysts continue to forecast positive growth for the international advanced automation technology markets, and the process / production automation market segment relevant for Softing Industrial Automation.

Softing's acquisition of OLDI and Trebing + Himstedt Industrial Communication has further improved the breadth of its product mix while also strengthening its technological expertise. As a result, Softing Industrial Automation is ideally positioned to benefit both from positive developments across the industry, and growth in its primary markets – Europe and the United States.

In 2015, *Industrial Automation* will continue to integrate and expand its product portfolio. Targets here include expanding the Gateway family and the diagnostics portfolio for Industrial Ethernet while further enhancing the communications solutions. A core driver here will be the synergy effects generated by the companies and product groups for the technologies and their marketing.

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.

In 2015, the *Automotive Electronics* segment plans to launch the VCI family HSD, which will succeed the HSLightII and HS+ as a new, low-cost VCI for standard diagnostic applications. In the first quarter of 2015, Softing and a well-known automotive supplier will start the roll-out of a new service tester based on HSD technology, intended for worldwide deployment.

Softing also plans to deepen its customer engagement in emerging markets to encourage customer adoption of the HSD VCI in combination with the Softing software tool chain.

Activities in the field of test bench applications based on the HSX VCI product family will be actively expanded in collaboration with two existing OEMs and three new Tier 1 suppliers.

The *Automotive Electronics* segment will expand its range of measurement technology products further in 2015. Several customers are already relying on the sophisticated systems.

Outlook for the 2015 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 projected earnings, we are forecasting income from profit transfer agreements of EUR 1.7 million for the 2015 financial year as a result of a decrease in earnings expected from the Softing Automotive Electronics subsidiary.

Outlook for the 2015 Financial Year for the Softing Group

Based on regionally broader penetration into higher quality markets thanks to our successful acquisition strategy and targeted product development along with the OLDI acquisition, which will have a positive effect on EBIT / EBITDA for the full 12 months of financial year 2015, Softing again anticipates a moderate increase in incoming orders and revenue in 2015 as a whole.

Softing plans to develop a number of new products and enhance many existing products in 2015 by merging its existing know-how with the expertise newly brought on board through acquisitions. The resulting expenses for the purpose of reducing risks will tend to be absorbed directly into our costs to a greater extent than before. In contrast, we have the chance to generate disproportionately high income from our existing business. We were not able to make a final determination of the likelihood of this occurring at the start of the year, so out of caution, this opportunity was not yet included in the forecast for the 2015 financial year. Therefore, despite a moderate rise in revenue, we initially project EBIT / EBITDA to remain at the level of 2014.

In terms of the segments, we expect the *Industrial Automation* segment to grow robustly due to the full-year effect of the acquisition of OLDI in revenue and EBIT / EBITDA. In the *Automotive Electronics* segment, 2015 will initially bring a drop in revenue and EBIT / EBITDA because of soon-to-be-discontinued products until new products are fully ready to make an impact. As a result, 2015 at Softing will primarily be marked by product innovations that from 2016 onward will be the drivers of substantial organic growth along with a significant improvement in the quality of earnings.

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 statement of financial position, 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 2014, the share capital of Softing AG was EUR 6,959,438 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. No 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. An average of 6,599,746 shares were outstanding in the reporting year.

   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 exercised in 2014.

   Based on the authorization issued by the Annual General Meeting on May 9, 2012, the share capital was increased in the amount of EUR 65,926.00 to implement a dividend, and the capital increase was entered in the commercial register on June 6, 2014.

   Based on the authorization issued by the Annual General Meeting on May 9, 2012, the share capital was increased again in the amount of EUR 451,000.00 against cash contributions, and the capital increase was entered in the commercial register on July 8, 2014.

   The authorized capital as of December 31, 2014, was EUR 2,704,330.00.

8. 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 2012, the General Shareholders' Meeting authorized the Executive Board to purchase own shares until May 8, 2017, provided that such purchase is not made for the purpose of trading in treasury shares, and provided that the purchase price of said shares is not more than 10 % above or below the share's average closing price at the Frankfurt Stock Exchange during the last ten days preceding the purchase (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 89,054 treasury shares as of 31 December 2014.

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

10. An agreement with the member of the Executive Board gives him the right to terminate his employment for cause if at least one outside shareholder or one 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.

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, the performance of Softing's shares 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.

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 contract runs until 2016.

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 (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 16, 2015
Softing AG

The Executive Board

Dr. Wolfgang Trier

Consolidated Statement of Financial Position

as of December 31, 2014 and December 31, 2013

Assets	Note	Dec. 31, 2014 EUR (in thsds.)	Dec. 31, 2013 EUR (in thsds.)
Non-current assets			
Goodwill	C1/C2	14,456	2,439
Intangible assets	C3/C4	26,510	7,289
		40,966	9,728
Property, plant and equipment	C5	1,899	1,366
		42,865	11,094
Deferred tax assets	D9	1,657	509
Non-current assets, total		**44,522**	**11,603**
Current assets			
Inventories	C7	8,737	4,660
Trade receivables	C8	14,086	8,675
Receivables from customer-specific construction contracts	C9	164	1,354
		14,249	10,029
Other current assets	C10	527	894
Current income tax assets	C11	184	103
Current financial assets	C12	0	833
Cash and cash equivalents	C12	8,750	12,116
Current assets, total		**32,447**	**28,635**
Total assets		**76,969**	**40,238**

Equity and liabilities	Note	Dec. 31, 2014 EUR (in thsds.)	Dec. 31, 2013 EUR (in thsds.)
Equity			
Subscribed capital	C13	6,959	6,443
Capital reserves	C13	12,270	4,396
Treasury shares	C13	-223	-287
Retained earnings	C13	18,014	15,606
Equity (Group share)		37,020	26,158
Minority interests	C13	-32	-27
Equity, total		**36,988**	**26,131**
Non-current liabilities			
Pensions and similar obligations	C14	2,161	1,505
Long-term borrowings	C15	8,959	50
Other non-current liabilities	C15	8,887	0
Deferred taxes	D 9	3,104	2,182
Non-current liabilities, total		**23,110**	**3,737**
Current liabilities			
Trade payables	C16	4,007	2,357
Payables from customer-specific construction contracts	C9	185	176
Provisions and accrued liabilities	C17	262	210
Income tax liabilities	C18	1,449	586
Short-term borrowings	C19	1,825	195
Current non-financial liabilities	C20	3,967	4,004
Current financial liabilities	C21	5,176	2,842
Current liabilities, total		**16,871**	**10,370**
Total equity and liabilities		**76,969**	**40,238**

Consolidated Income Statement

from January 1 to December 31, 2014

	Note	Jan. 1, 2014 – Dec. 31, 2014 EUR (in thsds.)	Jan. 1, 2013 – Dec. 31, 2013 EUR (in thsds.)
Revenue	**D1**	**74,533**	**52,550**
Other own work capitalized	D2	3,924	3,966
Other operating income	D3	768	693
Operating income		**79,225**	**57,209**
Cost of materials	D4	-27,369	-15,181
Staff costs	D5	-32,086	-25,833
Depreciation, amortization and impairment losses	D6	-4,212	-3,160
thereof depreciation / amortization due to purchase price allocation		-762	0
Other operating expenses	D7	-9,672	-6,830
Operating expenses		**-73,339**	**-51,004**
Profit / loss from operations (EBIT)		**5,886**	**6,205**
Interest income	D8	157	154
Interest expense	D8	-433	-205
Earnings before income taxes		**5,611**	**6,154**
Income taxes	D9	-1,812	-1,861
Consolidated profit		**3,800**	**4,293**
Attributable to:			
Owners of the parent	E4	3,805	4,316
Minority interests	E4	-5	-23
Consolidated profit		**3,800**	**4,293**
Earnings per share (basic = diluted)		0.58	0.69
Average number of shares outstanding (basic)		6,599,746	6,256,402

Consolidated Statement of Comprehensive Income

from January 1 to December 31, 2014

	Note	Jan. 1, 2014 – Dec. 31, 2014 EUR (in thsds.)	Jan. 1, 2013 – Dec. 31, 2013 EUR (in thsds.)
Consolidated profit		**3,800**	**4,293**
Items that will not be reclassified to consolidated profit or loss			
Remeasurements	C13	-721	226
Tax effect		202	-35
Remeasurements		-519	191
Items that will be reclassified to consolidated profit or loss:			
Currency translation differences			
Changes in unrealized gains / losses		2,332	-19
Differences from the measurement of securities			
Changes in unrealized gains / losses		0	10
Other comprehensive income			
Consolidated total comprehensive income		**1,813**	**182**
Total comprehensive income for the period		**5,613**	**4,475**
Total comprehensive income for the period attributable to:			
Owners of the parent		5,618	4,498
Minority interests		-5	-23
Total comprehensive income for the period		**5,613**	**4,475**
Earnings per share (basic = diluted)		0.85	0.72
Average number of shares outstanding (basic)		6,599,746	6,256,402

Consolidated Statement of Changes in Equity

from January 1 to December 31, 2014

	Subscribed capital	Capital reserves	Treasury shares	Retained earnings					Attributable to shareholders of Softing AG	Non-controlling interests	Total equity
	Capital			Net retained profits and other	Available-for-sale financial assets	Remeasure-ments	Currency translation	Total	Interests	Interests	
	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.)
As of January 1, 2014	**6,443**	**4,396**	**-287**	**16,497**	**1**	**-759**	**-134**	**15,605**	**26,157**	**-26**	**26,131**
Dividend payment				-2,215				-2,215	-2,215		-2,215
Sale of treasury shares			64	390				390	454		454
Remeasurements						-721		-721	-721		-721
Tax effect						202		202	202		202
Addition from capital increases	517	7,873						0	8,390		8,390
Measurement of financial instruments				73	-1			72	72		72
Currency translation							2,333	2,333	2,333		2,333
Acquisition of minority interests				-1,458				-1,458	-1,458		-1,458
Net profit for 2014				3,805				3,805	3,805	-6	3,799
Balance as of December 31, 2014	**6,959**	**12,270**	**-223**	**17,092**	**0**	**-1,277**	**2,199**	**18,014**	**37,020**	**-32**	**36,988**

	Subscribed capital	Capital reserves	Treasury shares	Retained earnings					Attributable to shareholders of Softing AG	Non-controlling interests	Total equity
	Capital			Net retained profits and other	Available-for-sale financial assets	Remeasure-ments	Currency translation	Total	Interests	Interests	
	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.)
As of January 1, 2013	**6,443**	**4,396**	**-772**	**13,200**	**-9**	**-950**	**-115**	**12,126**	**22,193**	**-3**	**22,190**
Sale of treasury shares			485	825				825	1,310		1,310
Remeasurements						226		226	226		226
Tax effect						-35		-35	-35		-35
Other				-135				-135	-135		-135
Dividend payment				-1,709				-1,709	-1,709		-1,709
Measurement of financial instruments					10			10	10		10
Currency translation							-19	-19	-19		-19
Minority interests							0	0	0	-23	-23
Net profit for 2013				4,316				4,316	4,316	0	4,316
Balance as of December 31, 2013	**6,443**	**4,396**	**-287**	**16,497**	**1**	**-759**	**-134**	**15,605**	**26,157**	**-26**	**26,131**

Consolidated Statement of Cash Flows

from January 1 to December 31, 2014

	Jan. 1, 2014 – Dec. 31, 2014 EUR (in thsds.)	Jan. 1, 2013 – Dec. 31, 2013 EUR (in thsds.)
Cash flows from operating activities		
Profit (before tax)	5,611	6,154
Depreciation, amortization and impairment losses on fixed assets	4,212	3,160
Other non-cash transactions	185	0
Cash flows for the period	**10,008**	**9,314**
Interest income	-157	-154
Interest expense	433	205
Change in other provisions and accrued liabilities	52	-86
Change in inventories	-1,579	-1,315
Change in trade receivables	-646	-181
Change in financial receivables and other assets	-560	1,298
Change in trade payables	-917	-419
Change in financial and non-financial liabilities and other liabilities	940	-1,378
Interest received	50	80
Income taxes paid	-1,311	-1,332
Cash flows from operating activities	**6,313**	**6,032**
Investments in fixed assets	-1,374	-1,168
Cash receipts from the disposal of intangible assets and property, plant and equipment	0	41
Cash paid for investments in internally generated intangible assets	-4,265	-3,966
Repayment for investments in financial assets	833	160
Cash paid for the acquisition of subsidiaries	-21,907	0
Cash flows from investing activities	**-26,712**	**-4,933**
Cash paid for dividends	-1,337	-1,709
Cash received from bank loans	11,000	0
Repayment of bank loans	-370	0
Cash received from capital increase	7,512	0
Cash received from the sale of treasury shares	454	1,310
Interest paid	-275	-81
Cash flows from financing activities	**16,984**	**-480**
Net change in funds	-3,416	619
Effects of exchange rate changes on cash and cash equivalents	50	-19
Cash and cash equivalents at the beginning of the period	12,116	11,516
Cash and cash equivalents at the end of the period	**8,750**	**12,116**

For further information, please see item E3 of the Notes.

Changes in Intangible Assets and Property, Plant and Equipment

in Financial Year 2014

	Cost					
	Jan. 1, 2014	Acquisitions from business combinations	Additions	Currency differences	Disposals	Dec. 31, 2014
	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)
Intangible assets						
Goodwill	2,735	11,258	0	759	0	14,752
Internally generated intangible assets	57,912	0	4,265	0	44,188	17,989
Other intangible assets	5,453	16,003	673	1,947	4,096	19,980
	66,100	**27,261**	**4,938**	**2,706**	**48,284**	**52,371**
Property, plant and equipment						
Other equipment, furniture and fixtures and office equipment	6,573	210	968	36	4,255	3,530
	72,673	**27,369**	**5,906**	**2,742**	**52,539**	**56,150**

in Financial Year 2013

	Cost					
	Jan. 1, 2013	Acquisitions from business combinations	Additions	Currency differences	Disposals	Dec. 31, 2013
	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)
Intangible assets						
Goodwill	2,735	0	0	0	0	2,735
Internally generated intangible assets	53,530	0	4,382	0	0	57,912
Other intangible assets	5,274	0	236	-1	56	5,453
	61,539	**0**	**4,618**	**-1**	**56**	**66,100**
Property, plant and equipment						
Other equipment, furniture and fixtures and office equipment	6,345	0	517	-3	286	6,573
	67,884	**0**	**5,135**	**-4**	**342**	**72,673**

Accumulated depreciation, amortization and impairment losses					Carrying amounts	
Jan. 1, 2014	Currency differences	Depreciation, amortization and impairment losses in the financial year	Disposals	Dec. 31, 2014	Dec. 31, 2014	Dec. 31, 2013
EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)
296	0	0	0	296	14,456	2,439
51,090	0	2,631	44,187	9,533	8,455	6,821
4,985	5	1,030	4,095	1,925	18,054	468
56,371	5	3,661	48,282	11,754	40,966	9,728
5,207	18	552	4,247	1,530	1,899	1,366
61,579	**23**	**4,212**	**52,529**	**13,285**	**42,865**	**11,094**

Accumulated depreciation, amortization and impairment losses					Carrying amounts	
Jan. 1, 2013	Currency differences	Depreciation, amortization and impairment losses in the financial year	Disposals	Dec. 31, 2013	Dec. 31, 2013	Dec. 31, 2012
EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)
296	0	0	0	296	2,439	2,439
48,742	0	2,349	0	51,091	6,821	4,789
4,719	0	319	53	4,985	468	554
53,757	0	2,668	53	56,372	9,728	7,782
4,965	-3	492	247	5,207	1,366	1,380
58,722	**-3**	**3,160**	**300**	**61,579**	**11,094**	**9,162**

Notes to the Consolidated Financial Statements for the 2014 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 (IFRIC) that were binding for the financial year ended and applicable in the European Union in accordance with Regulation No. 1606/2002 of the European Parliament and of the Council on the application of international accounting standards. The term IFRS also includes the applicable International Accounting Standards (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 statement of financial position differentiates between current and non-current assets. Assets are classified as current if they become due within one year. The consolidated statement of financial position also differentiates between current and non-current liabilities. 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 2014 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 16, 2015. 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 2014 financial year, the Company applied the IFRS whose application is mandatory for financial years beginning on or after January 1, 2014. 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 2014 provided they were material to its activities:

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. Key criteria are power over the investee, exposure or rights to variable returns from involvement with the investee, and the ability to use power over the investee to affect the amount of those returns.

IFRS 12, Disclosures of Interests in Other Entities, and IAS 27, Separate Financial Statements – Investment Entities.

IFRS 11, "A joint arrangement has the following characteristics: The parties are bound by a contractual arrangement; the contractual arrangement gives two or more of those parties joint control of the arrangement." 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.

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.

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.

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 entered into force on 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

IAS 39: Novation of Derivatives and Continuation of Hedge Accounting

Changes to the transition guidelines for IFRS 10, IFRS 11 and IFRS 12 (June 2012)

There are no other Standards or Interpretations that are not yet effective that would be expected to have a material impact on the Group.

Standards and Interpretations not Applied Early

A number of new Standards and amendments to Standards and Interpretations are effective for financial years beginning after January 1, 2014, 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 15 provides comprehensive guidance on whether, when, and in what amount reporters must recognize revenue. It replaces existing standards addressing the recognition of revenue, including IAS 18, Revenue, IAS 11 Construction Contracts, and IFRIC 13 Customer Loyalty Programmes. IFRS 15 must be applied for the first time in reporting periods beginning on or after January 1, 2017, although early application is permitted.

The following new or revised Standards are not expected to have any material effects on the consolidated financial statements:

IFRS 14: Regulatory Deferral Accounts

Amendment to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

Amendments to IAS 19: Defined Benefit Plans, Employee Contributions

Amendments to IAS 27: Consolidated Financial Statements and Accounting for Investments in Subsidiaries

Improvements to International Financial Reporting Standards (2010-2012 Cycle)

Improvements to International Financial Reporting Standards (2011–2013 Cycle)

Improvements to International Financial Reporting Standards (2012–2014 Cycle)

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. Recognition must be reliable as stipulated in IAS 18.14.

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 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, 2014 include Softing AG and the following subsidiaries, over which Softing AG directly or indirectly exercises control:

Softing Group as of December 31, 2014	Capital share	
	2014 %	2013 %
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 Messen und Testen GmbH, Reutlingen / Germany	100	100
Softing Industrial Automation GmbH, Haar / Germany	100	100
samtec automotive software & electronics GmbH, Kirchentellinsfurt / Germany	100	100
Softing Italia s.r.l., Cesano Boscone / Italy	100	100
SoftingROM s.r.l., Cluj-Napoca / Romania	100	100
Buxbaum Automation GmbH, Eisenstadt / Austria	65	65
Softing Inc., Newburyport / USA (formerly: Softing North America Inc.)	100	100
Entities newly acquired or established by the Softing Group in 2014		
Softing North America Holding, Delaware / USA	100	0
OLDI Online Development Inc., Knoxville / USA	100	0
Psiber Data GmbH, Krailling / Germany	100	0
Psiber Data Pte. Ltd., Singapore	100	0

The following subsidiaries avail themselves of exemption pursuant to Section 264 para. 3 German Commercial Code:

- 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. The consolidation of an entity is contingent on the possibility of control. According to IFRS 10, a control relationship requires power over an investee, returns, and the ability to affect those returns through this power. Power is defined as a situation in which the parent has the ability to direct the relevant activities of the investee which significantly affect the investee's returns. Power can be demonstrated by way of voting rights or other contractual rights. A combination of both is also possible. Power is exerted if an entity holds more than 50 % of the voting rights in an investee, and no other contradictory agreements or circumstances exist. In assessing control, potential voting rights, economic dependence, the interest held compared with that of the other shareholders, and voting patterns at shareholder meetings must be taken into consideration.

Subsidiaries acquired are accounted for using the purchase method. The consideration for the acquisition is equal to the fair value of the transferred assets. In addition, the consideration paid includes the fair value of any recognized assets or liabilities arising from agreed contingent consideration. Acquired assets identifiable in the course of a business combination along with liabilities and contingent liabilities assumed are recognized when they are acquired at their fair value at the time of acquisition. For each acquisition of an entity, the Group decides on a case-by-case basis whether the non-controlling interests in the entities acquired are recognized at fair value or in the amount of their proportional share of the net assets of the acquired entity.

Any contingent consideration to be paid by the Group is recognized at fair value at the time of acquisition. Future adjustments to the fair value of contingent consideration classified as an asset or a liability are measured in accordance with IAS 39 and either recognized in profit or loss or in other comprehensive income. Contingent consideration that is classified as equity is not remeasured and, when settled later, is accounted for in equity.

Transactions involving non-controlling interests without a loss of control are reported as transactions with the owners of the Group acting in their capacity as owners. Any difference between the fair value of the consideration paid and the acquired interest in the carrying amount of the net assets of the subsidiary arising from the acquisition of a non-controlling interest is recognized in equity.

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 goodwill resulting from acquisition accounting as well as other intangible assets and capitalized development costs.

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.

5. 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 and impairment. 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.

6. GOODWILL

Goodwill arises in conjunction with the acquisition of subsidiaries and equals the total of the consideration paid, the amount of all non-controlling interests in the acquired entity, and the fair value of previously held equity interests in the acquired entity, less the fair value of the net assets acquired. If the fair value of the net assets acquired exceeds the total of the consideration paid, the amount of all non-controlling interests, and the fair value of the previously held equity interests, the difference is recognized directly in profit or loss.

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. The relevant cash generating units for goodwill are:

- Softing Messen und Testen GmbH, Reutlingen / Germany
- Softing Industrial Automation GmbH, Haar / Germany
- OLDI Online Development Inc., Knoxville / USA
- Psiber Data GmbH, Krailling / Germany & Psiber Data Pte. Ltd., Singapore

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. If the carrying amount of the CGU is higher than its recoverable amount, the difference is directly recognized as an impairment charge in profit or loss. 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. 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. Identical parameters were used for all items of goodwill:

- Discount rates before taxes 11.3 % – 12.0 % (previous year: 12.6 %)

- Risk-free interest rate: 2.00 % – 2.94 % (previous year: 2.76 %)

- Risk premium: 5.0 % – 6.5 % (previous year: 6.5 %)

- Beta factor (weighted average of a group of comparable companies): 1.20 – 1.26 (previous year: 1.64)

An impairment loss recognized on goodwill is not reversed in future periods.

7. 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 and technology is amortized over a period of three to seven years in accordance with its respective useful life using the straight-line method. Rights and business relations are amortized over a period of five to twenty years.

8. 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. 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.

9. 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.

10. 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 finance lease agreements.

11. INVENTORIES

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

12. FINANCIAL ASSETS

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

Financial assets are classified as follows: (a) financial assets at fair value through profit or loss; (b) loans and receivables; and (c) available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets upon initial recognition.

a. Financial liabilities at fair value through profit or loss
   Assets classified as at fair value through profit or loss are financial assets held for trading purposes. A financial asset is assigned to this category if it was as a rule acquired for the purpose of being a short-term purchase. Assets in this category are reported as current assets if the sale of these assets is expected within 12 months. All other assets are classified as non-current assets.

b. Loans and receivables
   Loans and receivables are non-derivative financial assets with fixed and determinable payments that are not quoted on an active market. They are classified as current assets as long as they are not due more than 12 months after the reporting date. If this 12-month period is exceeded, they are reported as non-current assets. Loans and receivables are reported in the consolidated statement of financial position under "Trade receivables and other receivables" and "Cash and cash equivalents."

c. Available-for-sale financial assets
   Available-for-sale financial assets are non-derivative assets that were either assigned to this category or one of the other categories presented here. They are classified as non-current assets, if management does not intend to sell them within 12 months after the reporting date, and the asset is not due within this period.

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 statement of financial position 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 and 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
Current financial assets	Loans and receivables
Financial receivables (< 1 year)	Loans and receivables
Cash and cash equivalents	Loans and receivables
Non-current liabilities	
Other long-term borrowings > 1 years	Measured at amortized cost or at fair value
Current financial liabilities	
Trade payables	Measured at amortized cost
Current financial liabilities	Measured at amortized cost or at fair value

13. 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). Recognition must be reliable as stipulated in IAS 18.14. 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.

14. 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.

15. 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.

Deferred tax liabilities, which arise through temporary differences in the context of investments in subsidiaries are recognized, unless the Group can determine when the temporary differences reverse and it is probable that the temporary differences will not reverse in the foreseeable future as a result of this effect.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

16. 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 remeasurements are recognized in other comprehensive income.

17. PROVISIONS AND ACCRUED LIABILITIES

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.

18. 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 statement of financial position 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 borrowings 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 statement of financial position items "Trade payables", "Short-term borrowings" and "Current financial liabilities".

19. SHORT-TERM BORROWINGS

Short-term borrowings include current liabilities to banks. Short-term borrowings are initially recognized at fair value.

20. OTHER LIABILITIES

The other liabilities concern non-financial liabilities and are recognized at their repayment amount.

21. 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 macroeconomic factors which might be used as a reliable basis. Forecasts are intrinsically uncertain because they are forward-looking. 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.

22. CURRENCY TRANSLATION

Foreign currencies are translated using the functional currency method as defined in IAS 21. The functional currency of all foreign subsidiaries, with the exception of Psiber in Singapore, is the respective local currency. For Psiber in Singapore, the functional currency is the USD 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 EUR, 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. Equity is translated at historical rates. 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.

Goodwill and fair value adjustments arising during an acquisition of a foreign entity are recognized as assets and liabilities of the foreign entity and translated at the rate of exchange on the closing date. All resulting currency translation differences are recognized in other comprehensive income.

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

	USD / EUR		RON / EUR	
	2014	2013	2014	2013
Closing rate (Dec. 31)	1.21	1.38	4.48	4.47
Average exchange rate	1.33	1.37	4.44	4.46

C. NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

1. CHANGES IN THE BASIS OF CONSOLIDATION

Psiber

During the reporting period, Softing AG acquired interests in the companies listed below and consolidated these in full for the first time in the consolidated financial statements for the period ended December 31, 2014. As of January 1, 2014, Softing AG directly acquired 100 % of the shares of Psiber Data GmbH in Krailling, Germany, as well as indirectly acquiring its interest of 55 % in Psiber Data Pte. Ltd. in Singapore.

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

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 fair value of the identifiable consolidated assets and liabilities of the acquired companies and the corresponding consolidated carrying amounts were as follows immediately prior to the time of acquisition:

EUR (in thsds.)	Carrying amount immediately prior to the business combination	Fair value as of the date of initial consolidation
Intangible assets	8	2,260
Property, plant and equipment	96	96
Inventories	977	977
Trade receivables	1,232	1,232
Other current assets	293	293
Cash and cash equivalents	601	601
Financial liabilities	371	371
Trade payables	1,523	1,523
Other current liabilities	82	82
Provisions and accrued liabilities	219	219
Deferred taxes	0	533
Net assets (100 %)	**1,010**	**2,730**
Non-controlling interests		1,011
Consideration / purchase price		**6,900**
– of which cash		6,000
– of which contingent consideration		900
Goodwill		**5,181**

The Group is amortizing the intangible assets relating to the WireXpert diagnostic tool and a business relationship arising from the purchase price allocation according to the straight-line method over a period of seven years.

The gross amount of inventories, other assets, and trade receivables at the time of acquisition corresponds to their fair value.

The fixed purchase price was fully financed with cash on hand.

The measurement of the variable portion of the Psiber purchase price depends on the attainment of revenue and earnings (EBIT) targets in 2014 and 2015 and on defined requirements applicable to the minority shareholders of Psiber Data Pte. Ltd. in Singapore in 2014.

The variable portions of the consideration fall within a range from EUR 0 thsd. to EUR 2,550 thsd., depending on target attainment. The purchase price agreements stipulate a maximum cap for these amounts.

The fair value was determined to be EUR 900 thsd. and is based on projected revenue and EBIT adjusted for the likelihood of occurrence.

The goodwill is not tax-deductible.

On November 6, 2014, Softing AG acquired the remaining 45 % of the shares of Psiber Data Pte. Ltd. from the minority shareholders.

At the time of acquisition, the non-controlling interest in Psiber Data Pte. Ltd. amounted to 45 % (EUR 1,011 thsd.), and on November 6, 2014, the Group acquired this interest and recognized the surplus amount of the purchase price of EUR 1,458 thsd. in equity.

The statement of comprehensive income for the reporting period includes total revenue of EUR 8,750 thsd. as well as profits of EUR 87 thsd. from Psiber.

OLDI

On May 13, 2014, Softing AG established Softing North America Holding Inc., which is domiciled in Delaware, USA, for the purpose of acquiring 100 % of the shares of OLDI Online Development Inc., which is domiciled in Knoxville, USA. This acquisition was completed on May 22, 2014. Since 2014, the Softing Group's activities in North America have been consolidated at Softing North America Holding Inc.

For over 20 years, OLDI has designed and manufactured factory automation products to help industrial customers simplify control and communications tasks. The company is virtually an ideal fit with Softing's product portfolio in its core business of Softing Industrial Automation. OLDI is a Rockwell Automation Global Encompass Partner, a member of the Control System Integrator Association (CSIA) and ODVA and participates in partner programs from IBM, Microsoft, and Oracle. With the acquisition of OLDI Softing will benefit from the growth in the U.S. industrial equipment market. The acquisition will enable Softing to establish a comparatively strong position in two of the world's three largest automation markets, thus reducing its economic dependence on the European market.

The fair value of the identifiable consolidated assets and liabilities of the acquired company and the corresponding consolidated carrying amounts were as follows immediately prior to the time of acquisition:

EUR (in thsds.)	Carrying amount immediately prior to the business combination	Fair value as of the date of initial consolidation
Intangible assets	1	13,742
Property, plant and equipment	12	12
Inventories	1,521	1,521
Trade receivables	2,343	2,343
Other current assets	9	9
Cash and cash equivalents	0	0
Financial liabilities	293	293
Trade payables	1,044	1,044
Provisions and accrued liabilities	511	511
Net assets (100 %)	**2,037**	**15,778**
Non-controlling interests		0
Consideration / purchase price		**21,855**
– of which cash		15,266
– of which contingent consideration		6,590
Goodwill		**6,077**

The Group is amortizing the intangible asset relating to a business relationship arising from the purchase price allocation according to the straight-line method over a period of 20 years.

The gross amount of inventories, other assets, and trade receivables at the time of acquisition corresponds to their fair value.

The fixed purchase price was financed with cash on hand and bank loans. The loans amounted to EUR 10,630 thsd. at the reporting date and feature a fixed and variable repayment schedule. The basic term of the loans is five years at a variable interest rate, which varies between 1.8 % and 2.6 % as of the reporting date. Options for early repayment have been agreed with the banks.

The measurement of the variable portion of the OLDI purchase price depends on the attainment of revenue and earnings (EBIT) targets from 2014 to 2016.

The variable portions of the consideration fall within a range from EUR 0 thsd. to EUR 6,590 thsd., depending on target attainment. The purchase price agreements stipulate a maximum cap for these amounts. The fair value was determined to be EUR 6,590 thsd. and is based on projected revenue and EBIT adjusted for the likelihood of occurrence.

The goodwill and capitalized business relationship are tax deductible.

The statement of comprehensive income for the reporting period includes total revenue of EUR 12,949 thsd. as well as profits of EUR 1.020 thsd. from OLDI.

If the business combination had taken place at the start of the financial year, revenue of EUR 19,993 thsd. and profits of EUR 1,496 thsd. would have been generated.

2. GOODWILL

Of the goodwill amounting to EUR 14,456 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 entity was merged into Softing Industrial Automation GmbH effective January 1, 2013. The acquisition of Psiber Data GmbH and Psiber Data Pte. Ltd. resulted in goodwill of EUR 5,181 thsd. Goodwill of USD 8,300 thsd. (EUR 6,077 thsd.) was generated from the acquisition of OLDI Online Development Inc. as of the acquisition date of May 22, 2014. The translated amount as of December 31, 2014 was EUR 6,836 thsd. 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.

3. 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 15,065 thsd. (previous year: EUR 11,489 thsd.).

In the 2014 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 45 thsd. (previous year: EUR 87 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.

4. 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.

5. PROPERTY, PLANT AND EQUIPMENT

The development of property, plant and equipment is shown in the changes in intangible assets and property, plant and equipment. No write-downs were recognized in addition to amortization.

6. LEASES

The other operating expenses contain lease expenses for buildings and cars of EUR 1,446 thsd. (previous year: EUR 1,137 thsd.).

7. INVENTORIES

	Dec. 31, 2014 EUR (in thsds.)	Dec. 31, 2013 EUR (in thsds.)
Raw materials and consumables	3,531	872
Finished goods	5,206	3,788
Inventories	**8,737**	**4,660**

Valuation allowances recognized in 2014 total EUR 199 thsd. (previous year: EUR 301 thsd.). 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.

8. TRADE RECEIVABLES

	Dec. 31, 2014 EUR (in thsds.)	Dec. 31, 2013 EUR (in thsds.)
Trade receivables	14,086	8,675
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
Dec. 31, 2014						
Trade receivables	14,086	12,134	1,025	775	194	149
Receivables from customer-specific construction contracts	164	128	0	0	0	36
	14,250	**12,262**	**1,025**	**775**	**194**	**185**

	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
Dec. 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
	10,029	**9,133**	**350**	**428**	**53**	**65**

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.)
2014	50	0	50	191	191
2013	38	0	9	21	50

9. RECEIVABLES AND PAYABLES FROM CUSTOMER-SPECIFIC CONSTRUCTION CONTRACTS

	Dec. 31, 2014 EUR (in thsds.)	Dec. 31, 2013 EUR (in thsds.)
Receivables from customer-specific construction contracts	164	1,354
Payables from customer-specific construction contracts	185	-176
Net amount	**-21**	**1,178**

At year-end, the majority of customer-specific construction contracts had been billed and reported under trade receivables.

10. OTHER CURRENT ASSETS

	Dec. 31, 2014 EUR (in thsds.)	Dec. 31, 2013 EUR (in thsds.)
Receivables from employees	18	35
Other financial receivables	45	132
Prepaid expenses / prepayments	351	721
Advances paid	40	0
Other assets	73	6
	527	**894**

11. CURRENT INCOME TAX ASSETS

The current income tax assets concern corporation tax receivables amounting to EUR 184 thsd. (previous year: EUR 103 thsd.). The Group's taxes are described in detail in section D 9.

12. CURRENT FINANCIAL ASSETS, CASH AND CASH EQUIVALENTS

	Dec. 31, 2014 EUR (in thsds.)	Dec. 31, 2013 EUR (in thsds.)
Securities classified as current assets	0	833
Cash and cash equivalents	8,750	12,116
	8,750	**12,949**

Securities concerned short-term corporate bonds listed on a German stock exchange. These corporate bonds were sold in the reporting period.

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; these time deposit can be liquidated within three months. 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 6,959,438.00 (previous year: EUR 6,443 thsd.). It is divided into 6,959,438 (previous year: 6,442,512) no-par-value bearer shares. An average of 6,599,746 shares were outstanding in the reporting year.

Based on the authorization issued by the Annual General Meeting on May 9, 2012, the share capital was increased in the amount of EUR 65,926.00 to implement a dividend, and the capital increase was entered in the commercial register on June 6, 2014.

Based on the authorization issued by the Annual General Meeting on May 9, 2012, the share capital was increased again in the amount of EUR 451,000.00 against cash contributions, and the capital increase was entered in the commercial register on July 8, 2014.

In 2014, the share capital of Softing AG was EUR 6,959,438, 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, 2014, and December 31, 2013.

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 48 % (previous year: 65 %). The change is due to the financing of the acquisitions.

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, 2014, was EUR 2,704,330.00.

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.

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.

Non-controlling Interests

The non-controlling interests in the amount of EUR –32 thsd. (previous year: EUR –27 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:

	Number of shares	Transaction date	Proportionate share capital	Interest in share capital	Cost
			EUR (in thsds.)	%	EUR (in thsds.)
Balance on Dec. 31, 2013	114,352			1.77	287
Additions 2014					
Disposals 2014	25,298	July 2014	25	0.36	64
Balance on Dec. 31, 2014	89,054		89	1.28	223

The sale of treasury shares resulted in a profit of EUR 390 thsd. in 2014, which is shown in retained earnings.

The market price of the treasury shares was EUR 1,311 thsd. as of the balance sheet date, which is EUR 1,088 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.

The changes in consolidated equity including the changes from acquisitions are presented in the table "Consolidated Statement of Changes in Equity" 2014 / 2013.

14. PENSIONS AND SIMILAR OBLIGATIONS

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 2,675 thsd. (previous year: EUR 2,558 thsd.) was offset against pension provisions. Actuarial remeasurements were recognized immediately in retained earnings in accordance with IAS 19.120. The cumulative gains and losses reported in this item were EUR –1,775 thsd. as of December 31, 2014 (previous year: EUR –1,054 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 106.5 points to 106.7 points on average between 2013 and 2014.

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

Basis of calculation	Dec. 31, 2014 %	Dec. 31, 2013 %
Assumed interest rate	2.00	3.25
Salary trend	0.0	0.0
Expected rate of pension increase	1.82	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	2014 EUR (in thsds.)	2013 EUR (in thsds.)
DBO as of January 1	4,063	4,206
Service cost	90	94
Interest expense	129	124
Pension payments to pensioners	-167	-136
Expected DBO as of December 31	**4,115**	**4,288**
Actual DBO as of December 31	4,836	4,063
Remeasurements, of which	721	-226
Effects from adjusting the assumed interest rate	863	-160
Effects from changes in trend assumptions	-38	66
Effects from experience adjustments	-104	0

The average remaining life of the obligation is 16.9 years (previous year: 15 years).

Calculation of annual income and annual expense	2014 EUR (in thsds.)	2013 EUR (in thsds.)
Interest income	106	74
Interest expense	129	124
Service cost	91	94
Annual expense	**114**	**144**

Development of plan assets	2014 EUR (in thsds.)	2013 EUR (in thsds.)
Plan assets as of January 1	2,558	2,456
Payment from plan assets	-96	-76
Payments into the employer's plan assets	107	107
Interest earned from plan assets	106	74
Adjustment of plan assets	0	-3
Plan assets as of December 31	**2,675**	**2,558**

Only reinsurance policies not quoted on an active market 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 thsd. in 2015 (previous year: EUR 107 thsd.).

Reconciliation with the statement of financial position	Dec. 31, 2014 EUR (in thsds.)	Dec. 31, 2013 EUR (in thsds.)
Present value of the defined benefit obligations (DBO)	4,836	4,063
Fair value of the external plan assets	2,675	2,558
Provision	**2,161**	**1,505**

Development of the provision	2014 EUR (in thsds.)	2013 EUR (in thsds.)
Provision as of January 1	1,505	1,750
Service cost	91	94
Net interest expense / income	23	50
Actuarial remeasurements, of which	721	-226
Effects from adjusting the assumed interest rate	863	-160
Effects from changes in trend assumptions	-38	0
Effects from experience adjustments	-104	-66
Payments made	-71	-60
Payments into plan assets	-107	-107
Adjustment of plan assets	0	3
Provisions as of December 31	**2,161**	**1,504**

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

	Effect on the obligation	
	Change in the assumption –	Change in the assumption +
Relative effect of interest rate change on DBO 2014	0.25 %	0.25 %
	+4.3 %	-4.0 %
Relative effect of interest rate change on DBO 2013	0.25 %	0.25 %
	+3.9 %	-3.7 %

	Effect on the obligation	
	Change in the assumption –	Change in the assumption +
Relative effect of a change in the pension trend on DBO 2014	0.25 %	0.25 %
	-1.9 %	+2.0 %
Relative effect of a change in the pension trend on DBO 2013	0.25 %	0.25 %
	-1.9 %	+2.0 %

No sensitivity analysis based on life expectancy was presented because participants in question include only three former beneficiaries and one active beneficiary.

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

Pension payments of EUR 168 thsd. (previous year: EUR 167 thsd.) and interest income of EUR 83 thsd. (previous year: EUR 77 thsd.) are expected for the 2015 financial year.

15. NON-CURRENT BORROWINGS AND OTHER NON-CURRENT LIABILITIES

The non-current portion of the loans used to finance the purchase price of OLDI Online Development Inc. amounts to EUR 8,959 thsd. (previous year: EUR 0 thsd.). Short-term repayment is also possible. In the course of obtaining these loans, Softing AG agreed to comply with financial covenants entailing an obligation to maintain certain financial ratios. The financial covenants require Softing to maintain a specified equity ratio and not exceed a maximum debt-to-equity ratio. During the financial year, Softing had no problem fulfilling both of these conditions. Longer-range planning also does not indicate any deterioration that would affect the financial covenants.

16. TRADE PAYABLES AND PAYABLES FROM CUSTOMER-SPECIFIC CONSTRUCTION CONTRACTS

The trade payables of EUR 4,007 thsd. (previous year: EUR 2,357 thsd.) exclusively concern current liabilities toward non-Group third-parties for supplied goods and services. All trade payables are due and payable within one year. The payables from customer-specific construction contracts amount to EUR 185 thsd. (previous year: EUR 176 thsd.).

17. PROVISIONS AND ACCRUED LIABILITIES

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, 2014 EUR (in thsds.)	Use EUR (in thsds.)	Reversal EUR (in thsds.)	Addition EUR (in thsds.)	As of Dec. 31, 2014 EUR (in thsds.)
Warranties	178	178	0	170	170
Contingent loss	32	32	0	0	0
Other				92	92
Total	**210**	**210**	**0**	**262**	**262**

This exclusively comprises current provisions that are estimated to become due within one year.

18. INCOME TAX LIABILITIES

In the financial year just ended, liabilities of EUR 1,449 thsd. (previous year: EUR 586 thsd.) were recognized for expected tax payments. The Group's taxes are described in detail in section D 9.

19. SHORT-TERM BORROWINGS

The current portion of the loans used to finance the purchase price of OLDI Online Development Inc. as of the reporting date amounts to EUR 1,671 thsd. (previous year: EUR 0 thsd.) and must be repaid in the following financial year. The current borrowings item also includes EUR 154 thsd. (previous year: EUR 195 thsd.) in lines of credit at banks subject to interest of between 2.5 % and 5.1 %. EUR 41 thsd. of this amount was repaid during the financial year.

20. CURRENT NON-FINANCIAL LIABILITIES

	Dec. 31, 2014 EUR (in thsds.)	Dec. 31, 2013 EUR (in thsds.)
Liabilities related to social security	2	66
Other tax liabilities primarily (sales and wage tax)	1,641	1,594
Deferred income	2,243	1,598
Other	81	746
	3,967	4,004

In the previous year, the other tax liabilities were shown under the item Other liabilities.

21. CURRENT FINANCIAL LIABILITIES

	Dec. 31, 2014 EUR (in thsds.)	Dec. 31, 2013 EUR (in thsds.)
Wages and salaries payable	3,620	2,842
Current variable purchase prices from acquisitions	1,427	0
Other	129	0
	5,176	**2,842**

The increase in other current liabilities in the higher wages and salaries payable item is due on the one hand to the larger headcount resulting from the acquisitions, and on the other hand to the reporting of the variable purchase price liability associated with the acquisition of Psiber.

In the previous year, wages and salaries payable were reported in the other non-financial liabilities item.

D. NOTES TO THE CONSOLIDATED INCOME STATEMENT

1. REVENUE

Revenue by regions:	2014 EUR (in thsds.)	2013 EUR (in thsds.)
Germany	37,769	31,295
USA	15,960	4,854
Other countries	20,804	16,401
	74,533	**52,550**

Revenue by products and services:	2014 EUR (in thsds.)	2013 EUR (in thsds.)
Products	60,877	42,336
Services	13,656	10,214
	74,533	**52,550**

Revenue includes EUR 4,020 thsd. (previous year: EUR 3,968 thsd.) 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 / investments in the development of new software products.

3. OTHER INCOME

The other operating income comprises the following items:	2014 EUR (in thsds.)	2013 EUR (in thsds.)
Reversal of provisions	238	136
Other income not related to the accounting period	14	0
Income from exchange differences	205	64
Revenue from the provision of automobiles	82	203
Revenue from the reduction of valuation allowances	50	9
Revenue from subsidized projects	0	84
Insurance compensation payment	11	22
Sales commission	36	88
Licensing revenue	20	0
Other personnel revenue	24	0
Recharged costs	46	0
Other income	42	87
	768	**693**

4. COST OF MATERIALS

	2014 EUR (in thsds.)	2013 EUR (in thsds.)
Purchase of components and products	25,898	14,125
Third-party services	1,471	1,056
	27,369	**15,181**

5. STAFF COSTS

	2014 EUR (in thsds.)	2013 EUR (in thsds.)
Current salaries	24,100	19,006
Social security and retirement benefit costs	4,381	3,647
Profit-sharing, royalties	3,109	2,861
Use of company cars by employees	62	205
Temporary workers	83	95
Other	351	19
	32,086	**25,833**

The statutory pension scheme in Germany is treated as a defined contribution scheme. Expenses recognized for the statutory pension scheme total EUR 1,549 thsd. (previous year: EUR 1,407 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:	2014 EUR (in thsds.)	2013 EUR (in thsds.)
Employee-related costs	258	363
Infrastructure costs	2,421	1,793
Distribution costs	3,426	2,259
Consulting costs	615	375
Third-party services	789	628
Capital market costs	648	526
Contributions and fees	102	110
Operating costs	565	326
Other costs	848	450
	9,672	**6,830**

8. INTEREST INCOME / INTEREST EXPENSE

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

Finance costs are composed of the following items:	2014 EUR (in thsds.)	2013 EUR (in thsds.)
Interest from unwinding of discounts on provisions	129	124
Interest on loans	160	0
Other interest	144	81
	433	**205**

Finance income is composed of the following items:	2014 EUR (in thsds.)	2013 EUR (in thsds.)
Interest income from pension provisions	106	74
Interest income from corporate bonds	33	34
Interest income from loans of financial assets	0	20
Other interest	18	26
	157	**154**

9. INCOME TAXES

The income tax expense breaks down as follows:	2014 EUR (in thsds.)	2013 EUR (in thsds.)
Deferred taxes on temporary differences	-208	615
Deferred taxes on tax loss carryforwards	-366	0
	-574	615
Tax expense financial year	2,361	1,246
Tax expense from previous years	25	0
Tax expense	2,386	1,246
	1,812	**1,861**
Effective tax rate	32.29 %	29.82 %

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:

	2014 %	2013 %
Corporation tax including solidarity surcharge	15.83	15.83
Trade income tax rate	12.25	12.25
	28.08	**28.08**

The tax rate for Softing Inc., OLDI Online Development Inc. and Softing North America Holding Inc. is 40.5 %, for Psiber Data Pte. Ltd, Singapore 17 % and for Softing ROM s.r.l. 16.0 %. The tax rates for the other European entities are 25.0 % for Buxbaum Automation GmbH / Austria and 35.90 % for Softing Italia 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. Of the total loss carryforwards in the amount of EUR 1,267 thsd. (previous year: EUR 227), EUR 1,009 thsd. (previous year: EUR 0 thsd.) was recognized on deferred tax assets.

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

	Dec. 31, 2014	Dec. 31, 2013	Usable until
Buxbaum Automation GmbH	258	227	Unlimited
Softing Inc.	768	0	Unlimited
Softing North America Holding Inc.	241	0	Unlimited

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.

	2014 EUR (in thsds.)	2013 EUR (in thsds.)
Earnings before taxes	5,611	6,154
Anticipated tax expense (28.08 %)	1,576	1,727
Tax additions and deductions	125	41
Different tax rates	151	30
Non-recognition of deferred taxes, temporary difference	-120	19
Taxes, previous years	44	0
Other	36	43
Current tax expense shown in the income statement	**1,812**	**1,860**

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

	2014 EUR (in thsds.)		2013 EUR (in thsds.)	
	Assets	Liabilities	Assets	Liabilities
Intangible assets	39	3,087	11	1,935
Pension provision	621		403	
(Of which recognized directly in equity)	(498)		(295)	
Trade receivables	548	17	32	235
Other provisions	60		9	
Current assets			26	
Deferred income	24		28	
Future tax benefits from loss carryforwards	366			
Other assets				12
Gross amount / carrying amount	1,657	3,104	509	2,182

No deferred taxes were recognized on EUR 4,973 thsd. (previous year: EUR 5,512 thsd.) in temporary differences related to investments in subsidiaries.

EUR 572 thsd. (previous year: EUR 67 thsd.) of the deferred tax assets and EUR 42 thsd. (previous year: EUR 247 thsd.) 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. The corporate divisions are shown in the following table in accordance with IFRS 8.

Segmentation	Industrial Automation		Automotive Electronics		Holding, other consolidation		Total	
	2014 EUR (in thsds.)	2013 EUR (in thsds.)	2014 EUR (in thsds.)	2013 EUR (in thsds.)	2014 EUR (in thsds.)	2013 EUR (in thsds.)	2014 EUR (in thsds.)	2013 EUR (in thsds.)
External sales	46,897	26,486	27,636	26,064			74,533	52,550
Depreciation / amortization	2,889	1,862	1,083	1,072	241	225	4,212	3,160
Segment result (EBIT)	1,667	2,273	4,219	3,932			5,886	6,205
Segment assets	55,643	13,702	14,243	13,349	7,383	13,188	76,969	40,238
Segment liabilities	16,300	4,847	4,760	4,791	18,921	4,469	39,981	14,107
Capital expenditure	31,110	3,025	2,285	1,842	118	268	33,513	5,135

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), earnings before interest, taxes, depreciation and amortization (EBITDA) 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.

Geographical segments	Revenue		Fixed assets		Additions to fixed assets	
	2014 EUR (in thsds.)	2013 EUR (in thsds.)	2014 EUR (in thsds.)	2013 EUR (in thsds.)	2014 EUR (in thsds.)	2013 EUR (in thsds.)
Germany	37,769	31,295	20,772	10,884	11,032	5,037
USA	15,960	4,854	21,954	42	20,121	40
Other countries	20,804	16,401	138	168	2,360	58
Total	**74,533**	**52,550**	**42,864**	**11,094**	**33,513**	**5,135**

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);

Diagnostic devices for Ethernet networks in the automation industry and for the diagnosis of copper and optical fiber networks in data centers and office installations.

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. STATEMENT OF CASH FLOWS

The statement of cash flows represents the consolidated cash flows of the consolidated companies; it was determined indirectly.

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

In contrast to the previous year, interest paid was not shown in the cash flow from operating activities but in the cash flows from financing activities.

4. EARNINGS PER SHARE IAS 33

		2014	2013
Consolidated profit	EUR (in thsds.)	3,800	4,293
Minority interest	EUR (in thsds.)	-5	-24
Basic earnings (= diluted earnings)	**EUR (in thsds.)**	**3,805**	**4,317**
Weighted average number of shares			
Basic	Number	6,599,746	6,274,538
Potential stock options	Number	0	0
Diluted	Number	6,599,746	6,274,538
Basic earnings per share	EUR	0.58	0.69
Diluted earnings per share	EUR	0.58	0.69

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, 2014, 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.

The Chairman of the Company's Executive Board, Dr. Wolfgang Trier, held 88,600 shares in Softing AG as of December 31, 2014 (previous year: 84,085).

The Supervisory Board member, Dr. Klaus Fuchs, held 278,820 shares in Softing AG as of December 31, 2014 (previous year: 273,886).

The Supervisory Board member, Andreas Kratzer, held 10,155 shares in Softing AG as of December 31, 2014 (previous year: 9,976).

6. CONTINGENT LIABILITIES

As of the balance sheet date, Softing AG has provided EUR 11,871 thsd. (previous year: EUR 150 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 because the creditworthiness of the debtors is ensured. The guarantees were provided in connection with the loan taken out by operating Group companies for the acquisition of OLDI.

7. OTHER FINANCIAL OBLIGATIONS

As of the balance sheet date, the Company had incurred purchase commitments in the amount of EUR 2,843 thsd. under long-term contracts (previous year: EUR 5,436 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:

	2014 EUR (in thsds.)	2013 EUR (in thsds.)
< 1 year	872	743
1–5 years	1,570	1,692
> 5 years	0	801
Total	**2,442**	**3,236**

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) for prices quoted on active markets for identical assets. As in the previous year, there were no financial instruments as of December 31, 2014, for which IFRS 7 is not applicable.

	Carrying amount Dec. 31, 2014	Amortized cost	Fair value through profit or loss	Fair value Dec. 31, 2014
Current financial assets				
Trade receivables	14,086	14,086		14,086
Receivables from customer-specific construction contracts	164	164		164
Other current financial assets				
Other financial receivables	63	63		63
Securities classified as current assets				
Cash and cash equivalents	8,750	8,750		8,750
Non-current financial liabilities				
Long-term borrowings	8,959	8,959	8,313	8,959
Current financial liabilities				
Trade payables	4,007	4,007		4,007
Short-term borrowings	1,825	1,825		1,825
Current financial liabilities	5,176	3,949	1,227	5,176

	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
Short-term borrowings	195	195		195
Current financial liabilities	2,842	2,842		2,872

For information on the measurement categories of financial instruments, please refer to the list of classes of financial instruments in B9.

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.

The current and non-current purchase price liabilities in the other non-current liabilities and current financial liabilities items are assigned to Level 3. The fair value of the contingent consideration was determined based on the forecast revenue and EBIT of the acquisitions adjusted for the likelihood of occurrence. A change in input factors within the range of alternative assumptions considered possible does not result in any meaningful change in the fair values.

9. OBJECTIVES AND METHODS OF FINANCIAL RISK MANAGEMENT

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

These risks include currency risks resulting from activities in different currency regions; default risks involving non-fulfillment of contractual obligations by contracting parties; interest rate risks, where fluctuations in the market interest rate trigger changes in the fair value of a financial instrument; and interest-related cash flow risks that trigger changes in the future cash flow of a financial instrument because of changes in market interest rates.

To evaluate and take into account such risks, Softing has defined principles through a centralized risk management system that serve to identify and evaluate such risks consistently and systematically. Continual reporting is used by Softing to check compliance with all principles. This enables the Company to identify and analyze risks early on.

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, 2013, and December 31, 2014, 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, 2014, totaled EUR 191 thsd. (previous year: EUR 50 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 8,750 thsd. (previous year: EUR 12,116 thsd.) and securities totaling EUR 0 thsd. (previous year: EUR 833 thsd.) bear interest of 0.00 % (previous year: 0.05 % to 0.8 %) and 0.00 % (previous year: 3.0 % to 9.0 %), respectively. No material interest rate risks result from subsidiaries' liabilities to banks in the amount of EUR 10,741 thsd. (previous year: EUR 195 thsd.) because they can be converted into fixed-interest loans at any time.

An increase of the market interest rate by 50 basis points would have an impact of EUR 51 thsd. (previous year: EUR 1 thsd.) on interest expense relating to other borrowings.

Foreign Currency Risk

The Softing Group's foreign currency risk is limited to two currencies: USD and RON. The foreign currency risk relating to US dollars is hedged naturally, because in the United States and in Singapore (where US dollars are the functional currency), both income and expenses are generated / incurred for products. The foreign currency risk associated with the Romanian RON is minimal because this currency is linked to the euro, and the agreements with the Romanian subsidiary stipulate euros.

All foreign currency forwards had been settled as of the reporting date. The following sensitivities apply with regard to USD:

			USD			
Closing rate: USD 1.21			1.34 +10 %	1.09 -10 %	Difference	Difference
Financial assets / liabilities	USD	USD in EUR			+10 %	-10 %
Trade receivables	4,958	4,083	3,712	4,537	-371	454
Receivables from affiliated companies	235	194	176	215	-18	22
Other current assets	48	39	36	44	-4	4
Cash and cash equivalents	1,435	1,182	1,074	1,313	-107	131
Non-current liabilities to affiliated companies	-30,319	-24,972	-22,702	-27,747	2,270	-2,775
Current liabilities to affiliated companies	-3,570	-2,940	-2,673	-3,267	267	-327
Total	**-27,213**	**-22,414**			**2,038**	**-2,490**

Any movement in the USD:EUR exchange rate would be reflected only in the equity of the Softing Group.

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 8,750 thsd. (previous year: EUR 12,116 thsd.), accounting for 11.25 % (previous year: 30.1 %) of the Group's total assets. Securities classified as current assets account for 0 % (previous year: 2.1 %) 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, 2014	Up to 1 year	2–5 years	More than 5 years
Non-current financial liabilities			
Long-term borrowings		7,391	1,568
Current financial liabilities			
Trade payables	4,007		
Short-term borrowings	1,825		

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

10. PERSONNEL

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

	2014	2013
As of the balance sheet date	419	348
Annual average	411	337

11. EXECUTIVE BOARD

The following persons are or were members of the Executive Board of Softing AG in the reporting period:

Dr.-Ing. Dr. rer. oec. Wolfgang Trier, Munich, Germany, Chairman

Mr. Maximilian Prinz zu Hohenlohe-Waldenburg, Pfaffenhofen, who was responsible for Finance and Human Resources, stepped down from the Executive Board as of July 31, 2014, and has left the Company.

Remuneration of the Executive Board amounted to EUR 2,297 thsd. (previous year: EUR 2,602 thsd.). Of this amount, fixed remuneration accounts for about one third and variable remuneration for two thirds. The remuneration of the Executive Board members also include a termination benefit for a former member of the Executive Board. In accordance with the resolution adopted by the General Shareholders' Meeting on May 9, 2012, the remuneration of individual members of the Executive Board is not disclosed. All remuneration paid to the Executive Board members is of a current nature. Furthermore, service cost of EUR 91 thsd. (previous year: EUR 94 thsd.) was recognized.

The Executive Board member also holds the Company's key central positions.

An agreement with the member of the Executive Board gives him the right to terminate his employment for cause if at least one outside shareholder or one 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, 2014 totaled EUR 3,266 thsd. (previous year: EUR 3,025 thsd.). The total remuneration of former members of the Executive Board amounted to EUR 167 thsd. (previous year: EUR 136 thsd.).

12. SUPERVISORY BOARD

The following persons were members of the Supervisory Board of Softing AG in the 2014 financial year:

Dr. Horst Schiessl, attorney at law, Munich, Germany (chairman)
Dr. Klaus Fuchs, graduate computer scientist and graduate engineer, Helfant, Germany (deputy chairman)
Andreas Kratzer, certified public accountant, Zurich, Switzerland

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 held one office on other supervisory boards until December 17, 2014, specifically at ELUMIX AG, Augsburg.

Mr. 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 remuneration of EUR 10,000 for each full financial year of service on the Supervisory Board. In addition, each member receives variable remuneration amounting to 0.5 % of Group EBIT before variable Supervisory Board remuneration. 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 182 thsd. (previous year: EUR 175 thsd.) and is distributed as follows:

	Fixed		Variable		Total	
	2014	2013	2014	2013	2014	2013
Dr. Horst Schiessl (chairman)	20	20	61	58	81	78
Dr. Klaus Fuchs	15	13	46	38	61	51
Andreas Kratzer	10	7	30	19	40	26
Michael Wilhelm (deputy chairman)	0	5	0	15	0	20

13. AUDITOR'S FEES

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

	2014 EUR (in thsds.)	2013 EUR (in thsds.)
Audit of annual financial statements	107	116
Other services	27	27
	134	**143**

14. EVENTS AFTER THE REPORTING PERIOD

There are no events after the balance sheet date to report.

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 16, 2015

Softing AG

The Executive Board

Dr. Wolfgang Trier

Auditors' Opinion

We have audited the consolidated financial statements – comprising the consolidated statement of financial position, 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, 2014. 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 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 16, 2015

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Stefano Mulas
Wirtschaftsprüfer

ppa. Peter Breitbeck
Wirtschaftsprüfer

Report of the Supervisory Board

for Financial Year 2014

The Supervisory Board of Softing AG carried out its duties as provided by law and the Company's Articles of Incorporation in financial year 2014. 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 eight Supervisory Board meetings were held in the 2014 financial year: on March 18, May 7, May 22 (conference call), twice on July 3 (conference calls), October 13, November 3 (conference call) and December 22, 2014. The number of meetings reflects the high level of activity resulting from business acquisitions in 2014.

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 regular 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 18, 2014, at which the auditor of the annual financial statements was present, the Supervisory Board dealt with the Company's performance in the 2013 financial year and with risks related, for example, to defaults among key suppliers and customers. A key item on the agenda at the Supervisory Board meeting was the review and adoption of the annual financial statements and the approval of the consolidated financial statements, both as of December 31, 2013, 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. At this meeting, the Supervisory Board also carried out the efficiency review recommended by the German Corporate Governance Code and came to the conclusion that its work was efficient. The Supervisory Board also approved the agenda for the 2014 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 and on the status of the integration of the Psiber acquisition into the Softing Group.

In the Supervisory Board meeting on May 7, 2014 after the General Shareholders' Meeting there was a recapitulation of the General Shareholders' Meeting and a report of the Executive Board on the status of and outlook on operations. In addition, the Supervisory Board approved the decision of the Executive Board to carry out a capital increase from authorized capital to implement the share dividend approved by the General Shareholders' Meeting.

In the meeting held by conference call on May 22, 2014, after detailed review the Supervisory Board approved the Executive Board decision establishing the subscription price and ratio for the capital increase from authorized capital in connection with the share dividend. The Supervisory Board also approved the acquisition of Online Development Inc. after a thorough review.

On July 3, 2014, two Supervisory Board meetings were held by conference call. At the first meeting, after an extensive discussion the Supervisory Board approved the decision of the Executive Board to make use of part of the authorized capital to increase the share capital of the Company by issuing up to 451,000 new no-par bearer shares against contributions in cash with the exclusion of shareholder subscription rights and to offer the new shares for purchase to institutional investors through a private placement offer. In a second meeting that evening, after determining demand from investors the Supervisory Board approved the decision of the Executive Board on the detailed conditions of the aforementioned capital increase and reworded the Articles of Incorporation accordingly.

At the Supervisory Board meeting of October 13, 2014, in addition to the regular reports on the business results and finances, the Executive Board presented a report on the progress of the integration of the acquired companies Online Development Inc. and Psiber Data GmbH.

In the meeting held on November 3, 2014, the Supervisory Board dealt intensively with the proposed acquisition of minority interests in Psiber Data Pte, Singapore, from the minority shareholders resident in Singapore and agreed to the decision by the Executive Board to purchase the minority interests.

At the Supervisory Board meeting held on December 22, 2014, the Executive Board presented to the Supervisory Board a first estimate of the 2014 annual results, its business plan for 2015 and its multi-year planning. After careful review, the Supervisory Board approved the two plans.

In this meeting, the Supervisory Board also 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.

All members of the Supervisory Board attended all Supervisory Board meetings in 2014. 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. It was assured at all times.

Composition of the Supervisory Board and the Executive Board

There were no personnel changes on the Supervisory Board in the 2014 financial year. In the reporting year, the Supervisory Board was again comprise of Dr. Horst Schiessl (Chairman), Dr. Klaus Fuchs (Deputy Chairman) and Mr. Andreas Kratzer. The Supervisory Board did not establish any committees, given its size. Instead, the full Supervisory Board was responsible for all tasks and decisions.

There was a personnel change on the Executive Board in 2014. Mr. Maximilian zu Hohenlohe-Waldenburg left the Company's Executive Board when his 3-year contract expired effective July 30, 2014.

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, 2014, 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 16, 2015, 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 2014 at its meeting on March 16, 2015. 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 excellent work in the past financial year. We would like in particular to thank the Executive Board for its successful efforts in the acquisition of two companies in Germany and abroad as well as part of another operation in Germany. The acquisitions will significantly shape the future direction of Softing and the Company's growth for many years to come. Special thanks also go to Mr. zu Hohenlohe-Waldenburg, who left the Executive Board in July 2014 after more than ten years of dedicated work furthering the development of the Company.

Haar, Germany, March 16, 2014

Dr. Horst Schiessl
Vorsitzender

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 2014 financial year, taking into account the exceptions and comments listed below. The Executive Board and Supervisory Board issued the Declaration of Compliance in December 2014. 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 June 24, 2014, 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 remuneration of senior management and the staff overall, when determining the remuneration for the Executive Board (Section 4.2.2 para 2 sentence 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 remuneration of the Executive 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 remuneration appropriately reflects the tasks and performance of the respective Executive Board member and does not exceed what is a customary level of remuneration. Using the customary calculation method, the determination of the Executive Board's remuneration was oriented on the Company's scope of business, its economic and financial position and the structure of the Executive Board remuneration 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 remuneration, 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 Executive Board remuneration based on the substantive and time-related criteria required pursuant to the new Code recommendation. The Executive Board and the Supervisory Board also believe that this new item 4.2.2 para 2 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 sentence 2 of the Code)
When appointing the members of the Executive Board, the Supervisory Board cannot also respect diversity, among others because the Company currently has only one Executive Board member. Given that the Company in the medium term expects to have one or two Executive Board members – a number the Company currently believes to be adequate – the recommendations in the Code to aim for an appropriate consideration of women also do not make sense 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 sentence 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 consequence, 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 sentence 2 of the Code)
In addition to fixed remuneration, the members of the Supervisory Board also receive performance-related remuneration based on consolidated EBIT before taking into account the Supervisory Board's variable remuneration. 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 remuneration 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 remuneration 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. sentence 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 most recent Declaration of Compliance in December 2013, Softing AG has generally been in compliance with the recommendations contained in the German Corporate Governance Code as amended on June 24, 2014. 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.

Remuneration for the active members of the Supervisory Board in the 2014 financial year is presented in the notes of the 2014 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, 2014 Number	Dec. 31, 2014 Number	Sep. 30, 2014 Number	Dec. 31, 2014 Number
Supervisory Board				
Dr. Horst Schiessl (chairman), attorney at law, Munich	–	–	–	–
Dr. Klaus Fuchs (member), graduate computer scientist and graduate engineer, Helfant	278,820	278,820	–	–
Andreas Kratzer (member), certified public accountant, Zurich, Switzerland	10,155	10,155	–	–
Executive Board				
Dr.-Ing. Dr. rer. oec. Wolfgang Trier, Munich	85,600	85,600	–	–
Maximilian zu Hohenlohe, Pfaffenhofen	–	–	–	–

FINANCIAL CALENDAR

March 27, 2015	Annual Report 2014
May 6, 2015	General Shareholders' Meeting in Munich
May 15, 2015	Quarterly Financial Report 1/2015
August 14, 2015	Quarterly Financial Report 2/2015
November 13, 2015	Quarterly Financial Report 3/2015

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