Quarterly information 1/2017
DEAR SHAREHOLDERS, EMPLOYEES, PARTNERS AND FRIENDS OF SOFTING AG,

Softing began the year on a positive note with a much stronger first quarter than expected. Revenue rose to EUR 19.8 million (previous year: EUR 17.9 million), equivalent to organic growth of 11%. Incoming orders increased by 23% to an impressive EUR 21.8 million (previous year: EUR 17.7 million). Orders on hand grew by more than 50% to EUR 14.6 million (previous year: EUR 9.7 million). While these figures are generally excellent, distinctions must be made on closer inspection. Growth was driven by the Industrial and IT Networks divisions. The Automotive segment suffered from significant product development delays that resulted in declining revenue while costs remained high. As a result, total first-quarter EBIT was just EUR 0.5 million (previous year: EUR 0.7 million).

Growth in the Industrial segment was primarily due to a strong rise in demand from factory automation customers, which made the largest individual contribution to revenue growth and earnings in absolute terms. The product business in Europe continued to grow from what was already a high level last year. The mood has improved massively in the North American market since the presidential election. This is now reflected in a sharp rise in demand, with business picking up across the board. Both US companies returned to the strong revenue and earnings figures they posted in 2015 and even surpassed them in some areas. There are also signs of recovery in the process industry, even though this is progressing more slowly. We expect an additional growth boost from major new infrastructure projects in the oil and gas sector starting in the fourth quarter.

Softing IT Networks, which is still included in the Industrial segment in our financial figures, achieved the highest year-on-year growth rates in the first quarter. We were able to increase revenue in this area by more than 20%. We developed the market in European countries outside Germany with new distribution partners. There are already signs that the increase in marketing activity and our strong presence at trade fairs and partner events are significantly stimulating demand. In addition to cable-based technology, we are focusing on the wireless products (WiFi) market this year, as we are currently seeing the highest growth rates in this area. We will present two new products developed in-house to our customers by the fourth quarter.

As a result, the Industrial segment boasts impressive figures, with revenue rising by 27% to EUR 16 million (previous year: EUR 12.6 million). Operating EBIT in this segment grew to EUR 1.4 million (previous year: EUR –0.5 million). Despite the fact that the strongest figures are traditionally expected in the second half of the year, the segment transformed from a loss maker to an earnings pillar.

We see significant opportunities – and the biggest short-term challenges – in the Automotive segment. During the past year, we have worked with our customers in this area to develop product requirements for the latest big issues and technologies such as Diagnostics 4.0, especially remote diagnostics (“over the air”), restbus simulation and new security concepts. As a result of these efforts, three new vehicle adapters along with hardware-related software as well as complex middleware
are currently in development. Our major software packages were also expanded to include the functionality necessary for the aforementioned technologies. This enabled us to identify a wide range of applications for the big issues for which we see an exceptional level of customer interest. Unfortunately the core developments for these applications far exceeded our planned budget and schedules. Driven by existing customers and inquiries from new customers, we overestimated our resources and underestimated the scale of the task. The first products from these developments will only be ready for sale after the second quarter of this year.

We were therefore unable to achieve significant revenue from first-time customers or reduce development costs as planned. In terms of figures, this means that revenue amounted to just EUR 3.8 million (previous year: EUR 5.3 million), while operating EBIT declined to EUR –0.9 million (previous year: EUR +1.2 million). Despite these figures, however, we are on track to complete these developments, even though operating results in this segment will only improve significantly after the second quarter. All of the new products will have clear unique selling points to differentiate them from competitors’ products. This is where future revenue and margins will be generated by Softing Automotive!

Overall, we expect strong growth to continue for the rest of the year, with good income in the Industrial segment. In the Automotive segment, we expect the current negative earnings situation to improve gradually. As a result, the full-year outlook looks much more positive for us than it did at the start of the year. We are therefore raising our annual revenue forecast to around EUR 85 million and confirming our EBIT guidance of around EUR 6 million.

Dear shareholders and friends of Softing, while the current earnings situation certainly does not meet our expectations, we are confident that Softing’s existing products and those being launched during the year will equip it for the big issues of the future. Let us take this journey together.

Sincerely Yours,

Dr. Wolfgang Trier
(Chief Executive Officer)
Q1 2017 Statement

The quarterly management statement as of March 31, 2017, which was prepared on the basis of International Accounting Standard (IAS) 34 „Interim Financial Reporting”, does not contain all of the required information in accordance with the requirements for the presentation of the annual report and should be read in conjunction with the consolidated financial statements of Softing AG as of December 31, 2016 (which were prepared in accordance with the International Financial Reporting Standards (IFRSs) of the International Accounting Standards Board (IASB) applicable as of the reporting date). In general, the same accounting policies were applied in the quarterly management statement as of March 31, 2017 as in the consolidated financial statements for the 2016 financial year. As of the reporting date of March 31, 2017, the Company’s risk structure had not deviated significantly from the description in the consolidated financial statements for the year ended December 31, 2016. Material changes are also not expected for the remaining nine months of 2017. For more detailed information, we refer to our Group Management Report in the 2016 Annual Report, page 7 et seq. There were no changes in the basis of consolidation of Softing AG as of March 31, 2017.

Key figures of the Softing Group at a glance:

<table>
<thead>
<tr>
<th>All figures in EUR million</th>
<th>Quarterly information 1/2017</th>
<th>Quarterly information 1/2016</th>
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<tbody>
<tr>
<td>Incoming orders</td>
<td>21.8</td>
<td>17.7</td>
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<tr>
<td>Orders on hand</td>
<td>14.6</td>
<td>9.7</td>
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<tr>
<td>Revenue</td>
<td>19.8</td>
<td>17.9</td>
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<tr>
<td>EBIT</td>
<td>0.5</td>
<td>0.7</td>
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<tr>
<td>EBIT (operating)</td>
<td>0.3</td>
<td>0.8</td>
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<tr>
<td>EBITDA</td>
<td>1.5</td>
<td>1.9</td>
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<tr>
<td>Net profit for the year</td>
<td>0.3</td>
<td>0.4</td>
</tr>
<tr>
<td>Earnings per share in EUR (operating)</td>
<td>0.05</td>
<td>0.12</td>
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RESULTS OF OPERATIONS
Overall, the Softing Group performed well in terms of revenue in the first quarter of 2017, with revenue increasing from EUR 17.9 million to EUR 19.8 million. The segments turned in a mixed performance. Whereas revenue in the Industrial segment rose by 27% in the first three months of 2017 to EUR 16.0 million (previous year: EUR 12.6 million), revenue in the Automotive segment fell from EUR 5.3 million to EUR 3.8 million.

EBIT in the Industrial segment was up from EUR –0.5 million to EUR 1.4 million, with operating EBIT increasing from EUR 0.3 million to EUR 1.7 million. In the Automotive segment, EBIT fell from EUR 1.2 million to EUR –0.9 million while operating EBIT declined from EUR 0.8 million to EUR –1.4 million.

The Group’s operating EBIT (EBIT adjusted for capitalized development services and amortization on these as well as effects from purchase price allocation) in the reporting period totaled EUR 0.3 million (previous year: EUR 0.8 million). As describe above, the decline is due to the lower gross profit generated by the Automotive segment. EBIT amounted to EUR 0.5 million (previous year: EUR 0.8 million). EBITDA totaled EUR 1.5 million in the first three months (previous year: EUR 1.9 million), and the EBITDA margin was 8% (previous year: 10%).

The consolidated net profit for the year was EUR 0.3 million compared with EUR 0.4 million in the prior-year quarter.

NET ASSETS AND FINANCIAL POSITION
The equity ratio as of March 31, 2017 was 62% (December 31, 2016: 57%); the share capital of Softing AG remained unchanged at EUR 6,959,438. As of March 31, 2017, cash and cash equivalents amounted to EUR 5.8 million (December 31, 2016: EUR 10.9 million). Capital expenditure on property, plant, and equipment was insignificant and comprised only replacements. In the first quarter, the final variable purchase price payments for the acquisition of OLDI Online Development Inc., Knoxville/USA in the amount of EUR 4.1 million were made. As a result, all variable purchase price obligations from the acquisition have now been met.

RESEARCH AND PRODUCT DEVELOPMENT
In the first three months of 2017, Softing capitalized a total of EUR 0.9 million (previous year: EUR 0.8 million) for the development of new products and the enhancement of existing ones. Other significant amounts were expensed.

EMPLOYEES
Employees
As of March 31, 2017, the Softing Group had 425 employees (previous year: 426). During the reporting period, no stock options were issued to employees.

OUTLOOK
We refer to the group’s guidance published in the management report of the 2016 annual report (p. 22). Overall, we now expect a moderate increase in revenue and incoming orders to EUR 82-85 million. We anticipate EBIT of EUR 5.7-6.0 million; our operating EBIT is expected to come in at EUR 5.0-5.5 million. At segment level, we anticipate the Industrial segment to see a strong increase and the Automotive segment to see a strong decrease in revenue, EBIT and operating EBIT for the year as a whole.