Annual Report 2017

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Consolidated Key Figures

		2017	2016	2015	2014
Incoming orders	(EUR million)	78.0	82.5	87.0	73.1
Revenue	(EUR million)	78.7	80.4	82.3	74.5
EBIT (operating)	(EUR million)	1.1	6.7	7.1	5.2
EBITDA (IFRS)	(EUR million)	6.8	12.3	10.8	10.1
EBIT (IFRS)	(EUR million)	2.3	7.2	5.5	5.9
Consolidated profit (IFRS)	(EUR million)	0.7	5.7	4.5	3.8
Earnings per share (IFRS)	(EUR)	0.10	0.82	0.65	0.58
Non-current assets	(EUR million)	45.9	48.9	47.1	44.5
Current assets	(EUR million)	34.8	34.0	35.4	32.5
Equity	(EUR million)	52.3	47.6	42.3	37.0
Equity ratio		65 %	57 %	51 %	48 %
Cash and cash equivalents	(EUR million)	10.3	10.9	9.2	8.8
Number of employees (annual average)		415	430	429	411

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DEAR SHAREHOLDERS, EMPLOYEES, PARTNERS AND FRIENDS OF SOFTING,

2017 was a year of contrasting emotions for all of us, with both negative and positive surprises along the way. Our two segments performed as expected in the first nine months of the past financial year. The Industrial segment delivered strong growth in both revenue and earnings. The Automotive segment's revenue was weaker year-on-year, and earnings were negative. Overall, revenue remained at the previous year's level, leading to a decline in earnings (EBIT).

In the fourth quarter, a major customer who had expressed the intention to acquire the product rights for a proprietary product that Softing AG finished developing at the beginning of the year postponed its acquisition. After making an initial payment in the second quarter of 2017, the customer was expected to acquire the remaining rights in the fourth quarter of last year and make a final payment of approximately EUR 2 million. Projections indicated that we could not offset the delay of such a large EBIT contribution in the fourth quarter of 2017, especially since exchange rate movements in the euro/US dollar pair put further pressure on our financials.

Reducing our guidance for the 2017 financial year and announcing this immediately by ad hoc release was extremely disappointing for us, particularly as all significant developments to date have been moving in the right direction. Overall, Softing was unable to compensate for weaker sales in the German market in the 2017 financial year despite significant growth in the business in the USA and Asia. The generated revenue of EUR 78.7 million (previous year: EUR 80.4 million) remained slightly below the level of the previous year and missed the target of EUR 82.0 million. EBITDA during the reporting year totaled EUR 6.8 million (previous year: EUR 12.3 million), which corresponds to an EBITDA margin of 9% (previous year: 15%). In 2017, this resulted in EBIT of EUR 2.3 million (previous year: EUR 7.2 million, including the one-time effect of lowering the variable purchase price of EUR 4.1 million for OLDI), and in consolidated net profit for the year of EUR 0.7 million after EUR 5.7 million in the previous year.

The IT Networks segment was still part of the Industrial segment in 2016. In 2017, the IT Networks segment achieved double-digit revenue growth and, in light of the continued positive business outlook, satisfied the criteria necessary to become a separate segment that we are reporting in a modified form for the first time in this annual report.

The Company clearly turned a corner in early December when our US subsidiary Online Development Inc. (OLDI), headquartered in Knoxville, Tennessee, received the largest order in its history, worth almost USD 3 million, to develop and exclusively supply electronics and software for controlling and monitoring electric drive systems. Once development is complete and production begins, additional annual product revenue of up to USD 2 million is expected over a period of more than four years. This is yet another confirmation that our acquisition of OLDI has created a sustainable foundation for the business of the Industrial segment.

With further incoming orders totaling more than EUR 2 million in the Industrial segment from the process industry, particularly the oil and gas sector, we have secured a substantial part of our planned annual revenue for 2018 since January of this year. However, due to third-party supplies and complex manufacturing processes, this revenue will not be realized until the fourth quarter.

In early February, we established Softing Technology Shanghai together with our long-term automotive sales partner Windhill to take account of the sharp rise in demand for the development of complex

technologies for semi-autonomous driving as well as for hybrid and electric vehicles and appropriate adapted solutions in the development and diagnostics of control units in China. Our new company can now directly offer these services locally, which creates growth opportunities we would not be able to leverage in the same way from Europe.

We reached a significant milestone in mid-March 2018 in the field of "over the air" connectivity between vehicles, machinery and a dedicated cloud as well as the user groups this cloud serves by adding Globalmatix AG to the Softing Group. Globalmatix AG is a provider of integrated mobile virtual network operator (MVNO) services that uses its cellular telephony network license to operate its own telecommunications and telematics platform. Inexpensive and secure access to data from mobile units is currently one of the key competencies required for developing the world's fastest-growing markets and enables us to offer worldwide mobile data communications for vehicles and machinery in Machine-to-Machine (M2M) and Internet of Things (IoT) applications.

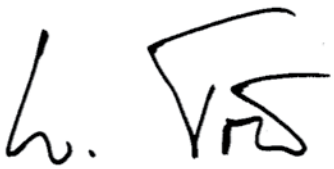
Typical use cases with strong revenue potential include connected car services such as in-vehicle access to diagnostic data, fleet management for large companies and leasing businesses, anti-theft surveillance, GIS data, car sharing, and operational profiles for delivery and service vehicles. The cellular network license also gives us full access to the forthcoming 5G networks that will be needed for autonomous (or as currently, semi-autonomous) driving. Initial applications are already available, with more to be developed over the course of the year. We expect to see significant new, subscription-based revenue from this acquisition by early 2019. This will enable our customers to implement completely new business models such as pay per use.

I am more convinced than ever that Softing will reach further crucial milestones during the current financial year that will reinforce our medium to long-term growth strategy and lay a foundation for profitable revenue growth in both 2018 and especially in the years from 2019 onwards.

We are aiming to increase incoming orders, revenue and earnings in 2018. We are assuming that capitalization of development costs will remain stable due to consistently high levels of investment in new products, including the adaptation of our software to the cellular interface following the takeover of Globalmatix. Furthermore, we expect one-off charges of just under EUR 1 million resulting from transaction costs and from expenses which will be directly recognized as costs in 2018. This stands in contrast to opportunities for income in the existing business but also economic risks in individual sales markets. For the full financial year, we expect a moderate increase in revenue and incoming orders to EUR 80 million. Taking all these effects into account, we anticipate earnings (EBIT) of approximately EUR 4 million. We expect a slight increase in revenue, EBIT and operating EBIT in both the Industrial and IT Networks segments. We anticipate EBIT and operating EBIT in the Automotive segment to improve considerably as a result of the cost reduction measures introduced. Both revenue and EBIT will benefit disproportionately towards the end of the year from product innovations in the Industrial segment and the launch of new, high-margin products in the IT Networks and Automotive segments. From mid-year, we will provide quarterly information with more detail on these figures.

Dear friends of Softing, my wish for this year is that we can celebrate achieving our aforementioned targets and reaching further milestones, and that our operating success will also be reflected in further share price rises. We hope you will remain committed to us and our company, and look forward to an exciting and groundbreaking year in 2018!

Sincerely yours,



Dr. Wolfgang Trier
(Chief Executive Officer)

Softing Shares

KEY DATA OF SOFTING SHARES

ISIN / WKN	DE0005178008/517800
Sector	Industrial
Subsector	Advanced Industrial Equipment
Ticker symbol	SYT
Bloomberg / Reuters	SYT GR/SYTG
Trading segment	Prime Standard, Official Trading, EU-regulated market
Stock exchanges	XETRA, Frankfurt, Stuttgart, Munich, Hamburg, Düsseldorf, Berlin-Bremen, Tradegate
Initial listing (IPO)	May 16, 2000
Indices	Prime All Share Performance Index
Share class	No-par bearer ordinary share with a notional value of EUR 1.00 per share
Share capital	EUR 7,655,381
Authorized Capital	EUR 2,783,776 until May 5, 2020
Contingent Capital	EUR 3,221,256 until May 6, 2018
Designated sponsors	ICF Bank AG Wertpapierhandelsbank M.M. Warburg & CO (AG & CO.) KGaA
Research coverage	Warburg Research

SHARE PERFORMANCE

The Deutsche Aktienindex (DAX) started 2017 at 11,598 points and stood at 12,312 points at the end of the first quarter. In the first three months, the index therefore grew 6% and, for the first time in its history, broke through the 12,000-point barrier. By mid-June 2017, the DAX had risen to 12,889 points, or 11%, and then closed out the first half of the year at 12,325 points as of June 30 – another gain of 6% since the beginning of the year. On October 12, 2017, the DAX passed the 13,000-point mark for the first time and reached a historic high of 13,525 points on November 7, 2017, a rise of almost 17% compared to the start of the year. The DAX ended the year on 12,918 points, up more than 11% on the start of the year. The SDAX increased more than twice as much – by around 25% – in 2017, while the TecDAX posted the most impressive performance with a rise of almost 40% in the year under review.

Softing started the year at a share price of EUR 12.85, reaching its high for the year to date of EUR 14.30 on January 10. By mid-March, it had dropped to EUR 12.50 and then briefly fell to a low of EUR 9.71 on April 19, 2017, after publication of the 2016 annual financial statements on March 23, 2017. Just as quickly, the share price recovered. In early June, it again topped EUR 12.00 following the successful capital increase, rising to an interim high of EUR 12.84 in mid-June (June 19). During the uneventful summer months, the price

pushed steadily upwards despite volatile upward and downward movements to EUR 10.60 by the end of August. Almost two weeks later, the price began to rise sharply again after an investor conference on September 12 to reach a temporary high of EUR 12.95 on September 21. The ad hoc release on October 27 on the postponement of revenue and earnings for an already-agreed contract in the USA totaling around EUR 2.0 million, as well as potential negative currency effects until the end of 2017, halved the previous earnings forecast. This also had a negative impact on the publication of the nine-month report on November 2 and sent the share price into a downward trend for several weeks that bottomed out at EUR 7.70 on November 9, 2017. The positive announcement on December 12 that the Company won the largest US contract in its history, worth several million US dollars over several years, resulted in a trading volume on XETRA equivalent to one-tenth of the entire annual volume on XETRA in just five days. The share price recovered from EUR 7.85 and continued climbing to EUR 9.75 by the end of the year. Ultimately, it has to be said with regret, though, that the performance of the Softing share in 2017 was below average.

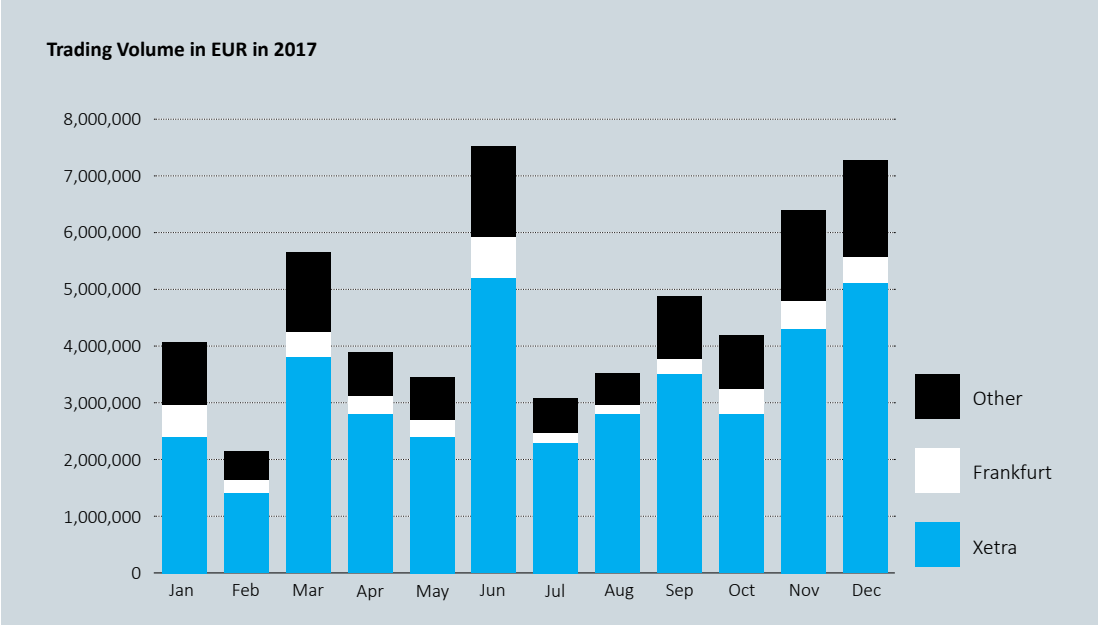
At the end of 2017, the market capitalization of Softing AG was EUR 74.6 million, well below the previous year's figure of EUR 89.4 million. As a result of the successful capital increase in June 2017, the share capital of Softing AG increased from EUR 6,959,438 to EUR 7,655,381 at the end of 2017, divided into the same number of no-par shares.

Price of the Softing share in 2017 (Xetra)

TRADING VOLUME

The average daily trading volume of Softing shares on XETRA almost tripled in 2017 to 21,393 shares, compared to the previous year's figure of 7,774 shares. On selected exceptional days, between 70,000 and 90,000 shares were traded on XETRA alone, reaching a peak of 135,000 shares. In the reporting year, around 5.4 million shares were traded on XETRA, compared with 1.9 million shares in the previous year. The total trading volume (XETRA, Frankfurt and other stock exchanges) was around EUR 57.5 million (previous year: EUR 36 million). Softing supports the liquidity of its shares by using two designated sponsors, ICF Bank AG Wertpapierhandelsbank and M.M. Warburg & CO (AG & CO.) KGaA.

Trading Volumes of Softing Shares in 2017



EARNINGS PER SHARE

Earnings per share (EPS) were EUR 0.10 in 2017, compared with EUR 0.82 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. It has to be noted in this context that the capital increase carried out in June 2017 has resulted in a dilutive effect.

SHAREHOLDER STRUCTURE

As far as the Company knows, Helm Trust Company Limited, St. Helier, Jersey, UK, remains the single largest investor in Softing's 7,655,381 shares. As of the reporting date, Softing AG was not aware of any notifications stating that the shareholder's equity investment had exceeded or fallen below any thresholds compared with the originally

reported share of 26.69% in the Company's share capital. In addition to this investor, there are a number of institutional investors and several private anchor investors. The remaining shares are in free float.

ANALYST RECOMMENDATIONS

Warburg Research has analyzed the Softing share regularly for years in research reports and last year published five studies and updates on the share. In all its analyses, the bank issued a strong buy recommendation, stating a target price of EUR 12.00 in its most recent study of the year on December 13, 2017.

Information about analysts' reports on Softing shares is available at www.softing.com under Investor, News & Publications, Research. The Press & Interviews section contains information about the growth prospects of the Softing Group published in a variety of financial newspapers and magazines such as Focus, Euro am Sonntag, Frankfurter Tagesdienst and others.

CAPITAL MARKET COMMUNICATIONS

Investor relations are a key concern of the Group. In 2017, the Investor Relations team helped to raise awareness of the Company and enhance its attractiveness on the capital markets, particularly by hosting various roadshows and numerous investor and analyst events during intensive preparations for the successful capital increase. Softing also participated in selected investor conferences, such as the German Equity Forum held in Frankfurt am Main in November or the Munich Capital Market Conference (MKK). Our objective in 2018 is to ensure ongoing professional support for existing and newly acquired investors by increasing our presence and visibility.

The activities in financial communications were complemented by numerous meetings with institutional and private investors as well as representatives of the press. On the Company's website, investors can find relevant information on the Softing shares (Investor section) and about the Company.

Accepting and Bearing Responsibility – Corporate Social Responsibility (CSR) at Softing

Maintaining and expanding our partnership with our customers and the technological leadership that we have attained is both our duty and our source of motivation for our daily work. We want customers and partners to see Softing as the right choice for demanding solutions in the fields of industrial automation, automotive electronics and network technology. Solutions created by Softing employees with their expertise, creativity and dedication each and every day.

Our employees are our main assets. 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, and it also makes business sense. Competitive salaries in combination with a high degree of job security provide the safety required by our employees and their families. 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 low fluctuation and the continual growth of our individual and collective knowledge.

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.

Our company's favorable working conditions and maximum flexibility are increasingly bringing female employees on board. There is no question that we offer equal pay to men and women with the same experience for the same job. As a result of our company policy, the proportion of female employees at Softing has risen considerably in recent years.

None of our human resources decisions are based on the age of the candidate. What counts is only the individual's potential, skills, and personal commitment. If these factors are a fit, we also offer more mature applicants the opportunity to play a role at Softing. We regularly hire employees who are older than 50. Longtime employees are offered the chance to work beyond retirement age if this seems reasonable in individual cases. Some of our employees are over 70, fit and highly motivated, and continue working professionally. Our company benefits greatly from their professional and life experience.

Softing is a global company with headquarters in Haar. Every single day, we experience a closely networked world. Although a company of our size must focus its contributions primarily on its local environment, we take our global responsibility seriously as well. In all of our commitments, it is important to us to be very confident that our donations will be allocated effectively. In the past year, we mainly supported local projects of subsidiaries in Germany and abroad with high four-digit amounts.

As a sustainable and healthy company, we have the financial freedom to share our success with the community in which we do business. And we take advantage of it.

Combined Management Report of Softing AG and the Group for the 2017 Financial Year

FUNDAMENTAL INFORMATION ABOUT THE GROUP

BUSINESS MODEL

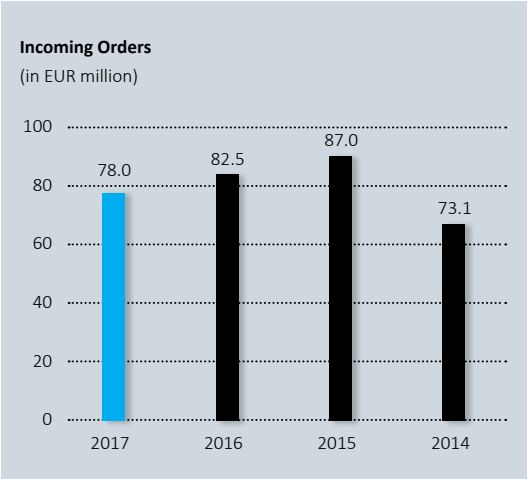
The Group's Business Model

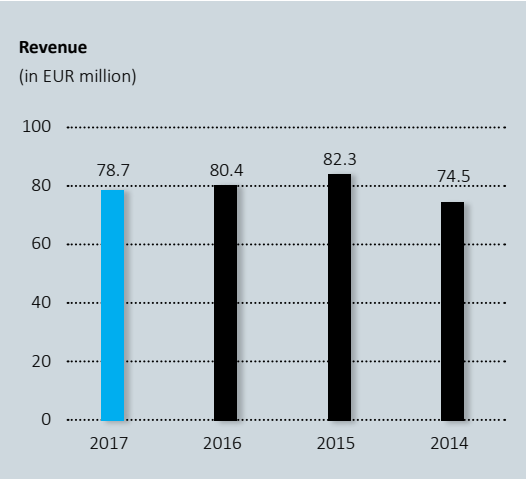
Softing is an established international software and systems house in three segments: Industrial, Automotive and IT Networks. The Company develops complex, high-quality software, hardware and complete system solutions. Hardware prototypes are developed by Softing itself; production takes place externally.

Through its Industrial segment, Softing is a leading provider worldwide of industrial communications solutions and products for the manufacturing and process 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.

Diagnostics, measurement and testing, the core topics covered by Softing's Automotive segment, represent 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 is focused on standardization. Softing is an active member in the major standards bodies for automotive electronics such as ASAM and ISO.

The IT Networks segment is dedicated to testing, qualifying and certifying cabling in IT systems based on worldwide technological standards. Customers use IT Networks' measuring devices for copper and fiber optic networks to optimize their daily work processes and create security in data exchange.





Consulting, analyses, studies and training round out the range of services offered by all three 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 more and more important.

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, Industrial and IT Networks 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 Segment

Industrial Automation GmbH

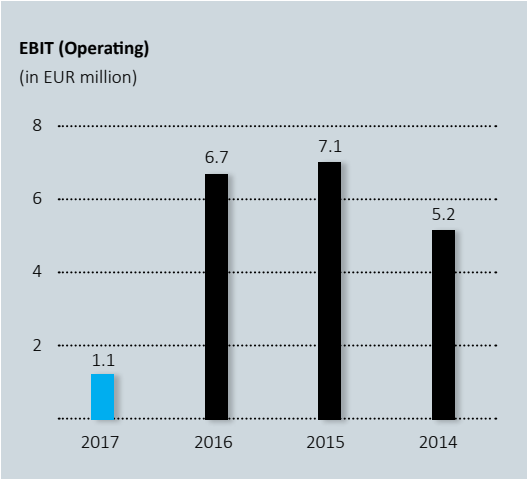
Softing Industrial Automation GmbH is a leading provider worldwide of industrial communications solutions and products for the manufacturing and the process industry. The products are tailored to the requirements of system and device manufacturers, machinery and plant engineers or end users, and they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

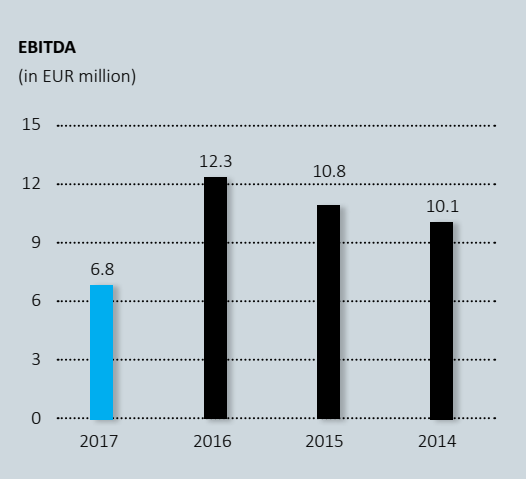
Softing Italia s.r.l.

Softing Italia is a subsidiary of Softing Industrial Automation GmbH. Softing Italia is based in Milan and serves customers in Italy locally. In 2017, this company once again made a positive contribution to the overall earnings of the Softing Group.

Online Development Inc. (OLDI) und Softing Inc.

Online Development Inc. (OLDI) and Softing Inc. (both domiciled in Knoxville, TN), and the sales office Softing Inc. (Newburyport, MA) are organizationally subsidiaries of Softing North America Holding Inc. An Original Design Manufacturer (ODM) for almost 30 years, OLDI offers a portfolio of hardware and software products that supports a large number of industrial market segments. Major brand manufacturers use OLDI's wealth of expertise in industrial data processing and communication to enhance the market launch of both innovative and proven technologies. Serving the North American market, Softing Inc. handles project work with its internal resources while providing local support to product business. In 2017, both American companies together made a positive contribution to the overall success of the Softing Group.





Buxbaum Automation GmbH

The sales office Buxbaum Automation GmbH, Eisenstadt serves customers in Austria locally. The company again made a positive contribution to the overall earnings of the Softing Group in 2017 with it sales in the Industrial and IT Networks segments.

IT Networks Segment

Softing IT Networks GmbH, Softing Singapore Pte. Ltd. and Shanghai Softing Software Co., Ltd., China

Softing IT Networks GmbH, domiciled in Haar, near Munich, Germany, provides IT network diagnostic equipment, which is used in industrial automation, office installations, and data centers. Softing Singapore, domiciled in Singapore, supplies test and measuring devices for copper and glass fiber data networks. This includes both the development and manufacture of ultra-high performance products in this field and accessories to support sales activities. Shanghai Softing Software Co., Ltd., domiciled in Shanghai, China, was formed in 2016 to market Softing Singapore's product range in mainland China. Apart from sales and distribution, the company provides technical support and calibration services for the products offered. The three Softing IT Networks companies make a positive contribution to the Group's international success with a growing product portfolio that consists of both in-house and third-party products.

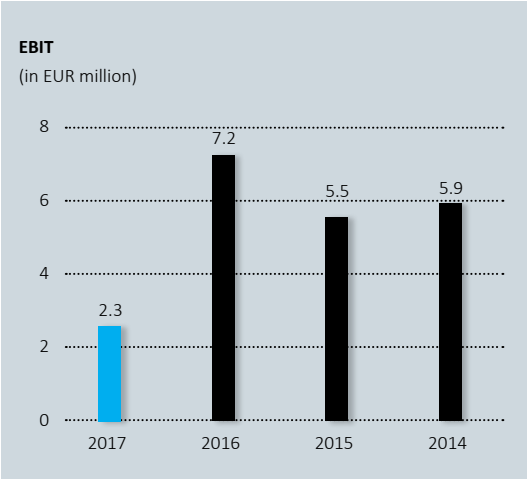
Automotive Segment

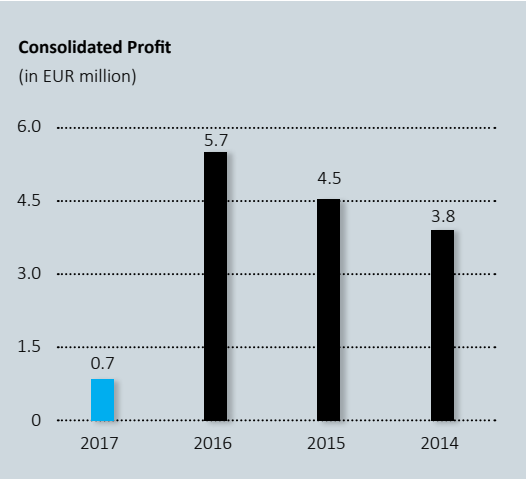
Softing Automotive Electronics GmbH

Softing Automotive Electronics GmbH, domiciled in Haar, Germany, 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, domiciled in Kirchentellinsfurt, Germany, is organizationally 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. SMT (Softing Mess-Technik) also covers the entire field of mobile and stationary data logging systems.





Softing Project Services GmbH

Softing Project Services GmbH, domiciled in Haar, Germany, organizationally is a subsidiary of Softing Automotive Electronics 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. Its well-trained staff in some cases 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.

Softing Automotive Electronics Services GmbH

Softing Automotive Electronics Services GmbH, domiciled in Kirchentellinsfurt, Germany, is a company that was founded in 2016 by Softing Automotive Electronics GmbH. It functions as an internal development company in the Automotive segment.

Softing Services GmbH

Softing Services GmbH, domiciled in Haar, Germany, 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. 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.

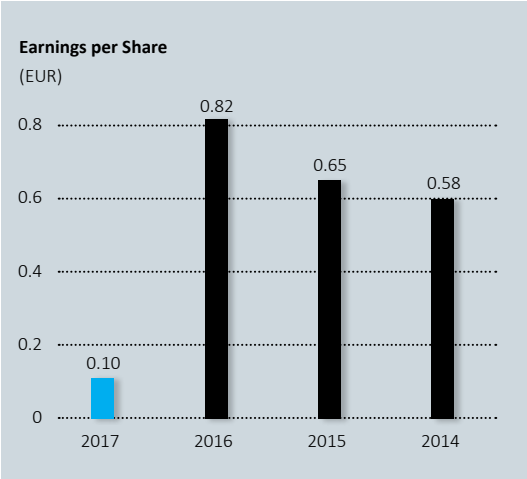
Softing S.A.R.L

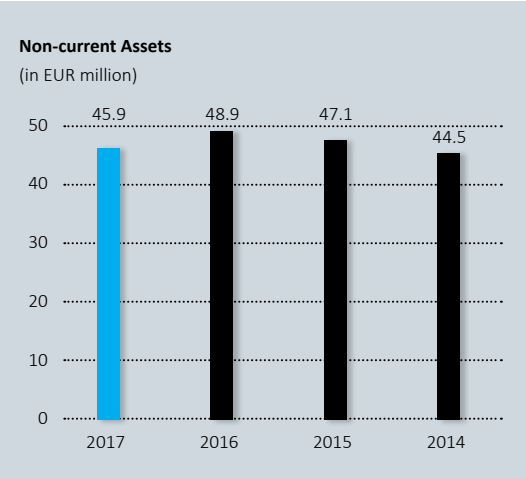
Softing S.A.R.L, domiciled in Paris, France, was founded in 2015 by Softing Services GmbH. It provides the legal and organizational framework for the sales and marketing activities of the Softing Group in France.

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.

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





INTERNAL MANAGEMENT SYSTEM

The Softing Group uses key performance indicators (KPIs) to manage its business; these KPIs include consolidated revenue; earnings before interest and taxes (EBIT) and operating EBIT, which is derived from EBIT; EBIT adjusted for capitalized development services and their amortization as well as the effects of purchase price allocation. Working capital is also managed via selected 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.

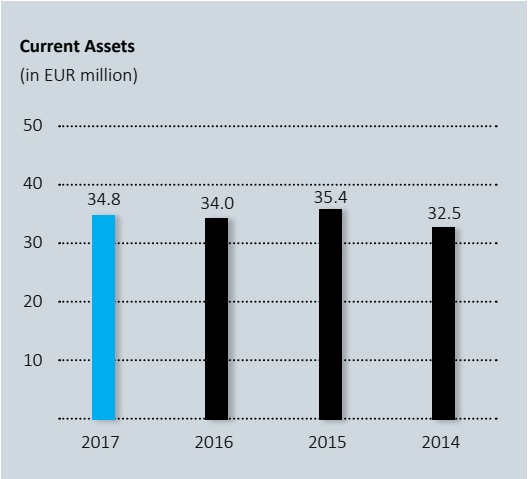
On account of its business model, internal management at Softing AG is based mainly on the profits or losses under profit transfer agreements and dividends of Group companies. By managing the subsidiaries as explained above, Softing AG also manages the profits or losses under profit transfer agreements in the parent company itself.

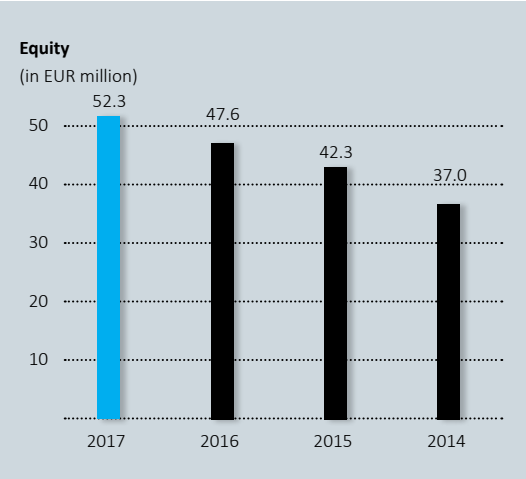
Research and Product Development

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 23.2 million (previous year: EUR 24.0 million) in the development of new products and the enhancement of existing ones in connection with customer projects. This corresponds to an investment ratio (ratio of development costs to revenue) of 29% (previous year: 30%).

In the past financial year, amortization of capitalized development costs amounted to EUR 2.1 million (previous year: EUR 2.7 million).

At year-end, 251 employees were engaged in research and development (previous year: 267). Softing AG itself is not engaged in any research and development activities. These take place exclusively at the operating entities.





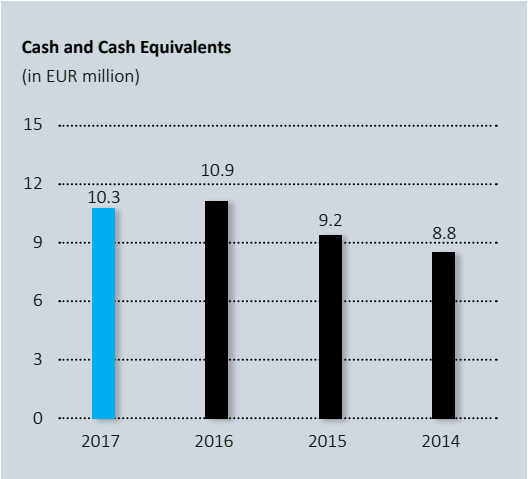
In 2017, Softing Industrial Automation invested around EUR 8.2 million in the development of new products and the refinement of existing ones. Key developments in the reporting year are summarized below.

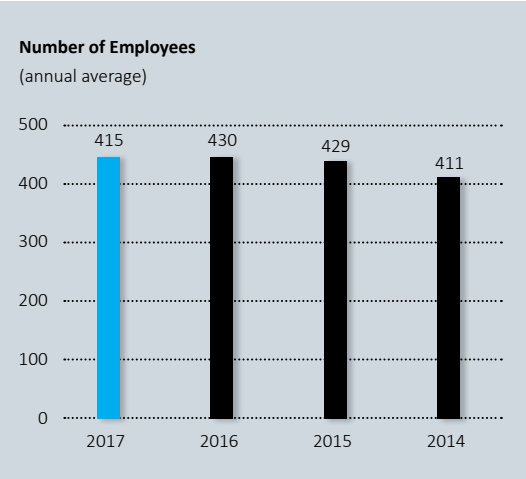
The gateway product range for the process industry has been expanded: the products pnGate PA and mbGate PA now enable PROFIBUS PA devices to be connected to PROFINET and Modbus TCP controllers. This allows straightforward integration of PROFIBUS PA devices with Siemens and Schneider Electric controllers. The new mobiLink product combines access to HART, Foundation Fieldbus and PROFIBUS PA devices into a single mobile interface. mobiLink uses Bluetooth or USB to connect to a PC that is used to run the applications that communicate with the devices.

Turning to technology integration products, the 3rd generation of the embedded communication modules for Foundation Fieldbus and PROFIBUS PA is now complete. This now permits manufacturers to develop Foundation Fieldbus and PROFIBUS PA devices without programming. The customer simply sets parameters in the firmware from Softing to ensure devices are mapped appropriately. The dataFEED UA gateways introduced in 2016 have been expanded to include other protocols such as Modbus. In addition, a protocol has been implemented in the dataFEED middleware that permits access to the optimized components of an S7 1500.

With the OPC-UA Toolkits for .NET, Softing now supports an advanced solution that permits companies to develop their own OPC-UA products, which are available both on Microsoft Windows and other operating systems such as Linux. The OPC-UA Toolkit portfolio has also been expanded to include the uaToolkit Embedded, which allows the implementation of an OPC UA server and publisher in one field device. This rounds off the OPC-UA range, which now offers solutions at all levels of the automation pyramid.

Softing IT Networks GmbH was able to further demonstrate its leadership role in measurement technology for structured building cabling and data centers in 2017 by substantially expanding its Xpert product series. Alongside measurement technology for copper cable meeting or exceeding the recently published Category 8 standard, Softing IT Networks also offers measurement technology for fiber optic cable and Wi-Fi planning. In the reporting year, the groundwork was also laid for other products developed in-house. Following the publication of the Category 8 cabling standard in 2016, Softing Singapore Pte. Ltd. observed strong activity among cable and component suppliers in





2017, as they launched their Category 8 solutions on the market. Softing works continuously with these providers on the field testing of these innovative solutions. While Category 8 is expected to remain a niche product, this collaboration helps to bolster Softing's reputation with these manufacturers, thereby contributing towards the maintenance and expansion of business across all cabling categories.

Softing Automotive Electronics GmbH has consolidated the market positioning of its standards-based diagnostic tools while also delivering the new communications solutions to the first major customer. In regional terms, support for international standards is starting to become increasingly significant not just in Europe and the USA but also in Asia. Alongside the tools from the Diagnostic Tool Set (DTS) product family, which have been deployed in large numbers at several customers for many years, the new machine shop system Softing TDX is also attracting increasing customer interest and could go into production use at some customers. The smartphone app CAR ASYST (CA), which is also used in a machine shop environment, is now being deployed in larger numbers. This app has now been provided with an expert tool, CA ANALYTICS, for carrying out more in-depth fault analysis in specialized training centers and therefore now offers an even more efficient way to deploy the CA app. A development release of the Softing VCF (Vehicle Communication Framework) – an interface that enables access to physical parameters and the simulation of control units in development and production – has been shipped out for initial customer evaluation. Deployment in test systems and test benches with the new VIN|ING family VCIs holds the promise of access to new customer segments, and synergy effects between diagnostic solutions on the same VCI platform.

In 2017, Softing Messen und Testen GmbH successfully launched a number of new development projects oriented on new requirements in vehicle development work. This includes completion of a new SMT module for the CAN FD vehicle bus by mid-2018. An upswing has also been confirmed in the field of testing. The functional mockup units (FMUs) for 1:1 vehicle models announced in 2016, which include all electrical components in an aluminum section format, successfully established a new market presence. Another new development was the construction of a complete test bench for electric motors. From a model developed with the customer, Softing supplied a turnkey system with automated testing and reporting procedures. The LTW-1 transmission tester was optimized and posted record sales in 2017. This instrument tests plastic control unit housings for qualitative characteristics in production. This approach is intended to avoid leakages and product recalls that result from these defects.

REPORT ON ECONOMIC POSITION

MACROECONOMIC AND SECTOR-SPECIFIC ENVIRONMENT

Global Economy Expands Further in 2017

The expansion of the global economy accelerated considerably in 2017. According to the Institute for the Global Economy (IfW) in Kiel, Germany, the global economy continued to gain momentum in 2017 after bottoming out during 2016. Over the summer period, global production experienced its most dynamic expansion in a six-month period since 2010, growing by just over 2%. The IfW indicator for global economic activity, calculated based on sentiment indicators from 42 countries, indicated further economic stabilization in the fourth quarter of 2017, with economic activity picking up in almost all major economies simultaneously. In advanced economies, the IfW indicator has since reached a comparatively high level. By contrast, although the economic mood continued to be relatively subdued in emerging markets, it also improved considerably. Global production developed significantly better compared to the IfW forecast a year earlier (3.5%), growing by 3.8% in 2017. After only moderate expansion at the start of the year, gross domestic product in the USA rose by 0.8% in both the second and third quarter. This underlying economic trend was primarily driven by growth in investments, while the

longstanding strong private household demand remained robust. In the fourth quarter, short-term forecast models once again signaled clear growth in US gross domestic product, albeit at a lower rate compared to the previous quarter. In Japan, economic momentum weakened only slightly in the third quarter, although domestic consumption increased only marginally after very powerful growth in the previous quarter. Gross domestic product still grew by 0.6% due to a significant rise in exports, thus posting a considerably stronger performance than production potential. By contrast, economic growth in the eurozone remains primarily driven by domestic forces. In the third quarter, gross domestic product grew at a slightly lower rate compared to the previous quarter of 0.6%, and rose by 2.6% year-on-year. While investments experienced particularly strong growth, private consumption also expanded significantly in light of rising employment and more attractive wages. It is noteworthy that the economies of all eurozone countries are currently on an upward trend. Production is currently increasing at a comparatively moderate rate in the United Kingdom where, at 0.4%, the pace of expansion in the third quarter was only slightly higher than in the first half of the year. The fact that purchasing power has only increased slightly continued to have a dampening effect. *(Source: IfW, Kiel Economic Report No. 37, 2017/Q4)*

Mechanical and Plant Engineering: Upturn Continues in 2017

After a successful year, mechanical and plant engineering in Germany is entering the next few months confidently and with momentum. With revenue in the mechanical engineering industry passing the EUR 220 billion mark for the first time, 2017 can be considered a year of expansion. The German Engineering Federation (Verband Deutscher Maschinen- und Anlagenbau – VDMA) expects momentum to remain unchanged in 2018, with production growth of 3%. While the industry will have to face many uncertainties, both in Germany and abroad, which could prevent a high growth rate, there is justified hope in Germany that the investment backlog that has built up over many years will gradually dissipate. Many of the older machinery and equipment in the market will be unable to cope sufficiently with increasing digitalization. This is an encouraging sign that domestic orders will also pick up once again. Exports also were a reason for the success of German mechanical engineering during the year under review. Overall, goods totaling EUR 124.4 billion were delivered abroad in the first nine months of the year – a year-on-year increase of 6.2% in real terms. Three out of four machines were intended for export, with the EU remaining by far the largest sales region. 46.5% of all exports were sent to the 27 partner countries of the European Union. Although the USA remained the largest individual export market during this period, China recorded significantly stronger growth, with exports rising by 24% in the first nine months of the year. However, the growth of exports to China is expected to slow somewhat in 2018 due to the level already achieved. Mechanical engineering companies are monitoring the developments surrounding Brexit with concern. In the first nine months of 2017, exports to the United Kingdom – the fourth-largest individual export market – fell by 4.5% year-on-year. If the British leave the customs union, VDMA calculations estimate that German mechanical engineers will be threatened with additional export costs of more than EUR 180 million a year. There would also be additional costs for importing machinery from United Kingdom of EUR 44 million a year, plus additional expenses for importing components. *(Source: VDMA, article dated Dec. 12, 2017 www.vdma.org)*

Electrical Industry: Dynamic Trend Continues

According to the German Electrical and Electronic Manufacturers' Association (Zentralverband Elektrotechnik- und Elektronikindustrie e.V. – ZVEI), the German electrical industry accepted 9.1% more orders in October 2017 than in the previous year. As a result, the dynamic development of orders continued unabated into the start of the fourth quarter. Domestic orders jumped up by 7.7% in October, while foreign orders increased even more

sharply by 10.4%. Orders from eurozone customers rose by 12.3% and those from partners in countries outside the eurozone climbed by more than 9.2% compared to the previous year. In the first ten months of 2017, orders were 10.2% higher than in the corresponding prior-year period. Domestic orders rose by 9.5% during this period, while those from abroad were up 10.8%. Demand from the eurozone increased by 12.4%, and customers from countries outside the eurozone placed 9.8% more orders. Sector revenue totaled EUR 15.5 billion in October, up 8.0% on the previous year. As a result, the rate of expansion recently increased even further. In October, domestic revenue rose by 7.3% to EUR 7.6 billion and foreign revenue was up 8.6% to EUR 7.9 billion. Revenue from business with eurozone customers was 7.5% higher than a year earlier at EUR 2.9 billion. Sales from transactions outside the eurozone climbed 9.2% to EUR 5.0 billion. Between January and October 2017, aggregated electrical revenue totaled EUR 156.3 billion, up 7.1% on its prior-year figure. Domestic revenue rose 5.1% to EUR 74.6 billion, while foreign revenue climbed even more sharply by 8.9% to EUR 81.7 billion. Business with the eurozone was up 8.1% to EUR 29.6 billion, while business with countries outside the eurozone rose by 9.4% to EUR 52.1 billion. *(Source: ZVEI economic barometer, December 2017)*

Automotive Industry: High Investments in Research and Development

According to information from the German Automotive Industry Association (VDA), the automotive industry once again increased its research and development (R&D) spending. Figures provided by the European Commission indicate that worldwide expenditure rose to EUR 40.2 billion in 2016, up 7% on the previous year. The German automotive industry accounted for more than a third of total global R&D spending in the automotive sector. In addition to the continuous improvement of combustion engines and investment in connected and automated driving, R&D efforts primarily focused on the development of alternative drive systems. The German automotive industry is seeking to spend EUR 40 billion on alternative drive systems by 2020. Over the next five to eight years, German manufacturers will launch more than 150 new models with electric motors. Electric motors will be present in all segments – from the compact class to SUVs – by 2020, with ranges of more than 500 kilometers on one battery charge. Approximately one-third of all worldwide patents in the area of electromobility and hybrid propulsion come from Germany. The commercial vehicle segment is currently in the midst of a tremendous technological shift progressing even more quickly than that of the passenger car market. Efficiency and profitability are at the heart of all considerations, with digitalization, automation and alternative drive systems the main cutting-edge fields that every company is keeping an eye on and gearing their business model towards. Connecting commercial vehicles to each other and their environment can, in particular, contribute to improving the efficiency of road transport and utilizing capacity even more effectively. Digitalization and automation will also have a positive impact on road safety and significantly reduce the number of accidents and collisions. In addition to digitalization and automation, the German commercial vehicle industry is also conducting further research into traditional and alternative drive systems in order to make combustion engines even more efficient while at the same time focusing all their efforts on refining alternative drive systems. *(Source: VDM, press releases dated Dec. 1, 2017 and Dec. 11, 2017, www.vda.de)*

COURSE OF BUSINESS

In 2017, Softing was unable to compensate for weaker sales in the German market despite significant growth in the business in the USA and Asia. Revenue in 2017 was slightly lower than the previous year at EUR 78.7 million (previous year: EUR 80.4 million). The target of EUR 82.0 million was missed due to weakness in the German market and the unexpectedly strong US dollar. EBITDA amounted to EUR 6.8 million in the year under review (previous year: EUR 12.3 million), and the EBITDA margin was 9% (previous year: 15%). The operating EBIT

of EUR 1.1 million was primarily impacted by product development delays and the associated lack of orders in the Automotive segment. At one subsidiary that works for a major international automation electronics manufacturer, revenue recognition of just under EUR 2 million for the use of a completed Softing product development expected in 2017 was delayed beyond the end of the year. Furthermore, the considerable currency translation effects seen in the balance sheet because of the development of the euro-US dollar exchange rate had a negative impact on earnings for the year. As a result, the EUR 5.0 million forecast was missed. In 2017, EBIT reached EUR 2.3 million (previous year: EUR 7.2 million, including the one-time effect of lowering the variable purchase price of EUR 4.1 million for OLDI).

The IT Networks segment remained part of the Industrial segment due to its secondary important in 2016. The IT Networks segment reached the threshold for becoming a separate segment in 2017 as a result of good revenue performance. For comparability, please see the presentation in the notes to the consolidated financial statements.

The Industrial segment generated revenue of EUR 50.9 million (previous year: EUR 57.6 million). EBITDA totaled EUR 6.3 million (previous year: EUR 7.6 million). EBIT of EUR 3.8 million (previous year: EUR 4.2 million) was impacted by the elimination of the one-time effect of lowering the variable purchase price of OLDI in 2016.

Revenue from the Automotive segment remained below expectations at EUR 17.4 million (previous year: EUR 22.8 million), resulting in EBITDA of EUR 0.2 million after EUR 4.3 million in the previous year. As a result, EBIT fell from EUR 3.0 million to EUR –1.0 million.

The new IT Networks segment posted revenue of EUR 10.4 million and generated a break-even EBITDA of EUR 0.0 million and EBIT of EUR –0.5 million.

This resulted in consolidated net profit for the year of EUR 0.7 million (previous year: EUR 5.7 million).

Net profit for the year of Softing AG, the Group's parent company, fell by EUR 6.1 million from EUR 2.9 million in 2016 to EUR –3.2 million year-on-year in 2017 due to a lower profit transfer and first-time expenses from absorbing losses.

EARNINGS

Results of Operations of the Group

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

In the past financial year, consolidated revenue decreased by 2.1% to EUR 78.7 million. Own work capitalized (product developments) was EUR 4.6 million, EUR 0.1 million above the previous year's level (EUR 4.5 million); the share of own work capitalized in consolidated revenue increased in

The expense items developed as follows:	2017 EUR (in thsds.)	2016 EUR (in thsds.)
Cost of materials	32,247	31,353
Employee benefits costs	33,031	35,122
Depreciation, amortization and impairment losses	4,494	5,100
Other operating expenses	12,064	11,538
Operating expenses	**81,836**	**83,113**

the 2017 financial year. Other operating income of EUR 0.9 million was significantly impacted by income from exchange differences of EUR 0.5 million. Other operating income in the previous year totaled EUR 5.3 million. This includes income from the reduction of the variable purchase price of EUR 4.1 million for OLDI and one-time insurance payments of EUR 0.6 million related to the fire at the subsidiary Messen und Testen GmbH.

The cost of materials increased by EUR 0.9 million or 2.9%. This was due to considerable growth in the US business, particularly in the hardware sector, which led to cost increases and higher cost of materials compared to the previous year. All told, the cost of materials ratio (cost of materials relative to revenue) was 41% (previous year: 39%), and gross profit (revenue less cost of materials) decreased from EUR 49.1 million to EUR 46.5 million.

Staff costs fell by 6% to 33.0 million EUR, mainly due to lower variable remuneration and a reduction in the workforce. As of the reporting date, the Softing Group had 411 employees (previous year: 435).

Depreciation, amortization and impairment losses on intangible assets and property, plant, and equipment decreased from EUR 5.1 million to EUR 4.5 million, due to the decrease in write-downs of internally generated intangible assets.

Other operating expenses rose slightly by EUR 0.5 million to EUR 12.1 million.

A key parameter for evaluating and managing results of operations is earnings before interest and taxes (EBIT) and the operating EBIT derived from it (EUR 1,116 thousand; previous year: EUR 6,697 thousand), adjusted for capitalized development costs of EUR 4,600 thousand (previous year: EUR 4,512 thousand) and their amortization of EUR 2,149 thousand (previous year: EUR 2,699 thousand).

EBIT fell from EUR 7.2 million to EUR 2.3 million, after 2016 EBIT was boosted by the positive one-off effect from the reduction in the variable purchase price for OLDI totaling EUR 4.1 million.

The interest result remained at EUR –0.2 million and in 2017 was once again dominated by interest expense on the loans taken out to finance the purchase price for OLDI.

After accounting for taxes on income, consolidated profit amounted to EUR 0.7 million (previous year: EUR 5.7 million).

Results of Operations of Softing AG

As a management holding company, Softing AG only generated revenue from performing services for its subsidiaries. These services principally entailed active corporate management of the subsidiaries as well as legal assistance and quality management services. Fixed portions of the costs incurred for these services were charged to the subsidiaries. the costs for general controlling activities were 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 are in place with the following subsidiaries:

Directly:
- Softing Industrial Automation GmbH
- Softing Automotive Electronics GmbH
- Softing Services GmbH
- Softing IT Networks GmbH

Indirectly (via Softing Automotive Electronics GmbH):
- Softing Messen & Testen GmbH
- Softing Project Services GmbH

Income from profit transfer is a key control parameter for Softing AG and constitutes the financial key performance indicator. This changed from EUR 4.2 million to EUR –5.6 million in the past financial year. The guidance for the income from profit transfer for the 2017 financial year was EUR 3.5 – 4.0 million. This forecast was missed, primarily due to the absorption of losses in Softing Automotive Electronics GmbH and Softing Messen & Testen GmbH.

Staff costs declined from EUR 3.0 million to EUR 2.0 million due to lower variable remuneration.

Other operating expenses rose overall by EUR 0.5 million to EUR 0.7 million.

Due to lower costs related to the management of subsidiaries, revenue from affiliated companies in 2017 fell from EUR 3.7 million to EUR 3.0 million.

No tax provisions were formed for liabilities arising from corporation and trade tax in the current financial year (previous year: approximately EUR 2.0 million); instead, a reclaimed payment of EUR 0.9 million for the years 2015 and 2016 was included in other assets. This reclaimed payment resulted from adjustments to earnings in the HGB financial statements of subsidiaries with project business, and from a corporation tax loss carryback.

The net loss for the year was EUR 3.2 million (previous year: net profit for the year of EUR 2.9 million).

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 entered into in the past financial year.

Capital Structure

The equity of the Softing Group at the end of 2017 rose to EUR 52.3 million (previous year: EUR 47.6 million). Based on the authorization granted by the General Shareholders' Meeting on May 6, 2015, the share capital of EUR 6,959,438 was increased by EUR 695,943 upon entry in the commercial register on June 12, 2017. The cash inflow from the capital increase amounted to EUR 7.8 million. The equity ratio in the financial year was 65%, after 57% in the previous year.

Non-current liabilities decreased from EUR 13.7 million to EUR 11.1 million due to loan repayments and reclassifications to current liabilities.

Current liabilities fell by EUR 4.3 million to EUR 17.3 million due mainly to the payment of the remaining variable purchase price portion for OLDI, which was due for payment in 2017.

Capital Expenditure

In the financial year ended, the Softing Group invested EUR 4.6 million in internally generated intangible assets. Investments in other non-current assets amounted to EUR 0.8 million in 2017 (previous year: EUR 1.1 million). Please refer to the Research and Development section for information on investments in the specific segments.

Liquidity

The cash flow from operating activities fell by EUR 5.9 million, from EUR 9.5 million to EUR 3.6 million, primarily due to lower earnings.

Funds used for investing activities amounted to EUR 9.8 million (previous year: EUR 6.5 million), comprising mainly investments in new product development and payment of the variable portion of the purchase price for OLDI Online Development Inc.

The cash flow from financing activities amounted to EUR 6.0 million and was impacted by the net proceeds from the capital increase on the one hand, and from the repayment of loans in the amount of EUR 0.3 million and the dividend payment of EUR 1.4 million, on the other.

The cash available to the Group amounted to EUR 10.3 million at year-end (previous year: EUR 10.9 million).

Financial Position of Softing AG

Capital Structure

Equity increased from EUR 33.8 million to EUR 37.0 million as of December 31, 2017. The change is due to the payment of the dividend in the amount of EUR –1.4 million, the net loss for the year in the amount of EUR –3.2 million, and the capital increase of EUR 7.8 million.

The equity ratios was 66.4% (previous year: 70.0%)

The decrease in provisions from EUR 4.0 million to EUR 1.7 million is principally the result of changes in provisions for variable remuneration and lower tax provisions.

Other liabilities increased from EUR 1.2 million to EUR 1.7 million due to non-payment of variable remuneration entitlements.

Liabilities to banks declined slightly by EUR 0.2 million to regular repayments of the loans taken out in 2014 in the amount of EUR 1.2 million and the offsetting effect of taking out a short-term operating loan of EUR 1.0 million.

Liquidity

The subsidiaries obtained 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 were taken out by 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. These amounted to EUR 6.5 million as of December 31, 2016.

Funds at year's end were EUR 7.1 million (previous year: EUR 3.0 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 2017 represented 56.9% of total assets (previous year: 59.0%). This was offset by equity and non-current liabilities representing 78.6% (previous year: 74.0%).

Non-current assets fell by EUR 3.0 million to EUR 45.9 million. This was due mainly to the decrease in goodwill resulting from the change in the USD exchange rate (EUR 1.0 million), a currency-adjusted reduction in other intangible assets (EUR 1.0 million) and a decrease in deferred tax assets (EUR 0.8 million).

Current assets comprise inventories, trade receivables, and cash and cash equivalents. This figure rose from EUR 34.0 million to EUR 34.8 million mainly due to an increase in trade receivables and current tax assets of EUR 1.7 million. The decrease in cash and cash equivalents had an offsetting effect of EUR 0.6 million.

Total assets in the reporting year fell to EUR 80.7 million (previous year: EUR 82.9 million).

Net Assets of Softing AG

The total assets of Softing AG rose by EUR 7.5 million year-on-year to EUR 55.8 million (previous year: EUR 48.3 million).

Short-term loans of EUR 1.0 million were taken out in the 2017 financial year. In 2017, Softing AG received funds totaling EUR 7.8 million from the capital increase.

Loans to affiliated companies decreased by EUR 0.4 million to EUR 14.8 million due to repayments. Cash and cash equivalents increased to EUR 7.1 million as a result of the capital increase.

Receivables from affiliated companies were up from EUR 12.7 million to EUR 15.4 million as a result of increased receivables from cash pooling.

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

While the financial position and net assets of both the Group and Softing AG continue to be very solid, the results of operations deteriorated in the past financial year due to losses in some subsidiaries.

Apart from the events reported in the course of the year, there were no other risks to the Company that would have 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.

Softing Industrial GmbH

In 2018, Softing Industrial GmbH will accommodate market requirements by further focusing its activities and bundling the various topics into two business units. The Data Networks business unit will focus on manufacturing, and specifically the field of information networking and diagnosis at the production level of process automation. The Data Intelligence business unit will in turn concentrate on networking in enterprise communications, and the interfacing of information technology (IT) with operational technology (OT) and real-time data analytics.

Building on the results of repositioning Softing as a corporate brand in the 2016 financial year, Softing Industrial developed an underlying brand architecture specific to each business unit at the level of the product programs. This architecture has two key objectives: first, to present the service/product portfolio in the context of the long-term trends of IoT and Industry 4.0 in a way that is easily understood by the market; and second, to use the recognition factors of consistent brand terminology and imagery to systematically raise this portfolio's profile for manufacturing.

Softing IT Networks GmbH, Softing Singapore Pte. Ltd. and Shanghai Softing Software Co., Ltd., China

At Softing IT Networks GmbH, the broader approach adopted by Sales and the expansion of the Marketing team were already achieving positive effects last year, fully offsetting negative external factors. The new developments initiated by Softing IT Networks GmbH in 2017 have laid the foundations for extending the Company's technology and trend leadership to other fields in 2018, faithful to the "Softing First" slogan. A majority of these new development projects will mature in 2018 and open up new markets. By expanding its work with international standardization bodies, IT Networks has already made an impact that also had a positive effect on the enhancement and development of its own products. In 2018, Softing Singapore Pte. Ltd. plans further improvements to its "WireXpert" product line, including wireless data transfer to remote file servers, which represents a significant customer benefit. This capability, fully integrated into the existing "eXport" data management software, will be of particular value to larger customers with centralized project management functions. In 2018, more extensive market entry can be expected from the joint venture between Shanghai Softing Software Co., Ltd. and established Chinese sales partner Wind Hill Technologies Inc.

Online Development Inc. (OLDI)

As a leading Original Design Manufacturer (ODM) with a broad-based portfolio of hardware and software products, OLDI supports a wide range of brand manufacturers and market segments in the industry. Corporate customers utilize OLDI's deep knowledge of industry-specific ITC in order to shorten their time-to-market in both new and well-established technologies. OLDI is continuing to expand its business to new customers, technologies and projects. These new projects involve wireless technology, functional safety and analysis software. Business opportunities in 2018 and beyond are expected from the expertise established by these projects.

Softing Automotive Electronics GmbH

The product and service portfolio of Automotive Electronics was refined further in 2017 and integration of the new product portfolio successfully completed. Automotive Electronics has therefore commenced the market launch of new products in the VC (Vehicle Communication) portfolio unit. Migration to new products has been prepared at larger customers in particular. In addition, Softing Electronics has also started DTS 9 development in its Application Software portfolio unit. This is destined to become a key driver for long-term growth.

Softing Messen & Testen GmbH

A significant upswing is expected in the measurement technology industry in 2018. The investments put on ice by several customers in 2017 have largely been reactivated for 2018/2019. A strategic partnership is also being pursued with a renowned development services provider. In the field of testing, Softing is also in the process of signing a sizable contract for a testing methodology. Here, Softing will provide networking model support for a future control system architecture. A general agreement for collaboration in the field of mechatronics testing over the next three years has also been drawn up with a premium manufacturer.

SoftingROM

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.

RISK REPORT

The information provided applies to the Group and to Softing AG in equal measure. The 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 all segments.

Softing is an internationally operating company involved in industrial automation technology, automotive electronics and network communication. 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. The Group's business policy is to best exploit existing business opportunities. It is the task of risk policy to carefully weigh the risks associated with this. Risk management is therefore an integral component of all 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 the 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 assess the risks, they have been divided into several categories. Multiplying the probability of occurrence by the extent of loss gives rise to the following levels of risk:

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

b. 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 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 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.

The Group uses a number of control systems to monitor and control its risks. These include a centralized company planning process, among other things. Softing regularly monitor the achievement of its business goals and the risks that are connected to this.

The risks involved in individual business processes were periodically recorded, analyzed and evaluated in the reporting period. The Group 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 are believed to be of little relevance to the Group's business at this time are not mentioned.

External Risks

The constant expansion of business with customers in the United States and other dollar countries has increased the significance of assessing currency risks. Every year, Softing checks if the currency risks in connection with the ongoing business with its subsidiaries in the United States and Singapore should be hedged. If it appears necessary, Softing uses conventional forward exchange deals as hedges. Overall, this risk is classified as a moderate risk.

Performance Risks

In 2017, revenue decreased slightly compared to 2016. There is always a general risk both of underutilization of capacities and sustaining pressure on realizable revenues. Softing addresses these risks with stricter cost management measures and flexible working hour models so that it can quickly adapt to any changes in demand. Overall, this risk is classified as a large 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. Softing address this risk by actively participating in a large number of national and international working groups, which enables it to recognize technological trends early on and help actively shape them. Overall, this risk is classified as a large risk.

In certain areas of the Group's business, both in the Industrial and the Automotive segment, Softing is involved in the complex development projects of 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. Softing addresses with this risk by planning such projects in accordance with a process model defined by its quality management system, and by carefully monitoring project progress with an alarm controlling system. The Group makes continual investments to further improve its already high quality standard. Overall, this risk is classified as a moderate risk.

When manufacturing products – particularly hardware products – the Group makes considerable use of supplies from external companies. The inclusion of third parties in its own value chain naturally reduces the level of influence Softing has on quality, costs and adherence to schedules. Unexpected price increases can affect the result considerably. Softing counteracts this risk through long-term supplier contracts wherever possible. Supplier failures can lead to delivery bottlenecks. Softing reduces the risk by regularly auditing its suppliers and consistently limiting the share of deliveries from individual suppliers. Overall, this risk is classified as a moderate risk.

The Group's products and services are used in the production of industrial goods. Downtime or malfunction can result in significant damage to persons and property. Softing reduces this risk by following a careful development process which is tailored to the specific scope of application. Significant residual risks are covered through insurance policies. Overall, this risk is classified as a moderate risk.

Financial Risks

Credit risks have not played a significant role in the past. The Group's restrictive credit management process allows it 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 2017. Overall, this risk is classified as a minor risk.

Other Risks

As in all companies, the smooth functioning of business processes depends on the availability of the IT infrastructure. Attacks from the Internet, as well as other IT failures or damage to the 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 the Group believes that the probability of a threat to the security of its data inventories or information systems is manageable. Overall, this risk is classified 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, all employees are trained on an ongoing basis to ensure that the quality of their performance corresponds to the requirements of 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 Softing always seeks 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, Softing also offers its 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 results of operations, financial position and net assets. Overall, this risk is classified as a large risk.

Even though not a single compliance case has so far arisen at Softing, the Executive Board and the legal department continue to take the issue of compliance very seriously. Through workshop participation and a series of presentations, the Group ensures that current trends and issues are taken on board and adapted to the situation at Softing. Overall, this risk is classified as a small risk.

In management's 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, the risk exposure of both the Group and Softing AG is regarded as manageable. On account of the strong financial position and net assets, and improving results of operations in 2018, the Executive Board believes 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

Good Global Economic Growth Expected until 2021

Economists from the Institute for the Global Economy (IfW) expect gross domestic product in Germany to increase by an average of 1.8% between 2018 and 2021. Corporate investments will expand at a lower rate but over a longer period. The IfW anticipates 2.1% growth in the eurozone for 2018, weakening to 1.7% by 2021. Global GDP is expected to grow by 3.8% in 2018, before slowing to 3.6% in 2019 and 3.1% in the following years. In 2018, the IfW predicts GDP growth of 2.3% in the USA, 1.2% in Japan, 6.4% in China, 7.3% in India and 5.0% in the rest of Asia. *(Source: IfW, Kiel Economic Report No. 36, 2017/Q3)*

Softing Industrial Well-positioned for 2018 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.

Softing's acquisitions in 2014 further improved the breadth of its product mix while also strengthening its technological expertise. As a result, Softing Industrial is ideally positioned to benefit both from positive developments across the industry, and growth in its primary markets – Europe and the United States.

In 2018, 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. As in the past, a core driver here will be the synergy effects generated by the companies and product groups for the technologies and their marketing.

Softing Automotive

In the next year, Softing Automotive will once again focus on continued marketing of the standard products of DTS-8 and DTS-9, OTX Studio, interfaces of the HS family, measurement technology (SMT, µ series), and Softing TDX. In 2018, the Automotive segment will proceed with the marketing of its newly development VIN|ING VCI family. There are also plans to expand customer presence in the emerging markets; further promising contacts in Asia were made with the aim of winning over customers with the VCIs in combination with the Softing software tool chain. Activities in the area of test bench applications based on the HSX VCI product family will continue to be expanded. The Automotive segment will increase marketing efforts for its expanded range of measurement technology products. A number of customers are already satisfied users of this sophisticated system; based on this success, the marketing approach will be extended to other OEMs and tier 1 suppliers.

Softing IT Networks

The broader focus of sales activities and intensified marketing efforts had a positive effect in the year under review, fully offsetting negative external factors. The new product developments initiated in 2017 mean Softing IT Networks can remain true to its "Softing First" motto and serve as a technological pioneer and trendsetter in additional areas in the current year. A majority of these new development projects will mature in 2018 and open up new markets. By expanding its work with international standardization bodies, IT Networks has already made an impact that also had a positive effect on the enhancement and development of its own products.

Outlook for the 2018 Financial Year for Softing AG

It is the clear objective of Softing AG to systematically strengthen its own activities and expand its 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 future 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, the parent company is forecasting income from profit and loss transfer agreements of EUR 1.5 million to EUR 2.0 million for the 2018 financial year

Outlook for the 2018 Financial Year for the Softing Group

The declared goal remains to grow the Group into a dynamic global company on the strength of regional expansion and focused market penetration. Softing is firmly committed to continuing the pursuit of this goal in 2018. Based on the Group's positioning and customer feedback, Softing sees opportunities to increase incoming orders, revenue and earnings in 2018. However, Softing faces a natural uncertainty regarding economic developments in Europe as well as in Asia and North America. Softing would not be able to avoid the impact of downturns in the demand markets. These external risks are taken into account in the forecast as a dampening factor.

As a leading technology group, Softing must and will work to actively shape technical change. The speed of change continues to increase substantially in all segments. For this reason, Softing plans to use the expertise that its current portfolio and acquisitions provide for the extensive development of new products and the extensive refinement of existing ones in 2018. For 2018, Softing is generally assuming that capitalization of development costs will remain largely stable due to increased investment in new products. Investment in some product lines will decline due to completions, while new trends will receive a kick-start. This is in contrast to opportunities for above-average returns in the existing business. In the process industry, for example, particularly in the oil and gas sector, the expected economic recovery is a good indicator for data communication products. The aforementioned economic risks and uncertainties still exist. Overall, the Group expects a moderate increase in revenue and incoming orders to EUR 80 million. Given the current uncertainty, we cautiously anticipate EBIT of EUR 4.0 million and operating EBIT of EUR 3.7 million. At segment level, we expect a slight increase in revenue, EBIT and operating EBIT in the Industrial and IT Networks segments. We expect EBIT and operating EBIT in the Automotive segment to improve considerably as a result of the cost reduction measures introduced. We believe that new automotive products will have a discernible impact on revenue from the middle of the year. We will provide quarterly reports with more details on these figures.

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.

The internal control system of the Softing Group 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 that could be treated erroneously in the accounting systems. 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. If errors occur and are identified despite these activities, these are corrected without delay.

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 statement of cash flows, 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 2017, the share capital of Softing AG was EUR 7,655,381 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. Sareholders' 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 3% 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.

   An average of 7,342,683 shares were outstanding in the reporting year.

   In May 2015, 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 3,479,719.00 on one or several occasions up to May 5, 2020 by issuing new no-par bearer shares against contributions in cash and/or in kind (Authorized Capital 2015). Based on the authorization granted by the General Shareholders' Meeting on May 6, 2015, the share capital of EUR 6,959,438 was increased by EUR 695,943 upon entry in the commercial register on June 12, 2017. The cash inflow from the capital increase amounted to EUR 7.8 million.

   The authorized capital as of December 31, 2017, was EUR 2,783,776.

7. 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.

On May 4, 2016, the General Shareholders' Meeting authorized the Executive Board to purchase own shares until May 3, 2021, 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 no treasury shares as of 31 December 2017.

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

9. An agreement with one member of the Executive Board gives him the right to terminate his employment for cause if at least one outside shareholder or one shareholder group acting in concert reaches 1.4 million voting shares through possession or attribution. If this Executive Board member exercises this right to terminate his employment for cause, he is entitled to compensation equaling approximately two annual salaries.

BASIC INFORMATION ON THE REMUNERATION SYSTEMS FOR MEMBERS OF CORPORATE BODIES

Remuneration 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 remuneration as well. Members of Softing AG's Executive Board are also entitled to a company car agreement. There is no stock option plan in place. For more details regarding the Executive Board's remuneration, 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, 2016. For details, please see the disclosures on pension provisions in the notes.

The Executive Board's director's contracts run until 2021 and 2023, respectively.

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, they also receive a variable remuneration equaling 0.5% of consolidated EBIT before taking into account the Supervisory Board's variable remuneration. The chairman receives 200% of the fixed and variable amount, the deputy chairman 150%. The remuneration 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). The statement applies both to Softing AG as the parent and to the Group in equal measure. 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 15, 2018
Softing AG

The Executive Board

Dr. Wolfgang Trier Ernst Homolka

Consolidated Statement of Financial Position

as of December 31, 2017 and December 31, 2016

Assets	Note	Dec. 31, 2017 EUR (in thsds.)	Dec. 31, 2016 EUR (in thsds.)
Non-current assets			
Goodwill	C1/C2	14,540	15,494
Intangible assets	C3/C4	27,268	28,262
		41,808	43,756
Property, plant and equipment	C5	2,022	2,257
		43,830	46,013
Deferred tax assets	D9	2,071	2,864
Non-current assets, total		**45,901**	**48,877**
Current assets			
Inventories	C7	9,067	9,214
Trade receivables	C8	12,067	11,742
Receivables from customer-specific construction contracts	C9	760	848
		12,827	12,590
Other current assets	C10	656	712
Current income tax assets	C11	1,991	626
Cash and cash equivalents	C12	10,276	10,869
Current assets, total		**34,817**	**34,011**
Total assets		**80,718**	**82,888**

Equity and liabilities	Note	Dec. 31, 2017 EUR (in thsds.)	Dec. 31, 2016 EUR (in thsds.)
Equity			
Subscribed capital	C13	7,655	6,959
Capital reserves	C13	19,214	12,270
Retained earnings	C13	25,436	28,355
Equity (Group share)	C13	52,305	47,584
Minority interests	C13	–33	–17
Equity, total		**52,272**	**47,567**
Non-current liabilities			
Pensions and similar obligations	C14	2,181	2,237
Long-term borrowings	C15	4,153	6,596
Other non-current liabilities	C15	57	57
Deferred taxes	D9	4,748	4,859
Non-current liabilities, total		**11,139**	**13,749**
Current liabilities			
Trade payables	C16	4,574	4,856
Payables from customer-specific construction contracts	C9	952	1,027
Provisions and accrued liabilities	C17	163	287
Income tax liabilities	C18	598	2,166
Short-term borrowings	C19	4,788	2,660
Current non-financial liabilities	C20	2,663	2,965
Current financial liabilities	C21	3,569	7,611
Current liabilities, total		**17,307**	**21,572**
Total equity and liabilities		**80,718**	**82,888**

Consolidated Income Statement

for the period from January 1 to December 31, 2017

	Note	Jan. 1 – Dec. 31, 2017 EUR (in thsds.)	Jan. 1 – Dec. 31, 2016 EUR (in thsds.)
Revenue	**D1**	**78,708**	**80,424**
Other own work capitalized	D2	4,600	4,512
Other operating income	D3	873	5,339
Operating income		**84,181**	**90,275**
Cost of materials	D4	–32,247	–31,353
Staff costs	D5	–33,031	–35,122
Depreciation, amortization and impairment losses	D6	–4,494	–5,100
thereof depreciation/amortization due to purchase price allocation		–1,223	–1,248
Other operating expenses	D7	–12,064	–11,538
Operating expenses		**–81,836**	**–83,113**
Profit/loss from operations (EBIT)		**2,345**	**7,162**
Interest income	D8	47	63
Interest expense	D8	–235	–248
Expenses from internal financing	D8	–1,027	0
Earnings before income taxes		**1,130**	**6,977**
Income taxes	D9	–404	–1,262
Consolidated profit		**726**	**5,715**
Attributable to:			
Owners of the parent	E4	742	5,702
Minority interests	E4	–16	13
Consolidated profit		**726**	**5,715**
Earnings per share (basic = diluted)		0.10	0.82
Average number of shares outstanding (basic)		7,342,683	6,959,438

Consolidated Statement of Comprehensive Income

for the period from January 1 to December 31, 2017

	Note	Jan. 1 – Dec. 31, 2017 EUR (in thsds.)	Jan. 1 – Dec. 31, 2016 EUR (in thsds.)
Consolidated profit		**726**	**5,715**
Items that will *not* be reclassified to consolidated profit or loss			
Remeasurements	C13	51	–397
Tax effect		–14	111
Remeasurements		37	–286
Items that will be reclassified to consolidated profit or loss:			
Currency translation differences			
Changes in unrealized gains/losses		–1,161	1,018
Tax effect		325	–171
Currency translation		–836	847
Consolidated total comprehensive income		**–799**	**561**
Total comprehensive income for the period		**–73**	**6,276**
Total comprehensive income for the period attributable to:			
Owners of the parent		–57	6,263
Minority interests		–16	13
Total comprehensive income for the period		**–73**	**6,276**
Earnings per share (basic = diluted)		0.00	0.87
Average number of shares outstanding (basic)		7,342,683	6,959,438

Consolidated Statement of Changes in Equity

for the period from January 1 to December 31, 2017

	Subscribed capital	Capital reserves	Retained earnings				Attributable to share-holders of Softing AG	Non-controlling interests	Total equity
	Capital		Net retained profits and other	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.)
As of January 1, 2017	**6,959**	**12,270**	**25,342**	**–1,358**	**4,370**	**28,355**	**47,584**	**–17**	**47,567**
Dividend payment			–1,392			–1,392	–1,392		–1,392
Capital increase	696	6,944				0	7,640		7,640
Remeasurements				51		51	51		51
Deconsolidation effect			36			36	36		36
Tax effect				–14	403	389	389		389
Currency translation					–2,745	–2,745	–2,745		–2,745
Net profit for 2017			742			742	742	–16	726
Balance as of December 31, 2017	**7,655**	**19,214**	**24,728**	**–1,321**	**2,028**	**25,436**	**52,305**	**–33**	**52,272**

	Subscribed capital	Capital reserves	Retained earnings				Attributable to share-holders of Softing AG	Non-controlling interests	Total equity
	Capital		Net retained profits and other	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.)
As of January 1, 2016	**6,959**	**12,270**	**20,684**	**–1,072**	**3,523**	**23,136**	**42,365**	**–30**	**42,335**
Dividend payment			–1,044			–1,044	–1,044		–1,044
Remeasurements				–397		–397	–397		–397
Tax effect				111	–171	–60	–60		–60
Currency translation					1,018	1,018	1,018		1,018
Net profit for 2016			5,702			5,702	5,702	13	5,715
Balance as of December 31, 2016	**6,959**	**12,270**	**25,342**	**–1,358**	**4,370**	**28,355**	**47,584**	**–17**	**47,567**

Consolidated Statement of Cash Flows

for the period from January 1 to December 31, 2017

	Jan. 1 – Dec. 31, 2017 EUR (in thsds.)	Jan. 1 – Dec. 31, 2016 EUR (in thsds.)
Cash flows from operating activities		
Profit (before tax)	1,129	6,977
Depreciation, amortization and impairment losses on fixed assets	4,494	5,100
Other non-cash transactions	1,194	–84
Cash flows for the period	**6,817**	**11,993**
Interest income	–47	–63
Interest expense	235	248
Change in other provisions and accrued liabilities	–124	–396
Change in inventories	147	99
Change in trade receivables	–237	2,818
Change in financial receivables and other assets	–516	–364
Change in trade payables	–282	–842
Change in financial and non-financial liabilities and other liabilities	–974	–3,685
Interest received	0	3
Income taxes paid	–1,463	–289
Cash flows from operating activities	**3,556**	**9,522**
Investments in fixed assets	–970	–1,096
Cash paid for investments in internally generated intangible assets	–4,600	–4,511
Cash paid for the acquisition of subsidiaries / variable purchase prices	–4,209	–914
Cash flows from investing activities	**–9,779**	**–6,521**
Cash paid for dividends	–1,392	–1,044
Cash received from short-term bank line	1,000	1,000
Repayment of bank loans	–1,307	–1,241
Cash received from capital increase	7,864	0
Interest paid	–147	–150
Cash flows from financing activities	**6,018**	**–1,435**
Net change in funds	–205	1,566
Effects of exchange rate changes on cash and cash equivalents	–388	117
Cash and cash equivalents at the beginning of the period	10,869	9,186
Cash and cash equivalents at the end of the period	**10,276**	**10,869**

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

Changes in Intangible Assets and Property, Plant and Equipment

In the 2017 financial year

	Cost				
	Jan. 1, 2017	Additions	Currency differences	Disposals	Dec. 31, 2017
	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)
Intangible assets					
Goodwill	15,789	0	–953	0	14,836
Internally generated intangible assets	24,293	4,600	0	0	28,893
Other intangible assets	23,067	126	–2,495	397	20,301
	63,149	**4,726**	**–3,448**	**397**	**64,030**
Property, plant and equipment					
Other equipment, furniture and fixtures and office equipment	4,622	844	–69	1,261	4,136
	67,771	**5,570**	**–3,517**	**1,658**	**68,166**

In the 2016 financial year

	Cost				
	Jan. 1, 2016	Additions	Currency differences	Disposals	Dec. 31, 2016
	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)
Intangible assets					
Goodwill	15,539	0	250	0	15,789
Internally generated intangible assets	20,775	4,836	0	1,318	24,293
Other intangible assets	22,088	564	660	245	23,067
	58,402	**5,400**	**910**	**1,563**	**63,149**
Property, plant and equipment					
Other equipment, furniture and fixtures and office equipment	4,594	1,145	17	1,134	4,622
	62,995	**6,545**	**927**	**2,697**	**67,771**

Accumulated depreciation, amortization and impairment losses					Carrying amounts	
Jan. 1, 2017	Currency differences	Depreciation, amortization and impairment losses in the financial year	Disposals	Dec. 31, 2017	Dec. 31, 2017	Dec. 31, 2016
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	14,540	15,493
14,220	0	2,149	0	16,369	12,524	10,073
4,877	–487	1,562	395	5,557	14,744	18,190
19,393	–487	3,711	395	22,222	41,808	43,756
2,365	–33	783	1,001	2,114	2,022	2,257
21,758	**–520**	**4,494**	**1,396**	**24,336**	**43,830**	**46,013**

Accumulated depreciation, amortization and impairment losses					Carrying amounts	
Jan. 1, 2016	Currency differences	Depreciation, amortization and impairment losses in the financial year	Disposals	Dec. 31, 2016	Dec. 31, 2016	Dec. 31, 2015
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	15,493	15,243
12,514	0	2,699	993	14,220	10,073	8,261
3,222	136	1,571	52	4,877	18,190	18,866
16,032	136	4,270	1,045	19,393	43,756	42,370
2,231	9	830	705	2,365	2,257	2,361
18,264	**145**	**5,100**	**1,750**	**21,758**	**46,013**	**44,731**

Notes to the Consolidated Financial Statements for the 2017 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 thousand) unless indicated otherwise. These financial statements cover the 2017 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 15, 2018. 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 the Softing Group.

3. NEW AND REVISED STANDARDS

Annual Improvements to IFRSs – 2013–2015 Cycle

The IASB officially included the 2013–2015 cycle of annual improvements in its work program in December 2013 but discontinued this in July 2014. A draft was originally expected in the third quarter of 2014, but due to the lack of items the IASB proposed that the single item identified be addressed as part of the 2014–2016 cycle of annual improvements.

Annual Improvements to IFRSs – 2014–2016 Cycle

On this page we summarize the developments in the 2014–2016 cycle. This was officially taken onto the IASB's agenda in July 2014. The 2014–2016 cycle also includes one proposed amendment from the 2013–2015 cycle, which was discontinued in July 2014 due to a lack of issues to address.

Current project status

This project has been completed. The IASB published Annual Improvements to IFRSs – 2014–2016 Cycle on December 8, 2016 and amended the following standards:

IFRS 1 First-time Adoption of International Financial Reporting Standards: Deleted the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose (first-time application 2018).

IFRS 12 Disclosure of Interests in Other Entities: Clarified the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (first-time application 2017).

IAS 28 Investments in Associates and Joint Ventures: Clarified that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition (first-time application 2018).

Application of these amendments does not materially affect the disclosures in the notes. The amendments were applied for the first time in 2017.

The following revised Standards do not have any material effects on the consolidated financial statements:

Amendments to IAS 12 Income Taxes – Recognition of Deferred Taxes for Unrealized Losses (first-time application 2019).

Amendments to IAS 7 Statements of Cash Flow – Disclosure Initiative (first-time application 2017).

Standards and Interpretations not Applied Early

A number of new Standards and amendments to Standards and Interpretations can be applied for financial years beginning after January 1, 2018, They have not been applied early in 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 (first-time application 2018), Financial Instruments, addresses the classification, measurement and recognition of financial assets and financial liabilities. 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 three measurement categories: those measured at fair value through other comprehensive income or profit and loss, 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 will adopt IFRS 9 prospectively in the financial year beginning on January 1, 2018. The Group will also consider the impact of the remaining phases of IFRS 9 when completed by the IASB. The Group is currently analyzing the effects of the standard on its net assets, financial position and results of operations.

The simplified approach to impairment is used to analyze the risk exposure of trade receivables. In this approach, provisions for risk in the amount of the expected losses must be recognized over the remaining term of all instruments regardless of their credit quality. When applying the new impairment model in the simplified approach for earlier recognition of expected losses on trade receivables, as of December 31, 2017 the Group therefore forecasts only a minor increase in the expected losses of EUR 36 thousand on portfolios of unimpaired receivables in 2018.

A provision matrix can be used to simplify the calculation of expected credit losses under the simplified approach. The provision matrix is based on observed historical provision rates and will be adjusted to reflect forward-looking estimates.

IFRS 15 (first-time application 2018) 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, 2018. In 2017, the Group analyzed the effects of the standard on its net assets, financial position and results of operations. Based on its completed assessment, the Group does not expect IFRS 15 to affect its net assets, financial position and results of operations.

On January 13, 2016, the IASB issued the final version of the new leasing standard, IFRS 16. The new rules must also be applied to existing leases. The amendments relate to accounting for (nearly all) leases which must be recognized at the lessee according to the "right of use" approach. According to this model, the lessee recognizes an asset for the right of use of the leased object during the lease period and a liability for the lease payments. The distinction to date between finance and operating leases was not retained. Instead, with only a few exceptions, all material leases will be recognized in the balance sheet of the lessee in the future. Simplification options are provided for short-term lease agreements with a term of no more than 12 months and lease agreements covering low-value assets.

IFRS 16 (first-time application 2019) must be applied for the first time for financial years beginning on or after January 1, 2019. Earlier application is not envisaged. The Group is currently analyzing the effects of the standard on its net assets, financial position and results of operations. The analysis is expected to be completed in the first quarter of 2018. According to an initial assessment, no extraordinary material impact is expected on the net assets, financial position and results of operations due to the Group's limited use of leases.

The following revised Standards do not have any material effects on the consolidated financial statements:

Amendments to IFRS 2 Share-based Payment – Classification and Measurement of Share-based Payment Transactions

IFRS 14: Regulatory Deferral Accounts

Annual Improvements to IFRSs – 2015–2017 Cycle

- IFRS 3 Business Combinations
  (first-time application 2019)
- IFRS 11 Joint Arrangements
  (first-time application 2019)
- IAS 12 Income Taxes
  (first-time application 2019)
- IAS 23 Borrowing Costs
  (first-time application 2019)

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 is recognized using the effective interest method. 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, 2017 include Softing AG and the following subsidiaries, over which Softing AG directly or indirectly exercises control:

Softing Group as of 12/31/2017	Capital share	
	2017 %	2016 %
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, Kirchentellinsfurt/Germany	100	100
Softing Industrial Automation GmbH, Haar/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	100	100
Softing North America Holding Inc., Delaware/USA	100	100
OLDI Online Development Inc., Knoxville/USA	100	100
Softing IT Networks GmbH, Haar/Germany	100	100
Softing Singapore Pte. Ltd., Singapore	100	100
Softing S.A.R.L., Paris/France	100	100
Shanghai Softing software Co., Ltd., Shanghai/China	100	100
Softing Automotive Electronics Services GmbH, Kirchentellinsfurt/Germany	100	100

As of December 31, 2017, the following changes occurred in the basis of consolidation of Softing AG compared to December 31, 2016:

Merger of Samtec automotive software electronics GmbH, Kirchentellinsfurt/Germany into Automotive Communications Kirchentellinsfurt GmbH, Kirchentellinsfurt/Germany.

Automotive Communications Kirchentellinsfurt GmbH, Kirchentellinsfurt/Germany was sold effective December 29, 2017 and is no longer part of the Group. The sale has not resulted in any material effects because it did not concern an operating business.

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 Project Services GmbH (Haar)
- Softing Messen & Testen GmbH (Kirchentellinsfurt)
- Softing IT Networks GmbH (Haar)

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, the equity instruments issued by the Group and the liabilities assumed from the previous owners of the acquired subsidiary as of the acquisition date. 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. Gains and losses arising from the sale to non-controlling interests are also recognized in equity.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control begins and until the date on which control ends.

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

4. INTANGIBLE ASSETS

Intangible assets comprise goodwill resulting from acquisition accounting as well as other intangible assets and capitalized development costs. With the exception of goodwill resulting from acquisition accounting, all intangible assets have a finite useful life.

5. DEVELOPMENT COSTS

Development costs for developing new products and for materially refining 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. The Softing Group amortizes the development costs for new product lines and product versions over their respective useful life using the straight-line method; amortization in the year the product lines or versions are completed is recognized on a pro-rata basis. In accordance with IAS 38, research costs cannot be capitalized and are immediately recognized as an expense in the income statement.

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, Kirchentellinsfurt/Germany
- Softing Industrial Automation GmbH, Haar/Germany
- OLDI Online Development Inc., Knoxville/USA
- Softing IT Networks GmbH, Haar/Germany (formerly Psiber Data GmbH) & Softing Singapore Pte. Ltd., Singapore (formerly Psiber Data Pte.Ltd.)

An impairment loss is recognized if the carrying amount of the cash generating unit to which the goodwill is allocated is higher over the long term 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 with reasonable effort, 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.

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 accumulated depreciation, usage-based accumulated deprecation and usage-based accumulated 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 derecognized; 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 only allocated to the carrying amount of the original asset or capitalized as a separate asset if it is probable that economic benefits will flow to the Group in connection with that asset in the future, and these benefits can be estimated reliably.

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 at least once a year. 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 not 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 the lower of cost or net realizable value. As a rule, production supplies and goods for resale/finished merchandise are recognized at the weighted average.

Production costs comprise material and production costs overheads 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.

At Softing, financial assets are categorized as follows: (a) financial assets at fair value through profit or loss; (b) loans and receivables; and (c) available-for-sale financial assets. The categorization depends on the purpose for which the financial assets were acquired. Management determines the categorization 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 none 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 the categories listed above.

The following applies to subsequent measurement:

Loans and receivables are carried at amortized cost using the effective interest method.

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. 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. 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 an impairment loss in subsequent periods if the reasons for the impairment no longer exist.

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 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.

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 and accounted for at their 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.

Categories of Financial Instruments

Classes of Financial Instruments	Measurement categories of financial instruments
Non-current financial assets	
Other non-current financial assets	Loans and receivables
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. The stage of completion is the proportion that contract costs incurred for work performed to date bear to the 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. CURRENT AND DEFERRED TAXES

The tax expense for the period comprises current and deferred taxes.

Taxes are recognized in the income statement unless they relate to an item that was recognized directly in equity or in other comprehensive income. In this case, the taxes are also recognized in equity or in other comprehensive income.

The current tax expense is measured based on the tax regulations of the countries in which Softing and its subsidiaries do business and generate taxable income that are applicable on the reporting date (or applicable in the near future). Management regularly reviews tax returns, particularly with regard to circumstances open to interpretation and, where appropriate, recognizes provisions in the amounts the Company is expected to have to pay to the tax authorities. 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 assets are only recognized in the amount in which it is probable that taxable income will be available against which temporary differences can be applied.

Deferred tax liabilities and assets, 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

Provisions for defined benefit pension plans 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. The amount of the provision for defined benefit plans recognized in the statement of financial position corresponds to the present value of the defined benefit obligation on the balance sheet date less the fair value of the plan assets. The present value is calculated by discounting the expected future cash flows at an interest rate applicable to high-quality corporate bonds. 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 comprises the present value of the expected expenditure, including interest cost, if any, on non-current provisions, 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” 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 well as the material exercise of judgment with regard to the expected time of occurrence, the amount of the future taxable income, and future tax planning strategies (tax forecasts). 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 and difficult especially 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. With the exception of Softing IT Networks in Singapore, where the functional currency is the USD, the functional currency of all foreign subsidiaries is the respective local currency because the material foreign companies that are included in the consolidated financial statements operate their businesses independently in financial, economic and organizational terms primarily in their respective economic environment. The exchange rate risk within the Softing Group is essentially restricted to USD and RON.

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.

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	
	2017	2016	2017	2016
Closing rate (Dec. 31)	1.20	1.05	4.66	4.54
Average exchange rate	1.13	1.11	4.57	4.49

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.

C. NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

1. CHANGES IN THE BASIS OF CONSOLIDATION

As of December 31, 2017, the following changes occurred in the basis of consolidation of Softing AG compared to December 31, 2016:

Merger of Samtec automotive software electronics GmbH, Kirchentellinsfurt/Germany into Automotive Communications Kirchentellinsfurt GmbH, Kirchentellinsfurt/Germany.

Automotive Communications Kirchentellinsfurt GmbH, Kirchentellinsfurt/Germany was sold effective December 29, 2017 and is no longer part of the Group. The sale has not resulted in any material effects because it did not concern an operating business.

2. GOODWILL

	Dec. 31, 2017 EUR (in thsds.)	Dec. 31, 2016 EUR (in thsds.)
Softing Messen und Testen GmbH	2,055	2,055
Softing Industrial Automation GmbH	384	384
Softing IT Networks GmbH (Psiber Data GmbH)	5,181	5,181
OLDI Online Development Inc.	6,920	7,874
Goodwill	14,540	15,494

Due to the change in the EUR/USD exchange rate, the goodwill of OLDI Online Development Inc. changed by EUR 954 thousand in 2017.

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. The following parameters were used for the items of goodwill:

- Discount rates before taxes 8.4% – 12.1% (previous year: 7.7% – 12.2%)
- Risk-free interest rate: 1.22% – 2.84% (previous year: 1.00% – 3.05%)
- Market risk premium: 5.69% – 6.50% (previous year: 6.00% – 6.50%)
- Beta factor (weighted average of a group of comparable companies): 0.99 – 1.08 (previous year: 0.93 – 1.02)

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 18,647 thousand (previous year: EUR 19,460 thousand).

No impairment losses were recognized in addition to amortization.

The following overview shows the total expenditures for research and development:

	2017 EUR (in thsds.)	2016 EUR (in thsds.)
Capitalized development costs	4,600	4,512
Expenses not qualifying for capitalization	18,647	19,460
	23,247	**23,972**

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 impairment losses 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 impairment losses were recognized in addition to depreciation.

6. LEASES

The other operating expenses contain rental and lease expenses for buildings and cars of EUR 1,576 thousand (previous year: EUR 1,576 thousand).

7. INVENTORIES

	Dec. 31, 2017 EUR (in thsds.)	Dec. 31, 2016 EUR (in thsds.)
Raw materials and consumables	2,307	2,803
Finished goods	6,760	6,411
Inventories	**9,067**	**9,214**

Valuation allowances recognized in 2017 total EUR 63 thousand (previous year: EUR 0 thousand). 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, 2017 EUR (in thsds.)	Dec. 31, 2016 EUR (in thsds.)
Trade receivables	12,067	11,742
Receivables from customer-specific construction contracts	760	848
	12,827	**12,590**

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 90 days	91 to 180 days	181 to 360 days	More than 360 days
Dec. 31, 2017	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)
Trade receivables	12,067	7,476	4,590	1	0	0
Receivables from customer-specific construction contracts	760	760	0	0	0	0
	12,827	**8,236**	**4,590**	**1**	**0**	**0**

	Carrying amount	Of which neither past due nor impaired	Of which not impaired and past due within the following time bands			
			Less than 90 days	91 to 180 days	181 to 360 days	More than 360 days
Dec. 31, 2016	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)
Trade receivables	11,742	9,305	2,148	289	0	0
Receivables from customer-specific construction contracts	848	848	0	0	0	0
	12,590	**10,153**	**2,148**	**289**	**0**	**0**

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.)
2017	295	15	0	118	398
2016	294	38	0	39	295

9. RECEIVABLES AND PAYABLES FROM CUSTOMER-SPECIFIC CONSTRUCTION CONTRACTS

	Dec. 31, 2017 EUR (in thsds.)	Dec. 31, 2016 EUR (in thsds.)
Receivables from customer-specific construction contracts	760	848
Payables from customer-specific construction contracts	952	1,027
Net amount	**–192**	**–179**

10. OTHER CURRENT ASSETS

	Dec. 31, 2017 EUR (in thsds.)	Dec. 31, 2016 EUR (in thsds.)
Receivables from employees	48	13
Other financial receivables	192	81
Prepaid expenses/prepayments	335	317
Advances paid	35	44
Other assets	46	257
	656	**712**

11. CURRENT INCOME TAX ASSETS

The current income tax assets concern corporation tax receivables amounting to EUR 1,991 thousand (previous year: EUR 626 thousand). The Group's taxes are described in detail in section D 9.

12. CURRENT FINANCIAL ASSETS, CASH AND CASH EQUIVALENTS

	Dec. 31, 2017 EUR (in thsds.)	Dec. 31, 2016 EUR (in thsds.)
Cash and cash equivalents	**10,276**	**10,869**

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 7,655,381 (previous year: EUR 6,959,438 thousand). It is divided into 7,655,381 (previous year: 6,959,438) no-par-value bearer shares with a notional value of EUR 1 each. An average of 7,342,683 shares were outstanding in the reporting year. Based on the authorization granted by the General Shareholders' Meeting on May 6, 2015, the share capital of EUR 6,959,438 was increased by EUR 695,943 upon entry in the commercial register on June 12, 2017. The cash inflow from the capital increase amounted to EUR 7.8 million. All no-par shares grant identical rights, especially identical 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.

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 3,479,719 by issuing up to 3,479,719 new no-par bearer shares against contributions in cash and/or in kind (authorized capital) until May 5,

2020. The Executive Board is also authorized to disapply shareholders' statutory pre-emptive 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. Disapplying shareholders' pre-emptive 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, 2017, was EUR 2,783,776 (previous year: EUR 3,479,719).

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 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 and the associated deferred taxes of transactions made by foreign subsidiaries, changes in the fair value of financial instruments not recognized through profit or loss,

and the remeasurements from pension obligations and their deferred tax effects not recognized through profit or loss.

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

Non-controlling Interests

The non-controlling interests in the amount of EUR –33 thousand (previous year: EUR –17 thousand) concern other shareholders in Austria.

Treasury Shares

No treasury share transactions took place in 2017;

As of the reporting date, Softing AG did not hold any treasury shares.

The changes in consolidated equity including the changes from acquisitions are presented in the table "Consolidated Statement of Changes in Equity" 2017/2016.

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 lifelong 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 2,992 thousand (previous year: EUR 2,886 thousand) 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 –1,319 thousand as of December 31, 2017 (previous year: EUR –1,358 thousand).

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 108.0 points to 109.9 points on average between 2016 and 2017.

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

Basis of calculation	Dec. 31, 2017 %	Dec. 31, 2016 %
Assumed interest rate	1.6	1.6
Salary trend	0.0	0.0
Expected rate of pension increase	1.1	1.1
Anticipated employee turnover rate	0.0	0.0
Biometric basis of calculation	**Mortality Tables 2005 G / Prof. Dr. Heubeck**	

Development of the obligation	2017 EUR (in thsds.)	2016 EUR (in thsds.)
DBO as of January 1	5,124	4,638
Service cost	144	125
Interest expense	80	98
Pension payments to pensioners	–168	–168
Expected DBO as of December 31	**5,180**	**4,693**
Actual DBO as of December 31	5,174	5,124
Remeasurements, of which	–6	431
Effects from adjusting the assumed interest rate	0	408
Effects from changes in trend assumptions	0	0
Effects from experience adjustments	–6	23

The average remaining life of the obligation is 14.5 years (previous year: 15.5 years).

Calculation of annual income and annual expense	2017 EUR (in thsds.)	2016 EUR (in thsds.)
Interest income	46	60
Interest expense	80	98
Service cost	144	125
Annual expense	**178**	**163**

Development of plan assets	2017 EUR (in thsds.)	2016 EUR (in thsds.)
Plan assets as of January 1	2,886	2,777
Payment from plan assets	–92	–93
Payments into the employer's plan assets	107	107
Interest earned from plan assets	46	60
Adjustment of plan assets	45	35
Plan assets as of December 31	**2,992**	**2,886**

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 thousand in 2018 (previous year: EUR 107 thousand).

Reconciliation with the statement of financial position	Dec. 31, 2017 EUR (in thsds.)	Dec. 31, 2016 EUR (in thsds.)
Present value of the defined benefit obligations (DBO)	5,174	5,124
Fair value of the external plan assets	2,993	2,887
Provision	**2,181**	**2,237**

Development of the provision	2017 EUR (in thsds.)	2016 EUR (in thsds.)
Provision as of January 1	2,237	1,860
Service cost	144	125
Net interest expense/income	34	38
Actuarial remeasurements, of which	–7	431
Effects from adjusting the assumed interest rate	0	408
Effects from experience adjustments	–7	23
Adjustment of plan assets	–44	–35
Payments made	–76	–74
Payments into plan assets	–107	–107
Provisions as of December 31	**2,181**	**2,237**

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 2017	0.25 % +4.3 %	0.25 % –4.0 %
Relative effect of interest rate change on DBO 2016	0.25 % +4.3 %	0.25 % –4.1 %

	Effect on the obligation	
	Change in the assumption –	Change in the assumption +
Relative effect of a change in the pension trend on DBO 2017	0.25 % –1.7 %	0.25 % 1.8 %
Relative effect of a change in the pension trend on DBO 2016	0.25 % –1.6 %	0.25 % +1.7 %

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 thousand (previous year: EUR 168 thousand) and interest income of EUR 48 thousand (previous year: EUR 46 thousand) are expected for the 2018 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 4,109 thousand (previous year: EUR 6,477 thousand); is it shown under other long-term borrowings. 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 AG had no problem fulfilling the covenant regarding equity ratio. With respect to the difference in the maximum debt-to-equity ratio, agreements were reached with the financing banks because the long-term plans do not show a deterioration in the financial covenants.

As agreed, the variable portions of the purchase price for OLDI fell within a range from USD 0 thousand to USD 9,000 thousand, depending on target attainment. The purchase price agreements stipulated a maximum cap for these amounts. Due to the revenue and earnings performance of OLDI during the prior-year period, the fair value was determined to be EUR 4,269 thousand and is based on the final revenue and EBIT in the underlying contractual agreements. In 2017, an amount of EUR 4,209 thousand (USD 4,500 thousand) was then paid out to the existing shareholders of OLDI as a variable purchase price. This payment fulfills all variable purchase price agreements under the OLDI purchase agreement. The Group made this payment from its own funds and did not borrow any funds, as originally planned.

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

The trade payables of EUR 4,574 thousand (previous year: EUR 4,856 thousand) 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 952 thousand (previous year: EUR 1,027 thousand).

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, 2017 EUR (in thsds.)	Use EUR (in thsds.)	Reversal EUR (in thsds.)	Addition EUR (in thsds.)	As of Dec. 31, 2017 EUR (in thsds.)
Warranties	147	143	4	132	132
Other	140	0	140	31	31
Total	**287**	**143**	**144**	**163**	**163**

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 598 thousand (previous year: EUR 2,166 thousand) 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. (EUR 2,369 thousand), the current portion of a loan granted to a former shareholder (EUR 354 thousand), a loan of Softing IT Networks GmbH (EUR 65 thousand) and a short-term utilization of a bank line (EUR 2,000 thousand) as of the reporting date amounts to EUR 4,788 thousand (previous year: EUR 2,660 thousand) and is due for repayment or prolongation.

20. CURRENT NON-FINANCIAL LIABILITIES

	Dec. 31, 2017 EUR (in thsds.)	Dec. 31, 2016 EUR (in thsds.)
Liabilities related to social security	407	346
Other tax liabilities primarily (sales and wage tax)	768	1,286
Deferred income	1,379	1,284
Other	109	49
	2,663	**2,965**

21. CURRENT FINANCIAL LIABILITIES

	Dec. 31, 2017 EUR (in thsds.)	Dec. 31, 2016 EUR (in thsds.)
Wages and salaries payable	3,344	3,158
Current variable purchase prices from acquisitions	0	4,269
Other	225	184
	3,569	**7,611**

D. NOTES TO THE CONSOLIDATED INCOME STATEMENT

1. REVENUE

Revenue by regions:	2017 EUR (in thsds.)	2016 EUR (in thsds.)
Germany	25,285	30,586
USA	30,718	26,838
Other countries	22,705	23,000
	78,708	**80,424**

Revenue by products and services:	2017 EUR (in thsds.)	2016 EUR (in thsds.)
Products	71,861	71,304
Services	6,847	9,120
	78,708	**80,424**

Revenue includes a change of EUR 124 thousand (EUR 65 thousand) from long-term construction contracts reported using the percentage-of-completion method. Here, the Group estimates the proportion of the total of services to be provided that have already been performed by the reporting date.

Revenue from construction contracts of the period amounted to EUR 5,036 thousand (previous year: EUR 6,144 thousand).

In 2017, two customers exceeded the revenue threshold of 10% of Group revenue, at 14% and 11%, respectively. In 2016, two customers exceeded the revenue threshold of 10% of Group revenue, at 12% and 13%, respectively.

For detailed information on operating segments, we refer to the segment reporting (see chapter E1).

2. OTHER OWN WORK CAPITALIZED

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

3. OTHER OPERATING INCOME

The other operating income comprises the following items:	2017 EUR (in thsds.)	2016 EUR (in thsds.)
Income from exchange differences	506	355
Revenue from the reduction of valuation allowances	15	38
Insurance compensation payment	5	661
Sales commission	0	28
Income from receivables written off	0	15
Recharged costs	85	17
Income from the reduction of the variable purchase price	0	4,067
Other income	262	158
	873	**5,339**

4. COST OF MATERIALS

	2017 EUR (in thsds.)	2016 EUR (in thsds.)
Purchase of components and products	31,325	30,160
Third-party services	922	1,193
	32,247	**31,353**

5. STAFF COSTS

	2017 EUR (in thsds.)	2016 EUR (in thsds.)
Current salaries	26,671	27,245
Social security and retirement benefit costs	4,520	4,714
Profit-sharing, royalties	1,615	2,947
Use of company cars by employees	8	3
Other temporary workers	217	213
	33,031	**35,122**

The statutory pension scheme in Germany is treated as a defined contribution scheme. Expenses recognized for the statutory pension scheme total EUR 1,439 thousand (previous year: EUR 1,473 thousand).

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).

No impairment losses or reversals of impairments were recognized in 2017.

7. OTHER OPERATING EXPENSES

The other operating expenses are as follows:	2017 EUR (in thsds.)	2016 EUR (in thsds.)
Employee-related costs	303	339
Infrastructure costs	2,889	2,777
Distribution costs	3,526	3,351
Consulting costs	864	906
Third-party services	951	775
Capital market costs	296	402
Contributions and fees	126	113
Operating costs	552	668
Other costs, fire-related	0	28
Exchange differences	640	205
Other product development expenses	1,388	1,344
Other costs	529	630
	12,064	**11,538**

8. INTEREST INCOME/INTEREST EXPENSE

The financial result comprises interest income and interest expense.

The interest expense breaks down as follows:	2017 EUR (in thsds.)	2016 EUR (in thsds.)
Interest from unwinding of discounts on provisions	81	98
Interest on loans	147	137
Other interest	7	13
	235	**248**

Interest income comprises the following items:	2017 EUR (in thsds.)	2016 EUR (in thsds.)
Interest income from pension provisions	46	60
Other interest	1	3
	47	**63**

9. INCOME TAXES

The income tax expense breaks down as follows:	2017 EUR (in thsds.)	2016 EUR (in thsds.)
Deferred taxes on temporary differences	1,360	–302
Deferred taxes on tax loss carryforwards	–489	310
Tax expense	871	8
Tax expense/income financial year	606	1,255
Tax expense/income from previous years	–1,073	–1
Tax expense/income	–467	1,254
	404	**1,262**
Effective tax rate	35.75 %	18.09 %

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:

	2017 %	2016 %
Corporation tax including solidarity surcharge	15.83	15.83
Trade tax rate	12.25	12.25
	28.08	**28.08**

The deferred tax assets on tax loss carryforwards in Germany and abroad were recognized because in the Group's opinion the loss carryforwards are not impaired in the amount recognized due to positive tax forecasts and a positive market outlook as of the balance sheet date.

Of the total tax loss carryforwards in the amount of EUR 8,239 thousand (previous year: EUR 3,790 thousand), EUR 7,981 thousand (previous year: EUR 3,532 thousand) was recognized on deferred tax assets.

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

	Dec. 31, 2017 EUR (in thsds.)	Dec. 31, 2016 EUR (in thsds.)	Usable until
Softing AG (trade tax)	3,602	0	Unlimited
Softing AG (corporation tax)	2,649	0	Unlimited
Softing Singapore	1,299	2,940	Unlimited
Softing North America Holding (Federal/State)	245	592	Unlimited
Softing Inc. (Federal/State)	186	0	Unlimited
Buxbaum Automation GmbH	258	258	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.

	2017 EUR (in thsds.)	2016 EUR (in thsds.)
Earnings before taxes	1,130	6,976
Anticipated tax expense (28.08 %)	317	1,959
Tax additions and deductions	505	131
Different tax rates	238	279
Deferred taxes, temporary differences, loss carryforwards	95	–894
Tax rate change, USA	292	0
Taxes, previous years	–1,073	–161
Other	30	–52
Current tax expense shown in the income statement	**404**	**1,262**

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

	2017 EUR (in thsds.)		2016 EUR (in thsds.)	
	Assets	Liabilities	Assets	Liabilities
Intangible assets	13	4,070	102	3,599
Pension provision	671		671	
(Of which recognized directly in equity)	(515)		(530)	
Currency translation (recognized directly in equity)		635		1,248
Trade receivables	97	43	1,122	12
Other provisions	129		277	
Current assets	13		36	
Deferred income	3		0	
Future tax benefits from loss carryforwards	1,145		656	
Gross amount/carrying amount	2,071	4,748	2,864	4,859

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		Automotive		IT Networks		Holding, other consolidation		Total	
	2017 EUR (in thsds.)	2016 EUR (in thsds.)	2017 EUR (in thsds.)	2016 EUR (in thsds.)	2017 EUR (in thsds.)	2016 EUR (in thsds.)	2017 EUR (in thsds.)	2016 EUR (in thsds.)	2017 EUR (in thsds.)	2016 EUR (in thsds.)
External sales	50,941	57,590	17,406	22,834	10,361				78,708	80,424
Depreciation/amortization	2,495	3,450	1,213	1,322	448		338	328	4,494	5,100
Segment result (operating EBIT)	4,244	6,000	–2,889	698	–238				1,117	6,698
Segment result (EBIT)	3,811	4,172	–998	2,990	–469				2,344	7,162
Segment assets	41,248	59,303	18,341	18,616	10,280		10,849	4,969	80,718	82,888
Segment liabilities	8,180	13,638	5,115	5,640	1,244		13,907	16,043	28,446	35,321
Capital expenditure	2,023	1,815	3,068	4,338	259		220	392	5,570	6,545

The IT Networks segment remained part of the Industrial segment due to its secondary important in 2016. The IT Networks segment reached the threshold for becoming a separate segment in 2017 as a result of good revenue performance. The segment information according to the new structure was not yet available in the necessary degree of detail in 2016. For purposes of comparability, presentation in accordance with the old structure is also included.

Segmentation	Industrial		Automotive		Holding, other consolidation		Total	
	2017 EUR (in thsds.)	2016 EUR (in thsds.)	2017 EUR (in thsds.)	2016 EUR (in thsds.)	2017 EUR (in thsds.)	2016 EUR (in thsds.)	2017 EUR (in thsds.)	2016 EUR (in thsds.)
External sales	61,302	57,590	17,406	22,834			78,708	80,424
Depreciation/amortization	2,943	3,450	1,213	1,322	338	328	4,494	5,100
Segment result (operating EBIT)	4,006	6,000	–2,889	698			1,117	6,698
Segment result (EBIT)	3,342	4,172	–998	2,990			2,344	7,162
Segment assets	51,528	59,303	18,341	18,616	10,849	4,969	80,718	82,888
Segment liabilities	9,424	13,638	5,115	5,640	13,907	16,043	28,446	35,321
Capital expenditure	2,282	1,815	3,068	4,338	220	392	5,570	6,545

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. Due to different technologies and customer groups, there is no significant intersegment revenue.

The key parameters for evaluating and managing a segment's results of operations are: earnings before interest and taxes (EBIT) and the operating EBIT derived from it (EUR 1,117 thousand; previous year: EUR 6,698 thousand), adjusted for capitalized development costs of EUR 4,600 thousand (previous year: EUR 4,512 thousand) and their amortization of EUR 2,149 thousand (previous year: EUR 2,699 thousand); depreciation and amortization from purchase price allocation of 1,223 thousand (previous year: EUR 1,248 thousand). 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	
	2017 EUR (in thsds.)	2016 EUR (in thsds.)	2017 EUR (in thsds.)	2016 EUR (in thsds.)	2017 EUR (in thsds.)	2016 EUR (in thsds.)
Germany	25,285	30,586	23,547	22,162	5,264	6,271
USA	30,718	26,837	19,990	23,589	132	119
Other countries	22,705	23,001	293	262	174	155
Total	**78,708**	**80,424**	**43,830**	**46,013**	**5,570**	**6,545**

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. Application of this comprehensive measurement and automation system is not limited to automotive technology at all; 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.

4. EARNINGS PER SHARE IAS 33

		2017	2016
Consolidated profit	EUR (in thsds.)	726	5,715
Minority interest	EUR (in thsds.)	–16	13
Basic earnings (= diluted earnings)	**EUR (in thsds.)**	**742**	**5,702**
Weighted average number of shares			
Basic	Number	7,342,683	6,959,438
Diluted	Number	7,342,683	6,959,438
Basic earnings per share	(EUR)	0.10	0.82
Diluted earnings per share	(EUR)	0.10	0.82

The change in the number of shares outstanding which results from the capital increase in 2017 was calculated on a pro-rated basis (to the day).

No options rights exist as of December 31, 2017, 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.

We refer to chapters E 10 and 11 for information regarding the remuneration of the Supervisory Board and the Executive Board.

The Chairman of the Company's Executive Board, Dr. Wolfgang Trier, held 122,221 shares in Softing AG as of December 31, 2017 (previous year: 112,716).

The Executive Board member Ernst Homolka held 1,800 shares in Softing AG as of December 31, 2017 (previous year: 1,800 shares).

The Supervisory Board member, Dr. Klaus Fuchs, held 278,820 shares in Softing AG as of December 31, 2017 (previous year: 278,820).

The Supervisory Board member, Andreas Kratzer, held 10,155 shares in Softing AG as of December 31, 2017 (previous year: 10,155).

6. CONTINGENT LIABILITIES

As of the balance sheet date, Softing AG has provided EUR 11,712 thousand (previous year: EUR 11,712 thousand) 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 3,091 thousand under long-term contracts (previous year: EUR 2,995 thousand).

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:

	2017 EUR (in thsds.)	2016 EUR (in thsds.)
< 1 year	1,355	1,453
1–5 years	2,996	2,696
> 5 years	1,270	0
Total	**5,621**	**4,149**

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 cash, the financial instruments recognized almost solely comprise primary current receivables and liabilities. As in the previous year, there were no financial instruments as of December 31, 2017, for which IFRS 7 is not applicable.

EUR (in thsds.)	Carrying amount Dec. 31, 2015	Amortized cost	Fair value through profit or loss	Fair value Dec. 31, 2015
Current financial assets				
Trade receivables	12,067	12,067		12,067
Receivables from customer-specific construction contracts	760	760		760
Other current financial assets				
Cash and cash equivalents	10,276	10,276		10,276
Non-current financial liabilities				
Long-term borrowings	4,153	4,153	3,747	3,747
Current financial liabilities				
Trade payables	4,574	4,574		4,574
Short-term borrowings	4,788	4,788	5,068	5,068
Current financial liabilities	3,569	3,569		3,569

EUR (in thsds.)	Carrying amount Dec. 31, 2016	Amortized cost	Fair value through profit or loss	Fair value Dec. 31, 2016
Current financial assets				
Trade receivables	11,742	11,742		11,742
Receivables from customer-specific construction contracts	848	848		848
Other current financial assets				
Cash and cash equivalents	10,869	10,869		10,869
Non-current financial liabilities				
Long-term borrowings	6,596	6,596	5,941	5,941
Current financial liabilities				
Trade payables	4,856	4,856		4,856
Short-term borrowings	2,660	2,660	2,722	2,722
Current financial liabilities	7,611	7,611		7,611

For information on the measurement categories of financial instruments, please refer to the list of classes of financial instruments in B12.

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).

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

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, 2017, and December 31, 2016.

The Group monitors its capital using the equity ratio. But the Executive Board does not define a specific target to that end. The equity ratio in the financial year was 65% (previous year: 57%).

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.

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.

Default Risks

Softing is exposed to default risks if contractual partners fail to meet their obligations. To avoid of risks of this nature, Softing enters into contracts only with contractual partners that have an excellent credit rating. As of the closing dates of December 31, 2017, and December 31, 2016, 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, 2017, totaled EUR 398 thousand (previous year: EUR 295 thousand).

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 10,276 thousand (previous year: EUR 10,869 thousand) bear interest of 0.00% (previous year: 0.00%). No material interest rate risks result from subsidiaries' liabilities to banks in the amount of EUR 8,942 thousand (previous year: EUR 9,256 thousand) 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 45 thousand (previous year: EUR 47 thousand) on interest expense relating to the loan.

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), 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:

In EUR thsd./USD			USD			
Closing rate: USD 1.20			1.32 +10%	1.08 –10%	Difference	Difference
Financial assets/liabilities	**USD**	**USD in EUR**			**+10 %**	**–10 %**
Trade receivables	4,584	3,820	3,473	4,244	–347	424
Receivables from affiliated companies	3,188	2,657	2,415	2,952	–242	295
Other current assets	76	63	58	70	–6	7
Cash and cash equivalents	2,509	2,091	1,901	2,323	–190	232
Non-current liabilities to affiliated companies	–20,845	–17,371	–15,792	–19,301	1,579	–1,930
Current liabilities to affiliated companies	–7,914	–6,595	–5,995	–7,328	600	–733
Total	**–18,402**	**–15,335**			**1,395**	**–1,705**

Movements in the USD:EUR exchange rate would be reflected mainly 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 unused credit lines in the amount of EUR 5,000 thousand 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 10,276 thousand (previous year: EUR 10,869 thousand), accounting for 13% (previous year: 13%) 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, 2017 (EUR thsd.)	Up to 1 year	2–5 years	More than 5 years
Non-current financial liabilities			
Long-term borrowings		4,153	
Current financial liabilities			
Trade payables	4,574		
Short-term borrowings	4,788		

Dec. 31, 2016 (EUR thsd.)	Up to 1 year	2–5 years	More than 5 years
Non-current financial liabilities			
Long-term borrowings		6,596	
Current financial liabilities			
Trade payables	4,856		
Short-term borrowings	2,660		

10. PERSONNEL

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

	2017	2016
As of the balance sheet date	411	435
Annual average	415	430
Marketing & Sales	115	116
Research & Development	253	265
Administration & General	39	39
Management	8	10

11. EXECUTIVE BOARD

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

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

Mr. Ernst Homolka, Munich, Germany, Executive Board member for Finance and Human Resources

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 until 2016. Starting in 2017, remuneration of individual members is disclosed based on the following table:

Benefits granted EUR (in thsds.)	Dr. Dr. Wolfgang Trier Chairman of the Executive Board		Ernst Homolka Member of the Executive Board		Total	
	2017		2017		2017	2016
Fixed remuneration	513		220		733	733
Fringe benefits	20		12		32	45
Total	533		232		765	778
One-year variable remuneration	151		38		189	488
Multi-year variable remuneration	379		81		460	619
Share-based payment	0		0		0	586
Total	530		119		649	1,693
Pension expense	11		31		42	42
Total remuneration	1,074		382		1,456	2,513

All remuneration components were received in the financial year.

The fringe benefits include flat-rate vehicle allowances and the employer contributions to social security and contributions to pensions.

The total remuneration must be classified as short-term in accordance with IAS 24.17.

Furthermore, service cost of EUR 144 thousand (previous year: EUR 125 thousand) was recognized.

A D&O insurance with a deductible of 10% has been taken out for the members of the Executive Board.

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

An agreement with one member of the Executive Board gives him the right to terminate his employment for cause if at least one outside shareholder or one shareholder group acting in concert reaches 1.4 million voting shares through possession or attribution. If this Executive Board member exercises this right to terminate his employment for cause, he is entitled to compensation equaling approximately two annual salaries.

Pension obligations for former members of the Executive Board as of December 31, 2017 totaled EUR 2,944 thousand (previous year: EUR 3,060 thousand). The total remuneration of former members of the Executive Board amounted to EUR 168 thousand (previous year: EUR 168 thousand).

12. SUPERVISORY BOARD

The following persons were members of the Supervisory Board of Softing AG in the 2017 financial year:

Dr. Horst Schiessl, attorney at law, Munich, Germany (chairman)
Dr. Klaus Fuchs, graduate computer scientist und 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 did not hold any offices on other supervisory boards.

Mr. Andreas Kratzer is also a member of the Board of Directors of:
SIAT-Swiss Investment & Trade Group AG, Buchs, Switzerland (Board of Directors)
Mobil Power AG, Zurich, Switzerland (Board of Directors)
Lysys AG Baar, Switzerland (Board of Directors)
Immoselect AG, Baar, Switzerland (Board of Directors)
Matam Commodity AG, Baar, Switzerland (Board of Directors)
Capella Invest AG, Baar, Switzerland (Board of Directors)
Biotensidon International AG, Baar, Switzerland (Board of Directors)
Weinmann Invest 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%.

The Supervisory Board member Dr. Fuchs received a total fee of EUR 77 thousand (previous year: EUR 147 thousand) for providing consulting services in connection with the coordination of Softing IT Networks.

Remuneration for the members of the Supervisory Board in the reporting period totaled EUR 99 thousand (previous year: EUR 200 thousand) and is comprised as follows:

EUR (in thsds.)	Fixed		Variable		Total	
	2017	2016	2017	2016	2017	2016
Dr. Horst Schiessl (chairman)	20	20	24	69	44	89
Dr. Klaus Fuchs	15	15	18	52	33	67
Andreas Kratzer	10	10	12	34	22	44

13. AUDITOR'S FEES

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

	2017 EUR (in thsds.)	2016 EUR (in thsds.)
Audit of annual financial statements	191	119
	191	**119**

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 15, 2018

Softing AG

The Executive Board

Dr. Wolfgang Trier Ernst Homolka

Independent Auditor's Report

TO SOFTING AG, HAAR

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Audit Opinions

We have audited the consolidated financial statements of Softing AG, Haar, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of comprehensive income, consolidated statement of profit or loss, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1 to December 31, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Softing AG, which is combined with the Company's management report, for the financial year from January 1 to December 31, 2017. We have not audited the content of those parts of the group management report listed in the "Other Information" section of our auditor's report in accordance with the German legal requirements.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2017, and of its financial performance for the financial year from January 1 to December 31, 2017, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition,

in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

❶ Accounting for construction contracts with customers
❷ Development costs for internally generated product developments
❸ Recoverability of goodwill

Our presentation of these key audit matters has been structured in each case as follows:

① Matter and issue
② Audit approach and findings
③ Reference to further information

Hereinafter we present the key audit matters:

❶ Accounting for construction contracts with customers

① Matter and issue

Of the revenue reported in Softing AG's consolidated financial statements EUR 5.0 million are attributable to the development of software for customers. Provided that the criteria of IAS 11 have been met, the revenue is recognized in accordance with the percentage-of-completion method, with the estimate of the stage of completion being based on the ratio of costs actually incurred in relation to the contract to the planned total costs ("cost-to-cost method"). In particular, estimating the planned total costs and appropriately allocating personnel expenses to the projects require the management to use estimates and assumptions.

Due to the complexity of the accounting, the long-term nature of the contracts and the resulting uncertainties relating to the estimates, this matter was of particular significance in the context of our audit.

② Audit approach and findings

As part of our audit, we assessed and tested, among other things, the processes and controls established by the Group in relation to recognizing revenue from the development of software for customers taking into account the stage of completion. We examined projects on a sample basis to establish whether the conditions for using the percentage-of-completion method as set out in IAS 11 were met. Moreover, we evaluated the determination of the stage of completion of customer-specific contracts on the basis of the cost-to-cost method and the resulting proportion of revenue and profit recognized, bearing in mind the probability of an expected loss to be recognized immediately. In this connection we retraced the calculation of the planned total costs as well as of the costs actually incurred. In addition, we assessed the consistency of the methods used to calculate the costs incurred. Furthermore, in order to mitigate the inherent audit risk in this audit area, we ensured that audit procedures were consistently carried out throughout the Group.

In doing so, we were able to satisfy ourselves that the estimates applied and the assumptions made by management concerning the recognition and measurement of revenue in accordance with the percentage-of-completion method were sufficiently documented and that the estimates applied

and the assumptions made by management were consistently derived.

③ Reference to further information

The Company's disclosures on revenue from the development of software for customers are contained in sections B.13 and C.8, 9 of the notes to the consolidated financial statements.

❷ Development costs for internally generated product developments

① Matter and issue

In the consolidated financial statements of the Company, an amount of EUR 12.5 million for "internally generated intangible assets" is reported under the "intangible assets" balance sheet item. This amount relates to development costs for new products and processes and significant further developments (hereinafter "product developments"), which were capitalized in accordance with IAS 38. Development costs include direct costs and shared overhead expenditure. The criteria of IAS 38.57 determine whether internally generated product developments are eligible for capitalization – specifically the technical feasibility of completing the intangible asset, how the intangible asset will generate probable future economic benefits and the ability to measure reliably the expenditure attributable to the intangible asset during its development – and provide considerable scope for judgment. The asset is generally amortized over 5 years once the Company begins consuming the economic benefits from that asset. Capitalized own expenses contributed EUR 4.6 million to consolidated profit or loss in the fiscal year. This was offset by amortization of internally generated intangible assets amounting to EUR 2.1 million. In our view, this matter was of particular significance for our audit because the capitalization and amortization of development costs are based to a large extent on management estimates and assumptions and are therefore subject to corresponding uncertainties.

② Audit approach and findings

As part of our audit, we evaluated, among other things, the capitalization requirements for individual projects on a sample basis, using the criteria set out in IAS 38.57.

We also assessed the methodology used to calculate the costs eligible for capitalization. We determined that the process for capitalizing development costs is appropriately designed and the established controls have been properly implemented. We assessed the amount of the capitalized development costs and the recoverability of the product developments on the basis of appropriate evidence. In so doing, we also inspected project records in order to satisfy ourselves of the respective percentage of completion. In our view, the methodology applied by the Company for capitalizing product developments is appropriate and the percentage of completion and capitalized development costs have been sufficiently documented.

③ Reference to further information

The Company's disclosures on capitalized development costs are contained in sections B.5 and C.3 of the notes to the consolidated financial statements.

❸ Recoverability of goodwill

① Matter and issue

In the consolidated financial statements of the Company, goodwill amounting to a total of EUR 14.5 million (18% of total assets and 28% of equity) is reported. Goodwill is tested for impairment by the Company once a year or when there are indications of impairment to determine any possible need for write-downs. The impairment test is carried out at the level of the groups of cash-generating units to which the relevant goodwill has been allocated. The carrying amount of the relevant goodwill is compared with the corresponding recoverable amount in the context of the impairment test. The calculation of the recoverable amount generally employs the value in use.

The present value of the future cash flows from the respective group of cash-generating units normally serves as the basis of valuation. Present values are calculated using discounted cash flow models. For this purpose, the medium-term business plan adopted by the Group forms the starting point which is extrapolated based on assumptions about long-term rates of growth. Expectations relating to future market developments and assumptions about the development of macroeconomic factors are also taken into account. The discount rate used is the weighted average cost of capital for the relevant group of cash-generating units. The impairment test determined that no write-downs were necessary.

The outcome of this valuation is dependent to a large extent on the estimates made by management with respect to the future cash inflows for the respective group of cash-generating units, the discount rate used, the rate of growth and other assumptions, and is therefore subject to considerable uncertainty. Against this background and due to the complex nature of the valuation, this matter was of particular significance in the context of our audit.

② Audit approach and findings

As part of our audit, we assessed the methodology employed for the purposes of performing the impairment test, among other things. After matching the future cash inflows used for the calculation against the medium-term business plan adopted by the Group, we evaluated the appropriateness of the calculation especially through reconciliation with general and sector-specific market expectations. Furthermore, we also evaluated the proper consideration of the costs for Group functions. In the knowledge that even relatively small changes in the discount rate applied can have a material impact on the value of the entity calculated in this way, we also focused our testing in particular on the parameters used to determine the discount rate applied, and evaluated the valuation model. We retraced the sensitivity analyses performed by the Company, in order to reflect the uncertainty inherent in the projections.

Overall, the measurement inputs and assumptions used by management are in line with our expectations and are also within the ranges considered by us to be reasonable.

③ Reference to further information

The Company's disclosures on impairment testing and goodwill are contained in section B.6 und C.2 of the notes to the consolidated financial statements.

Other Information

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the group management report:

- the statement on corporate governance pursuant to §289f HGB and §315d HGB included in the group management report
- the corporate governance report pursuant to No. 3.10 of the German Corporate Governance Codex

The other information comprises further the remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.]

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the General Shareholders' Meeting on May 3, 2017. We were engaged by the Supervisory Board on October 27, 2017. We have been the group auditor of the Softing AG, Haar, without interruption since the financial year 2012.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Stefano Mulas.

Report of the Supervisory Board

for Financial Year 2017

The Supervisory Board of Softing AG carried out its duties as provided by law and the Company's Articles of Incorporation in financial year 2017. The Supervisory Board regularly advised the Executive Board in matters of management and diligently monitored its actions. The Supervisory Board was informed regularly about the situation of Softing AG and the Group and monitored and accompanied the work of the Executive Board as well as compliance with applicable legal provisions and the Company's internal guidelines. The Executive Board informed the Supervisory Board in writing and orally about the business policies, fundamental questions of future business activities, the economic situation and future strategic development, the risk situation and risk management as well as significant business transactions, and discussed these matters with the Supervisory Board. The Supervisory Board was involved in decisions of material significance at all times.

A total of 6 Supervisory Board meetings were held in the 2017 financial year:
on March 16, May 3, June 7, July 20, October 27 and December 18.

Attendance record of Supervisory Board members	
Dr. Horst Schiessl	6/6
Dr. Klaus Fuchs	6/6
Andreas Kratzer	6/6

Attendance record of Executive Board members	
Dr. Wolfgang Trier	6/6
Ernst Homolka	6/6

The regular deliberations during Supervisory Board meetings and between the Executive Board and the Supervisory Board focused on the organizational and strategic development and orientation of the Group, the positioning and financial development of Softing AG, and significant business events for the Company. Between meetings, the Supervisory Board was also informed of plans and developments that were of particular importance. The Supervisory Board thoroughly reviewed, discussed and approved all matters which require approval under legal provisions and the Articles of Incorporation or the Rules of Procedure.

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

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

MAIN FOCUS OF THE MEETINGS

At the Supervisory Board meeting on March 16, 2017, the Supervisory Board dealt with the Company's performance in the 2016 financial year and the first results for 2017. Another key item on the agenda at the Supervisory Board meeting was the adoption of the annual financial statements and the approval of the consolidated financial statements, both as of December 31, 2016, after the auditor, who was present, 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. The Supervisory Board came to the conclusion that its work was efficient. It also approved the Agenda for the 2017 General Shareholders' Meeting.

In the Supervisory Board meeting on May 3, 2017 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 and the financial situation. The Executive Board also reported on planned acquisitions and presented the risk report as of March 31, 2017.

At the meetings held on June 7, 2017, the Supervisory Board approved the cash capital increases and the required amendments of the Articles of Incorporation

On June 20, 2017, the Executive Board presented data and background information on the business figures for the first half-year and the financial planning at the Supervisory Board meeting. The Supervisory Board obtained a detailed report from the Executive Board on the development of business in the past first months. The possibility of future acquisitions was also discussed.

At the meeting held on October 27, 2017, the Executive Board presented the report on the financial results of the third quarter and the risk report as of September 30.

At the Supervisory Board meeting held on December 18, 2017, the Executive Board presented to the Supervisory Board a first estimate of the 2017 annual results, its business plan for 2018 and its multi-year planning. After careful review, the Supervisory Board approved the two plans. In this meeting, the Supervisory Board also addressed the recommendations of the German Corporate Governance Code and the topic of diversity in detail. The Supervisory Board adopted the resolution required in this context. It approved the Declaration of Compliance with the German Corporate Governance Code, which it had prepared jointly with the Executive Board; it is permanently available to the public at the Company's website. The annual review of the remuneration system was carried out, and the sale of Automotive Communications Kirchentellinsfurt was approved. The Supervisory Board renewed the director's contract of Mr. Homolka, which was set to expire in April 2018, for another five years until April 30, 2023.

All members of the Supervisory Board attended all Supervisory Board meetings in 2017. There was no conflict of interest of members of the Supervisory Board in the financial year just ended. The independence of the financial expert on the Supervisory Board was monitored on an ongoing basis and is assured.

COMPOSITION OF THE SUPERVISORY BOARD AND THE EXECUTIVE BOARD

There were no personnel changes on the Supervisory Board in the 2017 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.

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 (IFRSs). 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, 2017, were audited as required by law by PricewaterhouseCoopers GmbH, 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 15, 2017, 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 2017 at its meeting on March 15, 2018. The annual financial statements are therefore formally adopted. The Supervisory Board agreed with the appropriation of the net retained profits proposed by the Executive Board.

THANK YOU

The Supervisory Board would like to thank the Executive Board and all employees for their extraordinary efforts and their achievements in the past financial year.

Haar, Germany, March 15, 2017

Dr. Horst Schiessl
Chairman

Corporate Governance Report

The Executive Board and the Supervisory Board of Softing AG support many suggestions and rules of the German Corporate Governance Code and declare that they were and will be in compliance in the future with the recommendations regarding conduct contained in the Code's current and applicable version in the 2017 financial year, taking into account the exceptions and comments listed below. The Executive Board and Supervisory Board issued the Declaration of Compliance in December 2017. 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 February 7, 2017, with the following exceptions:

a. **The Executive Board's duties to inform and report to the Supervisory Board are not specified in greater detail (Section 3.4 para 1 sentence 3 of the Code).**
   The Supervisory Board has not specified the Executive Board's duties to inform and report in greater detail because the Executive Board is already legally obligated to regularly inform the Supervisory Board about all material business transactions without delay. In addition, the Supervisory Board has not had any reason to find fault with the Executive Board's information policy to date.
b. **The Company currently has not agreed a deductible for the D&O insurance taken out on behalf of the members of its Supervisory Board (Section 3.8 para 3 of the Code).**
   The Company does not believe that such a deductible could enhance the motivation and responsibility of the members of the Company's Supervisory Board in carrying out their duties.
c. **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.
d. **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)**
   Section 4.2.2 para 2 sentence 3 of the Code recommends that the Supervisory Board 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.

e. Variable remuneration components with a multiple-year, forward-looking assessment basis (Section 4.2.3 para 2 sent. 3 of the Code)
Executive Board remuneration already includes a multiple-year assessment basis. However, this multiple-year assessment basis does not have essentially forward-looking characteristics. The Company believes that additional, essentially forward-looking characteristics do not currently represent additional incentives for the Executive Board. The Supervisory Board and the Executive Board will, however, discuss a change in the assessment basis for variable remuneration during the next year.

f. Diversity in the Executive Board (Section 5.1.2 para 1 sent. 2 of the Code)
When appointing the members of the Executive Board, the Supervisory Board cannot also respect diversity because the Company currently has only two Executive Board members. Given that the Executive Board comprises just two members – a number the Company believes to be adequate and whose positions will be filled for the foreseeable future – the recommendations in the Code to aim for diversity do not appear feasible for the time being. Furthermore, the Supervisory Board does not consider it appropriate to select Executive Board members based on criteria such as orientation or race, but instead to rely on personality and expertise only.

g. 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.

h. No age limit has been specified for members of the Executive Board and the Supervisory Board (Section 5.1.2 para 2 sent. 3 and Section 5.4.1 para 2 of the Code).
A specific age limit could be an undesired criterion to exclude qualified members of the Executive Board or the Supervisory Board.

i. Specification of concrete objectives regarding the composition of the Supervisory Board and preparation of a profile of skills and expertise (Section 5.4.1 para 2, 3 and 4 of the Code).
The Company's Supervisory Board will not specify any concrete objectives regarding its composition, nor has it prepared a profile of skills and expertise for the entire Supervisory Board. Up to now, the Supervisory Board has exclusively based its proposals for the nomination of Supervisory Board members on the suitability of the male and female candidates with the aim of creating a Supervisory Board whose members as a group possess the knowledge, skills and professional experience required to properly complete its tasks. The Supervisory Board firmly believes that this approach works, which is why it does not see any need to change this practice. In particular, the Company does not intend to implement the recommendation to set a regular limit of length of membership because as a rule, the Company wishes to have access to the expertise of experienced Supervisory Board

members as well. The Supervisory Board does not consider a predetermined limit for the maximum period of service appropriate, since the term of office for Supervisory Board members stipulated in the law and Articles of Incorporation provide for a reasonable period for Supervisory Board mandates. Since the Supervisory Board accordingly does not set specific targets regarding its composition and does not prepare a profile of skills and expertise, either, the recommendations in Section 5.4.1 para 3 can not be followed. For this reason, the Company also cannot follow the recommendations in Section 5.4.1 para 4, according to which proposals by the Supervisory Board to the General Meeting shall take these targets into account, while simultaneously aiming at fulfilling the overall profile of required skills and expertise of the Supervisory Board. The implementation status can therefore not be published in the Corporate Governance Report, either.

j. **Performance-related remuneration shall be oriented toward sustainable growth of the enterprise (Section 5.4.6 para 2 sent. 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, because due to the nature of its business, deliberate deferrals of expenses and income are hardly possible. 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.

k. **The Supervisory Board does not discuss quarterly or half-yearly financial reports with the Executive Board prior to publication (Section 7.1.2 sent. 2 of the Code).**
   The Company believes that a separate discussion of the reports is not necessary because the Supervisory Board is informed regularly of the business transactions.

Since the publication of its most recent Declaration of Compliance in December 2015, Softing AG has generally been in compliance with the recommendations contained in the German Corporate Governance Code as amended on February 7, 2017. The Company has not observed the following recommendations: Section 3.4 para 1 sentence 3; Section 3.8 para 3; Section 3.10, sentence 3; Section 4.1.3 sentence 2; Section 4.2.2 para 2 sentence 3; Section 4.2.3 para 2 sentence 3; 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, 3 and 4; 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 2017 financial year is presented in the notes of the 2017 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, 2017 Number	Dec. 31, 2017 Number	Sep. 30, 2017 Number	Dec. 31, 2017 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	122,221	122,221	–	–
Ernst Homolka, Munich	1,800	1,800	–	–

FINANCIAL CALENDAR

March 29, 2018	Consolidated Financial Statements/Annual Report 2017
May 09, 2018	Interim Management Statement Q1/3M 2018
May 09, 2018	General Shareholders' Meeting 2018
August 14, 2018	Half-yearly Report Q2/6M 2018
November 15, 2018	Interim Management Statement Q3/9M 2018

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