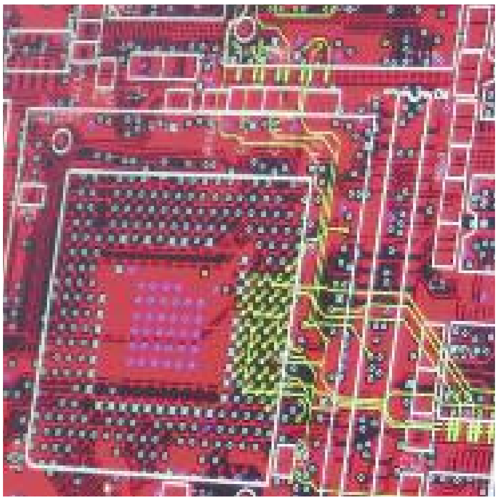
Annual Report 2007



Profitability
EBIT improved to EUR 2.3 million

Growth
Sales increased to EUR 29 million

Outlook
Softing continues to grow

softing
your connection to excellence

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Dr. Wolfgang Trier
Chairman of the Executive Board

Dear Shareholders, Employees, Partners and Friends of Softing,

2007 was the most successful year in Softing's nearly 30-year history. This sentence expresses both our dedication and our pride.

All of our key figures – incoming orders, sales and earnings – rose significantly. Our incoming orders increased by around 20%, while our sales climbed 23% to reach nearly EUR 29 million. Our EBIT even improved by EUR 4.4 million, reaching around EUR 2.3 million. All of our other figures, too, clearly demonstrate that Softing is experiencing healthy growth. Detailed information on this can be found in the overview table inside the cover of this annual report.

We are particularly pleased that both of our divisions, Industrial Automation and Automotive Electronics, contributed positively to our business success in 2007. This was the result of our product campaigns, our measures to increase productivity which led us to focus on particularly fast-growing services and products, and the stable international economic situation in 2007. It also reflects the successful reorientation of Automotive Electronics.

It is also important to remember that our success is based to a large extent on the skills, creativity and dedication of our employees. On behalf of the entire management team, I would like to thank all of them for their personal contribution to the success of our 2007 financial year.

This success both confirms our approach and is an incentive for us to improve and grow further. In the current economic climate, the stock market has not recognized Softing's visible success in the way we might expect. Therefore, while we intend to focus first and foremost on our operating business, the development of our share price will remain a concern for us.

We have set the following goals for 2008:

- We want to move closer to our goal of a double-digit EBIT margin by achieving sales of over EUR 30 million and earnings of more than EUR 2.6 million
- We will continue to encourage profitable internal growth while pursuing opportunities for non-organic growth with the aim of closing strategic gaps
- We want our business success to be reflected in our share price. In 2008, we will step up our activities to convince the financial world that Softing has great potential as a growth stock, even in these turbulent times.

We, the employees and management of the Softing Group, will do everything we can to leverage our strong position in order to intensify our growth and efficiency. Our customers will always remain foremost in our thoughts. We are reminded every day that our aim is to increase the competitiveness of our customers through our products and services.

We hope you will accompany us on this journey.
It will be worth it!

Yours,

Dr. Wolfgang Trier

Highlights 2007

January	Market launch of the new bus✓check PROFIBUS Analyzer
March	Softing and TraceTronic GmbH agree partnership
	Market launch of the UFC100-F1 fieldbus ASICs for Foundation fieldbus and PROFIBUS PA
April	Presentation of the new bus✓check PROFIBUS Analyzer for PROFIBUS PA
May	Publication of the book “Datenkommunikation im Automobil” (Automotive Data Communication)
June	Softing and IT-Designers GmbH agree to cooperate in the development, production and servicing of automotive electronics tools.
	3rd OPC User Forum, Karlsruhe, Germany
September	Factory Automation Forum, Haar, Germany
October	Partnership with ILS Technology LLC in the field of OPC Unified Architecture
November	Presentation of an FGPA-based solution for Real-time Ethernet
	A&D Best Product Award for the OPC Easy Connect Suite
December	Market launch of CAN OEM, a new CAN PC interface family
	Softing is accredited and certified as a training laboratory for PROFINET seminars
	Wind Hill Technologies Inc, China, takes over distribution for Softing AG in China
	Softing is awarded a major contract from a German automotive manufacturer for the development and supply of diagnostic software for development and workshop applications

The Softing Share in 2007

The stock market year started promisingly for Softing: The Softing share opened on January 2 at a price of EUR 2.11 and climbed from one high to the next in the following weeks, reaching over EUR 2.80 by the start of March. This upward trend dipped temporarily in March as the share fell to EUR 2.42. Boosted by very positive business figures, the share price then continued to rise until October, with slight intermittent corrections, to reach a new annual high of EUR 3.82. However, the Softing share was not unaffected by the massive turbulence on the German and international stock markets as a result of the American subprime crisis, and by the end of the year it had lost much of its previous gains, leveling off at a good EUR 3.

At the end of December, the share price was EUR 3.19 and thus considerably higher than at the start of the year, despite adverse conditions in the capital market. Though the share price fell from its annual highs, Softing performed acceptably during the capital market crisis compared with other listed companies of a similar quality. We attribute this to our operating success, to our intensive communication with the capital market, and to our shareholders, who have placed their trust in the stable, long-term development of the Company. Nonetheless, we feel that the share is significantly undervalued, and we anticipate above-average development potential when the capital market returns to normal.

Final daily quotation
Softing stock, Xetra

Investor Relations 2007

Around 80% of Softing's shares are held by private and institutional investors. Through open, informative dialog, we want to cultivate and strengthen the interest and trust shown in our share and thus in our company. The Softing website offers investors and other interested individuals extensive information on our share and divisions as well as press releases and financial reports, quarterly figures and important dates (financial calendar, also see Corporate Governance Report on page 67).

In 2007, Softing participated in the following investor conferences in order to explain and demonstrate the potential and development opportunities offered by an investment in Softing:

- September 2007: Investor conference held by Rüttnauer Research GmbH
- November 2007: German Equity Forum of Deutsche Börse AG

The Share at a Glance

WKN / ISIN 517800 / DE0005178008
Stock exchange symbol: SYT
Listing: Prime Standard
Regulated Market Frankfurt, XETRA
Stuttgart, Munich, Hamburg, Düsseldorf,
Berlin-Bremen
Market capitalization on Dec. 31, 2007: EUR 17.98 million
Shares issued: 5,637,198
Share price high / low (2007): EUR 3.82 / EUR 2.11
Earnings per share: EUR 0.22

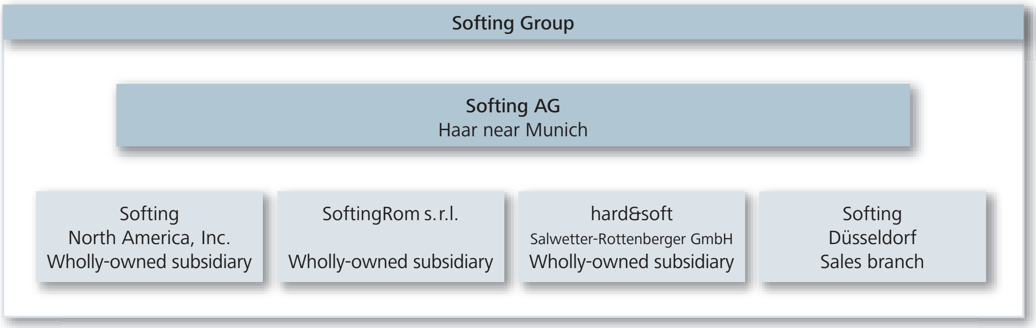
Shareholder structure

According to the information available to us, 10% of the Company's shares are held by the Company's founders, just under 10% are held by a private investor, and 20% are held by institutional investors. The free float is 60%.

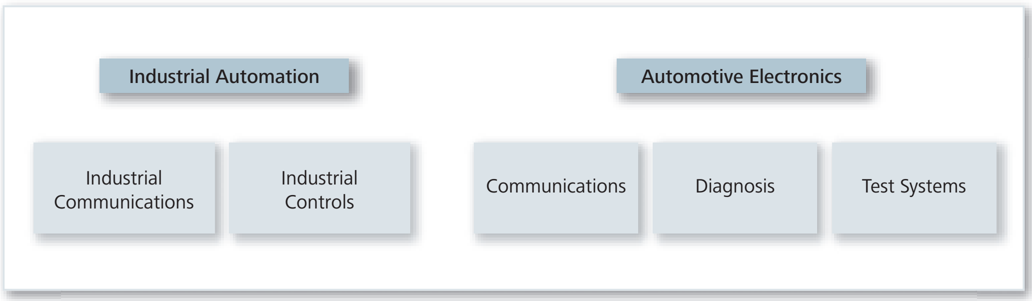
The following is a list of all disclosures regarding directors' dealings pursuant to § 15a German Securities Trading Act in the 2007 financial year:

Date	Person required to make the disclosure	Reason for the disclosure requirement	Executive manager and area of responsibility	Type / date of the transaction	Currency / price	Number	Total volume
Feb. 7, 2007	Dr. Manfred Patz	Member of the Supervisory Board	Dr. Manfred Patz Member of the Supervisory Board	Sale / OTC	EUR 2.50	400,000	EUR 1,000,000.00
June 4, 2007	Dr. Wolfgang Trier	Executive manager	Dr. Wolfgang Trier Chairman of the Executive Board	Purchase / Xetra	EUR 2.61	10,000	EUR 26,100.00
Aug. 2, 2007	Andreas Kratzer	Member of the Supervisory Board	Andreas Kratzer Member of the Supervisory Board	Purchase / Xetra	EUR 2.90	2,852	EUR 8,270.80
Aug. 7, 2007	Andreas Kratzer	Member of the Supervisory Board	Andreas Kratzer Member of the Supervisory Board	Purchase / Xetra	EUR 3.20	5,148	EUR 16,473.60
Nov. 14, 2007	Dr. Wolfgang Trier	Executive manager	Dr. Wolfgang Trier Chairman of the Executive Board	Purchase / Xetra	EUR 3.20	5,000	EUR 16,000.00

Business Structure



Divisions



Trade Fairs 2007

Industrial Automation

February	13 – 15	Embedded World, Nuremberg, Germany
February	22 – 23	General Assembly Fieldbus Foundation, Houston (Texas), USA
March	14 – 16	Automatisierungstreff, Böblingen, Germany
April	16 – 20	Hannover Messe Industrie / INTERKAMA, Hanover, Germany
September	04 – 07	go automation, Basel, Switzerland
November	27 – 29	SPS / IPC / DRIVES, Nuremberg, Germany

Trade Fairs 2007

Automotive Electronics

February	06 – 07	International CTI Forum "Automotive Diagnostic Systems," Sindelfingen, Germany
February	13 – 14	Annual Euroforum Meeting "Elektronik-Systeme im Automobil," Munich, Germany
February	13 – 15	Embedded World 2007, Nuremberg, Germany
May	08 – 10	Automotive Testing Expo Europe 2007, Stuttgart, Germany
May	15	D&E Developer Forum "Kfz-Elektronik," Ludwigsburg, Germany
July	17 – 18	International mic Convention "Fortschritte in der Automobil-Elektronik," Stuttgart, Germany
October	10 – 11	International VDI Convention and Exhibition "Electronic Systems for Vehicles," Baden-Baden, Germany
November	29	FlexRay Product Day, Fellbach, Germany

Trade Fairs 2008

Industrial Automation

February	27 – 29	Fieldbus Foundation General Assembly, Antwerp, The Netherlands
March	11 – 13	PROFINET Developers Conference, Tokyo and Nagoya, Japan
March	12 – 14	Automatisierungstreff, Böblingen, Germany
April	21 – 25	Hannover Messe Industrie / INTERKAMA, Hanover, Germany
September	25 – 28	Automation 2008, Mumbai, India
November	25 – 27	SPS / IPC / DRIVES, Nuremberg, Germany
December	10 – 13	Industrial Automation, Bangalore, India

Automotive Electronics

February	05 – 07	Annual Euroforum Meeting "Elektronik-Systeme im Automobil," Munich, Germany
March	04 – 05	International CTI Forum "Automotive Diagnostic Systems," Stuttgart, Germany
May	06 – 08	Automotive Testing Expo Europe 2008, Stuttgart, Germany
June	17 – 18	International mic Convention "Fortschritte in der Automobil-Elektronik," Ludwigsburg, Germany
September	14 – 19	FISITA 2008 World Automotive Congress, Munich, Germany
September	17 – 19	Automotive Testing Expo China 2008, Shanghai, China
October	22 – 23	FKFS AutoTest Conference "Test von Hard- und Software in der Automobilentwicklung," Stuttgart, Germany
November	26 – 27	FlexRay Product Day, Fellbach, Germany

Group Management Report for the 2007 Financial Year

Legal Structure of the Group and Divisions

The Softing Group consists of Softing AG, based in Haar near Munich; its subsidiary hard&soft Salwetter-Rottenberger GmbH, based in Reutlingen; its subsidiary Softing North America Inc. (Softing North America), based in Newburyport (Massachusetts); its subsidiary SoftingROM s.r.l. (SoftingROM), based in Klausenburg (Romania); and a branch office in Ratingen near Düsseldorf.

hard&soft Salwetter-Rottenberger GmbH complements and strengthens the position of the *Automotive Electronics* division in the market for ECU test systems in the automotive manufacturing sector. Softing North America is a profitable member of the Softing Group which has had its own development facilities in the United States since 2005 and is firmly established in the American market. In 2007, Softing North America contributed to the positive overall earnings of the Softing Group with significant sales growth. SoftingROM, Softing's Romanian subsidiary for development and project services which was founded in 2005, also continued to grow. It is a valuable member of the Softing Group both as a pool of IT specialists for complex development tasks and in terms of the Group's competitiveness.

Softing has an international presence as a software and systems house in *Industrial Automation* and *Automotive Electronics*. The Company 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 positioned itself as a leading product and technology supplier in the market. It focuses on components and tools for fieldbus systems and industrial control systems, as well as on solutions for production automation.

The powerful tools and solutions offered by its *Automotive Electronics* division have made Softing a systems partner to automobile manufacturers as well as systems and control unit suppliers. Softing specializes in vehicle communication, diagnostics and test systems.

Consulting, analyses, studies and training round out the range of services offered by both divisions. Softing primarily offers its services and products in Europe; significant sales are also recorded in North America.

Sales
(in EUR million)

Total operating revenue
(in EUR million)

The consolidated financial statements for the reporting period were prepared in accordance with the requirements of the International Accounting Standards Board (IASB).

General Information

Economic Environment and Course of Business

According to the initial calculations of the German Federal Statistical Office (Destatis), the German economy showed strong growth in 2007 for the second year in a row. There was significant growth momentum last year from both foreign and domestic demand. In 2007, the German gross domestic product in real terms was 2.5% higher than in the previous year. According to the Federal Statistical Office, companies increased their investments in machines, plants and vehicles by 8.4% compared to the year before, while consumption among private households was much more restrained. The European Commission has predicted 2.6% growth in the euro countries for the year 2007 and 2.1% growth in the USA.

According to the German Electrical and Electronic Manufacturers' Association (Zentralverband Elektrotechnik- und Elektroindustrie, or ZVEI), growth in the electrical and electronics industry in Germany in 2007 was once again driven by the automation segment, which experienced double-digit growth of 10% to 12%, achieving sales of around EUR 188 billion (previous year: EUR 177.9 billion). This growth rate was one percentage point higher than 2006, which was also a strong year. The automotive electronics segment also grew by a good 10%. According to ZVEI, electronics already account for 22% of an automobile's production value.

Earnings

Sales revenue rose by 23% or EUR 5.4 million in the 2007 financial year, driven by the good economic situation in the markets relevant to Softing as well as new products and increased demand for project services.

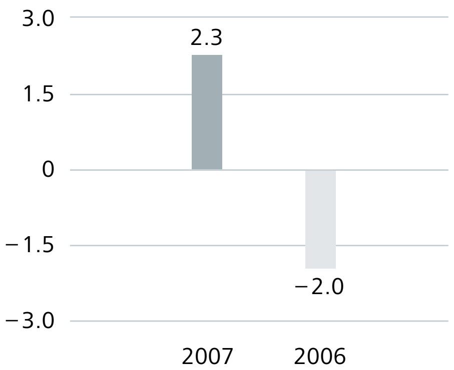
In the *Industrial Automation* segment, sales rose by 16% to reach EUR 14.6 million (previous year: EUR 12.6 million). This growth was the result of a general increase in demand as well as new diagnostic and OPC products.

Sales in the *Automotive Electronics* segment increased by 30% to reach EUR 14.3 million (previous year: EUR 11.0 million). This can be attributed primarily to the sale of new products in the field of radio technology as well as to increased demand for project services.

Because Softing's product mix changed from the previous year, the cost of materials increased by EUR 1.4 million, rising from 23.6% to 24.1% of our sales revenue.

Staff costs increased by EUR 1.3 million to reach EUR 15.0 million. This was due primarily to the rise in performance-based compensation and to an increase in the number of employees, which grew from 195 at the end of 2006 to 214 at the end of 2007.

EBIT
(in EUR million)



Equity
(in EUR million)

Depreciation, amortization and impairment losses decreased considerably by EUR 2.1 million, from EUR 4.9 million to EUR 2.8 million. Last year's high figure was largely due to the impairment losses of EUR 1.7 million recognized for intangible assets. In 2007, impairment losses were limited to just EUR 0.2 million.

As a result, EBIT improved by EUR 4.3 million in 2007 to reach EUR 2.3 million.

The changes in corporate taxation in Germany have resulted in a strong one-time increase in tax expenses because deferred tax assets had to be remeasured using the new, lower tax rate. The tax rate in Germany decreased from more than 37% to less than 30%.

Earnings per share according to IAS 33 were EUR 0.22 for 2007 (previous year: EUR −0.25).

Assets and Financial Position

The Softing Group had equity of EUR 13.9 million at the end of 2007, as compared to EUR 12.4 million the year before. Our non-current assets essentially comprise capitalized product developments, deferred tax assets and the goodwill from the acquisition of hard&soft Salwetter-Rottenberger GmbH. Non-current assets represent 37% (previous year: 51%) of total assets. This is offset by non-current liabilities and equity representing 73% (previous year: 80%) of total equity and liabilities.

At the end of 2007, funds (cash and cash equivalents and securities) amounted to EUR 4.9 million, up EUR 2.2 million compared to the previous year (EUR 2.7 million). The tax expense disclosed in the annual financial statements resulted almost exclusively from deferred tax expenses. As a result, this essentially did not lead to an outflow of liquid funds in 2007.

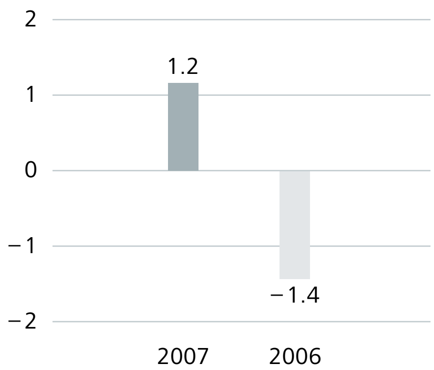
The cash flow from operating activities increased by EUR 2.8 million to reach EUR 5.1 million primarily on account of the improved Group income. After deducting the outflow of funds from investments in the amount of EUR 2.9 million, Softing's cash and cash equivalents rose by EUR 2.2 million to reach EUR 4.9 million.

Research and Product Development

For years, the Softing Group has invested more than 10% of its product sales in research and development. The development activities are coordinated by a Technical Steering Committee, which meets regularly so that the Company can react to trends and opportunities in the market and bring marketable new products to serial production status as quickly as possible.

In total, Softing invested EUR 2.1 million (previous year: EUR 2.5 million) in the development of new products and the enhancement of existing ones. As in previous years, these developments were financed exclusively through our own resources.

Group income
(in EUR million)

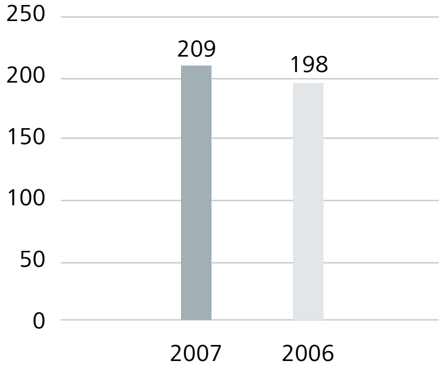


Research and development expenses
(in EUR million)

Investments of EUR 1.2 million were made in the *Industrial Automation* division (previous year: EUR 1.2 million). The main emphasis again was on the development of new products and the continued clear focus of all developments on their earnings potential. Considerable investments were made in the development of hardware and software products for process automation and for communication with PROFIBUS networks. Softing's development activities centered on PROFIBUS diagnosis with the bus✓check PROFIBUS Analyzer for mobile diagnosis as well as a stationary diagnostic solution. Additional versions of the PROFINET protocol software became ready for the market; Softing also intensified its development activities for the OPC Connector Tools.

The effects of the strategic realignment initiated in the *Automotive Electronics* division in the previous year became apparent in 2007. This division achieved a welcome increase in sales and earnings through its new products. Radio technology is becoming particularly important in this context. In May 2007, Softing began supplying a major European auto manufacturer with vehicle adapters for workshops; these adapters use Bluetooth technology to transmit data. Just one month later, Softing started to regularly supply a European utility vehicle manufacturer with new automobile adapters for after-sales service. These adapters also transmit data via radio, in this case using WLAN technology. Softing intends to expand its product portfolio in order to strengthen the position it has achieved in this market.

Employees
(annual average)



The proliferation of the ODX (Open Diagnostic Data Exchange) standard in the automotive industry is having a very positive effect on Softing's software business. Sales of diagnostic tools – so-called diagnostic servers and tools for generating data – have picked up noticeably. Softing is responding to this development by offering innovative, marketable products. It is particularly worth noting that our customers are increasingly integrating our standardized diagnostic servers from the fields of test technology and production into their own products. Softing technology also supports the relatively new data bus systems known as MOST and FlexRay.

Test systems will be another focus of Softing's activities in the future. The core activities here will be handled by Softing's subsidiary hard&soft Salwetter-Rottenberger GmbH. The distribution of the TESTCASE test tool will open up additional market opportunities.

The *Automotive Electronics* division offers development services alongside its product sales. In response to a desire among automobile manufacturers for on-site development support, Softing has introduced "resident engineering," which brings us even closer to the customer.

An extensive internal project known as SPICE (Software Process Improvement and Capability Determination) was launched to facilitate the evaluation and optimization of our software development processes. The goal is not only to improve the quality of our software but also to shorten development times and thus significantly reduce development costs. In 2007, Softing invested EUR 0.9 million in new products in the *Automotive Electronics* division (previous year: EUR 1.3 million).

Employees

At the end of 2007, the Softing Group had a total of 214 full-time employees (previous year: 195). There were 145 employees working in research and development (previous year: 129), and 47 in marketing and sales (previous year: 42).

Softing once again invested heavily in employee training in 2007. This training focused on strengthening the sales expertise and expanding the leadership skills of Softing's employees. Every year, an external ISO certification audit is carried out to ensure the quality of our development processes. Softing successfully passed this audit.

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

Disclosures under § 315 para. 4 German Commercial Code

1. In 2007, the share capital of Softing AG was EUR 5,637,198, denominated in the same number of no-par shares, all granting the same rights, specifically voting rights. No shareholder or shareholder group has special rights.

2. Shareholders' voting rights are not restricted by law or the Company's Articles of Incorporation. The voting rights are not limited to a specific number of shares or votes. The Executive Board is not aware of any limitations regarding the voting rights.

   The shareholders of Softing AG are not limited by law or the Company's Articles of Incorporation in their decision to purchase or sell shares. To be effective, the purchase or sale of shares does not require the approval of the Company's boards. The Executive Board is not aware of any limitations regarding the assignability of shares.

3. To the best of our knowledge, there were no direct or indirect equity interests exceeding 10% of voting rights as of the balance sheet date.

4. The Company has not issued any shares with special rights conferring powers of control.

5. All employees may directly exercise their control rights in connection with their equity interests.

6. In accordance with § 7 of the Articles of Incorporation of Softing AG, the Executive Board of Softing AG comprises one or more persons. Even if the Company's share capital exceeds EUR 3,000,000, the Executive Board may comprise just one person. Deputy members of the Executive Board may be appointed. The Supervisory Board appoints the members of the Executive Board and determines the number of persons serving on the Executive Board. The Supervisory Board may appoint a chairman of the Executive Board and a deputy chairmen of the Executive Board.

   The Supervisory Board is authorized to make amendments to the Articles of Incorporation insofar as they concern only the wording thereof. More comprehensive amendments to the Articles of Incorporation are subject to the requirements of §§ 133, 179 German Stock Corporation Act.

7. In August 2007, the General Shareholders' Meeting authorized the Executive Board of Softing AG to increase the Company's share capital with the approval of the Supervisory Board once or several times by a total of EUR 2,799,000 by issuing new no-par value bearer shares against contributions in cash and / or in kind until August 23, 2012. Said authority was not exercised to date.

   In August 2007, the General Shareholders' Meeting authorized the Executive Board to purchase own shares until February 23, 2009, provided that such purchase is not made for the purpose of trading in treasury shares, and provided that the purchase price of said shares is not more than 10% above or below the share's average closing price at the Frankfurt Stock Exchange during the last five days preceding the purchase. The closing price shall be determined as the share's closing auction price in electronic trading on the Frankfurt Stock Exchange (XETRA trading) or a system succeeding XETRA trading. The authorization may be exercised once or several times, in whole or in part. It is limited to purchasing shares representing no more than a total of 10% of the Company's share capital. Any treasury shares acquired under this authorization – together with other treasury shares that the Company has already acquired and still holds – may not exceed 10% of the Company's share capital.

On November 8, 2007, the Executive Board of Softing AG resolved to purchase up to 280,000 shares of Softing AG on the stock exchange. This decision was approved by the Company's Supervisory Board. The buy-back serves to create an acquisition currency that is required in the medium term and that is available at a price which the Company believes to be considerably below fair value. A total of 105,000 own shares were purchased under this provision until December 31, 2007.

8. There are no material agreements entered into by the parent company that provide for a change of control following a takeover bid.

9. According to an agreement, the chairman of the Executive Board has the right to terminate his employment for cause if a shareholder or a shareholder group acting in a coordinated fashion way holds more than 25% of the voting rights. If the chairman exercises this right to terminate his employment for cause, he is entitled to compensation equaling approximately two annual salaries.

Basic Information Regarding the Compensation Systems for Members of Corporate Bodies

Compensation of the Executive Board is divided into a fixed salary component and a performance-based, i. e. variable component. The performance-based component is determined based on goals that were defined in advance. The Executive Board also participated in the Company's stock option plan. (For more details regarding the Executive Board's compensation, please see the notes to the consolidated financial statements.) The stock option plan has expired in the meantime. A new plan does not exist.

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

Forecast for the Future Development of the Company

Slight Economic Downturn Accompanied by Market Growth

The German national economy is expected to weaken slightly in 2008. Economic growth in the Federal Republic of Germany should reach around 1.9%. The Deutsche Bundesbank and the Kiel Institute for the World Economy have predicted economic growth of 1.9% in 2008, while the OECD and the German Federal Government forecast 1.8% growth. The institutes attribute the economic slowdown in 2008 to the weakness of the US economy and the continually rising cost of raw materials and energy.

Forecasts from the German Electrical and Electronic Manufacturers' Association (ZVEI) suggest that all sub-segments of the automation industry will continue to record above-average growth. In the long term, the ZVEI predicts average growth of 6% to 8% annually in the world market for automation technology. According to ZVEI, both the current volume of incoming orders and positive news from major customer industries in Germany and abroad indicate that this development will continue.

Above-average growth in excess of 10% is still predicted for fieldbus systems over the next years. Softing has established itself as a competent partner to its customers in the field of *Industrial Automation* with products for the networking of installations based on relevant fieldbus systems. Drawing on its fieldbus expertise, 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.

Fieldbus systems have become a very common technology in production processes, a trend that will continue in the next years. The Fieldbus devices used in existing environments have aged over the years, resulting in an increase in failures and a decrease in performance. As a result, supplying diagnostics tools to industry in order to improve equipment availability is a profitable growth market.

In 2007, we were able to further expand our product range in mobile and stationary fieldbus systems diagnostics. Softing's goal is to become the clear market leader in fieldbus diagnostics. Due to the economic relevance of the bus✓check family and the amount of work involved in defining, designing and maintaining these products, an experienced product manager was brought in and the development team was expanded for this product line. The extra work carried out in 2007 will lead to the release of new products and product variations in the bus✓check family in 2008. This segment will contribute a more than seven-figure amount to Softing's sales.

In 2007, Softing expanded its range of real-time Ethernet (RTE) products for customers by adding interfaces, gateways and ports to its portfolio. The technology developed by Softing is based on FPGA (Flexible Programmable Gate Arrays) and offers customers a number of advantages. This Softing solution has been extremely well received in the market, which has resulted in the acquisition of a number of new customers. Softing intends to increase its visibility in the RTE market and tap into the long list of potential customers here.

Softing consolidated its strong position in the process industry with various new products and new releases of the Foundation Fieldbus (FF) stacks, communication hardware (FBK) and gateways, such as the FG-100 Asset gateway, an FDT-based asset management link to FF devices. Softing also expanded its sales connections with certain key customers in the systems engineering segment.

The Company continues to enhance its protocols and solutions for wireless communication. The technology needed in the process industry is not comparable to that used in PCs (wireless LAN) or other consumer electronics. There are much stricter requirements here regarding power consumption, range, lack of interference, etc. Softing is not only enhancing its portfolio for customers in the process industry by offering new solutions with high growth rates, it is also ensuring ongoing business in the field of wired communication.

The new OPC Unified Architecture technology will help Softing strengthen its position as a recognized OPC expert. Its new products will be aimed particularly at so-called embedded solutions.

The *Automotive Electronics* division is benefiting from the growing amount of electronics in automobiles and the high rate of innovation in this field. In this market, Softing focuses on data communication, diagnosis and test systems and offers development services and products for development, testing, production and service.

Softing's data communications expertise covers all of the systems used here, from LIN and CAN to MOST and FlexRay. Softing actively participates in working groups and standardization committees so that it can remain abreast of future developments.

The increased use of new standards has caused a certain amount of upheaval in the field of automotive diagnostics. Some standards which are already in use are expected to be published as international ISO standards in 2008, which will probably cause them to spread further. Softing banked on the ODX (Open Diagnostic Data Exchange, ISO 22901) standard very early on and can now offer expert services and products based on this standard. Similarly, Softing has been actively involved in efforts to standardize automobile adapters for development, production and service and is therefore already able to offer products which comply with the future MVCI (Modular Vehicle Communication Interface, ISO 22900) standard.

The automated testing of electronic controllers is also becoming increasingly important. Softing wants to acquire new customers in this field with products from its subsidiary hard&soft and with its TESTCASE test tool.

The current market situation is very favorable to the *Automotive Electronics* division. The measures to increase efficiency in this division have been clearly defined, and Softing expects the positive development of this division to continue.

Outlook for the 2008 Financial Year

Softing expects its incoming orders and sales to increase in 2008. We anticipate sales of over EUR 30 million and an EBIT of more than EUR 2.5 million. Sales and earnings should grow in both the *Industrial Automation* and the *Automotive Electronics* division, and we expect this positive development to continue through 2009.

We want to grow not just in Europe but also in the United States. Business activities are developing in a promising manner. We foresee further sales growth and a continual improvement in EBIT for Softing North America.

Sales of around EUR 4.0 million and clearly positive EBIT are planned for hard&soft Salwetter-Rottenberger GmbH.

Growth through acquisitions will also play a key role in the current financial year.

Opportunities for the Future Development of the Company

Repositioning of Automotive Electronics

2007 was a successful year for the *Automotive Electronics* division. The strategic realignment measures introduced in 2006 have had a measurable effect. Softing continued on its course of consolidation in 2007 and expects additional growth in its sales and EBIT in 2008. Parallel to the measures for improving earnings, we also launched an ambitious quality project at the start of 2007, which will continue to improve the quality of our software development processes and products significantly.

Use of New Technologies

Although PROFIBUS is by far the most dominant fieldbus protocol in Europe, additional customers in 2007 began to prepare their devices and installations for its successor technologies: real-time Ethernet protocols. In 2007, Softing was also able to acquire new customers, which will have a strategically advantageous signal effect in the market. We expect considerable growth in this field for 2008 as well.

SoftingROM Subsidiary

Softing continually develops new products and technologies in order to address the transition to new technologies, as well as to tap new markets and opportunities for growth. The Romanian subsidiary SoftingROM has the task of boosting the required development services. Romania is an ideal location for Softing since it can be reached quickly and inexpensively from Munich. There are also many well-educated young engineers and computer scientists in the region. The Romanian subsidiary has evolved into a hotbed of technology for Softing. The subsidiary's staff moved into new premises in 2007 to accommodate its increased need for space. This has provided the necessary space to further expand the development and project capacity of SoftingROM.

Softing North America, Inc.

Softing North America experienced growth and a positive development of earnings in 2007. Local sales and production capacities in particular were strengthened further. The company's product business is now established in the US market. We expect considerable growth in sales and an increase in earnings. Some of the new products developed in 2007 will sustainably support this development in the medium and long term. Smart alliances and product policies in 2008 will provide a good opportunity for continuing to overtake competitors and evolving into the de facto standard in industrial communication for the process industry.

hard&soft Salwetter-Rottenberger GmbH

hard&soft, acquired in 2005, is a valuable addition in the field of test systems that contributes to sales and earnings as planned. The use of the company's sales structures, which were expanded trough Softing, results in tangible synergies, i. e. additional customer contacts for hard&soft. In return, hard&soft facilitates Softing's access to the automobile manufacturing sector.

Risk Management and Individual Risks

Softing is an international company involved in industrial automation technology and automotive electronics. The Company is exposed to 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 best exploit existing business opportunities . However, our risk policy also involves the careful weighing of 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 the scope of these principles.

We use a number of control systems to monitor and control 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.

The risks involved in individual business processes were periodically recorded, analyzed and evaluated in the reporting period. We also assessed whether individual risks which are of minor importance when viewed in isolation could develop into a risk threatening the Company's existence when combined.

The risk factors mentioned below could have a strong negative impact on the Company's business development, financial position and earnings. Risks which we believe to be of little relevance to our business at this time are not mentioned.

Business Risks

Sales increased considerably in the reporting period. Operating earnings (EBIT) also returned to the black, driven by higher sales. Business in the *Industrial Automation* division showed a very positive development. The realignment initiated in the *Automotive Electronics* had a strong effect. In general, there is a risk of underutilization 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. This means that there is a danger that acquired know-how may prematurely lose value due to an unexpected market development. We address this risk by actively participating in a large number of national and international working groups, which enables us to recognize technological trends early on and help shape them ourselves.

Operational 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 regarding the planned budgets and time frames. Any deviations may lead to lesser operating results and to damage claims. 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. Significant 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 giving high priority to credit evaluations and receivables management.

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, we hedged the currency risks in connection with our subsidiary in the United States. During the 2007 financial year, Softing hedged the expected cash flows of Softing North America by entering into classic forward exchange transactions.

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 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 our 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.

In our opinion, there exist no risks which jeopardize the Group’s existence as a going concern.

Events of Special Importance after the End of the Financial Year

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

Haar, Germany, February 18, 2008

Softing AG

Dr. Wolfgang Trier (Chairman of the Executive Board)	Dr. Michael Siedentop (Member of the Executive Board)

Consolidated Balance Sheet

as of December 31, 2007

Assets	Notes	Dec. 31, 2007 EUR	Dec. 31, 2006 EUR
A. Non-current assets			
I. Intangible assets			
1. Goodwill	C1	2,351,125	2,351,125
2. Development costs	C2	2,564,807	2,618,634
3. Other intangible assets	C3	791,379	1,044,761
		5,707,311	6,014,520
II. Property, plant and equipment			
Other equipment, furniture and fixtures and office equipment	C5	583,050	538,000
III. Deferred tax assets	D8	1,811,276	3,059,258
		8,101,637	**9,611,778**
B. Current assets			
I. Inventories	C7		
1. Raw materials and consumables		527,696	548,892
2. Finished goods		1,361,728	1,046,998
		1,889,424	1,595,890
II. Trade receivables			
1. Trade receivables	C8	4,000,424	4,001,071
2. Receivables from customer-specific construction contracts	C9	1,546,483	658,430
		5,546,907	4,659,501
III. Other financial receivables	C10	986,082	39,184
IV. Tax assets	C12	51,983	24,003
V. Cash and cash equivalents	C13	4,926,916	2,740,037
VI. Other assets	C11	164,694	280,047
		13,566,006	**9,338,662**
		21,667,643	**18,950,440**

Equity and liabilities	Notes	Dec. 31, 2007 EUR	Dec. 31, 2006 EUR
A. Equity			
I. Issued capital		5,637,198	5,599,998
II. Capital reserves		1,683,820	1,682,707
III. Retained earnings		6,850,876	5,437,737
IV. Treasury shares		−314,370	−273,375
	C14	13,857,524	12,447,067
B. Non-current liabilities			
1. Employee benefits	C15	813,835	1,138,073
2. Other financial liabilities	C16	0	348,728
3. Deferred tax liabilities	D8	1,097,884	1,281,129
		1,911,719	2,767,930
C. Current liabilities			
I. Other provisions	C16	115,043	142,610
II. Trade payables			
1. Trade payables	C17	973,999	718,038
2. Payables from customer-specific construction contracts	C9	274,962	162,298
III. Other financial liabilities	C18	3,993,164	2,217,899
IV. Tax liabilities	C20	99,822	0
V. Other liabilities	C19	441,410	494,598
		5,898,400	3,735,443
		21,667,643	18,950,440

Consolidated Income Statement

for the 2007 Financial Year

		Notes	2007 EUR	2006 EUR
1.	Revenue	D1	28,968,394	23,595,788
2.	Other own work capitalized	D2	1,826,724	2,178,553
3.	Other income	D3	314,297	367,211
			31,109,415	**26,141,552**
4.	Cost of materials	D4		
	a) Cost of raw materials, consumables and purchased goods		−6,138,395	−4,942,645
	b) Cost of purchased services		−856,998	−622,229
			−6,995,393	−5,564,874
5.	Employee benefits costs	D5		
	a) Wages and salaries		−13,073,519	−11,778,243
	b) Social security and retirement benefit costs		−1,910,494	−1,950,288
			−14,984,013	−13,728,531
6.	Depreciation, amortization and impairment losses	C4	−2,835,345	−4,932,096
7.	Other expenses	D6	−3,981,647	−3,907,396
8.	**Earnings before interest and taxes (EBIT)**		**2,313,017**	**−1,991,345**
9.	Finance income	D7	121,240	87,488
10.	Finance costs	D7	−140,204	−226,045
			−18,964	−138,557
11.	**Earnings before taxes (EBT)**		**2,294,053**	**−2,129,902**
12.	Tax expenses (previous year: tax income)	D8	−1,057,115	767,491
13.	**Group income (= attributable to the shareholders of the parent company)**		**1,236,938**	**−1,362,411**
	Earnings per share (diluted = basic)	E5	0.22	−0.25

Consolidated Cash Flow Statement

for the 2007 Financial Year

	2007 EUR (in thsds)	2006 EUR (in thsds)
Group income	1,237	−1,362
Adjustments		
Interest income	−97	−87
Interest expense	140	226
Income tax	1,057	−767
Depreciation and amortization	2,835	4,932
Exchange differences	4	25
Change in provisions	−28	31
Change in inventories	−294	104
Change in trade receivables, financial receivables and other assets	−1,719	−316
Change in financial and other liabilities	1,926	−406
Interest received	97	87
Interest paid	−35	−11
Income tax refunds	0	205
Income tax paid	−30	−326
Cash flow from operating activities	**5,093**	**2,335**
Cash receipts from the disposal of intangible assets and property, plant and equipment	44	0
Cash payments for investments in property, plant and equipment	−360	−215
Cash payments for investments in intangible assets	−2,260	−2,851
Cash payments for the acquisition of consolidated companies	−375	−971
Cash flow from investing activities	**−2,951**	**−4,037**
Cash receipts from capital increase	38	0
Cash receipts from the purchase of own shares	321	0
Cash payments for the purchase of own shares	−314	−273
Cash payments for capital costs from capital increase	0	−14
Cash flow from financing activities	**45**	**−287**
Net change in funds	2,187	−1,989
Cash and cash equivalents at the beginning of the period	2,740	4,729
Cash and cash equivalents at the end of the period	**4,927**	**2,740**

For further information, please see item D3 of the Notes.

Consolidated Statement of Recognized Income and Expense

for the 2007 Financial Year

	2007 EUR (in thsds)	2006 EUR (in thsds)
Currency translation differences (Change in unrealized gains / losses)	2	25
Income from the sale of treasury shares	47	0
Actuarial gains / losses from pension provisions and other obligations	238	8
	287	33
Tax effects	−110	−3
Income and expense recognized directly in equity (after taxes)	177	30
Consolidated net income for the year (previous year: net loss)	1,237	−1,362
Total recognized income and expense (= attributable to the shareholders of the parent company)	1,414	−1,332

Notes to the Consolidated Financial Statements

for the 2007 Financial Year

A. General Information

1. Basis

The consolidated financial statements were prepared in accordance with all International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) that were applicable on the balance sheet date and all interpretations of the International Financial Reporting Interpretations Committee (IFRIC) that were binding for the financial year ended and applicable in the European Union.

The reporting currency is the euro (EUR). All amounts are stated in thousands of euros (EUR thsd.) unless indicated otherwise. These financial statements cover the 2007 financial year based on the reporting period from January 1 to December 31, 2007.

The consolidated financial statements and the Group management report are published in the electronic Federal Gazette.

The Executive Board of Softing AG released the consolidated financial statements to the Supervisory Board on February 18, 2008. It is the task of the Supervisory Board to examine the consolidated financial statements and declare whether it approves the consolidated financial statements.

2. Purpose of the Group

Softing AG, headquartered in Haar near Munich, Germany, is the Group's parent company. Softing AG is a stock corporation under German law. It is registered at Munich Local Court with the address "Richard-Reitzner-Allee 6, 85540 Haar."

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 opinions 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.

3. New and Revised Standards

Changes in Accounting Policies Due to New Standards and Interpretations

In the 2007 financial year, the Company applied the IFRS whose application is mandatory for financial years beginning on or after January 1, 2007.

Of these standards and interpretations – insofar as they are relevant for the business of our Company – the following were applied for the first time in the 2007 financial year:

IAS 1	"Presentation of Financial Statements – Capital Disclosures"
IAS 7	"Financial Instruments: Disclosures"
IFRIC 8	"Scope of IFRS 2"
IFRIC 9	"Reassessment of Embedded Derivatives"
IFRIC 10	"Interim Financial Reporting and Impairment" in connection with goodwill and in relation to certain financial assets

The initial application of these standards and interpretations does not have any effects on the consolidated financial statements of Softing AG.

Standards / Interpretations Not Applied Early

As outlined below, the IASB (International Accounting Standards Board) and the IFRIC (International Financial Reporting Interpretations Committee) have published standards, interpretations, and amendments of existing standards and interpretations that are not yet subject to mandatory application. There has been no voluntary early application of these requirements on the part of the Softing Group:

IFRS 8 ("Operating Segments") was published in November 2006. The European Union adopted IFRS 8 in November 2007. Its mandatory application for financial years beginning on or after January 1, 2009, is planned. Earlier application is permitted. IFRS 8 entails changes with regard to the identification of segments in segment reporting. This standard completes the shift from a risk and reward approach to a management approach, which also entails shifting from a financial accounting approach to a management approach in the measurement of segments. Initial application of IFRS 8 will not have any substantial effects on future consolidated financial statements of the Softing Group.

On September 6, 2007, the IASB published an amended version of IAS 1 (“Presentation of Financial Statements: A Revised Presentation”). Application of the revised standard is mandatory for financial years beginning on or after January 1, 2009; it has not yet been adopted by the European Union. The basic objective of the revision is to improve the ability of users of financial statements to analyze and compare the data provided. This is intended to separate changes in equity resulting from transactions with shareholders (in their capacity as owners) from other changes in equity. Possible effects on the consolidated financial statements of the Softing Group are currently being examined.

In March 2007, the IASB published a revision of IAS 23 (“Borrowing Costs”). Application of this amended standard is mandatory for financial years beginning on January 1, 2009. The current option to expense borrowing costs (benchmark treatment) or to capitalize them if they are directly attributable to the acquisition, construction, or production of a qualifying asset (alternative treatment) will be replaced by the obligation to capitalize interest on borrowings. This also entailed adopting a narrower definition of the qualifying asset. The application of the revised standard will not have any material effects on the consolidated financial statements of the Softing Group in the future.

IFRIC 11 (“IFRS 2: Group and Treasury Share Transactions”) addresses the accounting of group-wide share-based compensation and clarifies both questions related to personnel turnover within the Group and how to treat share-based compensation when the company issues treasury shares or must purchase shares from third parties. This interpretation was published in late 2006 and must be applied to financial years beginning on or after March 1, 2007. Earlier application is recommended. The European Union endorsed IFRIC 11 in June 2007. According to the knowledge currently available to us, application of IFRIC 11 will not have any effect on future consolidated financial statements of the Softing Group.

IFRIC 12 (“Service Concession Arrangements”) was published at the end of 2006. This interpretation focuses on the treatment of infrastructure services by private companies. The mandatory application of IFRIC 12 for financial years beginning on or after January 1, 2008, is planned. Earlier application is permitted. This interpretation has not yet been endorsed by the European Union. Currently, we do not expect initial application of IFRIC 12 to have any consequences for future consolidated financial statements of the Softing Group.

In June 2007, the IASB published IFRIC 13 (“Customer Loyalty Programmes”). This interpretation addresses accounting of customer loyalty programs operated by manufacturers or service providers, or by third parties. IFRIC 13 must be applied to financial years beginning on or after July 1, 2008. The EU has not yet endorsed this interpretation. According to the knowledge currently available to us, application of IFRIC 13 will not have any effect on future consolidated financial statements of the Softing Group.

In July 2007, the IASB published IFRIC 14 (“The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction”). This interpretation essentially addresses the interaction between the requirement as of a balance sheet date to pay additional amounts into a pension plan and the relevant provisions of IAS 19 regarding the maximum positive balance between plan assets and a defined benefit obligation. Application of this IFRIC 14 is mandatory for financial years beginning on or after January 1, 2008. IFRIC 14 has not yet been endorsed by the European Union. Initial application of IFRIC 14 ist not expected to have any effects on the consolidated financial statements of the Softing Group.

B. Accounting and Measurement Principles

The financial statements of Softing AG and its domestic and international subsidiaries have been prepared using uniform accounting and measurement principles. The accounting and measurement principles were applied consistently for all periods presented in the consolidated financial statements.

1. Recognition of Revenue

Revenue is measured at the fair value of the consideration received or rendered. The following details apply to the recognition of revenue:

Revenue

Revenue from the sale of products is recognized when ownership or risk has been transferred to the customer, if a price has been agreed or can be determined and if payment of such price can be expected. Revenue is shown net of discounts, including volume discounts, rebates and bonuses.

Revenue from Services

Revenue from services (= customer-specific construction contracts) is recognized using the percentage of completion method. Product sales which are directly related to a service are also recognized using the percentage of completion method in line with IAS 11.9.

Interest Income

Interest income from bank balances and other financial assets is recognized as income if the Company is likely to partake of the economic benefit and if the amount of income can be reliably determined.

2. Basis of Consolidation

The consolidated financial statements as of December 31, 2007 include Softing AG and the following subsidiaries. Softing AG directly owns the majority of voting rights of these subsidiaries and exercises control over the companies.

Softing Group	Capital share 2007 %	Capital share 2006 %
Softing AG, Haar/Germany		
Softing North America, Inc., Newburyport/USA	100	100
hard&soft Salwetter-Rottenberger GmbH, Reutlingen/Germany	100	100
SoftingROM s.r.l., Cluj-Napoca/Romania	100	100

According to § 264 para. 3 German Commercial Code (HGB), the German subsidiary hard&soft Salwetter-Rottenberger GmbH, Reutlingen, is exempt from preparing and publishing annual financial statements and a management report.

3. Principles of Consolidation

All business combinations are accounted for by using the purchase method, which requires the acquired assets and liabilities to be recognized at fair value. The excess of the share in net fair value over cost is recognized as goodwill and subjected to a regular review for possible impairment. In accordance with IFRS 3, goodwill is not subject to amortization.

Intragroup sales, expenses and income, receivables and payables as well as the results of intragroup transactions (intercompany profits) are eliminated during consolidation.

4. Intangible Assets

Intangible assets comprise capitalized development costs, goodwill from capital consolidation and other intangible assets.

Development Costs

Expenditures for research and development are recognized as expenses in accordance with IAS 38. The cost of developing new products is capitalized as development costs as of the date on which the products' technical feasibility has been established. In accordance with IAS 38, 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 contribution margins exceed 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. Government grants are offset against cost. Incomplete and capitalized development projects are subjected to an annual impairment test, taking due account of the impact of future market developments.

Goodwill

According to IFRS 3, goodwill is not amortized but subjected to an annual impairment test pursuant to IAS 36 if there is an indication of impairment. For the purpose of this impairment test, goodwill is allocated to a cash generating unit.

As a rule, the cash generating units correspond to the individual entities unless an entity's business activity covers more than one segment. In this case, goodwill is allocated based on segments.

An impairment loss is recognized if the carrying amount of the cash generating unit to which the goodwill is allocated is higher than the recoverable amount. The recoverable amount is the higher of fair value less disposal costs and value in use. As the fair value cannot be determined, the value in use is recognized.

The value in use of the cash generating unit was determined as follows:

Based on the planning for the next three financial years, the future cash flows (before interest and taxes) of the cash generating unit were determined. The planning is based on historical data and the best possible estimates of management regarding future developments. In order to carry out the impairment test, the management estimated the cash generated beyond the planning period, assuming that no growth is recorded in future years. The value in use of the underlying cash generating unit was determined by applying the discounted cash flow method. The cash generated was discounted at rate of 7%.

No impairment occurred in the reporting period.

Other Intangible Assets

Intangible assets acquired for consideration are carried at amortized cost. They are amortized in accordance with their respective useful life using the straight-line method.

Software is amortized over three years in accordance with its respective useful life using the straight-line method. Rights are amortized over a period of five to eight years. Interest costs were not capitalized.

5. Property, Plant and Equipment

Property, plant and equipment is measured at cost, less usage-based depreciation and impairment losses. Interest costs are 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. Fully depreciated property, plant and equipment is shown in the changes of intangible assets and property, plant and equipment until it is given up. If fixed assets are disposed, cost and accumulated depreciation are deducted; income / loss from the disposal of fixed assets is recognized in the income statement under other operating income / expenses.

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

6. Impairment

The recoverable amount of intangible assets and property, plant and equipment is determined if facts or circumstances indicate that they might be impaired. The recoverable amount is the higher of fair value less disposal costs and value in use. If the recoverable amount is lower than the carrying amount, an impairment loss is recognized which reduces the respective assets to their recoverable amount.

7. Lease Agreements

The Company has only concluded operating lease agreements. Leasing rates payable are recognized as expenses as of time they are incurred. There are no financing leases which would have to be capitalized under IAS 17.

8. Inventories

Inventories are recognized at cost. As a rule, raw materials and consumables are recognized at average cost.

Production costs comprise costs directly attributable to the production process as well as reasonable amounts of the production-related overheads. Production costs do not include selling costs, general administration costs and borrowing costs.

If the net realizable value at the balance sheet date is below cost, for instance because of long periods of storage, damage or reduced marketability, inventories are written down to the lower value. Net realizable value is the estimated selling price of the item in the course of ordinary business less estimated costs incurred until completion and less estimated necessary selling costs.

9. Financial Assets

Financial assets are only recognized if Softing is a party to the agreement governing the financial assets. Financial assets are derecognized when the rights to cash flows from a financial asset expire or are transferred to a third party. When transferring rights, the criteria of IAS 39 with regard to the transfer of rewards and risks connected to owning the financial assets must be taken into account.

Financial assets are initially measured at fair value. For subsequent measurement, financial assets are allocated to one of the following categories: “held to maturity”, “available for sale” and “loans and receivables.” The following applies to subsequent measurement:

Financial assets held to maturity and loans and receivables are recognized at amortized cost. Gains and losses are recognized in profit or loss when the financial asset is derecognized or impaired, and through the amortization process. If there is objective evidence of impairment, an allowance equaling the difference between the carrying amount and present value of estimated future cash flows is recognized.

Financial assets held for sale are recognized at fair value, with unrealized gains and losses from exchange rate changes being shown in equity until realization, taking into account deferred taxes. If there is objective evidence that the financial asset is impaired, the cumulative loss that had been recognized directly in equity is removed from equity and recognized in profit or loss.

Financial assets of all categories are recognized as of their settlement date. Financial assets comprise the balance sheet items cash and cash equivalents, trade receivables, and other financial receivables.

Trade Receivables and Other Financial Receivables

Both trade receivables and other financial receivables are classified as “loans and receivables” and measured accordingly.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and securities. They are classified as “held for sale” and are therefore measured at their fair value as of the balance sheet date.

10. Customer-specific Construction Contracts

Customer-specific construction contracts (software development for customers) are recognized according to the percentage of completion method under IAS 11, which stipulates that revenue must be recognized in accordance with the stage of completion. Contract revenue in this context is the revenue agreed upon in fixed-price contracts, up to the current stage of completion of such goods and services. The stage of completion is the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs (cost-to-cost method). Advances received are offset against the degree of completion of the construction contracts. Contract work is recognized under receivables arising from customer-specific construction contracts to the extent that in individual cases the degree of completion exceeds the advances received. Any negative balance remaining after deduction of the advances is recognized under liabilities arising from customer-specific construction contracts.

11. Other Assets

The other assets comprise non-financial assets. They are initially measured at fair value and then are recognized at depreciated and amortized cost.

12. Deferred Tax Assets and Liabilities

Income taxes are determined using the balance sheet liability method. As a rule, deferred tax assets and deferred tax liabilities are recognized for all temporary differences between the carrying amount of an asset or liability and its fair value determined for tax purposes. Deferred tax assets are also recognized for tax loss carryforwards and tax credits.

Deferred tax assets on tax loss carryforwards must be recognized to the extent that the future use of these tax loss carryforwards is probable. All deferred tax assets on tax losses were therefore recognized taking their realizability into account.

Deferred taxes are determined on the basis of the tax rates which, based on the current legal situation, apply at the time of realization or which are expected to apply in the individual countries. The effect of changes in tax rates on deferred taxes is recognized in profit or loss, or in equity, at the time the legal changes become effective.

13. Pension Provisions

Pension provisions are measured in accordance with IAS 19 using the projected unit credit method. This method takes into account not only the pensions and benefits accrued but also expected future pension increases based on a prudent assessment of relevant factors. Calculation is based on actuarial expert opinions taking into consideration biometrical assumptions. Actuarial gains and losses are recognized directly in equity.

14. Other Provisions

The other provisions are recognized for all other contingent liabilities and risks of the Softing Group toward third parties. They are recognized only if the current obligation (factually or legally) arises from a past event, if utilization is probable, and if the amount of the obligation can be estimated reliably. The amount recognized is the best estimate of the expenditure required to settle the present obligation at the balance sheet date.

15. Financial Liabilities

Financial liabilities are only recognized if Softing is a party to the agreement governing the financial liabilities. Financial liabilities are derecognized when they have been met, i. e. when the obligations mentioned in the agreement have been paid, canceled or have expired.

Financial liabilities are initially measured at their fair value. In subsequent years, all financial liabilities are measured at amortized cost.

Financial liabilities comprise the balance sheet items "trade payables" and "other financial liabilities."

16. Other Liabilities

The other liabilities concern non-financial liabilities and are recognized at cost.

17. Exercise of Judgement and Estimate Uncertainties

The preparation of the consolidated financial statements in accordance with the provisions of the IASB requires forward-looking assumptions to be made and estimates to be used that have an effect on the carrying amounts of recognized assets and liabilities, earnings, expenses, and contingent liabilities. The forward-looking assumptions and estimates essentially relate to the uniform determination of useful lives throughout the Group, the recognition and measurement of provisions (in particular pension provisions), and the realizability of future tax benefits. As a rule, the forward-looking assumptions and estimates are based on experience and knowledge gained from the past; they also take into account other factors which might be used as a reliable basis. In individual cases, the actual values may deviate from the assumptions and estimates. The assumptions and estimates are reviewed regularly. Changes are recognized in profit or loss as of the time better knowledge is obtained, or in the period in which better knowledge is obtained, as well as in future periods if the changes comprise several periods.

The most important forward-looking assumptions and other material sources of estimate uncertainties as of the closing date that could result in a considerable risk of having to make significant adjustments to the recognized assets and liabilities in the next financial year concern the measurement of pension provisions, the assumption of future opportunities to use tax loss carryforwards, and the possible impairment of goodwill.

18. Currency Translation

Foreign currencies are translated using the functional currency method as defined in IAS 21. The functional currency of all foreign subsidiaries is the respective local currency because the material foreign companies that are included in the consolidated financial statements operate their businesses independently in financial, economic and organizational terms.

Currency gains or losses resulting from foreign currency transactions (transaction in a currency other than a company’s functional currency) are reported as other operating income or other operating expenses in the individual financial statements of the Group companies.

For Group companies which do not report in euros, the assets and liabilities are translated into euros at the exchange rate applicable at the balance sheet date, and expenses and income are translated at the annual average exchange rate for the purpose of preparing consolidated financial statements. Currency translation differences including those arising from capital consolidation, are recognized directly in equity.

The euro exchange rates applicable for currency translation changed as follows:

	USD/EUR 2007	USD/EUR 2006	RON/EUR 2007	RON/EUR 2006
Closing rate (Dec. 31)	1.47	1.32	3.60	3.38
Average exchange rate	1.38	1.26	3.34	3.51

C. Notes to the Consolidated Balance Sheet

1. Goodwill

The goodwill of EUR 2,351 thsd. results from the acquisition of all shares in hard&soft Salwetter-Rottenberger GmbH as of July 1, 2005. To determine possible impairment losses, an impairment test in accordance with IAS 36 based on the value in use was carried out for the CGU of hard&soft Salwetter-Rottenberger GmbH, to which the goodwill is fully attributable.

2. Development Costs

The change in capitalized development costs is shown in the changes in intangible assets and property, plant and equipment (appendix to the notes to the consolidated financial statements).

Expenditures for research and development (without capitalized development costs) in the financial year just ended totaled EUR 934 thsd. (previous year: EUR 960 thsd.).

In the 2007 financial year, the Company received government grants under the program "Promoting the improvement of the innovative capacities of small and medium-sized enterprises" totaling EUR 92 thsd. (previous year: EUR 117 thsd.). The grants are offset against the cost of capitalized development costs. Applications for further government grants were not submitted.

3. Other Intangible Assets

The development of other intangible assets is shown in the changes in intangible assets and property, plant and equipment (appendix to the notes to the consolidated financial statements).

4. Impairment

In the financial year just ended, an impairment loss on intangible assets totaling EUR 185 thsd. (previous year: EUR 1,684 thsd.) was recognized in the income statement under the item depreciation, amortization and impairment losses.

The impairment loss concerned a wireless license for the Industrial Automation segment.

5. Property, Plant and Equipment

The development of property, plant and equipment is shown in the changes in intangible assets and property, plant and equipment (appendix to the notes to the consolidated financial statements).

6. Lease Agreements

The other operating expenses contain leasing expenses of EUR 127 thsd. (previous year: EUR 123 thsd.).

7. Inventories

A valuation allowance of EUR 166 thsd. (previous year: 170 thsd.) was recognized on inventories in 2007. As in the previous year, no reversals of impairment losses were recognized in profit or loss.

8. Trade Receivables

In 2007, a valuation allowance of EUR 152 thsd. (previous year: EUR 117 thsd.) was recognized for doubtful debts.

	Dec. 31, 2007 EUR (in thsds)	Dec. 31, 2006 EUR (in thsds)
Trade receivables	4,000	4,001
Of which: services not yet billed	31	38

9. Receivables from Customer-specific Construction Contracts

	Dec. 31, 2007 EUR (in thsds)	Dec. 31, 2006 EUR (in thsds)
Total construction work in progress	2,617	1,628
Less: advances received	−1,345	−1,132
Net amount	1,272	496
Of which reported under:		
Receivables from customer-specific construction contracts	1,547	658
Payables from customer-specific construction contracts	−275	−162

Anticipated losses from orders are covered by writedowns or provisions, the extent of which is determined by taking into account the discernible risks. The total amount of construction work in progress includes expenses of EUR 1,822 thsd. (previous year: EUR 1,269 thsd.) and a profit share of EUR 795 thsd. (previous year: EUR 359 thsd.).

10. Other Financial Assets

	Dec. 31, 2007 EUR (in thsds)	Dec. 31, 2006 EUR (in thsds)
Receivables from employees	899	4
Other	87	35
	986	39

Receivables from employees essentially concern a loan of EUR 875 thsd. bearing interest of 5%, which was granted to a member of the Executive Board under an agreement dated June 22, 2007. The interest accrued thereunder is EUR 19 thsd.

11. Other Assets

	Dec. 31, 2007 EUR (in thsds)	Dec. 31, 2006 EUR (in thsds)
Other tax assets	0	1
Advances on property, plant and equipment	0	39
Accruals	69	108
Other	96	132
	165	280

12. Current Income Tax Assets

The current income tax assets concern corporation tax receivables.

13. Cash and Cash Equivalents

	Dec. 31, 2007 EUR (in thsds)	Dec. 31, 2006 EUR (in thsds)
Securities	632	632
Cash	4,295	2,108
	4,927	2,740

Cash and cash equivalents are not impacted by foreign currencies.

Securities essentially concern short-term fixed-interest bearer bonds that were issued by a domestic bank, which become due on April 17, 2009. The last interest rate was 4.659% (previous year: 3.499%). Every three months, the issuer adjusts the rate to the market interest rate.

Cash and cash equivalents include cash and bank balances and are measured at their nominal value as of the balance sheet date. Bank balances comprise time deposits and current account funds.

14. Equity

	No-par bearer shares	Issued capital	Capital reserves	Retained earnings: Valuation surplus	Retained earnings: Currency trans-lation	Retained earnings: Other	Retained earnings: Total	Treasury shares	Total equity
	Number	EUR (in thsds)	EUR (in thsds)	EUR (in thsds)	EUR (in thsds)	EUR (in thsds)	EUR (in thsds)	EUR (in thsds)	EUR (in thsds)
December 31, 2005/ January 1, 2006	5,499,998	5,500	1,476	−298	−56	7,123	6,769	0	13,745
Changes in equity 2006									
Income and expense recognized in equity	0	0	0	5	25	0	30	0	30
Group income 2006	0	0	0	0	0	−1,362	−1,362	0	−1,362
Offsetting of IPO costs (refund for previous years)	0	0	36	0	0	0	0	0	36
Purchase of own shares	0	0	0	0	0	0	0	−273	−273
Addition from capital increase	100,000	100	179	0	0	0	0	0	279
Offsetting of transaction costs capital increase	0	0	−14	0	0	0	0	0	−14
Changes in deferred taxes recognized in equity	0	0	6	0	0	0	0	0	6
December 31, 2006/ January 1, 2007	5,599,998	5,600	1,683	−293	−31	5,761	5,437	−273	12,447
Changes in equity 2007									
Income and expense recognized in equity	0	0	0	238	0	0	238	0	238
Group income 2007	0	0	0	0	0	1,237	1,237	0	1,237
Purchase/sale of own shares	0	0	0	47	0	0	47	−41	6
Addition from capital increase	37,200	37	1	0	0	0	0	0	38
Currency changes	0	0	0	0	2	0	2	0	2
Changes in deferred taxes recognized in equity	0	0	0	−110	0	0	−110	0	−110
December 31, 2007	**5,637,198**	**5,637**	**1,684**	**−118**	**−29**	**6,998**	**6,851**	**−314**	**13,858**

Issued Capital

On June 14, 2007, issued capital was increased by EUR 32,700 (32,700 shares) as a result of the execution of a subscription right under the stock option plan. As of the balance sheet date, the fully paid-in share capital of the Company was EUR 5,637,198.00. It is divided into 5,637,198 no-par-value bearer shares. There is also conditional capital in the amount of EUR 222,800.00, which was created in connection with a stock option plan and which can no longer be utilized.

Authorized Capital

The Executive Board is authorized to increase the Company's share capital once or several times by up to EUR 2,799,000 until August 23, 2012, by issuing new no-par value bearer shares against contributions in cash or kind (authorized capital), and to determine the conditions for issuing the shares with the approval of the Supervisory Board. Subject to the approval of the Supervisory Board, the Executive Board may exclude shareholders' subscription right. The shareholders' statutory subscription right may be excluded:

- for offsetting fractional amounts;
- for obtaining in-kind contributions, especially in the form of equity interests, companies, or business units;
- if, in case of a capital increase against contributions in cash, the capital increases resolved under this authorization do not exceed 10% of the Company's share capital, and the share's issue price is not substantially below the stock market price of the Company's share.

The Supervisory Board is authorized to amend the Articles of Incorporation to reflect the volume of the capital increase from authorized capital.

The authorized capital as of December 31, 2007, was EUR 2,799,000.

The accumulated profits available for distribution are determined on the basis of the net retained profits of Softing AG pursuant to German commercial law.

Capital Reserves

The capital reserves contain the premium on the issue of shares less transaction costs. As of June 14, 2007, EUR 1 thsd. were transferred to capital reserves by way of a capital increase.

Retained Earnings

Retained earnings include the accumulated, undistributed profits of the companies included in the consolidated financial statements. Retained earnings also include the differences from the currency translation of transactions made by foreign subsidiaries, changes in the market value of financial instruments, and actuarial gains and losses, as well as the sale of treasury shares for EUR 47 thsd. in 2007 (previous year: EUR 0 thsd.), all of which were directly recognized in equity.

Pursuant to § 150 German Stock Corporation Act (AktG), profit distribution is restricted to the amount in excess of the statutory reserve, which is ten percent of the issued capital.

Treasury Shares

Based on the authorization of the Executive Board granted by the General Shareholders' Meeting on August 24, 2007, and based on the resolution of the Executive Board of November 8, 2007, the Company purchased treasury shares:

Purchase date	Number	Price per share EUR	Price EUR (in thsds)
November 14, 2007	5,000	3.2000	16
December 17, 2007	100,000	2.9837	298
			314

The shares were purchased in order to offer them as compensation to third parties in business combinations, in the acquisition of companies by means of share or asset deals, or in the acquisition of business units.

15. Employee Benefits

This item concerns the partially reinsured and defined benefit pension commitments granted to the three former 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 capitalized value of the reinsurance cover of EUR 1,522 thsd. (previous year: EUR 1,354 thsd.) was offset against pension provisions in accordance with IAS 19.116. Actuarial gains and losses were recognized immediately in retained earnings in accordance with IAS 19.93D.

The variable commitments increase or decrease in line with the change of the Consumer Index for Germany, which showed an annual average increase from 110.2 points in 2006 to 113.6 points in 2007.

The actuarial assumptions on which the calculation is based are summarized in the following table:

Basis of calculation	Dec. 31, 2007 %	Dec. 31, 2006 %
Assumed interest rate	5.25	4.25
Salary trend	0.0	0.0
Expected rate of pension increase	2.0	1.75

Development	2007 EUR (in thsds)	2006 EUR (in thsds)
DBO as of January 1	2,492	2,426
Service cost	–	–
Return on plan asset	– 134	– 145
Interest cost	105	96
Interest earned from plan asset	– 34	– 6
Actuarial losses	– 239	– 8
Pension payments to pensioners	– 23	– 23
Fair value of the plan assets as of January 1	– 1,354	– 1,202
Rounding difference	1	–
As of December 31	**814**	**1,138**

Reconciliation with the balance sheet	Dec. 31, 2007 EUR (in thsds)	Dec. 31, 2006 EUR (in thsds)
Present value of the defined benefit obligations (DBO)	2,336	2,492
Fair value of the external plan assets as of December 31, 2007	– 1,522	– 1,354
	814	**1,138**

The present value and the fair value of external plan assets developed as follows in the past four years:

	Present value of the defined benefit obligations (DBO)	Fair value of the external plan assets
December 31, 2003	1,692	869
December 31, 2004	1,962	1,061
December 31, 2005	2,426	1,202
December 31, 2006	2,492	1,354
December 31, 2007	2,336	1,522

In 2007, pension expenses of EUR 57 thsd. were recognized (previous year: EUR 29 thsd.).

	Dec. 31, 2007	Dec. 31, 2006
Pension payments to pensioners	23	23
Expense from the additions to pension provisions	105	96
Less		
Interest cost included (offset against interest earned from Plan assets totaling EUR 34 thsd.; previous year: EUR 6 thsd.)	−71	−90
	57	**29**

Due to the conservative and safe nature of the reinsurance investments, we expect the contributed amounts to yield low interest income in the future too. In the financial year just ended, the interest rate for the plan assets was 2.5% (previous year: 0.5%).

The service and interest cost resulting from the increase in pension provisions was offset against the return on plan assets pursuant to IAS 19. The remaining interest cost is reported as interest expense.

The Company expects to record an expense of EUR 121 thsd. from additions to pension provisions in the current financial year.

16. Other Provisions

The other provisions are recognized for all other contingent liabilities and risks of the Softing Group toward third parties. They are recognized only if utilization is probable and the amount of the obligation can be estimated reliably. The amount recognized is the best estimate of the expenditure required to settle the present obligation at the balance sheet date.

	As of Jan. 1, 2007 EUR (in thsds)	Use EUR (in thsds)	Reversal EUR (in thsds)	Addition EUR (in thsds)	As of Dec. 31, 2007 EUR (in thsds)
Operational provisions	94	–	–	–	94
Contingent loss	49	36	11	19	21
	143	**36**	**11**	**19**	**115**

The operational provisions essentially comprise provisions for guarantee obligations which were calculated based on historical values. The provisions are due within one year.

17. Trade Payables

The trade payables totaling EUR 275 thsd. (previous year: EUR 162 thsd.) result from customer-specific construction contracts. (See receivables from customer-specific construction contracts).

18. Other Financial Liabilities (Current)

	Dec. 31, 2007 EUR (in thsds)	Dec. 31, 2006 EUR (in thsds)
Liabilities related to social security	40	116
Wages and salaries payable	2,812	1,239
Other	1,141	863
	3,993	2,218

The other financial liabilities include liabilities of EUR 375 thsd. related to the acquisition of hard&soft Salwetter-Rottenberger GmbH. They are recognized at amortized cost using the effective interest rate method (5.6%).

19. Other Liabilities

	Dec. 31, 2007 EUR (in thsds)	Dec. 31, 2006 EUR (in thsds)
Other tax liabilities	441	494

The other tax liabilities primarily comprise sales tax and wage tax.

20. Tax Liabilities

These income tax liabilities essentially concern the profit made by Softing AG and hard&soft Salwetter-Rottenberger GmbH in the financial year just ended.

D. Notes to the Consolidated Income Statement

1. Revenue

Revenue from customer-specific construction contracts in 2007 was EUR 2,450 thsd. (previous year: EUR 1,437 thsd.).

Revenue by regions	2007 EUR (in thsds)	2006 EUR (in thsds)
Domestic	18,695	16,106
Abroad	10,273	7,490
	28,968	**23,596**

Revenue by products and services	2007 EUR (in thsds)	2006 EUR (in thsds)
Products	19,105	15,310
Services	9,863	8,286
	28,968	**23,596**

2. Other Own Work Capitalized

Other own work capitalized concerns costs for the development of new software products.

3. Other Income

The other operating income comprises the following items:

	2007 EUR (in thsds)	2006 EUR (in thsds)
Derecognition of liabilities	0	45
Reversal of provisions	11	13
Other income not related to the accounting period	0	5
	11	**63**
Income from exchange differences	4	24
Revenue from the provision of automobiles	111	112
Revenue from subsidized projects	92	117
Other income	96	51
	314	**367**

4. Cost of Materials

	2007 EUR (in thsds)	2006 EUR (in thsds)
Purchase of components and products	6,138	4,943
Third-party services	857	622
	6,995	5,565

5. Employee Benefits Costs

	2007 EUR (in thsds)	2006 EUR (in thsds)
Current salaries	10,186	10,061
Social security and retirement benefit costs	1,910	1,950
Profit-sharing, royalties	2,543	1,165
Provision of automobiles to employees	114	118
Termination benefits	21	0
Temporary workers	31	50
Other	179	385
	14,984	13,729

The statutory pension scheme in Germany is treated as a defined contribution scheme. Expenses recognized for the statutory pension scheme total EUR 870 thsd. (previous year: EUR 855 thsd.). Pension expenses amounted to EUR 57 thsd. (previous year: EUR 29 thsd.).

6. Other Expenses

The other operating expenses are as follows:

	2007 EUR (in thsds)	2006 EUR (in thsds)
Operating expenses	2,023	1,811
Distribution costs	1,095	1,253
Administrative expenses	769	720
Expenses resulting from exchange differences	62	96
Expenses unrelated to the accounting period	33	27
	3,982	3,907

The expenses for the auditor of the financial statements break down as follows:

	2007 EUR (in thsds)	2006 EUR (in thsds)
Audit of annual financial statements	53	52
Tax consultancy services	21	18
Other services	6	12
	80	82

7. Finance Income / Finance Costs

During the reporting period, the income from the life insurance taken out to reinsure the Company's pension commitments towards the Executive Board were offset against the allocation to pension provisions pursuant to IAS 19.

8. Tax Expenses (Previous Year: Tax Income)

The current income tax expense breaks down as follows:

	2007 EUR (in thsds)	2006 EUR (in thsds)
Deferred taxes on temporary differences	−126	−770
Deferred taxes on tax loss carryforwards	1,078	−45
Tax income / expense	105	48
	1,057	−767
Of which: current income tax of prior periods	0	42

Deferred taxes are recognized for temporary differences between the amounts recognized for financial reporting purposes and the amounts recognized for tax purposes, and for any differences arising from uniform measurement and consolidation within the Group. Deferred taxes are determined based on the applicable country-specific tax rates. The underlying domestic tax rate has changed and is determined as follows:

	2007 %	2008 %
Corporate income tax including solidarity surtax	26.38	15.83
Trade income tax rate	14.89	12.25
Reduction of corporate income tax by crediting trade income tax	−3.93	0.0
	37.34	**28.08**

The reduction in the tax rate is due to the German Corporate Tax Reform Act for 2008. The change in the tax rate has been taken into account in determining the deferred taxes of German entities because the act was passed before the balance sheet date.

The tax rate for Softing North America was 24.5% and the tax rate for SoftingROM s.r.l. was 16%, both unchanged from the previous year.

Deferred tax assets from losses carried forward were recognized 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 years. The Company has tax loss carryforwards of EUR 5,811 thsd. (previous year: EUR 7,352 thsd.), which were taken into account at the time the deferred taxes were determined.

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

	Dec. 31, 2007	Usable until
Softing AG, trade tax loss carryforwards	5,905	Unlimited
Softing AG, corporate income tax loss carryforwards	5,712	Unlimited
Softing North America, Inc.	2	2010/2025

In the financial year just ended, Softing AG utilized tax loss carryforwards of EUR 1,340 thsd., taking into account minimum taxation. Softing North America also utilized federal and state tax loss carryforwards equivalent to EUR 235 thsd.

The current income tax expense is derived as follows from the expected tax expense. As in the previous year, 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.

	2007 EUR (in thsds)	2006 EUR (in thsds)
Earnings before taxes	2,294	−2,130
Anticipated tax expense (37.34%)	857	−795
Non-recognition of deferred taxes on temporary differences	0	32
Non-recognition of deferred taxes on tax losses	0	−14
Reversal of impairment losses of deferred taxes on tax losses	0	−23
Non-recognition of deferred taxes in previous years	–	–
Tax additions and deductions	−9	19
Different tax rates abroad	−38	−25
Effects of legal tax rate changes	214	0
Non-recognition of deferred taxes on temporary differences, Group	27	−1
Current taxes, previous years	0	42
Other	6	−2
Tax expense disclosed in the income statement	**1,057**	**−767**

Deferred tax assets and deferred tax liabilities are allocable to the following items:

Deferred tax assets	Dec. 31, 2007 EUR (in thsds)	Dec. 31, 2006 EUR (in thsds)
Equity	7	6
Pension provision	166	312
Other provisions	6	18
Other liabilities	0	10
Future tax benefits from loss carryforwards	1,632	2,713
	1,811	3,059

Deferred tax liabilities	Dec. 31, 2007 EUR (in thsds)	Dec. 31, 2006 EUR (in thsds)
Trade receivables	348	257
Intangible assets	720	978
Property, plant and equipment	22	31
Equity	5	15
Other liabilities	3	0
	1,098	1,281

E. Other Disclosures

1. Segment Reporting

Since there is only one segment requiring disclosure (European Union), geographical segments are not shown. The corporate divisions are shown in the following table in accordance with IAS 14.

Segmentation	Industrial Automation		Automotive Electronics		Not distributed		Total	
	2007 EUR (in thsds)	2006 EUR (in thsds)	2007 EUR (in thsds)	2006 EUR (in thsds)	2007 EUR (in thsds)	2006 EUR (in thsds)	2007 EUR (in thsds)	2006 EUR (in thsds)
External sales	14,634	12,611	14,334	10,985	–	–	28,968	23,596
Depreciation / amortiz.	1,333	1,284	1,317	1,964	–	–	2,650	3,248
Impairment	185	203	0	1,481	–	–	185	1,684
Segment result (EBIT)	1,630	890	683	−2,881	–	–	2,313	−1,991
Segment assets	6,520	6,149	7,140	6,681	8,008	6,120	21,668	18,950
Segment liabilities	3,117	2,169	3,495	3,054	1,198	1,280	7,810	6,503
Capital expenditure	1,462	1,563	1,067	1,448	91	55	2,620	3,066

2. Segment Allocation of Products

Industrial Automation

Interface cards (PROFIBUS, PROFINET, CAN, CANopen, DeviceNet), integration modules (Fieldbuskit) and chip solutions (Foundation Fieldbus, PROFINET) for bus interfaces in process and manufacturing technology

Communication gateways (PROFIBUS, Foundation Fieldbus) and network configurations

Products for physical diagnosis and protocol analysis of industrial networks (PROFIBUS, PROFINET, CAN)

OPC servers (OPC, PROFIBUS, CANopen, Modbus), OPC middleware (Connector Tools) and server / client development tools (Toolkits)

Automation system 4CONTROL, technology libraries, communication connectivity (PROFIBUS, Modbus, M-Bus, BACnet), control hardware (PanelPC, FieldController)

Customized hardware 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

Development of OPC Products

3. Cash Flow Statement

The cash flow statement represents the consolidated cash flows of the consolidated companies.

The funds disclosed in the cash flow statement correspond to the balance sheet item "Cash and cash equivalents" and comprise cash on hand, cash in banks and securities that can be sold at any time at the price recognized in the balance sheet.

4. 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 up to 260,000 no par-value bearer shares. This conditional capital increase serves exclusively to grant subscription rights (issue of equity financial instruments) 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. The final non-lapsed option rights were exercised in the 2007 financial year (37,200). This has reduced the conditional capital of EUR 260,000.00 accordingly. Since the maximum term for granting options ended on March 16, 2005, no further option rights may be issued under the option plan dated March 17, 2000.

	2007 Number	2006 Number
As of January 1	87,200	89,100
New options granted	–	–
Options exercised	−37,200	
Options lapsed	−50,000	−1,900
As of December 31	**0**	**87,200**
Of which: exercisable options	0	37,200

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

The weighted average exercise prices were as follows:

	2007 EUR	2006 EUR
As of January 1	2.27	2.51
Options lapsed	3.19	13.66
As of December 31	–	2.27
Of which: exercisable options	–	1.03

5. Earnings per Share IAS 33

		2007	2006
Group income	EUR (in thsds.)	1,237	−1,362
Minority interest	EUR (in thsds.)	0	0
Basic earnings (= diluted earnings)	**EUR (in thsds.)**	**1,237**	**−1,362**
Weighted average number of shares			
Basic	Number	5,549,702	5,475,669
Potential stock options	Number	0	21,101
Diluted	Number	5,549,702	5,496,770
Basic earnings per share	EUR	0.22	−0.25
Diluted earnings per share	EUR	0.22	−0.25

The change in the number of shares outstanding which results from the capital increase and the purchase of treasury shares was calculated on a pro-rated basis (to the day).

No options rights exist as of December 31, 2007, which could influence diluted earnings per share in the future.

6. Related Parties

Besides the companies included in the consolidated financial statements, the members of the Executive Board and of the Supervisory Board are considered related parties of the Softing Group as defined in IAS 24, both in their function as members of corporate boards and, in some cases, as shareholders.

One member of the Executive Board was granted a loan of EUR 875 thsd. at interest of 5%. The interest accrued thereunder in 2007 is EUR 19 thsd.

Furthermore, there is a consulting agreement with Dr. Manfred Patz for the provision of support services. In 2007, this resulted in expenses of EUR 13 thsd. (previous year: EUR 23 thsd.).

7. Contingent Liabilities

There were no contingent liabilities in the 2007 reporting period.

8. Other Financial Obligations

As of the balance sheet date, the Company had incurred purchase commitments in the amount of EUR 1,609 thsd. under long-term contracts (previous year: EUR 1,133 thsd.).

There were also liabilities under long-term rental and lease agreements. These liabilities essentially stem from contracts related to buildings, passenger cars and office equipment. The minimum amounts of undiscounted future payments as of the balance sheet date are as follows:

	2007 EUR (in thsds)	2006 EUR (in thsds)
< 1 year	686	681
1 – 5 years	1,459	1,959
> 5 years	244	244
Total	**2,389**	**2,884**

9. Disclosure of the Carrying Amounts of the Individual Categories of Financial Instruments According to IFRS 7

Balance sheet item 2007	Measurement:	Nominal value		At amortized cost		Total	
	Measurement category:	Cash reserve		Loans and receivables			
	Class:			Not from financial services			
Assets		Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents							
Securities		632	632			632	632
Cash		4,295	4,295			4,295	4,295
Trade receivables				4,000	4,000	4,000	4,000
Receivables from customer-specific construction contracts				1,546	1,546	1,546	1,546
Other financial assets				986	986	986	986
Other assets				165	165	165	165
Total assets		4,927	4,927	6,697	6,697	11,624	11,624

Equity and liabilities	Measurement:	At amortized cost		Total	
	Measurement category:	Other liabilities			
	Class:	Not from financial services			
		Carrying amount	Fair value	Carrying amount	Fair value
Trade payables		974	974	974	974
Payables from customer-specific construction contracts		275	275	275	275
Other financial liabilities		3,993	3,993	3,993	3,993
Other liabilities		441	441	441	441
Total equity and liabilities		5,683	5,683	5,683	5,683

Balance sheet item 2006 Assets	Measurement: Measurement category: Class:	Nominal value Cash reserve		At amortized cost Loans and receivables Not from financial services		Total	
		Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents							
Securities		632	632			632	632
Cash		1,249	1,249			1,249	1,249
Trade receivables				4,001	4,001	4,001	4,001
Receivables from customer-specific construction contracts				658	658	658	658
Other financial assets				39	39	39	39
Other assets				280	280	280	280
Total assets		1,881	1,881	4,978	4,978	6,859	6,859

Equity and liabilities	Measurement: Measurement category: Class:	At amortized cost Other liabilities Not from financial services		Total	
		Carrying amount	Fair value	Carrying amount	Fair value
Trade payables		718	718	718	718
Payables from customer-specific construction contracts		162	162	162	162
Other financial liabilities		2,218	2,218	2,218	2,218
Other liabilities		495	495	495	495
Total equity and liabilities		3,593	3,593	3,593	3,593

The Further Categories According to IFRS 7:

For financial assets
- Held-to-maturity investments
- Held for trading
- Fair value options
- Available-for-sale financial assets
- Hedging derivatives in accordance with IAS 39

For financial liabilities
- Financial liabilities held for trading
- Fair value options
- Hedging derivatives in accordance with IAS 39

do not apply in the reporting year, as in the previous year.

10. Personnel

The number of employees (exclusively salaried employees) excluding the Executive Board was as follows:

	2007	2006
As of the balance sheet date	214	195
Annual average	209	198

11. Executive Board

The following persons are members of the Executive Board of Softing AG:

Dr.-Ing. Dr. rer. oec. Wolfgang Trier, Munich, Germany
Dr.-Ing. Michael Siedentop, Neutraubling, Germany

All compensation paid to the Executive Board members is of a current nature.

Compensation of the Executive Board amounted to EUR 1,320 thsd. (previous year: EUR 669 thsd.). Based on a resolution adopted by the General Shareholders' Meeting on August 24, 2007, disclosures required under § 314 para 1 no. 6 sentences 5 to 9 (§ 314 para 2 sentence 2 in connection with § 286 para 5 German Commercial Code (HGB)) are not made. Given the size of the Company, the two members of the Executive Board also hold the Company's key central positions.

The performance-based, variable component is determined based on performance goals that were defined in advance. The Executive Board also participates in the company's stock option plan. The stock option plan expired in 2007.

One member of the Executive Board was granted a loan of EUR 875 thsd. at interest of 5%. The interest accrued thereunder in 2007 is EUR 19 thsd.

Pension obligations for former members of the Executive Board as of December 31, 2007 totaled EUR 814 thsd. (previous year: EUR 1,138 thsd.).

12. Objectives and Methods of Financial Risk Management

As an internationally operating company, Softing is exposed to a variety of risks in the course of its operations. Therefore, the objective of its financial risk management is to detect all material financial risks early on and to take appropriate measures to protect existing and future success potential. These risks include currency risks resulting from activities in different currency regions, default risks involving non-fulfillment of contractual obligations by contracting partners, interest rate risks, where fluctuations in the market interest rate lead to a change in the fair value of a financial instrument, and interest-related cash-flow risks, which lead to a change in the future cash flow of a financial instrument because of changes in market interest rates.

To evaluate and take into account such risks, Softing has defined principles through a centralized risk management system that serve to identify and evaluate such risks consistently and systematically. Continual reporting is used by Softing to check compliance with all principles. This enables the Company to identify and analyze risks early on.

Default Risks

Softing is exposed to default risks if contractual partners fail to meet their obligations. To avoid of risks of this nature, Softing enters into contracts only with contractual partners that have an excellent credit rating. As of the closing dates of December 31, 2006, and December 31, 2007, there was no material default risk. While the Executive Board therefore believes the risk of non-fulfillment on the part of its contractual partners to be very low, it cannot completely exclude the risk in the final analysis.

Default risks primarily concern trade receivables. Valuation allowances are recorded to allow for any discernable default risks in connection with individual financial assets. Valuation allowances as of December 31, 2007, totaled EUR 152 thsd. (previous year: EUR 117 thsd.).

Regardless of any existing collateral, the carrying amount of financial assets equals the maximum default risk if the contractual partners fail to meet their payment obligations.

Interest Rate Risks

Softing is also exposed to interest rate risks. The assets and liabilities subject to interest rate fluctuations essentially concern cash and cash equivalents. Balances of Softing totaling EUR 4,295 thsd. (previous year: EUR 2,108 thsd.) and securities totaling EUR 632 thsd. (previous year: EUR 632 thsd.) bear interest of 2.25% to 2.5% (previous year: 1.75% to 2.9%) and 4.5% (previous year: 3.5%), respectively.

13. Declaration Regarding the German Corporate Governance Code Pursuant to § 161 German Stock Corporation Act

The Executive Board and Supervisory Board issued the Declaration of Compliance pursuant to § 161 of the German Stock Corporation Act on February 27, 2007, and made this declaration permanently available to its shareholders on the Company’s website.

14. Supervisory Board

The following persons were members of the Supervisory Board of Softing AG in the 2007 financial year:

Dr. Horst Schiessl, attorney at law, Munich, Germany (chairman)
Karlheinz Butscher, graduate engineer, Langenargen, Germany (deputy chairman)
Dr. Manfred Patz, graduate engineer, Vaterstetten, Germany (until January 29, 2007)
Andreas Kratzer, certified public accountant, Zurich (Switzerland) (appointed as of February 1, 2007)

Dr. Schiessl is also a member of the Supervisory Board of the following companies:
Baader Wertpapierhandelsgesellschaft AG, Unterschleißheim, Germany (chairman)
SPAG St. Petersburg Immobilien und Beteiligungs AG, Mörfelden-Walldorf, Germany (deputy chairman)
Dussmann AG & Co. KGaA, Berlin, Germany
Systems Consult AG, Munich, Germany (until early 2007)

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

Mr. Butscher does not hold any offices on other Supervisory Boards.

Mr. Kratzer is also a member of the Board of Directors of the following companies:
SE Swiss Estates AG, Zug, Switzerland (until December 20, 2007)
Swiss FE Steel Group AG, Baar, Switzerland 2007 (until June 14, 2007)
Thor Immobilien AG, Zurich, Switzerland
azemos partner AG, Zurich, Switzerland

Each member of the Supervisory Board receives a fixed compensation of EUR 5,000 for each full financial year of service on the Supervisory Board. In addition, they also receive a variable compensation, 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%.

Compensation for the members of the Supervisory Board in the reporting period totaled EUR 124 thsd. (previous year: EUR 23 thsd.) and is distributed as follows:

	Fixed	Variable	Total EUR (in thsds)
Dr. Horst Schiessl (chairman)	10	45	55
Karlheinz Butscher (deputy chairman)	8	33	41
Andreas Kratzer	5	20	25
Dr. Manfred Patz	3	0	3

Haar, Germany, February 18, 2008

The Executive Board of Softing AG

Dr. Wolfgang Trier   Dr. Michael Siedentop

Softing AG, Haar

Consolidated Financial Statements
in Accordance with International Financial Reporting Standards
as of December 31, 2007, and Group Management Report

Responsibility Statement

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

Haar, Germany, February 18, 2008

Softing AG

Dr. Wolfgang Trier (Chairman of the Executive Board)	Dr. Michael Siedentop (Member of the Executive Board)

Changes in Intangible Assets and Property, Plant and Equipment

in the 2007 Financial Year

	Cost					
	Jan. 1, 2007 EUR	Changes in the scope of consolidation EUR	Additions EUR	Exchange differences EUR	Disposals EUR	Dec. 31, 2007 EUR
I. Intangible assets						
1. Goodwill	2,351,125	0	0	0	0	2,351,125
2. Development costs	38,140,341	0	2,083,393	0	76,445	40,147,289
3. Other intangible assets	3,308,989	0	176,393	–1,826	6,016	3,477,540
	43,800,455	0	2,259,786	–1,826	82,461	45,975,954
II. Property, plant and equipment						
Other equipment, furniture and fixtures and office equipment						
Office equipment	3,388,881	0	309,484	–6,037	28,331	3,663,997
Low-value assets	150,036	0	50,949	0	45,234	155,751
	3,538,917	0	360,433	–6,037	73,565	3,819,748
	47,339,372	0	2,620,219	–7,863	156,026	49,795,702

Accumulated depreciation / amortization							Carrying amounts	
Jan. 1, 2007 EUR	Changes in the scope of consolidation EUR	Exchange differences EUR	Depreciation / amortization in the financial year EUR	Impairment loss EUR	Disposals EUR	Dec. 31, 2007 EUR	Dec. 31, 2007 EUR	Dec. 31, 2006 EUR
0	0	0	0	0	0	0	2,351,125	2,351,125
35,521,707	0	0	2,095,917	0	35,142	37,582,482	2,564,807	2,618,634
2,264,228	0	−1,341	238,136	185,138	0	2,686,161	791,379	1,044,761
37,785,935	0	−1,341	2,334,053	185,138	35,142	40,268,643	5,707,311	6,014,520
2,932,785	0	−3,493	265,193	0	34,612	3,159,873	504,124	456,096
68,132	0	0	50,961	0	42,268	76,825	78,926	81,904
3,000,917	0	−3,493	316,154	0	76,880	3,236,698	583,050	538,000
40,786,852	0	−4,834	2,650,207	185,138	112,022	43,505,341	6,290,361	6,552,520

Changes in Intangible Assets and Property, Plant and Equipment

in the 2006 Financial Year

	Cost					
	Jan. 1, 2006	Changes in the scope of consolidation	Additions	Exchange differences	Disposals	Dec. 31, 2006
	EUR	EUR	EUR	EUR	EUR	EUR
I. Intangible assets						
1. Goodwill	2,351,125	0	0	0	0	2,351,125
2. Development costs	35,600,779	0	2,539,562	0	0	38,140,341
3. Other intangible assets	2,997,321	0	312,021	−353	0	3,308,989
	40,949,225	0	2,851,583	−353	0	43,800,455
II. Property, plant and equipment						
Other equipment, furniture and fixtures and office equipment						
Office equipment	3,250,170	0	159,127	−1,250	19,166	3,388,881
Low-value assets	123,078	0	56,030	0	29,072	150,036
	3,373,248	0	215,157	−1,250	48,238	3,538,917
	44,322,473	0	3,066,740	−1,603	48,238	47,339,372

Accumulated depreciation / amortization							Carrying amounts	
Jan. 1, 2006 EUR	Changes in the scope of consolidation EUR	Exchange differences EUR	Depreciation / amortization in the financial year EUR	Impairment loss EUR	Disposals EUR	Dec. 31, 2006 EUR	Dec. 31, 2006 EUR	Dec. 31, 2005 EUR
0	0	0	0	0	0	0	2,351,125	2,351,125
31,490,392	0	0	2,683,690	1,347,625	0	35,521,707	2,618,634	4,110,387
1,648,198	0	−636	280,001	336,665	0	2,264,228	1,044,761	1,349,123
33,138,590	0	−636	2,963,691	1,684,290	0	37,785,935	6,014,520	7,810,635
2,712,760	0	−756	238,867	0	18,086	2,932,785	456,096	537,410
51,955	0	0	45,248	0	29,071	68,132	81,904	71,123
2,764,715	0	−756	284,115	0	47,157	3,000,917	538,000	608,533
35,903,305	0	−1,392	3,247,806	1,684,290	47,157	40,786,852	6,552,520	8,419,168

Auditors' Opinion

We have issued the following unqualified auditors' opinion:

"Auditor's Opinion

We have audited the consolidated financial statements of Softing AG, Haar, Germany, consisting of the balance sheet, the income statement, the statement of recognized income and expense, the cash flow statement and the notes as well as the Group management report for the financial year from January 1 to December 31, 2007. The preparation of the consolidated financial statements in accordance with IFRS as applicable in the EU and the supplementary provisions that are applicable under § 315a para. 1 German Commercial Code (HGB) are the responsibility of the Company's legal representatives. Our responsibility is to express an opinion, based on our audit, on the consolidated financial statements and on the Group management report.

We conducted our audit of the consolidated financial statements in accordance with § 317 German Commercial Code the German standards for the proper audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). These standards require that we plan and perform the audit to obtain reasonable assurance that inaccuracies and violations with a material impact on the presentation of net assets, financial situation and results of operations conveyed by the consolidated financial statements with due regard to the applicable accounting principles and by the Group management report are identified. 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. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the financial statements of the companies included in consolidation, the definition of the scope of consolidation, the accounting and consolidation principles used and significant estimates made by the legal representatives, as well as evaluating the overall presentation of the consolidated financial statements and the Group management report . We believe that our audit provides a sufficiently sound basis on which to issue our opinion.

The audit has not led to any objections.

In our opinion, which is based on the findings of the audit, the consolidated financial statements are in compliance with IFRS as applicable in the EU and with the supplementary provisions applicable under § 315a para. 1 HGB, and in accordance with these provisions give a true and fair view of the net assets, financial situation and results of the operations of the Company. The Group management report is consistent with the consolidated financial statements, provides a suitable understanding of the Group's situation and suitably presents the risks of future development."

Munich, Germany, February 18, 2008

Bayerische Treuhandgesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Huber
Wirtschaftsprüfer

Waubke
Wirtschaftsprüfer

Report of the Supervisory Board

for the 2007 Financial Year

In the past financial year, the Supervisory Board was informed regularly about the situation of Softing AG and the Group and monitored and accompanied the work of the Executive Board as well as compliance with applicable legal provisions and the Company's internal guidelines. The Executive Board informed the Supervisory Board in writing and orally about the business policies, fundamental questions of future business activities, the economic situation and future strategic development, the risk situation and risk management as well as significant business transactions, and discussed these matters with the Supervisory Board. The Supervisory Board was involved in decisions of material significance.

A total of five Supervisory Board meetings were held in the reporting year (February 27, April 16, June 22, October 18, December 13). The discussions between the Executive Board and the Supervisory Board focused on the organizational and strategic development and orientation of the Group, the positioning and financial development of Softing AG, and significant business events for the Company. Between meetings, the Supervisory Board was also informed of plans and developments that were of particular importance.

The Supervisory Board was closely involved in the strategic orientation of the Automotive Electronics division that is aimed at generating additional income and in the commencement of new activities. Besides reducing costs, the primary goal was to create a solid foundation for further sales growth. The Executive Board also continually informed the Supervisory Board in its reports on the most important key figures regarding the financial development of Softing AG. The Supervisory Board thoroughly reviewed, discussed and approved all matters which require approval under legal provisions and the Articles of Incorporation or the Rules of Procedure.

The Supervisory Board regularly discussed matters of corporate governance. In principle, the Supervisory Board accepted the recommendations of the German Corporate Governance Code. Corporate governance is given high priority at Softing as a foundation for the decision-making and control processes in connection with company management that is focused on long-term value creation. On February 27, 2008, the Supervisory Board, together with the Executive Board, issued an updated Declaration of Compliance according to § 161 German Stock Corporation Act and explained the deviations from the recommendations of the German Corporate Governance Code. In this context, the Supervisory Board refers to the publication in the annual report and the Internet pages of Softing AG.

At its meeting on March 10, 2008, the Supervisory Board conducted a review of the efficiency of its work, which came to a positive conclusion. The Supervisory Board also verified that Softing AG was in compliance with the recommendations of the German Corporate Governance Code in the financial year ended, as stated in its Declaration of Compliance. There was no conflict of interest of members of the Supervisory Board in the financial year ended.

The annual financial statements and the management report of Softing AG, and the consolidated financial statements as of December 31, 2007, together with the Group management report including the accounting were audited as required by law by Bayerische Treuhandgesellschaft AG, Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft, the auditors appointed by the General Shareholders' Meeting. The auditors issued an unqualified audit opinion. The consolidated financial statements were prepared in accordance with International Accounting Standards / International Financial Reporting Standards (IAS / IFRS) and audited by the auditors in accordance with § 317 German Commercial Code (HGB) and by taking into account the German standards for the proper audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland (IDW). The auditors confirmed that the consolidated financial statements and the Group management report for the financial year from January 1 to December 31, 2007, fulfill the requirements for exempting the Company from its obligation to prepare consolidated financial statements and a Group management report in accordance with German law.

The annual financial statements and the audit reports of the auditors as well as the proposal of the Executive Board for the appropriation of accumulated profits were made available in time to all members of the Supervisory Board. At today's financials meeting, the Supervisory Board, the Supervisory Board examined the annual financial statements presented by the Executive Board and the Group management report of Softing AG as well as the consolidated financial statements including the audit report. The auditors and the Executive Board participated in the meeting. The auditors reported on their audit in general as well as on individual focal points and the significant results of their audit. They answered the questions raised by the members of the Supervisory Board in detail. The Supervisory Board approved the result of the audit. There was no reason to raise any objections based on the final result of this examination.

The Supervisory Board approved the annual financial statements and the consolidated financial statements for 2007 at today's Supervisory Board meeting. The annual financial statements for 2007 are therefore formally adopted.

The Supervisory Board would like to thank the Executive Board and all employees for their responsible and highly successful work in the past financial year.

Haar, Germany, March 10, 2008

Dr. Horst Schiessl
Chairman

Corporate Governance Report

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 were and intend to be in compliance in the future with the recommendations regarding conduct contained in the Code's current and applicable version in the financial year just ended, taking into account the exceptions and comments listed below. The Executive Board and Supervisory Board issued the Declaration of Compliance on February 27, 2008. 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 from the Investor Relations section of our website at www.softing.com.

a. The Company currently has not agreed a deductible for the D&O insurance taken out on behalf of the members of its Executive Board and Supervisory Board (Code item 3.8 para. 2).

   The Company believes the agreeing such a deductible is not necessary given the Company's current compensation scheme.

b. The Supervisory Board has not set up any committees (Code items 4.2.2, 5.3.1, 5.3.2, 5.3.3).

   Given the size of the Supervisory Board (three members), setting up committees is not considered necessary.

c. No cap has been agreed to account for extraordinary, unforeseen developments with regard to the variable compensation of the Executive Board (Code items 4.2.3 para 3 sentence 3).

   The Company believes that such a cap is currently not necessary.

d. The Company does not prepare a compensation report (Code item 4.2.5).

   The General Shareholders' Meeting has decided not to disclose the compensation of the Executive Board.

e. No age limit has been specified for members of the Supervisory Board (Code item 5.4.1 sentence 2).

   A specific age limit could be an undesired criterion to exclude qualified members of the Supervisory Board.

f. The court appointment of Supervisory Board members is not limited in time until the next General Shareholders' Meeting (Code item 5.4.3 sentence 2).

   The Company does not believe that time limits are appropriate when it is absolutely necessary to fill or refill positions on the Supervisory Board.

Compensation for the active members of the Supervisory Board in the 2007 financial year is presented on page 58 of this annual report.

Disclosures regarding directors' dealings pursuant to § 15a German Securities Trading Act (WpHG) are published on page 5 of this annual report and in the Investor Relations section of our website at www.softing.com.

For specific details regarding the stock option plan of Softing, please see page 51 of this annual report.

Corporate Boards and Directors’ Holdings

Boards	Shares		Options	
	Sep. 30, 2007 Number	Dec. 31, 2007 Number	Sep. 30, 2007 Number	Dec. 31, 2007 Number
Supervisory Board				
Dr. Horst Schiessl (chairman), Attorney at Law, Munich	–	–	–	–
Dipl.-Ing. Karlheinz Butscher (deputy chairman), Langenargen	–	–	–	–
Andreas Kratzer (member of the Supervisory Board)	8,000	8,000	–	–
Executive Board				
Dr.-Ing. Dr. rer. oec. Wolfgang Trier, Munich	157,200	162,200	–	–
Dr.-Ing. Michael Siedentop, Neutraubling	–	–	–	–

Executive Board – Allocation of Responsibilities

Dr. Wolfgang Trier	Chairman Industrial Automation Finance, Human Resources Investor Relations
Dr. Michael Siedentop	Automotive Electronics

Financial Calendar

March 31, 2008	2007 Annual Report
May 9, 2008	General Shareholders’ Meeting in Munich, Germany
May 14, 2008	Quarterly Report 1/2008
August 14, 2008	Quarterly Report 2/2008
November 14, 2008	Quarterly Report 3/2008

Consolidated Key Figures

		2007	2006	2005
Revenue	(EUR million)	28.97	23.60	22.06
EBIT	(EUR million)	2.31	−1.99	1.05
Group income	(EUR million)	1.24	−1.32	0.61
Non-current assets	(EUR million)	8.10	9.61	11.42
Current assets	(EUR million)	13.57	9.34	11.38
Equity	(EUR million)	13.86	12.48	13.75
Cash and cash equivalents	(EUR million)	4.93	2.74	4.73
Number of employees (annual average)		209	198	181
DVFA/SG earnings per share	(EUR)	0.22	−0.25	0.11

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