ANNUAL-REPORT 2001

Annual Report Softing AG 2001

Competence in Control and Communications Technology

softing

Financial Ratios Group (according to IAS)

		2001	2000	1999
Sales	(million EUR)	17.99	18.82	17.54
EBIT	(million EUR)	– 3.54	– 0.50	1.43
Net loss/income	(million EUR)	– 1.86	0.38	0.92
Fixed assets	(million EUR)	8.57	8.81	8.69
Current assets	(million EUR)	12.67	16.64	6.39
Shareholders‘ equity	(million EUR)	16.83	19.22	8.18
Number of employees (annual average)		182	186	173
DVFA/SG earnings per share	(EUR)	– 0.47	– 0.01	–

Highlights 2001

January Support of a second Formula One team in the area of sensor and calibration data

February Conclusion of a license agreement with Volkswagen concerning a diagnostic platform in after-sales testers

July Launching of the Diagnostic Tool Set (DTS) supporting the database standardized according to ASAM MCD-2

August Foundation of the subsidiary Softing North America, Inc. in Newburyport, Massachusetts, with an office in Michigan for the business division Automotive Electronics

October Roadshow ”Distributed Control with Ethernet“ in six German cities

November Product placement of the second 4CONTROL generation

December As one of the first suppliers: product placement of the protocol software PROFIBUS DP/V2

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Eduard Himmelsdorfer

Dr. Rainer Mittmann

Dr. Manfred Patz
(until 3/31/2002)

Dr. Wolfgang Trier
(as of 4/1/2002)

Ladies and gentlemen,
dear friends of Softing AG,

the year 2001 presented a great challenge to Softing in terms of stock market and the general economic situation. On the stock market, especially on the Neuer Markt (new economy), the downtrend of the previous year continued. In the middle of the year, we had to announce a revision of our targeted goals for Industrial Automation. This again caused the price of the Softing shares to fall.

The low point of this development was reached on September 11, when the price dropped to only 1 Euro. Things have been improving since then – slowly but surely.

The stock market reflected and magnified the unstable situation of the national and global economy. On the product and service markets, this insecurity showed in less willingness to invest. The situation also affected the Softing business and resulted in less incoming orders, lower turnover and lower operating income in 2001 than was originally planned. With a turnover of 18 million EUR and an annual loss of – 3.5 million EUR, 2001 was a disappointing year for us.

Nevertheless, we are optimistic as far as our future development is concerned. In 2001, we laid the foundations for a successful year 2002 by further development of our products and by enhancing our organization structure.

With our competence in control and communication technology, which has grown in more than 25 years, we have established ourselves as a specialist in fieldbus technology. Recently, gateways for connecting fieldbuses to the Ethernet have been added to our fieldbus product range. They represent an important link for coherent networking from the machine sensor to the management information system.

Our product 4CONTROL PC-based for industrial automation has been complemented by 4CONTROL Embedded which is executable on basically all hardware platforms and operating systems and supports any customer-specific requirements.

In the area of Automotive Electronics, we made substantial progress by our active participation in ASAM (Association for Standardisation of Automation and Measuring Systems). We have combined 4CONTROL and Diagnostic Tool Set (DTS) to form an integrated solution for the production and testing of ECUs. Already this year, this system will fulfill important test functions at the end of the production process in the automobile industry.

We strengthened our company organization by introducing a new Enterprise Resource Planning System and restructuring our sales department.

We are now adequately represented not only in Europe but also in the United States. In August, our marketing subsidiary Softing North America, Inc., successfully commenced its activities near Boston, Massachusetts. In the heart of the American automobile industry, near Detroit, Michigan, we opened a sales office.

There is no doubt that our markets are characterized by stiff competition and hesitation to invest. In 2001, we still noted some reservation as to replacing "classic" PLCs by Soft-PLCs. However, we believe that our combination of innovative products and a comprehensive service range promises great opportunities to convince our customers of the cost-cutting potential of software-based control systems.

Like the ZVEI (the German electrical and electronic manufacturers' association), we only expect a slight recovery of our markets in the second half of 2002. In the area of software-based control systems, we expect a growth of 30% per annum for 4CONTROL. Also in the market for fieldbus systems supported by us, we count on above-average growth, especially in the United States. Due to the continuously growing importance of electronics in automobiles, Automotive Electronics receives ever new incentives for growth, e.g. in terms of safety and comfort. Since Softing is also in close contact with leading manufacturers, which has grown over long periods of time, we have a high growth potential.

Our staff members are the guarantee of our success, also during times of great challenges. Without their extraordinary efforts and great loyalty, we would not have been able to continue on our somewhat rocky road. To them, we are especially grateful.

We also want to thank our shareholders for their patience. Your loyalty has been no matter of course, in view of our stock price development up to this point. Today, we want to tell you: stay with us. It will be worth it.

We will keep you informed.

Yours sincerely,

Eduard Himmelsdorfer | Dr. Rainer Mittmann | Dr. Manfred Patz | Dr. Wolfgang Trier


INDUSTRIAL

Industrial Automation – on the Cutting Edge of Technology

Industrial Communication – use of fieldbus technology in new environments

Until a short time ago, the requirements of the office world and the industrial world were entirely different: in the IT world of the office, the focus was on the transfer of complex data; the control technology of the industry, on the other hand, concentrated on the safe transmission of relatively small amounts of data in real time.

Today, industrial automation demands open and comprehensive communication: standardized software interfaces, remote access and commissioning possibilities, seamless integration between automation and IT world and the possibility of direct database access from the machine control.

The objectives of fieldbus technology are the acceleration of complex control processes by digital data transmission and the saving of cabling costs. In machine building and production automation, the use of fieldbus technology is today an integral part of nearly every installation. The process industry (e.g. refineries) has been somewhat hesitant in the past, but here as well, hardly a new plant is designed without this future-oriented technology. New challenges are today presented by the combination of fieldbus technology with Ethernet, well-known from the office world, and by the use of the Internet in the integrated communication environment "Industrial Communications".

A specialist in fieldbus technology, Softing has established itself as a competent partner for the networking of automation systems. Among our standard products are fieldbus interfaces for PCs as well as tools for the commissioning and maintenance of fieldbus networks. Recently, gateways have been added to our fieldbus product range. They make it possible to connect fieldbuses to the Ethernet, thus representing important links for coherent networking from the machine sensors to the management information system.

Our fieldbus products reflect Softing's many years of experience in industrial automation. For instance, Softing was the first company to introduce a PROFIBUS implementation in industrial control technology. Today, our fieldbus implementations are known for their reliability and their well-proven performance range. Renowned and globally leading manufacturers of automation systems have made their decision for our fieldbus products, in combination with our technical advice and support.

Like the entire area of Industrial Communication, fieldbus technology continues to develop rapidly. From the very beginning, Softing has actively contributed to continuous further development and distribution. As a member of national and international fieldbus organizations, we keep not only up to date, but help shape the future as well.

Whereas very strong competition has formed in the area of factory automation, the process automation industry is only just beginning the transition from conventional cabling to fieldbus technology. Softing AG has started early to prepare for this industry's specific requirements. We support the two fieldbuses leading in this market: the Foundation Fieldbus and the PROFIBUS-PA. As one of the first suppliers whose entire range of fieldbus protocol implementations has successfully been tested for conformity by the Fieldbus Foundation, Softing will assume a role as a pacemaker in process automation and further strengthen its market position.

4CONTROL – the future lies in distributed control systems

In the world of automation and control systems, software is the driving factor. Softing provides the answers to the automation industry's demands. Today, not only standardized system architectures, but also time-saving configuration and programming possibilities are required. The solutions differ accordingly: PC-based solutions in the IT world, programmable logic controllers in automation. With the control system 4CONTROL, this classic distinction becomes obsolete and immense cost-saving opportunities are opened up. Three features stand for 4CONTROL's superior achievements: integrated data management, remote access and distributed intelligence.

Integrated data management

By utilizing the latest technology, 4CONTROL has an enormous potential for reducing automation costs, providing users with competitive advantages. Not only hard- and software costs, but also the cost of start-up, training etc., i.e. the general "total cost of ownership" is significantly lowered. This is made possible by the new integrated engineering, which forms the central component of the 4CONTROL system. Writing the control software and the user interfaces as well as interfacing with the commercial IT world can now all be performed with one tool. This is due to the fact that 4CONTROL is PC-based and, by means of its easy-to-use interface, makes it possible to directly connect the commercial world of databases or of ERP systems such as SAP R/3.

4CONTROL

For the customer, this results in an integrated workflow from job order planning all the way to production.

Remote access to the control and remote diagnosis

4CONTROL allows detailed diagnoses, modifications and extensions of the automation control without requiring elaborate work of specialists on site. This helps to save travelling costs and reduce working hours.

Distributed intelligence

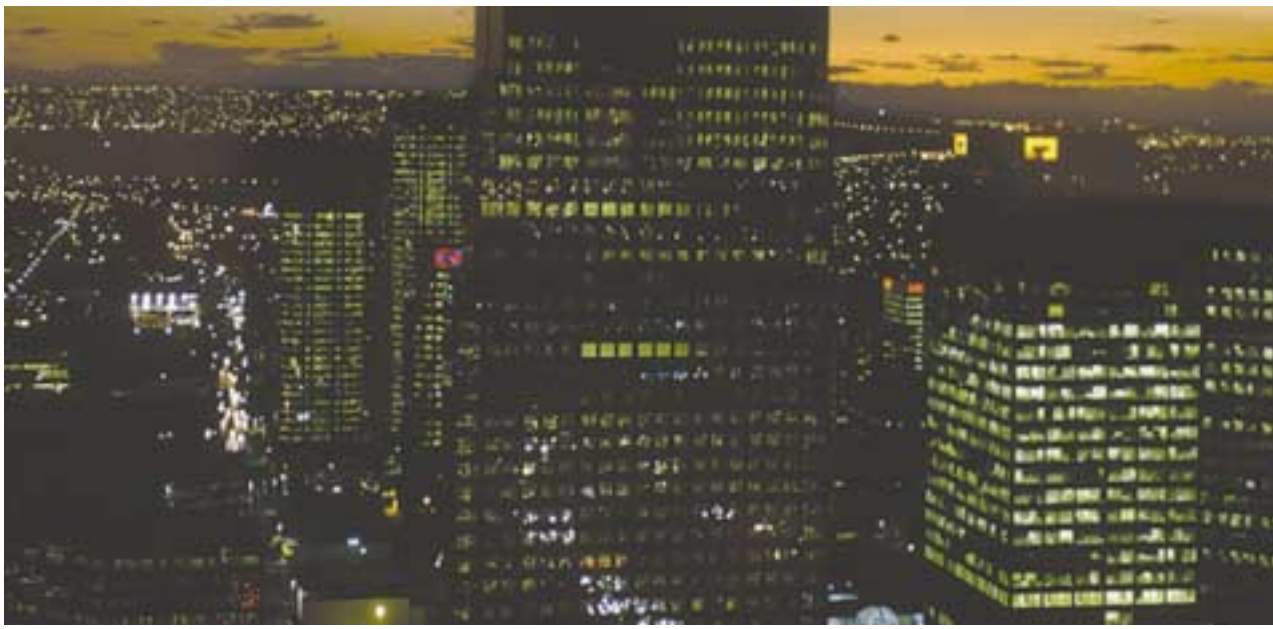
More and more, modern control technology demands distributed solutions which make it possible to independently perform tasks at the place they have occurred. The software-based controller family developed by Softing closes the gap between these local requirements and the communication with larger central units.

4CONTROL opens up numerous areas of application which by far exceed the uses of a conventional control in automation, e.g. of a PLC. It has already proved its worth, for instance, in the control of production lines, in refuelling plants and in test stands for the aircraft industry.

The new version 4CONTROL Embedded, developed in 2001, can be employed independently of the platform, opening up wide ranges of application.

An example from the dynamically growing area of building automation and public services gives an impression of 4CONTROL's high global market potential.

Also in the context of rising energy prices, building automation has gained an enormous significance for the owners of large real property. The data management of energy consumption, the control of heating, illumination, ventilation and air conditioning as well as access control in different buildings and in different locations are the most typical tasks. The necessary functionality for this purpose is even today available in a 4CONTROL solution for this specific industry.

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EDIC
AUTOMOTIVE

Automotive Electronics – the Driving Factor in Automobiles

Even in medium-size cars, the number of electronic control units has dramatically increased during the last few years. Upper-class cars with 70 ECUs are nothing unusual nowadays. Safe functioning of these ECUs increasingly depends on a faultless communication among the units. Especially in the field of vehicle diagnosis, there has been an early demand for comprehensive solutions.

Vehicle diagnosis is one of Softing's central operating areas. We cover the entire range of communication. Our main focus is on the optimization of the process chain "development – trial – production – customer service" in the automobile industry. The scope of solutions offered reaches from the implementation of user interfaces for test sequences all the way to diagnostic protocols for the interface with the ECU.

Typical solutions implemented by Softing in the area of ECU development are the Diagnostic Tool Set (DTS) for verifying the communication and functioning of ECUs, and the EDIC-mobil by means of which systematic errors in the development phase of automobiles can be digitally recorded. The user-friendly graphic visualization of diagnostic data has induced more and more professional users to make their decision for the DTS. Over 1,500 DTS licenses are in use yet today.

In view of the large number and different versions of ECUs built into automobiles, the standardization of ECU interfaces is gaining enormous importance. This is the task of ASAM e.V. of which Softing is a foundation member. In the workgroup ASAM MCD2, Softing is actively involved in shaping the international standardization of measurement, calibration and diagnostic interfaces.

By applying its know-how in ASAM and developing it further, Softing has advanced a decisive step in 2001 in terms of integrating its technical developments. The combination of 4CONTROL and Diagnostic Tool Set (DTS) to an integrated control system provides a new solution for ECU manufacturing and testing. 4CONTROL and Diagnostic Tool Set (DTS) have been combined to form one product. The integrated version is a "natural" and logical enhancement of the DTS system concept. In this way, Softing provides a fundamental component for supporting the process chains in the automobile industry.

The synthesis of 4CONTROL and DTS allows a complete automation of the ECU tests. Thanks to the well-known Windows interface and the possibility of graphic programming, users can write test sequences on their own. By the ASAM MCD2 standard, they then have access to all communication functions specific to the manufacturer and the ECU. With the PC-based control system 4CONTROL / DTS, Softing offers a future-oriented solution which allows comprehensive ECU tests and possibilities of diagnosis. After being successfully introduced with a renowned ECU manufacturer, use of the system in a belt end test system of a large automobile manufacturer is now in preparation.

In the test stage of vehicles as well as in manufacturing at the belt end, in the central customer service of the vehicle manufacturers and in after-sales diagnosis, online and off-line, there are hardly any limits to the flexible use of 4CONTROL / DTS in the future, thanks to its PC basis and Internet support.

To prepare ourselves for this challenge, we have also taken measures on an international basis. Our new sales office in Farmington Hills, Michigan, in the heart of the American automobile industry, offers not only sales and after-sales support for our products, but also provides us with a number of new impulses by close contact with American customers.

Trade Fairs 2001

Industrial Automation

February	Drives & Control, London, Great Britain
March 27 – 31	ISH, Frankfurt, Germany
April 23 – 25	SEMICON, Munich, Germany
April 23 – 28	Hannover Messe, Hanover, Germany
May 23 – 27	Intel, Milano, Italy
June 19 – 21	Testing Expo, Stuttgart, Germany
September 10 – 13	ISA Show, Houston, Texas, United States
September 24 – 28	Interkama, Düsseldorf, Germany
September 25	HMI & SoftPLC, Bologna, Italy
October 23	Fieldbus & Networks, Padova, Italy
November 27 – 29	SPS/IPC/Drives, Nuremberg, Germany

Automotive Electronics

March 5 – 8	SAE, Detroit, Michigan, United States
March 21 – 22	Messtechnik Stuttgart, Germany
June 19 – 21	Testing Expo, Stuttgart, Germany
September 4 – 6	MessComp, Wiesbaden, Germany
September 27 – 28	VDI Congress Baden-Baden, Germany
November 14 – 15	Messtechnik Hannover, Hanover, Germany

Trade Fairs 2002

Industrial Automation

April 15 – 20	Hannover Messe, Hanover, Germany
April 14 – 18	Light & Building, Frankfurt, Germany
April 16 – 18	SEMICON, Munich, Germany
October 21 – 24	ISA 2002, Chicago, Illinois, United States
November 19 – 23	BIAS 2002, Milano, Italy
November 26 – 28	SPS/IPC/DRIVES, Nuremberg, Germany

Automotive Electronics

March 4 – 7	SAE, Detroit, Michigan, United States
March 6 – 7	Messtechnik Stuttgart, Germany
May 14 – 16	Testing Expo, Stuttgart, Germany
June 4 – 6	ECT, Augsburg, Germany
September 3 – 5	MessComp, Wiesbaden, Germany
October 21 – 23	Convergence, Detroit, Michigan, United States

Group Management Report for the Financial Year 2001

The Softing Group currently consists of Softing AG, its marketing subsidiary Softing Industrial Solutions Italia S.r.l. (Softing Italia) in Verona, Italy, and Softing North America, Inc. (Softing North America) based in Newburyport, Massachusetts. Retroactively as of January 1, 2001, the subsidiary Softing GmbH which had been operative up to this point was merged into Softing AG.

In addition, branches of Softing AG exist in Ratingen and Ettlingen, both Germany.

The Softing Group is active as a software and computer vendor in industrial automation and automotive electronics. Softing develops complex software, hardware and systems of high quality. Hardware prototypes are developed by the company itself; the production of hardware products generally takes place externally.

In industrial automation, Softing is a renowned technology supplier. Focuses of activity are services, components and tools for industrial control systems and fieldbus systems as well as solutions for production automation.

The current developments on the market for industrial control systems, where the company has been able to achieve a considerable technological lead during the last few years, have induced Softing AG to further enhance the system 4CONTROL and develop specific application solutions for individual branches of industry. The market demands turnkey solutions for specific industries instead of a mere replacement of hardware solutions by software. Thus, strategic focusing on the business segment 4CONTROL continues to be furthered.

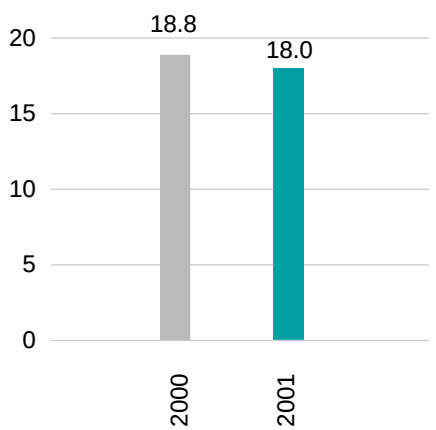
In the field of automotive electronics, PC-supported testing and analysis systems for communication interfaces to the vehicle electronics are developed in addition to customized control and diagnostic systems for the automobile industry and its suppliers.

Softing carries through customer-specific projects and sells its own standard products, the latter of which nowadays constitute the main part of the company's turnover.

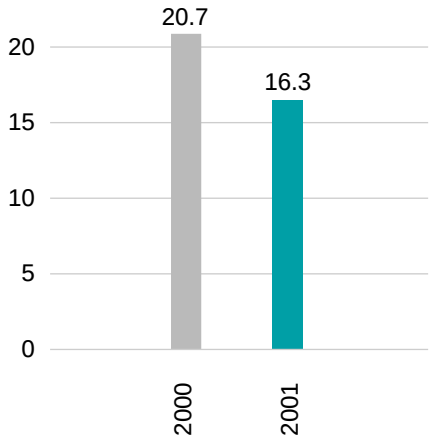
The scope of services offered is completed by consulting, analyses, studies and training.

Softing sells its services and products mainly in Europe, but also in the United States and Japan.

Sales
(in EUR million)



Orders on-hand
(in EUR million)



On August 23, 2001, Softing AG founded the marketing subsidiary Softing North America. The company was registered on the same day in Massachusetts. Business operations of Softing North America commenced on August 29, 2001.

The capital stock of Softing AG amounts to 5.0 million EUR.

Course of business and economic environment

The decline of the global economy, which already began at the end of the year 2000, accelerated in 2001 and had negative effects on the business development of Softing AG's division Industrial Automation. The strong reluctance to invest, both in Germany and in the United States, was the reason that the envisaged turnover in this business division could not be achieved.

For the reporting period, consolidated accounts were prepared according to the requirements of the International Accounting Standards Committee (IAS).

In the financial year 2001, the Softing Group, including its marketing subsidiaries in Italy and the United States, achieved a turnover of 18.0 million EUR (in 2000: 18.8 million EUR). In the business division Industrial Automation, including 4CONTROL, turnover amounted to 9.4 million EUR (in 2000: 10.6 million EUR) and in Automotive Electronics, to 8.6 million EUR (in 2000: 8.2 million EUR). Incoming orders ran to a total of 16.3 million EUR (in 2000: 20.7 million EUR).

Softing Italia achieved a turnover of 0.3 million EUR with an annual loss of –0.2 million EUR. For Softing North America, based in Newburyport, turnover ran to 0.3 million EUR with an annual loss of –0.1 million EUR.

The liquidity position of the group is secure. At the end of 2001, the equity capital of Softing AG amounted to 16.8 million EUR as compared to 19.2 million EUR in 2000.

The annual loss of the Softing Group amounted to –1.9 million EUR as compared to an annual profit of 0.4 million EUR in 2000.

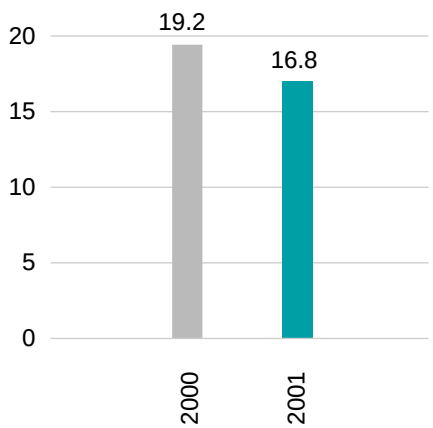
The DVFA/SG result per share is –0.47 EUR for 2001 (in 2000: –0.01 EUR).

Expenditures for research and product development continue on a high level

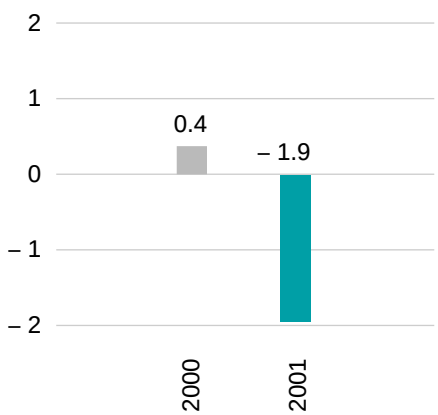
For years, the Softing Group has been investing large sums in research and development. The R&D activities are coordinated in a Technical Steering Committee which meets regularly to be able to react to customer requirements and bring new products to the full-production status as fast as possible.

In total, we have invested 3.7 million EUR in the development of new products and in further development of those that already exist. As in the previous years, these developments were financed by our own resources.

Equity
(in EUR million)



Annual profit
(in EUR million)



In our product 4CONTROL, we invested 1.2 million EUR. With this product, Softing assumes a role as an innovator in the area of Internet-based PC applications in industrial automation. The version 4C Embedded, the development of which was concluded at the end of 2001, will open up a much larger sales area for our other automation products as well.

In the business division "Industrial Automation", including 4CONTROL, 2.4 million EUR were invested. The main focus was on a generally enhanced product range and a clear orientation of all component developments by the synergies they can establish with 4CONTROL.

The Softing development tool "Diagnostic Tool Set" for vehicle communication was adapted to the rapidly growing requirements of automotive electronics. The product range based on the "Diagnostic Tool Set" was enhanced for the global ASAM standard in the automobile environment. Softing has actively contributed to the development of this standard. In total, 1.3 million EUR were invested in this area.

High staff motivation

At the end of the year 2001, the Softing Group had in total 181 employees (in 2000: 187). Nearly 80% of these employees have a university degree. The main subjects are electrical engineering, informatics, factory automation and mathematics. At the end of 2001, 124 highly qualified employees were active in research and development.

Twenty-nine 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 vocational training. To further strengthen staff commitment, stock options were again issued to the employees in the past financial year.

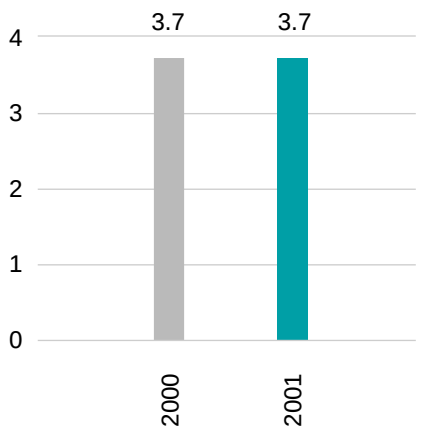
Future development of the company and risks

Differing market developments

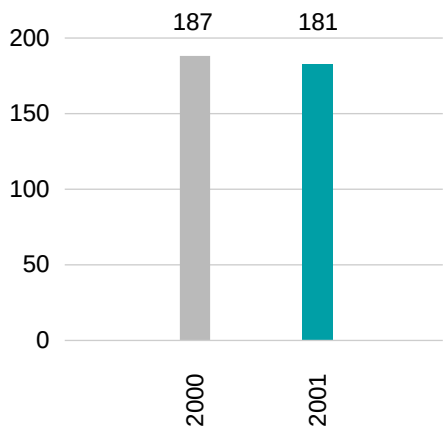
According to available market studies and our own estimates, we expect little economic growth for 2002. As stated by the ZVEI (German electrical and electronic manufacturers' association), the automation industry grew by 4% in 2001. No substantially higher growth rates are expected by us for 2002.

For software-based control systems, we continue to expect a growth of at least 30%. According to the information available to us, we estimate relative growth to be the same in Europe and in the United States.

Product development that must be capitalized
(in EUR million)



Employees
(at year´s end)



Predictions are that the growth potential of fieldbus systems will continue to be above average. We also expect the market growth to be at approx. 10% during the next few years. In this context, relative growth is estimated to be higher in the United States.

The electronic equipment in passenger cars and commercial vehicles continues to develop rapidly. Currently, it constitutes up to 30% of a vehicle's added value, depending on the vehicle class. Field investigators predict that the market for automotive electronics will continue to grow by at least 12% annually.

Outlook on the financial year 2002

A slight upturn in economic growth can only be expected as of the second half of 2002. Therefore, we plan a turnover of approx. 19.9 million EUR for the Softing Group during the next year. For the business division Automotive Electronics, planned turnover will amount to 9.1 million EUR and for Industrial Automation, including 4CONTROL, to 10.8 million EUR. The result of total turnover will not cover the expected startup losses of the foreign subsidiaries and the product placement and product management costs of future-oriented technologies like 4CONTROL during the next year, so that the resulting EBIT will amount to approx. –1.9 million EUR.

For Softing Italia, we plan a turnover of 0.4 million EUR and a result of –0.2 million EUR (in 2000: –0.2 million EUR).

We are now adequately represented not only in Europe but also in the United States. Business activities are developing in a positive manner. For Softing North America, we plan a turnover of 1.4 million EUR with a result of –0.1 million EUR.

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.

Our risk management consists in the optimum exploitation of existing business possibilities and in undertaking the connected risks only after carefully weighing the business perspectives. It is an integral part of our business processes and company decisions.

The principles are defined by our Executive Board. They contain statements on the risk strategy, the preparation to take risks and the scope of validity.

For monitoring and containing our risks, we use a number of measures which include, among others, a centralized planning and result assessment process valid throughout the company. The achievement of our business objectives as well as any risks which occur are monitored at regular intervals.

During the reporting period, the risk management system defined in 2000 was developed further. The risks involved in the individual business processes were periodically recorded, analyzed and evaluated. In this context, it was also determined whether individual risks which are of minor importance when isolated, can lead to a risk threatening the company's existence when combined.

The factors examined in the following have a high potential of negatively influencing business development, financial situation and results. There are additional risks which we regard as less important at this point in time but which could nevertheless affect our development.

Business risks

The markets served by us are characterized by stiff competition. This applies to the quality of products and services as well as to pricing. The year under review was characterized by a strong decrease in demand for products in the business area Industrial Automation, but also for the services offered by us. We fight these risks with a tighter cost management and flexible working hour models so we can quickly adapt to any changes in demand.

Another risk is a possible lack in readiness of our target markets to adopt new, innovative technologies and use them in automation projects. This could significantly slow down the product placement process and consequently lead to lower growth rates for our new product families

and to lower overall results. We therefore focus on those market segments where our new products offer particular advantages.

The situation on the market is characterized by a rapid change of the employed technologies. There is a danger that acquired know-how may prematurely lose value due to an unexpected market development. We fight this risk by actively participating in a large number of national and international workgroups in order to recognize technological trends early in time.

Operative risks

It is a characteristic part of our business that we are involved in complex development projects of our customers. These projects entail a certain implementation risk in terms of the envisaged costs and timebox. Any deviations may lead to lesser operating results and to damage claims. We meet this risk by planning such projects according to a process model defined in the quality management system and by carefully monitoring the individual project phases.

Staff risks

Our business depends to a large extent on the availability of highly qualified manpower.

Although competition for such manpower has slightly lessened during the reporting period, not being able to acquire and, especially, to keep enough qualified staff is still a considerable risk. By new, innovative recruitment measures and by close contact 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 for Personnel Marketing & Development was created.

Credit risks

Credit risks have played no important role in the past since our customers have mainly been large and financially strong companies. The increased broadening of our business, especially in the international environment, and the related acquisition of small and medium-sized companies as customers inevitably entail greater risks. We meet this risk by intensifying credit evaluation and debt management.

Events of special importance after the end of the financial year

There have been no events of special importance after the end of the financial year.

Haar, Germany, February 14, 2002

Softing AG

Eduard Himmelsdorfer

Dr.-Ing. Rainer Mittmann

Dr.-Ing. Manfred Patz

Consolidated Financial Statements 2001

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Consolidated Balance Sheet

Pursuant to IAS for the Financial Year 2001

Assets	12/31/2001 EUR	12/31/2000 EUR
A. Fixed assets		
I. I. Intangible assets		
1. Software and capitalized development cost	7,427,316	7,585,207
2. Goodwill from capital consolidation	34,248	13,883
3. Advance payments to suppliers	269,898	–
	7,731,462	7,599,090
II. Tangible assets		
Other fixtures, furniture and office equipment	833,793	968,065
III. Financial assets		
Other loans	1,676	238,550
	8,566,931	8,805,705
B. Deferred taxes	2,227,744	900,896
C. Current assets		
I. Inventories		
1. Raw materials and supplies	295,295	310,395
2. Finished goods and services	1,022,962	1,076,396
	1,318,257	1,386,791
II. Accounts receivable and other assets		
1. Trade accounts receivable	3,864,243	5,263,261
2. Other assets	315,884	200,212
	4,180,127	5,463,473
III. Securities	3,997,918	8,734,056
IV. Cash	3,175,732	1,053,118
	12,672,034	16,637,438
D. Deferred charges and prepaid expenses	128,566	61,344
	23,595,275	**26,405,383**

Liabilities	12/31/2001 EUR	12/31/2000 EUR
A. Shareholders' equity		
I. Capital subscribed	5,000,000	5,000,000
II. Capital reserves	10,434,737	10,552,312
III. Reserves from capital consolidation	–	428,147
IV. Consolidated net profit	1,395,060	3,234,630
	16,829,797	19,215,089
B. Third-party stakes	7,871	18,275
C. Reserves		
1. Reserves for pensions	498,483	558,424
2. Tax reserves	3,144,500	3,202,732
3. Other reserves	1,463,782	1,273,117
	5,106,765	5,034,273
D. Liabilities		
1. Accounts payable, long-term production contracts	52,584	10,222
2. Liabilities due to banks	–	3,752
3. Advance payments received for contracts	121,851	379,435
4. Trade accounts payable	713,711	947,429
5. Other liabilities	762,696	784,901
	1,650,842	2,125,739
E. Deferred income	–	12,007
	23,595,275	**26,405,383**

Consolidated Statement of Income

Pursuant to IAS for the Financial Year 2001

	2001 EUR	2000 EUR
1. Sales revenue	17,992,707	18,819,970
2. Change in finished goods	– 55,303	532,965
3. Other own costs, capitalized	3,204,224	3,551,051
4. Other operating revenue	880,592	1,197,731
	22,022,220	24,101,717
5. Cost of materials		
a) Cost of raw materials, supplies and trading stock	– 2,176,858	– 3,210,329
b) Cost of purchased services	– 739,182	– 718,165
	– 2,916,040	– 3,928,494
6. Personnel costs		
a) Wages and salaries	– 11,003,399	– 10,423,845
b) Social security costs and expenses for pensions and support	– 1,866,649	– 1,658,263
	– 12,870,048	– 12,082,108
7. Amortization and depreciation of intangible and tangible assets	– 4,487,931	– 4,286,502
8. Other operating costs	– 5,282,577	– 4,302,310
	– 9,770,508	– 8,588,812
9. Profits from loans of financial assets	–	28,340
10. Other interest and similar income	382,076	321,054
11. Interest and similar expenses	– 24,371	– 81,660
	357,705	267,734
12. Result from ordinary operations	– 3,176,671	– 229,963
13. Taxes on income	1,314,332	617,129
14. Other taxes	– 2,307	– 5,540
15. Net loss (-) (in 2000: net income) for the year	– 1,864,646	381,626
16. Minority interests	25,076	12,726
	– 1,839,570	394,352
17. Allocation to profit reserves	–	– 327,851
18. Retained earnings, brought forward	3,234,630	3,168,129
19. Consolidated net earnings	**1,395,060**	**3,234,630**

Consolidated Statement of Changes in Financial Position

Pursuant to IAS for the Financial Year 2001

	2001 EUR (in thsds)	2000 EUR (in thsds)
Result for the period (including shares of minority shareholders)	– 1,865	381
Write-downs on fixed assets	4,488	4,287
Increase/decrease in provisions (before balancing with pension reserves and without IPO cost)	153	– 572
Other revenue not affecting cash flow	– 428	– 428
Loss from the disposal of fixed assets	10	5
Increase/decrease in inventories, trade accounts receivable and other assets not part of investment or financing activities	28	– 1,697
Increase/decrease in trade accounts payable and other liabilities not part of investment or financing activities	– 483	232
Cash flow from operating activities	1,903	2,208
Payments received for the disposal of tangible assets	–	3
Payments made for investments in self-produced intangible assets	– 3,688	– 3,723
Payments made for investments in other intangible and tangible assets	– 785	– 640
Payments made for the acquisition of consolidated enterprises	– 8	
Payments received for the disposal of fixed assets	–	5
Payments made for investments in financial assets	– 31	– 30
Cash flow from investing activities	– 4,512	– 4,385
Payments received from equity increases (without conversion of capital and profit reserves to equity)	–	12,121
Payments made for IPO costs	–	– 1,640
Payments received from minority shareholders	–	31
Payments received from issuing bonds and taking up loans	–	4
Payments made for the redemption of bonds and loans	– 4	–
Cash flow from financing activities	– 4	10,516
Changes in funds not affecting the movement of funds	– 2,613	8,339
Funds at the beginning of the period	9,787	1,448
Funds at the end of the period	**7,174**	**9,787**

Consolidated Asset Schedule

Pursuant to IAS for the Fiscal Year 2001

	Acquisition cost				
Item	Status 1/1/2001 EUR	Additions EUR	Reposting pursuant to IAS 19 EUR	Disposals EUR	Status 12/31/2001 EUR
Development costs	22,031,416	3,688,311	–	–	25,719,727
Software	543,075	147,741		–	690,816
Goodwill	14,000	22,323	–	–	36,323
Advance payments made	–	269,898	–	–	269,898
Intangible assets	22,588,491	4,128,273	–	–	26,716,764
Office equipment	3,320,860	311,058	–	858,752	2,773,166
Low-value items	343,914	56,832	–	147,700	253,046
Tangible assets	3,664,774	367,890	–	1,006,452	3,026,212
Reinsurance coverage	236,874	31,420	– 268,294	–	–
Security deposits	1,676	–	–	–	1,676
Financial assets	238,550	31,420	– 268,294	–	1,676
Total	**26,491,815**	**4,527,583**	**– 268,294**	**1,006,452**	**29,744,652**

	Depreciation				Book values	
	Status 1/1/2001 EUR	Depreciations in the financial year EUR	Disposals EUR	Status 12/31/2001 EUR	12/31/2001 EUR	12/31/2000 EUR
	14,563,966	3,896,675	–	18,460,641	7,259,086	7,467,450
	425,318	97,268		522,586	168,230	117,757
	117	1,958	–	2,075	34,248	13,883
	–	–	–	–	269,898	–
	14,989,401	3,995,901	–	18,985,302	7,731,462	7,599,090
	2,501,762	402,097	848,620	2,055,239	717,927	819,098
	194,947	89,933	147,700	137,180	115,866	148,967
	2,696,709	492,030	996,320	2,192,419	833,793	968,065
	–	–	–	–	–	236,874
	–	–	–	–	1,676	1,676
	–	–	–	–	1,676	238,550
	17,686,110	**4,487,931**	**996,320**	**21,177,721**	**8,566,931**	**8,805,705**

Consolidated Equity

Pursuant to IAS for the Financial Year 2001

	Capital Subscribed EUR (in thsds)	Difference from Capital consolidation EUR (in thsds)	Capital reserves EUR (in thsds)	Profit reserves EUR (in thsds)	Consolidated balance sheet profit EUR (in thsds)	Total EUR (in thsds)
Balance as of December 31, 1999 / January 1, 2000	2,607	856	1,525	–	3,169	8,157
Posting of consolidated balance-sheet profit to reserves	–	–	–	328	– 328	–
Capital increase out of corporate funds	1,557	–	– 1,229	– 328	–	–
Capital increase (initial public offering)	836	–	–	–	–	836
Premium received from capital increase (initial public offering)	–	–	11,285	–	–	11,285
Cost of initial public offering offset against capital reserves	–	–	– 1,029	–	–	– 1,029
Elimination of consolidation difference	–	– 428	–	–	–	– 428
Net income for 2000	–	–	–	–	394	394
Balance as of December 31, 2000 / January 1, 2001	5,000	428	10,552	–	3,235	19,215
Cost of initial public offering offset against capital reserves	–	–	– 117	–	–	– 117
Elimination of consolidation difference	–	– 428	–	–	–	– 428
Net loss for 2001	–	–	–	–	– 1,840	– 1,840
Balance as of December 31, 2001	**5,000**	**–**	**10,435**	**–**	**1,395**	**16,830**

Notes to the Consolidated Financial Statements for the Financial Year 2001

(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 Standards (IAS). All IAS Standards to be applied on the balance sheet date are observed. Reporting currency is the Euro (EUR).

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 of 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, Germany.

2. Consolidated Group

The consolidated statements as of December 31, 2001, are valid for Softing AG as well as its subsidiaries Softing Industrial Solutions Italia S.r.l., Desio, Italy (Softing Italia) and Softing North America, Inc., Newburyport, MA, USA (Softing North America). In these affiliates, Softing AG has the direct majority rights and common control.

Softing Group Capital Share	12/31/2001 %	12/31/2000 %
Softing AG, Haar		
Softing GmbH für Prozessrechentechnik und angewandte Informationstechnologie, Haar	–	100
Softing Industrial Solutions Italia S.r.l., Desio, Italy	89	80
Softing North America, Inc., Newburyport MA, USA	100	–

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 the former Softing GmbH für Prozessrechentechnik und angewandte Informationsverarbeitung (Softing GmbH) in May 1997.

With the merger agreement of March 22, 2001, Softing GmbH was merged into Softing AG with effect from January 1, 2001.

Softing North America was founded on August 23, 2001.

3. Consolidation Principles

The initial consolidation was based on the time the shares were acquired and on the time when the companies included in the Consolidated Statements were founded. The shareholders' equity to be offset in the context of the capital consolidation was determined statistically or on the basis of an interim statement, respectively, 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 pursuant to IAS 22 (revised 1998). The acquisition cost is offset against the book value of its equity at the time of acquisition. Any remaining differential amounts are capitalized as goodwill and depreciated affecting net income over a ten-year period according to their future economic usage. Negative differences from initial consolidation are posted on the liabilities side and distributed over a four-year period.

Intra-Group gross sales, income and expenses, as well as payables and receivables between the consolidated companies are 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.

4. Principles of Valuation

The costs of acquisition or production are used as the basis for valuation. The valuation methods are explained in connection with the relevant balance-sheet items.

5. Currency Translation

In the statements of the individual companies, business transactions in foreign currency are translated with the exchange rate valid at the time of initial posting. Any currency gains or losses resulting from the valuation of receivables and payables before the balance sheet date are posted as additions or reductions to net income.

The Annual Statements of Softing North America are translated in EUR according to the concept of the functional currency pursuant to IAS 21. The monetary balance-sheet items of Softing North America are translated with the rate valid at the day of business transaction, and the non-monetary items, as well as the revenues and expenses, with the average rate. This is done because Softing North America is considered a dependent overseas subsidiary.

Differences resulting from the translation are posted as revenue or expense.

6. Notes to the Group Balance Sheet

Intangible Assets

Intangible assets (software) acquired for a consideration are posted at the depreciated 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 capital consolidation of Softing Italia at the time of voluntary capital contribution in November 2000 and October 2001 and the purchase of company shares in the amount of 9 % of the Softing Italia share capital in October 2001 resulted in differences of 36,000.00 EUR which were capitalized as goodwill and depreciated over ten years using the straight-line method. The book value as of December 31, 2001, was 34,000.00 EUR.

Research and Development

Expenses for Research & Development are posted as expenses in accordance with IAS 38 (1998). The cost of developing new products is capitalized as development cost as of the date on which the products' technical feasibility has been established. In accordance with IAS 38 (1998), the company has also been capitalizing its own development costs for self-developed 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 costs for research are of minor importance.

The item "Software and capitalized development cost" comprises the costs for developing new products in the net amount of EUR 7,259,000.00 (2000: EUR 7,467,000.00).

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 EUR 7,000.00 (in 2000: EUR 9,000.00).

Financial Assets

The remaining loans granted contain only a rent deposit. The capitalized value of the pension liability insurances (EUR 237,000.00 in 2000) was balanced with the company pension reserves according to IAS 19 (revised 2000) during the reporting period.

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.

With the "Embedded" version of our product family 4CONTROL, which was brought to market maturity during the reporting period, the target market of an older product is now covered as well. Active marketing of the latter was therefore discontinued. For the remaining book value of EUR 57,000.00, extraordinary depreciation was performed. This partial write-off concerns the segment Industrial Automation (IA).

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 (revised 1997).

Capitalized Deferred Taxes

Deferred taxes are accrued in accordance with IAS 12 (revised 2000). 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:

	12/31/2001 EUR (in thsds)	12/31/2000 EUR (in thsds)
Valuation variances between consolidated balance sheet and tax balance sheet (short-term assets)	32	–
Future claims from losses brought forward	2,196	901
	2,228	**901**

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

Inventories

Inventories are valued at the respective acquisition or production cost. Production cost comprises the direct material and prime cost and adequate portions of the necessary materials and production overhead. Valuation is based on weighted averages. Interest on loans is not capitalized. The total book value of the inventories corresponds to the balance sheet item.

Trade Accounts Receivable

Trade accounts receivable are posted at the nominal value less individual allowances (EUR 183,000.00) for doubtful accounts, if necessary. These items also contain future receivables related to work-in-process. The additional operating costs contain for the first time a general allowance of EUR 20,000.00, as well as individual value adjustments of EUR 183,000.00, including 50 % of a debt due from a customer of Softing North America, amounting to EUR 117,000.00

	12/31/2001 EUR (in thsds)	12/31/2000 EUR (in thsds)
Trade accounts receivable	3,864	5,263
Of which:		
future receivables (production contracts)	607	1,587
Services not yet billed	74	140

The "percentage of completion" method pursuant to IAS 11 (revised 1993) was applied to the valuation of goods and services related to production contracts. The order revenues in this context are the revenues agreed upon in fixed-price incentive contracts, up to the current degree of completion of such goods and services. The degree of completion is determined by the ratio of the costs incurred as of the relevant date 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 accounts receivable", "Accounts payable (long-term production contracts)" or as "Advance payments received".

	12/31/2001 EUR (in thsds)	12/31/2000 EUR (in thsds)
Total work-in-process	1,418	1,861
Less: advance payments received	– 985	– 662
Net total offset account	433	1,199
Thereof posted under:		
Trade accounts receivable	607	1,587
Accounts payable (long-term production contracts)	– 53	– 10
Accounts payable (advance payments received)	– 121	– 378

Other Assets

The other assets are valued at their nominal values.

	12/31/2001 EUR (in thsds)	12/31/2000 EUR (in thsds)
Taxes	210	73
Receivables from employees	28	40
Other	78	87
	316	**200**

From the loans to employees, EUR 21,000.00 are due within more than one year. One loan has an interest rate of 6.5% per annum. The remaining loans concern several interest-free relocation loans.

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 (=acquisition cost) as of December 31, 2001. They are due on January 17, 2005. The last interest rate was 3.636 %. Every three months, the issuer adjusts the rate to the market interest rate.

Liquid Assets

Liquid assets comprise cash and short-term bank deposits. The development of liquid assets, which equal the cash and cash equivalents together with the securities pursuant to IAS 7 (revised 1992), is shown in the Statement of Changes in Financial Position.

	12/31/2001 EUR (in thsds)	12/31/2000 EUR (in thsds)
Cash on hand	1	3
Cash at banks	3,175	1,050
	3,176	**1,053**

Capital Subscribed

As of the balance sheet date, the fully paid-in share capital of the company was EUR 5,000,000.00. It is divided into 5 million no-par-value shares.

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 2001/I

The Executive Board is authorized, provided the permission by the Supervisory Board, to increase the equity capital one time or several times till March 16, 2005, to a total of EUR 2,000,000.00 by issuing new bearer shares against cash or non-cash contributions. Subject to the approval of the Supervisory Board, the Executive Board may exclude shareholders' subscription rights. 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 2001/II

The Executive Board is authorized, provided the permission by the Supervisory Board, to increase the equity capital one time or several times till March 16, 2005, by a total of EUR 500,000.00 by issuing new bearer shares against cash or non-cash contributions. 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 May 29, 2001, 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.

In addition, the General Shareholders' Meeting authorized the Executive Board to utilize acquired shares other than by sale on the stock market, i.e. by trading off the floor or by exchanging them for equity participation in other business enterprises. In this case, shareholders' subscription right is excluded insofar as these shares are offered to third parties.

Earnings per Share IAS 33 (1997)		2001	2000
Consolidated annual result	EUR (in thsds)	– 1,865	381
Third-party stakes	EUR (in thsds)	25	13
Consolidated net loss, undiluted	**EUR (in thsds)**	**– 1,840**	**394**
Number of shares	No.	5,000,000	5,000,000
Loss per share, undiluted	EUR	– 0.37	0.08

Capital Reserves

Capital reserves were created by additional paid-in capital from the capital increase in 2000.

Subsequent IPO cost in the amount of EUR 187,000.00 (i.e. EUR 117,000.00 after income taxes) was offset with the capital reserves during the reporting period, not affecting net income.

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 EUR 2,036,000.00. The capital stock and the profits carried forward of Softing GmbH, including pro-rated profits as of May 1997, were EUR 3,749,000.00. An adjustment item in the amount of EUR 1,713,000.00 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 (revised 1998) in four amounts of EUR 427,000.00 each.

Offset Item for Third-Party Stakes

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

	Total 12/31/2001 EUR (in thsds)	Third-party stakes %	12/31/2000 EUR (in thsds)
Capital stock	85	11	9
Capital reserves	202	11	22
Profit for the year	– 214	11	– 23
Equity	**73**	**11**	**8**

Reserves

Development:	Status as of 1/1/2001 EUR (in thsds)	Expenditure EUR (in thsds)	Retransfer EUR (in thsds)	Reclassification pursuant to IAS 19 EUR (in thsds)	Allocation EUR (in thsds)	Status as of 12/31/2001 EUR (in thsds)
Pension reserves	558	–	–	– 268	208	498
Tax reserves	3,203	–	59	–	–	3,144
Other reserves	1,273	909	133	–	1,233	1,464
	5,034	**909**	**192**	**– 268**	**1,441**	**5,106**

Pension Reserves

This item concerns the partially reinsured and achievement-oriented 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. There is a variable commitment in addition to a specific commitment. The amount of the benefits is determined individually. The liabilities in connection with the pension plans are determined annually by independent experts in accordance with the "projected unit credit" method. The actuarial assumptions on which the calculation is based are summarized in the following table:

Basis of calculation:	12/31/2001 %	12/31/2000 %
Accounting interest rate	5.9	6.4
Salary trend	3.0	3.0
Pension adjustment	1.5	1.5

Development	2001 EUR (in thsds)	2000 EUR (in thsds)
Fixed date January 1	558	522
Effect of curtailment	–	– 196
Worktime expenditure	173	201
Revenue from plan asset	– 14	–
Interest paid	36	31
Interest earned from plan asset	– 18	–
Market value of the external plan asset as of January 1, 2001	– 237	–
Fixed date December 31	**498**	**558**

During the reporting period, pension reserves were for the first time balanced with the market value of a plan asset (pension liability insurance), which will directly satisfy part of the liabilities.

Reconciliation with the balance sheet:	12/31/2001 EUR (in thsds)	12/31/2000 EUR (in thsds)
Present value of the performance-related liabilities (DBO)	837	558
Actuarial losses not yet posted	– 71	–
Market value of the external plan asset as of December 31, 2001	– 268	–
	498	**558**

Pension plan contributions amounted to EUR 176,000.00 (in 2000: EUR 5,000.00).

	12/31/2001 EUR (in thsds)	12/31/2000 EUR (in thsds)
Expenditure for allocation to pension reserves	208	36
included interest expenditures (balanced with interest income from plan asset in the amount of EUR 18,000.00; in 2000: EUR -)	– 18	– 31
Other revenue from plan asset (pension liability insurance)	– 14	–
	176	**5**

During the reporting period, the worktime and interest expenditures resulting from the increase in pension reserves were for the first time balanced with the income from the plan asset pursuant to IAS 19 (rev. 2000). The remaining interest expenditures are posted as interest expenses.

Tax Reserves

The tax reserves concern exclusively deferred taxes.

Deferred taxes are valued pursuant to IAS 12 (revised 2000) in accordance with the liability method, using the tax rates applicable or promulgated as of the balance sheet date. The deferred taxes comprise:

	12/31/2001 EUR (in thsds)	12/31/2000 EUR (in thsds)
Short-term assets	224	337
Long-term assets	2,754	2,789
Short-term reserves	115	–
Long-term reserves	52	77
	3,145	**3,203**

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:

	12/31/2001 EUR (in thsds)	12/31/2000 EUR (in thsds)
Guarantees	50	143
Personnel costs	847	778
Financial statements, preparation and auditing costs	62	52
Third-party services, fees	495	274
Other	10	26
	1,464	**1,273**

Advance Payments Received for Contracts

Advance payments received as of the balance sheet date were EUR 985,000.00 (in 2000: EUR 662,000.00). Of this amount, EUR 863,000.00 (in 2000: EUR 283,000.00) 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

	12/31/2001 EUR (in thsds)	12/31/2000 EUR (in thsds)
Taxes	392	380
Liabilities related to social security and benefits	256	228
Wages and salaries payable	11	94
Other	104	83
	763	**785**

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

7. 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 (revised 1993) was utilized to determine the value of goods and services provided under long-term production orders (software developments). The goods and services provided are shown accordingly as sales revenue. The sales revenue from the "percentage of completion method" amounts to EUR 1,417,000.00 (in 2000: EUR 1,861,000.00). A profit of EUR 448,000.00 (in 2000: EUR 353,000.00) was achieved.

Classification according to geographic criteria:	2001 EUR (in thsds)	2000 EUR (in thsds)
Domestic	13,606	14,109
Abroad	4,387	4,711
	17,993	**18,820**

Segmentation according to products and services:	2001 EUR (in thsds)	2000 EUR (in thsds)
Products	10,701	10,155
Services	7,292	8,665
	17,993	**18,820**

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.

Other Operating Revenue

The other operating revenue comprises the following items:

	2001 EUR (in thsds)	2000 EUR (in thsds)
Liquidation of reserves	133	420
EU subsidies	207	178
Write back of the difference related to initial consolidation	428	428
Exchange differences	10	12
Other revenue	103	160
	881	**1,198**

Cost of Materials

	2001 EUR (in thsds)	2000 EUR (in thsds)
Procurement of components and products	2,661	3,382
Fees, freelance personnel	201	205
Third-party services	538	513
	3,400	**4,100**
Less: cost of materials for internal product developments	– 484	– 172
	2,916	**3,928**

Personnel Costs

	2001 EUR (in thsds)	2000 EUR (in thsds)
Salaries	10,290	9,798
Profit-sharing, royalties	381	345
Provision of automobiles to employees	140	121
Severance pay	38	4
Overtime, maternity pay, other	87	67
Temporary workers	58	81
Wage and church taxes	9	8
Social security and pension plan payments	1,867	1,658
	12,870	**12,082**

Other Operating Costs

The other operating costs are as follows:

	2001 EUR (in thsds)	2000 EUR (in thsds)
Expenses unrelated to the accounting period	11	46
Operating costs	2,428	1,715
Distribution costs	1,084	1,038
Administrative expenses	1,750	1,489
Expenses resulting from exchange differences	10	14
	5,283	**4,302**

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

	2001 EUR (in thsds)	2000 EUR (in thsds)
Revenue from loans of financial assets	–	28
Interest income	382	321
Interest expenses	– 24	– 82
	358	**267**

During the reporting period, the income resulting from the life insurances entered into for coverage of the company's pension commitments towards the Executive Board were for the first time balanced against the allocation to pension reserves pursuant to IAS 19 (revised 2000).

Income Taxes

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

Softing AG is 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 2000) 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 will be determined as follows in accordance with the Tax Reform Act 2000:

	2001 %
Corporate income tax including solidarity surtax	26.38
Trade tax rate	14.89
Reduction of corporate income tax by crediting the trade tax	– 3.93
	37.34

The tax rate for Softing Italia was calculated to be 36%, including the regional ERAP; for Softing North America, it was calculated to be 25.76 %.

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 EUR 5,802,000.00, which were taken into account at the time the deferred taxes were determined. The reconciliation of anticipated tax expenses and actual tax expenses is as follows:

	2001 EUR (in thsds)	2000 EUR (in thsds)
Anticipated tax expenses (income (-))	– 1,187 (37.34%)	– 120 (50.8 %)
Tax-exempt write back of the difference relating to initial consolidation	– 159	– 218
Non-deductible expenses	8	13
Reduction of the domestic corporate tax rate	–	– 404
Elimination of the retained earnings credit	–	110
Different tax rates among deferred taxes	24	2
	– 1,314	**– 617**

8. Other Information

Business Segment Reporting

4CONTROL has become the central element of the Industrial Automation segment. It is the point of synergism for all products and services in the automation area. For this reason, it is not reported as a separate segment.

Since there is only one segment requiring disclosure (Western Europe), geographical segments are not shown.

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

Segmentation

	Industrial Automation		Automotive Electronics		Not distributed		Total	
	2001 EUR (in thsds)	2000 EUR (in thsds)	2001 EUR (in thsds)	2000 EUR (in thsds)	2001 EUR (in thsds)	2000 EUR (in thsds)	2001 EUR (in thsds)	2000 EUR (in thsds)
Sales revenue	9,381	10,624	8,611	8,196	–	–	17,993	18,820
Depreciation	2,668	2,441	1,229	1,283	591	563	4,488	4,287
Net income segment	– 5,008	– 1,623	1,435	1,606	36	– 486	– 3,537	– 503
Assets	5,603	5,828	1,656	1,639	16,336	18,938	23,595	26,405
Investments (without financial investments)	2,443	2,833	1,245	889	808	641	4,496	4,363

Segment Allocation of Products

Industrial Automation

Automation software 4CONTROL (Embedded and PC-based), control software (independent of the platform), visualization software, analytic software (4CONTROL Analyser), optimization software (4CONTROL Energiser), libraries (technology software, all 4CONTROL libraries)

Control hardware (customized and standardized), 4CONTROL PanelPC, 4CONTROL FieldPC, 4CONTROL Ethernet Controller

Interface boards (PROFIBUS, CAN, CANopen, DeviceNet), gateways (PROFIBUS, FF), tools (configurators, analyzers (PROFIBUS, CAN)), servers (OPC, PROFIBUS, CANopen), development platforms (OPC Toolkits)

Customized hard- and software, development/portation/integration services, system solutions and training

Automotive Electronics

Analytic tools for vehicle communication (Diagnostic Tool Set (DTS), CANalyzer, MOST activities)

Data logger (EDICmobil)

EDIC and CAN products (interface hardware) with protocol software for (diagnostic) communication, DTS Base System API and electronic diagnosis interface system as a diagnostic communication platform, e.g. for after-sales testers, production systems in vehicle manufacturing with connection to the vehicle ECUs and end user projects (e.g. test systems for ECUs such as interface converters)

Customized developments in vehicle communication: testing of vehicle electronics (ELDI, test systems), belt end coding and programming of ECUs

ECU communication software development

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 a net income which was much lower for the reporting period than for the year before.

Cash flow from current business activities also comprises EUR 382,000.00 from interest earned and EUR 24,000.00 from interest paid. No income taxes were paid during the reporting period.

The other revenue not affecting cash flow concerns the retransfer of reserves from capital consolidation.

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

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 rights may only be exercised, at the earliest, two years after they have been conferred.

Subject to the approval of the Supervisory Board, in fiscal year 2001 the Executive Board granted subscription rights to 81,200 shares (in 2000: 54,700) of Softing AG at the price of EUR 3.19 per share or exchanged them for subscription rights from the 2000 option plan, respectively (subscription price EUR 17.40).

	2001 No.	2000 No.
Status January 1	51,500	–
New option rights granted	81,200	54,700
Forfeited option rights	– 10,900	– 3,200
Exchange for option rights 2001	– 33,500	–
Status December 31	**88,300**	**51,500**
Of which: option plan 2000	12,900	51,500
Of which: option plan 2001	75,400	–

Exercising the rights from the stock option plan is subject to certain conditions. Purchasing the shares is possible only if the value of the Softing shares develops above the development of the CDAX technology index of the Deutsche Börse AG during the period under question.

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 25.5 %. The value of the stock options, which was determined on the basis of estimated values, was EUR 0.61 or EUR 0.78 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 loss for the year (including minority interests) of EUR –1,865,000.00 would have been diminished by EUR 68,000.00.

Relationships to Affiliated Companies and Persons

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

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

There are no receivables from or payables to affiliated persons.

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 4,337,000.00 EUR 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:

	EUR (in thsds)
2002	1,667
2003	884
2004	778
2005	722
2006	286
after 2006	-
Total	**4,337**

Personnel

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

	2001	2000
As of the balance sheet date	181	187
Annual average	182	186

Executive Board

The following persons were members of the Executive Board of Softing AG in fiscal 2001:

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

Payments to these persons in fiscal 2001, excluding payments to the pension reserves, amounted to EUR 675,000.00 (in 2000: EUR 619,000.00).

Supervisory Board

The following persons were members of the Supervisory Board of Softing AG in fiscal 2001:

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)
Brain International AG, Breisach, 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

Dr. Färber also belongs to the Supervisory Boards of the following companies:
Kontron AG, Eching, Germany
SEP Logistik AG, Weyarn, Germany
TTTech AG, Vienna, Austria
Payments to these persons in the fiscal year totaled EUR 23,000.00.

Haar, Germany, February 14, 2002

The Executive Board of Softing AG

Dipl.-Ing. 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, 2001, 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, 2001, 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, 2001, fulfill the requirements for dispensing the company from preparing Consolidated Financial Statements and a Group Management Report according to German law.

Munich, February 15, 2002

Bayerische Treuhandgesellschaft Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Dirscherl
Wirtschaftsprüfer

Damberger
Wirtschaftsprüfer

Report by the Supervisory Board

for the Fiscal Year 2001

In the fiscal year 2001, the Executive Board informed us in five 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. In thorough discussions between the Supervisory Board and the Executive Board, particular attention was given to staff restructuring and strengthening in Sales, Marketing and Management.

The auditors of Bayerische Treuhandgesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Munich/Germany, have audited the Financial Statements for the fiscal year 2001 which were prepared by the Executive Board, including the accounting and the company's Management Report. 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, 2002

Softing AG
The Chairman of the Supervisory Board

Dr. Schiessl

Security Holdings of Executive Board and Supervisory Board

	Shares		Options	
	9/30/2001 No.	12/31/2001 No.	9/30/2001 No.	12/31/2001 No.
Supervisory Board				
Dr. Horst Schiessl (chairman), Attorney at Law, Munich, Germany	3,500	–	–	–
Josef Faltenbacher (deputy chairman), CPA, Munich, Germany	1,000	1,000	–	–
Professor Dr. Georg Färber, Professor, Ottobrunn, Germany	500	500	–	–
Executive Board				
Dipl.-Ing. Eduard Himmelsdorfer, Munich, Germany	409,050	409,050	3,500	3,500
Dr.-Ing. Rainer Mittmann, Munich, Germany	408,250	408,250	3,500	3,500
Dr.-Ing. Manfred Patz, Vaterstetten, Germany (until March 31, 2002)	408,250	408,250	3,500	3,500
Dr.-Ing. Dr. rer. oec. Wolfgang Trier, Munich, Germany (as of April 1, 2002)	–	15,000	–	–

Financial Schedule

March 28, 2002	Annual result 2001
April 8, 2002	Press conference on financial statements in Haar, Germany
April 10, 2002	Analysts' Conference Financial Forum in Frankfurt, Germany
May 28, 2002	Quarterly Report 1/2002
June 6, 2002	Annual Shareholders' Meeting
August 6, 2002	Quarterly Report 2/2002
November 7, 2002	Quarterly Report 3/2002

Glossary

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

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 whereas HSE specifications are included in the IEC 61158 standard (www.fieldbus.org).

IEC 61131-3
The IEC International Electrotechnical Commission is involved, among others, in the definition of global standards for electrical engineering. The 61131-3 standard is an international language standard for the programming of programmable logic controllers. It contains graphic and textual variants (www.iec.ch).

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

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).

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 by means of digital or analog input and output signals. PLCs are used for controlling technical processes in almost all areas of industry.

PROFIBUS
PROFIBUS was specified by a German consortium and initially defined as a German standard. It later became 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 communication with decentralized I/O and PROFIBUS PA for use in the process industry (www.profibus.com).

Real time
A system operates in real time if it reacts fast enough to process events in a previously defined time span and, most importantly, to register them in the sequence in which they actually occur. With machine control systems, real time usually involves response times of 1 to 50 milliseconds whereas real-time process controls usually require response times of 50 milliseconds to a few seconds.

Imprint

Concept and realization
CAT CONSULTANTS, Hamburg

Softing AG
Richard-Reitzner-Allee 6
D-85540 Haar

phone +49 (89) 4 56 56-0
fax +49 (89) 4 56 56-492

www.softing.com