Annual Report 2016

- EBIT jumps to EUR 7.2 million
- Net profit increases to EUR 5.7 million
- Revenue at EUR 80.4 million

optimize!
softing

Consolidated Key Figures

		2016	2015	2014	2013
Revenue	(EUR million)	80.4	82.3	74.5	52.6
EBIT (operating)	(EUR million)	6.7	7.1	5.2	4.6
Earnings per share (operating)	(EUR)	0.96	1.09	0.79	0.73
EBITDA (IFRS)	(EUR million)	12.3	10.8	10.1	9.4
EBIT (IFRS)	(EUR million)	7.2	5.5	5.9	5.2
Consolidated profit (IFRS)	(EUR million)	5.7	4.5	3.8	4.3
Earnings per share (IFRS)	(EUR)	0.82	0.65	0.58	0.69
Non-current assets	(EUR million)	48.9	47.1	44.5	11.6
Current assets	(EUR million)	34.0	35.4	32.5	28.6
Equity	(EUR million)	47.6	42.3	37.0	26.1
Cash and cash equivalents	(EUR million)	10.9	9.2	8.8	12.1
Number of employees (annual average)		430	429	411	337

Table of Contents

DEAR SHAREHOLDERS, EMPLOYEES, PARTNERS AND FRIENDS OF SOFTING,

Softing had a good year in 2016. And this was despite a business environment that was anything but perfect. We closed out the year with revenue approaching last year's level at EUR 80.4 million.

EBIT amounted to EUR 7.2 million for growth of just under 30%. This figure includes a one-off effect from the reduction in the variable portion of US subsidiary OLDI's purchase price resulting from OLDI's failure to hit its revenue targets. The positive one-off effect for Softing amounting to around EUR 4 million and the associated decrease in operating income are linked. If OLDI had met its revenue target as planned, this revenue would have produced an earnings contribution of approximately EUR 2.5 million.

Operating profit (EBIT adjusted for capitalized development services and amortization on these as well as effects from purchase price allocation) totaled EUR 6.7 million, some 6% below the previous year's figure of EUR 7.1 million. This underscores Softing's earning power despite weakness in North America, a core market for Softing due to its size and earnings potential. Figures can be found in the overview table inside the cover of this report.

Revenue in our Industrial segment, which also includes the figures for IT Networks, was EUR 57.6 million (previous year: EUR 58.7 million), while operating EBIT climbed from EUR 4.9 million to EUR 6.0 million. This segment's markets in Europe and Asia performed extremely well despite the US market's weakness.

In our Automotive segment, revenue decreased slightly from EUR 23.6 million to EUR 22.8 million, while operating EBIT dropped from EUR 1.5 million to EUR 0.7 million. In addition to the sale of a high-margin product for an auto manufacturer in the previous year, this was due to higher product development costs. Despite successful heavy-duty diesel projects, these additional costs could not be fully compensated at once.

There is no need at this time to talk at length about the political situation, and therefore the conditions, in which our company operates. Anyone can pick up the daily newspaper and see that we are living in a highly volatile environment. The EU is still in a weakened position, the UK is hurting itself and us with Brexit, and upcoming elections in France and Germany have the potential to propel radical forces into power: The National Front in France and the communists known as "Die Linke" in Germany, which are partnering with the Social

Democrats (drunk with enthusiasm for their now sober candidate Martin Schulz) and the no less left-wing Green party aiming to redistribute double-digit billions of tax Euros as a supposed good deed. In fact, that would quickly spell the end of the currently positive economic situation in Germany.

And in the United States, there is still no clarity about whether Trump is a blessing or a curse to the country. In Asia, the potential stemming from a dominant and increasingly aggressive China for conflict with its neighbors as well as the United States could set the scene for a massive political, economic and military crisis. The situation in North Korea is also explosive – literally. Obama left both of these trouble spots to his successor to manage. All of this is truly not the environment in which any company wishes to do business.

In the current year, the Automotive segment is faced with the challenge of successfully completing two extensive core development projects, while simultaneously implementing key customer projects on time. Moreover, the aim is to build a broad customer base with the Softing diagnostics app. A considerable increase in demand is developing here. Softing measurement technology is likewise experiencing a very high level of interest.

In the Industrial segment, we anticipate process technology to begin to recover in 2017. In addition to drilling to maintain existing pipelines, tenders for new pipelines are generating infrastructure projects in the United States, which will lead to growth for OLDI and Softing in the second six months and the following year. Larger orders are also pending in the manufacturing sector that will not be completed until the end of the second quarter due to a lack of availability of components. All told, we expect significant growth in North America and continued stability in the business in Europe.

At Softing IT Networks, we are heading for double-digit growth, which will be bolstered further by new products in the second half of the year. We are already seeing higher demand as the result of a massive increase in marketing and additions to the sales team. Thanks to our WireXpert cable tester, we were the first manufacturer to qualify as a technology leader for the new 40-gigabit CAT 8 standard, thus giving us broad visibility on the market. Our US colleagues even expect revenue with cable testers to double, which would position us right behind the market leader. Growth is our primary goal for IT Networks.

I am confident that Softing will meet all the conditions for mastering this year's challenges as well. Here is what you can expect:

- We project revenue to exceed EUR 80 million and EBIT to amount to around EUR 6 million. As always, we will provide more detailed guidance as the year progresses.

- We will also further drive non-organic growth to close strategic gaps and safeguard our revenue from a broader geographical standpoint.

- Our proposed dividend of EUR 0.20 per share – a slight increase – strikes a good balance between a distribution for shareholders and reserving some for acquisitions.

Dear friends of Softing, my wish is that we may together celebrate the attainment of the core goals above and the reflection of this achievement in a rising share price this year! We hope you will remain committed to our company. We are looking forward to this year!

Sincerely,

Dr. Wolfgang Trier
(Chief Executive Officer)

Softing Shares

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

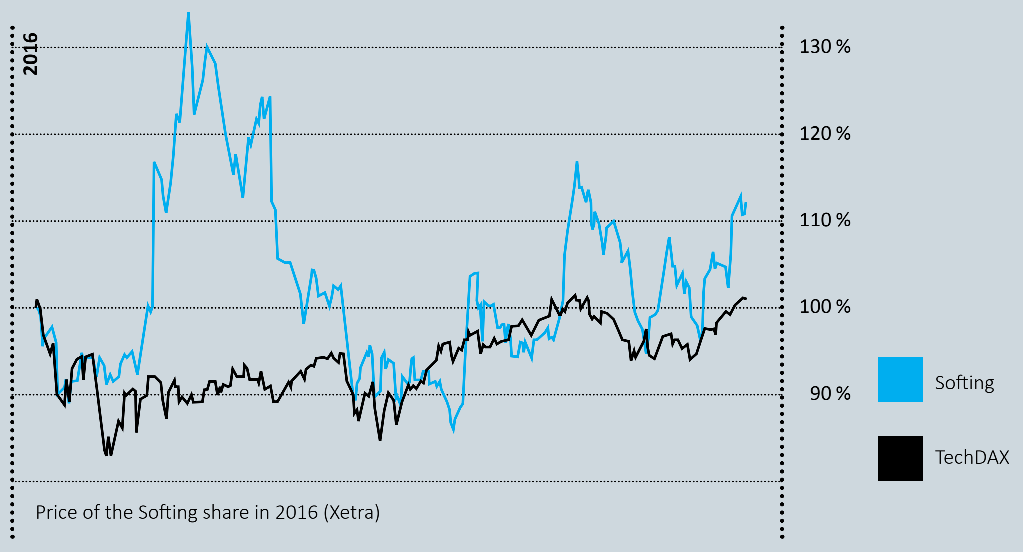
SHARE PERFORMANCE

Shortly after the beginning of 2016, the Softing share fell to its low of EUR 10.25 and then hovered around EUR 10.60 until the end of February. In March, the price of the Softing share soared to reach its high for year of EUR 15.35 on March 21, 2016. The share price dropped again in the second quarter – interrupted only by short periods of recovery – and on August 3 reached its low for the year of EUR 9.85. This marked the beginning of a strong, albeit volatile, rally during which the price remained in a corridor of EUR 11 to EUR 13. On December 30, the share price closed the year at EUR 12.85, up 12% on its price of EUR 11.45 at the beginning of the year. During the year, the share for the most part significantly outperformed the TecDAX, the index relevant for Softing.

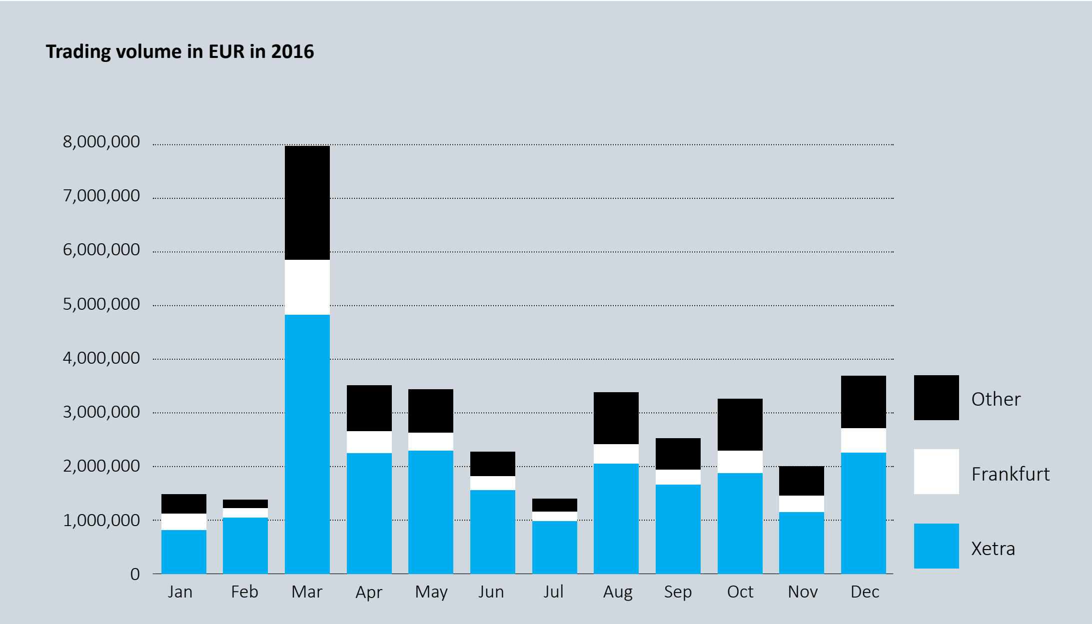
The market capitalization of Softing AG was EUR 89.4 million at the end of 2016, up from EUR 81.9 million on December 31, 2015. In 2016, the share capital of Softing AG was EUR 6,959,438, denominated in the same number of no-par shares; this figures was unchanged from 2015.

TRADING VOLUME

In 2016, the average daily trading volume of Softing shares on XETRA was 7,774 shares, with a total of approx. 1.9 million shares changing hands during the reporting year. The total trading volume (XETRA, Frankfurt and other stock exchanges) was more than EUR 36 million. Softing supports the liquidity of its shares by using two designated sponsors, ICF Kursmakler AG and Süddeutsche Aktienbank AG.



Price of the Softing share in 2016 (Xetra)



EARNINGS PER SHARE

Earnings per share (EPS) were EUR 0.82 in 2016, compared with EUR 0.65 in the previous year. Softing AG calculates earnings per share in accordance with IAS 33 on the basis of the average number of shares outstanding. There were no dilution effects in 2016.

SHAREHOLDER STRUCTURE

Helm Trust Company Limited, St. Helier, Jersey, UK. remains the single largest investor in Softing's 6,959,438 shares. As of the reporting date, Softing 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 four studies and updates on the share. In all its analyses, the bank issued a strong buy recommendation, stating a target price of EUR 17.50 in its last study of the year on November 3, 2016.

More information about analysts' reports on Softing shares is available at www.softing.com under Investor, News & Publications, Research. In our press and interviews section you can find out more about the growth prospects of Softing that were published in a variety of financial newspapers and magazines such as Focus, Euro am Sonntag, Frankfurter Tagesdienst and others.

CAPITAL MARKET COMMUNICATIONS

Softing AG again conducted extensive investor relations activities in 2016. The Company participated in several investor and analysts' events and was represented in activities like roadshows and at investor conferences, such as the German Equity Forum held in Frankfurt in November or the Munich Capital Market Conference (MKK).

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 to see Softing as the right choice for demanding solutions in the fields of industrial automation and automotive electronics. Solutions created by Softing employees with their expertise, creativity and dedication each and every day.

As we face an increasing shortage of specialists, well-qualified and highly motivated employees are our most important assets. We invest time and effort in creating an environment in which our staff can enjoy their work whilst benefiting from social safeguards. With competitive salaries combined with a high degree of job security, we provide a solid foundation for 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. The Company, in turn, benefits from the continual growth of our individual and collective knowledge.

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. We are opposed to quotas in any shape or form. As a result of our company policy, the proportion of female employees at Softing has risen considerably in recent years.

We have also spent many years investing in tomorrow's workforce. 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 HR decisions are guided by the potential, abilities and personal commitment shown by our employees – and not by their age. We offer both students and 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. Our company benefits greatly from their professional and life experience.

Based in Haar, Germany, Softing is a truly global company. 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. One particular goal is to attract people with the potential to achieve great things, whatever their social background: their current social standing is immaterial to our decision-making.

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 2016 Financial Year

FUNDAMENTAL INFORMATION ABOUT THE GROUP

BUSINESS MODEL

The Group's Business Model

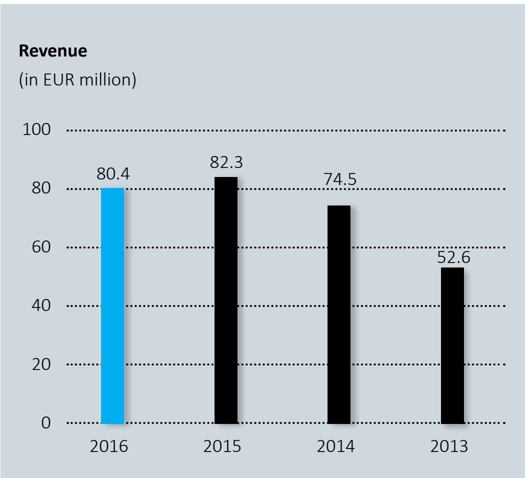
Softing is an established international software and systems house in two segments: Industrial and Automotive. The Company develops complex, high-quality software, hardware and complete system solutions. Hardware prototypes are developed by Softing itself; production takes place externally.

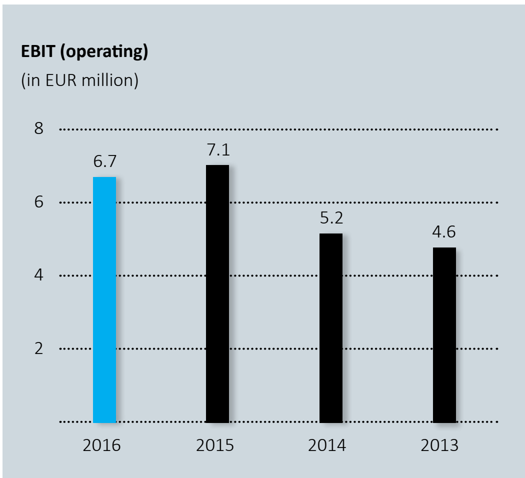
Through its Industrial segment, Softing is a leading provider worldwide of industrial communications solutions and products for the manufacturing and process industry. The products are tailored to the requirements of system and device manufacturers, machinery and plant engineers as well as end users, 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.

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

Softing specializes in the entire life cycle of electronic control units and systems – from development to production all the way to services. Development work in Automotive is focused on standardization. Softing is an active member in the major standards bodies for automotive electronics such as ASAM and ISO.

Consulting, analyses, studies and training round out the range of services offered by both operating segments. Softing primarily offers its services and products to the European market and increasingly also to the North American market. But the Asian markets such as China, Japan and Korea are becoming more and more important.

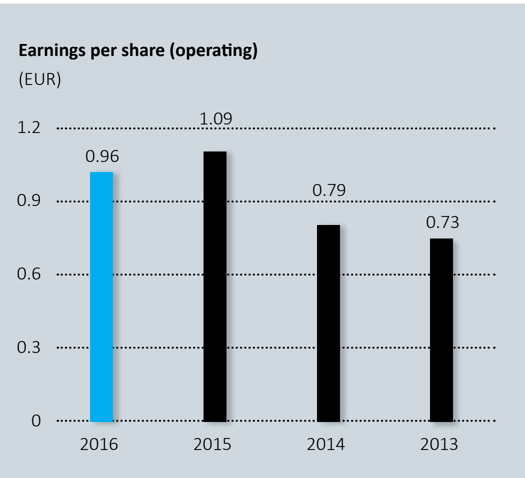


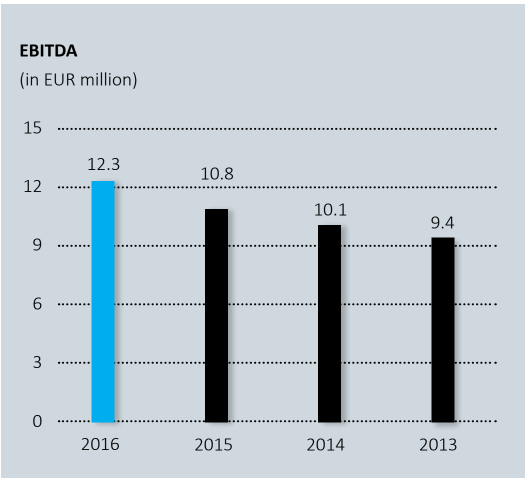


Group Structure at a Glance

Softing Group as of 12/31/2016	Capital share	
	2016	2015
	%	%
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
samtec automotive software & electronics GmbH, Kirchentellinsfurt/Germany*	100	100
Softing Italia s.r.l., Cesano Boscone/Italy	100	100
SoftingROM s.r.l., Cluj-Napoca/Romania	100	100
Buxbaum Automation GmbH, Eisenstadt/Austria	65	65
Softing Inc., Newburyport/USA (formerly: Softing North America Inc.)	100	100
Softing North America Holding Inc., Delaware/USA	100	100
OLDI Online Development Inc., Knoxville/USA	100	100
Softing IT Networks GmbH, Haar/Germany (formerly Psiber Data GmbH)	100	100
Psiber Data Pte. Ltd., Singapore (formerly Psiber Data Pte. Ltd.)	100	100
Softing S.A.R.L., Paris/France	100	100
Entities established in 2016		
Shanghai Softing software Co., Ltd., Shanghai/China	100	0
Softing Automotive Electronics Services GmbH, Kirchentellinsfurt/Germany	100	0
Automotive Communications Kirchentellinsfurt GmbH, Kirchentellinsfurt/Germany	100	0

* At the end of 2016, Softing Automotive Electronics GmbH acquired ownership of the operating business of samtec automotive software & electronics GmbH.





On the Presentation of the Segments

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

Softing AG

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

Industrial Automation GmbH

Softing Industrial Automation GmbH is a leading provider worldwide of industrial communications solutions and products for the 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.

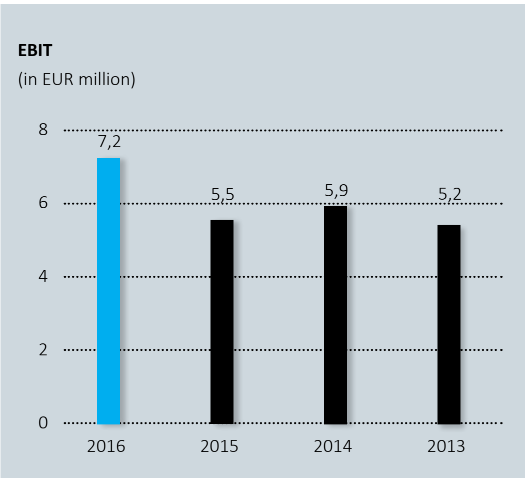
Softing Italia is organizationally a subsidiary of Softing Industrial Automation GmbH. Softing uses Softing Italia to serve customers in Italy locally. In 2016, this company made a positive contribution to the overall earnings of the Softing Group.

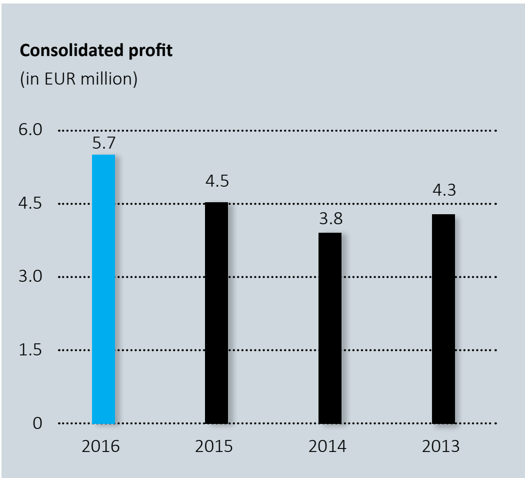
Online Development Inc. (OLDI) and Softing Inc.

Online Development Inc. (OLDI) and Softing Inc. (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 2016, 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 2016.





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

Softing IT Networks GmbH (formerly Psiber Data 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 (formerly Psiber Data Pte. Ltd.), 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 are profitable companies with a growing product portfolio that consists of both in-house and third-party products.

Softing Automotive Electronics GmbH and samtec automotive software & electronics GmbH

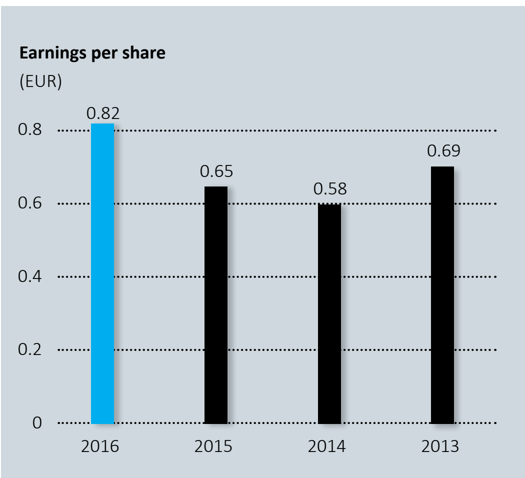
Softing Automotive Electronics GmbH, domiciled in Haar, Germany, offers products and services for diagnostics and test automation. The comprehensive process-based approach of the Softing solutions enhances quality and reliability in control unit communications. With over 80,000 installations, Softing 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. At the end of 2016, Softing Automotive Electronics GmbH acquired ownership of the operating business of samtec automotive software & electronics GmbH (samtec), which discontinued all further market activities at this point in time.

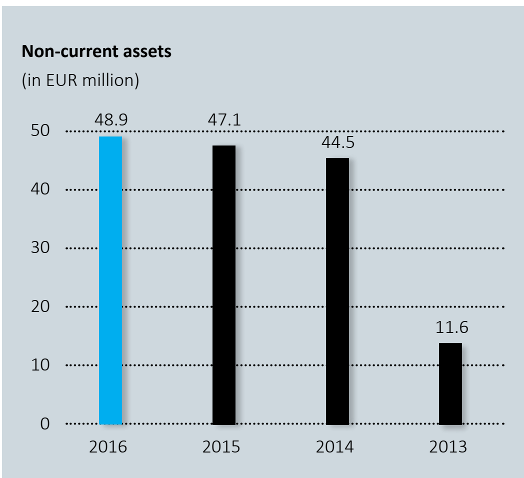
Softing Messen & Testen GmbH

Softing Messen & Testen GmbH, domiciled in Haar, 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 has been a subsidiary of Softing Automotive Electronics GmbH since 2015. To offer the best possible support, Softing Project Services GmbH provides high-quality services





directly on customers' premises. Competent consulting and engineering services focused on the Company's core competence – diagnostics, measurement and testing – are rendered to customers. Well-trained staff 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.

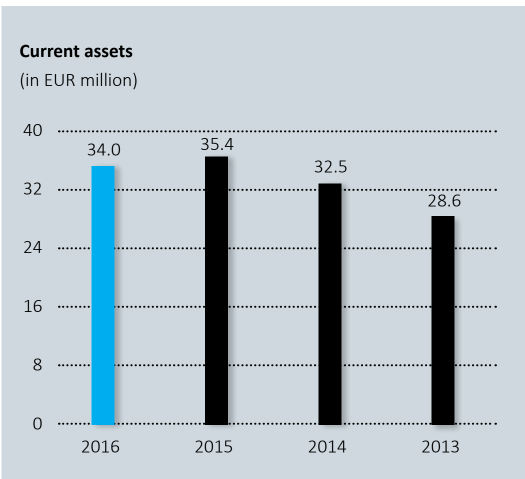
SoftingRom s.r.l.
The subsidiary SoftingROM s.r.l. (SoftingROM), which is domiciled in Cluj, Romania, is a subsidiary of Softing Services GmbH. SoftingROM forms an important pool of IT specialists for complex development tasks within the Softing Group and is a strategically important part of the Softing Group.

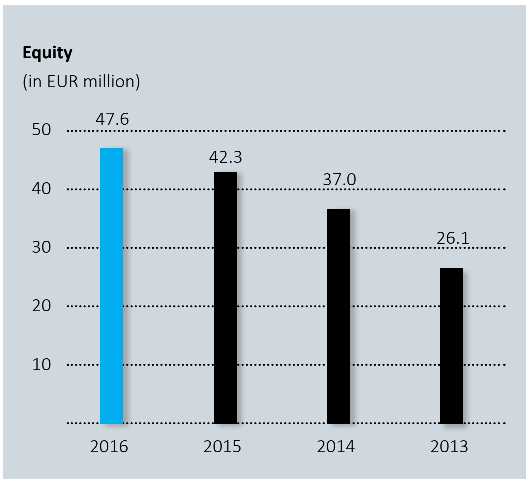
Softing S.A.R.L
Softing S.A.R.L, domiciled in Paris, France, was founded in 2015 by Softing Services GmbH. It provides the legal and organizational framework for the sales and marketing activities of the Softing Group in France.

Automotive Communications Kirchentellinsfurt GmbH
Automotive Communications Kirchentellinsfurt GmbH, domiciled in Kirchentellinsfurt, Germany, is a company that was founded in 2016 by Softing Automotive Electronics GmbH with the aim of handling the remaining business operations of samtec as well as offering internal services in the automotive communications business.

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 315a 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 KPIs. Working capital mainly comprises inventories as well as trade receivables and trade payables.

Inventories are analyzed on an ongoing basis, and any need for writedowns is determined based on inventory coverage. Short-term sales forecasts are used to manage orders for new goods based on inventory availability. The aim is to have delivery capacity at all times so that our customers can also be supplied with products at short notice.

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

Trade payables are mostly settled using available cash discounts.

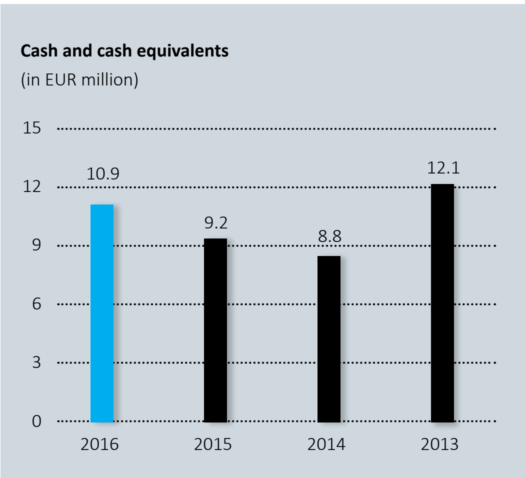
On account of its business model, it is mainly the profits or losses under profit transfer agreements that provide the basis for internal management at Softing AG. By managing the subsidiaries as explained above, Softing AG also manages the profits or losses under profit transfer agreements in the parent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

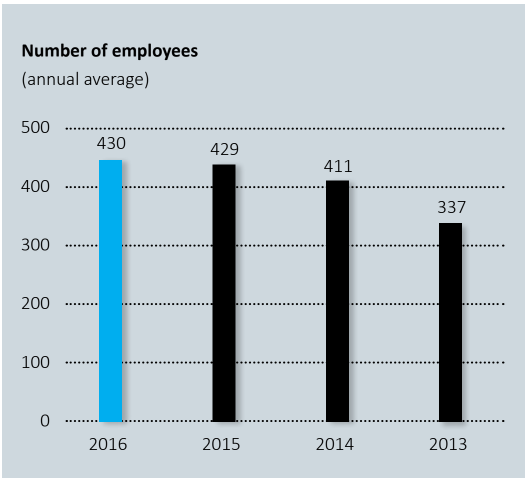
Research and Product Development

For years, the Softing Group has invested a large portion of the cash generated by its revenue in research and development. In total, Softing invested EUR 23,971 thousand (previous year: EUR 21,686 thousand) 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 30% (previous year: 26%).

In the past financial year, amortization of capitalized development costs amounted to EUR 2,699 thousand (previous year: EUR 2,981 thousand).

At year-end, 267 employees were engaged in research and development (previous year: 272). Softing AG itself is not engaged in any research and development activities. These take place exclusively at the operating entities.





	2016 EUR (in thsds.)	2015 EUR (in thsds.)
Capitalized development costs	4,511	2,786
Expenses not qualifying for capitalization	19,460	18,900
	23,971	**21,686**

In 2016, Softing Industrial Automation GmbH invested EUR 8.4 million in the development of new products and the refinement of existing ones. Key developments in the reporting year are summarized below.

Despite a number of skeptical voices, mechanical and plant engineering firms see themselves in the vanguard of production digitalization and networking ("Industry 4.0") internationally. A recent report from the VDMA's IMPULS Foundation shows that the topic has received broad-based interest in this sector, with businesses increasingly pursuing a clear-cut digitalization strategy. According to the report, IT security is another topic requiring major efforts. With this in mind, the VDMA recently launched the "University4Industry" start-up, a pilot project that offers online courses in industrial security with the aim of building up know-how in a highly relevant area of digital transformation.

Last year, the topic of Industry 4.0 gained further ground, especially in an international context. Gateways enabling the integration of standalone production systems into company-wide production planning are increasingly important for customers with operations worldwide. Apart from the OPC-UA technology popular in Germany, the new dataFEED UA gate and dataFEED OPC-UA Suite now offer the option of using MQTT to implement production facilities in the US market. In addition to strong data security, the future Internet of Things (IoT) also needs compact, high-performance software solutions. With the new stacks based on the OPC Toolkit, Softing offers a new OPC-UA integration solution that also provides prototype support for the new Ethernet protocol Time Sensitive Networking (TSN). TSN will extend the Industrial Ethernet standards and offer a continuous path from IT systems right through to sensors.

Industrial Data Intelligence also represents a major investment in the future, and Softing is using this as an umbrella term for development of its new dataTHINK products for the collection and analysis of contextual information. Since mobile devices are now increasingly popular in the process and manufacturing industry, software solutions, for example Ethernet diagnostics are being migrated to HTML 5 and, with Industry 4.0 in mind, being supplemented with mobile apps. Softing's gateways for the process industry such as the new FF/Modbus Gateway FG 200 form another point of focus for development activities. Softing can draw on specialized production know-how for these EEx-i gateways, which are then deployed to explosion hazard areas in the oil and gas industry, and fulfill the very highest safety standards.

Since 2016, OLDI and Softing Industrial Automation GmbH have also been jointly developing an OPC UA module that meets the requirements of undersea oil production and complies with MDIS specifications.

Softing IT Networks GmbH was able to further demonstrate its leadership role in measurement technology for structured building cabling and data centers in 2016 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.

Softing Automotive Electronics GmbH has expanded its product portfolio around the ODX and OTX standards and improved its market penetration. The run-time environment necessary for the standards, a kind of diagnostic operating system, was also ported to iOS in 2016. This makes it possible to use any type of diagnostic application in a range of situations: on a Windows PC in the laboratory or at a test site, on an embedded device in a driving test, on a smartphone while underway, or in the workshop. Customers have already been won over for each of these applications. The tools for development, production and service based on this run-time environment have been expanded significantly, making it possible to address further applications. For example, the development tester DTS Monaco, large numbers of which have been sold, has been expanded to other user interfaces. The diagnostic runtime system with the development environment OTX Studio has already been modified to the expected new OTX standard.

Softing's CAR ASYST product, a mobile tool for repair and service shops, was launched at the end of April 2016. The tool was released to the Google Play store and the product-specific website also went live. The successful internationalization of the business of Softing Automotive Electronics is particularly evident in new business deals signed with manufacturers in the USA and Japan; here, too, the key to success was the consistent use of standards.

Over the last two years, the product portfolio acquired from samtec automotive software & electronics GmbH has seen major updates, both in terms of hardware and software architecture. These developments will complete in 2017 and enable new products to be brought to market. On a similar note, the new VIN|ING hardware family has made a technical quantum leap in the premium segment to secure an early market presence based on FPGA in time for further developments in automotive fieldbus technology.

Softing Messen und Testen GmbH comfortably exceeded earnings forecasts in its measurement technology business. One of the reasons for this was that a premium manufacturer switched entirely to Softing measurement technology for the instrumentation in its new engine testing building. SMT was also integrated via EtherCAT into the test bench systems used by the global leader in road simulation test benches, while also being successfully deployed by another premium manufacturer. Starting in 2016, the measuring wheels of another global market leader can also be operated as an integral part of SMT. All customer trials performed on international test tracks were implemented successfully. Multiple test benches designed for electric and hybrid vehicles were implemented using the HiL approach from the TESTING unit. The project planning and bidding phases were also completed for an extensive clustered HiL test facility. Receiving an order in early 2017 is very likely. For a racing vehicle that will participate in the 24 Hours of Le Mans in 2017, the complete electronics assembly was constructed as a “CAN-Mobil” to reduce development time. Last but not least are products such as the LTW-1 transmission tester and HV components already in use around the world and reordered continuously.

REPORT ON ECONOMIC POSITION

MACROECONOMIC AND SECTOR-SPECIFIC ENVIRONMENT

Weak Global Economic Growth in 2016 – But Recent Signs of Recovery

Although the global economy lost considerable impetus in the six months to mid-year 2016, it noticeably picked up pace from July. Both the global gross domestic product and international trade grew appreciably from the third quarter onward after expanding only modestly in the first half of the year. The finalized figure for global GDP growth in 2016 as a whole is likely to be just 3.1%. This figure even undercuts the value from 2015, which was itself a weak year. In the USA, the economy grew by 1.6% in 2016. The euro zone's moderate yet persistent economic expansion also continued into its fourth year in 2016 with growth of 1.7%. The situation also improved considerably in the emerging economies, with the Chinese economy expanding strongly by 6.6%, while GDP growth in Japan totaled just 1%. While the speed of the decline of production in Russia slowed markedly, negative growth of –0.6% is still being forecast for 2016. *(source: ifW, Kieler Konjunkturberichte No. 25, 2016|Q4)*

Mechanical Engineering: Stagnation of Production Compared with the Previous Year

In the first ten months of the reporting year, price-adjusted production in mechanical engineering fell by 0.7%. This fall was largely attributable to fewer working days in this period, which is why VDMA experts are confident that the decrease will be compensated for by year-end. Production has virtually stalled since 2012. In October, capacity utilization in mechanical and plant engineering was 84.6%, and therefore below the long-term average for the mechanical engineering sector (85.9%). Production disruptions caused by lack of orders were a problem for over a quarter of businesses (26%) in October. Global machinery sales have also stagnated.

Electrical Industry: Fluctuations in Production Continue

In October 2016, price-adjusted production for electrical sector companies fell by 5.3% compared to the same month in the previous year – a result that perpetuated the flip-flop between positive and negative results for individual months in the current year. Including October itself, six production months have showed a gain and four months a drop in production. In the year to date from January to October, sector output has risen 1.0% year on year, however.

Sector revenue totaled EUR 146.2 billion in the first ten months of 2016, representing a slight improvement of 0.4% on the prior-year figure. Growth in domestic (0.5% to EUR 71.1 billion) and international revenue (0.3% to EUR 75.1 billion) was similarly moderate. *(source: ZVEI press release 99/2016; December 8, 2016)*

Automotive Industry: Capital Expenditure in R&D Remains Strong

European Commission figures reveal that the German automotive industry is responsible for a third of global R&D spending in the automotive sector. This places German automakers in pole position – and ahead of both Japanese and US companies.

In addition, four of the six largest R&D investors from the European Union are German automotive sector businesses: almost three quarters (74%) of total global R&D spending from automotive companies domiciled in the EU was made by German companies.

Domestic research and development spending by the German automobile industry increased by over 10% to EUR 21.7 billion. Automakers were responsible for around two thirds of R&D spending, the rest being attributable to suppliers. These figures also secured the German automotive industry the highest share of R&D spending in the German economy (35%), trailed at some distance by electrical engineering and mechanical engineering. *(Source: German Association of the Automotive Industry, https://www.vda.de/de/presse/Pressemeldungen, press release from December 22, 2016)*

COURSE OF BUSINESS

In 2016, Softing was unable to completely compensate for weaker sales in the US and German markets despite significant growth in the business in the rest of Europe and Asia. Revenue in 2016 stood at EUR 80.4 million, slightly below the previous year's figure of EUR 82.3 million. The target of EUR 85 million was missed due to the lack of robustness in the US market. As expected, the operating EBIT of EUR 6.7 million was impacted by an absence of extremely high-margin orders in the US market, despite good earnings performance in other regions. For this reason, this figure fell short of the EUR 7.5 million forecast. EBIT amounted to

EUR 7.2 million in 2016 (previous year: EUR 5.5 million), reflecting a one-off effect of EUR 4.1 million arising from the reduction in the variable portion of the OLDI purchase price. The weaker economic performance in the United States as a result of political uncertainty stabilized again in the fourth quarter. EBITDA amounted to EUR 12.3 million in the year under review (previous year: EUR 10.8 million), and the EBITDA margin was 15% (previous year: 13%).

In the Industrial segment, revenue totaled EUR 57.6 million (previous year: EUR 58.7 million). On the whole, however, this was insufficient to fully compensate for the lackluster US market. Automotive revenue stood at EUR 22.8 million despite discontinued product lines, approximately matching the previous year's figure of EUR 23.6 million.

The Industrial segment saw EBIT rise from EUR 2.2 million to EUR 4.2 million on account of the positive one-off effect from the reduction in the variable portion of the OLDI purchase price. In the Automotive segment, EBIT dropped slightly from EUR 3.3 million to EUR 3.0 million. EBITDA in the Industrial segment climbed from EUR 6.0 million in the previous year to EUR 7.6 million, while EBITDA in the Automotive segment amounted to EUR 4.3 million (previous year: EUR 4.5 million).

The consolidated net profit for the year was EUR 5.7 million (previous year: EUR 4.5 million).

Due to a larger profit transfer, the net profit for the year of Softing AG, the Group's parent company, rose by EUR 0.4 million from EUR 2.5 million in 2015 to EUR 2.9 million in 2016. This result is in line with the forecast for the financial year.

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 2.3% to EUR 80.4 million. Own work capitalized (product developments) was EUR 4.5 million, EUR 1.7 million above the previous year's level (EUR 2.8 million); the share of own work capitalized in consolidated revenue increased in the 2016 financial year. Other operating income was heavily impacted by the change in the variable purchase price of EUR 4.1 million for OLDI and one-time insurance payments of EUR 0.7 million related to the fire at the subsidiary Messen und Testen GmbH.

The expense items developed as follows:

	2016 EUR (in thsds.)	2015 EUR (in thsds.)
Cost of materials	31,353	31,879
Employee Benefits Costs	35,122	33,554
Depreciation, amortization and impairment losses	5,100	5,282
Other operating expenses	11,538	11,742
Operating expenses	**83,113**	**82,457**

The cost of materials fell by EUR 0.5 million or 1.7% year on year as a result of lower revenue. All told, the cost of materials ratio (cost of materials relative to revenue) was 39% as in the previous year, and gross profit (revenue less cost of materials) decreased from EUR 50.4 million to EUR 49.1 million.

Staff costs rose by 5% to 35.1 million EUR, mainly due to salary increases, new hirings and variable remuneration. As of the reporting date, the Softing Group had 435 employees.

Depreciation, amortization and impairment losses on intangible assets and property, plant, and equipment decreased slightly from EUR 5.3 million to EUR 5.1 million, due to the decrease in write-downs of internally generated intangible assets.

Other operating expenses fell slightly by EUR 0.2 million.

EBIT rose from EUR 5.5 million to EUR 7.2 million, aided by the one-off effect from the reduction in the variable purchase price for OLDI.

The interest result improved from EUR –0.3 million to EUR –0.2 million and in 2016 was once again dominated by interest expense on the loans taken out to finance the purchase price for OLDI.

After deducting taxes on income, consolidated profit amounted to EUR 5.7 million (previous year: EUR 4.5 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 have been signed with the following subsidiaries:

Directly:

- Softing Industrial Automation GmbH
- Softing Automotive Electronics GmbH
- Softing Services GmbH

Indirectly (via Softing Automotive Electronics GmbH):

- Softing Messen & Testen GmbH
- samtec automotive software & electronics GmbH
- Softing Project Services GmbH

The key control parameter for Softing AG is the income from profit transfer that constitutes a financial key performance indicator. This rose from EUR 3.3 million to EUR 4.2 million in the past financial year as a result of the rise in profits transferred from Softing Industrial Automation and Softing Services. The guidance for the income from profit transfer for the 2016 financial year was EUR 3.0 – 3.5 million. The guidance was exceeded particularly because of the higher profit transferred from Softing Industrial Automation.

Staff costs declined from EUR 2.3 million to EUR 3.0 million due to higher variable remuneration.

Other operating expenses declined slightly overall from EUR 0.7 million (incl. the reclassification of the cost of purchased services pursuant to the German Accounting Directive Implementation Act – BilRUG) to EUR 0.5 million.

Due to higher costs related to the management of subsidiaries, revenue from affiliated companies in 2016 rose from EUR 3.2 million to EUR 3.7 million.

Taxes on income rose by EUR 0.2 million to EUR 1.2 million due to the increase in profit before tax.

Net profit for the year improved from EUR 2.5 million to EUR 2.9 million as a result of the increase in cost allocations to subsidiaries and the higher profit transfer.

FINANCIAL POSITION

Financial Position of the Group

Financial Management

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

Capital Structure

At the end of 2016, the Softing Group had equity of EUR 47.6 million (previous year: EUR 42.3 million), an increase of 12% or EUR 5.2 million. The equity ratio in the financial year was 57%, after 51% in the previous year.

Non-current liabilities decreased from EUR 21.9 million to EUR 13.7 million due to the lower variable purchase price obligation from the OLDI acquisition, loan repayments and reclassifications to current liabilities, while deferred tax liabilities increased by EUR 0.5 million.

Current liabilities rose by EUR 3.3 million to EUR 21.6 million due mainly to the reclassification of the remaining variable purchase price portion for OLDI, which is due for payment in 2017.

Capital Expenditure

In the financial year ended, the Softing Group invested EUR 4.5 million in internally generated intangible assets. Investments in other non-current assets amounted to EUR 1.7 million in the previous year and EUR 1.1 million in 2016. Please refer to the Research and Development section for information on investments in the specific segments.

Liquidity

The cash flow from operating activities was up 9% from EUR 8.6 million to EUR 9.5 million, due to increased cash flows for the period and improved receivables management.

Funds used for investing activities amounted to EUR 6.5 million, comprising mainly capitalized development services and replacements.

Cash flow from financing activities amounted to EUR 1.4 million and was impacted by the repayment of loans totaling EUR 1.2 million, the dividend payment of EUR 1.0 million and offsetting proceeds from payments from a short-term bank line of EUR 1.0 million.

The cash available to the Group amounted to EUR 10.9 million at year-end (previous year: EUR 9.2 million).

Financial Position of Softing AG

Capital Structure

Equity increased from EUR 31.9 million to EUR 33.8 million as of December 31, 2016. The net profit for 2016 of EUR 2.9 million compensated for the dividend of EUR 1.0 million for 2015.

The equity rose from 66% to a healthy 70% in 2016.

The change in provisions from EUR 2.5 million to EUR 4.0 million is principally the result of a change in provisions for variable remuneration and higher tax provisions.

Other liabilities decreased from EUR 2.3 million to EUR 1.2 million due to variable purchase price payments for the 2014 acquisitions totaling EUR 0.9 million.

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 individual subsidiaries only to a minor extent. The fixed purchase price of OLDI was financed through EUR 11.0 million in total loans obtained by Softing AG from two commercial banks in Germany. These amounted to EUR 7.7 million as of December 31, 2016.

Funds at year's end were EUR 3.0 million (previous year: EUR 4.2 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 2016 represented 59.0% of total assets (previous year: 57.1%). This was offset by equity and non-current liabilities representing 74.0% (previous year: 77.9%).

Non-current assets rose by EUR 1.8 million to EUR 48.9 million. This was due to the increase in goodwill resulting from the change in the USD exchange rate (EUR 0.3 million), a currency-adjusted increase in other intangible assets (EUR 1.1 million) and an increase in deferred tax assets (EUR 0.5 million).

Current assets comprise inventories, trade receivables, and cash and cash equivalents. This figure changed from EUR 35.3 million to EUR 34.0 million mainly due to a reduction in trade receivables and receivables from customer-specific construction contracts by EUR 3.2 million. The increase in cash and cash equivalents had an offsetting effect of EUR 1.7 million.

Total assets in the reporting year amounted to EUR 82.9 million (previous year: EUR 82.5 million).

Cash and cash equivalents at year's end were EUR 10.9 million (previous year: EUR 9.2 million).

Net Assets of Softing AG

The total assets of Softing AG remained stable year on year at EUR 48.3 million (previous year: EUR 48.4 million).

Short-term loans of EUR 1.4 million were taken out in the 2016 financial year. In 2015, Softing AG received funds totaling EUR 1.1 million from the sale of treasury shares.

At EUR 15.2 million, loans to affiliated companies remained stable. Cash and cash equivalents decreased to EUR 3.0 million.

Receivables from affiliated companies were up EUR 1.2 million as a result of increased receivables from profit and loss transfer agreements.

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

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

There were no other events, particularly no 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.

Focus within Automotive

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

Softing Automotive Electronics

New and existing customers alike are showing strong interest both in the VCI portfolio (including new and planned products) acquired from samtec and the new VCF. The order books for these products are already well filled, something that is attributable to the expertise of the Company's long-serving employees on the one hand and to the refinement of the VCI software and hardware products on the other.

Softing Messen & Testen GmbH

One more premium manufacturer adopted SMT (Softing Measurement Technology) in 2015. Further follow-up orders were placed in 2016. In testing business, large orders for HIL systems were placed by major engineering service providers. In 2016, sales activities were expanded further and are showing positive results.

Internationalization in the Industrial Automation Segment Continues

The Industrial Automation segment continued to develop its strategy in the direction of market-oriented products with direct customer benefit and introduced new products in the market. The resulting increase in the share of software products had a positive impact on earnings.

With this orientation, the imported products and many years of networking (in committees, for example), Softing Industrial Automation is already involved in the implementation projects of the global Industry 4.0 initiative and will increasingly benefit from them.

In order to position itself even more advantageously in the Industry 4.0 environment, the company has initiated a new business activity, "Industrial Data Intelligence", which makes it possible for machine or equipment manufacturers and other manufacturing companies to benefit from their production data, for example, for optimization purposes or for predictive maintenance. Softing Industrial Automation is a specialist in data acquisition, so this addition to its product portfolio makes the company well equipped to participate in a market that is seeing extremely dynamic growth.

The portfolio for FPGA-based solutions was further expanded in the area of communications solutions for production engineering. With the implementation of the PROFINET specification 2.3 and the performance this makes possible, Softing's Industrial Ethernet solution now offers the ideal link for fast drive technology.

Online Development Inc. (OLDI)
With its acquisition of the North American Online Development Inc. (OLDI) in 2014, Softing took another decisive step towards the goal of strengthening its international portfolio. For over 20 years, OLDI has designed and manufactured factory automation products to help industrial customers simplify control and communications tasks. OLDI complements the product portfolio of the Industrial Automation segment.

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

The competencies and technologies in place at OLDI and Softing Industrial Automation complement each other so well that end-to-end communications solutions can now be offered to production and process automation customers. These potential synergies will lead to further new products in 2017 as well.

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

With the latest generation of devices, Psiber is a technology leader in this market. It is the only company with devices capable of measuring cables up to CAT 8 specifications. This creates demand for customers, especially in connection with the initial equipment of networks. Wireless communication played an increasingly major role in 2016 and going forward will open up new and advanced market opportunities.

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.

Shanghai Softing software Co., Ltd./China
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. This marks the completion of a key step in achieving improved local development of the Chinese market.

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 both segments.

Softing is an internationally operating company involved in industrial automation technology and automotive electronics. The Company is exposed to a number of risks that are inextricably linked to its entrepreneurial activities.

In particular, this concerns risks resulting from market development, the positioning of products and services, contractual and non-contractual liability, and business processes. Our business policy is to best exploit existing business opportunities. It is the task of our risk policy to carefully weigh the risks associated with this. Risk management is therefore an integral component of our business processes and company decisions. The risk management system of the Group and of Softing AG comprises both risks and opportunities in equal measure.

Risk principles are defined by our Executive Board. They include statements on risk strategy, the willingness to take risks and the scope of these principles.

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

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

a. Minor risks
   Minor risks are insignificant for the Company and no action needs to be taken to mitigate the risk.
b. Moderate risks
   The extent of loss in moderate risks is limited and there is a moderate probability of occurrence. There is no immediate need for action. Efficient, effective measures are sufficient to reduce moderate risks or to manage them rapidly in the event of an emergency.
c. Major risks
   Major risks cause greater loss and/or have a higher probability of occurrence than moderate risks. These risks should be reduced through appropriate controls or process optimization. Where possible, appropriate measures should be taken to reduce the major gross risk to the moderate or minor level of risk.
d. Going-concern risks
   Going-concern risks could jeopardize the continued existence of an organizational unit or the Softing Group as a whole. Measures must be taken immediately to reduce the gross risk.

We use a number of control systems to monitor and control our risks. These include a centralized company planning process, among other things. We regularly monitor the achievement of our business goals and the risks that are connected to this as well as the accounting processes.

The risks involved in individual business processes were also periodically recorded, analyzed and evaluated in the reporting period. We also assessed whether individual risks which are of minor importance when viewed in isolation could develop into a risk threatening the Company's existence when combined.

The risk factors mentioned below could have a strong negative impact on the Company's business performance, cash flows and profit or loss. Risks that we believe to be of little relevance to our business at this time are not mentioned.

External Risks

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

Performance Risks

In 2016, revenue decreased slightly compared to 2015. Despite the continuation of major investments in technologies and markets, earnings remained virtually stable. A particularly strong third and fourth quarter again contributed to this result.

Nonetheless, there is always a general risk both of underutilization of capacities and sustaining pressure on realizable revenues. We meet these risks with stricter cost management measures and flexible working hour models so that we can quickly adapt to any changes in demand. We categorize this risk as a moderate risk.

The situation on the market is characterized by a rapid change of the employed technologies. This means that there is a danger that acquired know-how may prematurely lose value due to an unexpected market development. We address this risk by actively participating in a large number of national and international working groups, which enables us to recognize technological trends early on and help shape them ourselves. We categorize this risk as a moderate risk.

In certain areas of our business, both in the Industrial and the Automotive segment, we are involved in the complex development projects of our customers. These projects entail a certain realization risk regarding the planned budgets and time frames. Any deviations could lead to a deterioration of profit and claims for damages. We deal with this risk by planning such projects in accordance with a process model defined by our quality management system, and by carefully monitoring project progress with an alarm controlling system. We make continual investments to further improve Softing's already high quality standard. We categorize this risk as a moderate risk.

When manufacturing products – particularly hardware products – we make considerable use of supplies from external companies. The inclusion of third parties in our value chain naturally reduces the level of influence we have on quality, costs and adherence to schedules. Unexpected price increases can affect the result considerably. We counteract this risk through long-term supplier contracts wherever possible. Supplier failures can lead to delivery bottlenecks. We reduce the risk by regularly auditing our suppliers and consistently limiting the share of deliveries from individual suppliers. We categorize this risk as a moderate risk.

Our products and services are used in the production of industrial goods. Downtime or malfunction can result in significant damage to persons and property. We reduce this risk by following a careful development process which is tailored to the specific scope of application. Significant residual risks have been covered through insurance policies. We categorize this risk as a moderate risk.

Financial Risks

Credit risks have not played a significant role in the past. Our restrictive credit management process allows us to identify imminent insolvencies faster and thus to counteract them in due time. Together, all of these measures again helped to forestall major defaults on receivables in 2016. Overall, we categorize this risk as a smaller-scale risk.

Other Risks

As in all companies, the smooth functioning of business processes depends on the availability of our IT infrastructure. Attacks from the Internet, as well as other IT failures or damage to our IT infrastructure, pose a serious threat to the Company's ability to function. Softing implemented IT security measures which so far prevented damage caused by computer viruses and sabotage. This is why we believe that the probability of a threat to the security of our data inventories or information systems is manageable. We categorize this risk as a moderate risk.

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

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

Even though not a single compliance case has so far arisen at Softing despite the level of awareness by Controlling and the Executive Board, the Executive Board and the legal department continue to take the issue of compliance very seriously. Through workshop participation and a series of presentations, we ensure that current trends and issues are taken on board and adapted to the situation at Softing. We categorize this risk as a minor risk.

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

Based on the risk policy and the current assessment of the risks, we consider the risk exposure to be manageable for both the Group and Softing AG. On account of the strong net assets, financial position, and results of operations, we believe that the Group will be able to bear the residual risks not covered by insurance even in the event of unfavorable developments.

REPORT ON EXPECTED DEVELOPMENTS

Moderate Rates of Growth over the Next Two Years

Despite a turbulent global environment, the German economy remains on course for growth. The Institute for Economic Research (IfW) is forecasting GDP growth of 2.0% for Germany in 2017. The UK's Brexit vote is likely to have only a negligible impact. While the long-term repercussions of the US presidential election and the constitutional referendum in Italy remain difficult to predict as yet, their short-term consequences are likely to be limited.

Short-term euro zone economic growth remains moderate, with 1.7% forecast for each of the next two years. Since parliamentary elections will be held in four of the five largest euro zone countries (Germany, France, Italy and Netherlands) in 2017, there is considerable uncertainty about the future direction of economic policy. Despite these concerns, the consensus is that the moderate rate of expansion will in principle continue. Global GDP growth will increase to 3.5% in 2017 and 3.6% in 2018. In light of a monetary policy environment that remains in an expansionary mood overall, and considering the increasing efforts towards stimulus in financial policy and a return to stronger demand in the developing and emerging economies, IfW analysts are therefore expecting to see a slight acceleration to GDP growth in the advanced economies over the next two years. A strong economic upturn is not on the cards, however. For the euro zone as a whole, the IfW expects to see GDP growth of 2.1% for each of the next two years, following growth of 1.7% for the current year. For the United States, IfW analysts are forecasting GDP to grow by 2.5% in 2017 and 2.7% in 2018. *(source: IfW, Kieler Konjunkturberichte No. 25, 2016|Q4)*

Softing Well-positioned for 2017 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 2017, 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.

In Automotive business, the main focus in the coming year will be on continued marketing of the standard products of DTS-8, OTX Studio, interfaces of the HS family, measurement technology (SMT, µ series), and Softing TDX.

In 2017, the Automotive segment will proceed with the marketing of its new VCI family VIN|ING 600-6000, now in development since 2015. 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 range of measurement technology products, which was widened in 2016. 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.

Outlook for the 2017 Financial Year for Softing AG

It is the clear objective of Softing 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 continued development hinges largely on the continued positive development of the global economy. This is why the Company's actual performance might deviate from the Executive Board's expectations.

Based on projected earnings, we are forecasting income from profit and loss transfer agreements of EUR 3.5 million to EUR 4.0 million for the 2017 financial year.

Outlook for the 2017 Financial Year for the Softing Group

The declared goal remains to build Softing into a dynamic global company on the strength of regional expansion and focused market penetration. We are firmly committed to continuing our pursuit of this goal in 2017. Based on the Group's positioning and customer feedback, Softing sees opportunities to increase incoming orders, revenue and earnings in 2017. However, we face an enormous rise in 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 our forecast as a dampening factor.

As a leading technology group, Softing must work to actively shape technical change. The speed of change has increased dramatically in all segments. For this reason, we plan to use the expertise that our current portfolio and acquisitions provide for the extensive development of new products and the extensive refinement of existing ones in 2017. For 2017, we are assuming that capitalization of development costs will remain largely stable, due to increased investment in new products. This stands in contrast to opportunities for above-average returns in the existing business and the economic risks mentioned above. Given all these influences, we expect a moderate increase in revenue and incoming orders to EUR 82 million. We are expecting EBIT of up to EUR 5.7 million; this figure also takes into account one-time effects from the OLDI acquisition. Our operating EBIT is expected to come in at EUR 5.0 million. At segment level, we anticipate the Industrial segment to see a slight increase and the Automotive segment to see a slight decrease in revenue, EBIT and operating EBIT. From mid-year, we will provide quarterly reports with more detail 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.

Our internal control system comprises an internal management and monitoring system.

Monitoring mechanisms that are process-integrated or uninvolved in business processes constitute the elements of the Softing Group's internal monitoring system. Hence automated IT process controls besides manual process controls – such as the two-person integrity (TPI) principle – are an integral part of all process-integrated activities.

As part of the internal control system, those aspects of the risk management system that concern financial reporting are focused on the risk of misstatements in the Group's bookkeeping as well as its external reporting system. Besides risk management at the operating level – which also includes risk transfer to insurance companies through insurance policies serving to limit the risk of loss or liability as well as through suitable hedging transactions serving to limit foreign currency risks – the Softing Group's risk management system also comprises early detection as well as management and monitoring of risks, systematically and groupwide. The Softing Group has established a monitoring system pursuant to Section 91 para 2 German Stock Corporation Act that is aimed at early detection of risks that might jeopardize the Company's existence in order to ensure systematic early detection of risk throughout the Group. For additional disclosures on the risk management system, please see the section entitled, "Risk Report."

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

Use of IT Systems

Accounting transactions are recorded in the single-entity financial statements of the German companies' subsidiaries using IFS's bookkeeping system. Our foreign subsidiaries utilize local providers of bookkeeping systems. All subsidiaries supplement their separate financial statements by additional information using standardized reporting packages that are entered into Softing AG's consolidation system in connection with the preparation of the Group's consolidated financial statements. The system from software manufacturer Lucanet is used as the consolidation system. All consolidation processes required to prepare the consolidated financial statements of Softing AG – e.g. acquisition accounting, asset and liability accounting, or elimination of expenses and earnings – are generated and documented in the consolidation system.

Specific Risks Related to the Financial Reporting Process

Specific risks related to the Group's financial reporting process may arise from unusual or complex transactions. Transactions that are not routinely processed also entail inherent risks. Additional risks related to the financial reporting process arise from the latitude that employees must be given in regards to the recognition and measurement of assets and liabilities.

Material Control and Monitoring Activities Aimed at Assuring the Propriety and Reliability of the Financial Reporting Process

All facets of the internal control system that serve to provide a proper and reliable financial reporting process ensure complete and timely recording of all transactions in compliance with all requirements under the law and the Company's Articles of Incorporation. It also assures that inventories are taken in proper fashion and that both assets and liabilities are accurately recognized, measured and shown in the consolidated financial statements. These control activities also serve to ensure that the bookkeeping records provide reliable and plausible information.

The monitoring activities serving to ensure that the financial reporting is proper and reliable also comprise the analysis of transactions and developments using specific analyses of key indicators. The separation of functions related to administration, execution, accounting and approval – as well as their perception as such by a variety of individuals – limits the possibilities for engaging in intentional acts. For example, this also ensures that bookkeeping processes are carried out both in the proper period and in full even if the IT systems that the Group companies use for the underlying accounting are changed.

The internal control system also serves to make sure that changes in the Softing Group's economic or legal environment are duly presented and that new or amended statutory requirements concerning the financial reporting process are applied.

The International Financial Reporting Standards (IFRS) represent the uniform accounting policies applied by the domestic and foreign entities included in Softing's consolidated financial statements. Besides general accounting policies, in particular, this concerns requirements related to the statement of financial position, the income statement, the notes, the management report, the 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 2016, the share capital of Softing AG was EUR 6,959,438 denominated in the same number of no-par shares, all granting the same rights, specifically voting rights. No shareholder or shareholder group has special rights.

2. 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 6,959,438 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). Said authority was not exercised in 2016.

   The authorized capital as of December 31, 2016, was EUR 3,479,719.00.

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 abovementioned 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 2016.

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 1.61 million voting shares through possession or attribution. If this Executive Board member exercises this right to terminate his employment for cause, he is entitled to compensation equaling approximately two annual salaries.

BASIC INFORMATION ON THE COMPENSATION SYSTEMS FOR MEMBERS OF CORPORATE BODIES

Compensation of the Executive Board is divided into a fixed salary component and a performance-based, i.e. variable component. The performance-based components are contingent on consolidated profit. Likewise, the performance of Softing's shares is key to the variable component of executive compensation as well. Members of Softing AG's Executive Board are also entitled to a company car. There is no stock option plan in place. For more details regarding the Executive Board's compensation, please see the notes to the consolidated financial statements.

Pension provisions for former members and one current member of the Executive Board were recognized as of December 31, 2016. For details, please see the disclosures on pension provisions in the notes.

The Executive Board's director's contracts run until 2018 and 2021, respectively.

Each member of the Supervisory Board receives a fixed compensation of EUR 10,000 for each full financial year of service on the Supervisory Board. In addition, they also receive a variable remuneration Equaling 0.5% of consolidated EBIT before taking into account the Supervisory Board's variable compensation. The chairman receives 200% of the fixed and variable amount, the deputy chairman 150%. The compensation for the entire Supervisory Board is limited to a total of EUR 200,000 per financial year.

STATEMENT ON CORPORATE GOVERNANCE

The Executive Board of Softing AG reports on issues of corporate governance in this statement – also on behalf of the Supervisory Board – pursuant to both Section 3.10 of the German Corporate Governance Code and Section 289a (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 16, 2017
Softing AG

The Executive Board

Dr. Wolfgang Trier　　Ernst Homolka

Consolidated Statement of Financial Position

as of December 31, 2016 and December 31, 2015

Assets	Note	Dec. 31, 2016 EUR (in thsds.)	Dec. 31, 2015 EUR (in thsds.)
Non-current assets			
Goodwill	C1/C2	15,494	15,243
Intangible assets	C3/C4	28,262	27,126
		43,756	42,369
Property, plant and equipment	C5	2,257	2,362
		46,013	44,731
Deferred tax assets	D9	2,864	2,395
Non-current assets, total		**48,877**	**47,126**
Current assets			
Inventories	C7	9,214	9,313
Trade receivables	C8	11,742	14,976
Receivables from customer-specific construction contracts	C9	848	431
		12,590	15,407
Other current assets	C10	712	815
Current income tax assets	C11	626	504
Current financial assets	C12	0	124
Cash and cash equivalents	C12	10,869	9,186
Current assets, total		**34,011**	**35,349**
Total assets		**82,888**	**82,475**

Equity and liabilities	Note	Dec. 31, 2016 EUR (in thsds.)	Dec. 31, 2015 EUR (in thsds.)
Equity			
Subscribed capital	C13	6,959	6,959
Capital reserves	C13	12,270	12,270
Treasury shares	C13	0	0
Retained earnings	C13	28,355	23,136
Equity (Group share)		47,584	42,365
Minority interests	C13	–17	–30
Equity, total		**47,567**	**42,335**
Non-current liabilities			
Pensions and similar obligations	C14	2,237	1,860
Long-term borrowings	C15	6,596	7,480
Other non-current liabilities	C15	57	8,223
Deferred taxes	D 9	4,859	4,323
Non-current liabilities, total		**13,749**	**21,886**
Current liabilities			
Trade payables	C16	4,856	5,698
Payables from customer-specific construction contracts	C 9	1,027	617
Provisions and accrued liabilities	C17	287	683
Income tax liabilities	C18	2,166	1,529
Short-term borrowings	C19	2,660	1,737
Current non-financial liabilities	C20	2,965	4,203
Current financial liabilities	C21	7,611	3,787
Current liabilities, total		**21,572**	**18,254**
Total equity and liabilities		**82,888**	**82,475**

Consolidated Income Statement

for the Period from January 1 to December 31, 2016

	Note	Jan. 1 – Dec. 31, 2016 EUR (in thsds.)	Jan. 1 – Dec. 31, 2015 EUR (in thsds.)
Revenue	**D1**	**80,424**	**82,306**
Other own work capitalized	D2	4,512	2,786
Other operating income	D3	5,339	2,837
Operating income		**90,275**	**87,929**
Cost of materials	D4	–31,353	–31,879
Staff costs	D5	–35,122	–33,554
Depreciation, amortization and impairment losses	D6	–5,100	–5,282
thereof depreciation/amortization due to purchase price allocation		–1,248	–1,245
Other operating expenses	D7	–11,538	–11,742
Operating expenses		**–83,113**	**–82,457**
Profit/loss from operations (EBIT)		**7,162**	**5,472**
Interest income	D8	63	58
Interest expense	D8	–248	–323
Earnings before income taxes		**6,977**	**5,207**
Income taxes	D9	–1,262	–728
Consolidated profit		**5,715**	**4,479**
Attributable to:			
Owners of the parent	E4	5,702	4,477
Minority interests	E4	13	2
Consolidated profit		**5,715**	**4,479**
Earnings per share (basic = diluted)		0.82	0.65
Average number of shares outstanding (basic)		6,959,438	6,936,016

Consolidated Statement of Comprehensive Income

for the Period from January 1 to December 31, 2016

	Note	Jan. 1 – Dec. 31, 2016 EUR (in thsds.)	Jan. 1 – Dec. 31, 2015 EUR (in thsds.)
Consolidated profit		**5,715**	**4,479**
Items that will *not* be reclassified to consolidated profit or loss			
Remeasurements	C13	–397	285
Tax effect		111	–80
Remeasurements		–286	205
Items that will be reclassified to consolidated profit or loss:			
Currency translation differences			
Changes in unrealized gains/losses		1,018	2,402
Tax effect		–171	–1,077
Currency translation		847	1,325
Consolidated total comprehensive income		**561**	**1,530**
Total comprehensive income for the period		**6,276**	**6,009**
Total comprehensive income for the period attributable to:			
Owners of the parent		6,263	6,007
Minority interests		13	2
Total comprehensive income for the period		**6,276**	**6,009**
Earnings per share (basic = diluted)		0.90	0.87
Average number of shares outstanding (basic)		6,959,438	6,936,016

Consolidated Statement of Changes in Equity

for the Period from January 1 to December 31, 2016

	Subscribed capital	Capital reserves	Treasury shares	Retained earnings				Attributable to share-holders of Softing AG	Non-controlling interests	Total equity
	Capital			Net retained profits and other	Remeas-urements	Currency translation	Total	Interests	Interests	
	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)
As of January 1, 2016	**6,959**	**12,270**	**0**	**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**	**0**	**25,342**	**–1,358**	**4,370**	**28,355**	**47,584**	**–17**	**47,567**

	Subscribed capital	Capital reserves	Treasury shares	Retained earnings				Attributable to share-holders of Softing AG	Non-controlling interests	Total equity
	Capital			Net retained profits and other	Remeas-urements	Currency translation	Total	Interests	Interests	
	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)
As of January 1, 2015	**6,959**	**12,270**	**–223**	**17,092**	**–1,277**	**2,198**	**18,014**	**37,020**	**–32**	**36,988**
Dividend payment				–1,740			–1,740	–1,740		–1,740
Sale of treasury shares			223	855			855	1,078		1,078
Remeasurements					285		285	285		285
Tax effect					–80	–1,077	–1,157	–1,157		–1,157
Currency translation						2,402	2,402	2,402		2,402
Net profit for 2015				4,477			4,477	4,477	2	4,479
Balance as of December 31, 2015	**6,959**	**12,270**	**0**	**20,684**	**–1,072**	**3,523**	**23,136**	**42,365**	**–30**	**42,335**

Consolidated Statement of Cash Flows

for the Period from January 1 to December 31, 2016

	Jan. 1 – Dec. 31, 2016 EUR (in thsds.)	Jan. 1 – Dec. 31, 2015 EUR (in thsds.)
Cash flows from operating activities		
Profit (before tax)	6,977	5,208
Depreciation, amortization and impairment losses on fixed assets	5,100	5,282
Other non-cash transactions	–84	239
Cash flows for the period	**11,993**	**10,729**
Interest income	–63	–58
Interest expense	248	323
Change in other provisions and accrued liabilities	–396	421
Change in inventories	99	–576
Change in trade receivables	2,818	–1,158
Changes in financial receivables and other assets	–364	–1,470
Change in trade payables	–842	1,691
Changes in financial and non-financial liabilities and other liabilities	–3,685	190
Interest received	3	5
Income taxes paid	–289	–1,448
Cash flows from operating activities	**9,522**	**8,649**
Investments in fixed assets	–1,096	–1,655
Cash paid for investments in internally generated intangible assets	–4,511	–2,786
Cash paid for the acquisition of subsidiaries/variable purchase prices	–914	–1,346
Cash flows from investing activities	**–6,521**	**–5,787**
Cash paid for dividends	–1,044	–1,740
Cash received from short-term bank line	1,000	0
Repayment of bank loans	–1,241	–1,670
Cash received from the sale of treasury shares	0	1,078
Interest paid	–150	–228
Cash flows from financing activities	**–1,435**	**–2,560**
Net change in funds	1,566	302
Effects of exchange rate changes on cash and cash equivalents	117	134
Cash and cash equivalents at the beginning of the period	9,186	8,750
Cash and cash equivalents at the end of the period	**10,869**	**9,186**

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

Changes in Intangible Assets and Property, Plant and Equipment

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**

in the 2015 Financial Year

	Cost				
	Jan. 1, 2015	Additions	Currency differences	Disposals	Dec. 31, 2015
	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)
Intangible assets					
Goodwill	14,752	0	787	0	15,539
Internally generated intangible assets	17,989	2,786	0	0	20,775
Other intangible assets	19,980	392	2,124	408	22,088
	52,721	**3,178**	**2,911**	**408**	**58,402**
Property, plant and equipment					
Other equipment, furniture and fixtures and office equipment	3,430	1,262	26	124	4,594
	56,150	**4,440**	**2,937**	**532**	**62,995**

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	2,363
18,264	**145**	**5,100**	**1,750**	**21,758**	**46,013**	**44,731**

Accumulated depreciation, amortization and impairment losses					Carrying amounts	
Jan. 1, 2015	Currency differences	Depreciation, amortization and impairment losses in the financial year	Disposals	Dec. 31, 2015	Dec. 31, 2015	Dec. 31, 2014
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	15,243	14,456
9,533	0	2,981	0	12,514	8,261	8,455
1,925	168	1,535	406	3,222	18,866	18,055
11,754	168	4,516	406	16,032	42,370	40,966
1,530	9	765	73	2,231	2,363	1,899
13,284	**177**	**5,281**	**479**	**18,264**	**44,731**	**42,865**

Notes to the Consolidated Financial Statements for the 2016 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 2016 financial year based on the reporting period from January 1 to December 31 of that same year.

The consolidated financial statements and the Group management report are published in the electronic Federal Gazette.

The Executive Board of Softing AG released the consolidated financial statements to the Supervisory Board on March 16, 2017. 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

Changes in Accounting Policies Due to New Standards and Interpretations

In the 2016 financial year, the Company applied the IFRS whose application is mandatory for financial years beginning on or after January 1, 2016. The International Financial Reporting Standards (IFRSs) are applied in the form they were transposed into national law by the European Commission subject to the due process of endorsement.

New and Revised Standards and Interpretations:

Amendments to IAS 19 Employee Benefits

The amendments to IAS 19 add an option to the standard with respect to accounting for contributions from employees or third parties to defined benefit plans. The amendments were issued in November 2013 and are effective for the first time for financial years beginning on or after February 1, 2015. Applying these amendments had no effect on the net assets, financial position and results of operations of the Group.

Annual Improvements to IFRSs – 2010 – 2012 Cycle

These amendments affect the following standards:

IFRS 2 Share-based Payment

IFRS 3 Business Combinations

IFRS 8 Operating Segments

IFRS 13 Fair Value Measurement

IAS 16 Property Plant and Equipment / IAS 38 Intangible Assets

IAS 24 Related Party Disclosures

The amendments were issued in December 2013 and are effective for the first time for financial years beginning on or after February 1, 2015.

Applying these amendments had no effect on the net assets, financial position and results of operations of the Group.

Annual Improvements to IFRSs – 2012 – 2014 Cycle

This amendment standard as part of the annual improvements (2012 – 2014 cycle) contains amendments to the following Standards:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

IFRS 7 Financial Instruments: Disclosures (with consequential amendment to IFRS 1)

IAS 19 Employee Benefits

IAS 34 Interim Financial Reporting

The amendments were issued in September 2014 and enter into force for reporting periods beginning on or after January 1, 2016. Applying these amendments primarily affected the scope of disclosures in the notes and therefore had no effect on the net assets, financial position and results of operations of the Group.

Amendments to IAS 1 Presentation of Financial Statements (Disclosure Initiative)

The amendments to IAS 1 provide for a stronger focus on the principle of materiality, further classification options for the minimum required items in the balance sheet and the presentation of subtotals, and greater flexibility in the order in which disclosures are presented in the notes to the financial statements. The amendments were issued in December 2014 and enter into force for reporting periods beginning on or after January 1, 2016.

Applying these amendments had no material effect on the disclosures in the notes.

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, 2017, 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, Financial Instruments, addresses the classification, measurement and recognition of financial assets and financial liabilities. The full version was published in July 2014. 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 intends to adopt IFRS 9 no later than 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 analysis is expected to be completed by mid-2017.

IFRS 15 provides comprehensive guidance on whether, when, and in what amount reporters must recognize revenue. It replaces existing standards addressing the recognition of revenue, including IAS 18, Revenue, IAS 11 Construction Contracts, and IFRIC 13 Customer Loyalty Programmes. IFRS 15 must be applied for the first time in reporting periods beginning on or after January 1, 2018, although early application is permitted. 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 by mid-2017. According to an initial assessment, no material impact is expected on the 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. Since the new rules must also be applied to already existing leases, the changes in accounting for leases likely have a particular practical relevance for nearly all companies, including Softing. 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 must be applied for the first time for financial years beginning on or after January 1, 2019. Early adoption is permitted as long as the provisions of IFRS 15 Revenue from Contracts with Customers are applied simultaneously. For companies preparing IFRS financial statements in the EU, the endorsement of IFRS 16 is required for mandatory application. However, the timeline for an endorsement has not yet been set. 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 at the end of 2017. According to an initial assessment, no 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 new or revised Standards are not expected to have any material effects on the consolidated financial statements:

IFRS 14: Regulatory Deferral Accounts

Amendments to IAS 12 Income Taxes – Recognition of Deferred Taxes for Unrealized Losses

Amendments to IAS 7 Statements of Cash Flow – Disclosure Initiative

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

Annual Improvements to IFRSs – 2014–2016 Cycle

IFRIC 22 Foreign Currency Transactions and Advance Consideration

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, 2016 include Softing AG and the following subsidiaries, over which Softing AG directly or indirectly exercises control:

Softing Group as of 12/31/2016	Capital share	
	2016 %	2015 %
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
samtec automotive software & electronics GmbH, Kirchentellinsfurt/Germany*	100	100
Softing Italia s.r.l., Cesano Boscone/Italy	100	100
SoftingROM s.r.l., Cluj-Napoca/Romania	100	100
Buxbaum Automation GmbH, Eisenstadt/Austria	65	65
Softing Inc., Newburyport/USA (formerly: Softing North America Inc.)	100	100
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
Entities established in 2016		
Shanghai Softing software Co., Ltd., Shanghai/China	100	0
Softing Automotive Electronics Services GmbH, Kirchentellinsfurt/Germany	100	0
Automotive Communications Kirchentellinsfurt GmbH, Kirchentellinsfurt/Germany	100	0

*At the end of 2016, Softing Automotive Electronics GmbH acquired ownership of the operating business of samtec automotive software & electronics GmbH.

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))
- samtec automotive software & electronics GmbH (Kirchentellinsfurt)

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.

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

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

4. INTANGIBLE ASSETS

Intangible assets comprise goodwill resulting from acquisition accounting as well as other intangible assets and capitalized development costs. 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 reversed up to no more than the recoverable amount. The reversal of the write-down is limited to the carrying amount that would have applied absent the write-down. The write-up is recognized in profit or loss.

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. The functional currency of all foreign subsidiaries is the respective local currency – with the exception of Psiber in Singapore, where the functional currency is the USD. This is 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	
	2016	2015	2016	2015
Closing rate (Dec. 31)	1.05	1.09	4.54	4.52
Average exchange rate	1.11	1.11	4.49	4.45

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

Shanghai Softing software Co.,Ltd. China
Softing Shanghai Softing software Co.,Ltd./China is a Shanghai-based company established in 2016 by Softing Services GmbH. It provides the legal and organizational framework for the sales and marketing activities of the Softing Group in China. The company was consolidated for the first time effective August 1, 2016.

Softing Automotive Electronics Services GmbH
Softing Automotive Electronics Services GmbH/Kirchentellinsfurt is a development company founded by Softing Automotive Electronics GmbH for its current and future products. The company was consolidated for the first time effective December 23, 2016.

Automotive Communications Kirchentellinsfurt GmbH
Going forward, Automotive Communications Kirchentellinsfurt GmbH is set to bundle the communications activities. The company was consolidated for the first time effective December 23, 2016.

2. GOODWILL

	Dec. 31, 2016 EUR (in thsds.)	Dec. 31, 2015 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.	7,874	7,623
Goodwill	15,494	15,243

Due to the change in the EUR/USD exchange rate, the goodwill of OLDI Online Development Inc. changed by EUR 250 thousand in 2016.

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 7.70% – 12.20% (previous year: 10.30% – 13.95%)
- Risk-free interest rate: 1.00% – 3.10% (previous year: 1.50% – 3.00%)
- Risk premium: 6.00% – 6.50% (previous year: 5.80% – 6.50%)
- Beta factor (weighted average of a group of comparable companies): 0.93 – 1.02 (previous year: 1.17 – 1.21)

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 19,460 thousand (previous year: EUR 18,900 thousand).

No impairment losses were recognized in addition to amortization.

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

	2016 EUR (in thsds.)	2015 EUR (in thsds.)
Capitalized development costs	4,512	2,786
Expenses not qualifying for capitalization	19,460	18,900
	23,972	**21,686**

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 2,021 thousand).

7. INVENTORIES

	Dec. 31, 2016 EUR (in thsds.)	Dec. 31, 2015 EUR (in thsds.)
Raw materials and consumables	2,803	3,089
Finished goods	6,411	6,224
Inventories	**9,214**	**9,313**

Valuation allowances recognized in 2016 total EUR 0 thousand (previous year: EUR 210 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, 2016 EUR (in thsds.)	Dec. 31, 2015 EUR (in thsds.)
Trade receivables	11,742	14,976
Receivables from customer-specific construction contracts	848	431
	12,590	**15,407**

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, 2016	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)
Trade receivables	11,742	9,303	2,148	289	0	0
Receivables from customer-specific construction contracts	848	848	0	0	0	0
	12,590	**10,151**	**2,148**	**289**	**0**	**0**

Dec. 31, 2015	Carrying amount EUR (in thsds.)	Of which neither past due nor impaired EUR (in thsds.)	Of which not impaired and past due within the following time bands: Less than 90 days EUR (in thsds.)	91 to 180 days EUR (in thsds.)	181 to 360 days EUR (in thsds.)	More than 360 days EUR (in thsds.)
Trade receivables	14,976	12,398	2,572	6	0	0
Receivables from customer-specific construction contracts	431	431	0	0	0	0
	15,407	**12,829**	**2,572**	**6**	**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.)
2016	294	38	0	39	295
2015	191	6	0	109	294

9. RECEIVABLES AND PAYABLES FROM CUSTOMER-SPECIFIC CONSTRUCTION CONTRACTS

	Dec. 31, 2016 EUR (in thsds.)	Dec. 31, 2015 EUR (in thsds.)
Receivables from customer-specific construction contracts	848	431
Payables from customer-specific construction contracts	1,027	617
Net amount	**–179**	**–186**

10. OTHER CURRENT ASSETS

	Dec. 31, 2016 EUR (in thsds.)	Dec. 31, 2015 EUR (in thsds.)
Receivables from employees	13	18
Other financial receivables	81	137
Prepaid expenses/prepayments	317	435
Advances paid	44	20
Other assets	257	205
	712	**815**

11. CURRENT INCOME TAX ASSETS

The current income tax assets concern corporation tax receivables amounting to EUR 626 thousand (previous year: EUR 504 thousand). The Group's taxes are described in detail in section D 9.

12. CURRENT FINANCIAL ASSETS, CASH AND CASH EQUIVALENTS

	Dec. 31, 2016 EUR (in thsds.)	Dec. 31, 2015 EUR (in thsds.)
Cash and cash equivalents	**10,867**	**9,186**

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.

The current financial assets amounting to EUR 0 thousand (previous year: EUR 124 thousand) in the previous year included a supplier loan for the procurement of materials in connection with a construction contract.

13. EQUITY

Subscribed Capital
As of the balance sheet date, the fully paid-in share capital of the Company was EUR 6,959,438.00 (previous year: EUR 6,959 thousand). It is divided into 6,959,438 (previous year: 6,959,438) no-par-value bearer shares. An average of 6,959,438 shares were outstanding in the reporting year. 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 3,479,719.00 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, 2016, was EUR 3,479,719.00 (previous year: EUR 3,479,719.00).

Profits for the year eligible for distribution were determined based on the net retained profits of Softing AG pursuant to the German Commercial Code.

Contingent Capital

The share capital is increased by up to EUR 3,221,256.00 by issuing up to 3,221,256 new no-par bearer shares against contributions in cash and/or in kind (Contingent Capital 2013). The contingent capital increase will serve the granting of option rights or obligations to the holders of warrants arising from bonds with warrants under the terms of the respective options or the granting of conversion rights or obligations to the holders of convertible bonds under the terms of the respective convertible bonds issued by the Company up to May 6, 2018 in accordance with the resolution of the General Shareholders' Meeting on May 7, 2013. The new shares will be issued at the respective option or conversion price to be determined in accordance with the above-mentioned authorization resolution. The contingent capital increase will be implemented only in the event that bonds with warrants or convertible bonds are issued and only to the extent that the holders of the bonds with warrants or the convertible bonds make use of their option or conversion right or the holders of bonds obligated to convert or to exercise the option fulfill this obligation and the contingent capital is needed in accordance with the terms and conditions of the bond with warrants or the convertible bond. The new shares issued on the basis of the exercise of the option or conversion right or the fulfillment of the conversion or option obligation have a share in the profit from the beginning of the financial year in which they arise. The Executive Board is authorized, with the approval of the Supervisory Board, to stipulate the further details of the implementation of the contingent capital increase. Said authority was not exercised to date.

Capital Reserves

The capital reserves contain the premium on the issue of shares less transaction costs.

Retained Earnings

Retained earnings include the accumulated, undistributed profits of the companies included in the consolidated financial statements.

Retained earnings also include the differences from the currency translation 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 –17 thousand (previous year: EUR –30 thousand) concern other shareholders in Austria.

Treasury Shares

No treasury share transactions took place in 2016; the sale of treasury shares in 2015 resulted in a profit of EUR 855 thousand, which is shown in retained earnings.

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" 2016/2015.

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 2,887 thousand (previous year: EUR 2,777 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 –1,358 thousand as of December 31, 2016 (previous year: EUR –1,072 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 106.9 points to 107.4 points on average between 2015 and 2016.

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

Basis of calculation	Dec. 31, 2016 %	Dec. 31, 2015 %
Assumed interest rate	1.6	2.15
Salary trend	0.0	0.0
Expected rate of pension increase	1.10	1.10
Anticipated employee turnover rate	0.0	0.0
Biometric basis of calculation		**Mortality Tables 2005 G / Prof. Dr. Heubeck**

Development of the obligation	2016 EUR (in thsds.)	2015 EUR (in thsds.)
DBO as of January 1	4,638	4,836
Service cost	125	125
Interest expense	98	95
Pension payments to pensioners	–168	–168
Expected DBO as of December 31	**4,693**	**4,888**
actual DBO as of December 31	5,124	4,638
Remeasurements, of which	432	–250
Effects from adjusting the assumed interest rate	408	–114
Effects from changes in trend assumptions	0	–134
Effects from experience adjustments	23	–2

The average remaining life of the obligation is 15.5 years (previous year: 16.5 years).

Calculation of annual income and annual expense	2016 EUR (in thsds.)	2015 EUR (in thsds.)
Interest income	60	54
Interest expense	98	95
Service cost	125	125
Annual expense	**163**	**166**

Development of plan assets	2016 EUR (in thsds.)	2015 EUR (in thsds.)
Plan assets as of January 1	2,777	2,675
Payment from plan assets	–93	–94
Payments into the employer's plan assets	107	107
Interest earned from plan assets	60	54
Adjustment of plan assets	35	35
Plan assets as of December 31	**2,887**	**2,777**

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 2017 (previous year: EUR 107 thousand).

Reconciliation with the statement of financial position	Dec. 31, 2016 EUR (in thsds.)	Dec. 31, 2015 EUR (in thsds.)
Present value of the defined benefit obligations (DBO)	5,124	4,638
Fair value of the external plan assets	2,887	2,777
Provision	**2,237**	**1,860**

Development of the provision	2016 EUR (in thsds.)	2015 EUR (in thsds.)
Provision as of January 1	1,860	2,161
Service cost	125	125
Net interest expense/income	38	40
Actuarial remeasurements, of which	432	–250
Effects from adjusting the assumed interest rate	408	–114
Effects from changes in trend assumptions	0	–134
Effects from experience adjustments	24	–2
Adjustment of plan assets	–35	–35
Payments made	–74	–74
Payments into plan assets	–107	–107
Provisions as of December 31	**2,237**	**1,860**

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 Auswirkung einer Änderung des Zinsänderung auf DBO 2016	0.25 %	0.25 %
	+4.3 %	–4.1 %
Relative Auswirkung einer Änderung des Zinsänderung auf DBO 2015	0.25 %	0.25 %
	+4.2 %	–3.9 %

	Effect on the obligation	
	Change in the assumption –	Change in the assumption +
Relative effect of a change in the pension trend on DBO 2016	0.25 %	0.25 %
	–1.6 %	1.7 %
Relative effect of a change in the pension trend on DBO 2015	0.25 %	0.25 %
	–1.7 %	+1.8 %

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 46 thousand (previous year: EUR 60 thousand) are expected for the 2017 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 6,477 thousand (previous year: EUR 7,288 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 both of these conditions. Longer-range planning also does not indicate any deterioration that would affect the financial covenants.

As agreed, the variable portions of the purchase price for OLDI fell within a range from EUR 0 thousand to EUR 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 period under review, the fair value was determined to be EUR 4,269 thousand (previous year: EUR 8,267 thousand) and is based on the final revenue and EBIT in the underlying contractual agreements. EUR 4,067 thousand was reversed on the basis of this determination. Since payment of the remaining variable portion of the purchase price of OLDI is due in 2017, the liability was reported in current financial liabilities.

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

The trade payables of EUR 4,856 thousand (previous year: EUR 5,698 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 1,027 thousand (previous year: EUR 617 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, 2016 EUR (in thsds.)	Use EUR (in thsds.)	Reversal EUR (in thsds.)	Addition EUR (in thsds.)	As of Dec. 31, 2016 EUR (in thsds.)
Warranties	142	124	18	147	147
Other	541	90	311	0	140
Total	**683**	**214**	**329**	**147**	**287**

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 2,166 thousand (previous year: EUR 1,529 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 1,241 thousand), the current portion of a loan granted to a former shareholder (EUR 354 thousand), a loan of Softing IT Networks GmbH (EUR 66 thousand) and a short-term utilization of a bank line (EUR 1,000 thousand) as of the reporting date amounts to EUR 2,660 thousand (previous year: EUR 1,737 thousand) and is due for repayment or prolongation.

20. CURRENT NON-FINANCIAL LIABILITIES

	Dec. 31, 2016 EUR (in thsds.)	Dec. 31, 2015 EUR (in thsds.)
Liabilities related to social security	346	323
Other tax liabilities primarily (sales and wage tax)	1,286	1,355
Deferred income	1,284	2,341
Other	49	183
	2,965	**4,202**

21. CURRENT FINANCIAL LIABILITIES

	Dec. 31, 2016 EUR (in thsds.)	Dec. 31, 2015 EUR (in thsds.)
Wages and salaries payable	3,158	2,194
Current variable purchase prices from acquisitions	4,269	1,400
Other	184	193
	7,611	**3,787**

D. NOTES TO THE CONSOLIDATED INCOME STATEMENT

1. REVENUE

Revenue by regions:	2016 EUR (in thsds.)	2015 EUR (in thsds.)
Germany	30,586	32,386
USA	26,838	27,928
Other countries	23,001	21,992
	80,424	**82,306**

Revenue by products and services:	2016 EUR (in thsds.)	2015 EUR (in thsds.)
Products	71,305	67,911
Services	9,120	14,395
	80,424	**82,306**

Revenue includes a change of EUR 65 thousand (previous year: EUR –243 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 6,144 thousand (previous year: EUR 7,366 thousand).

In 2016, two customers exceeded the revenue threshold of 10% of Group revenue, at 12% and 13%, respectively. In 2015, two customers exceeded the revenue threshold of 10% of Group revenue, at 12% and 16%, 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:	2016 EUR (in thsds.)	2015 EUR (in thsds.)
Reversal of provisions	0	16
Income from exchange differences	355	236
Revenue from the reduction of valuation allowances	38	6
Insurance compensation payment	661	2,271
Sales commission	28	38
Income from receivables written off	15	0
Recharged costs	17	31
Income from the reduction of the variable purchase price	4,067	130
Other income	157	109
	5,338	**2,837**

4. COST OF MATERIALS

	2016 EUR (in thsds.)	2015 EUR (in thsds.)
Purchase of components and products	30,160	30,360
Third-party services	1,193	1,519
	31,353	**31,879**

5. STAFF COSTS

	2016 EUR (in thsds.)	2015 EUR (in thsds.)
Current salaries	27,245	25,958
Social security and retirement benefit costs	4,714	4,525
Profit-sharing, royalties	2,947	2,800
Use of company cars by employees	3	3
Other temporary workers	213	268
	35,122	**33,554**

The statutory pension scheme in Germany is treated as a defined contribution scheme. Expenses recognized for the statutory pension scheme total EUR 1,473 thousand (previous year: EUR 1,477 thousand).

6. DEPRECIATION AND AMORTIZATION

Depreciation and amortization are listed in detail in the statement of changes in assets (appendix to the notes to the consolidated financial statements). No impairment losses were recognized in 2016. Impairment losses of EUR 37 thousand were recognized in 2015 for the fire damage at the Softing Messen und Testen GmbH subsidiary. No reversals of impairment losses were recognized in the past year.

7. OTHER OPERATING EXPENSES

The other operating expenses are as follows:	2016 EUR (in thsds.)	2015 EUR (in thsds.)
Employee-related costs	339	395
Infrastructure costs	2,777	2,599
Distribution costs	3,351	3,744
Consulting costs	906	884
Third-party services	775	735
Capital market costs	402	380
Contributions and fees	113	140
Operating costs	668	690
Other costs, fire-related	28	1,021
Exchange differences	205	823
Other product development expenses	1,344	499
Other costs	630	332
	11,538	**11,742**

8. INTEREST INCOME/INTEREST EXPENSE

The financial result comprises interest income and interest expense.

The interest expense breaks down as follows:	2016 EUR (in thsds.)	2015 EUR (in thsds.)
Interest from unwinding of discounts on provisions	98	95
Interest on loans	137	209
Other interest	13	19
	248	**323**

Interest income comprises the following items:	2016 EUR (in thsds.)	2015 EUR (in thsds.)
Interest income from pension provisions	60	54
Other interest	3	4
	63	**58**

9. INCOME TAXES

The income tax expense breaks down as follows:	2016 EUR (in thsds.)	2015 EUR (in thsds.)
Deferred taxes on temporary differences	–302	89
Deferred taxes on tax loss carryforwards	310	–809
	8	–720
Tax expense financial year	1,255	1,365
Tax expense from previous years	–1	84
Tax expense	1,254	1,448
	1,262	**728**
Effective tax rate	18.09 %	13.99 %

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:

	2016 %	2015 %
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 loss carryforwards in the amount of EUR 3,974 thousand (previous year: EUR 5,229 thousand), EUR 3,532 thousand (previous year: EUR 4,936 thousand) was recognized on deferred tax assets.

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

	Dec. 31, 2016 EUR (in thsds.)	Dec. 31, 2015 EUR (in thsds.)	Usable until
Buxbaum Automation GmbH	258	293	Unlimited
Softing Singapore (formerly Psiber Data Pte. Ltd.)	2,940	4,185	Unlimited
Softing North America Holding	562	751	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.

	2016 EUR (in thsds.)	2015 EUR (in thsds.)
Earnings before taxes	6,976	5,207
Anticipated tax expense (28.08 %)	1,959	1,462
Tax additions and deductions	131	178
Different tax rates	279	–415
Deferred taxes, temporary differences, loss carryforwards	–894	–611
Taxes, previous years	–161	84
Other	–52	30
Current tax expense shown in the income statement	**1,262**	**728**

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

	2016 EUR (in thsds.)		2015 EUR (in thsds.)	
	Assets	Liabilities	Assets	Liabilities
Intangible assets	102	3,599	39	3,218
Pension provision	671		549	
(Of which recognized directly in equity)	(530)		(418)	
Currency translation (recognized directly in equity)		1,248		1,077
Trade receivables	1,122	12	562	28
Other provisions	277		262	
Current assets				
Deferred income	36		17	
Future tax benefits from loss carryforwards	656		966	
Gross amount/carrying amount	2,864	4,859	2,395	4,323

E. OTHER DISCLOSURES

1. SEGMENT REPORTING

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

Segmentation	Industrial Automation		Automotive Electronics		Holding, other consolidation		Total	
	2016 EUR (in thsds.)	2015 EUR (in thsds.)	2016 EUR (in thsds.)	2015 EUR (in thsds.)	2016 EUR (in thsds.)	2015 EUR (in thsds.)	2016 EUR (in thsds.)	2015 EUR (in thsds.)
External sales	57,590	58,663	22,834	23,643			80,424	82,306
Depreciation/ amortization	3,450	3,764	1,322	1,221	328	297	5,100	5,282
Segment result (operating EBIT)	6,000	4,863	698	2,249			6,698	7,112
Segment result (EBIT)	4,172	2,210	2,990	3,262			7,162	5,472
Segment assets	59,303	59,229	18,616	16,297	4,969	6,948	82,888	82,475
Segment liabilities	13,638	17,278	5,640	6,428	16,043	15,352	35,321	39,058
Capital expenditure	1,814	1,254	4,338	2,596	393	591	6,545	4,441

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 7,162 thousand; previous year: EUR 5,472 thousand), adjusted for capitalized development costs of EUR 4,512 thousand (previous year: EUR 2,786 thousand) and their amortization of EUR 2,699 thousand (previous year: EUR 2,981 thousand); depreciation and amortization from purchase price allocation of EUR 1,248 thousand (previous year: EUR 1,245 thousand); and staff costs of EUR 100 thousand (previous year: EUR 200 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	
	2016 EUR (in thsds.)	2015 EUR (in thsds.)	2016 EUR (in thsds.)	2015 EUR (in thsds.)	2016 EUR (in thsds.)	2015 EUR (in thsds.)
Germany	30,586	32,386	22,162	20,876	6,271	4,187
USA	26,837	27,928	26,589	23,634	119	62
Other countries	23,001	21,992	263	221	155	192
Total	**80,424**	**82,306**	**46,014**	**44,731**	**6,545**	**4,441**

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

		2016	2015
Consolidated profit	EUR (in thsds.)	5,715	4,479
Minority interest	EUR (in thsds.)	13	2
Basic earnings (= diluted earnings)	**EUR (in thsds.)**	**5,702**	**4,477**
Weighted average number of shares			
Basic	Number	6,959,438	6,599,746
Diluted	Number	6,959,438	6,599,746
Basic earnings per share	EUR	0.82	0.65
Diluted earnings per share	EUR	0.82	0.65

The change in the number of shares outstanding in 2015, which resulted from the sale of treasury shares, was calculated on a pro-rated basis (to the day).

No options rights exist as of December 31, 2016, 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 112,716 shares in Softing AG as of December 31, 2016 (previous year: 91,000).

The Executive Board member Ernst Homolka held 1,800 shares in Softing AG as of December 31, 2016 (previous year: 1,300 shares).

The Supervisory Board member, Dr. Klaus Fuchs, held 278,820 shares in Softing AG as of December 31, 2016 (previous year: 278,820).

The Supervisory Board member, Andreas Kratzer, held 10,155 shares in Softing AG as of December 31, 2016 (previous year: 10,155).

6. CONTINGENT LIABILITIES

As of the balance sheet date, Softing AG has provided EUR 11,712 thousand (previous year: EUR 11,684 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 2,995 thousand under long-term contracts (previous year: EUR 3,735 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:

	2016 EUR (in thsds.)	2015 EUR (in thsds.)
< 1 year	1,453	1,439
1–5 years	2,696	3,522
> 5 years	0	0
Total	**4,149**	**4,961**

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, 2016, for which IFRS 7 is not applicable.

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	10,867	10,867		10,867
Non-current financial liabilities				
Long-term borrowings	6,595	6,596	5,941	5,941
Current financial liabilities				
Trade payables	4,840	4,840		4,840
Short-term borrowings	2,660	2,660	2,722	2,722
Current financial liabilities	3,443	3,443		3,443

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	14,976	14,976		14,976
Receivables from customer-specific construction contracts	431	431		431
Other current financial assets				
Other financial receivables	124	124		124
Cash and cash equivalents	9,186	9,186		9,186
Non-current financial liabilities				
Long-term borrowings	7,480	7,480	6,889	6,889
Current financial liabilities				
Trade payables	5,698	5,698		5,698
Short-term borrowings	1,737	1,737	1714	1,714
Current financial liabilities	3,787	3,787		3,787

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, 2016, and December 31, 2015.

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 57% (previous year: 51%).

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, 2016, and December 31, 2015, 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, 2016, totaled EUR 295 thousand (previous year: EUR 294 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 10,867 thousand (previous year: EUR 9,186 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 9,256 thousand (previous year: EUR 9,190 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 40 thousand (previous year: EUR 40 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 (in thsds.)/USD			USD			
Closing rate: USD 1.05			1.16 +10%	0.95 −10%	Difference	Difference
Financial assets/liabilities	**USD**	**USD in EUR**			**+10 %**	**−10 %**
Trade receivables	3,569	3,385	3,078	3,762	−308	376
Receivables from affiliated companies	3,311	3,141	2,855	3,490	−286	349
Other current assets	148	140	127	156	−13	16
Cash and cash equivalents	5,854	5,554	5,049	6,171	−505	617
Non-current liabilities to affiliated companies	−21,457	−20,356	−18,506	−22,618	1,851	−2,262
Current liabilities to affiliated companies	−6,752	−6,406	−5,823	−7,117	582	−712
Total	**−15,327**	**14,542**			**1,322**	**−1,616**

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

Liquidity Risk

Liquidity risk is the risk that the Group might not have adequate funds to fulfill its payment obligations.

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

The Group possesses sufficient liquidity and unused credit lines in the amount of EUR 6,000 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 10,867 thousand (previous year: EUR 9,186 thousand), accounting for 13.0% (previous year: 11.1%) of the Group's total assets.

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

Dec. 31, 2016 EUR (in thsds.)	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		

Dec. 31, 2015 EUR (in thsds.)	Up to 1 year	2 – 5 years	More than 5 years
Non-current financial liabilities			
Long-term borrowings		7,480	
Current financial liabilities			
Trade payables	5,698		
Short-term borrowings	1,737		

10. PERSONNEL

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

	2016	2015
As of the balance sheet date	435	435
Annual average	430	429
Marketing & Sales	116	113
Research & Development	265	264
Administration & General	39	39
Management	10	13

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

Remuneration of the Executive Board amounted to EUR 2,513 thousand (previous year: EUR 1,533 thousand). Of this amount, fixed remuneration accounts for about one third and variable remuneration for two thirds. In accordance with the resolution adopted by the General Shareholders' Meeting on May 9, 2012, the remuneration of individual members of the Executive Board is not disclosed. All remuneration paid to the Executive Board members is of a current nature. Furthermore, service cost of EUR 125 thousand (previous year: EUR 125 thousand) was recognized.

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, 2016 totaled EUR 3,060 thousand (previous year: EUR 2,983 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 2016 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:
Accu Holding AG, Emmen, Switzerland (Board of Directors)
Oerlikon Stationär Batterien AG, Emmen, Switzerland (Board of Directors)
RCT Hydraulic-Tooling AG, Klus, Switzerland (Board of Directors)
SIAT-Swiss Investment & Trade Group AG, Buchs, Switzerland (Board of Directors)
Apollo Consulting & Trading AG, Zollikon, Switzerland (Board of Directors)
Mobil Power AG, Zurich, Switzerland (Board of Directors)
Bubo-Immobilien AG, Zurich, Switzerland (Board of Directors)
Lysys AG Baar, Switzerland (Board of Directors)
Immoselect AG, Baar, Switzerland (Board of Directors)
DGG International 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 147 thousand (previous year: EUR 120 thousand) for providing consulting services in connection with the integration of Softing IT Networks.

Compensation for the members of the Supervisory Board in the reporting period totaled EUR 200 thousand (previous year: EUR 182 thousand) and is comprised as follows:

EUR (in thsds.)	Fixed		Variable		Total	
	2016	2015	2016	2015	2016	2015
Dr. Horst Schiessl (Chairman)	20	20	69	61	89	81
Dr. Klaus Fuchs	15	15	52	46	67	61
Andreas Kratzer	10	10	34	30	44	40

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:

	2016 EUR (in thsds.)	2015 EUR (in thsds.)
Audit of annual financial statements	110	105
Other services	9	5
	119	**110**

14. EVENTS AFTER THE REPORTING PERIOD

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

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

The Declaration of Compliance pursuant to Section 161 German Stock Corporation Act was issued by the Executive Board and the Supervisory Board of Softing AG and has been made permanently available to shareholders on the Internet at www.softing.com.

Haar, Germany, March 16, 2017

Softing AG

The Executive Board

Dr. Wolfgang Trier

Ernst Homolka

Auditors' Opinion

We have audited the consolidated financial statements – comprising the consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated cash flow statement and the consolidated notes – as well as the Group management report of Softing AG, which has been combined with the Company's management report, for the financial year from January 1 to December 31, 2016. The preparation of the consolidated financial statements and the combined management report in accordance with IFRSs as applicable in the EU and the supplementary provisions that are applicable under Section 315a para 1 German Commercial Code (HGB) are the responsibility of the Company's Executive Board. Our responsibility is to express an opinion, based on our audit, on the consolidated financial statements and on the combined management report.

We conducted our audit of the consolidated financial statements in accordance with Section 317 German Commercial Code and the German standards for the proper audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in the consolidated financial statements, the determination of the companies to be included in the consolidated financial statements, the accounting and consolidation principles used and significant estimates made by the Executive Board as well as evaluating the overall presentation of the consolidated financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any objections.

In our opinion, which is based on the findings of the audit, the consolidated financial statements are in compliance with IFRS as applicable in the EU and with the supplementary provisions applicable under Section 315a para 1 German Commercial Code, and in accordance with these provisions give a true and fair view of the net assets, financial position and results of the operations of the Group. The combined management report is consistent with the consolidated financial statements, complies with legal requirements, as a whole provides a suitable understanding of the Group's position and suitably presents the opportunities and risks of future development.

Munich, Germany, March 16, 2017

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Stefano Mulas	ppa. Christoph Tübbing
Wirtschaftsprüfer	Wirtschaftsprüfer

Report of the Supervisory Board

for Financial Year 2016

The Supervisory Board of Softing AG carried out its duties as provided by law and the Company's Articles of Incorporation in financial year 2016. 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 4 Supervisory Board meetings were held in the 2016 financial year:
on March 17, May 4, September 28 and December 21.

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 17, 2016, the Supervisory Board dealt with the Company's performance in the 2015 financial year and with risks related, for example, to defaults among key suppliers and customers. 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, 2015, 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 2016 General Shareholders' Meeting.

In the Supervisory Board meeting on May 4, 2016 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. Furthermore, Dr. Fuchs reported on the status quo at Softing Singapore Pte. Ltd., and the Executive Board presented the risk report as of March 31, 2016.

On September 28, 2016, 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 Executive Board presented possible avenues for integrating the operating business of samtec in the Automotive segment. The possibility of future acquisitions was also discussed.

At the Supervisory Board meeting held on December 21, 2016, the Executive Board presented to the Supervisory Board a first estimate of the 2016 annual results, its business plan for 2017 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 Executive Board presented the half-yearly risk report as of September 30, 2016, and the annual review of the remuneration system took place.

All members of the Supervisory Board attended all Supervisory Board meetings in 2016. 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 2016 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, 2016, 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 16, 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 2016 at its meeting on March 16, 2017. 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 excellent work in the past financial year.

Haar, Germany, March 16, 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 2016 financial year, taking into account the exceptions and comments listed below. The Executive Board and Supervisory Board issued the Declaration of Compliance in December 2016. Below, the Executive Board and the Supervisory Board disclose and explain any deviations from the Code. You can download the full text of the Code from the Investor Relations section of our website at www.softing.com.

1. Softing AG (hereinafter: the Company) will comply with the recommendations of the German Corporate Governance Code, as amended on May 5, 2015, 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. Severance payment cap (Section 4.2.3 para 4 and para 5 of the Code)
There are no plans to establish a severance payment cap. In the Supervisory Board's view, however, the extant provisions in the director's contracts of the Executive Board members comply with the adequacy requirements such that it does not see any need to amend them. Stipulating a severance payment cap also contradicts the fundamental principle that director's contracts are generally closed for the term of the appointment and cannot be terminated, in principle, except for cause. Early termination of a director's contract absent cause requires that it be mutually rescinded by the parties thereto. Even if a severance payment cap were stipulated, any such stipulation would not preclude including the severance payment cap in the negotiations at the time the given Executive Board member steps down.

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 gender, orientation, or race, but instead to rely on personality and expertise.

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 (section 5.4.1 para 2 and 3 of the Code).
The Company's Supervisory Board will not specify any concrete objectives regarding its composition. Up to now, the Supervisory Board has exclusively based its proposals for the nomination of Supervisory Board members on the suitability of the male and female candidates with the aim of creating a Supervisory Board whose members as a group possess the knowledge, skills and professional experience required to properly complete its tasks. The Supervisory Board firmly believes that this approach works, which is why it does not see any need to change this practice. In particular, the Company does not intend to implement the recommendation to set a regular limit of length of membership introduced with the new version of the Code as amended on May 5, 2015, 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, the recommendations in Section 5.4.1 para 3 can not be followed.

j. Independence of Supervisory Board members (Section 5.4.2 of the Code)
   The Supervisory Board believes that all current members of the Supervisory Board are independent in terms of the criteria mentioned in the German Corporate Governance Code. Nevertheless, the Company does not believe that it would make sense to introduce restrictions for the future by determining a number of dependent or independent members.
k. Elections to the Supervisory Board are not carried out on an individual basis. The court appointment of Supervisory Board members is not limited in time until the next General Shareholders' Meeting (Section 5.4.3 of the Code).
   The Company reserves the right to elect the Supervisory Board en bloc. The Company does not believe that time limits are appropriate when it is absolutely necessary to fill or refill positions on the Supervisory Board.
l. Performance-related compensation shall be oriented toward sustainable growth of the enterprise (Section 5.4.6 para 2 sent. 2 of the Code)
   In addition to fixed remuneration, the members of the Supervisory Board also receive performance-related remuneration based on consolidated EBIT before taking into account the Supervisory Board's variable remuneration. The Company's Articles of Incorporation thus do not expressly require orientation toward sustainable growth of the enterprise. The Company continues to believe that basing performance-related remuneration on consolidated EBIT of the respective financial year is a sensible approach. Consolidated EBIT is a key performance indicator. Furthermore, no generally accepted model for basing the compensation of Supervisory Board members on a company's sustainable development has established itself in the capital markets to date. For the time being, the Company will continue to monitor the situation.
m. 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 all relevant business transactions.

2. Since the publication of its most recent Declaration of Compliance in December 2014, Softing AG has generally been in compliance with the recommendations contained in the German Corporate Governance Code as amended on May 5, 2015. 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 4.2.2 para 2 sentence 3; Section 4.2.3 paras 4 and 5; Section 5.1.2 para 1 sentence 2; Section 5.3.1; Section 5.3.2; Section 5.3.3; Section 5.1.2 para 2 sentence 3; Section 5.4.1 paras 2 and 3; Section 5.4.2; Section 5.4.3; Section 5.4.6 para 2 sentence 2; and Section 7.1.2 sentence 2.

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

Remuneration for the active members of the Supervisory Board in the 2016 financial year is presented in the notes of the 2016 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, 2016 Number	Dec. 31, 2016 Number	Sep. 30, 2016 Number	Dec. 31, 2016 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	112,716	112,716	–	–
Ernst Homolka, München	1,300	1,800	–	–

FINANCIAL CALENDAR

March 23, 2017	Annual Report 2016
May 02, 2017	Interim Management Statement Q1/2017
May 03, 2017	General Shareholders' Meeting 2017
August 14, 2017	Half-yearly Report 2017
November 02, 2017	Interim Management Statement Q3/2017

Softing AG
Richard-Reitzner-Allee 6
85540 Haar/Germany

Tel. +49 89 4 56 56-0
Fax +49 89 4 56 56-399
investorrelations@softing.com
www.softing.com