Half-Yearly Report 2017

optimize!
softing

Consolidated Key Figures

		Q2 2017	Q2 2016	Half-yearly report 2017	Half-yearly report 2016
Incoming orders	(EUR million)	17.8	21.9	39.5	39.6
Revenue	(EUR million)	19.6	20.4	39.4	38.3
EBITDA (IFRS)	(EUR million)	1.6	2.0	3.1	3.9
EBIT (IFRS)	(EUR million)	0.6	0.8	1.0	1.5
EBIT (operating)	(EUR million)	0.0	0.8	0.4	1.7
Consolidated profit (IFRS)	(EUR million)	0.3	0.4	0.6	0.9
Earnings per share (IFRS)	(EUR)	0.05	0.06	0.09	0.12
Non-current assets	(EUR million)			47.2	46.8
Current assets	(EUR million)			34.4	31.2
Equity	(EUR million)			52.6	41.8
Equity ratio				64 %	53 %
Cash and cash equivalents	(EUR million)			11.2	6.4
Number of employees (as of June 30)				415	428

Letter from the CEO

DEAR SHAREHOLDERS, EMPLOYEES, PARTNERS AND FRIENDS OF SOFTING AG,

As expected, the trend we saw in the first quarter has continued unabated. The Industrial segment, including IT Networks, again saw strong growth in the first half of the year, with EBIT increasing by more than EUR 2.5 million. In the Automotive segment, the continuing delays resulted in decreased revenue and EBIT. However, the outlook for the second half is brighter, and new product development is now progressing on schedule, which is encouraging. These trends in the segments are still balancing each other out currently. The extent of the upside potential will become clear in the second half-year when the core products are completed, leading Automotive costs to gradually decline, while sales ramp up. As usual, we have provided a summary of the Group's financials for you inside the cover.

Revenue in the Industrial segment grew organically by nearly 20% to EUR 30.7 million (previous year: EUR 25.9 million). EBIT in this segment rose to EUR 1.7 million (previous year: EUR –1.1 million). The segment is therefore solidifying its successful turnaround. The share contributed by IT Networks in particular will increase considerably in the dominant fourth quarter.

In the second quarter, strong demand from factory automation customers in the Industrial segment continued. The highest growth rates and individual contributions were from our US companies Online Development Inc. and Softing Inc. Both posted substantial growth in all aspects of their business. The contribution made by the oil and gas sector in the United States, which increased notably, was also gratifying. In Europe, the product business indicates growing demand for our products, particularly in the field of data integration, driven by factors including a successful partnership with Microsoft. This business based on multi-year service contracts also boosts the share of foreseeable recurring service revenue. The rising demand for high-quality products in the process industry in the EMEA region and our subsidiary Softing Italia's robust performance are also very encouraging developments. The outlook for the second half of the year continues to be positive in all regions.

Softing IT Networks, which is still included in the Industrial segment in our financial reporting, was also able to increase its contributions to revenue and earnings in the second quarter. This is particularly true of the high-margin Softing made products whose functionality was increased considerably and usability was further improved. We are now also reaping the rewards of systematic marketing and sales activities. Since the start of the year, our websites have been expanded and their quality improved substantially. In addition, our Academy provides customers with seminars and white papers, giving them access to the depth of expertise possessed by our IT specialists. In this regard, growth was particularly high in North America, where revenue generated by IT Networks products is expected to double year over year. In all regions, we are currently expanding our range of multi-year service contracts, which is meeting with positive feedback from the market.

The Automotive segment remains our weak point in terms of revenue and earnings quality in the second quarter, which was predictable in view of the situation. This will not change notably until the third and particularly the fourth quarter. Specifically, external sales only totaled EUR 8.7 million in

the first half of the year (previous year: EUR 12.4 million). EBIT amounted to EUR –0.7 million (previous year: EUR +2.6 million).

Although these figures are painful, Automotive has long since passed its low point. Product development has been on schedule for months now. We were able to stabilize critical projects for customers and even book our first new orders for the products that will be ready in fall. Moreover, we are involved in strategic development in the production operations of a major German corporation with the prospect of installing these products in all of its plants in the coming years. CAR ASYST, our diagnostic app with unbeatable features for repair shops, is experiencing healthy growth in orders. Another manufacturer intends to test a similar solution, initially as a prototype. Due to our product's performance data, the chances for landing a second major customer are good. All of these opportunities point to a promising revenue pipeline for 2018 and beyond.

This app and a restructuring of licensing models for our software solutions will boost the share of revenue produced by software in the coming years. A growing share will be accounted for by recurring service revenue from multi-year contracts. Currently, we are negotiating a deal with a major customer involving several millions of euros in software revenue, a large portion of which is expected in the fourth quarter of this year. The upswing should then also be reflected in our financials.

In early June, Softing completed a highly successful 10% cash capital increase following a roadshow for institutional investors in London, Paris, Frankfurt, Hamburg, Helsinki and Milan. The funds will serve to secure the development budget for the next three years and expand the opportunities for acquisitions. Softing is currently in talks with several companies, but we are unable to provide more specific information at this time. In the course of the year, we will participate in at least two more investor relations events, including the German Equity Forum in Frankfurt.

Our revenue and EBIT expectations for the year as a whole remain unchanged. Reaching these targets will again depend heavily on performance in the fourth quarter. As planned, costs in the Automotive segment will decrease by the end of the year, whereas revenue generated by new products will increase incrementally. A sharp upturn in earnings from software licenses and development fees is anticipated in the fourth quarter. Our aim is to focus the Company's strategy on the service business. Combined with a broad customer base, we anticipate reliable, foreseeable revenue and earnings performance that is more even across quarters.

Dear Softing Shareholders and Friends, as in the first quarter, our results of operations still do not meet our expectations. But the stabilization of growth in the Industrial segment and developments in Automotive indicate that we are on the right track and can quickly return to target profitability.

Sincerely Yours,

Dr. Wolfgang Trier
(Chief Executive Officer)

Softing Share

POSITIVE MOOD ON STOCK EXCHANGES IN 2016 CONTINUES TO DOMINATE IN FIRST HALF OF 2017

The Deutsche Aktienindex (DAX) started 2017 at 11,598 points and stood at 12,312 points at the end of the first quarter. In the first three months, the index therefore grew 6% and, for the first time in its history, broke through the 12,000-point barrier. By mid-June 2017, the DAX had risen to 12,889 points, or 11%, and then closed out the month at 12,325 points as of June 30 – another gain of 6% since the beginning of the year. This development was buoyed by positive German and global economic data. The initially still-weak euro was responsible for boosting German exports. With Brexit looming and the conflict between Greece and its creditors flaring up, there is still uncertainty concerning the performance of European stocks for the rest of the year.

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

During the reporting period, the average daily trading volume of Softing shares was 14,306 (Xetra and floor trading), well over the previous year's figure of 9,693 shares.

GENERAL SHAREHOLDERS' MEETING RESOLVED DIVIDEND OF EUR 0.20 PER SHARE

On May 3, 2017, the General Shareholders' Meeting of Softing AG resolved to distribute an increased dividend of EUR 0.20 (previous year: EUR 0.15) per no-par share.

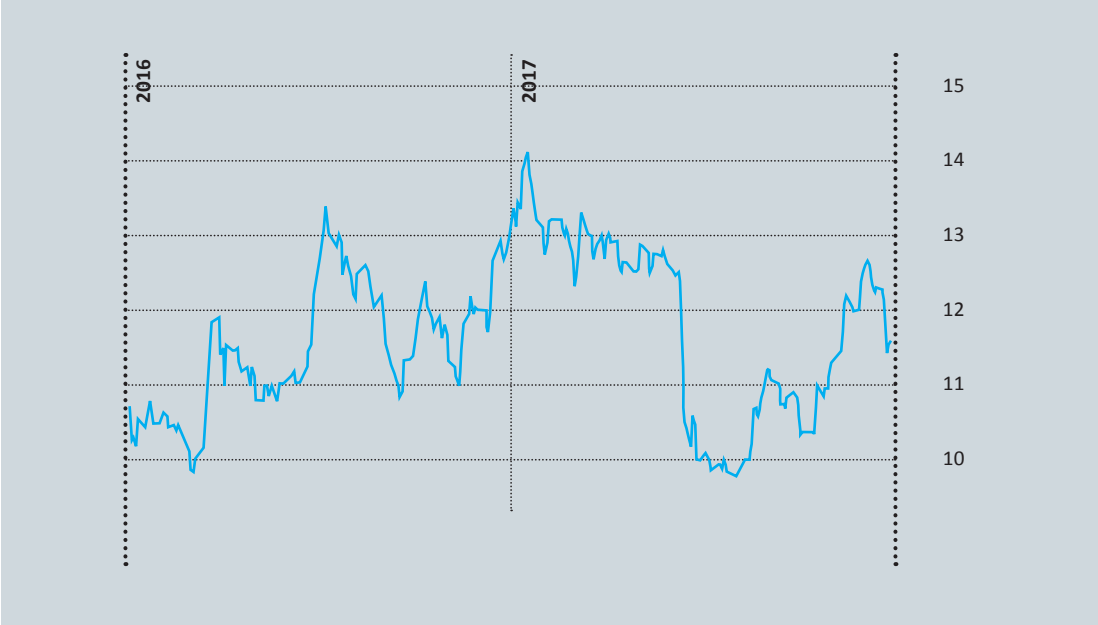
FINANCIAL CALENDAR

08/14/2017	Half-yearly financial report 2017
11/02/2017	Interim Statement Q3/2017
11/27–29/2017	German Equity Forum in Frankfurt/Main

DIRECTORS' HOLDINGS

Boards	Number of shares		Number of options	
	06/30/2017	12/31/2016	06/30/2017	12/31/2016
Supervisory Board				
Dr. Horst Schiessl (chairman), attorney at law, Munich	–	–	–	–
Dr. Klaus Fuchs (member), graduate computer scientist / 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, Munich	1,800	1,800	–	–

PRICE OF THE SOFTING SHARE FROM 07/01/2016 TO 07/02/2017 (XETRA)



Interim Group Management Report for the 2017 Half-yearly Financial Report

REPORT ON NET ASSETS, FINANCIAL POSITION AND RESULTS OF OPERATIONS

Global economic conditions in the markets most important to Softing are again giving positive signals despite an uneasy political environment.

The performance of the Industrial segment in the first six months of the year was very good in the US and in Asia, while stable market performance in Europe also contributed to the segment's healthy result.

Results in the Automotive segment continued to be marked by a high level of development expenses. Delays in development have shifted the launch of new products into the second half of 2017.

The Softing Group's consolidated revenue in the first six months of 2017 rose slightly by EUR 1.1 million, from EUR 38.3 million to EUR 39.4 million. The segments turned in a mixed performance. Whereas revenue in the Industrial segment increased by 18% in the first six months of 2017 to EUR 30.7 million (previous year: EUR 25.9 million), revenue in the Automotive segment fell from EUR 12.4 million to EUR 8.7 million.

Other operating income in the reporting period fell to EUR 0.3 million (previous year: EUR 0.9 million) due to one-off effects of insurance payments (EUR 0.6 million) in connection with the fire at Softing Messen und Testen GmbH in the previous year.

The Group's EBITDA totaled EUR 3.1 million in the first six months (previous year: EUR 3.9 million), resulting in an EBITDA margin of 8% (previous year: 10%).

EBIT in the Industrial segment was up from EUR –1.1 million to EUR 1.7 million, with operating EBIT increasing from EUR 0.1 million to EUR 2.1 million. In the Automotive segment, EBIT fell from EUR 2.6 million to EUR –0.7 million while operating EBIT declined from EUR 1.6 million to EUR –1.8 million.

The Group's operating EBIT (EBIT adjusted for capitalized development services and amortization on these as well as effects from purchase price allocation) in the reporting period totaled EUR 0.4 million (previous year: EUR 1.7 million). As describe above, the decline is due to the lower gross profit generated by the Automotive segment. EBIT amounted to EUR 1.0 million (previous year: EUR 1.5 million).

The consolidated net profit for the half-year was EUR 0.6 million compared with EUR 0.9 million in the prior-year period.

As of June 30, 2017, cash and cash equivalents rose slightly to EUR 11.2 million (December 31, 2016: EUR 10.9 million). Capital expenditure on property, plant, and equipment concerned replacements.

In May, the dividend of EUR 1.4 million was distributed (previous year: EUR 1.0 million).

The equity ratio as of June 30, 2016 rose to 64% (December 31, 2015: 57%). Based on the authorization granted by the General Shareholders' Meeting on May 6, 2015, the share capital of EUR 6,959,438 was increased by EUR 695,943 upon entry in the commercial register on June 12, 2017. This resulted in share capital of EUR 7,655,381 for Softing AG as of June 30, 2017. The cash inflow from the capital increase amounted to EUR 7.9 million.

RESEARCH AND PRODUCT DEVELOPMENT

In the first six months of 2017, Softing capitalized a total of EUR 2.2 million (previous year: EUR 1.8 million) for the development of new products and the enhancement of existing ones. The increase is mainly due to the development of a new generation of communication interfaces (VCI) and related software components in the Automotive segment. Other significant amounts were expensed.

EMPLOYEES

As of June 30, 2017, the Group had 415 employees (previous year: 428). No stock options were issued to employees in the reporting period.

OPPORTUNITIES FOR THE COMPANY'S FUTURE DEVELOPMENT

As of the reporting date of June 30, 2017, the Company's risk structure had not deviated significantly from the description in the consolidated financial statements for the year ended December 31, 2016. Material changes are also not expected for the remaining six months of 2017. For more detailed information, we refer to our Group Management Report in the 2016 Annual Report, page 7 et seq.

OUTLOOK

We confirm the Group's guidance published in the management report of the 2016 annual report (p. 22). Overall, we expect both revenue and incoming orders to grow moderately to EUR 82 million.

We anticipate EBIT of EUR 5 to 6 million; our operating EBIT is also expected to come in at EUR 5 million. At segment level, we anticipate the Industrial segment to see a strong increase and the Automotive segment to see a strong decrease in revenue, EBIT and operating EBIT for the year as a whole.

We anticipate the upturn in EBIT required for this development to come from the elimination of significant costs beginning in the third quarter and from some large orders, some of which have already been placed or are expected in the fourth quarter. These are primarily for high-margin software. In principle, this also involves a risk if the delivery dates specified by the customer were delayed into the new calendar year. However, there is currently no sign of this occurring.

EVENTS AFTER THE REPORTING PERIOD

There were no events of special importance after the reporting date of June 30, 2017.

GENERAL ACCOUNTING POLICIES

The consolidated financial statements of Softing AG as of December 31, 2016 were prepared in accordance with the International Financial Reporting Standards (IFRSs) based on the guidance of the International Accounting Standards Board (IASB) applicable at the reporting date. The condensed interim consolidated financial statements as of June 30, 2017, which were prepared on the basis of International Accounting Standard (IAS) 34 „Interim Financial Reporting", do not contain all of the required information in accordance with the requirements for the presentation of the annual report and should be read in conjunction with the consolidated financial statements of Softing AG as of December 31, 2016. In general, the same accounting policies were applied in the interim financial statements as of June 30, 2017 as in the consolidated financial statements for the 2017 financial year. This half-yearly report was prepared without an auditor's review.

CHANGE IN THE BASIS OF CONSOLIDATION

As of June 30, 2017, there was the following change in the basis of consolidation of Softing AG compared to December 31, 2016. Merger of Samtec automotive software electronics GmbH, Kirchentellinsfurt/Germany into Automotive Communications Kirchentellinsfurt GmbH, Kirchentellinsfurt/Germany.

RESPONSIBILITY STATEMENT

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

Haar, Germany, August 14, 2017
Softing AG

Dr. Wolfgang Trier
Chief Executive Officer

Ernst Homolka
Executive Board member

Consolidated Income Statement and Consolidated Statement of Comprehensive Income

from January 1 to June 30, 2017

EUR thousand	04/01/ – 06/30/2017	04/01/ – 06/30/2016	01/01/ – 06/30/2017	01/01/ – 06/30/2016
Revenue	**19,568**	**20,437**	**39,372**	**38,345**
Other own work capitalized	1,307	949	2,220	1,766
Other operating income	186	145	292	878
Operating income	**21,061**	**21,531**	**41,884**	**40,989**
Cost of materials / cost of purchased services	– 7,727	– 7,648	– 15,665	– 14,097
Staff costs	– 8,529	– 9,058	– 17,215	– 17,604
Depreciation, amortization and impairment losses	– 1,070	– 1,196	– 2,122	– 2,371
thereof depreciation / amortization due to purchase price allocation	– 314	– 306	– 638	– 619
Other operating expenses	– 3,185	– 2,819	– 5,875	– 5,398
Operating expenses	**– 20,511**	**– 20,721**	**– 40,877**	**– 39,470**
Profit / loss from operations (EBIT)	**550**	**810**	**1,008**	**1,519**
Interest expense	– 40	– 40	– 78	– 78
Earnings before income taxes	**510**	**770**	**930**	**1,441**
Income taxes	– 171	– 333	– 299	– 577
Consolidated profit	**339**	**437**	**630**	**864**
Owners of the parent	329	431	623	857
Minority interests	10	6	7	7
Consolidated profit	**339**	**437**	**630**	**864**
Earnings per share (basic = diluted)	0.05	0.06	0.09	0.12
Average number of shares outstanding (basic)	7,563,608	6,959,438	7,143,997	6,959,438
Consolidated profit	**339**	**437**	**630**	**864**
Items that will be reclassified to consolidated total comprehensive income:				
Currency translation differences				
Changes in unrealized gains / losses	– 691	599	– 1,127	– 494
Tax effect	248	– 184	325	100
Currency translation	– 443	415	– 802	– 394
Total comprehensive income for the period	**– 104**	**852**	**– 172**	**470**
Total comprehensive income for the period attributable to:				
Owners of the parent	– 114	845	– 179	463
Minority interests	10	7	7	7
Total comprehensive income for the period	**– 104**	**852**	**– 172**	**470**
Earnings per share (basic = diluted)	0.01	0.12	– 0.02	0.07
Average number of shares outstanding (basic)	7,563,608	6,959,438	7,143,997	6,959,438

Consolidated Segment Reporting

from January 1 to June 30, 2017

EUR thousand	04/01/ – 06/30/2017	04/01/ – 06/30/2016	01/01/ – 06/30/2017	01/01/ – 06/30/2016
Automotive				
External revenue	4,915	7,065	8,685	12,393
Segment result (EBIT)	263	1,464	– 667	2,633
Depreciation / amortization	247	275	494	527
Segment result (op. EBIT)	– 411	1,005	– 1,771	1,581
Segment result (EBITDA)	510	1,739	– 173	3,160
Segment assets			20,025	18,117
Segment liabilities			5,445	6,089
Capital expenditure	853	729	1,678	1,525
Industrial				
External revenue	14,653	13,372	30,687	25,952
Segment result (EBIT)	287	– 654	1,675	– 1,115
Depreciation / amortization	738	843	1,463	1,688
Segment result (op. EBIT)	446	– 174	2,132	88
Segment result (EBITDA)	1,024	189	3,138	574
Segment assets			51,729	55,705
Segment liabilities			9,467	16,522
Capital expenditure	601	86	1,041	563
Not allocated				
Depreciation / amortization	85	79	165	157
Segment result (EBITDA)	85	79	165	157
Segment assets			9,889	4,276
Segment liabilities			14,175	13,726
Capital expenditure	43	70	73	143
Total				
External revenue	19,568	20,437	39,372	38,345
Segment result (EBIT)	550	810	1,008	1,518
Depreciation / amortization	1,070	1,197	2,122	2,372
Segment result (op. EBIT)	35	831	361	1,669
Segment result (EBITDA)	1,619	2,007	3,130	3,891
Segment assets			81,643	78,098
Segment liabilities			29,087	36,337
Capital expenditure	1,497	885	2,792	2,231

	Revenue		Fixed assets		Additions to fixed assets	
EUR thousand	06/30/2017	06/30/2016	06/30/2017	06/30/2016	06/30/2017	06/30/2016
Germany	12,774	15,146	22,915	21,091	2,597	2,131
USA	15,785	12,235	21,401	22,779	68	50
Rest of the world	10,813	10,964	333	216	127	50
Total	39,372	38,345	44,649	44,086	2,792	2,231

Consolidated Statement of Cash Flows

from January 1 to June 30, 2017

EUR thousand	01/01/ – 06/30/2017	01/01/ – 06/30/2016
Cash flows from operating activities		
Profit (before tax)	930	1,441
Depreciation, amortization and impairment losses on fixed assets	2,122	2,371
Other non-cash transactions	193	189
Cash flows for the period	**3,245**	**4,001**
Interest income	78	77
Change in other provisions and accrued liabilities	– 21	– 140
Change in inventories	– 470	– 652
Change in trade receivables	1,378	2,052
Changes in financial receivables and other assets	– 654	– 426
Change in trade payables	– 214	– 2,081
Changes in financial and non-financial liabilities and other liabilities	– 1,043	– 997
Income taxes paid	– 1,427	– 128
Cash flows from operating activities	**872**	**1,706**
Investments in fixed assets	– 419	– 458
Cash paid for investments in internally generated intangible assets	– 2,220	– 1,766
Cash paid for the acquisition of subsidiaries / variable purchase prices	– 4,209	– 414
Cash flows from investing activities	**– 6,848**	**– 2,638**
Dividend payment	– 1,392	– 1,044
Cash received from short-term bank line	1,000	0
Repayment of bank loans	– 620	– 620
Cash received from capital increase	7,864	0
Interest paid	– 78	– 77
Cash flows from financing activities	**6,774**	**– 1,741**
Net change in funds	801	– 2,673
Effects of exchange rate changes on cash and cash equivalents	– 428	– 85
Cash and cash equivalents at the beginning of the period	10,869	9,186
Cash and cash equivalents at the end of the period	**11,242**	**6,428**

Consolidated Statement of Financial Position

as of June 30, 2017 and December 31, 2016

Assets

EUR thousand	06/30/2017	12/31/2016	06/30/2016
Non-current assets			
Goodwill	14,893	15,494	15,096
Intangible assets	27,513	28,262	26,754
	42,406	43,756	41,850
Property, plant and equipment	2,243	2,257	2,236
Deferred tax assets	2,564	2,864	2,772
Non-current assets, total	**47,213**	**48,877**	**46,858**
Current assets			
Inventories	9,683	9,214	9,965
Trade receivables	10,019	11,742	11,877
Receivables from customer-specific construction contracts	1,193	848	1,478
	11,212	12,590	13,355
Other current assets	612	712	935
Current income tax assets	1,680	626	467
Current financial assets	0	0	90
Cash and cash equivalents	11,243	10,869	6,428
Current assets, total	**34,430**	**34,011**	**31,240**
Total assets	**81,643**	**82,888**	**78,098**

Equity and liabilities

EUR thousand	06/30/2017	12/31/2016	06/30/2016
Equity			
Subscribed capital	7,655	6,959	6,959
Capital reserves	19,295	12,270	12,270
Retained earnings	25,631	28,355	22,554
Equity (Group share)	52,581	47,584	41,783
Minority interest	– 25	– 17	– 23
Equity, total	**52,556**	**47,567**	**41,760**
Non-current liabilities			
Pensions and similar obligations	2,137	2,237	1,760
Long-term borrowings	5,374	6,596	6,823
Other non-current liabilities	50	57	8,157
Deferred taxes	4,850	4,859	4,292
Non-current liabilities, total	**12,411**	**13,749**	**21,032**
Current liabilities			
Trade payables	4,642	4,856	3,617
Payables from customer-specific construction contracts	544	1,027	705
Provisions and accrued liabilities	266	287	543
Income tax liabilities	832	2,166	1,725
Short-term borrowings	4,224	2,660	2,090
Current non-financial liabilities	2,529	2,965	3,246
Current financial liabilities	3,639	7,611	3,380
Current liabilities, total	**16,676**	**21,572**	**15,306**
Total equity and liabilities	**81,643**	**82,888**	**78,098**

Consolidated Statement of Changes in Equity

from January 1 to June 30, 2017

			Retained earnings						
	Subscribed capital	Capital reserves	Net retained profits	Other remeasure-ments	Currency translation	Total retained earnings	Attributable to shareholders of Softing AG	Non-controlling interests	Total equity
EUR thousand									
As of January 1, 2017	**6,959**	**12,270**	**25,342**	**– 1,358**	**4,370**	**28,354**	**47,583**	**– 17**	**47,566**
Dividend distribution		– 1,392			– 1,392	– 1,392		– 1,392	– 1,044
Capital increase, net	696		7,027			7,027	7,723		7,723
Tax effect				357	357	357		357	100
Currency translation				– 2,328	– 2,328	– 2,328		– 2,328	– 494
Net profit for 2017		638			638	638	– 8	630	863
As of June 30, 2017	**7,655**	**12,270**	**31,615**	**– 1,358**	**2,399**	**32,656**	**52,581**	**– 25**	**52,556**

			Retained earnings						
	Subscribed capital	Capital reserves	Net retained profits	Other remeasure-ments	Currency translation	Total retained earnings	Attributable to shareholders of Softing AG	Non-controlling interests	Total equity
EUR thousand									
As of January 1, 2016	**6,959**	**12,270**	**20,684**	**– 1,072**	**3,524**	**23,136**	**42,365**	**– 30**	**42,335**
Dividend distribution		– 1,044			– 1,044	– 1,044		– 1,044	– 1,740
Tax effect				100	100	100		100	1,078
Currency translation				– 494	– 494	– 494		– 494	1,739
Net profit for 2016		856			856	856	7	863	925
As of June 30, 2016	**6,959**	**12,270**	**20,496**	**– 1,072**	**3,130**	**22,554**	**41,783**	**– 23**	**41,760**

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

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