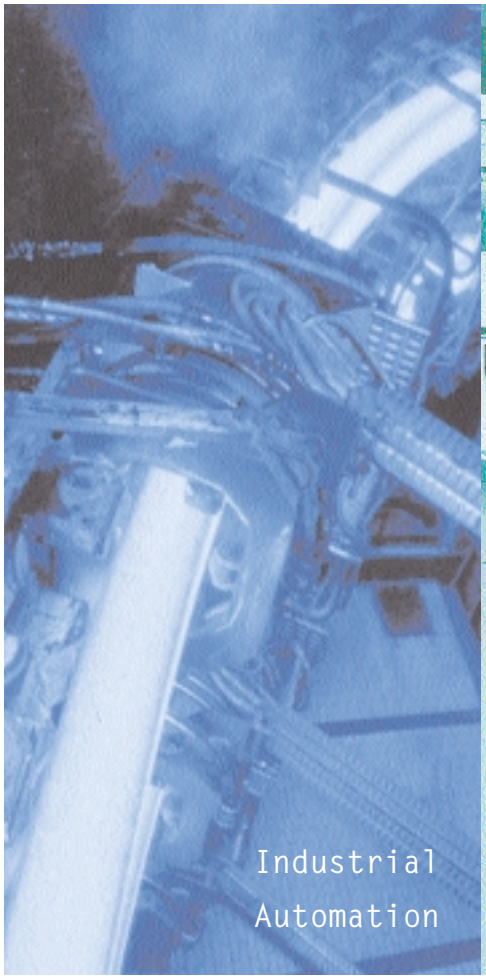
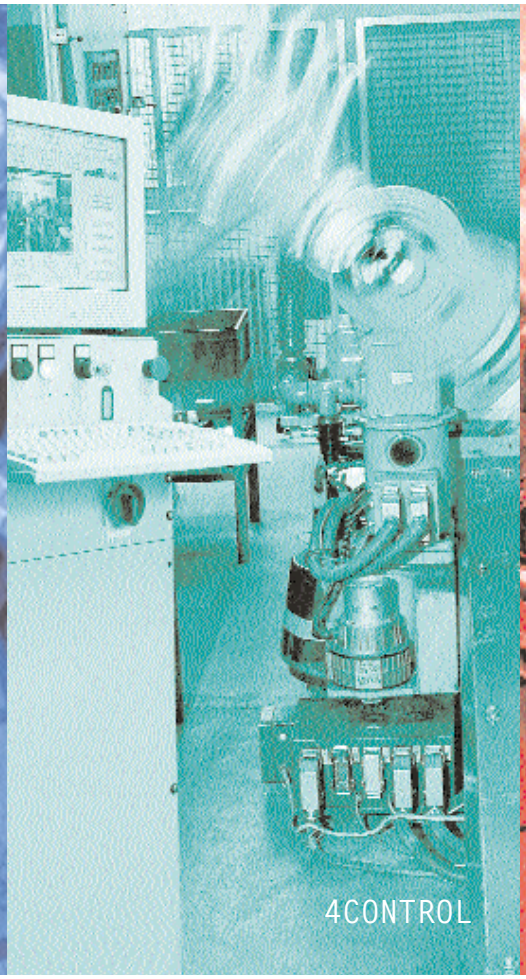
Annual Report 2000





We set standards

in controls and

communications technology

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Financial Ratios Group

(according to IAS)

Figures in million DM	1998	1999	2000
Sales	27.0	34.3	**36.81**
EBIT	5.7	2.8	**-0.97**
Net income	3.6	1.8	**0.75**
Fixed assets	14.9	17.0	**17.22**
Current assets	8.2	12.5	**32.54**
Shareholders' equity	6.9	16.0	**37.58**
Number of employees (annual average)	153	173	**186**

DVFA/SG earnings per share in 2000: -0.01 DM

Contents

Highlights 2000

January	Start of the IST Project "High Performance Wireless Fieldbus in Industrial Related Multi-Media Environments"
March	Participation as a member in MOST Cooperation
May 16	IPO on the Neuer Markt in Frankfurt, Germany
July	Foundation of the subsidiary Softing Industrial Solutions Italia srl in Verona, Italy
July	Completion of a large order concerning the delivery of communication components and correlated services to ABB Robotics
September	Ethernet Information Days
November	Launching of the 4CONTROL Embedded version for user-specific hardware platforms
	Introduction of the first distributed control system according to the new international standard IEC 61499 worldwide, together with Rockwell Automation

Important Trade Fairs

Automotive Electronics

March 06 – 09	SAE International Congress and Exposition Cobo Center, Detroit, Michigan / USA
June 05 – 08	Trade fair for industrial measurement techniques, Große Olympiahalle Munich
June 06 – 08	2nd Autec – international trade fair for automobile development, Messe Sinsheim
September 05 – 07	14th congress trade fair for industrial measurement techniques Rhein-Main-Hallen, Wiesbaden
October 05 – 06	9th international congress for automobile electronics Kongress Baden-Baden

Industrial Automation

February 28 – March 01	MIT 2000, Manufacturing, Bologna/Italy
March 20 – 25	HMI 2000, Hanover trade fair
November 07 – 11	BIAS 2000 Milano/Italy, international trade fair for automation and process control, IT in the industry, metrology and microelectronics
November 28 – 30	SPS/IPC/Drives 2000, Nuremberg

Our Growth with 4CONTROL

Eduard Himmelsdorfer, Dr. Rainer Mittmann, Dr. Manfred Patz

Ladies and gentlemen, dear friends of Softing AG,

in Softing's long history, the past financial year was in many respects an exceptional one with great ups and downs.

It was characterized by our successful IPO on May 16, 2000, at the Neuer Markt in Frankfurt, by further innovations of our Internet-based controller family 4CONTROL, but also by a dramatic "roller coaster ride" of our stocks.

In July, we were able to announce the foundation of our Italian subsidiary Softing Industrial Solutions Italia, based in Verona. The expansion of our global network of distributors, consultants and especially of our synergy partner program also proceeded as planned. However, it can be clearly admitted that not all our expectations were met. During this time of continually falling prices at the stock market, we had to announce a revision of our turnover and EBIT plans in the fall. The stocks went clearly below the issue price.

During the financial year 2000, our total turnover amounted to 36.8 million DM. Although in our business segment 4CONTROL, we have not yet been able to achieve the turnover that we planned, we see a great potential of growth in this area which even exceeds our original assumptions. The rise in incoming orders to a total of more than 40 million DM within the Softing Group is already an indicator of this potential and forms a solid basis for our expected results in the financial year 2001.

We count on an increase in turnover by more than 22 % to approx. 45 million DM. However, our expansion strategy in the United States, the establishment of a new ERP system and a new sales structure require substantial investments. The funds necessary for this purpose will be provided by the profits of our business groups. Thus, we expect an overall balanced EBIT for 2001.

What are the basic presuppositions for our planning? Our innovative product 4CONTROL is of decisive importance for Softing's future development. 4CONTROL offers all prerequisites for global distribution and meets all requirements of automation technology:

- cost-saving operation in a standardized system environment by linking the office with the industrial world,
- very short familiarization period,
- comprehensive communicating abilities of the system by integration in existing management information systems.

Our experiences with the systems installed in 2000 as well as the development of incoming sales have demonstrated that there is an enormous sales potential for 4CONTROL. The system's scope of application has been further extended by the development of version E, suitable for usage in customer-specific operating systems. Even today, 4CONTROL is already used by renowned industrial enterprises and meets the relevant stability and security requirements.

Thus, 4CONTROL is ideally suitable for the step-by-step replacement of traditional programmable logic controllers which is speeding up more and more. In the running financial year, we plan to expand sales by approx. 240 %. We have every reason to assume that with the use of Virtual Private Networks – the internal data networks of the future – this trend will even be reinforced during the following years.

For these prospects, our internal organization must be prepared accordingly. Our new sales structure which joins product marketing and product development of our business segments Industrial Automation and 4CONTROL, utilizes the synergies in our company and provides the necessary prerequisites for growth.

In addition to the great potential of 4CONTROL, we expect further market growth with an annual rate of 10 to 15 % in our successful basic segments Industrial Automation and Automotive Electronics. To achieve our goals, we will considerably increase our international presence, mostly in the United States, but also in Europe. Part of our overall strategy is the recruitment of qualified staff to enable us to meet our high quality standard in the future as well.

This leads us to another issue: the basis of success of Softing AG. The qualification and commitment of our employees are the decisive factors for reaching our goals. We want to explicitly thank all our staff members for their involvement and their interest in our company's success.

We as the management and staff of Softing will do everything to reach the aforementioned goals and are confident that our efforts will be reflected by the share price. Our objective is to substantially increase the value of the company and secure for Softing the position in the financial world that it has been enjoying in the technical world and customers' opinion for many years.

We will keep you informed.

Eduard Himmelsdorfer | Dr.-Ing. Rainer Mittmann | Dr.-Ing. Manfred Patz

Supervisory Board and Executive Board

Supervisory Board

Dr. Horst Schiessl (chairman)
lawyer
Sozietät Schiessl, Schrank und Partner, München

Josef Faltenbacher (deputy chairman)
auditor, tax consultant and legal adviser
RIFA Treuhand Wirtschaftsprüfungs- und
Steuerberatungsgesellschaft GmbH, Munich

Prof. Dr.-Ing. Georg Färber
professor for real-time computer systems
Technische Universität München (Munich)

Executive Board

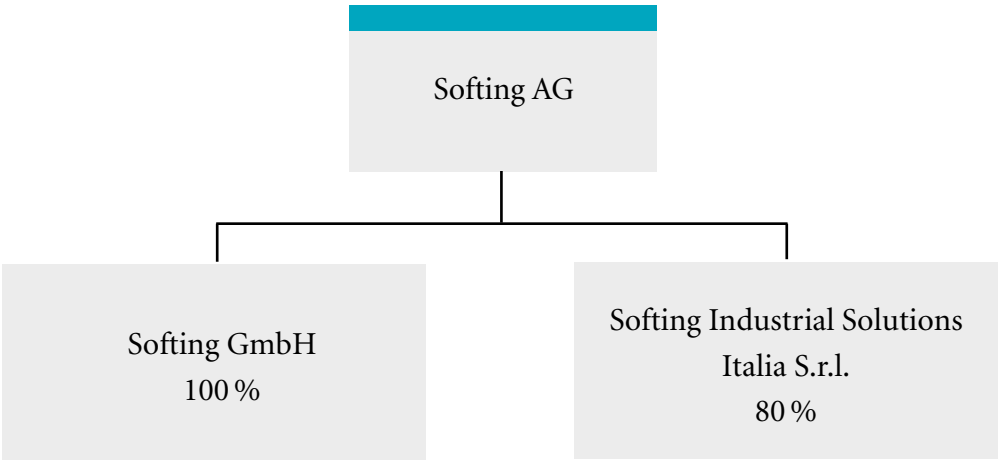
Eduard Himmelsdorfer (age 52 years), Munich

Dr.-Ing. Rainer Mittmann (age 52 years), Munich

Dr.-Ing. Manfred Patz (age 55 years), Vaterstetten

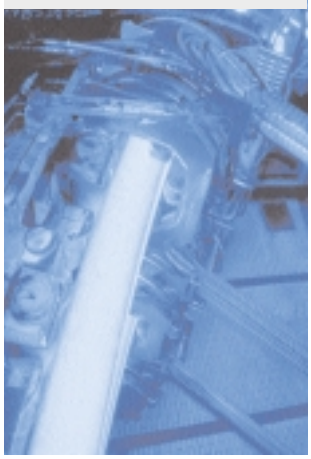
All managing directors, who are also foundation members of Softing AG,
have studied electrical engineering at the Technische Universität München (Munich).
Dr. Rainer Mittmann and Dr. Manfred Patz have obtained a doctor's degree in
process computers at the TU München.

Company Structure

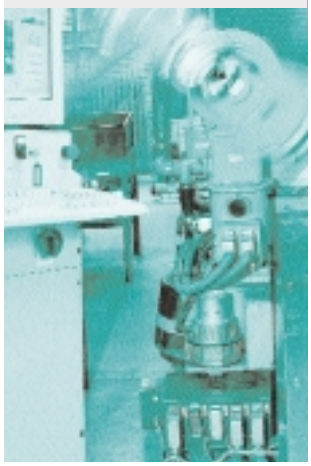


Business Divisons

Industrial Automation



4CONTROL



Automotive Electronics

Industrial Automation

Standards for Fieldbus Systems

Fieldbus systems play a decisive role in automation technology. The growing variety of control tasks in machines and plants increasingly needs communication infrastructures suitable for bridging systems. Softing offers software solutions and products which allow for a modular structure.

A typical application case in industrial automation illustrates the complex requirements on fieldbus technology: on the one hand, data provided by sensors and measuring instruments must be evaluated; on the other hand, motors, valves, pumps and other active components (actuators) must be controlled. Nowadays, hundreds of signal lines which were used formerly are replaced by a fieldbus line to which all units are connected. The fieldbus links sensor and actor technology to the controllers. For plant operators, this results in enormous cost advantages in designing, constructing and operating a manufacturing plant.

Prerequisites for a modular system structure are standardized interfaces between the different automation components ensuring real-time transmission of information within the plant. We actively participate in the development of these standards in different forums and standardization committees. Thus, we can influence the standard contents and in time induce the development of relevant products. We belong to the leaders in fieldbus know-how.

The business segment Industrial Automation offers specific products with different functions for the end-to-end automation of machines and plants, for building management, process automation (e.g. in the chemical industry) and for traffic engineering. For all important fieldbus systems such as Profibus, CANopen, DeviceNet and Foundation Fieldbus, Softing has developed both protocol software and hardware components. Softing's end-to-end system for Ethernet, the well-known networking system from office technology, contains interfaces permitting a linkage of office environments with industrial manufacturing systems.

Dr. Karl-Heinz Niemann, manager of development for "Control Products & Systems" with ABB Automation GmbH in Germany:

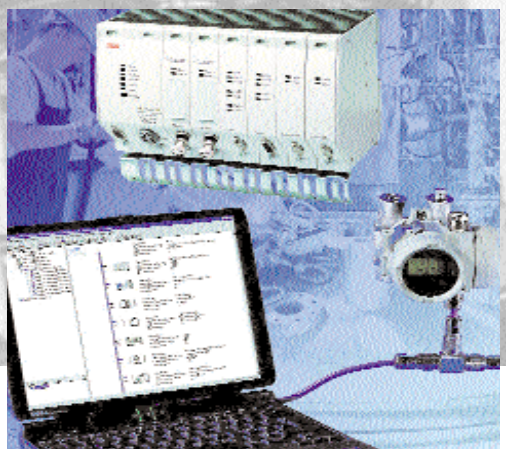
"For more than ten years, we have been successfully cooperating with the Softing development team with regard to the software components of ABB automation systems. Technology leadership in the leading fieldbus systems, that's ABB's strong point! With the supply of components, Softing has made a substantial contribution to our success."

Our communication systems and our Internet-based automation system 4CONTROL enable us to implement new innovative automation applications. The optimum solution is no longer found in central controller computers with their rigid structures, but in decentralized, highly flexible and inexpensive automation structures. Here as well, we rely on the revolutionary development of PC technology and complement it by the use of up-to-date software technologies. The experiences gained in these application projects are directly reflected in our product development.

With more than 165,000 employees, the ABB Group is a real global player in over 100 countries. We are active in nearly all fields of technology, e.g. utilities, the process industry, production automation and the consumer goods industry, in the areas oil, gas, petrochemistry and product manufacturing for automation technology and energy distribution.

One dynamically growing area are controllers for process control engineering with integrated fieldbuses. "More automation with less effort" – ABB Automation Products GmbH has significantly promoted this basic idea of the Freelance 2000 system with AC 800F, the new innovative process station with integrated fieldbus management. Softing has participated from the very beginning in developing the station for data recording and processing.

AC 800F is used in nearly all areas of automation technology, e.g. chemistry, fine chemistry, pharmaceutics, water, waste water, food and luxury food, refineries etc.



1-3 *Softing has developed both Profibus interface modules and the programming software of the FieldController AC 800F for the control of industrial processes, e.g. in oil refineries and dairy plants.*

In automation technology, Softing puts its stake on openness for the different systems. This lays the foundations for the use of multi-vendor products and software solutions and is the secret of our success.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softing
EIZO

4CONTROL - Internet-based Automation sets Standards

With the greatly increased performance of PCs and the possibilities of the Internet, production processes, formerly a domain of programmable logic controllers, can now be controlled comfortably via the user interfaces known in the office world. Controller, visualization and programming tool at the same time – this is 4CONTROL, based on Internet technology for access to the field level at any time and from any location on earth.

The users profit from the fact that the automation world and the world of information technology grow more and more together: new standards permit coherent information from the production to the management level. The requirements of the industrial world on a trouble-free production process characterized by the safe exchange of data in "real time" and by engineering efficiency, could not be met by the expensive, "slow" solutions of the office environment.

The key to the success of 4CONTROL lies in the integration of standardized technologies. With these, the software can be easily integrated in existing management information systems such as SAP R/3. With 4CONTROL, the user can work in his familiar Windows environment. By means of the Internet Browser, he brings his processes, images and programs directly to the production site. The advantages are obvious:

- cost-saving operation in a standardized system environment
- very short familiarization period
- comprehensive communication abilities of the system

Automation increasingly dominates the production processes so that the boom on the industrial automation market will continue to be dynamic. The sales achieved in the German automation industry in 2000 are estimated at approx. 50 billion DM. The share of application-specific software and services, which is high even today, will still be substantially increased during the next few years. The innovative integration solution 4CONTROL, which Softing has developed further for different applications and hardware platforms, aims at precisely this market.

Anton Früchtl, department manager
Rohde & Schwarz, Teisnach works, Germany:

"By using 4Control, we were able to reduce the production throughput time from 15 to three days."

Today, 4CONTROL is used, for example, in factory automation, machine building, semiconductor production, environmental technology and in the wood-working industry. It is employed in punching technology, in test rigs for aircraft components and in many other applications.

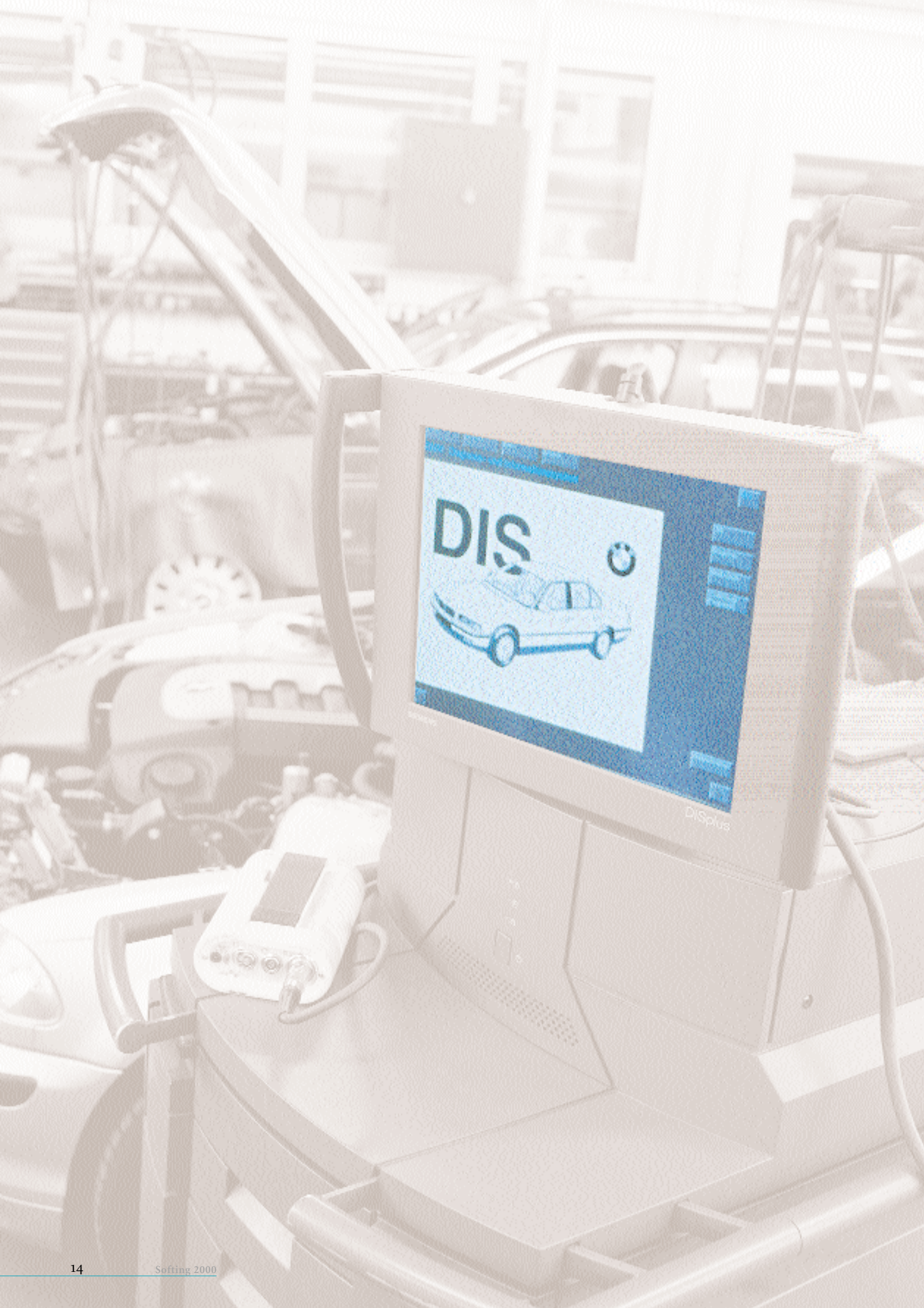
A special highlight in our growing product family is the 4CONTROL version E, which was developed in 2000. As an "embedded" version, it can be integrated in existing customer software and hardware. This enables the user to employ other operating systems in addition to Windows and facilitates the change from conventional to new technology. Among the first buyers of this version is OSAI, an Italian pioneer in CNC systems.

The Rohde & Schwarz Group develops, produces and sells devices and systems of communication and measurement technology for the areas mobile telephone technology, broadcast technology, technology for high-frequency measurement, supervision and positioning instruments, radio communication and IT security. With more than 5,000 employees worldwide, the company achieves an annual turnover of more than 800 million Euros.

The Teisnach works have developed into a service center for mechanics and electronics with currently 900 employees and manufacture products from individual components to entire assemblies. Several production lines are controlled entirely by 4CONTROL. Via the in-house Intranet, 4CONTROL allows for production monitoring by simultaneous communication with the construction department in Munich, equipment manufacturing in Memmingen and commercial EDP. The data are integrated in the control system directly on site. As a result, many operating steps become unnecessary; flexibility is increased to a spectrum of several thousand different parts; production throughput is cut down by more than 70 % and the plants' capacities are utilized in an optimum manner.

1-3 *Innovative control technology by Softing for machine building; flexible manufacturing with 4CONTROL at Rohde & Schwarz; linking of different production lines and locations by Intranet with 4CONTROL*

In all developments, Softing is especially dedicated to the safety and availability aspects which are so important in industrial automation. These aspects include the working life and maintenance of the employed PC technology, the stability of the operating systems and backup of the control configuration as well as backup of the process status in case of an interruption. Authentication solutions as protective measures against unauthorized access to the system round off Softing's security package around the control system 4CONTROL.


DIS
DISplus

Automotive Electronics – Marked by Standardization

The cost-saving aspect is today a driving factor in the development of standardized interfaces in Automotive Electronics. Wherever different vendor-specific applications must be integrated in vehicles, standardization is indispensable.

Until now, suppliers of control units have programmed the interfaces in automobiles themselves according to the individual requirements of vehicle manufacturers. This has been shown to be a costly method which frequently makes development and customization very difficult. Even the analysis of the different software protocols, taken by itself, is generally connected with an enormous specialist effort.

If the manufacturer does not consider the interface to be a feature which makes his automobile stand out in competition, he will be mainly interested in an inexpensive, standardized solution. Typical examples of the rationalization potential in modern automobile manufacturing are the electronically controlled communication between motor and gear, integration of test rig components by different manufacturers and the exchange of results between the manufacturer and his subcontractors.

We have early recognized the possibilities of standardizing these interfaces. Similarly to the age of industrialization, which opened up a huge market to the first manufacturer of standardized products, the age of communication provides us with unthought-of possibilities. Our goal is to be in the lead in the standardization of specific applications. In two main fields within the area of Automotive Electronics, we have already succeeded in this: in the measurement and diagnosis of vehicle data and in the integration of multimedia in automobiles.

In 1998, the Association for Standardisation of Automation- and Measuring Systems, in short ASAM, was founded to support the initiative for standardizing automotive electronics. ASAM today has approx. 100 renowned members all over the world from the areas automobile manufacturing, automotive electronics, appliance and software production.

Mr. Heinz Merkle, department manager of Electronics Development with BMW Group in Munich:

"In handling the serial integration of automotive electronics and in developing it further by standardization, we have been counting on Softing for almost ten years."

As a foundation member, Softing helped to pave the way for the MCD standard for measurement, calibration and diagnosis in automobiles.

Also, by participating in the international MOST Cooperation (Media Oriented System-Transfer), Softing has contributed to the integration of Consumer Electronics in automobiles. Due to our membership in the MOST consortium, we are involved in developing and defining standards for Automotive Multimedia Networking in cooperation with leading automobile manufacturers.

Both ASAM and MOST indicate substantial future growth due to an increase in the share of electronic components in an automobile's value. As a member

The BMW Group is one of the globally leading automobile groups with more than 114,000 employees and a turnover of 34.4 billion Euros in 1999.

Customer demands and the legislation of different countries as well as new multimedia communication in automobiles require the vehicle manufacturer to produce increasingly complex electronic control systems. General development objectives such as the saving of development costs and time, improving the development quality and optimizing distributed development projects require, among others, standards for functional networking of the interfaces. Softing is a specialist in this area and adapts its products to specific customer requirements in the course of development. Customers hold Softing's involvement in standardization in high esteem.

1-3 *BMW workshop diagnostic system; mobile data acquisition device for vehicle tests; programming of automotive electronics at the assembly line*

in both of these important forums, we have the possibility to achieve a lead in development by the specification of the standards and to offer our own products in line with market conditions at a very early point in time.

In addition, we also use our know-how in terms of interfaces to develop vendor-specific interface solutions for our large circle of customers.

With our dual strategy in Automotive Electronics (standardization and focus on specific market segments), we continue to expect very high market shares and increasing license income for the future. This opens up an interesting field of activity to highly qualified staff.

Group Management Report for the Financial Year 2000

The Softing Group currently consists of Softing AG, Softing GmbH and Softing Industrial Solutions Italia S.r.l.

In the financial year 2000, Softing has further strengthened its position as an international software and computer vendor in the areas Industrial Automation and Automotive Electronics. Softing develops complex software and hardware systems of high quality.

We are a renowned technology supplier in the area of industrial automation. Focuses of activity are services, components and tools for industrial control systems and fieldbus systems as well as solutions for production automation.

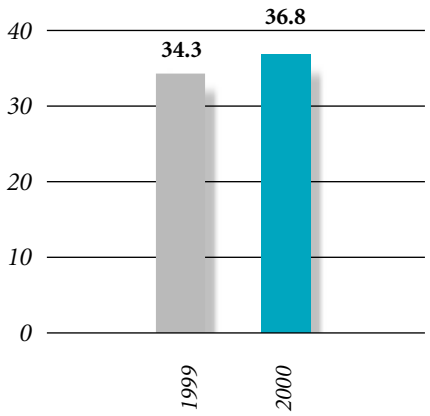
On the market for industrial control systems, which is characterized by a considerable demand for overall solutions specific to certain industries, Softing has achieved a substantial technological lead during the last few years. This has induced Softing to further expand the system 4CONTROL, specifically offering application solutions for individual customer requirements.

In the field of Automotive Electronics, PC-supported testing and analysis systems for communication interfaces to the vehicle electronics are developed in addition to customized control and diagnostic systems for the automobile industry and its subcontractors.

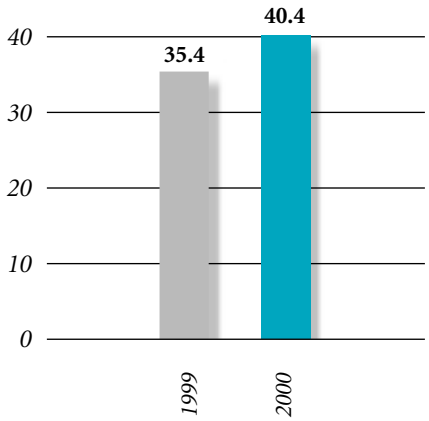
We carry through customer-specific projects and sell our own standard products, the latter of which nowadays constitute the main part of Softing's turnover.The scope of our services offered is rounded off by consulting, analyses, studies and training. Softing attains its turnover by selling services and products mainly in Europe, but also in the United States and in Japan.

In June 2000, Softing's first foreign subsidiary Softing Industrial Solutions Italia srl was founded with its offices in Verona, Italy (registered office in Desio, Italy) to complement the existing sales offices in Ratingen and Ettlingen, Germany. As another building block of systematic internationalization, a consultant office in Great Britain was established in the fall to support and expand local Softing sales.

Sales
(in DM million)



Orders on-hand
(in DM million)



Softing in a Favorable Economic Environment
The economic environment of Softing GmbH was favorable during the period under review. Both the global and the German economy passed the cyclical peak at the end of the year. The global market for PC-based control grew by approx. 30 % in 2000; both the market for automotive electronics and for fieldbuses grew by 10 %. The Softing Group could further increase its financial strength.

For the reporting period, we have prepared consolidated accounts according to the requirements of the International Accounting Standards Committee. During the financial year 2000, the Softing Group, including its sales office in Italy, achieved an increase in turnover by 7.4 % to 36.8 million DM (in 1999: 34.3 million DM). Incoming orders rose by 14.1 % to 40.4 million DM (in 1999: 35.4 million DM).

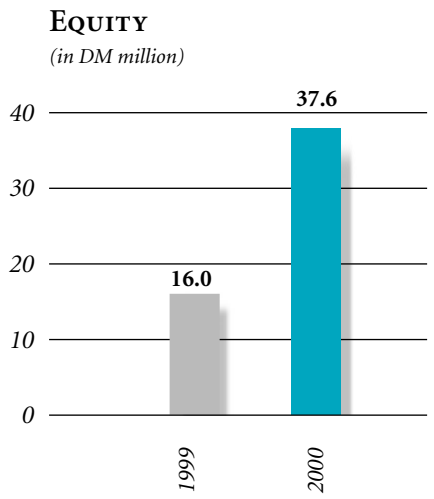
The sales office Softing Industrial Solutions Italia srl achieved a turnover of 229,000 DM, with an annual deficit of –122,000 DM.

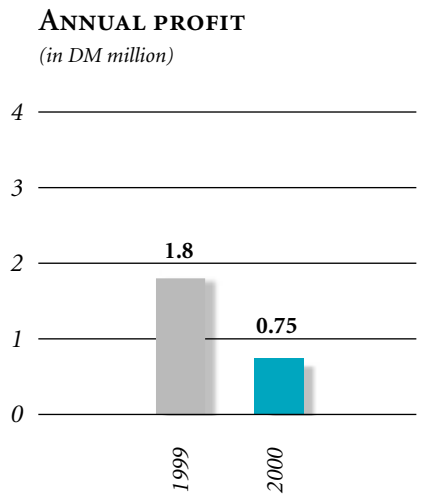
The company's entire capital stock (5,000,000 Euros) was listed, on May 12, 2000, on the organized stock market (Neuer Markt of the securities market in Frankfurt). Trade on the Neuer Markt began on May 16, 2000.

At the end of the year 2000, equity capital amounted to 37.6 million DM as compared to 16.0 million DM in 1999.

The annual profit of the Softing Group amounted to 0.75 million DM (1.83 million DM in 1999). Reasons for the decrease are much higher sales and marketing investments at home and abroad, especially in the segment 4CONTROL, and an increase in current expenditures due to our presence on the stock market.

The liquidity position of the group is safe, and we will be able to completely fulfill all our obligations in the next years as well.





High Expenses for Research and Product Development

For years, the Softing Group has been investing large sums in research and development. The R&D activities take place in the individual business groups and are coordinated in a Business Steering Committee which meets periodically. This structure enables us to quickly react to customers' wishes and make products ready for serial production within only a short time.

In total, we have invested 7.3 million DM in the development of new products. As in the previous years, these developments were financed by our own resources.

In our product 4CONTROL, we invested 3.3 million DM. With this product, Softing assumes a role as innovator in the area of Internet-based PC applications in the industrial automation area. With 4CONTROL, we also open up a much larger sales area for our other automation products.
In 2000, 4CONTROL was enhanced to form a multi-target automation system which now also operates with hardware platforms specific to individual customers, in addition to the standard PC architectures. Thus, 4CONTROL penetrates another large market of embedded controls.

In the business area "Industrial Communication", 1.9 million DM were invested. In the future, Industrial Ethernet will be established as an important communication platform and play an important role alongside the traditional fieldbuses. For securing investments in Softing fieldbus technology and obtaining a prominent position in the new business area, products such as Profigate were developed to permit integration of the existing fieldbus infrastructure in new communication architectures.

The Softing development tool "Diagnostic Tool Set" for vehicle communication was enhanced by a database for the worldwide ASAM standard in the automobile industry. Softing has plaid a prominent part in establishing the ASAM standard and is the first supplier of such a tool. The tool was introduced to the public on the most important automotive electronics conference in Europe. In total, 2.1 million DM were invested in this area. Also, fundamental research was carried through, especially in the areas "Holonic Manufacturing System", i.e. virtual factory, and "wireless fieldbus", for the purpose of product predevelopment. This was mainly done within the framework of publicly funded projects in cooperation with international consortia.

High Motivation of Employees
At the end of the year 2000, Softing had in total 187 employees (1999: 182). More than 80 % of these employees have a university degree; the main subjects are electrical engineering, computer science, factory automation and mathematics. At the end of 2000, 130 highly qualified employees were active in research and development. Thirty-four employees worked in marketing and sales.

A main factor of success for the Softing Group is the high degree of staff commitment. This is due to the attractiveness of our work, team-oriented working and the possibility of further professional training. To further strengthen staff commitment and facilitate the recruitment of new employees, a stock option program for all staff members was launched within the framework of our IPO.

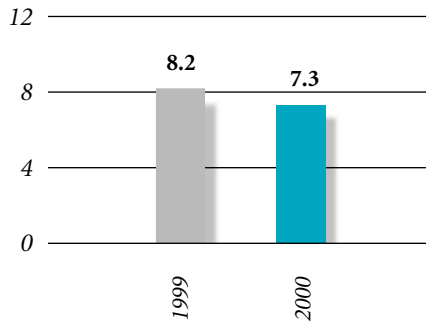
Future Development of the Company and Risks

Risk Management and Individual Risks
As a company internationally involved in the areas of industrial automation technology and automotive electronics, Softing is confronted with a number of risks which cannot be separated from entrepreneurial activities.

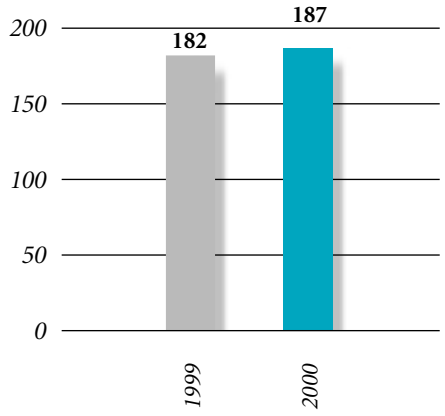
In particular, this concerns risks resulting from market development, from the positioning of products and services, from contractual and non-contractual liability and from business processes. We want to enter risks only after carefully weighing the business perspectives.

During the reporting period, the implementation of the risk management system was therefore continued. The risk management framework prepared by the management contains statements on the risk strategy, the willingness to take risks and on the scope of application.

Product development that must be capitalized
(in DM million)



Employees
(at year's end)



During a first implementation phase, procedures for the continued identification of risks were defined. The risks involved in the individual business processes are periodically recorded, analyzed and evaluated. In this context, it must also be determined whether individual risks which are of minor importance when isolated, can lead to a risk threatening the company's existence when combined. Suitable indicators were defined to permit a uniform assessment of risks, even over a longer period of time.

For continued risk recording, reporting paths were defined ensuring that the management is informed early of developments which might threaten the existence of the business. In a second implementation phase, the developed procedures are now to be applied during the running financial year and further developed, if necessary.

As another important element of risk limitation, we have been keeping a quality management system according to ISO 9001 for years. Comprehensive quality procedures within this system regulate issues referring to development and to contracts. Extensive tests and precisely defined competencies ensure that the implementation risks typical to software are minimized.

To complement the quality management system, an organization manual for documenting internal business processes is currently being produced. The operational groups are responsible for the observation of these rules within their individual business competencies.

To assess risks and optimize chances, we use a number of supplementary regulation systems. These include, among others, the annual preparation and ratification of a comprehensive and detailed business plan with regular reviews.

During our reporting period, we have paid special attention to one central risk: the risk of not being able to employ sufficient qualified staff.

By granting stock options and offering an attractive working environment, we achieve a high degree of staff commitment. By new, innovative recruitment measures and by close contacts to a number of colleges and universities, we will be able to satisfy our demand for highly qualified staff in the near future. Furthermore, a position in staff marketing was created whose main task is the acquisition of new staff.

Significant Market Development Potential in the Future
According to existing market studies and our own estimates, we expect a growth of at least 33 % in PC-based control for 2001; a growth of 36 – 40 %, however, is more probable. Relative growth is estimated at the same level for Europe and for the United States.

In the years to come, the market for fieldbus systems will also have a significant potential for above-average growth. The market is predicted to grow by approx. 10 % during the next few years. In the recent past, the development of electronics in private and commercial vehicles has been giddy-paced. Even today, electronics constitute up to 30 % of a vehicle's added value, depending on the vehicle class. Field investigators proceed on the assumption that the market for automotive electronics will continue to grow by at least 12 % annually.

Outlook
Starting on the premises of a core business which will continue to grow above the market volume, we expect an increase in turnover especially in our business area 4CONTROL. In total, we expect an increase in turnover of 21.5 % to 44.7 million DM in 2001. In spite of the introduction of a new internal ERP system and a common sales structure of the formerly separated areas Industrial Communication and 4CONTROL, we expect a balanced EBIT for the running financial year.

Within the framework of expanding our business activities on the international markets, the foundation of a subsidiary in the United States is envisaged for 2001.

The business activities of our company group are developing in a positive manner. This holds good especially for the sales establishment Softing Industrial Solutions Italia S.r.l. in Italy, founded in June 2000.

Events of Special Importance after the End of the Financial Year
In the first half of 2001, we plan to merge Softing GmbH with its mother company Softing AG retroactively as of January 1, 2001.

Other events of special importance have not occurred after the end of the financial year.

Haar, February 22, 2001

Softing AG

Eduard Himmelsdorfer

Dr.-Ing. Rainer Mittmann

Dr.-Ing. Manfred Patz

Consolidated Financial Statements for the Financial Year 2000

Consolidated Balance Sheet

Assets	12/31/2000 DM	12/31/1999 DM
A. Fixed assets		
I. Intangible assets		
1. Trademarks and similar rights as well as licenses to such rights	14,835,374.00	14,838,801.00
2. Goodwill from capital consolidation	27,153.00	-
	14,862,527.00	14,838,801.00
II. Tangible assets		
Other fixtures, furniture and office equipment	1,893,369.00	1,783,404.00
III. Financial assets		
Other loans	466,563.00	416,959.00
	17,222,459.00	**17,039,164.00**
B. Deferred taxes	**1,762,000.00**	**483,000.00**
C. Current assets		
I. Inventories		
1. Raw materials and supplies	607,080.00	455,679.00
2. Finished goods and services	2,105,248.00	1,062,860.00
	2,712,328.00	1,518,539.00
II. Accounts receivable and other assets		
1. Receivables from affiliated companies	10,294,044.00	7,888,162.00
2. Other assets	391,580.00	208,024.00
	10,685,624.00	8,096,186.00
III. Securities	17,082,331.00	-
IV. Cash	2,059,719.00	2,836,050.00
	32,540,002.00	**12,450,775.00**
D. Deferred charges and prepaid expenses	119,979.00	663,018.00
	51,644,440.00	**30,635,957.00**

Liabilities

	12/31/2000 DM	12/31/1999 DM
A. Shareholders' equity		
I. Capital subscribed	9,779,150.00	5,099,084.00
II. Capital reserves	20,638,528.00	2,982,317.00
III. Difference from capital consolidation	837,383.00	1,674,762.00
IV. Consolidated net profit	6,326,386.00	6,196,321.00
	37,581,447.00	**15,952,484.00**
B. Third-party stakes	**35,742.00**	-
C. Reserves		
1. Reserves for pensions	1,092,182.00	1,022,025.00
2. Tax reserves	6,264,000.00	7,390,000.00
3. Other reserves	2,490,000.00	2,552,050.00
	9.846,182.00	**10,964,075.00**
D. Liabilities		
1. Accounts payable, long-term production contracts	19,993.00	55,864.00
2. Liabilities due to banks	7,339.00	-
3. Advance payments received for contracts	742,110.00	881,594.00
4. Trade accounts payable	1,853,011.00	773,854.00
5. Other liabilities	1,535,133.00	2,008,086.00
	4,157,586.00	**3,719,398.00**
E. Deferred income	**23,483.00**	-
	51,644,440.00	**30,635,957.00**

Consolidated Statement of Income

FOR THE FINANCIAL YEAR 2000 (PURSUANT TO IAS)

	01/01- 12/31/2000 DM	01/01 - 12/31/1999 DM
1. Sales revenue	36,808,661.00	34,259,467,00
2. Change in finished goods and work-in-process	1,042,388.00	337,203.00
3. Other own costs, capitalized	6,945,253.00	7,888.168.00
4. Other operating revenue	2,342,558.00	1,723,950.00
5. Cost of materials		
a) Cost of raw materials, supplies and trading stock	-6,278,857.00	-5,574,568.00
b) Cost of purchased services	-1,404,609.00	-1,519,173.00
	39,455,394.00	**37,115,047.00**
6. Personnel costs		
a) Wages and salaries	-20,387,269.00	-17,732,164.00
b) Social security costs and expenses for pensions and support	-3,243,281.00	-3,104,321.00
7. Amortization and depreciation of intangible and tangible assets	-8,383,669.00	-7,897,537.00
8. Other operating costs	-8,414,587.00	-5,548,947.00
	-973,412.00	**2,832,078.00**
9. Profits from loans of financial assets	55,429.00	49,287.00
10. Other interest and similar income	627,928.00	31,496.00
11. Interest and similar expenses	-159,714.00	-83,425.00
12. Result from ordinary operations	**-449,769.00**	**2,829,436.00**
13. Taxes on income	1,207,000.00	-992,791.00
14. Other taxes	-10,835.00	-6,290.00
15. Net income / net loss (-) for the year	**746,396.00**	**1,830,355.00**
16. Minority interests	24,889,00	–
	771,285.00	**1,830,355.00**
17. Allocation to profit reserves	-641,220.00	–
18. Retained earnings, brought forward	6,196,321.00	4,365,966.00
19. Consolidated net earnings	**6,326,386.00**	**6,196,321.00**

Consolidated Statement of Changes in Financial Position

FOR THE FINANCIAL YEAR 2000 (PURSUANT TO IAS)

	2000 **DM** (in thsds)	1999 **DM** (in thsds)
Result for the period (incl. shares of minority shareholders before extraordinary items)	746	1,830
Write-downs/write-ups on fixed assets (incl. start-up expenses)	8,384	7,897
Increase/decrease in provisions	-1,118	1,122
Profit/loss from the disposal of fixed assets	9	7
Increase/decrease in inventories, trade accounts receivable and other assets not part of investment or financing activities	-3,320	-1,776
Increase/decrease in trade accounts payable and other liabilities not part of investment or financing activities	454	-2,744
Cash flow from operating activities	**5,155**	**6,336**
Payments received for the disposal of tangible assets	6	-
Payments made for investments in self-produced intangible assets	-7,281	-8,161
Payments made for investments in other intangible and tangible assets	-1,252	-1,821
Payments received for the disposal of financial assets	9	8
Payments made for investments in financial assets	-59	-63
Cash flow from investing activities	**-8,577**	**-10,037**
Payments received from equity increases (without conversion of capital and profit reserves to equity)	1,635	5,048
Payments made due to short-term financial investments	-17,082	-
Payments received from issuing bonds and taking up loans	7	-
Changes in reserves due to capital consolidation	-838	-837
Payments made for IPO costs	-3,208	-
Transfer to capital reserves (without third-party shares)	22,071	2,982
Payments received for third-party shares	61	-
Payments made for the redemption of bonds and loans	-	-867
Cash flow from financing activities	**2,646**	**6,326**
Changes in funds not affecting the movement of funds	-776	2,625
Funds at the beginning of the period	2,836	211
Funds at the end of the period	**2,060**	**2,836**

Consolidated Asset Schedule for the Fiscal Year 2000

	Acquisition cost			
Item	Status 01/01/2000 DM	Additions DM	Disposals DM	Status 12/31/2000 DM
Development costs	35,808,548.00	7,281,156.00	-	43,089,704.00
Software	899,592.39	152,719.90	47.95	1,052,264.34
Goodwill	-	27,381.62	-	27,381.62
Intangible assets	36,708,140.39	7,461,257.52	47.95	44,169,349.96
Office equipment	5,788,676.72	851,100.51	144,739.82	6,495,037.41
Low-value items	593,365.83	210,069.87	130,798.65	672,637.05
Tangible assets	6,382,042.55	1,061,170.38	275,538.47	7,167,674.46
Reinsurance coverage	407,856.00	55,429.00	-	463,285.00
Security deposits	-	3,278.00	-	3,278.00
Loans to employees	9,103.00	-	9,103.00	-
Financial assets	416,959.00	58,707.00	9,103.00	466,563.00
Total	**43,507,141.94**	**8,591,033.36**	**284,689.42**	**51,813,485.88**

	Depreciation				Book values	
	Status 01/01/2000 DM	Depreciations in the financial year DM	Disposals 2000 DM	Status 12/31/2000 DM	12/31/2000 DM	12/31/2000 DM
	21,200,497,00	7,284,145.00	-	28,484,642.00	14,605,062.00	14,608,051.00
	668,842.39	161,031.61	2.66	829,871.34	222,393.00	230,750.00
	-	228.62	-	228.62	27,153.00	
	21,869,339,39	7,445,405.23	2.66	29,314,741.96	14,854,608.00	14,838,801.00
	4,260,158,72	762,681.44	129,818.75	4,893,021.41	1,602,016.00	1,528,518.00
	338,479.83	173,602.87	130,798.65	381,284.05	291,353.00	254,886.00
	4,598,638.55	936,284.31	260,617.40	5,274,305.46	1,893,369.00	1,783,404.00
	-	-	-	-	463,285.00	407,856.00
	-	-	-	-	3,278.00	
	-	-	-	-	-	9,103.00
	-	-	-	-	466,563.00	416,959.00
	26,467,977.94	**8,383,669.00**	**260,620.06**	**34,591,026.88**	**17,222,459.00**	**17,039,164.00**

Notes to the Consolidated Financial Statements for the Financial Year 2000

(According to IAS)

As a publicly listed parent company, Softing AG has made use of its right according to § 292a HGB to prepare the group accounts according to internationally recognized accounting principles. A preparation of the group accounts according to German commercial law was therefore not necessary. The group accounts are drawn up and published on the basis of the International Accounting Standard (IAS). All IAS standards to be applied on the balance sheet date are observed. Reporting currency is the Deutsche Mark.

1. Purpose of the Group

The objectives of Softing AG and its subsidiaries are analysis, consulting, development and services in the context of EDP projects as well as operational studies, appraisals and training, especially in the areas process automation and production data acquisition, system and user software for micro- and minicomputer systems, long-distance data transmission, computer networks and commercial EDP applications.

The headquarters of Softing AG are in Haar near Munich.

2. Consolidated Group

The group accounts for December 31, 2000, include Softing AG as well as its subsidiaries Softing GmbH für Prozessrechentechnik und angewandte Informationsverarbeitung and Softing Industrial Solutions Italia S.r.l. in Desio, Italy. In these affiliates, Softing AG has the direct majority rights and common control.

	Capital Share	Equity 12/31/2000	Equity 12/31/1999	Annual Profit **2000**	Annual Profit 1999
	%	(in thsds)	(in thsds)	(in thsds)	(in thsds)
Softing AG, Haar		30.275	9.060	**-1.075**	-274
Softing GmbH für Prozeßrechentechnik und angewandte Informations-technologie, Haar	100	13.940	13.427	**1.108**	1.267
Softing Industrial Solutions Italia S.r.l., Desio, Italien	80	179	–	**-124**	–

The group was legally created in May 1997 by the foundation of Softing Industrial Consult GmbH (today: Softing AG) and by purchase of the shares in Softing GmbH für Prozessrechentechnik und angewandte Informationsverarbeitung (Softing GmbH) in May 1997.
In 1999, Softing Industrial Consult GmbH was converted into Softing AG; entry in the Commercial Register took place on September 29, 1999.
Softing Industrial Solutions Italia S.r.l., Desio, Italy (Softing Italia), was founded in June 2000.

3. Consolidation Principles

The initial consolidation was based on the time the shares of Softing GmbH were acquired (May 1997) and on the time when Softing Italia was founded (June 2000). Given that no interim statement was prepared as of the date of initial consolidation, the shareholders' equity to be offset in the context of the capital consolidation was determined statistically for the purposes of the result for the year by assuming that business was unchanged.
The capital consolidation was carried out in accordance with the book-value method. The acquisition cost is offset against the book value of its equity at the time of acquisition.
Intra-Group gross sales, income and expenses, as well as payables and receivables between the consolidated companies were eliminated.
Assets from intra-Group delivery, which are part of the inventories, do not contain any interim results to be adjusted.
During consolidation affecting net income, taxes on income and deferred taxes are taken into account.

Currency Conversion
Assets and liabilities as well as expenses and income of subsidiaries whose functional currency is not the Deutsche Mark, are converted in Deutsche Mark at the determined conversion rate.
Payables and receivables in foreign currencies are converted as of the balance sheet date at the conversion rates prevailing at that time; currency gains or losses, if any, are posted as additions or reductions to net income.

Use of Estimates
The preparation of financial statements in accordance with International Accounting Standards requires the management to make assumptions and to perform estimates, both of which affect the amounts shown and any related information. Actual results may vary from these estimates.

New Accounting Standards
Various new IAS standards were passed, and existing IAS standards were revised; the use of these standards will be mandatory as of 2001. The company is presently reviewing the consequences of these standards and does not expect them to have a significant impact on the net worth, financial position and results of operations, the cash flow of the company or on its financial reporting system.

4. Notes to the Group Balance Sheet

The Consolidated Financial Statements are prepared in accordance with the consolidation, accounting, and valuation principles mentioned below.
The Asset Schedule contains a description of the development of the individual asset balance sheet items based on total acquisition costs (appendix of the Notes).

Intangible Assets

Intangible assets acquired for consideration are posted at the acquisition cost. They are depreciated as planned over three years in accordance with their respective useful life using the straight-line method.
Loan capital interest is not capitalized.

Goodwill
The goodwill was created by a deposit above par in the capital reserves of Softing Industrial Solutions Italia S.r.l. In accordance with its expectancy of useful life, it will be depreciated as planned over ten years using the straight-line method.

Research and Development
Expenses for Research & Development are posted as expenses in accordance with IAS 38. The cost of developing new software products is capitalized as development cost as of the date on which the products technical feasibility has been established. Any R&D costs not paid by third parties, which were treated as an expense due to noncompliance with the capitalization requirements of IAS 38, are of minor significance.
In accordance with IAS 38, the company has also been capitalizing its own development costs for self-developed software products, if such development costs result in marketable products and if they translated into commensurate sales revenue in past periods or if the planned or anticipated sales revenue exceeds the capitalized expenses. The development costs for new product lines are depreciated over six years and for new product versions, over three years, using the straight-line method; for purposes of simplification, a half-year's depreciation is charged in the year the products are completed.
The item "Software and similar rights" contains the costs for developing new software products in the net amount of DM 14,605,000 (1999: 14,608,000). Refer to the Segment Report for information on how the capitalized product developments are divided up among business divisions.

Tangible Assets

Tangible assets are valued at their acquisition and manufacturing cost, less normal and utilization-based depreciation. Interest on loans is not capitalized.
Tangible assets are depreciated using the straight-line method in accordance with their useful life. Hardware is depreciated over three years, fixtures, furniture, and office equipment is depreciated over five to seven years, and new equipment installed is depreciated over the remaining term of the lease.
Costs related to repair and maintenance work are posted as expenses at the time they are incurred. Significant renovations and improvements are capitalized.
For perished assets, we received compensation payments amounting to a total of DM 17,000.

Financial Assets

The remaining loans granted contain insurance policies for reinsuring the pension commitments toward Executive Board members and managing directors.

	12/31/2000 **DM** (in thsds)	12/31/1999 **DM** (in thsds)
Capitalized value of reinsurance coverage	464	408
Security deposit, Italy	3	–
Loans to employees	–	9
	467	417

Reductions in Value

Long-term assets are valued at their realizable value if there is reason to believe that specific facts or circumstances will diminish their value. Extraordinary depreciation is charged if there is a difference between the book and the earnings value.

Lease Agreements

The company has only concluded operating lease agreements. There are no financing lease agreements which would have to be capitalized pursuant to IAS 17.

Capitalized Deferred Taxes

Deferred taxes are accrued in accordance with IAS 12 (revised 1996). The tax rates applicable or promulgated as of the balance sheet date are applied in accordance with the liability method. The deferred taxes owed by the company concern the items set forth below:

	12/31/2000 **DM** (in thsds)	12/31/1999 **DM** (in thsds)
Tax claims from retained earnings	–	215
Future claims from production orders	1,762	268
	1,762	483

For further explanations concerning deferred taxes, please see the section "Income Taxes."

Inventories

Inventories are valued at the respective acquisition or production cost, based on weighted averages. Interest on loans was not capitalized.

Trade Receivables and Future Receivables Related to Production Contracts

Trade receivables are posted at the nominal value less individual allowances for doubtful accounts, if necessary. These items also contain future receivables related to work-in-process. There were no lump-sum allowances.

	12/31/2000 **DM** (in thsds)	12/31/1999 **DM** (in thsds)
Trade receivables	7,221	4,311
Future receivables (production contracts)	3,073	2,687
	10,294	6,998

The "percentage of completion" method pursuant to IAS 11 was applied to the valuation of goods and services related to production contracts. The degree of completion of such goods and services is determined by the ratio of the costs incurred as of the balance sheet date relative to the estimated total costs. In the case of long-term production contracts, advance payments received, if any, are offset against the completion status of such goods and services. Revenue from services performed and advance payments received are posted accordingly as "Trade receivables" or as "Receivables from production contracts", or "Accounts payable (long-term production contracts)" or as "Advance payments received."

	12/31/2000 **DM** (in thsds)	12/31/1999 **DM** (in thsds)
Services not yet billed	274	791
Total work-in-process	3,640	4,467
Total (= included in sales revenue)	3,914	5,258
Long-term production contracts	-841	-2,571
Net total of future receivables (work-in-process related to long-term production contracts)	3,073	2,687
Long-term production contracts	841	2,571
Less: Advance payments received	-550	-1,736
Net total offset account	291	835
Thereof posted under:		
Receivables (long-term contracts)	311	891
Accounts payable (long-term production contracts)	20	56

Other Assets

The other assets are valued at their nominal values.

	12/31/2000 **DM** (in thsds)	12/31/1999 **DM** (in thsds)
Taxes	–	182
Receivables from employees	79	11
Other	313	15
	392	208

The loans to employees have maturities of less than five years. One loan has an interest rate of 6.5 % per annum. The remaining loans concern several interest-free relocation loans up to DM 3,000.00 each.

Other Securities

The other securities concern short-term fixed-interest bearer bonds that were issued by a domestic bank. The bearer bonds are valued at their price as of December 31, 2000, which equals the acquisition cost.

Liquid Assets

Liquid assets comprise cash and short-term bank deposits, as well as checks not credited by banks as of the balance sheet date. The development of liquid assets, which equals the cash and cash equivalents pursuant to IAS 7, is shown in the Statement of Changes in Financial Position.

	12/31/2000 **DM** (in thsds)	12/31/1999 **DM** (in thsds)
Cash on hand	3	2
Cash at banks	2,057	2,769
Checks	–	65
	2,060	2,836

Deferred Charges and Prepaid Expenses

The deferred charges and prepaid expenses contain external expenses related to the initial public offering for 1999 in the amount of DM 592,000. These expenses, including expenses for the current year in the amount of DM 2,616,000 were charged against the capital reserves after the inflow of equity.

Shareholders' Equity

The following table shows the development of equity in the consolidated financial statements.

	Capital subscribed DM (in thsds)	Difference from capital consoli-dation DM (in thsds)	Capital reserves DM (in thsds)	Profit reserves DM (in thsds)	Consoli-dated balance-sheet profit DM (in thsds)	Total DM (in thsds)
Balance as of December 1999	5,099	1,675	2,982	–	6,196	15,952
Posting of consolidated balance sheet profit to reserves	–	–	–	641	-641	–
Capital increase out of corporate funds	3,045	–	-2,404	-641	–	–
Capital increase (initial public offering)	1,635	–	–	–	–	1,635
Premium received from capital increase (initial public offering)	–	–	22,071	–	–	22,071
Cost of initial public offering offset against capital reserves	–	–	-2,010	–	–	-2,010
Elimination of consolidation difference	–	-838	–	–	–	-838
Net income for 2000	–	–	–	–	771	771
Balance as of December 31, 2000	9,779	837	20,639	–	6,326	37,581

Capital Subscribed

The company carried out the following capital increases in the 2000 fiscal year:

EUR 1,229,179.69 through conversion of capital reserves
EUR 327,850.31 through conversion of voluntary profit reserves
EUR 835,850.00 as a capital increase in return for equity payments
in connection with the initial public offering

As of the balance sheet date, the fully paid-in share capital of the company was DM 9,779,150.00 (EUR 5,000,000.00).

The consolidated balance sheet profit subject to dividend payments is determined on the basis of the balance sheet profit of Softing AG, in accordance with German commercial law.

Authorized Capital 2000/I
The Executive Board is authorized to increase the share capital, subject to the approval of the Supervisory Board, until March 16, 2005, once or several times, by up to EUR 2,000,000.00 by issuing new bearer shares in return for contributions in cash or in kind. Subject to the approval of the Supervisory Board, the Executive Board may exclude shareholders' subscription rights, subject to the approval of the Supervisory Board. The subscription right may only be excluded in connection with a capital increase in return for in-kind-contributions for the purpose of acquiring companies or stakes in companies, as well as for the purpose of avoiding the issuance of fractional shares.

Authorized Capital 2000/II
The Executive Board is authorized to increase the share capital, subject to the approval of the Supervisory Board, until March 16, 2005, once or several times, by up to EUR 500,000.00 by issuing new bearer shares in return for contributions in cash or in kind. Shareholders' subscription rights may be excluded, in whole or in part, subject to the approval of the Supervisory Board, if the issuing price of the new bearer shares is not significantly lower than the price of the company's listed shares of the same class at the time the final issuing price is determined.

Conditional Capital
There is also Conditional Capital in the amount of EUR 260,000.00, which was created in connection with a stock option plan.

Authorization to Acquire Own Shares
The General Shareholders' Meeting of March 17, 2000, authorized the Executive Board to acquire own shares representing up to ten percent of the company's share capital. This authorization may be exercised in whole or partial amounts. The price paid by the company per share may not exceed five percent above or below the average spot price of the share at the Neuer Markt of the Frankfurt Stock Exchange during the last five trading days prior to the share purchase date. Shareholders' subscription right is excluded insofar as these shares are utilized to offer to third parties shares of Softing AG in connection with the acquisition of companies or stakes in companies or to offer shares to the beneficiaries of the respective stock option plan.

Earnings per Share (IAS 33):

		2000	1999
Consolidated net income	DM (in thsds)	746	1,830
Third-party stakes	DM (in thsds)	25	–
Consolidated net income, undiluted	DM (in thsds)	771	1,830
Number of shares (one euro shares)	No.	5,000,000	2,607,120
Earnings per share, undiluted	DM	0.15	0.70

Capital Reserves

Capital reserves at the beginning of the fiscal year were DM 2,982,000. DM 2,404,000 of the company's own funds were utilized to underwrite a capital increase, transforming the funds into capital subscribed. The capital reserves grew by additional paid-in capital in the amount of DM 22,071,000 in connection with the capital increase of May 10, 2000. The issuing cost in the amount of DM 3,208,000 (i.e. DM 2,010,000 after income taxes) was offset against the capital reserves..

Reserves from Capital Consolidation

In May 1997, the company acquired 100 % of all shares in Softing GmbH für angewandte Prozeßrechentechnik und Informationstechnologie at a price of DM 3,983,000.00. The capital stock and the profits carried forward of Softing GmbH, including pro-rated profits as of May 1997, were DM 7,333,000.00. An adjustment item in the amount of DM 3,350,000.00 was created in connection with the initial consolidation at the time the company was acquired in May 1997 since the cost of acquiring Softing GmbH was lower than the stake of Softing AG in the book value (according to IAS) of the assets and the debt acquired as of the acquisition date. The surplus was recorded as negative goodwill and was amortized against earnings, beginning in fiscal year 1998, in accordance with IAS 22 in four amounts of DM 837,000.00 each.

In June 2000, the company established Softing Industrial Solutions Italia S.r.l., Desio, Italy, with a capital stock of EUR 85,000.00, retaining 80 % of the stake. In November 2000, an additional EUR 70,000.00 were paid into the capital reserve account. Third-party shareholders did not participate in this cash contribution. This resulted in a capitalized difference amount of DM 27,000.00 in connection with the initial consolidation, which was capitalized as goodwill and will be amortized over ten years in accordance with the straight-line method.

Offset Item for Third-Party Stakes

These third-party stakes concern the stakes of other shareholders in Softing Italia.

	DM	Third-party stakes %	12/31/2000 **DM**
Capital stock	166,246	20	33,249
Capital contribution	136,908	20	27,382
Loss for the year	-124,456	20	-24,889
Equity	178,698	20	35,742

Pension Reserves

This item concerns the partially reinsured pension commitments granted to the three Executive Board members, which provide for retirement and widow's benefits, as well as orphans' benefits in the event one or both parents are lost. The variable commitment of the previous year was transformed into a specific commitment. The company also made a new variable commitment to the aforementioned persons. The amount of the benefits is determined individually.

The present values of the defined benefit obligation are determined in accordance with the "projected unit credit" method pursuant to IAS 19 (revised 1998). The reinsurance coverage was not capitalized according to standards then applicable. The amount reserved is determined on the basis of an interest rate of 6.4 % for accounting purposes, a projected unit credit rate of 3.0 % (or of 0 % in the event of a fixed obligation), and a benefit adjustment rate of 1.5 %. The pension expenses resulting from the variable commitment were DM 70.,000.00 as of the balance sheet date. An amount of DM 383,000.00 was posted as income due to the change from the variable commitment to a fixed-benefit plan.

Tax Reserves

The tax reserves concern exclusively taxes owed by the company.

Deferred taxes are valued pursuant to IAS 12 (revised 1996) in accordance with the liability method, using the tax rates applicable or promulgated as of the balance sheet date. The deferred taxes comprise:

	12/31/2000 **DM** (in thsds)	12/31/1999 **DM** (in thsds)
Long-term assets	5,562	6,242
Short-term assets	551	1,113
Short-term liabilities	–	147
Long-term reserves	151	-112
	6,264	7,390

Please see the section "Income Taxes" for additional explanations.

Other Reserves and Liabilities

Reserves and liabilities are valued at the anticipated repayment amount. Reserves are created whenever it seems likely that a liability toward a third party exists and its value can be reliably estimated.

The remaining reserves comprise the following items:

	12/31/2000 **DM** (in thsds)	12/31/1999 **DM** (in thsds)
Guarantees	280	943
Personnel costs	1,521	1,185
Financial statements, preparation and auditing costs	102	154
Third-party services, fees	537	–
Repayment of subsidies	–	64
Licenses	–	173
Other	50	33
	2,490	2,552

Liabilities to Banks / Credit Lines

As of the balance sheet date, the company had credit lines totaling DM 6,500,000.00. Of this amount, the company utilized DM 423,000.00 in the form of security deposits and DM 219,000.00 in the form of guarantees on advance payments.

Advance Payments Received for Contracts

Advance payments received as of the balance sheet date were DM 1,292,000.00 (previous year: DM 2,618,000.00). Of this amount, DM 550,000.00 (previous year: DM 1,736,000.00) apply to long-term production contracts, which were offset against the respective work-in-process balances.

Trade Accounts Payable

Total accounts payable as of the balance sheet date are due within one year.

Other Liabilities

	12/31/2000 **DM** (in thsds)	12/31/1999 **DM** (in thsds)
Taxes	743	1,519
Liabilities related to social security and benefits	445	486
Wages and salaries payable	184	3
Other	163	–
	1,535	2,008

All other liabilities as of the balance sheet date are due within one year.

5. Notes to the Consolidated Statement of Income

Sales Revenue

Sales revenue is always recognized at the time risk is transferred. The "percentage of completion" method pursuant to IAS 11 was utilized to determine the value of goods and services provided under long-term software projects. The goods and services provided were shown accordingly as sales revenue. The following overview shows the sales revenue, classified according to geographic criteria. For information on individual business segments, please see the segment report.

	2000 DM (in thsds)	1999 DM (in thsds)
Domestic	27,594	23,991
Foreign	9,215	10,268
	36,809	34,259

Other Own Costs, Capitalized

The other own costs that were capitalized concern the cost of developing new software products, to the extent that the respective expenses were not deducted from the cost of materials.

Inventory Increase / Decrease

	2000 DM (in thsds)	1999 DM (in thsds)
Closing inventory of finished goods	2,105	1,063
Opening inventory of finished goods	-1,063	-726
	1,042	337

Other Operating Revenue

The other operating revenue comprises the following items

	2000 DM (in thsds)	1999 DM (in thsds)
Dissolution of reserves	822	82
Revenue from liquidation of fixed assets	1	3
EU subsidies	347	151
Revenue from the write back of the difference related to initial consolidation	837	837
Other revenue	336	651
	2,343	1,724

Cost of Materials

	2000 DM (in thsds)	1999 DM (in thsds)
Procurement of components and products	6,615	5,744
Consumable materials	–	459
Fees, freelance personnel	401	25
Third-party services	1,003	1,494
	8,019	7,722
Cost of materials for software development projects	-336	-628
	7,683	7,094

Personnel Costs

	2000 DM (in thsds)	1999 DM (in thsds)
Salaries	19,847	17,060
Profit-sharing, royalties	–	242
Provision of automobiles to employees	236	203
Severance pay	–	0
Overtime, maternity pay, benefits designed to encourage capital formation	131	112
Temporary workers	158	99
Wage and church taxes	15	16
Social security and pension plan payments	3,243	3,104
	23,630	20,836

The cost of the pension plans was DM 40,000.00 (previous year: DM 50,000.00).

Other Operating Costs

The other operating costs are as follows:

	2000 DM (in thsds)	1999 DM (in thsds)
Expenses unrelated to the accounting period	90	26
Operating costs	3,380	2,576
Distribution costs	2,031	1,326
Administrative expenses	2,913	1,621
	8,414	5,549

Profits from Financial Assets

This item comprises the increase in the capitalized value of the reinsurance coverage of the company's pension commitments (cf. Asset Schedule).

Taxes Unrelated to Income

These taxes comprise the motor vehicle taxes for company cars.

Interest Result

Interest is posted as cost or income at the time it is paid or earned, respectively.

	2000 **DM** (in thsds)	1999 DM (in thsds)
Revenue from loans of financial assets	56	–
Interest income	628	31
Interest expenses	-160	-83
	524	-52

Income Taxes

Income taxes are determined in accordance with all applicable tax laws.

In principle, Softing AG and its German subsidiary are liable for a trade tax [Gewerbeertragssteuer] of approximately 15 % of taxable income, which is deducted at the time the corporate income taxes are determined. As of January 1, 2001, the corporate income tax rate (including the solidarity surcharge) is 26.38 % (until 2000, it was 40 % plus 5.5 % solidarity surtax for deferred income).

Deferred taxes are created by each individual company, as well as on the basis of consolidation measures, pursuant to IAS 12 (revised 1996) relative to all significant yet temporary deviations between the consolidated statements and the statements prepared for tax purposes. As of January 1, 2001, the tax rate (currently 37.34 %) will be determined as follows in accordance with the Tax Reform Act 2000 / 2002 / 2005:

Corporate income tax including solidarity surtax (26.38 %)
Trade tax rate (14.89 %)
Reduction of corporate income tax by crediting the trade tax (less 3.93 %)

In Italy, the tax rate, including the regional ERAP, is estimated at 36 %.

Capitalized deferred taxes from losses carried forward were shown only to the extent that a company will, in all likelihood, achieve taxable income sufficient for utilizing the benefit of losses carried forward. The company has losses carried forward of DM 1,519,000.00, which were taken into account at the time the deferred taxes were determined.

The tax expenses are as follows:

	2000 DM (in thsds)	1999 DM (in thsds)
Current taxes (income)	–	-2
Deferred tax expenses	-1,207	-991
	-1,207	-993

The reconciliation of anticipated tax expenses and actual tax expenses is as follows:

	2000 DM (in thsds)	1999 DM (in thsds)
Anticipated tax expenses (income (-))	-234 (50.8 %)	1.443 (51.0 %)
Tax-exempt write back of the difference relating to initial consolidation	-426	-434
Non-deductible expenses	25	–
Reduction of the domestic corporate tax rate	-790	–
Elimination of the retained earnings credit	215	–
Different tax rates among deferred taxes	3	-16
	-1,207	993

6. Other Information

Business Segment Reporting

The corporate divisions are shown in the following table in accordance with IAS 14 (revised 1997).

	Industrial Automation DM (in thsds)	Automotive Electronics DM (in thsds)	4CONTROL DM (in thsds)	Not distributed DM (in thsds)	Total DM (in thsds)
Sales revenue	18.550	16.030	2.229	–	36.809
Net income segment	1.380	3.141	-4.555	-950	-984
Assets:					
Product development	4.186	3.205	7.213	–	14.604
Other assets	–	–	–	37.040	37.040
Balance sheet total	4.186	3.205	7.213	37.040	51.644

Statement of Changes in Financial Position

The Statement of Changes in Financial Position represents the consolidated cash flow streams of the consolidated companies. The cash flow from current business activities decreased compared to the previous year, due to the significant increase in current assets, especially trade accounts receivable.

Cash and cash equivalents shown in the Statement of Changes in Financial Position comprise checks, cash on hand, as well as cash in banks.

Stock Option Plan

The General Shareholders' Meeting of Softing AG of March 17, 2000, resolved a conditional capital increase by up to EUR 260,000.00 by issuing no par-value bearer shares in the amount of EUR 260,000.00. This conditional capital increase serves exclusively to grant subscription rights to the company's Executive Board members and employees. The conditional capital increase may only be carried out to the extent that the holders of the subscription rights granted thereunder exercise these rights in accordance with § 192 para 2 no. 3 German Stock Corporation Act. The subscription rights may be exercised two years after being granted, at the earliest.

Subject to the approval of the Supervisory Board, in fiscal year 2000 the Executive Board granted subscription rights to 54,700 shares of Softing AG at the price of EUR 17.40 per share.

The subscription rights may be exercised subject to specific requirements. The shares may only be subscribed if the development of the Softing stock outperforms the CDAX Technology Index of Deutsche Börse AG during the underlying time period.

The value of the stock options at the time they were granted was established on the basis of a risk-free interest rate of 4.5 %, a dividend yield of 0 %, and a volatility of the Softing stock of 51 %. The value of the stock options, which was determined on the basis of estimated values, was EUR 3.61 or EUR 4.73 per option at the time of granting.

The company utilizes APB Opinion No. 25 Accounting for Stock Issued to Employees for the purpose of showing its employee stock option plan in its balance sheet. If the personnel expenses related to the stock option plan had been shown in accordance with the method set forth in SFAS No. 123, the net income for the year and the earnings per share would have changed as follows:

Consolidated net income for the year incl. third-party stakes	in DM (in thsds)	771
Earnings per share, undiluted	in DM	0.15
Consolidated net income, diluted	in DM (in thsds)	684
Earnings per share, diluted	in DM	0.14

Relationships to Affiliated Companies and Persons

Besides the companies included in the consolidated financial statements, the following companies and persons are considered related parties of the Softing Group pursuant to IAS 24:

Mr. Eduard Himmelsdorfer, shareholder, Executive Board member, and managing director
Dr. Rainer Mittmann, shareholder, Executive Board member, and managing director
Dr. Manfred Patz, shareholder, Executive Board member, and managing director

The following short-term non-interest bearing liabilities are owed net to affiliated persons:

	12/31/2000 **DM** (in thsds)	12/31/1999 **DM** (in thsds)
Eduard Himmelsdorfer	49	0
Dr. Rainer Mittmann	53	0
Dr. Manfred Patz	52	0
	154	0

Contingencies

There were and are no contingencies.

Other Financial Obligations

As of the balance sheet date, the company had incurred liabilities in the amount of DM 1,366,000.00 under long-term contracts.

There were also liabilities under long-term rental and leasing agreements. These liabilities stem primarily from contracts related to buildings, motor vehicles, and office equipment.

The minimum amounts of future leasing and rental payments not discounted under operating leasing agreements as of the balance sheet date are as follows:

	DM (in thsds)
2001	1,604
2002	1,423
2003	1,290
2004	1,217
2005	1,200
after 2005	479
	7,213

Personnel

The number of employees excluding the Executive Board was as follows:

	2000	1999
As of the balance sheet date	187	182
Annual average	186	173

Executive Board

The following persons were members of the Executive Board of Softing AG in fiscal 2000:

Eduard Himmelsdorfer, Munich, Germany, graduate engineer
Dr. Rainer Mittmann, Munich, Germany, graduate engineer
Dr. Manfred Patz, Munich, Germany, graduate engineer

The members of the Executive Board simultaneously serve as the managing directors of the company's subsidiary, Softing GmbH für angewandte Prozeßrechentechnik und Informationstechnologie. Payments to these persons in fiscal 2000, excluding payments to the pension reserves, amounted to DM 1,211,000.00 (previous year: DM 1,051,000.00).

Supervisory Board

The following persons were members of the Supervisory Board in fiscal 2000:

Dr. Horst Schiessl, Attorney at Law, Munich, Germany (chairman)
Josef Faltenbacher, CPA, Munich, Germany (deputy chairman)
Dr. Georg Färber, Professor, Ottobrunn, Germany

Dr. Schiessl also belongs to the Supervisory Boards of the following companies:
Baader Wertpapierhandelsgesellschaft AG, Unterschleißheim, Germany
Chiemsee AG, Grabenstätt, Germany (chairman)
St. Petersburg Immobilien und Beteiligungs AG SPAG, Mörfelden-Walldorf, Germany (deputy chairman)
Coss Systemtechnik AG, Aalen, Germany (chairman)
Dussmann AG & Co. KGaA, Berlin, Germany

Mr. Faltenbacher also belongs to the Supervisory Boards of the following companies:
Baader Wertpapierhandelsgesellschaft AG, Unterschleißheim, Germany
Maier & Partner AG, Reutlingen, Germany (chairman)
Dr. Färber also belongs to the Supervisory Boards of the following companies:
Mannesmann VDO AG, Frankfurt, Germany
SEP Logistik AG, Weyarn, Germany

Payments to these persons in the fiscal year totaled DM 44,000.00.

Haar, Germany, February 23, 2001

The Executive Board of Softing AG

Eduard Himmelsdorfer | Dr.-Ing. Rainer Mittmann | Dr.-Ing. Manfred Patz

Auditors' Opinion

We have audited the Consolidated Financial Statements of Softing AG in Haar, Germany, for the fiscal year from January 1 to December 31, 2000, comprising the Balance Sheet, the Statement of Income, the Statement of Equity Development, the Statement of Changes in Financial Position, and Notes to the Consolidated Financial Statements. The preparation of the Consolidated Financial Statements according to the International Accounting Standards (IAS) and their contents 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.

We conducted our audits of the Consolidated Financial Statements in accordance with the German auditing standards and the generally accepted German auditing principles laid down by the "Institut der Wirtschaftsprüfer" [IDW – German Institute of Certified Public Accountants] and taking into consideration the International Standards on Auditing (ISA). These standards and principles require that we plan and perform the audit to obtain reasonable assurance about whether Consolidated Financial Statements are free of material misstatements. During audit planning, our knowledge of the business activities, of the economic and legal environment of the group and of possible errors to be expected is taken into account. Performing an audit includes examining, on a sampling basis, evidence supporting the carrying amounts and the disclosures in the Consolidated Financial Statements. An audit also includes assessing the accounting principles used and significant opinions of the company's legal representatives, as well as evaluating the overall presentation of the Consolidated Financial Statements. We believe that our audit provides a sufficiently sound basis on which to issue our opinion.

In our opinion, the Consolidated Financial Statements are in accordance with the International Accounting Standards and give a true and fair view of the net worth, financial position and results of operations of the group and of the cash flow situation of the fiscal year.

Our audit, which also included the Management Report prepared by the Executive Board for the fiscal year from January 1 to December 31, 2000, led to no objections. In our opinion, the Management Report of the group gives an accurate picture of the state of the group's affairs and correctly depicts the risks of future developments. We also confirm that the Consolidated Financial Statements and the Group Management Report for the fiscal year from January 1 to December 31, 2000, fulfill the requirements for dispensing the company from preparing Consolidated Financial Statements and a Group Management Report according to German law.

Munich, February 23, 2001

Bayerische Treuhandgesellschaft Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Dirscherl	Damberger
Wirtschaftsprüfer	Wirtschaftsprüfer

Report by the Supervisory Board for the Fiscal Year 2000

In the fiscal year 2000, the Executive Board informed us in four regular meetings of the company's situation and significant business transactions. Between the meetings as well, the company's development was regularly discussed with the Executive Board. The Executive Board has always informed us to our satisfaction in every respect, also in terms of the company's risk management.

The auditors of Bayerische Treuhandgesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Munich/Germany, have audited the Financial Statements for the fiscal year 2000 including the accounting and the company's Management Report, which was prepared by the Executive Board. The auditors have issued an unqualified opinion. Their report was submitted to us. We have examined the Financial Statements and the Executive Board's Management Report. The Supervisory Board agrees with the appropriation of profits proposed by the Executive Board. At our request, the auditor has attended these discussions. On the basis of our own examinations, we agree with the auditor's audit of the Financial Statements.

Based on the final result of our examination, we have no objections. The Executive Board and the Supervisory Board have thus established the Financial Statements.

Consolidated Financial Statements and a Group Management Report were prepared as well and audited by the auditors of Bayerische Treuhandgesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Munich/Germany. The auditors have issued an unqualified opinion. Their report was submitted to us.

Haar/Germany, March 20, 2001

The Chairman of the Supervisory Board

Dr. Horst Schiessl

Financial Calendar 2001

April 5, 2001	Financial Statements Press Conference/DVFA in Frankfurt am Main
May 22, 2001	Quarterly Report 1-2001
May 29, 2001	Annual Shareholder's Meeting in Munich
August 14, 2001	Quarterly Report 2-2001
November 11, 2001	Quarterly Report 3-2001

Glossary

ASAM Association for Standardisation of Automation- and Measuring Systems. An initiative promoting the standardization of motor vehicle electronics, e.g. in measuring, calibration and diagnosis. (www.asam.de)

Real-time A system operates in real-time if it reacts fast enough to register events without perceptible delays and, most importantly, in the sequence in which they actually occur. With machine control systems, real-time usually involves response times of 1 to 50 milliseconds while real-time process controls usually require response times of 50 to 500 milliseconds..

Ethernet A communication system according to IEEE 802.2 which is often used in computer networks.

Fieldbus An industrial digital communication network for exchanging data and information which connects control systems and distributed field devices.

Foundation Fieldbus (FF) A fieldbus standard that was initiated by the Fieldbus Foundation. FF is specified for H1 and HSE (High Speed Ethernet) devices. EN 50170 acceptance is pending for the H1 specification while HSE specifications are included in the IEC 61158 standard. (www.fieldbus.org)

IEC 61131-3 Die IEC International Electrotechnical Commission beschäftigt sich unter anderem mit der Festsetzung von weltweiten Standards und Normen im Bereich der Elektrotechnik. Beim Standard 61131-3 handelt es sich um einen internationalen Sprachstandard zur Programmierung von speicherprogrammierbaren Steuerungen. Er enthält grafische und textuelle Varianten. (www.iec.ch)

Intranet An organization's internal communication network based on the same technology as the Internet.

MOST Cooperation Media-Oriented Systems Transfer. Cooperation of leading automobile manufacturers and suppliers promoting the introduction of multimedia technology in cars. (www.mostnet.de)

PROFIBUS PROFIBUS was specified by a German consortium and initially defined as a German standard. It later become part of EN 50170. Since 1999, PROFIBUS has been part of the IEC 61158 standard. There are a number of technical variants of PROFIBUS, the most widespread of which are PROFIBUS DP for high-speed communications to decentralized I/O and PROFIBUS PA for use in the process industry. (www.profibus.com)

Interface The connection between systems or components through which data is exchanged.

PLC Programmable Logic Controller. A digital electronic system with a user-programmable memory for storage of instructions that controls a variety of machines and processes through digital or analog input and output signals. PLCs are used for controlling technical processes in almost all areas of industry.

Imprint

Concept and realization

CAT CONSULTANTS, Hamburg