ANNUAL REPORT 2002

Competence in Control and Communications Technology

softing

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Dr. Wolfgang Trier

Eduard Himmelsdorfer

Dr. Rainer Mittmann

Dear shareholders, employees, partners and friends,

Fiscal year 2002 was a year of repositioning for Softing. We began to implement extensive measures in spring of 2002. This involved increasing our sales capabilities and adapting our cost structures consistently to the market environment. Our incoming orders and sales in 2002 are the first indicators of the success of our reorientation.

Despite the recessive economy in 2002, the incoming orders of the Softing Group amounted to a very positive EUR 20.4 million. This means that we were able to increase our incoming orders, which is a decisive medium- and long-term indicator in our business system, by around 25 percent as compared to the year before. Sales in the Softing Group increased by 5 percent to EUR 18.9 million. In the Industrial Automation business division, sales grew by 6 percent to EUR 10.0 million, and in the Automotive Electronics business division, sales were up 3 percent to EUR 8.9 million. In addition to carrying out successful customer-specific projects, we gradually increased the sales of our own products, which now contribute about two-thirds to Softing's sales.

Consistent adaptation of cost structures to the changed market environment is critical to the long-term prospects of Softing. Our goal was to improve our cost structure by some EUR 2 million by 2003. To this end, we examined all of our internal and external costs. We had a difficult path to take, which resulted in the redefinition of fundamental structures and processes. We also had to part with some of our employees whose positions no longer fit into the new structures. At the beginning of 2003, we can now say that we have succeeded in realizing this goal.

The insufficient cost structures and the redefinition of structures and processes led to a negative operating income of EUR –6.9 million in 2002. This figure includes the indirect costs of restructuring, which are a result of unavoidable, short-term drops in efficiency. The operating income also includes extraordinary expenditures of EUR 3.4 million made up largely of non-cash expenses. Despite the heavy burden in 2002, these steps have formed the foundation needed for the long-term, sustainable profit orientation of Softing.

The primary objective for 2003 is clear: to lead Softing back into the profit zone, even in a recessive market environment. The priority here is for Softing to achieve a positive cash flow again after repositioning effects and thus to secure the continued liquidity of the company. We anticipate a nearly balanced operating income for 2003. This will be realized through the conditions established on the cost side in 2002 and through a systematic focus on powerful products and services with high value added for our customers.

Due to conditions that are both economically and politically taxing, we expect that overall economic growth will not rebound until the end of 2003 at the earliest. The Softing Group therefore plans sales of around EUR 19.3 million for 2003. Sales should amount to EUR 9.0 million in the Automotive Electronics business division and EUR 10.3 million in the Industrial Automation division. However, in order to reach these targets, it is necessary for the economic environment, and thus the investment climate among our customers, to remain at its current level at least.

We are well positioned both in Europe and in the United States. We achieved positive sales results with our Foundation Fieldbus products and industrial automation components. We therefore also anticipate that the sales of our Softing North America subsidiary will increase by 40 percent to EUR 1.8 million, resulting in positive earnings.

In Softing's technological field in particular, it is necessary to provide our customers with competitive advantages in a rapidly changing market by offering them attractive products and services. We therefore focus on the completion of product developments with particularly high future potential for our customers. In *Industrial Automation*, for example, we successfully completed product development and field testing for gateways and field controllers. Softing is one of the first companies in the market to offer its customers the use of FDT technology, which allows new components to be combined in fieldbus networks quickly and universally. We also have a new, even more powerful version of 4Control, which is being marketed successfully both in the context of automation projects in the area of industrial processes and production, and in the field of building control technology. Great potential for growth in 2003 is already evident here.

In the *Automotive Electronics* segment, Softing is excellently positioned as a partner to the automobile industry and its suppliers for on- and off-board communication with powerful hardware and software. With around 4,000 installations, Softing is in a leading position in the growing market for test and diagnostic systems for communications interfaces in automotive electronics systems. This position will be expanded further in the summer of 2003 with the release of the new version of DTS (Diagnostic Tool Set). The integration of DTS in the products of strong partners will serve to expand this position.

Our employees are the basis for our success. Their dedication and loyalty are critical to the achievement of our goals. We would like to thank them very much for their great commitment to Softing.

Our current share price reflects neither the present business outlook nor the financial position of the Softing Group. We, the Executive Board and employees of Softing, will do everything in our power to achieve the goals set for 2003. We are convinced that our efforts will be reflected in our share price. Our objective is to significantly increase company value through our achievements and to transform the potential that is generated into economic success.

We hope that you will continue to accompany us on the path that we have chosen, so that we can reap the benefits of this work together.

We will keep you informed of the progress we make!

Yours sincerely,

Dr. Wolfgang Trier
(Chairman of the Executive Board)

Eduard Himmelsdorfer
(Member of the Executive Board)

Dr. Rainer Mittmann
(Member of the Executive Board)

Consolidated Key Figures (pursuant to IFRS)

		2002	2001	2000
Revenues	(EUR million)	18.88	17.99	18.82
EBIT	(EUR million)	– 6.93	– 3.54	– 0.50
Net income	(EUR million)	– 4.28	– 1.86	0.38
Fixed assets	(EUR million)	5.10	8.57	8.81
Current assets	(EUR million)	10.21	12.67	16.64
Equity	(EUR million)	12.43	16.83	19.22
Number of employees (annual average)		174	182	186
DVFA/SG earnings per share	(EUR)	– 0.86	– 0.37	– 0.01

Highlights 2002

February	Major order for 4CONTROL from the public utilities of Brunneck, Germany
March	Order for test automation with 4C and DTS, production of a convertible car roof
March – November	OPC Roadshow in Belgium, Germany, England, Italy and Switzerland
April	Unveilling of the new Fieldbus Gateways FG-3000 product family
May	Opening of the Automotive Electronics sales office in Hanover, Germany
July	Technology Day FDT/DTM: The New Standard for the Parametrization of Field Devices
October	Presentation of the coupling of DTS with National Instruments LabView at Convergence in Detroit
November	Market launch of 4CONTROL FieldController, the Linux compact control
December	Order from VW/Audi about an upgrade of all test platforms surrounding ASAM MCD Run Time System (DTS)

Trade Fairs 2002

Industrial Automation

April 14 – 18	Light & Building, Frankfurt/Main, Germany
April 15 – 20	Hannover Messe, Hanover, Germany
April 16 – 18	SEMICON Europa, Munich, Germany
June 11 – 13	Facility Management, Düsseldorf, Germany
June 18	HMI & Software, Bologna, Italy
September 10	Fieldbus Networks, Milano, Italy
September 12	Fieldbus Networks, Rimini, Italy
October 21 – 24	ISA 2002, Chicago, USA
October 22 – 26	Euro Blech, Hanover, Germany
November 19 – 23	BIAS 2002, Milano, Italy
November 26 – 28	SPS/DRIVES, Nuremberg, Germany

Automotive Electronics

March 4 – 7	SAE, Detroit, USA
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, USA

Trade Fairs 2003

Industrial Automation

February 19 – 21	Motion Control & Factory Automation, Bologna, Italy
April 7 –12	Hannover Messe, Hanover, Germany
April 8 – 11	IT in Production, Göteborg, Sweden
April 23 – 25	ESC, San Francisco, USA
May 19 – 24	ACHEMA, Frankfurt/Main, Germany
June 3 – 5	Testing Expo, Stuttgart, Germany
November 23 – 27	SPS/IPC/DRIVES, Nuremberg, Germany

Automotive Electronics

March 3 – 6	SAE World Congress, Detroit, USA
March 26 – 27	Messtechnik, Stuttgart, Germany
June 3 – 5	Testing Expo, Stuttgart, Germany
September 23 – 25	MeasComp, Wiesbaden, Germany
September 25 – 26	VDI-Kongress Elektronik im Kraftfahrzeug, Baden-Baden, Germany

Group Management Report for Fiscal Year 2002

Setting the Course for the Future in 2002

Fiscal year 2002 was one of repositioning and reorientation for the Softing Group. Dr. Wolfgang Trier was appointed to the Executive Board of Softing AG on April 1, 2002, and he has been chairman of the Executive Board of Softing AG since June 1, 2002. Dr. Manfred Patz, co-founder of Softing AG, left the Executive Board as of March 31, 2002.

The Softing Group began to implement extensive repositioning measures in spring of 2002. This involved adapting cost structures consistently to the market environment, increasing the sales performance and focusing on activities with high added value. We thus laid the foundation for achieving a balanced operating result and positive cash flow after repositioning expenses in 2003.

The Softing Group currently consists of Softing AG, based in Haar near Munich, Germany; its marketing subsidiary Softing Industrial Solutions Italia S.r.l. (Softing Italia) in Brescia, Italy; and Softing North America Inc. (Softing North America), based in Newburyport, Massachusetts.

There is also a branch of Softing AG in Ratingen near Düsseldorf, Germany. The branch in Ettlingen near Karlsruhe was closed in the course of the repositioning measures.

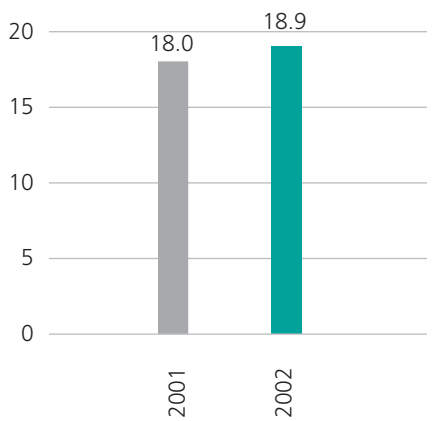
The Softing Group is active as a software and computer vendor in industrial automation and automotive electronics. Softing develops complex, high-quality software, hardware and complete system solutions. Hardware prototypes are developed by the company itself; the production of hardware products generally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

In industrial automation, Softing has clearly positioned itself as a product and technology supplier. It focuses on components and tools for industrial control systems and fieldbus systems, as well as on solutions for production automation.

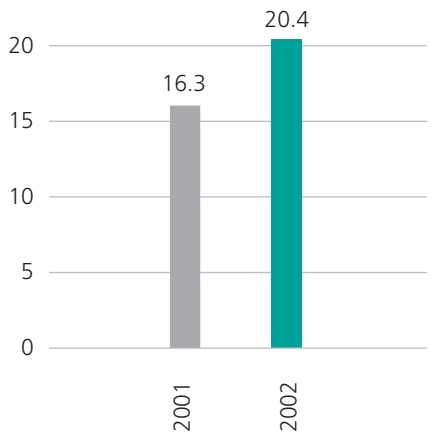
In the field of automotive electronics, Softing is a partner to the automobile industry and its suppliers for on- and off-board communications. As such, it develops test and diagnostic systems for the communications interfaces in automotive electronics systems.

In addition to carrying out successful, customer-specific projects, Softing has gradually increased the sales of its own products. These sales now constitute the main part of the company's revenues.

Sales
(in EUR million)



Incoming orders
(in EUR million)



The scope of services offered is completed by consulting, analyses, studies and training in the area of Softing's core expertise.

Softing primarily offers its services and products in Europe. However, sales have increased considerably in North America.

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

For the reporting period, the consolidated financial statements were prepared according to the requirements of the International Accounting Standards Committee (IASC).

Course of Business and Economic Environment

The weak economy which persisted throughout 2001 continued in Germany and the other euro countries in the year 2002. Only in the United States was the economy able to recover slightly, thanks to drastic cuts in interest rates and a very expansive financial policy. According to the German Electrical and Electronic Manufacturers' Association (Zentralverband Elektrotechnik- und Elektroindustrie, or ZVEI), the German automation industry reported declining production numbers for the first time in many years in 2002. For the entire year 2002, ZVEI estimates a five percent decrease in production. The areas of measurement technology and process automation were affected the most by the difficult economy; they suffered a nine percent drop in production.

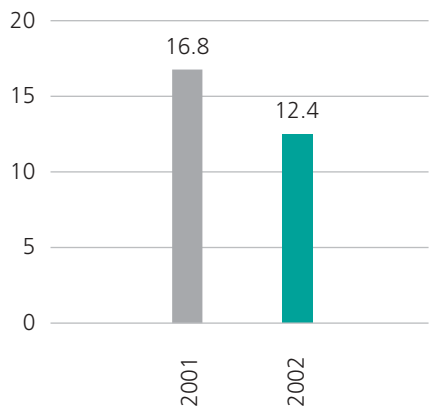
Despite these very weak economic figures, the Softing Group was able to increase its sales by 5 percent to EUR 18.9 million (2001: EUR 18.0 million). In the *Industrial Automation* business division, sales amounted to EUR 10.0 million (2001: EUR 9.4 million), and in the *Automotive Electronics* division, sales were EUR 8.9 million (2001: EUR 8.6 million).

The operating result came in at EUR –6.9 million (2001: EUR –3.5 million). This figure includes extraordinary expenditures of EUR 3.4 million. To a smaller extent, these expenditures were cash expenses (EUR 1.1 million) while most were non-cash expenses (EUR 2.3 million). If these special items are deducted, the operating result would be at the level of the previous year.

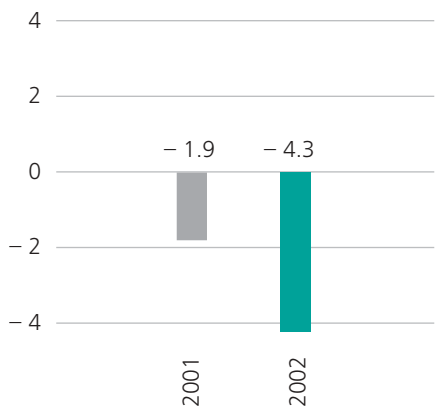
The incoming orders of the Softing Group amounted to a very positive EUR 20.4 million (2001: EUR 16.3 million). This key medium- and long-term indicator thus showed an improvement of 25 percent versus last year.

Softing Italia achieved sales of EUR 0.3 million (2001: EUR 0.3 million) with a net loss of EUR –0.2 million (2001: EUR –0.2 million), while Softing North America reported sales of EUR 1.1 million (2001: EUR 0.3 million) with a modest net income (2001: net loss of EUR –0.1 million). The consolidated net loss of the Softing Group amounted to EUR –4.3 million (2001: EUR –1.9 million).

Equity
(in EUR million)



Net loss
(in EUR million)



DVFA/SG earnings per share were EUR –0.86 for the year 2002 (2001: EUR –0.37).

The liquidity position of the Group is secure. At the end of 2002, the liquid assets amounted to EUR 4.9 million. The Softing Group had equity capital of EUR 12.4 million at the end of 2002, as compared to EUR 16.8 million the year before.

Expenditures for Research and Product Development Continue on a High Level

For years, the Softing Group has been making considerably investments in research and development. The R&D activities are coordinated by a Technical Steering Committee which meets regularly so that the company can react to trends and opportunities on the market and bring marketable new products to full-production status as quickly as possible.

In total, Softing invested EUR 2.4 million (2001: EUR 3.7 million) in the development of new products and the further development of those that already exist. As in previous years, these developments were financed exclusively through our own resources.

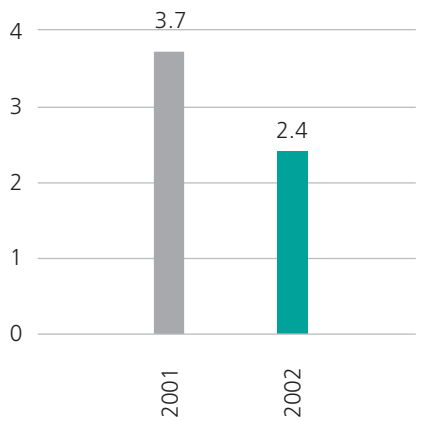
In the *Industrial Automation* business division, EUR 0.9 million was invested in 2002 (2001: EUR 2.4 million). The main focus was on a generally streamlined product portfolio and the clear orientation of all developments on sales and earnings potential.

The Softing "Diagnostic Tool Set", a development tool for vehicle communications, was also developed further in 2002. This powerful tool will continue to give our customers the ability to handle the increasing complexity of automotive electronics in the future. The product range based on the "Diagnostic Tool Set" was also expanded. A total of EUR 1.5 million was invested in the *Automotive Electronics* division in 2002 (2001: EUR 1.3 million).

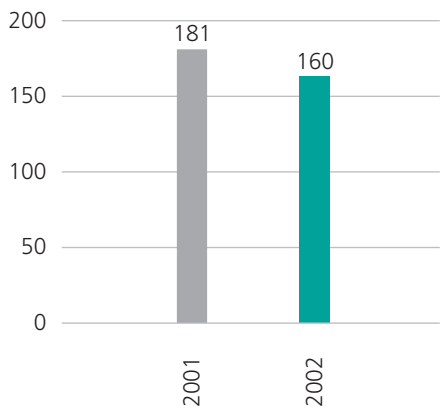
Employees

At the end of 2002, the Softing Group had a total of 160 full-time employees (2001: 181). There were 97 highly-qualified employees active in research and development at the end of 2002 (2001: 125), and 42 employees worked in marketing and sales (2001: 29).

Product development that must be capitalized
(in EUR million)



Employees
(at year's end)



Future Development of the Company and Risks

Market Developments Under Various Conditions

Based on existing market studies and our own estimates, we expect little economic growth for 2003. Neither our findings nor those of ZVEI indicate substantially higher growth rates for the German automation industry.

Above-average growth potential is still predicted for fieldbus systems. Market growth is expected to reach over 10 percent in the coming years. It is estimated that relative growth in the United States will be considerably higher.

In the past years, the trend in the software industry has been to move away from solutions programmed specially for each user in favor of minor adaptations made to individualized standard products. Added to this basic tendency is the need for close coordination between suppliers and manufacturers, particularly in the area of automotive electronics. This has made it necessary to implement standards for handling and exchanging the growing flood of data. Softing addresses this issue through the design of its products and through the growing contribution these products are making to the company's total sales.

The electronic equipment in passenger cars and commercial vehicles continues to develop rapidly. This development is being driven by a sustained pressure to innovate. Depending on the vehicle class, electronic equipment can constitute up to 25 percent of a vehicle's added value. Field investigators predict that the market for automotive electronics will grow by 8 to 10 percent in the year 2003.

Outlook for Fiscal Year 2003

We do not expect a noticeable upturn in economic growth until the end of 2003. The Softing Group therefore plans consolidated sales of approximately EUR 19.3 million for the year 2003. Sales should amount to EUR 9.0 million in the Automotive Electronics business division and EUR 10.3 million in the Industrial Automation division. Thanks to the successful measures implemented in 2002, we anticipate a balanced operating result and positive cash flow after repositioning effects.

The Softing Italia marketing subsidiary plans sales of EUR 0.4 million and a result of EUR – 0.1 million.

We are well-positioned both in Europe and in the United States. Our marketing subsidiary Softing North America plans sales of EUR 1.8 million with a balanced result.

Risk Management and Individual Risks

Softing is an international company involved in the areas of industrial automation technology and automotive electronics. The company is confronted with a number of risks that are inextricably linked to its entrepreneurial activities.

In particular, this concerns risks resulting from market development, the positioning of products and services, contractual and non-contractual liability, and business processes. Our risk management policy consists of optimally exploiting existing business opportunities, while taking on the related risks only after carefully weighing our business prospects. Risk management is therefore an integral component of our business processes and company decisions.

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

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

During the reporting period, we continued to develop the risk management system that was defined in previous years. The risks involved in individual business processes were periodically recorded, analyzed and evaluated. In the process of doing this, we also assessed whether individual risks which are of minor importance when viewed in isolation could lead to a risk threatening the company's existence when combined. The risk factors mentioned in the following could have a strong negative impact on business development, the financial situation and the results. There are also other risks which we consider to be less significant at this time, but which could nevertheless affect our development.

Business Risks

Despite the fact that our incoming orders for products and services were higher in the reporting year than in the year before, the situation in our markets was characterized by extremely uncertain demand and the resulting pressure on the revenues to be achieved. We meet these risks with stricter cost management measures and flexible working hour models so that we can quickly adapt to any changes in demand.

Another risk is the potential lack of readiness in our target markets to adopt innovative new technologies and use them in automation projects. This could significantly slow down the product launching process and lead to lower growth rates for our new product families, and thus to lower earnings. We therefore focus on those market segments in which our new products offer particular advantages, and we strengthen market communication overall.

From a technological point of view, the situation in the market is affected by rapid changes in the technologies used. There is a danger that acquired know-how may prematurely lose value due to an unexpected market development. We counter this risk by actively participating in a large number of national and international workgroups so that we can recognize technological trends early on and help shape them ourselves.

Operating Risks

In certain areas of our business, we are involved in the complex development projects of our customers. These projects entail a certain realization risk as regards the planned budgets and time frames. Deviations from these plans can negatively affect our operating result and lead to claims for damages. We deal with this risk by planning such projects in accordance with a process model defined by our quality management system, and by carefully monitoring the individual project phases.

Staff Risks

Our business depends to a large extent on the availability of highly qualified personnel. Although the competition for such personnel eased up during the reporting period, it is still very difficult to acquire – and especially to keep – qualified staff. However, innovative new recruiting measures and close contact to colleges and universities should allow us to satisfy our demand for highly qualified employees in the future. Furthermore, the staff assessment system was improved in order to promote and develop employee potential in a targeted way.

Credit Risks

Credit risks have not played a significant role in the past, as our customers have mainly been large, financially strong companies. However, the expansion of our scope of business, particularly in the international arena, and the accompanying acquisition of small and medium-sized companies as customers can lead to greater risks. We have addressed this issue by intensifying our credit evaluations and strengthening the management of accounts receivable.

Supplier Risks

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

Risks to the Existence of the IT Infrastructure

As in all companies, the smooth functioning of business processes depends on the availability of our IT infrastructure. Attacks from the Internet, as well as other IT failures or damages to IT infrastructure, pose a serious threat to the company's ability to function. We have addressed these risks with a number of individual measures, including the rapid recovery of all stored data. Furthermore, we have begun to establish a comprehensive IT security concept.

Events of Special Importance After the End of the Fiscal Year

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

Haar, Germany, February 13, 2003

Softing AG

Dr. Wolfgang Trier
(Chairman of the Management Board)

Eduard Himmelsdorfer
(Member of the Management Board)

Dr.-Ing. Rainer Mittmann
(Member of the Management Board)

Consolidated Balance Sheet

Pursuant to IFRS for Fiscal Year 2002

Assets	Dec. 31, 2002 EUR	Dec. 31, 2001 EUR
A. Fixed Assets		
I. Intangible assets		
1. Software and capitalized development cost	4,551,090	7,427,316
2. Goodwill from capital consolidation	–	34,248
3. Advance payments to suppliers	–	269,898
	4,551,090	7,731,462
II. Tangible assets		
Other fixtures, furniture and office equipment	551,051	833,793
III. Financial assets		
Other loans	2,013	1,676
	5,104,154	**8,566,931**
B. Deferred taxes	**3,474,754**	**2,227,744**
C. Current assets		
I. Inventories		
1. Raw materials and supplies	303,302	295,295
2. Finished goods and services	698,718	1,022,962
	1,002,020	1,318,257
II. Accounts receivable and other assets		
1. Trade accounts receivable	4,023,584	3,864,243
2. Other assets	255,094	315,884
	4,278,678	4,180,127
III. Securities	2,748,625	3,997,918
IV. Cash	2,180,931	3,175,732
	10,210,254	**12,672,034**
D. Deferred charges and prepaid expenses	**70,204**	**128,566**
	18,859,366	**23,595,275**

Liabilities and Shareholders' Equity	Dec. 31, 2002 EUR	Dec. 31, 2001 EUR
A. Shareholders' equity		
I. Capital subscribed	5,000,000	5,000,000
II. Capital reserves	10,326,278	10,434,737
III. Consolidated accumulated deficit (2001: earnings)	– 2,888,698	1,395,060
	12,437,580	**16,829,797**
B. Third-party stakes	–	**7,871**
C. Reserves		
1. Reserves for pensions	490,704	498,483
2. Tax reserves	1,805,000	3,144,500
3. Other reserves	1,949,698	1,463,782
	4,245,402	**5,106,765**
D. Liabilities		
1. Accounts payable, long-term production contracts	436,053	52,584
2. Liabilities due to banks	28,809	–
3. Advance payments received for contracts	350,692	121,851
4. Trade accounts payable	484,881	713,711
5. Other liabilities	837,316	762,696
	2,137,751	**1,650,842**
E. Deferred income	**38,633**	–
	18,859,366	**23,595,275**

Consolidated Income Statement

Pursuant to IFRS for Fiscal Year 2002

	2002 EUR	2001 EUR
1. Revenues	18,876,124	17,992,707
2. Production of own fixed assets capitalized	2,124,010	3,204,224
3. Other operating income	533,864	880,592
	21,533,998	**22,077,523**
4. Cost of purchased materials		
a) Cost of raw materials, supplies and trading stock	– 3,057,909	– 2,232,161
b) Cost of purchased services	– 771,621	– 739,182
	– 3,829,530	**– 2,971,343**
5. Personnel expenses		
a) Wages and salaries	– 11,381,328	– 11,003,399
b) Social security costs and expenses for pensions	– 1,898,326	– 1,866,649
	– 13,279,654	**– 12,870,048**
6. Depreciation and amortization of intangible and tangible assets	– 6,430,514	– 4,487,931
7. Other operating expenses	– 4,924,305	– 5,282,577
	– 11,354,819	**– 9,770,508**
8. Other interest and similar income	176,576	382,076
9. Interest and similar expenses	– 53,195	– 24,371
	123,381	**357,705**
10. Result from ordinary operations	**– 6,806,624**	**– 3,176,671**
11. Taxes on income	2,532,476	1,314,332
12. Other taxes	-33,514	– 2,307
13. Minority interest	23,904	25,076
14. Net loss for the year	**– 4,283,758**	**– 1,839,570**
15. Retained earnings, brought forward	1,395,060	3,234,630
16. Consolidated accumulated deficit (2001: earnings)	**– 2,888,698**	**1,395,060**

Consolidated Cash Flow Statement

Pursuant to IFRS for Fiscal Year 2002

	2002 EUR (in thsds)	2001 EUR (in thsds)
Result for the period (including shares of minority shareholders)	– 4,308	– 1,865
Write-downs on fixed assets	6,431	4,488
Increase/decrease in provisions (before balancing with pension reserves and without IPO costs)	– 561	153
Other revenue not affecting cash flow	–	– 428
Loss from the disposal of fixed assets	–	10
Increase/decrease in inventories, trade accounts receivable and other assets not part of investing or financing activities	– 907	28
Increase/decrease in trade accounts payable and other liabilities not part of investing or financing activities	496	– 483
Cash flow from operating activities	**1,151**	**1,903**
Payments made for investments in self-produced intangible assets	– 2,443	– 3,688
Payments made for investments in other intangible and tangible assets	– 499	– 785
Payments made for the acquisition of consolidated enterprises	– 9	– 8
Payments made for investments in financial assets	–	– 31
Cash flow from investing activities	**– 2,951**	**– 4,512**
Payments made for IPO costs	– 473	–
Payments received from issuing bonds and taking up loans	29	–
Payments made for the redemption of bonds and loans	–	– 4
Cash flow from financing activities	**– 444**	**– 4**
Changes in funds not affecting the movement of funds	– 2,244	– 2,613
Funds at the beginning of the period	7,174	9,787
Funds at the end of the period	**4,930**	**7,174**

Consolidated Asset Schedule

Pursuant to IFRS for Fiscal Year 2002

	Acquisition cost			
	Status Jan. 1, 2002 EUR	Additions EUR	Reclassification EUR	Status Dec. 31, 2002 EUR
Intangible assets				
Developments costs	25,719,727	2,442,732	–	28,162,459
Software	690,816	368,519	269,898	1,329,233
Software and capitalized development costs	**26,410,543**	**2,811,251**	**269,898**	**29,491,692**
Goodwill from capital consolidation	36,323	25,383	–	61,706
Advance payments made	269,898	–	– 269,898	–
	26,716,764	**2,836,634**	**–**	**29,553,398**
Tangible assets				
Other fixtures, furniture and office equipment				
Office equipment	2,773,166	100,339	–	2,873,505
Low-value items	253,046	30,427	–	283,473
	3,026,212	**130,766**	**–**	**3,156,978**
Financial assets				
Other loans				
Security deposits	1,676	337	–	2,013
	29,744,652	**2,967,737**	**–**	**32,712,389**

	Depreciation		Book values	
Status Jan. 1, 2002 EUR	Depreciation in the fiscal year EUR	Status Dec. 31, 2002 EUR	Dec. 31, 2002 EUR	Dec. 31, 2001 EUR
18,460,641	5,707,844	24,168,485	3,993,974	7,259,086
522,586	249,531	772,117	557,116	168,230
18,983,227	**5,957,375**	**24,940,602**	**4,551,090**	**7,427,316**
2,075	59,631	61,706	–	34,248
–	–	–	–	269,898
18,985,302	**6,017,006**	**25,002,308**	**4,551,090**	**7,731,462**
2,055,239	340,210	2,395,449	478,056	717,927
137,180	73,298	210,478	72,995	115,866
2,192,419	**413,508**	**2,605,927**	**551,051**	**833,793**
–	–	–	2,013	1,676
21,177,721	**6,430,514**	**27,608,235**	**5,104,154**	**8,566,931**

Consolidated Equity

Pursuant to IFRS for Fiscal Year 2002

	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 Dec. 31, 1999/Jan. 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 increases (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 Dec. 31, 2000/Jan. 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 Dec. 31, 2001/Jan. 1, 2002	**5,000**	**–**	**10,435**	**–**	**1,395**	**16,830**
Cost of initial public offering offset against capital reserves	–	–	– 109	–	–	– 109
Elimination of consolidation difference	–	–	–	–	–	–
Net loss for 2002	–	–	–	–	– 4,284	– 4,284
Balance as of Dec. 31, 2002	**5,000**	**–**	**10,326**	**–**	**– 2,889**	**12,437**

Notes to the Consolidated Financial Statements for Fiscal Year 2002

(According to IFRS)

As a publicly listed parent company, Softing AG has made use of its right according to § 292a HGB to prepare the consolidated financial statements according to internationally recognized accounting principles. A preparation of the consolidated financial statements according to German commercial law was therefore not necessary. The consolidated financial statements are drawn up and published on the basis of the International Financial Reporting Standards (IFRS). All IFRS standards to be applied on the balance sheet date are observed. The reporting currency is the euro (EUR).

In the income statement, previous year's figures under the items "Changes in inventories of finished goods and work in progress" and "Cost of purchased materials" in the amount of EUR – 55,303 were adjusted. The adjustment covers the changes in inventories of goods for resale, which in the previous year were reported under changes in inventory.

1. Purpose of the Group

The purpose of Softing AG and its subsidiaries is to provide analysis, consulting, development and implementation services in the context of IT projects as well as business studies, expert opinion and training, especially in the areas of process automation and production data acquisition, system and user software for micro- and minicomputer systems, long-distance data transmission, computer networks and commercial IT applications.

Softing AG is headquartered in Haar near Munich, Germany.

2. Scope of Consolidation

The consolidated financial statements as of December 31, 2002, include Softing AG and its subsidiaries Softing Industrial Solutions Italia S.r.l., Bozen, Italy (Softing Italia) and Softing North America, Inc., Newburyport, MA, USA (Softing North America). Softing AG owns the majority of voting rights in these affiliates and exercises control over the companies.

Softing Group Capital Share	2002 %	2001 %
Softing AG, Haar		
Softing Industrial Solutions Italia S.r.l., Bozen/Italy	100	89
Softing North America Inc., Newburyport/MA/USA	100	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 with Softing AG with effect from January 1, 2001.

Softing North America was founded on August 23, 2001.

3. Principles of Consolidation

The initial consolidation was based on the time the shares were acquired and on the time when the companies included in the consolidated financial statements were founded. The shareholders' equity to be offset in the context of capital consolidation, to the extent that it concerned net income, was determined statistically or on the basis of an interim statement by assuming that business was unchanged.

Capital consolidation was carried out in accordance with the purchase method (book-value method) pursuant to IAS 22 (revised 1998). The acquisition costs are offset against the book value of its equity at the time of acquisition. Any remaining differential amounts are capitalized as goodwill and amortized affecting net income over a ten-year period according to their future economic usage.

Negative goodwill from initial consolidation is posted on the liabilities side and distributed over a four-year period.

Intra-Group 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 inventories, do not contain any interim results to be adjusted.

4. Principles of Valuation

Valuation is based on the cost of acquisition or production. The valuation methods are explained in connection with the relevant balance sheet items.

5. Currency Translation

In the financial statements of the individual companies, business transactions in foreign currencies are translated at 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 financial statements of Softing North America are translated into euros based on the temporal method pursuant to IAS 21.

Conversion of monetary balance sheet items of Softing North America is made at the rate applicable on the closing date. Non-monetary balance sheet items and expenses and income are translated at historical rates.

Differences resulting from the translation are posted as income or expenses.

6. Notes to the Consolidated Balance Sheet

Intangible Assets

Intangible assets (software) acquired for a consideration are posted at the amortized acquisition cost. They are amortized as planned over three years in accordance with their respective useful life using the straight-line method. Interest on loans is not capitalized.

Goodwill

The capital consolidation of Softing Italia at the time of voluntary capital contribution in November 2000, October 2001 and August 2002 and the purchase of company shares in the amount of 9 percent of the Softing Italia share capital in October 2001 and the remaining 11 percent in December 2002 resulted in differences of EUR 62,000 which were capitalized as goodwill and amortized over ten years using the straight-line method. Based on the valuation assessment as of the balance sheet date, a full valuation allowance of EUR 55,000 was made for the remaining goodwill. The book value as of December 31, 2002, was EUR – (2001: EUR 34,000).

Research and Development

Expenses for research and 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 and new product versions are amortized over three years using the straight-line method; for purposes of simplification, a half-year's amortization is charged in the year the products are completed. The costs for research are of minor importance. In fiscal year 2002, the amortization method for new product lines was changed in order to arrive at a uniform accounting. New product lines, which in the past were amortized over six years, are now amortized over three years like all other developments. One-off write-downs of EUR 1,664,000 were taken because of this valuation change. Product versions which were developed in the reporting period and which replaced older versions on the market led to a full write-down of the older versions. The remaining book values of EUR 554,000 were written down. This partial write-down concerns the Industrial Automation (IA) segment.

The item "Software and capitalized development cost" comprises the costs for developing new products in the net amount of EUR 3,994,000 (2001: EUR 7,259,000).

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 – (2001: EUR 7,000).

The remaining loans granted contain only a rent deposit.

Financial Assets

The capitalized value of the pension liability insurances of EUR 660,000 (2001: EUR 267,000) was offset against the company pension reserves according to IAS 19 (revised 2000) during the reporting period.

Impairment

Long-lived assets are valued at their capitalized earnings value if there is reason to believe that specific facts or circumstances will diminish their value. An impairment loss is charged if there is a difference between the book value and the capitalized 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 (revised 1997).

Deferred Tax Assets

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 company's deferred tax assets concern the items set forth below:

	Dec. 31, 2002 EUR (in thsds)	Dec. 31, 2001 EUR (in thsds)
Valuation differences between consolidated balance sheet and tax balance sheet (short-term assets)	–	32
Valuation differences pension reserves	22	–
Future claims from losses brought forward	3,453	2,196
	3,475	**2,228**

For further explanations concerning deferred tax assets, please see the section "Taxes on income".

Inventories

Inventories are valued at the respective acquisition or production cost. Production cost comprises the material and direct cost and adequate portions of the necessary materials and production overhead. Valuation is based on weighted averages. Interest on loans was 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 112,000.00) for doubtful accounts, if necessary. These items also contain future receivables related to work in progress. Trade accounts receivable contain a lump-sum valuation allowance of EUR 22,000 and individual allowances in the amount of EUR 90,000.

	Dec. 31, 2002 EUR (in thsds)	Dec. 31, 2001 EUR (in thsds)
Trade accounts receivable	4,024	3,864
Of which:		
Future receivables (production contracts)	239	607
Services not yet billed	47	74

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 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 accounts receivable", "Accounts payable (long-term production contracts)" or as "Advance payments received".

	Dec. 31, 2002 EUR (in thsds)	Dec. 31, 2001 EUR (in thsds)
Total work in progress	1,542	1,418
Less: advance payments received	– 874	– 985
Net total offset account	668	433
Thereof posted under:		
Trade accounts receivable	1,103	607
Accounts payable (long-term-production contracts)	– 435	– 53
Accounts payable (advance payments received)	–	– 121

Other Assets

The other assets are valued at their nominal values.

	Dec. 31, 2002 EUR (in thsds)	Dec. 31, 2001 EUR (in thsds)
Taxes	198	210
Receivables from employees	13	28
Other	44	78
	255	**316**

Of the loans to employees, EUR – are due within more than one year (2001: 21,000). One loan has an interest rate of 6.5 percent 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, 2002. They are due on January 17, 2005. The last interest rate was 3.281 percent. Every three months, the issuer adjusts the rate to the market interest rate.

Cash

Cash comprises cash and short-term bank deposits. The development of cash, which, together with the securities, equals cash and cash equivalents pursuant to IAS 7 (revised 1992), is shown in the cash flow statement.

	Dec. 31, 2002 EUR (in thsds)	Dec. 31, 2001 EUR (in thsds)
Cash on hand	1	1
Cash at banks	2,180	3,175
	2,181	**3,176**

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 unappropriated retained earnings available for dividend payments are determined on the basis of unappropriated retained earnings of Softing AG, in accordance with German commercial law.

Authorized Capital 2001/I

The Executive Board is authorized, subject to the approval of the Supervisory Board, to increase the share capital one time or several times until March 16, 2005, by up to EUR 2,000,000.00 by issuing new bearer shares for contributions in cash or in kind. 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 contributions in kind 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, subject to the approval of the Supervisory Board, to increase the share capital one time or several times until March 16, 2005, by up to EUR 500,000.00 by issuing new bearer shares for contributions in cash or in kind. Any whole or partial exclusion of shareholders' subscription rights is permissible, subject to the approval of the Supervisory Board, if at the time of final determination of the issuing price, the new shares are issued at a price that is not significantly lower than the price of previously listed company stock subject to identical terms.

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 Treasury Stock

The General Shareholders' Meeting of May 6, 2002, authorized the Executive Board to acquire treasury stock representing up to ten percent of the company's share capital until December 5, 2003. This authorization may be exercised in whole or partial amounts. The price paid by the company per share may not be more than percent above or below the average cash 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 rights are excluded insofar as these shares are offered to third parties.

Earnings per share IAS 33 (1997):		Dec. 31, 2002	Dec. 31, 2001
Consolidated annual result	EUR (in thsds)	– 4,308	– 1,865
Third-party stakes	EUR (in thsds)	24	25
Consolidated net loss, undiluted	**EUR (in thsds)**	**– 4,284**	**– 1,840**
Number of shares	No.	5,000,000	5,000,000
Loss per share, undiluted	EUR (in thsds)	– 0.86	– 0.37

Capital Reserves

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

Subsequent IPO costs in the amount of EUR 173,000.00 (i.e. EUR 108,000.00 after income taxes) were offset against the capital reserves during the reporting period without affecting net income.

Offset Item for Minority Interests

Last year, these minority interests concerned the stakes of other shareholders in Softing Italia.

Reserves

Development	Status as of Jan. 1, 2002 EUR (in thsds)	Expenditure EUR (in thsds)	Retransfer EUR (in thsds)	Reclassification from other liabilities EUR (in thsds)	Allocation EUR (in thsds)	Status as of Dec. 31, 2002 EUR (in thsds)
Pension reserves	498	–	7	–	–	491
Tax reserves	3,144	1,339	–	–	–	1,805
Other reserves	1,464	1,329	28	15	1,828	1,950
	5,106	**2,668**	**35**	**15**	**1,828**	**4,246**

Pension Reserves

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

Basis of calculation	Dec. 31, 2002 %	Dec. 31, 2001 %
Accounting interest rate	5.8	5.9
Salary trend	3.0	3.0
Pension adjustment	1.5	1.5

Development	2002 EUR (in thsds)	2001 EUR (in thsds)
As of January 1, 2002	767	558
Service time expenditure	220	173
Revenue from plan asset	– 370	– 14
Interest paid	49	36
Interest earned from plan asset	– 21	– 18
Termination effect	114	–
Market value of the external plan asset as of January 1, 2002	– 268	– 237
As of December 31, 2002	**491**	**498**

Reconciliation with the balance sheet	Dec. 31, 2002 EUR (in thsds)	Dec. 31, 2001 EUR (in thsds)
Present value of the performance-related liabilities (DBO)	1,150	837
Actuarial loss not yet posted	–	– 71
Market value of the external plan asset as of December 31, 2002	– 659	– 268
	491	**498**

Pension expenses were EUR 79,000 (2001: EUR 176,000).

	Dec. 31, 2002 EUR (in thsds)	Dec. 31, 2001 EUR (in thsds)
Expenditure for allocation to pension reserves	313	208
Included interest expenditures (balanced with interest from plan asset in the amount of EUR 21,000; 2001: EUR 18,000)	– 28	– 18
Other revenue from plan asset (pension liability insurance)	– 206	– 14
	79	**176**

During the reporting period, the service time and interest expenditures resulting from the increase in pension reserves were for the first time offset against the income from the plan asset pursuant to IAS 19 (rev. 2000). The remaining interest expenditures are posted as interest expenses. Income from the increase in the plan asset concerning fiscal year 2001 is reported in the result related to other accounting periods.

Tax Reserves

The tax reserves concern exclusively deferred taxes by the company. Deferred taxes are accrued in accordance with the liability method as per IAS 12 (revised 2000).

The tax rates applied are those applicable or promulgated as of the balance sheet date. The deferred taxes comprise:

	Dec. 31, 2002 EUR (in thsds)	Dec. 31, 2001 EUR (in thsds)
Short-term assets	286	224
Long-term assets	1,519	2,754
Short-term reserves	–	115
Long-term reserves	–	52
	1,805	**3,145**

Please see the section "Taxes on income" 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:

	Dec. 31, 2002 EUR (in thsds)	Dec. 31, 2001 EUR (in thsds)
Guarantees	211	50
Personnel cost	1,239	847
Financial statements, preparation and auditing costs	63	62
Third-party services, fees	305	495
Audit	83	–
Other	49	10
	1,950	**1,464**

Advance Payments Received for Contracts

Advance payments received as of the balance sheet date were EUR 1,225,000 (2001: EUR 985,000). Of this amount, EUR 874,000 (2001: EUR 864,000) apply to long-term production contracts, which were offset against the respective work-in-progress balances.

Trade Accounts Payable

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

Other Liabilities

	Dec. 31, 2002 EUR (in thsds)	Dec. 31, 2001 EUR (in thsds)
Taxes	335	392
Liabilities related to social security and benefits	235	256
Wages and salaries payable	213	11
Other	54	104
	837	**763**

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

7. Notes to the Consolidated Income Statement

Revenues

Revenues are 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 respective services are shown as sales. Revenues from the "percentage of completion method" amount to EUR 1,541,000 (2001: EUR 1,417,000). A profit of EUR 572,000.00 (2001: EUR 448,000.00) was achieved in this context.

Classification according to geographic criteria:	2002 EUR (in thsds)	2001 EUR (in thsds)
Domestic	12,711	13,606
Abroad	6,165	4,387
	18,876	**17,993**

Classification according to products and services:	2002 EUR (in thsds)	2001 EUR (in thsds)
Products	12,234	10,701
Services	6,642	7,292
	18,876	**17,993**

Production of Own Fixed Assets Capitalized

Production of own fixed assets capitalized concerns the cost of developing new software products, to the extent that the respective expenses were not deducted from the cost of purchased materials.

Other Operating Income

The other operating income comprises the following items:

	2002 EUR (in thsds)	2001 EUR (in thsds)
Other income not related to the accounting period	197	–
Income from the provision of automobiles	124	120
Liquidation of reserves	28	133
Write-back of the difference related to initial consolidation	–	428
Other revenue	185	200
	534	**881**

Cost of Purchased Materials

	2002 EUR (in thsds)	2001 EUR (in thsds)
Procurement of components and products	3,377	2,716
Fees, free-lance personnel	191	201
Third-party services	581	538
	4,149	**3,455**
Less: cost of materials for internal product developments	– 319	– 484
	3,830	**2,971**

Personnel Expenses

	2002 EUR (in thsds)	2001 EUR (in thsds)
Salaries	10,488	10,290
Profit-sharing, royalties	225	381
Provision of automobiles to employees	139	140
Severance pay	379	38
Overtime, maternity pay, other	47	87
Temporary workers	64	58
Wage and church taxes	40	9
Social security and pension plan payments	1,898	1,867
	13,280	**12,870**

Other Operating Expenses

The other operating expenses are as follows:

	2002 EUR (in thsds)	2001 EUR (in thsds)
Expenses unrelated to the accounting period	193	11
Operating costs	2,722	2,428
Distribution costs	1,128	1,084
Administrative expenses	806	1,750
Expenses resulting from exchange differences	75	10
	4,924	**5,283**

Other Taxes

These taxes comprise the motor vehicle taxes for company cars and additional tax payments relating to prior years.

Interest Result

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

	2002 EUR (in thsds)	2001 EUR (in thsds)
Interest income	177	382
Interest expenses	– 54	– 24
	123	**358**

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 offset against the allocation to pension reserves pursuant to IAS 19 (revised 2000).

Taxes on Income

Taxes on income are determined in accordance with all applicable tax laws.

Softing AG is liable for a trade income tax (Gewerbeertragsteuer) of approximately 15 percent 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 percent (until 2000, it was 40 percent plus 5.5 percent solidarity surtax for retained earnings).

Deferred taxes are created by each individual company pursuant to IAS 12 (revised 2000) relative to all significant yet temporary deviations between the consolidated balance sheet and the balance sheet prepared for tax purposes. As of January 1, 2001, the tax rate is 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 percent, including the regional ERAP; for Softing North America, it was calculated to be 25.76 percent.

Deferred tax assets from losses carried forward were shown only to the extent that a company will, in all likelihood, achieve taxable income sufficient to utilize the benefit of losses carried forward. The forecasts of the tax results indicate that the loss carryforwards will be realized in the next four years.

The company has loss carryforwards of EUR 9,364,000, 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:

	2002 EUR (in thsds)	2001 EUR (in thsds)
Anticipated tax expenses (income (–))	– 2,542 (37.34%)	– 1,187 (37.34%)
Tax-exempt write-back of the difference relating to initial consolidation	–	– 159
Amortization of goodwill	22	–
Non-deductible expenses	7	8
Costs directly offset against capital reserves	– 65	–
Different tax rates among deferred taxes	44	24
Other	**2**	–
	– 2,532	**– 1,314**

8. Other Information

Business Segment Reporting

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	
	2002 EUR (in thsds)	2001 EUR (in thsds)	2002 EUR (in thsds)	2001 EUR (in thsds)	2002 EUR (in thsds)	2001 EUR (in thsds)	2002 EUR (in thsds)	2001 EUR (in thsds)
Sales revenue	9,982	9,382	8,894	8,611	–	–	18,876	17,993
Depreciation	5,105	2,668	1,265	1,229	60	591	6,430	4,488
Net income segment	– 7,722	– 5,008	841	1,435	– 49	36	– 6,930	– 3,537
Assets	1,955	5,603	2,039	1,656	14,865	16,336	18,859	23,595
Investments (without financial investments)	1,274	2,443	1,693	1,245	–	808	2,967	4,496

Segment Allocation of Products:

Industrial Automation:

Automation software 4CONTROL (Embedded and PC-based), control software (independent of 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

Cash Flow Statement

The cash flow statement represents the consolidated cash flows of the consolidated companies. The cash flow from operating activities decreased compared to the previous year, due primarily to the expenses incurred in the repositioning of the company in 2002.

Cash flow from operating activities also comprises EUR 177,000 from interest earned and EUR 54,000 from interest paid. No income taxes were paid during the reporting period.

The other revenue not affecting cash flow concerns the write-back of the difference related to initial consolidation.

Cash and cash equivalents shown in the cash flow statement 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 up to 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.

In fiscal year 2002, a total of 37,200 subscription rights were granted.

	2002 No.	2001 No.
Status January 1	88,300	51,500
New option rights granted	37,200	81,200
Forfeited option rights	– 17,100	– 10,900
Exchange for option rights 2001	–	– 33,500
Status December 31	**108,400**	**88,300**
Of which: from 2000	8,700	12,900
Of which: from 2001	62,500	75,400
Of which: from 2002	37,200	–

Exercising the rights from the stock option plan is subject to certain conditions. Purchasing the shares is possible only if Softing stock outperforms the CDAX technology index of Deutsche Börse AG during the period in 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 percent, a dividend yield of 0 percent and a volatility of Softing stock of 66.2 percent. The value of the stock options, which was determined on the basis of estimated values, was EUR 0.40 or EUR 0.49 per option at the time of granting.

The company applies 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 reported net loss for the year of EUR –4,308,000 would have decreased by EUR 68,000.

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:

Dr. Wolfgang Trier, shareholder, Executive Board member (since April 1, 2002)

Mr. Eduard Himmelsdorfer, shareholder, Executive Board member
Dr. Rainer Mittmann, shareholder, Executive Board member
Dr. Manfred Patz, shareholder, Executive Board member (until March 31, 2002)

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 EUR 533,000 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)
2003	1,048
2004	944
2005	840
2006	327
After 2006	–
Total	**3,159**

Personnel

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

	2002	2001
As of the balance sheet date	160	181
Annual average	174	182

Executive Board

The following persons were members of the Executive Board of Softing AG in fiscal year 2002:

Dr. Wolfgang Trier, Munich, Germany (since April 1, 2002)
Eduard Himmelsdorfer, Munich, Germany, graduate engineer
Dr. Rainer Mittmann, Munich, Germany, graduate engineer
Dr. Manfred Patz, Vaterstetten, Germany (until March 31, 2002)

Payments to these persons in fiscal year 2002, excluding payments to the pension reserves, amounted to EUR 713,000 (2001: EUR 675,000).

Statement pursuant to § 161 German Stock Corporation Act

The statement of compliance as required under § 161 of the German Stock Corporation Act (AktG) has been submitted and made available to shareholders.

Supervisory Board

The following gentlemen were members of the Supervisory Board of Softing AG in fiscal year 2002:

Dr. Horst Schiessl, attorney at law, Munich, Germany (chairman)
Josef Faltenbacher, CPA, Munich, Germany (deputy chairman)
Professor Dr. Georg Färber, professor, Ottobrunn, Germany

Dr. Schiessl is also a member of the Supervisory Board 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 is also a member of the Supervisory Board of the following companies:
Baader Wertpapierhandelsgesellschaft AG, Unterschleißheim, Germany

Dr. Färber is also a member of the Supervisory Board of the following companies:
SEP Logistik AG, Weyarn, Germany
TTTech AG, Vienna, Austria

Payments to members of the Supervisory Board in the reporting period totaled EUR 23,000.

Haar, Germany, February 13, 2003

The Executive Board of Softing AG

Dr. Wolfgang Trier

Dipl.-Ing. Eduard Himmelsdorfer

Dr.-Ing. Rainer Mittmann

Auditors' Opinion

We have audited the consolidated financial statements of Softing AG, Haar, Germany for the fiscal year from January 1 to December 31, 2002, comprising the balance sheet, the income statement, the statement of changes in equity, the cash flow statement and the notes to the consolidated financial statements. The preparation of the consolidated financial statements according to the International Financial Reporting Standards (IFRS) and their contents are the responsibility of the company's Executive Board. Our responsibility is to express an opinion on the consolidated financial statements based on our audit.

We conducted our audit 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), 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 the 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 Financial Reporting 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 Group management report prepared by the Executive Board for the fiscal year from January 1, to December 31, 2002, led to no objections. In our opinion, the Group management report gives an accurate picture of the state of the Group's affairs and correctly depicts the risks of future development. We also confirm that the consolidated financial statements and the Group management report for the fiscal year from January 1 to December 31, 2002, fulfill the requirements to exempt the company from preparing consolidated financial statements and a Group management report according to German law.

Munich, Germany, February 14, 2003

Bayerische Treuhandgesellschaft Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Negele
Wirtschaftsprüfer

Damberger
Wirtschaftsprüfer

Report of the Supervisory Board

for Fiscal Year 2002

In fiscal year 2002, the Executive Board informed us in five regular meetings of the company's situation and significant business transactions. The Supervisory Board did not set up any committees. We also obtained information on the course of business and the situation of the company through oral and written reports provided by the Executive Board between meetings. The Executive Board always informed us comprehensively in every respect, including the company's risk management. We actively supported the company in intensive discussions, especially with regard to filling key executive positions, increasing internal efficiency and focusing the company on an attractive product portfolio.

On November 15, 2002, the Supervisory Board and the Executive Board issued the declaration of compliance regarding the German Corporate Governance Code pursuant to §161 German Stock Corporation Act (AktG).

The auditors of Bayerische Treuhandgesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Munich/Germany, have audited the Financial Statements for fiscal year 2002 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 auditors attended these discussions on March 13, 2003. On the basis of our own examinations, we agree with the auditors' audit of the Financial Statements.

Based on the final result of our examination, we have no objections. The Supervisory Board formally approved and thereby adopted the Financial Statements.

Consolidated Financial Statements and a Group Management Report were also prepared. They were audited by Bayerische Treuhandgesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Munich/Germany. The auditors have issued an unqualified opinion. Their report was submitted to us. We also agree with the result of the audit of the Consolidated Financial Statements and the Group Management Report. The Consolidated Financial Statements are therefore approved.

Haar/Germany, March 28, 2003

Softing AG
The Chairman of the Supervisory Board

Dr. Schiessl

Corporate Boards and Directors' Holdings

Corporate Boards	Shares		Options	
	Sept. 30 2002 No.	Dec. 31, 2002 No.	Sept. 30 2002 No.	Dec. 31, 2002 No.
Supervisory Board				
Dr. Horst Schiessl (Chairman), Attorney at Law, Munich, Germany	–	–	–	–
Josef Faltenbacher (Deputy Chairman), CPA, Munich, Germany	1,000	1,000	–	–
Professor Dr. Georg Färber, Professor, Ottobrunn, Germany	500	500	–	–
Executive Board				
Dr.-Ing. Dr. rer. oec. Wolfgang Trier, Munich, Germany	24,992	24,992	–	37,200
Dipl.-Ing. Eduard Himmelsdorfer, Munich, Germany	410,450	410,450	3,500	3,500
Dr.-Ing. Rainer Mittmann, Munich, Germany	408,250	408,250	3,500	3,500

Executive Board – Allocation of Responsibilities

Dr. Wolfgang Trier:	Chairman, Legal Affairs, Corporate Communications
Eduard Himmelsdorfer:	Development, Sales, Marketing
Dr. Rainer Mittmann:	Finance, Human Resources and Administration

Financial Calendar

March 31, 2003	Audited Annual Report 2002
April 9, 2003	Analysts' Conference, Frankfurt, Germany
April 9, 2003	Press conference on financial statements, Munich, Germany
May 15, 2003	Quarterly Report 1/2003
May 28, 2003	Annual Shareholders' Meeting
August 13, 2003	Quarterly Report 2/2003
November 14, 2003	Quarterly Report 3/2003

German Corporate Governance Code

The Executive Board and the Supervisory Board of Softing AG support the majority of suggestions and rules of the German Corporate Governance Code and fulfill the recommendations regarding conduct contained therein. Below the Executive Board and the Supervisory Board disclose and explain any deviations from the Code. You can download the full text of the Code in the Investor Relations section of our website www.softing.com.

Item 2.2.2

In § 4 subparagraph 4 of Softing AG's Articles of Association, the Executive Board is authorized to increase the company's share capital, subject to the approval of the Supervisory Board, until March 16, 2005, one time or several times, by up to EUR 500,000.00 by issuing new bearer shares in return for contributions in cash or in kind. Any whole or partial exclusion of shareholders' subscription rights are permissible, subject to the approval of the Supervisory Board, if at the time of final determination of the issuing price, the new shares are issued at a price that is not significantly lower than the price of previously listed company stock subject to identical terms. The Executive Board is further authorized, subject to the approval of the Supervisory Board, to make decisions concerning the exclusion of shareholders' subscription rights and to determine additional details of the respective capital increase, as well as the conditions of the respective share offering. § 4 subparagraph 5 excludes shareholders' subscription rights for conditional capital increase to service the stock option plan by issuing up to 260,000 no-par bearer shares.

Item 2.3.4

The Executive Board and the Supervisory Board are generally in favor of broadcasting the entire Shareholder's Meeting; however, considering the size of Softing, company costs are in no relation to the benefits to shareholders and do not justify a broadcast of the Shareholders' Meeting by modern communication media.

Item 3.8

A D&O insurance policy for the Executive and Supervisory Boards, which has existed since 2001, does currently not include a deductible.

Item 4.2.3

We point out that the Annual Reports for 2000 and 2001 already contain information on the stock option plan.

Item 4.2.4

The figures are presented in the required form, but not individualized.

Items 5.3.1, 5.3.3, 5.3.4

The Supervisory Board of Softing AG currently consists of three members; therefore, we do not consider a formation of committees to be useful.

Item 5.4.1

The election of Supervisory Board members is solely a matter of the Annual Shareholders' Meeting and not within the responsibility of the Executive Board and Supervisory Board. For nominees, the criteria mentioned above and recommendations of major shareholders are taken into account. A specific age limit could be regarded as an undesired exclusion criterion for qualified Supervisory Board members.

Item 5.4.5

For 2003, the Supervisory Board plans to change Softing AG's Articles of Association with regard to compensation for the Supervisory Board members.

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