Annual Report 2003

Successful reorientation

Significantly improved profitability

Groundwork laid for future growth

softing

Consolidated Key Figures (pursuant to IFRS)

		2003	2002	2001
Revenues	(EUR million)	20.34	18.88	17.99
EBIT	(EUR million)	– 0.37	– 6.93	– 3.54
Net loss	(EUR million)	– 0.50	– 4.28	– 1.86
Fixed assets	(EUR million)	4.64	5.10	8.57
Current assets	(EUR million)	10.42	10.21	12.67
Equity	(EUR million)	11.94	12.43	16.83
Number of employees (annual average)		148	174	182
DVFA/SG earnings per share	(EUR)	– 0.10	– 0.86	– 0.37

Highlights 2003

February	Start of delivery EDICnet: new diagnostics interface system with LAN/WLAN support
February	Market launch PROFIdtm
March	Expansion of the PROFIBUS analyzers to include DP-V2 functionality
March – September	OPC Roadshow in England, Finland, Italy and Switzerland
April	Cooperation between Softing and ETAS (details press archive www.softing.com)
May	Cooperation between Softing and dSPACE (details press archive www.softing.com)
July	Start of delivery DTS 7: first ASAM-compatible diagnostics tool
September	Start of delivery EDICpci: new diagnostics interface system for the PCI bus
October	Market launch FF Linking Device
October	Start of delivery DTS7-AUT/OPC: DTS7 system expansions for automation/OPC applications
November	Introduction of the new product family of compact Fieldbus gateways FG-100

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A company must look towards the future with optimism.
It can only look back in order to learn.

From the Idea of a Company to a Company of Ideas

In the beginning was the idea. The idea of combining software and engineering. The idea behind Softing. In 1979, Eduard Himmelsdorfer, Dr. Rainer Mittmann and Dr. Manfred Patz founded an engineering firm near Munich. Over the course of 25 years, it developed into a successful, independent, globally active systems house for industrial communication and automotive electronics.

Softing is in demand – and not just as a partner to business. Even in its first years of existence, Softing receives development contracts from Siemens and BMW. In 1986, the German Electrical and Electronic Manufacturer's Association (Zentralverband Elektrotechnik- und Elektroindustrie, or ZVEI) commissions Softing to represent it in international standardization committees. This marks the beginning of Softing's activities in the area of industrial communication. Participation in international committees is of twofold significance to Softing. From this time on, Softing sets standards in industrial communication, and later in automotive electronics as well. And the latest technological trends are incorporated into the development of its own products. The young company follows a course of growth, and soon the fields of activity in which the company still operates today begin to crystallize: industrial automation and automotive electronics.

Unequal Brothers

Today the Softing Group is equally active as a software and systems house in the areas of industrial automation and automotive electronics. At first glance, they may appear to be unequal brothers – and yet the two areas are offsprings of the same root: an understanding of the communication between control units in an automobile and between machines in a factory.

Softing develops complex, high-quality software, hardware and complete system solutions. Softing has positioned itself as a product and technology supplier in the area of industrial automation. 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 communications interfaces in automotive electronics systems. Leading automobile manufacturers are among Softing's long-standing customers.

The Art of Relationships

Relationships are a sensitive matter. Relationships need to be nurtured. Partners expect reliability and attentiveness. Softing knows this. Cultivating the relationship with our customers is therefore the order of the day. Attention to and an understanding of the desires of our customers enables us to realize technologically high-quality solutions in close cooperation with them. This allows partnerships to strengthen and grow. Our long-lasting, successful business relationships are a testament to this principle.

Flexibility and standardization are two aspects that are usually mutually exclusive. Softing bridges the gap between the two by developing individual solutions for customers on the basis of sophisticated standard products. The top priority is to consistently transform new ideas into state-of-the-art, powerful and cost-efficient components and solutions. Professional and practice-oriented service goes without saying here.

Growing Into New Structures

As revenues grow, so does the number of Softing employees. Soon it's time to find larger offices. At the start of the 1990s, Softing moves into its current corporate headquarters in Haar near Munich. At the end of the 1990s, Softing breaks new business ground. Softing AG is founded in 1997, and sales offices in Germany follow. Later on, foreign subsidiaries are established as well. In the year 2000, the company begins trading on the Neuer Markt segment of the Frankfurt Stock Exchange. It is a successful IPO with superb stock price performance initially. The somewhat less successful fiscal years 2001 and 2002, a bearish market and a weak economy cause Softing AG to encounter considerable turbulence for the first time in its history. The company has to pull through it. Softing focuses once again on its strengths, ushers in a new generation on the Executive Board and gathers steam with new ideas and involvement. Don't look for financial figures here. There is enough talk of incoming orders, revenues, earnings and cash flow in the rest of this report. Let us look instead to the future.

Preparing for the Future

"Our task is not to reap what we sowed yesterday, but rather to sow what we will reap tomorrow." (Robert Bosch)

We know what we want: to get better and better. And we know what our customers and shareholders want from us. This is why we will find solutions even faster and make cooperation even easier in the future. In brief, we want to dare to be even more customer- and shareholder-oriented. This is why we are in the process of analyzing the desires and needs of our customers more intensively than ever before and of generating benefits with new products, services and solutions.

At this point, Dr. Trier, chairman of the Executive Board since April 2002, will say a few words. "Don't just paint a rosy picture – instead, systematically tap opportunities in the framework of our core competencies." It should be noted here that Dr. Trier will take over on the following pages.

Just one more thing: we wish Softing and all of its employees great success for the next 25 years!

**Dear Shareholders, Employees,
Partners and Friends of Softing,**

Fiscal year 2003 was an eventful year for Softing – it was full of initiatives, changes and, above all, success. We completed the reorientation of Softing, which we began in 2002. We set other ambitious goals for ourselves for 2003 as well, and today we can proudly say that we reached them!

Our goal was to achieve a positive cash flow to ensure the strengthening of our liquidity. After the losses of the past years, we also intended to attain a balanced operating income before final repositioning expenses.

We were able to achieve both of these goals. Our cash flow was positive in each of the quarters of the last fiscal year. Liquidity improved from EUR 4.9 million to EUR 6.0 million – an increase of more than 20 %. The result from operations was balanced at EUR 0.1 million. The final repositioning expenditures amounted to approximately EUR 0.5 million. The resulting EBIT of EUR – 0.4 million is an impressive improvement of EUR 6.5 million in just one year. This underscores the success of our new orientation – a success that is the result of a combination of revenues growth and optimized cost structures.

Softing performed well in 2003 in an environment that remained weak for automation technology and capital goods. The incoming orders of the Softing Group amounted to EUR 20.1 million (2002: EUR 20.4 million), which was impacted by extraordinary effects in 2002. We were able to increase sales revenues by over 7 % to EUR 20.3 million.

In the past years, Softing's target markets were affected by a reluctance to invest on the part of industry as a result of the economic situation. However, we are convinced that the markets will recover considerably in the second half of 2004.

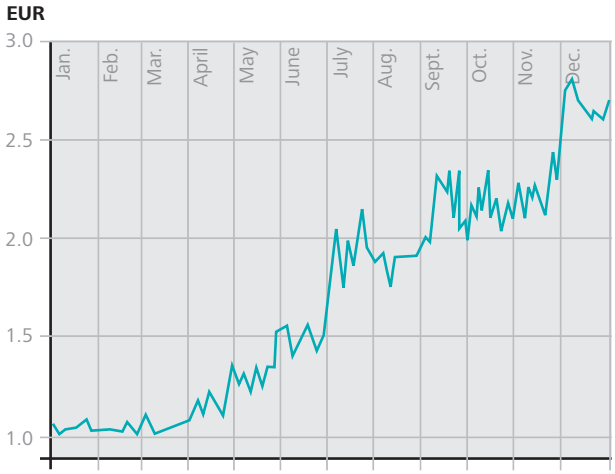
We have set clear goals for 2004. We want revenues to continue to grow to over EUR 21.0 million and expect the second half of the year to account for up to two-thirds of these sales. We are anticipating an operating income in excess of EUR 0.5 million and a decidedly positive cash flow.

In the Automotive Electronics business division, Softing has positioned itself as a partner for the networking of electronics systems in automobiles. While it is an exaggeration to say that the modern car has become a web server on four wheels, there is no doubt that, depending on the vehicle class, electronic equipment can easily constitute up to 25 % of the added-value of a passenger car or commercial vehicle. At the same time, one of the major challenges facing automobile manufacturers is the need to control the complexity of modern automotive electronics systems. One way of facing this challenge is to use new software models combined with tools that have standardized interfaces. The focus of such applications is increasingly turning to diagnostics – that is, the access to control devices and the analysis of data traffic. This applies to the entire process chain, from development to after-sales.

As a leader in this market, Softing is further expanding its core diagnostic product, DTS, which will enable the company to reach new customers. The technological foundation of the product will be supplemented by the Flexray and Lin bus systems. We will extend our hardware portfolio to include new products for these bus systems and additional form factors. It is gratifying to note that the radio coupling system developed in 2003 is receiving increased use. Cooperative relationships established last year in the area of diagnosis are also paying off.

We are a competent partner to our customers in the field of Industrial Automation. We offer products for the networking of installations – that is, industrial communication on the basis of relevant fieldbus systems and innovative controls, with a focus on the PC-based 4Control system. Drawing on its extensive expertise in the area of fieldbuses, Softing develops hardware and software products that are an important component of reliable industrial automation, both within individual fieldbus worlds and in the connection of these worlds to one another. The Industrial Automation business division is consistently building on its existing strengths through the addition of new products. In 2004, we will also consolidate our leading role in Foundation Fieldbus, the fast-growing communications standard in the process industry, as well as in the Profibus, Profinet and CAN standards.

Softing's employees are its guarantee of success. Their commitment enabled Softing to make such promising progress on the path towards reorientation. We would like to take this opportunity to thank them for their loyalty and dedication.



Final daily quotation Xetra

Our stock price showed a very positive performance in 2003. Numerous conversations with representatives of the business press, fund managers and analysts have confirmed the potential of Softing. They give us the confidence to look ahead to the successful performance of Softing stock. Convinced of our possibilities, we presented Softing as a stock with a future to numerous analysts and institutional investors at the German Equity Forum of Deutsche Börse AG in November. With lasting success.

We, the employees and Executive Board of Softing, will do everything we can to achieve our ambitious goals. We would be happy to have you join us in this endeavor.

We will keep you updated on our progress!

Yours sincerely,

Dr. Wolfgang Trier
(Chairman of the
Executive Board)

Eduard Himmelsdorfer
(Member of the
Executive Board)

Trade Fairs 2003

Industrial Automation

February 17 – 19	Motion Control & Factory Automation, Bologna, Italy
April 7 – 12	Hannover Messe Industrie, Hanover, Germany
May 19 – 24	ACHEMA, Frankfurt/Main, Germany
June 3 – 5	Testing Expo, Stuttgart, Germany
October 21 – 23	ISA Show, Houston, USA
November 25 – 27	SPS/IPC/DRIVES, Nuremberg, Germany

Automotive Electronics

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

Trade Fairs 2004

Industrial Automation

February 23 – 26	National Manufacturing Week, Chicago, USA
March 2 – 4	Fern-/Nahwärmetechnik, Leipzig, Germany
March 31 – April 3	Südblech, Sinsheim, Germany
April 18 – 22	Light & Building, Frankfurt/Main, Germany
April 19 – 24	Hannover Messe Industrie, Hanover, Germany
October 5 – 7	ISA Show, Houston, USA
October 6 – 8	SMART Automation Austria, Linz, Austria
October 26 – 30	EuroBLECH, Hanover, Germany
November 23 – 25	SPS/IPC/DRIVES, Nuremberg, Germany

Automotive Electronics

Febrary 17 – 19	Embedded World, Nuremberg, Germany
March 10 – 11	Euroforum Jahrestagung „Elektronik-Systeme im Automobil“, Munich, Germany
March 23 – 24	IIR Fachkonferenz „Diagnosesysteme im Automobil“, Stuttgart, Germany
May 6	Entwicklerforum „Kfz-Elektronik“, Ludwigsburg, Germany
May 25 – 27	TestingExpo, Stuttgart, Germany
June 15 – 16	Int. Fachkongress „Fortschritte in der Automobil-Elektronik“, Ludwigsburg, Germany
September 28 – 30	MeasComp, Wiesbaden, Germany
October 18 – 20	Convergence, Detroit, USA
November 9 – 12	Electronica, Munich, Germany

Group Management Report for Fiscal Year 2003

2003, the Year of Turnaround Success

In fiscal year 2003, the Softing Group completed the reorientation measures it began in 2002. The primary goal was to achieve a positive cash flow to ensure the strengthening of our liquidity. After the losses of the past years, we also intended to attain a balanced operating income – before taking into account the final repositioning expenses. Softing was able to do both of these things. There were changes in the executive management as well: the Executive Board was reduced to two members. Dr. Rainer Mittmann, co-founder of Softing AG, left the Executive Board effective April 30, 2003.

The Softing Group consists of Softing AG, based in Haar near Munich; its marketing subsidiaries Softing North America Inc. (Softing North America), based in Newburyport (Massachusetts), and Softing Industrial Solutions Italia S.r.l. (Softing Italia), in Bozen, Italy; and a branch office in Ratingen near Düsseldorf. In the course of restructuring, the marketing subsidiary Softing Industrial Solutions Italia will be liquidated. Customers in Italy will now be served entirely through the parent company in Germany, together with distributors on location.

Softing has an international presence as a software and systems house 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; production 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.

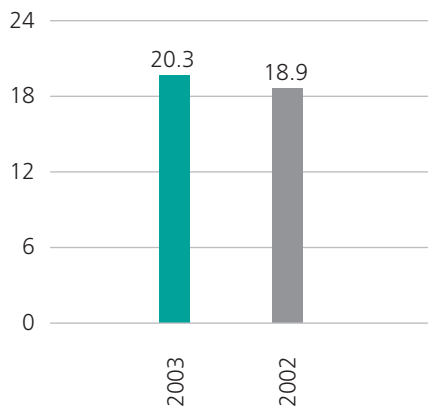
In the field of automotive electronics, Softing is a partner to the automobile industry and its suppliers for on- and off-board communications. As such, it develops test and diagnostic systems for the communications interfaces in automotive electronics systems.

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. Consulting, analyses, studies and training round out the range of services.

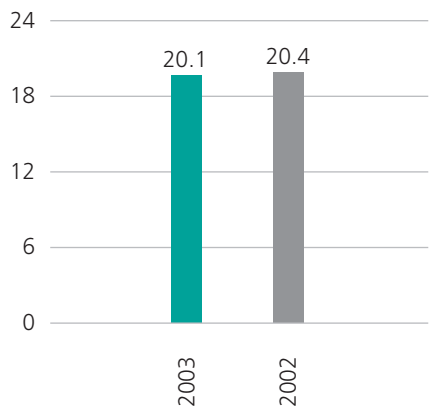
Softing primarily offers its services and products in Europe. However, noteworthy sales in North America have also been contributing to the consolidated earnings for some time.

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

Sales
(in EUR million)



Incoming orders
(in EUR million)



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

Course of Business and Economic Environment

The economy was unable to gather momentum in 2003, both in Germany and in the other euro countries. According to the German Electrical and Electronic Manufacturer's Association (Zentralverband Elektrotechnik- und Elektroindustrie, or ZVEI), the German automation industry was able to report slight growth again in 2003, after declining production numbers in 2002. For the entire year 2003, the ZVEI estimates production growth of 1.5 percent for switching devices, switchgears and industrial control systems, and 2 percent growth for measurement technology and process automation.

Despite the weak economic figures and only moderate growth in the automation industry, the Softing Group was able to increase its sales by over 7 percent to EUR 20.3 million (2002: EUR 18.9 million). Divided according to Softing's business divisions, the Industrial Automation division achieved sales of EUR 11.4 million (2002: EUR 10.0 million), and sales in the Automotive Electronics division amounted to EUR 8.9 million (2002: EUR 8.9 million).

The operating result came in at EUR -0.4 million (2002: EUR – 6.9 million). This figure includes the final extraordinary expenditures of EUR 0.5 million for repositioning. These extraordinary expenditures were composed primarily of expenses for the closure of the subsidiary in Italy and the reduction of the Executive Board. If these special items are deducted, the operating result comes in at a positive EUR 0.1 million.

The incoming orders of the Softing Group amounted to EUR 20.1 million (2002: EUR 20.4 million). In 2002, this figure was greatly influenced by extraordinary effects (Project Bruneck). In light of this, the incoming orders for 2003 are considered positive.

Softing Italia achieved sales of EUR 0.5 million (2002: EUR 0.3 million) with a net loss of EUR -0.4 million (2002: EUR – 0.2 million), while Softing North America reported sales of EUR 1.0 million (2002: EUR 1.1 million) with a net loss of EUR – 0.2 million (2002: EUR 0.0 million).

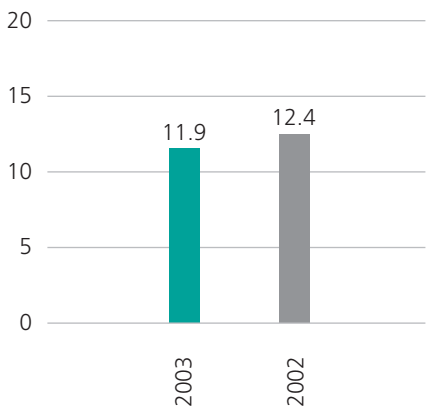
The consolidated net loss of the Softing Group amounted to EUR -0.5 million (2002: EUR – 4.3 million). DVFA/SG earnings per share came to EUR – 0.10 for the year 2003 (2002: EUR – 0.86).

The cash position of the Group improved further. At the end of 2003, cash and cash equivalents amounted to EUR 6.0 million (2002: EUR 4.9 million). The Softing Group had equity capital of EUR 11.9 million at the end of 2003, as compared to EUR 12.4 million the year before.

Expenditures for Research and Product Development at Last Years' Level

For years, the Softing Group has invested systematically 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.

Equity
(in EUR million)



Net loss
(in EUR million)

In total, Softing invested EUR 2.4 million (2002: EUR 2.4 million) in the development of new products and the further development of existing ones. As in previous years, these developments were financed exclusively through our own resources.

Investments of EUR 0.7 million were made in the Industrial Automation business division (2002: EUR 0.9 million). The main focus was on a streamlined product portfolio and the clear orientation of all developments on sales and earnings potential. Considerable investments were made in the area of Foundation Fieldbus.

Softing further advanced its core diagnostic product, DTS, in 2003, which enabled the company to reach new customers. The hardware portfolio is being expanded to include new products for the Flexray and Lin bus systems and additional form factors. It is gratifying to note that the radio coupling system developed in 2003 is receiving increased use. In total, Softing invested EUR 1.7 million (2002: EUR 1.5 million) in the Automotive Electronics division.

Employees

At the end of 2003, the Softing Group had a total of 153 full-time employees (2002: 160). There were 96 employees working in research and development (2002: 97), and 38 in marketing and sales (2002: 42).

No stock options were granted to employees in the past fiscal year.

Future Development of the Company and Risks

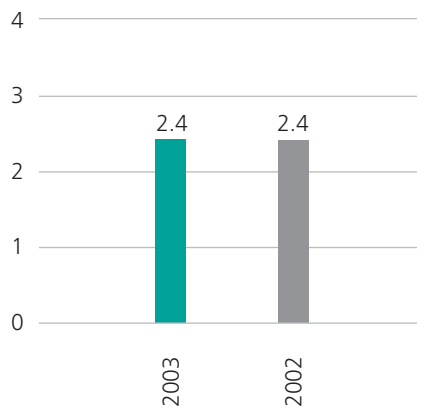
Signs of Economic Revival and Market Growth

Based on existing market studies and our own estimates, we expect economic growth of 1.8 percent in 2004 for the euro countries, and 1.4 percent for the Federal Republic of Germany. Taking into account forecasts from the ZVEI and our own findings, Softing sees clear signs of economic revival in the German automation industry.

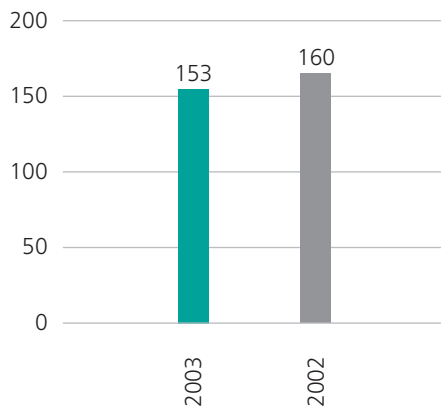
Above-average growth potential is still predicted for fieldbus systems. Market growth is expected to reach over 10 percent in the coming years. Softing is a competent partner to its customers in the field of industrial automation. It offers products for the networking of installations (industrial communication on the basis of relevant fieldbus systems) and innovative controls (with a focus on the PC-based 4Control system). Drawing on its expertise in the area of fieldbuses, Softing develops hardware and software products that are an important component of reliable industrial automation, both within individual fieldbus worlds and in the connection of these worlds to one another.

In the area of Profibus, Ethernet and CAN fieldbuses, we will offer our customers efficient, easy-to-integrate solutions for linking the various bus standards through intelligent gateways. This bridging function between the different standards and applications will be strengthened through the further development of OPC toolkits for all relevant operating systems. Added

Product development that must be capitalized
(in EUR million)



Employees
(at year's end)



to this are new products for the maintenance of existing installations (analyzers for Profibus and CAN), supplemented by the expansion of existing hardware interfaces. The benefits of the further development of our 4Control system will also be made available to our customers in the form of a new release.

In the Automotive Electronics business division, Softing has positioned itself as a partner for the networking of electronics systems in automobiles. Depending on the vehicle class, electronic equipment can currently constitute up to 25 % of the added-value of a passenger car or commercial vehicle. At the same time, automobile manufacturers are struggling to deal with quality problems in complex automotive electronics systems. One solution is to use new software models combined with tools that have standardized interfaces. The focus of such applications is increasingly turning to diagnostics – that is, the access to control devices and the analysis of data traffic. This applies to the entire process chain, from development to after-sales. Industry analysts predict that the market for automotive electronics will grow by 8 to 10 percent in the year 2004.

Outlook for Fiscal Year 2004

We do not foresee a noticeable revival of economic growth until the middle of 2004. Nonetheless, Softing expects its incoming orders and revenues to increase in 2004 and anticipates sales of over EUR 21.0 million. Sales in the Automotive Electronics and Industrial Automation business divisions should increase by roughly the same amount.

Having successfully completed the repositioning measures in 2003, we expect an operating income in excess of EUR 0.5 million and a decidedly positive cash flow.

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 business policy is to exploit existing business opportunities as good as possible and our risk policy is to carefully weigh the related risks. 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 our risk management system. 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. At this time, risks jeopardizing the Group's continued existence and risks that are detrimental to the development of the Group cannot be discerned.

Business Risks

Despite the fact that we were able to increase revenues in the reporting year as compared to the year before, the situation in our markets was characterized by strong fluctuations of demand. This entails the risk of under utilization of capacities and the risk of sustaining pressure on realizable revenues. We meet these risks with stricter cost management measures and flexible working hour models so that we can quickly adapt to any changes in demand. 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 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 earnings 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 project progress with an alarm controlling system.

Risk of Damages

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

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 receivables.

Currency Risks

The constant expansion of our business with customers in the United States and other dollar countries has increased the significance of assessing currency risks. In the reporting period, our US subsidiary was still in the investment phase so that the rising euro exchange rate relative to the dollar did not have a material impact. Following the conclusion of the investment phase, we will devote more attention to hedging currency risks.

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 the 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. In addition, we implemented several IT security measures which so far prevented damage caused by computer viruses and sabotage.

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 10, 2004

Softing AG

Dr.-Ing. Dr. rer. oec. Wolfgang Trier
(Chairman of the Executive Board)

Dipl.-Ing. Eduard Himmelsdorfer
(Member of the Executive Board)

Consolidated Balance Sheet

Pursuant to IFRS for Fiscal Year 2003

Assets	Dec. 31, 2003 EUR	Dec. 31, 2002 EUR
A. Fixed assets		
I. Intangible assets		
Software and capitalized development cost	4,260,608	4,551,090
II. Property, plant and equipment		
Other fixtures, furniture and office equipment	376,688	551,051
III. Investments		
Other loans	2,013	2,013
	4,639,309	5,104,154
B. Deferred taxes	3,316,475	3,474,754
C. Current taxes		
I. Inventories		
1. Raw materials and supplies	304,219	303,302
2. Goods	761,336	698,718
	1,065,555	1,002,020
II. Receivables and other assets		
1. Trade receivables	3,208,618	4,023,584
2. Other assets	113,705	255,094
	3,322,323	4,278,678
III. Securities	2,802,757	2,748,625
IV. Cash	3,231,372	2,180,931
	10,422,007	10,210,254
D. Deferred charges and prepaid expenses	39,470	70,204
	18,417,261	18,859,366

Liabilities and Shareholders' Equity	Dec. 31, 2003 EUR	Dec. 31, 2002 EUR
A. Shareholders' equity		
I. Issued capital	5,000,000	5,000,000
II. Capital reserves	10,326,278	10,326,278
III. Consolidated accumulated deficit	– 3,389,018	– 2,888,698
	11,937,260	**12,437,580**
B. Provisions		
1. Provisions for pensions	823,054	490,704
2. Provisions for deferred taxes	1,807,000	1,805,000
3. Other provisions	2,011,563	1,949,698
	4,641,617	**4,245,402**
C. Liabilities		
1. Accounts payable, long-term production contracts	346,069	436,053
2. Liabilities due to banks	–	28,809
3. Advance payments received for contracts	27,507	350,692
4. Trade payables	465,370	484,881
5. Other liabilities	746,969	837,316
	1,585,915	**2,137,751**
D. Deferred income	**252,469**	**38,633**
	18,417,261	**18,859,366**

Consolidated Income Statement

Pursuant to IFRS for Fiscal Year 2003

	2003 EUR	2002 EUR
1. Revenues	20,340,037	18,876,124
2. Production of own fixed assets capitalized	2,140,317	2,124,010
3. Other operating income	327,333	533,864
	22,807,687	**21,533,998**
4. Cost of purchased materials		
a) Cost of raw materials, supplies and trading stock	– 3,595,877	– 3,057,909
b) Cost of purchased services	– 490,035	– 771,621
	– 4,085,912	**– 3,829,530**
5. Personnel expenses		
a) Wages and salaries	– 10,239,725	– 11,381,328
b) Social security costs and expenses for pensions	– 1,853,927	– 1,898,326
	– 12,093,652	**– 13,279,654**
6. Depreciation and amortization	– 3,196,806	– 6,430,514
7. Other operating expenses	– 3,801,114	– 4,924,305
	– 369,797	**– 6,930,005**
8. Other interest and similar income	113,861	176,576
9. Interest and similar expenses	– 80,823	– 53,195
	33,038	**123,381**
10. Result from ordinary operations	**– 336,759**	**– 6,806,624**
11. Income tax	– 143,718	2,532,476
12. Other taxes	– 19,843	– 33,514
13. Minority interest	–	23,904
14. Net loss for the year	**– 500,320**	**– 4,283,758**
15. Retained earnings, brought forward	– 2,888,698	1,395,060
16. Consolidated accumulated deficit	**– 3,389,018**	**– 2,888,698**
Earnings per share (diluted = undiluted)	– 0.10	– 0.86

Consolidated Cash Flow Statement

Pursuant to IFRS for Fiscal Year 2003

	2003 EUR (in thsds)	2002 EUR (in thsds)
Result for the period (2002: including shares of minority shareholders)	– 500	– 4,308
Write-downs on fixed assets	3,197	6,431
Increase/decrease in provisions	606	– 561
Loss from the disposal of fixed assets	7	–
Increase/decrease in inventories, trade receivables and other assets not part of investing or financing activities	872	– 907
Increase/decrease in trade payables and other liabilities not part of investing or financing activities	– 311	496
Cash flow from operating activities	**3,871**	**1,151**
Payments received from the disposal of fixed assets	17	–
Payments made for investments in self-produced intangible assets	– 2,385	– 2,443
Payments made for investments in other intangible assets and property, plant and equipment	– 370	– 499
Payments made for the acquisition of consolidated enterprises	–	– 9
Cash flow from investing activities	**– 2,738**	**– 2,951**
Payments made for IPO costs	–	– 473
Payments received from taking up loans	–	29
Payments made for the redemption of bonds and loans	– 29	–
Cash flow from financing activities	**– 29**	**– 444**
Changes in funds not affecting the movement of funds	1,104	– 2,244
Funds at the beginning of the period	4,930	7,174
Funds at the end of the period	**6,034**	**4,930**

Consolidated Asset Schedule

Pursuant to IFRS for Fiscal Year 2003

	Acquisition cost			
	Status	Additions	Disposals	Status
	Jan. 1, 2003			Dec. 31, 2003
	EUR	EUR	EUR	EUR
I. Intangible assets				
Development costs	28,162,459	2,384,794	–	30,547,253
Software	1,329,233	192,071	7,773	1,513,531
1. Software und capitalized development costs	**29,491,692**	**2,576,865**	**7,773**	**32,060,784**
2. Goodwill from capital consolidation	**61,706**	**–**	**–**	**61,706**
	29,553,398	**2,576,865**	**7,773**	**32,122,490**
II. Property, plant and equipment				
Other fixtures, furniture and office equipment				
Office equipment	2,873,505	149,849	377,707	2,645,647
Low-value items	283,473	29,072	196,214	116,331
	3,156,978	**178,921**	**573,921**	**2,761,978**
III. Investments				
Other loans				
Security deposits	2,013	–	–	2,013
	32,712,389	**2,755,786**	**581,694**	**34,886,481**

	Depreciation				Book values	
	Status Jan. 1, 2003 EUR	Depreciation in the fiscal year EUR	Disposals EUR	Status Dec. 31, 2003 EUR	Dec. 31, 2003 EUR	Dec. 31, 2002 EUR
	24,168,485	2,569,093	–	26,737,578	3,809,675	3,993,974
	772,117	295,543	5,062	1,062,598	450,933	557,116
	24,940,602	**2,864,636**	**5,062**	**27,800,176**	**4,260,608**	**4,551,090**
	61,706	**–**	**–**	**61,706**	**–**	**–**
	25,002,308	**2,864,636**	**5,062**	**27,861,882**	**4,260,608**	**4,551,090**
	2,395,449	280,337	356,593	2,319,193	326,454	478,056
	210,478	51,833	196,214	66,097	50,234	72,995
	2,605,927	**332,170**	**552,807**	**2,385,290**	**376,688**	**551,051**
	–	–	–	–	2,013	2,013
	27,608,235	**3,196,806**	**557,869**	**30,247,172**	**4,639,309**	**5,104,154**

Consolidated Equity

Pursuant to IFRS for Fiscal Year 2003

	Issued capital 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, 2000 / Jan. 1, 2001	**5,000**	**428**	**10,552**	**–**	**3,235**	**19,215**
Cost of IPO 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 IPO offset against capital reserves	–	–	– 109	–	–	– 109
Net loss for 2002	–	–	–	–	– 4,284	– 4,284
Balance as of Dec. 31, 2002 / Jan. 1, 2003	**5,000**	**–**	**10,326**	**–**	**– 2,889**	**12,437**
Net loss for 2003	–	–	–	–	– 500	– 500
Balance as of Dec. 31, 2003	**5,000**	**–**	**10,326**	**–**	**– 3,389**	**11,937**

Notes to the Consolidated Financial Statements for Fiscal Year 2003

(Pursuant 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. 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).

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, 2003, 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	2003 %	2002 %
Softing AG, Haar		
Softing Industrial Solutions Italia S.r.l., Bozen/Italy	100	100
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 effective January 1, 2001. Softing North America was established 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 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 purchase method pursuant to IAS 22 (revised 1998). The acquisition costs of the subsidiary 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

A. 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% of the Softing Italia share capital in October 2001 and the remaining 11% 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. As of December 31, 2002, a full valuation allowance of EUR 55,000 was made for the remaining goodwill.

Research and Development

Expenditures for research and development are recognized 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 internally generated 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 2002 and which replaced older versions on the market led to a full write-down of the older versions. The residual book values of EUR 554,000 were written down in the previous year. This partial write-down concerned the Industrial Automation (IA) segment.

The item "Software and capitalized development cost" comprises the costs for developing new products in the amount of EUR 3,810,000 (2002: EUR 3,994,000).

B. Property, Plant and Equipment

Property, plant and equipment is valued at its acquisition and manufacturing cost, less normal and utilization-based depreciation. Interest on loans is not capitalized.

Property, plant and equipment is depreciated using the straight-line method in accordance with its useful life. Hardware is depreciated over three years; furniture and fixtures are depreciated over five to seven years, and new equipment installed is depreciated over the remaining term of the lease.

Costs related to repair and maintenance work are posted as expenses at the time they are incurred. Significant renovations and improvements are capitalized.

C. Investments

The remaining loans granted contain only a rent deposit.

The capitalized value of the pension liability insurances of EUR 869,000 (2002: EUR 660,000) was balanced with the company pension reserves according to IAS 19 (revised 2000) during the reporting period.

D. Impairment

Non-current 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.

E. 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).

F. Inventories

Inventories are valued at the respective acquisition cost. The total book value of the inventories corresponds to the balance sheet item.

G. Trade Receivables

Trade receivables are posted at the nominal value less individual allowances (EUR 140,000) for doubtful accounts, if necessary. These items also contain future receivables related to work in progress. Trade receivables contain a lump-sum valuation allowance of EUR 20,000 and individual allowances in the amount of EUR 120,000.

	Dec. 31, 2003 EUR (in thsds)	Dec. 31, 2002 EUR (in thsds)
Trade receivables	3,209	4,024
Of which:		
Future receivables (production contracts)	710	1,103
Services not yet billed	55	47

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

	Dec. 31, 2003 EUR (in thsds)	Dec. 31, 2002 EUR (in thsds)
Total work in progress	2,120	1,542
Less: advance payments received	– 1,755	– 874
Net total offset account	365	668
Thereof posted under:		
Trade receivables	710	1,103
Accounts payable (long-term production contracts)	– 345	– 435

H. Other Assets

The other assets are valued at their nominal values.

	Dec. 31, 2003 EUR (in thsds)	Dec. 31, 2002 EUR (in thsds)
Taxes	79	198
Receivables from employees	6	13
Other	29	44
	114	**255**

Receivables from employees concern interest-free loans.

I. 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, 2003. They are due on January 17, 2005. The last interest rate was 2.142 %. Every three months, the issuer adjusts the rate to the market interest rate.

J. 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, 2003 EUR (in thsds)	Dec. 31, 2002 EUR (in thsds)
Cash on hand	1	1
Cash at banks	3,230	2,180
	3,231	**2,181**

K. Share Capital

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 once or several times until March 16, 2005, by up to EUR 2,000.000 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 once 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.

Earnings per share IAS 33 (1997):		2003	2002
Consolidated net loss	EUR (in thsds)	– 500	– 4,308
Minority interest	EUR (in thsds)	0	24
Consolidated net loss, undiluted	**EUR (in thsds)**	**– 500**	**– 4,284**
Number of shares, undiluted	No.	5,000,000	5,000,000
Loss per share, undiluted	EUR	– 0.10	– 0.86
Loss per share, diluted	EUR	– 0.10	– 0.86

L. Capital Reserves

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

M. Provisions

Development	Status Jan. 1, 2003 EUR (in thsds)	Expenditure EUR (in thsds)	Retransfer EUR (in thsds)	Reclassification EUR (in thsds)	Allocation EUR (in thsds)	Status Dec. 31, 2003 EUR (in thsds)
Pensions reserves	491	–	–	– 210	542	823
Tax reserves	1,805	–	–	–	2	1,807
Other reserves	1,950	1,579	105	–	1,746	2,012
	4,246	**1,579**	**105**	**– 210**	**2,290**	**4,642**

N. Pension Provisions

This item concerns the partially reinsured and performance-oriented pension commitments granted to one current and two previous 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, 2003 %	Dec. 31, 2002 %
Accounting interest rate	5.4	5.8
Salary trend	3.0	3.0
Pension adjustment	1.5	1.5

Development	2003 EUR (in thsds)	2002 EUR (in thsds)
As of January 1	1,150	767
Service time expenditure	149	220
Revenue from plan asset	– 157	– 370
Interest paid	67	49
Interest earned from plan asset	– 53	– 21
Termination effect	326	114
Market value of the external plan asset as of January 1	– 659	– 268
As of December 31	**823**	**491**

Reconciliation with the balance sheet	Dec. 31, 2003 EUR (in thsds)	Dec. 31, 2002 EUR (in thsds)
Present value of the performance-related liabilities (DBO)	1,692	1,150
Actuarial loss not yet posted	–	–
Market value of the external plan asset as of December 31, 2003	– 869	– 659
	823	**491**

Pension expenses were EUR 371,000 (2002: EUR 79,000).

	Dec. 31, 2003 EUR (in thsds)	Dec. 31, 2002 EUR (in thsds)
Expenditure for allocation to pension provisions	542	313
Included interest expensitures (balanced with interest from plan asset in the amount of EUR 53,000; 2002: EUR 21,000)	– 14	– 28
Other revenue from plan asset (pension liability insurance)	– 157	– 206
	371	**79**

The service time and interest expenditures resulting from the increase in pension provisions were offset against the income from the plan asset pursuant to IAS 19 (rev. 2000). The remaining interest expenditures are posted as interest expenses.

O. Other Provisions and Liabilities

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

Other provisions are expected to be used up during fiscal year 2004.

Other provisions comprise the following items:

	Dec. 31, 2003 EUR (in thsds)	Dec. 31, 2002 EUR (in thsds)
Guarantees	222	211
Personnel cost	1,404	1,239
Financial statements, preparation and auditing costs	50	63
Third-party services, fees	293	305
Audit	–	83
Other	43	49
	2,012	**1,950**

P. Advance Payments Received for Contracts

Advance payments received as of the balance sheet date were EUR 1,783,000 (2002: EUR 1,225,000). Of this amount, EUR 1,755,000 (2002: EUR 874,000) apply to long-term production contracts, which were offset against the respective work-in-progress balances.

Q. Trade Payables

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

R. Other Liabilities

	Dec. 31, 2003 EUR (in thsds)	Dec. 31, 2002 EUR (in thsds)
Taxes	329	335
Liabilities related to social security and benefits	243	235
Wages and salaries payable	106	213
Other	69	54
	747	**837**

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

7. Notes to the Consolidated Income Statement

A. 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 revenues. Revenues from the "percentage of completion method" amount to EUR 2,120,000 (2002: EUR 1,541,000). A profit of EUR 662,000 (2002: EUR 572,000) was achieved in this context.

Classification according to geographic criteria:	2003 EUR (in thsds)	2002 EUR (in thsds)
Domestic	13,657	12,711
Abroad	6,683	6,165
	20,340	**18,876**

Classification according to products and services:	2003 EUR (in thsds)	2002 EUR (in thsds)
Products	13,408	12,234
Services	6,932	6,642
	20,340	**18,876**

B. 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 included in the related expense item.

C. Other Operating Income

The other operating income comprises the following items:

	2003 EUR (in thsds)	2002 EUR (in thsds)
Other income not related to the accounting period	17	197
Income from the provision of automobiles	126	124
Liquidation of reserves	105	28
Other revenue	79	185
	327	**534**

D. Cost of Purchased Materials

	2003 EUR (in thsds)	2002 EUR (in thsds)
Procurement of components and products	3,596	3,377
Fees, free-lance personnel	98	191
Third-party services	392	581
	4,086	**4,149**
Cost of materials for internal product development	–	– 319
	4,086	**3,830**

E. Personnel Expenses

	2003 EUR (in thsds)	2002 EUR (in thsds)
Salaries	8,780	10,310
Profit-sharing, royalties	875	403
Provision of automobiles to empoyees	143	139
Severance pay	302	379
Temporary workers	118	64
Other	42	87
Social security and pension plan payments	1,834	1,898
	12,094	**13,280**

F. Other Operating Expenses

The other operating expenses are as follows:

	2003 EUR (in thsds)	2002 EUR (in thsds)
Expenses unrelated to the accounting period	16	193
Operatig costs	1,898	2,722
Distribution costs	1,045	1,128
Administrative expenses	728	806
Expenses resulting from exchange differences	114	75
	3,801	**4,924**

G. Other Taxes

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

H. Interest Result

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

	2003 EUR (in thsds)	2002 EUR (in thsds)
Interest income	114	177
Interest expenses	– 81	– 54
	33	**123**

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 provisions pursuant to IAS 19 (revised 2000).

I. Income Tax

Income tax is mainly comprised of the following items:

	2003 EUR (in thsds)	2002 EUR (in thsds)
Deferred taxes on temporary differences	– 130	– 1,361
Deferred taxes on tax loss carryforwards	275	– 1,169
Tax refund	– 1	– 2
	144	**– 2,532**

Deferred taxes are recognized for temporary differences between the financial statements prepared for financial reporting purposes and the financial statements prepared for tax purposes and for any differences arising from uniform accounting and consolidation.

Deferred taxes are determined based on the applicable country-specific tax rates. The applicable domestic tax rate is determined as follows:

	%
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 %. Tax rate changes approved as at the balance sheet date are taken into account.

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 tax loss carryforwards of EUR 8,582,000, which were taken into account at the time the deferred taxes were determined.

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

	Dec. 31, 2003 EUR (in thsds)	Usable until
Softing AG trade tax loss carryforward	8,329	Indefinitely
Softing AG income tax loss carryforward	8,173	Indefinitely
Softing North America, Inc.	331	2008/2023
Softing Industrial Solutions Italia Srl.	835	No

Due to the liquidation of Softing Industrial Solution Italia Srl., the tax loss carryforward of Softing Industrial Solution Italia Srl. cannot be utilized in the future. Previously recognized DTAs in the amount of EUR 216,000 were written down and DTAs in the amount of EUR 68,000 relating to the tax loss in the reporting period were not recognized.

Due to tax profits of Softing AG, a total of EUR 223,000 of the loss carryforward could be utilized in fiscal year 2003.

Deferred tax assets and liabilities are comprised as follows:

J. Deferred Tax Assets

The deferred tax assets concern the items set forth below:

	Dec. 31, 2003 EUR (in thsds)	Dec. 31, 2002 EUR (in thsds)
Valuation differences pension provision	154	22
Future tax benefits from loss carryforwards	3,162	3,453
	3,316	**3,475**

K. Deferred Tax Liabilities

The deferred taxes comprise:

	Dec. 31, 2003 EUR (in thsds)	Dec. 31, 2002 EUR (in thsds)
Current assets	366	286
Non-current assets	1,441	1,519
	1,807	**1,805**

The reconciliation of anticipated tax expenses and actual tax expenses is as follows: The calculation for the Group is based on the tax rate applicable for Softing AG, as this company is responsible for the main part of the Group's business.

	2003 EUR (in thsds)	2002 EUR (in thsds)
Anticipated tax expenses (income (–))	– 126	– 2,542
	(37.34%)	(37.34%)
Allowance Italy at Softing AG	– 67	–
Allowance and non-recognition deferred taxes Italy	284	–
Tax audit Softing AG	34	–
Different tax rates	27	44
Tax additions and deductions	– 3	7
Amortization of goodwill	–	22
Costs directly offset against capital reserves	–	– 65
Creditable taxes	– 1	–
Other	– 4	2
	144	**– 2,532**

8. Other Information

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	
	2003 EUR (in thsds)	2002 EUR (in thsds)	2003 EUR (in thsds)	2002 EUR (in thsds)	2003 EUR (in thsds)	2002 EUR (in thsds)	2003 EUR (in thsds)	2002 EUR (in thsds)
Sales revenue	11,468	9,982	8,872	8,894	–	–	20,340	18,876
Depreciation	1,582	5,105	1,615	1,265	–	60	3,197	6,430
Segment result (EBIT)	– 781	– 7,722	411	841	–	– 49	– 370	– 6,930
Segment assets	4,108	3,120	4,392	6,559	9,917	9,180	18,417	18,859
Segment liabilities	2,521	2,611	2,152	1,976	1,807	1,834	6,480	6,421
Investments (without financial investments)	933	1,274	1,822	1,693	–	–	2,755	2,967

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

Cash Flow Statement

The cash flow statement represents the consolidated cash flows of the consolidated companies. The cash flow from operating activities improved compared to the previous year, due primarily to the expenses incurred in the repositioning of the company in 2002 and 2003.

Cash flow from operating activities also comprises EUR 114,000 from interest earned and EUR 81,000 from interest paid. No income taxes were paid during the reporting period.

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 (50 %) and three years (50 %) after they have been issued. The option rights have a term of six years, counted from the date of issue to the individual entitled to the option right. Expired option rights are cancelled.

No subscription rights were granted in fiscal year 2003.

	2003 No.	2002 No.
Status January 1	108,400	88,300
New option rights granted	–	37,200
Forfeited option rights	– 6,500	– 17,100
Status December 31	**101,900**	**108,400**
Of which: from 2000	5,000	8,700
Of which: from 2001	59,700	62,500
Of which: from 2002	37,200	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 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 – 500,000 would have increased by EUR 40,000.

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:

Mr. Eduard Himmelsdorfer, shareholder, Executive Board member
Dr. Rainer Mittmann, shareholder, Executive Board member (until April 30, 2003)
Dr. Wolfgang Trier, shareholder, Executive Board member

There are no receivables from affiliated persons. Liabilities of EUR 94,000 exist due to a loan granted by the Executive Board members to Softing AG. An interest rate of 6 % is applicable to the net amount of the deferred salaries in this context.

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 719,000 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)
2004	862
2005	711
2006	276
After 2006	–
Total	**1,849**

Personnel

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

	2003	2002
As of the balance sheet date	153	160
Annual average	148	174

Executive Board

The following persons were members of the Executive Board of Softing AG in fiscal year 2003:

Dr.-Ing. Dr. rer. oec. Wolfgang Trier, Munich, Germany
Dipl.-Ing. Eduard Himmelsdorfer, Munich, Germany
Dr.-Ing. Rainer Mittmann, Munich, Germany (until April 30, 2003)

Payments to these persons in the reporting period, excluding payments to pension provisions, amounted to EUR 513,000.00 (2002: EUR 713,000.00). Compensation is divided into a fixed salary component (EUR 402,000) and a performance-based, variable component (EUR 111,000). The performance-based variable component is determined based on goals that were defined in advance. The Executive Board also participates in the company's stock option plan.

Statement Pursuant to § 161 German Stock Corporation Act

The declaration 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 persons were members of the Supervisory Board of Softing AG in fiscal year 2003:

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 (chairman)
St. Petersburg Immobilien und Beteiligungs AG SPAG, Mörfelden-Walldorf, Germany (deputy chairman)
Dussmann AG & Co. KGaA, Berlin, Germany

Dr. Schiessl is also a member of the Advisory Board of the following company:
Trion Pharma GmbH, Munich, Germany (chairman)

Mr. Faltenbacher is also a member of the Supervisory Board of the following company:
Baader Wertpapierhandelsgesellschaft AG, Unterschleißheim, Germany

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

Each member of the Supervisory Board receives a fixed remuneration of EUR 5,000 for each full fiscal year of service on the Supervisory Board. In addition, they also receive a variable remuneration, which amounts to EUR 7,500 per million euros of EBIT (rounded up to the next full million) as stated in the consolidated financial statements. The chairman receives 200 % of the fixed and variable amount, the deputy chairman 150 %.

Remuneration for fiscal year 2003 are distributed as follows:

	Fixed	Variable	Other	Total
Dr. Horst Schiessl (chairman)	10	–	–	10
Josef Faltenbacher (deputy chairman)	8	–	–	8
Prof Dr. Georg Färber	5	–	–	5

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

Haar, Germany, February 10, 2004

Softing AG

Dr.-Ing. Dr. rer. oec. Wolfgang Trier
(Chairman of the Executive Board)

Dipl.-Ing. Eduard Himmelsdorfer
(Member of the Executive Board)

Auditors' Opinion

We have audited the consolidated financial statements of Softing AG, Haar, Germany for the fiscal year from January 1, 2003 to December 31, 2003, 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, 2003, 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, 2003, fulfill the requirements to exempt the company from preparing consolidated financial statements and a Group management report according to German law.

Munich, Germany, February 13, 2004

Bayerische Treuhandgesellschaft Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Negele
Wirtschaftsprüfer

Damberger
Wirtschaftsprüfer

Report of the Supervisory Board

for Fiscal Year 2003

In fiscal year 2003, the Executive Board informed us in four regular meetings of the company's situation and significant business transactions. 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. The Supervisory Board did not set up any committees.

We actively supported the company in intensive discussions. In doing so, we focused on the conclusion of the restructuring measures that were initiated in fiscal year 2002. Cost structures were adjusted to the economic environment especially by achieving savings in the personnel sector. This also involved a reduction of the Executive Board to two members. Given the current stabilization of the earnings situation, the company laid the groundwork for a mid- and long-term, growth-oriented realignment of Softing. A further expansion of the sales organization, which has been initiated but not yet completed, and an even stronger focus on core products are intended to ensure a sustainable earnings growth for Softing.

The declaration of compliance pursuant to §161 German Stock Corporation Act was made by the Supervisory Board and the Executive Board on November 20, 2003.

The auditors of Bayerische Treuhandgesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Munich/Germany, have audited the financial statements for fiscal year 2003 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 February 25, 2004. 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.

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 Supervisory Board thus formally adopted the Financial Statements and approved the consolidated financial statements.

Haar, Germany, February 25, 2004

The Chairman of the Supervisory Board

Dr. Schiessl

Corporate Boards and Directors' Holdings

Corporate Boards	Shares		Options	
	Sep. 30, 2003 No.	Dec. 31, 2003 No.	Sep. 30, 2003 No.	Dec. 31, 2003 No.
Supervisory Board				
Dr. Horst Schiessl (chairman), Attorney at Law, Munich	–	–	–	–
Josef Faltenbacher (deputy chairman), CPA, Munich	1,000	1,000	–	–
Professor Dr. Georg Färber, university professor, Ottobrunn	500	500	–	–
Executive Board				
Dr.-Ing. Dr. rer. oec. Wolfgang Trier, Munich	28,692	30,192	37,200	37,200
Dipl.-Ing. Eduard Himmelsdorfer, Munich	414,450	414,450	3,500	3,500

Executive Board Allocation – of Responsibilities

Dr. Wolfgang Trier:	Chairman, Finance, Human Resources, Corporate Communications, Sales Industrial Communication
Eduard Himmelsdorfer:	Development, Sales, Marketing

Financial Calendar

March 9, 2004	Audited Annual Report 2003
March 16, 2004	Press conference on financial statements, Munich, Germany
April 16, 2004	Annual Shareholders' Meeting, Munich, Germany
May 14, 2004	Quarterly Report 1/2004
August 13, 2004	Quarterly Report 2/2004
November 12, 2004	Quarterly Report 3/2004

German Corporate Governance Code

The Executive Board and the Supervisory Board of Softing AG support many suggestions and rules of the German Corporate Governance Code and declare that they complied with the recommendations regarding conduct contained in the code's current and applicable version in fiscal year 2003, taking into account the exceptions and comments listed below. The Executive Board and the Supervisory Board also declare that they intend to comply with such recommendations in the future. 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 sub-paragraph 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, once or several times, by up to EUR 500,000.00 by issuing new bearer shares in return for contributions in cash or in kind. 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. 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 sub-paragraph 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 for 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 4.2.2

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

Item4.2.3

The current contracts of the members of the Executive Board do not provide for performance-based limits. In all other respects, the company complies with the provision.

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

The Annual Shareholders' Meeting 2003 amended the Articles of Association of Softing AG with regard to the compensation of the members of the Supervisory Board to comply with the Corporate Governance Code.