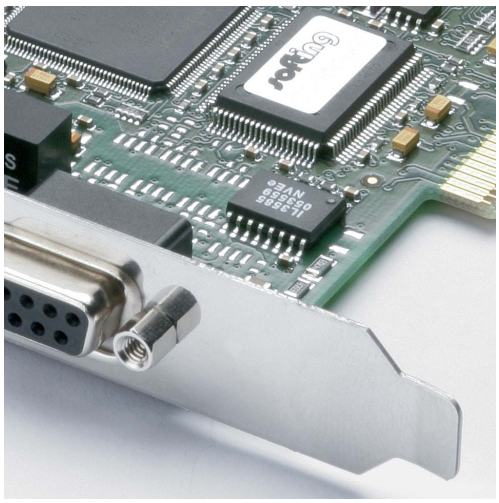
Annual Report 2006



Industrial Automation
records best year ever

Realignment of
Automotive Electronics

Softing well positioned
for 2007

softing

your connection to excellence

Consolidated Key Figures

		2006	2005	2004
Revenue	(EUR million)	23.60	22.06	20.38
EBIT	(EUR million)	– 1.99	1.05	0.76
Group income	(EUR million)	– 1.32	0.61	0.46
Non-current assets	(EUR million)	9.61	11.42	7.60
Current assets	(EUR million)	9.34	11.38	11.32
Equity	(EUR million)	12.48	13.75	12.32
Cash and cash equivalents	(EUR million)	2.74	4.73	6.34
Number of employees (annual average)		198	181	156
DVFA/SG earnings per share	(EUR)	– 0.25	0.11	0.09

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Head of Industrial Automation

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Dr. Wolfgang Trier
Chairman of the Executive Board

Dear Shareholders, Employees, Partners and Friends of Softing,

Without beating around the bush, it's fair to say that the result of the 2006 financial year are startling at first glance. They are simply unsatisfactory in light of the goals we had set for ourselves. However, a closer look reveals a considerably more differentiated situation. The losses are the result of operational weaknesses and balance sheet adjustments in *Automotive Electronics*. The balance sheet adjustment (which has no effect on cash) in the amount of EUR 1.7 million was due to a so-called impairment loss. The *Industrial Automation* division, on the other hand, experienced its best year yet since the foundation of Softing thanks to new products. *Industrial Automation* contributed a EUR 0.9 million profit to Softing's annual result.

The increasingly apparent success of *Industrial Automation* in the year 2006 can be attributed to the conscious repositioning of this division since 2004. The repositioning measures have involved appointing a new division manager to the Executive Board, increasing the size of the operational team, a clear product focus, developing numerous new products, and carrying out the necessary balance sheet adjustments.

The decision to reorient the *Automotive Electronics* division was based on the proven success of this approach in the *Industrial Automation* division. A competent manager has been appointed to represent *Automotive Electronics* on the Executive Board. He will oversee the reorientation of the division, which entails appointing new people to key positions and placing a clear focus on customers and products. The aim of this approach was to limit the resulting expenses to the year 2006, even though the year's earnings suffered because of it.

My colleague Dr. Michael Siedentop is an experienced automotive manager who has worked for us since his appointment in February 2006. On the following pages, he will explain his plan for *Automotive Electronics* in 2007.

The news from *Industrial Automation* was consistently good and included, among other things, sales of EUR 12.6 million – an increase of more than 10% compared to the year before. In 2006, the focus was on successfully launching new products. Thanks to the intensive efforts of the past years, the division's key products are once again in the first third of their product life cycle. This means that earnings from the division's main sales drivers are ensured for the short to medium term. Additionally, new technologies like real-time Ethernet and wireless communication will ensure a full product pipeline for the long term.

Final daily quotation Softing stock, Xetra

I was directly involved in the economic development of the *Industrial Automation* division in 2006 – right down to the details of day-to-day business. But it was time for this development to become a self-supporting process. I therefore transferred the operational management of *Industrial Automation* as of January 1, 2007, to Mr. Achim Liebl, a longtime employee and head of the development department. We introduce Mr. Liebl in the interview on page 10 and discuss the future orientation of the division.

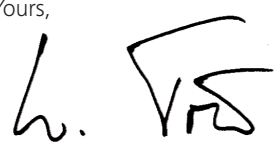
Our goals for the Softing Group in 2007 are clear: through organic growth, we want to achieve sales of around EUR 25 million and an EBIT of more than EUR 1.5 million. Our efforts will center on focusing the Group on sustainable growth and moving closer to a 10% EBIT margin. Our target returns will be given priority over our sales goals. One important component of our future orientation will be a combination of organic and non-organic growth. However, any acquisitions will be governed by strictly defined guidelines. In order to be considered for acquisition, any potential target must close a strategic gap and operate in Softing's core field of business; it must prove to have stable business operations; and it must be of a type and size that is easy to integrate.

Our investors can be sure that we will openly communicate our corporate strategy and overcome the challenges facing us. We are convinced that by taking full advantage of the opportunities available to us, we will soon see a positive development in our share price.

Softing's employees are the basis of our success. We would like to take this opportunity to thank them for their commitment and dedication to the success of our company. In an environment characterized by increased strain, they have done exceptional work.

We, the Executive Board and employees of Softing, will do everything we can to achieve our ambitious goals. We hope you continue to accompany us in this endeavor.

Yours,



Dr. Wolfgang Trier
Chairman of the
Executive Board

Dr. Michael Siedentop
Member of the Executive Board

Dear Ladies and Gentlemen,

The past year was one of mixed fortunes for *Automotive Electronics*. While the project departments had full order books and managed to surpass their sales and earnings goals, the division's product business fell far short of expectations. But a closer look reveals a more differentiated situation. Business with software and hardware components for workshop testers developed better than planned, but the sales of diagnostic software tools (DTS product family) and software components for AUTOSAR (AUTomotive Open System ARchitecture) failed to meet our expectations. One reason for this is that the comprehensive introduction of new standards – and this includes ODX (Open Diagnostic Data Exchange) as well as AUTOSAR – is taking much longer than anticipated.

One thing is certain: the future belongs to new technologies like AUTOSAR and ODX. But the disappointing business performance of the past year has made it necessary for Softing to quickly change course and clearly reposition itself.

Within the broad field of automotive electronics, Softing will maintain a horizontal focus on communication, diagnostics and test systems. In this segment in particular we have outstanding, comprehensive vertical expertise, which forms a solid foundation for business and which we will continue to expand.

The expertise here covers embedded software in automotive control units, vehicle communication interfaces, and application programs on computers which can display this data, modify it or make it available to other applications.

The solutions can be used universally by vehicle manufacturers and suppliers in the fields of development, testing, production and service. A universal range of services will also be offered in the future. Customers can choose from a portfolio of products and specific projects, or any combination of the two.

The decline in sales in 2006 made it necessary to introduce strong measures to reposition the division. Besides noticeably reducing costs, the primary goal was to create a solid foundation for future sales growth. This resulted in an unavoidable personnel adjustment at the Munich-Haar site, which effected the development and marketing departments in particular. Development activities for standard software products were taken over by our development subsidiary in Romania. The sales department was also restructured and placed under new management to improve support for our key customers. One critical element of the division's new orientation is an uncondi-

tional focus on the customer. This applies equally to product development and to projects, which are increasingly being carried out directly with the customer by so-called "resident engineers".

Regarding products, the repositioning also involves breaking up compact software products and releasing interfaces which make it easier for customers to connect their own applications. At the same time, attractive opportunities are emerging for combining Softing products with software products from third parties which will be included in the Softing sales portfolio in the future.

Softing's expertise in development, testing, production and service will continue to be in high demand for customer projects in the fields of diagnosis and communication (CAN, FlexRay, MOST, LIN). In 2007, new Softing products will be launched in close developmental coordination with our customers. These products will include workshop tester components and embedded software, as well as software tools for processing and analyzing diagnostic data and for reprogramming electronic control units. In connection with this, it is worth mentioning the technological and strategic integration of hard&soft Salwetter-Rottenberger GmbH, which was acquired in 2005. hard&soft not only complements Softing in the field of test systems, it is also contributing to sales and earnings as expected. In particular, the sales synergies between hard&soft and Softing are having an increasingly noticeable impact.

Despite the satisfying results of its project business, 2006 was not a pleasant year for *Automotive Electronics* due to the weakness of its business with standard products. However, the measures which were introduced to correct this are already having a tangible effect. The division will continue on its course of consolidation in 2007, and it expects to break even by the end of 2007. Parallel to the measures for improving earnings, we also launched an ambitious quality project at the start of this year. This should significantly improve the quality of our software development processes and products. Softing will measure the success of this project on the basis of so-called SPICE metrics (Software Process Improvement and Capability dEtermination).

With a streamlined organizational structure, uncompromising focus on the customer and the highest standards of quality for our processes and products, the *Automotive Electronics* division will once again contribute its share to the success of Softing – just as you, the shareholders, employees, partners and friends of Softing, would expect.

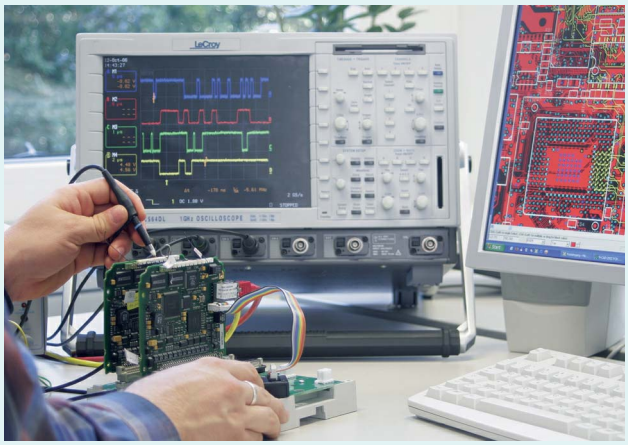
Dr. Michael Siedentop
Member of the Executive Board

Communication Demands Care – Particularly between Machines

We all communicate. Whenever two people are together, there is a sender and a receiver. Communication takes place through words, gestures and facial expressions. This is how messages are transmitted back and forth between the sender and the receiver. In the end, each person understands what the other is trying say – or do they? It is not uncommon for the receiver to misunderstand something because the sender has not expressed himself clearly. In this case, the communication will not lead to the desired result because, in short, the sender and receiver have not been speaking the same language.

Communication between machines essentially follows the same rules: One machine forwards messages to another, and the receiving machine carries out the instructions in the message. So far, so good. But how can we be sure this machine is really doing what the first machine wanted it to do? After all, it may have misunderstood the instructions. This is why communication between machines demands care. It must be possible

to check the interaction between communicating machines to determine when and why communication has not worked so that, in the end, we get the result we were expecting. This is where Softing comes in.



Softing offers hardware and software solutions for monitoring and controlling communication between machines. It provides fieldbus technologies for connecting different communication networks and for control and diagnostic systems.

Wherever automation is taking place, Softing is often behind it:

- Production automation (e.g., automobile manufacturing)
- Process automation (e.g., petrochemical plants)
- Building automation (e.g., building services, security systems)
- Railway engineering (e.g., train control systems)
- Shipbuilding (communication and security systems)
- Medical technology (security in diagnosis and monitoring)

Softing Optimizes the Process of Product Development – Reliably, Quickly and Affordably

Global competition in industrial production is fierce. It does not matter whether you produce cars or anti-aging cream, fuel or babies' nappies, drive belts or toothbrushes – companies that can make the best product in the shortest time and at the best price will prevail. Speed, price and quality are crucial for success in globalized manufacturing.

Softing is providing the systems that are required to be successful.

- CAN: CAN is a cost-efficient communication network for the fast and reliable transmission of data from machines and devices over short distances. It is primarily used in automobiles, machines and devices such as medical equipment.
- PROFIBUS: Serving to connect manufacturing and process engineering equipment, PROFIBUS is the most important fieldbus for automation technology in Europe.
- PROFINET: Ethernet has become a worldwide communication standard in information technology. The extension of this standard for use in industrial applications is known as real-time Ethernet. Softing is involved in developing the specification of PROFINET, one of the most promising technical solutions.
- OPC: This software interface connects software components, such as those for visualization, data acquisition and control. OPC enables fast and secure access from the software environment to data and information in the factory.

- FOUNDATION fieldbus: Especially in the oil, gas, chemical and pharmaceutical industries, traditional wiring of individual devices is increasingly being replaced by the open, digital fieldbus.

Softing solutions are generally deployed even before the actual production process begins: They are used by manufacturers of controls and drives, and sensors and measuring equipment, for installation in a wide variety of plant and machinery, e. g., in transportation and medical technology, in refineries, mines or

wastewater treatment plants. As a fieldbus technology specialist, Softing ensures the reliable connection and interplay of systems and processes in networks.

Because We Speak the Same Language Softing – the Partner for Specialists

Softing develops software and hardware for highly qualified specialists: intelligent electronic equipment and machinery with the capacity to communicate with each other. For example, Softing produces PC interface cards and gateways that allow equipment to access industrial communication networks, i. e., today's popular fieldbus systems.

Softing has substantially more experience with PROFIBUS – one of the world's major fieldbus systems – than any other supplier and has been responsible for setting a host of standards. We are also the market leader in PROFIBUS network diagnostics.

Softing was one of the first suppliers of processors and protocol software for Ethernet technology in industrial applications. Other Softing products integrate different software levels such as, for example, data acquisition, visualization, control, remote parameterization and maintenance.

Once You Have Experienced "Excellence", You Are Unlikely to Settle for Less

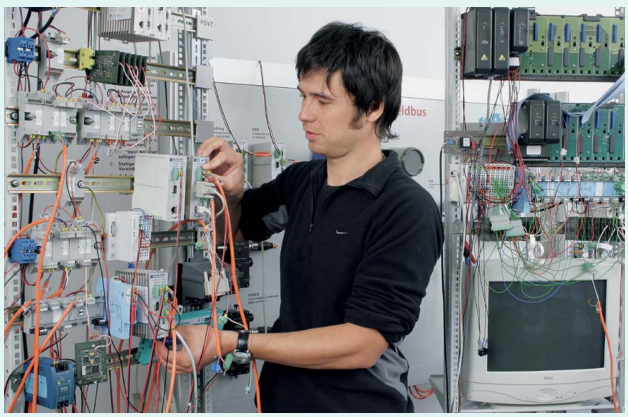
Your Connection to Excellence – this is what we offer. It is the promise we make to our customers and that we uphold every day by delivering excellent quality. And we do not just mean the technical quality of our products. The quality of our services and our relationships with customers and business partners is a top priority for Softing.

Quality begins with our employees. To be a Softing employee means that you must measure up to our high standards of expertise, competence and creativity. Softing employees must always have an eye on developing and supporting the kind of products and services that help their customers achieve greater and faster success in their markets. These aims also require solid quality management and the ability to support customers in the development of their products or to take over completely the tasks of product development and support.

Softing's own development labs allow it to design products to extremely high standards while remaining responsive to customer needs. We take time to serve our customers. It is the only way to ensure that we can efficiently develop high-quality solutions. We secure our customers' competitive edge in the market.

Where Is the Market Headed? Softing Is Involved in Defining the Direction and Accompanies Its Customers on the Way to Success

Many of the products and services developed by and with Softing since the company was established in 1979 have become reference standards throughout the world. Our technological and entrepreneurial skills together with our early participation in standardization committees have made the company a globally recognized industrial communication specialist and a clear technology leader in a number of areas. We intend to make sure it stays that way: by expanding our technological expertise and by systematically extending our core competences, for instance through acquisitions.



Both has proved very successful for the company in recent years. We have achieved a lot and paved the way for future success. We will continue to bring new products to market. We will continue to raise our corporate profile. And we will continue to stay one step ahead.

Highlights 2006

February	Market launch of NETLink PRO, an interface for direct access to PLCs
April	Relaunch of the Website
	Presentation of Real-time Ethernet activities
May	Initial application of the PROFIBUS diagnostic interface for process analysis
June	Market launch of the new OPC Connector Tools featuring two new tools
July	SMSC licenses MediaLB technology to Softing
	Market launch of Modbus/OPC server
August	New drivers for CAN and PROFIBUS PC interfaces
September	Market launch of the new PBpro PROFIBUS PC interface family
	At Automechanika, a German automobile manufacturer unveils the prototype of a PDA-based diagnostics center developed jointly with Softing
	Agreement with a German vehicle manufacturer for a Bluetooth-based vehicle communications adapter
October	Start of Softing's Webinar series of online seminars on topics in the field of industrial automation
	Presentation of the OPC Unified Architecture roadmap
	PROFINET Developer Workshop, Chicago, USA
	Presentation of DTS Venice, the convenient authoring system for ODX parameterization at key customers
	Market launch of the current version of the Diagnostic Tool Set (DTS) featuring improved usability, OBD and on-board extension as well as FlexRay connectivity
November	Presentation of the new bus✓check PROFIBUS Analyzer
	Market launch of PROFINET Controller protocol software
	Unveiling of a chip solution for Real-time Ethernet
	Contract from an international commercial vehicle manufacturer for the development and serial production of a new vehicle communications adapter using WLAN technology
December	Presentation of the UFC100-F1 fieldbus ASICs for FOUNDATION fieldbus and PROFIBUS PA
	Market launch of the 4CONTROL BuildingControler with BA node functionality
	An international automotive supplier purchases a company-wide update to DTS V7, enabling it to achieve significant cost advantages by using the tool's new integrated process for programming control units.
	Softing launches its software quality offensive (SPICE project)

Mr. Liebl, you've been head of the Industrial Automation division since the start of the year. In this position, you work closely together with Dr. Trier, CEO of Softing. What form does this cooperation take? Who is responsible for which tasks?

Achim Liebl: The cooperation with Dr. Trier didn't start on January 1st, of course. Our work has been closely coordinated for several years. Since January, I've been responsible for the operation of the division, while Dr. Trier primarily attends to key customers and the Group as a whole. Our cooperation is shaped by the Executive Board's clear goals for the division. We exchange information regularly in our day-to-day business, and our collegial relationship means that we can communicate quickly and concisely.

The year 2006 was very successful for the Industrial Automation division. To what do you attribute this great success?

Achim Liebl: We've gone to great lengths over the past years to improve our product portfolio and overall performance in the Industrial Automation division and to focus our attention on our target customers. We reaped the benefits of this – and of the positive development of the economy – in 2006. We introduced numerous measures to refocus the division, and I'd like to mention just one of them here: diagnostics. In 2005, we acquired a new product for our portfolio which triggered the development of an entire family of diagnostic products. This gave us a considerable boost in 2006, and the effect will be even stronger in the future. We made major investments in other areas as well. For example, in the field of communication for process technology, we added Foundation fieldbus components to our product portfolio. These included the Fieldbus Kit, a small hardware module which can help device manufacturers quickly create a communication bus for process technology. In 2006, we received our first large-scale orders for these solutions from our customers. So several elements contributed to our strong growth momentum last year.

Achim Liebl

Achim Liebl was born in 1959 and has worked for Softing for 17 years. After studying computer science, he spent several years as a research assistant in the field of compiler construction at Munich University of Technology. He joined Softing's software development department in 1990. His activities initially centered on providing technical and commercial support to the Softing customer Hartmann&Braun (now ABB). As a group leader in the development department from 1995, he played a significant role in the definition, development and market launch of 4CONTROL. He subsequently headed several business units, including "Software Services", before taking over as head of development for Softing's Industrial Automation division in 2002.

Alongside his various leadership positions at Softing, Achim Liebl has regularly advised customers on technical and strategic issues. The expansion and control of the development site in Romania has also been in his hands since 2005. Since January 2007, Achim Liebl has been responsible for Softing's entire Industrial Automation division.

Achim Liebl is married and has two daughters aged 12 and 14. He lives with his family in Dachau. In his free time, he devotes himself to hobbies such as playing the saxophone, reading, cycling – and the art of brewing beer.

The question that follows on from this is where do you see potential for future growth for the Industrial Automation division?

Achim Liebl: Mainly in the areas already mentioned, namely, communication technology for the process industry, manufacturing technology, diagnostics and OPC. In all four technologies, we have an outstanding position. We've laid the groundwork for the future through product investments, and we have a good sales structure as well. We anticipate significant growth from this in the coming years.

What topic is closest to your heart?

Achim Liebl: At the end of 2006, Softing acquired a new communication technology: wireless communication. We think this technology offers very good opportunities to position ourselves both inside and outside of our existing circle of customers in the future. This will certainly be a key topic in 2007, and it harbors tremendous potential for future growth. This is why we've become involved with wireless communication and have already taken our first steps in the field.

What margins and growth rates do you anticipate for 2007?

Achim Liebl: Concerning margins, our initial aim is to maintain the level we reached in 2006. The same applies to our growth rates. We grew somewhere on the order of 10% in 2006. A similar rate of growth should be possible in 2007.

What do you think customers appreciate most about Softing?

Achim Liebl: As a leading technology supplier, Softing has a strong presence on the market and among our customers. Our customers expect very good technology at competitive prices from Softing – and specifically, from Industrial Automation. The fact that our customers place large-scale orders and remain true to us over long periods of time is proof that we can deliver here. Some of our customers have been with us for many years. We also react promptly to market requirements so that we can help our customers position themselves quickly and well in these dynamic markets.

Softing has a branch office in the USA. What is the strategy there, and what growth targets are planned for the site?

Achim Liebl: Softing North America is an important distribution channel for Industrial Automation because the products and services we produce in Germany are placed on the American market by our American subsidiary. What's more, Softing North America has top developers working locally on its own projects. From the point of view of Industrial Automation, the strategic focus in the USA is on communication for process technology, FOUNDATION fieldbus, and communication technology for CAN. Dr. Trier will continue to attend directly to the branch office in the USA in order to strengthen the contacts he was largely responsible for establishing there.

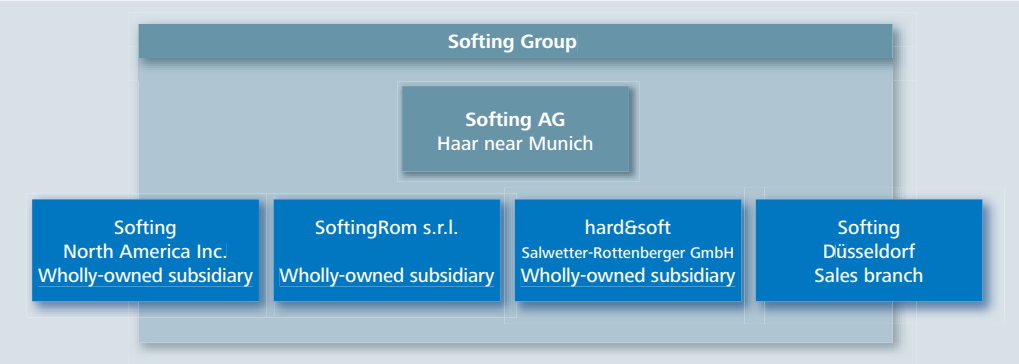
One last question: Why do you think people should own Softing shares?

Achim Liebl: I think Softing shares can be highly recommended – first, because Softing is a solid company with stable value, and second, because in the coming years, we will increase our sales and earnings in a way that offers very good prospects for the share.

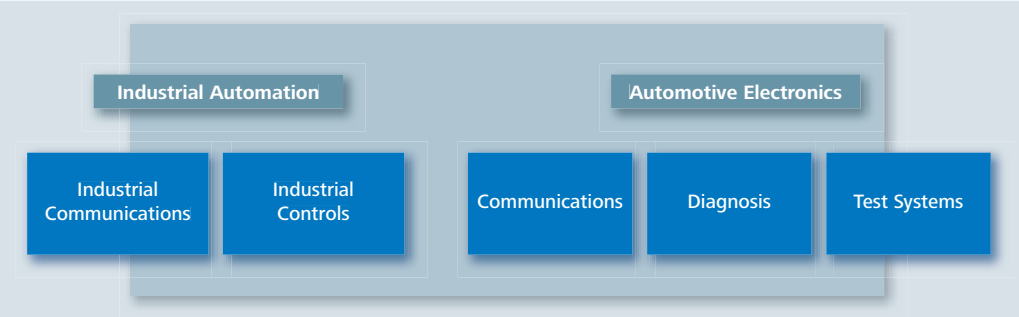
Mr. Liebl, thank you very much for the interview.

The interview was conducted by Dr. Stephan Fickel, Investor Relations Manager

Business Structure



Divisions



Trade Fairs 2006

Industrial Automation

February 22 – 24	Embedded World, Nuremberg, Germany
February 23 – 24	General Assembly Fieldbus Foundation, Vienna, Austria
April 11 – 15	Hannover Messe Industrie/INTERKAMA, Hanover, Germany
April 12 – 14	Fieldbus/IA 2005, Beijing, China
October 25 – 27	ISA Expo 2005, Chicago, USA
November 09 – 11	Measurement & Control Show, Tokyo, Japan
November 15 – 18	System Control Fair, Tokyo, Japan
November 22 – 24	SPS/IPC/DRIVES, Nuremberg, Germany

Trade Fairs 2006

Automotive Electronics

February 1	6th International CAR Symposium, Bochum, Germany
February 7 – 8	Annual Euroforum Meeting, "Elektronik-Systeme im Automobil", Munich, Germany
February 14 – 16	Embedded World 2006, Nuremberg, Germany
February 21 – 22	International CTI Forum "Automotive Diagnostic Systems", Stuttgart, Germany
April 4 – 6	Steinbeis-Symposium "Elektronik im Kfz-Wesen", Stuttgart, Germany
April 24 – 25	International CTI Forum "Flashen im Automobil", Stuttgart, Germany
May 3 – 4	Annual Euroforum Meeting, "SW im Automobil", Stuttgart, Germany
May 9 – 11	Automotive Testing Expo Europe 2006, Stuttgart, Germany
May 16	D&E Developer Forum, "Kfz-Elektronik", Ludwigsburg, Germany
May 24 – 26	JSAE Automotive Engineering Exposition, Yokohama, Japan
September 20 – 21	International mic Convention "Fortschritte in der Automobil-Elektronik", Ludwigsburg
October 11 – 13	International Suppliers Fair 2006, Wolfsburg, Germany
October 25 – 26	FKFS AutoTest Conference "Test und Diagnose von HW und SW in der Automobilentwicklung", Stuttgart, Germany
November 30	FlexRay Product Day, Böblingen, Germany

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 4 – 7	go automation, Basel, Switzerland
November 27 – 29	SPS/IPC/DRIVES, Nuremberg, Germany

Automotive Electronics

February 13 – 14	Annual Euroforum Meeting, "Elektronik-Systeme im Automobil", Munich, Germany
February 6 – 7	International CTI Forum "Automotive Diagnostic Systems", Sindelfingen, Germany
February 13 – 15	Embedded World 2007, Nuremberg, Germany
May 8 – 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 28 – 29	FlexRay Product Day, Fellbach, Germany

Group Management Report for Financial Year 2006

The Company

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.

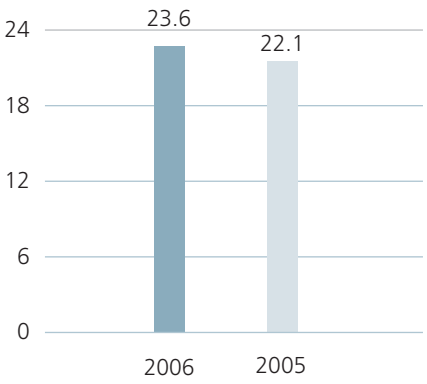
hard&soft Salwetter-Rottenberger GmbH, Reutlingen, was fully integrated into the Softing Group in July 2005. The acquisition expands and strengthens the position of Softing's *Automotive Electronics* division in the market for ECU test systems in the automotive manufacturing sector. Since 2005, Softing North America has had local development capacities, which makes it more than a pure marketing subsidiary. In February 2005, Softing established its Romanian subsidiary for development and project services. In the meantime, SoftingROM employs more than 20 developers, making it another valuable member of the Softing Group – not just under aspects of competition but also as a pool of IT specialists for demanding development tasks.

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.

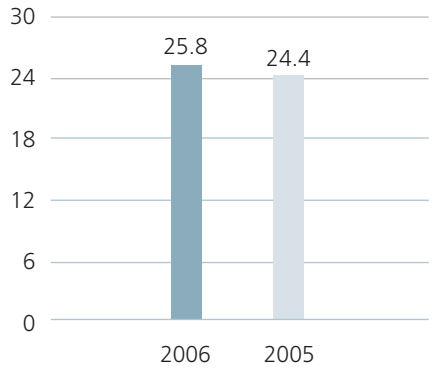
In *Industrial Automation*, Softing has positioned itself as a leading product and technology supplier in the market. It focuses on components and tools for fieldbus systems and industrial control systems, as well as on solutions for production automation.

The powerful tools and solutions offered by its *Automotive Electronics* division have made Softing a systems partner to automobile manufacturers and systems and control unit suppliers for over 15 years. Softing specializes in vehicle communication, diagnostics and test systems.

Sales
(in EUR million)



Total operating revenue
(in EUR million)



Consulting, analyses, studies and training round out the range of services offered by both divisions.

Softing primarily offers its services and products in Europe. In 2006, Softing North America contributed to the Group's result by recording moderate sales growth.

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

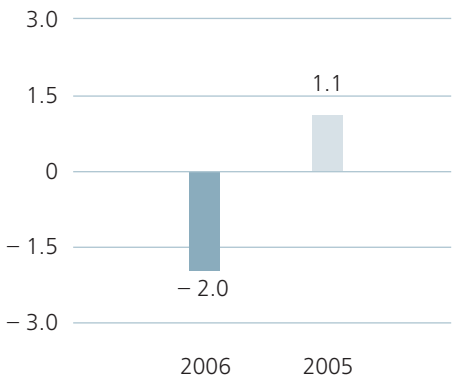
In accordance with § 7 of the Articles of Incorporation of Softing AG, the Executive Board of Softing AG comprises one or more persons. Even if the Company's share capital exceeds EUR 3,000,000, the Executive Board may comprise just one person. Deputy members of the Executive Board may be appointed. 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.

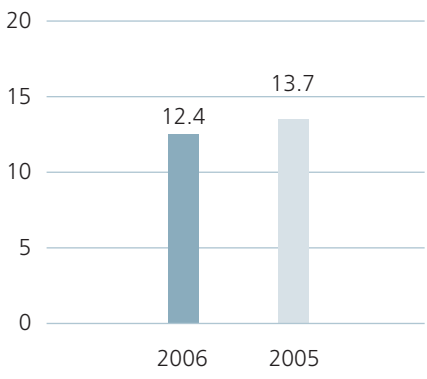
The share capital of Softing AG previously amounted to EUR 5,499,998 million. In December 2006, a further 100,000 shares were issued under a capital increase against contributions in kind. The shares have been admitted to trading in the meantime. A total of EUR 179,000 was transferred to capital reserves in connection with this capital increase against contributions in kind. The share capital of Softing AG now amounts to EUR 5,599,998 million. It is divided into 5,599,998 no-par value shares. The rights and obligations attached to the shares are governed by the provisions of the German Stock Corporation Act. In July 2006, 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 2,000,000 by issuing new no-par value bearer shares against contributions in cash and/or in kind until July 25, 2011. The existing authorized capital, which had expired, was revoked.

In July 2006, the General Shareholders' Meeting authorized the Executive Board to purchase own shares until January 25, 2008, 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 percent of the Company's share capital. Any

EBIT
(in EUR million)



Equity
(in EUR million)



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.

Disclosures Regarding Possible Takeover Bids

Steinbeis GmbH & Co. KG für Technologietransfer, Haus der Wirtschaft, Willi-Bleicher-Straße 19, 70174 Stuttgart, holds a share of 10,04%.

Steinbeisstiftung für Wirtschaftsförderung, Haus der Wirtschaft, Willi-Bleicher-Straße 19, 70174 Stuttgart, holds a share of 10,04%. These voting rights are fully attributable to Steinbeisstiftung für Wirtschaftsförderung in accordance with § 22 paragraph 1 sentence 1 number 1 German Securities Trading Act (WpHG).

Steinbeis Verwaltungs-GmbH, Haus der Wirtschaft, Willi-Bleicher-Straße 19, 70174 Stuttgart, holds a share of 10.04%. These voting rights are fully attributable to Steinbeis Verwaltungs-GmbH in accordance with § 22 paragraph 1 sentence 1 number 1 WpHG.

General Information

Economic Environment and Course of Business

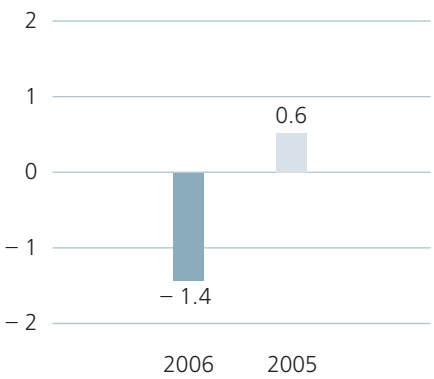
According to initial calculations of the Federal Statistical Office, the German gross domestic product grew by an average of 2.5% in real terms in 2006 compared to the previous year. Adjusted for calendar effects, the increase was even 2.7%, the highest growth rate since 2000. Following a prolonged period of economic weakness, 2006 can be called a year of economic upturn. This development is a solid foundation for continuing this upturn in 2007.

For the first time in years, business in the automation industry was driven by a marked increase in domestic demand (10.6% in the first six months). The medium-term forecast issued by the German Electrical and Electronic Manufacturers' Association (Zentralverband Elektrotechnik- und Elektroindustrie, ZVEI), which called for worldwide annual growth of 6% to 8%, again proved true this year. The Association estimates international automation sales to total EUR 228 billion in 2006, after EUR 214 billion in the previous year. Germany held a 13% share in global production last year. Business in the process industry was particularly buoyant, with the automotive electronics segment recording double-digit growth.

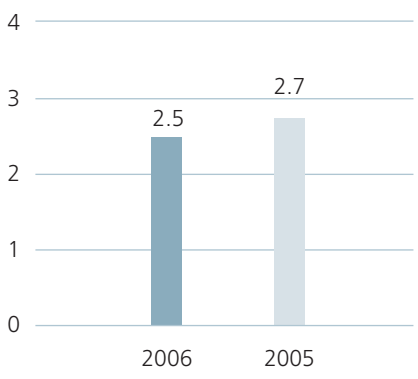
Earnings

Supported by a strong economic environment, the Softing Group was able to increase sales of its *Industrial Automation* division to EUR 12.6 million (previous year: EUR 11.3 million). The *Automotive Electronics* division, however, recorded sales

Group income
(in EUR million)



Research and development expenses
(in EUR million)



of just EUR 11.0 million (previous year: EUR 10.8 million). The consolidated sales of the Softing Group thus totaled EUR 23.6 million (previous year: EUR 22.1 million). This represents an increase of 6.9%.

The total operating revenue of the Softing Group (sales revenue and own work capitalized) was EUR 25.8 million, up EUR 1.4 million compared to the previous year.

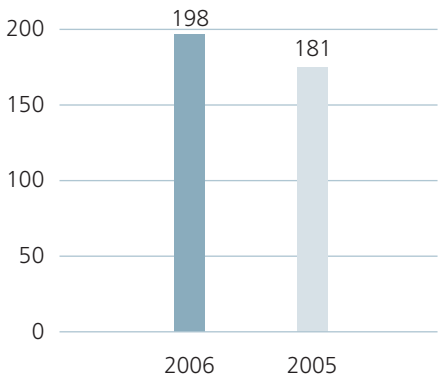
EBIT declined to EUR –2.0 million (previous year: EUR 1.1 million). This figure includes an impairment loss of EUR 1.7 million, which is essentially attributable to the *Automotive Electronics* division. This was primarily due to the repositioning of the *Automotive Electronics* division and the loss of a key customer for standard products. The net loss for the year was EUR 1.4 million (previous year: net income of EUR 0.6 million). Incoming orders of the Softing Group totaled EUR 25.2 million (previous year: EUR 21.7 million).

The increase in staff costs by 11.1% is primarily due to a 9.4% increase in average headcount.

Staff costs as a percentage of total operating revenue rose from 50.6% to 53.5%, which shows that Softing's employees continue to be the Group's most important resource.

Softing North America recorded sales of USD 2.0 million (previous year: USD 1.8 million) and posted EBIT of USD 0.2 million (previous year: USD 0.1 million).

Employees
(annual average)



In 2006, hard&soft Salwetter-Rottenberger GmbH contributed EUR 3.1 million to the sales of the Softing Group.

The Romanian subsidiary SoftingROM recorded sales of EUR 0.4 million (previous year: 0.1 million). SoftingROM was founded to carry out development tasks and project services for Softing AG at competitive prices.

Earnings per share according to IAS 33 were EUR –0.25 for 2006 (previous year: EUR 0.11).

Assets and Financial Position

The Softing Group had equity of EUR 12.4 million at the end of 2006, as compared to EUR 13.7 million the year before. The return on equity (Group income as a percentage of equity), which was 4.4% in 2005, was –10,9% in 2006. 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 50.7% of total assets. This is offset by non-current liabilities and equity representing 80.3% of total liabilities and equity.

The cash flow from operating activities decreased by EUR 0.5 million to EUR 2.3 million (previous year: EUR 2.8 million). The cash flow from operating activities expressed as a percentage of sales was 9.7%, down 2.9 percentage points from the previous year. At the end of 2006, funds (cash and cash equivalents and securities) amounted to EUR 2.7 million (previous year: EUR 4.7 million).

Research and Product Development

For years, the Softing Group has invested more than 10% of its 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 2.5 million (previous year: EUR 2.7 million) in the development of new products and the continued development of existing ones. As in previous years, these developments were financed exclusively through our own resources.

Investments in product developments of EUR 1.2 million were made in the *Industrial Automation* division (previous year: EUR 1.0 million). The main focus was on the development of new products and the continued clear orientation of all developments on earnings potential. Considerable investments were made in the development of hardware and software products for process automation and for communication with PROFIBUS networks. Development activities centered on PROFIBUS diagnosis with the bus✓check PROFIBUS Analyzer for mobile diagnosis and an additional stationary diagnostic solution, as well as the new line of PBpro PROFIBUS PC interfaces which support 3.3V technology and the PC/10plus interface standard. The first versions of the PROFINET protocol software, a new OPC system server (Modbus/OPC server) and the expanded OPC Connector Tools also became ready for the market. Among our control solutions, the 4CONTROL product range was expanded for use in building automation.

The low sales growth in the *Automotive Electronics* division in 2006 made it necessary to introduce tactical measures to reposition the division. Besides noticeably reducing costs, the primary goal was to create a solid foundation for future sales growth. Development activities for standard software products were moved to Romania. In general, an unconditional focus on the customer is a critical element of the division's new orientation. This applies equally to product development and to projects, which are increasingly being carried out directly with the customer by so-called "resident engineers".

Regarding products, one key aspect of the repositioning in 2006 involved breaking open compact software products and releasing interfaces which make it easier for customers to connect their own applications. At the same time, attractive opportunities are emerging for combining Softing products with software products from third parties which will be included in the Softing sales portfolio in the future. Significant investments were also made in the field of diagnosis/communication (CAN, FlexRay, MOST, LIN) in 2006. In the *Automotive Electronics* division, Softing invested EUR 1.3 million in product development (previous year: EUR 1.7 million).

Employees

At the end of 2006, the Softing Group had a total of 195 full-time employees (previous year: 199). There were 129 employees working in research and development (previous year: 130), and 28 in marketing and sales (previous year: 48).

No stock options were granted to employees in the past financial year. In 2006, we continued to invest in the training of our employees. Training focused on enhancing our employees' sales expertise and leadership competence. Every year, an external ISO certification audit is carried out to ensure the quality of our processes. We successfully passed this audit.

Basic Information Regarding the Compensation Systems for Members of Corporate Boards

Compensation of the Executive Board is divided into a fixed salary component and a performance-based, variable component. 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 program (for more detailed disclosures regarding compensation of the Executive Board, see the Notes).

Each member of the Supervisory Board receives a fixed remuneration of EUR 5,000 for each full financial year of service on the Supervisory Board. In addition, they also receive a variable remuneration 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 national economic environment is expected to weaken in 2007. According to forecasts, economic growth in the Federal Republic of Germany will almost halve, declining to 1.4% to 1.6%. The economic institutes cite several reasons for this development: a slight cooling of the global economy and, more importantly, the increase in VAT and a "considerably more restrictive" financial policy of the German Federal Government. In contrast, economic growth in the euro zone is expected to accelerate.

Forecasts from the German Electrical and Electronic Manufacturers' Association (ZVEI) suggest that all sub-segments of the automation industry will participate in international growth. In the long term, the ZVEI predicts average growth of six to eight percent 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 ten percent 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 and with innovative control units surrounding the 4CONTROL technology. 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 increase in the next years. The Fieldbus devices used in these 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 2006, we were able to further expand our product range in mobile and stationary fieldbus systems diagnostics. The takeover of rights and know-how from a leading manufacturer of diagnostics components in October enables us to accelerate the introduction of new fieldbus diagnostics products considerably in 2007. This expansion strengthens Softing's position in one of the key segments of the industrial automation market. Softing's goal is to become the clear market leader in fieldbus diagnostics. To achieve this goal, Softing has created the bus✓check family of products, of which additional products will be introduced in 2007. This segment will make more than a seven-digit contribution to sales and position Softing even more prominently as a leading provider of fieldbus products and technology as well as control systems.

In 2007, Softing will expand its range of real-time Ethernet products for customers by adding interfaces, gateways and ports. The economic relevance of real-time Ethernet will only become apparent over the coming years. But since it will be a dominant topic in automation technology, we can anticipate stiff competition in the future. For this reason, Softing must quickly position itself in this market as a technology supplier to its customers.

Softing is a leading provider of fieldbus systems for the process industry, and the developments of 2006 have meant that new products with unique selling points will be available to our customers in 2007. All new products will be consistently oriented on giving our customers an advantage through higher performance and lower one-off and ongoing costs. To this end, Softing is working together with a partner to offer its first ASIC chip, the UFC-100, for FOUNDATION fieldbus and PROFIBUS PA. This chip can be used as a pin-compatible replacement for legacy solutions in existing devices. Alternatively, it can be deployed to lower costs and considerably boost the performance of new devices developed by our customers. The UFC-100 is available exclusively through Softing.

Softing has become involved in the development of wireless communication technology with an eye to using wireless solutions for process technology. 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.

In the *Automotive Electronics* division, Softing has positioned itself as a partner to the automobile industry in the networking of vehicle electronics. Depending on the vehicle class, electronic equipment can currently constitute up to 25 percent of the added value of a passenger car or commercial vehicle. At the same time, automobile manufacturers are struggling to deal with considerable quality problems in complex automotive electronics systems. The focus is increasingly turning to diagnostics – that is, the access to control devices and the analysis of data traffic. This applies to the entire process chain, from development to the servicing of customer vehicles. One solution is to use new software models combined with tools that have standardized interfaces. Analysts expect the market for automotive electronics to once again show strong growth of about seven percent in 2007.

Softing's expertise will continue to be in high demand for customer projects in the fields of diagnosis and communication (CAN, FlexRay, MOST, LIN). In 2007, new Softing products will be launched in close developmental coordination with our customers. These products will include workshop tester components and embedded software, as well as software tools for processing and analyzing diagnostic data and for reprogramming electronic control units. In connection with this, it is worth mentioning the technological and strategic integration of hard&soft Salwetter-Rottenberger GmbH, which was acquired in 2005. hard&soft not only complements Softing in the field of test systems, it is also contributing to sales and earnings as expected. In particular, the sales synergies between hard&soft and Softing are having an increasingly noticeable impact.

At the start of 2007, Softing launched an ambitious project with the goal of significantly improving the quality of its software development processes and products. Softing will measure the success of this project on the basis of so-called SPICE metrics (Software Process Improvement and Capability dEtermination).

Outlook for Financial Year 2007

Softing expects its incoming orders and sales to increase in 2007. We anticipate sales of around EUR 25 million, up 6% from the previous year. We also expect clearly positive EBIT and higher sales revenue. Sales and earnings growth is anticipated for both segments. We assume that this positive development will continue in 2008.

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 in particular.

Sales of around EUR 3.3 million and clearly positive EBIT are also planned for hard&soft-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

Despite the satisfying results of its project business, 2006 was not a good year for the *Automotive Electronics* division due to the weakness of its business with standard products. However, the measures which were introduced to correct this are already having a tangible effect. The division will continue on its course of consolidation in 2007, and it expects to break even by the end of the year. Parallel to the measures for improving earnings, we also launched an ambitious quality project at the start of this year. This should significantly improve the quality of our software development processes and products.

Use of New Technologies

PROFIBUS is by far the most dominant fieldbus protocol in Europe. Starting in 2006, however, the first customers began to prepare their devices and installations for its successor technologies: real-time Ethernet protocols. Softing is already in business with some strategic customers and has sold its first protocol stacks. We expect considerable growth in this field for 2007. The adoption of this technology is supported by our entry into the world of integrated chip solutions (see the following section).

Real-time Ethernet Alliance

At the end of 2005, Softing entered into a partnership with a chip manufacturer which will clear the way for access to the mass market of Ethernet fieldbus connections. Because this solution uses an existing, pre-tested chip, it can be delivered to customers immediately. These new services are aimed directly at Softing's target customers. This will strengthen Softing's sales and earnings in 2007 and beyond.

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, which has grown to more than 20 in the meantime, moved into new premises in 2006. This has provided the necessary space to further expand the development and project capacity of SoftingROM.

Expanding Our Portfolio for the Process Industry

By successfully entering the field of modular, explosion-proof hardware, Softing has added a critical facet to its portfolio of data communication solutions for the process industry. With this hardware, Softing is giving a wide range of customers access to fieldbus technology and thus to new markets for their end customers. The new hardware and software concept usually cuts the time to market for these customers from one year to two or three months. This new business has enabled Softing to reach a previously inaccessible group of customers.

Softing North America, Inc.

Softing North America experienced slight growth and a positive development of earnings in 2006. Local sales and production capacities in particular were expanded 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 2006 will sustainably support this development in the medium and long term. Smart alliances and product policies in 2007 will provide a good opportunity of continuing to overtake competitors and of 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. This allows hard&soft to acquire additional customers which would have been inaccessible without Softing. In return, hard&soft enhances Softing's access to the automobile manufacturing sector.

Risk Management and Individual Risks

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

In particular, this concerns risks resulting from market development, the positioning of products and services, contractual and non-contractual liability, and business processes. Our business policy is to exploit existing business opportunities, and our risk policy 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 business development, the financial position and earnings. Risks which we believe to be of little relevance to our business at this time are not mentioned.

Business Risks

While sales in the reporting period increased considerably versus the previous year, earnings were clearly negative. This was essentially due to the costs of repositioning the *Automotive Electronics* division and the impairment loss associated with this. Business in the *Industrial Automation* division showed a very positive development. The realignment initiated in the *Automotive Electronics* had only a limited effect. This entails the 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 intensifying our credit evaluations and strengthening the management of receivables.

Currency Risks

The constant expansion of our business with customers in the United States and other dollar countries has increased the significance of assessing currency risks. In the reporting period, we have begun to hedge the currency risks in connection with our subsidiary in the United States. In 2006, Softing has hedged the expected cash flows of Softing North America by entering into classic forward exchange transactions. For 2007, this was done in January 2007.

Supplier Risks

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

Risks to the Existence of the IT Infrastructure

As in all companies, the smooth functioning of business processes depends on the availability of our IT infrastructure. Attacks from the Internet, as well as other IT failures or damages to IT infrastructure, pose a serious threat to the Company's ability to function. We have addressed these risks with a number of individual measures, including the rapid recovery of all stored data. In addition, we implemented several IT security measures which so far prevented damage caused by computer viruses and sabotage.

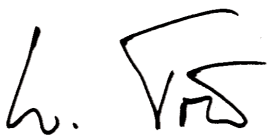
In our opinion, there exist no risks which jeopardize the Group's existence.

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 12, 2007

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, 2006

Assets	Notes	Dec. 31, 2006 EUR	Dec. 31, 2005 EUR
A. Non-current assets			
I. Intangible assets			
1. Goodwill	C1	2,351,125	2,351,125
2. Development costs	C2	2,618,634	4,110,387
3. Other intangible assets	C3	1,044,761	1,349,123
		6,014,520	7,810,635
II. Property, plant and equipment			
Other equipment, furniture and fixtures and office equipment	C5	538,000	608,533
III. Deferred tax assets	D8	3,059,258	2,997,809
		9,611,778	**11,416,977**
B. Current assets			
I. Inventories	C7		
1. Raw materials and consumables		548,892	283,002
2. Finished goods		1,046,998	1,417,256
		1,595,890	1,700,258
II. Trade receivables			
1. Trade receivables	C8	4,001,071	3,448,454
2. Receivables from customer-specific construction contracts	C9	658,430	947,179
		4,659,501	4,395,633
III. Other financial receivables	C10	39,184	98,945
IV. Current income tax assets	C12	24,003	286,835
V. Cash and cash equivalents	C13	2,740,037	4,728,620
VI. Other assets	C11	280,047	167,424
		9,338,662	**11,377,715**
		18,950,440	**22,794,692**

Equity and liabilities	Notes	Dec. 31, 2006 EUR	Dec. 31, 2005 EUR
A. Equity			
I. Issued capital		5,599,998	5,499,998
II. Capital reserves		1,682,707	1,475,728
III. Retained earnings		5,437,737	6,769,441
IV. Treasury shares		– 273,375	0
	C14	**12,447,067**	**13,745,167**
B. Non-current liabilities			
1. Pension provisions	C15	1,138,073	1,223,871
2. Other financial liabilities	C16	348,728	660,722
3. Deferred tax liabilities	D8	1,281,129	2,030,808
		2,767,930	**3,915,401**
C. Current liabilities			
I. Other provisions	C17	142,610	111,800
II. Trade payables			
1. Trade payables	C18	718,038	822,116
2. Payables from customer-specific production contracts	C9	162,298	454,303
III. Other financial liabilities	C19	2,217,899	3,142,046
IV. Current income tax liabilities	C21	0	205,407
V. Other liabilities	C20	494,598	398,452
		3,735,443	**5,134,124**
		18,950,440	**22,794,692**

Consolidated Income Statement

for Financial Year 2006

	Notes	2006 EUR	2005 EUR
1. Revenue	D1	23,595,788	22,063,060
2. Other own work capitalized	D2	2,178,553	2,336,919
3. Other operating income	D3	367,211	751,113
		26,141,552	**25,151,092**
4. Cost of materials	D4		
a) Cost of raw materials, consumables and purchased goods		– 4,942,645	– 4,007,756
b) Cost of purchased services		– 622,229	– 649,531
		– 5,564,874	– 4,657,287
5. Staff costs	D5		
a) Wages and salaries		– 11,778,243	– 10,635,905
b) Social security and retirement benefit costs		– 1,950,288	– 1,721,497
		– 13,728,531	– 12,357,402
6. Depreciation and amortization	C4	– 4,932,096	– 3,199,483
7. Other operating expenses	D6	– 3,907,396	– 3,886,563
8. Earnings before interest and taxes (EBIT)		**– 1,991,345**	**1,050,357**
9. Other interest and similar income	D7	87,488	102,417
10. Interest and similar expenses	D7	– 226,045	– 96,488
		– 138,557	5,929
11. Earnings before taxes (EBT)		**– 2,129,902**	**1,056,286**
12. Income tax	D8	767,491	– 450,790
13. Group income (= attributable to the shareholders of the parent company)		**– 1,362,411**	**605,496**
Earnings per share (diluted = basic)		– 0.25	0.11

Consolidated Cash Flow Statement

for Financial Year 2006

	2006 EUR (in thsds)	2005 EUR (in thsds)
Group income	– 1,362	605
Adjustments		
Interest income	– 87	– 102
Interest expense	226	96
Income tax	– 767	451
Depreciation and amortization	4,932	3,199
Exchange differences	25	– 56
Change in provisions	31	– 477
Change in inventories	104	224
Changes in trade receivables, financial receivables and other assets	– 316	– 385
Changes in financial and other liabilities	– 406	– 693
Interest received	87	102
Interest paid	– 11	0
Income tax refunds	205	0
Income tax paid	– 326	– 188
Cash flow from operating activities	**2,335**	**2,776**
Cash receipts from the disposal of intangible assets and property, plant and equipment	0	11
Cash payments for investments in property, plant and equipment	– 215	– 338
Cash payments for investments in intangible assets	– 2,851	– 3,620
Cash payments for the acquisition of consolidated companies	– 971	– 1,535
Cash flow from investing activities	**– 4,037**	**– 5,482**
Cash receipts from capital increase	**0**	**1,097**
Cash payments for the purchase of own shares	**– 273**	**0**
Cash payments for capital costs from capital increase	**– 14**	**0**
Cash flow from financing activities	**– 287**	**1,097**
Net change in funds	– 1,989	– 1,609
Funds at the beginning of the period	4,729	6,338
Funds at the end of the period	**2,740**	**4,729**

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

Consolidated Statement of Recognized Income and Expense

for Financial Year 2006

	2006 EUR (in thsds)	2005 EUR (in thsds)
Currency translation differences		
(Change in unrealized gains/losses)	25	– 56
Changes from the measurement of financial instruments	0	– 18
Actuarial gains/losses from pension provisions or other obligations	8	– 373
	33	**– 447**
Tax effects	– 3	139
Income and expenses recognized directly in equity (after taxes)	30	– 308
Net income for the year	– 1,362	605
Total recognized income and expenses (= attributable to the shareholders of the parent company)	– 1,332	297
Effects of changes in accounting policies according to IAS 8 (= attributable to the shareholders of the parent company)	0	– 139

Notes to the Consolidated Financial Statements for Financial Year 2006

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 2006 financial year based on the reporting period from January 1 to December 31, 2006.

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

The Executive Board of Softing AG released the consolidated financial statements to the Supervisory Board on February 12, 2007. 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 2006 financial year, the Company applied the IFRS whose application is mandatory for financial years beginning on or after January 1, 2006.

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 2006 financial year:

IAS 19 "Employee Benefits"
IAS 21 "The Effects of Changes in Foreign Exchange Rates"
IAS 24 "Related Party Disclosures"
IAS 39 "Financial Instruments: Recognition and Measurement"
IFRS 4 "Insurance Contracts"
IFRS 6 "Exploration and Evaluation of Mineral Resources"
IFRIC 4 "Determining whether an Arrangement Contains a Lease"
IFRIC 5 "Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds"
IFRIC 6 "Liabilities Arising from Participations in a Specific Market – Waste Electrical and Electronic Equipment"

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

The IASB published the following standards, interpretations and amendments to standards, whose application is not yet mandatory and which were not applied early by Softing AG:

IAS 1 "Presentation of Financial Statements"
IFRS 7 "Financial Instruments: Disclosures"
IFRS 8 "Replacement of IAS 14 Segment Reporting"
IFRIC 7 "Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies"
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
IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions" which involve the granting of equity instruments of the entity or of another entity within the Group
IFRIC 12 "Service Concession Arrangements" of companies offering public services on behalf of territorial entities

The effects on future consolidated financial statements of Softing are as follows:

IFRS 7 "Financial Instruments: Disclosures"

The IASB published IFRS 7 in August 2005. This standard combines disclosures regarding financial instruments which previously were regulated in IAS 30 "Disclosures in the Financial Statements of Banks and Similar Financial Institutions" and IAS 32 "Financial Instruments: Disclosure and Presentation".

The new standard contains changes and amendments concerning individual mandatory disclosures. IFRS 7 must be applied to financial years beginning on or after January 1, 2007. Earlier application is recommended.

The standard, which must be applied by all companies, will result in expanded disclosures regarding financial instruments after initial application by Softing in the 2007 financial year.

Amendment to IAS 1 "Presentation of Financial Statements" – Capital Disclosures

In August 2005, the IASB announced an amendment of IAS 1 in connection with the publication of IFRS 7 "Financial Instruments: Disclosures." According to this, the financial statements must contain information that enable users of financial statements to evaluate the goals, methods and processes used in capital management. The application of the amendment to IAS 1 is mandatory for financial years beginning on or after January 1, 2007. Earlier application is recommended. The initial application by Softing of this amendment to IAS 1 in the 2007 financial year will result in expanded disclosures in the notes.

IFRS 8 "Operating Segments" – Application of the Management Approach for Reporting the Economic Development of Segments.

In November 2006, the IASB published IFRS 8. This standard replaces IAS 14 and, in particular, provides for the application of the management approach for reporting the economic development of segments. Operating segments are components of an entity whose operating results are reviewed regularly to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Individual disclosures in the notes were expanded in connection with this. The standard, whose application is mandatory for entities whose debt or equity instruments are traded in a public market, must be applied to all financial years beginning on or after January 1, 2009. Earlier application is permitted. The initial application of this standard will not result in any changes to the segmentation of the Company's reporting. Disclosures in the notes regarding the segments will, however, be expanded.

IFRIC 10 "Interim Financial Reporting and Impairment"

The IASB published the interpretation IFRIC 10 in July 2006. IFRIC 10 addresses the interplay of the requirements of IAS 34 Interim Financial Reporting and the requirements regarding the recognition of impairment losses on goodwill (in IAS 36) and certain financial assets (in IAS 39). IFRIC 10 states that impairment losses recognized in a previous interim period that are subject to the prohibition of reversal under IAS 36 and/or IAS 39 may not be reversed in subsequent interim financial statements, annual financial statements or consolidated financial statements. IFRIC clearly states that the interpretation must not be applied by analogy to similar situations. IFRIC 10 must be applied to financial years beginning on or after November 1, 2006. Earlier application is recommended. The initial application in the 2007 financial year may result in accounting changes if impairment losses are recognized in interim financial statements.

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, 2006 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	
	2006 %	2005 %
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

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. Adjustment of Previous Year's Figures According to IAS 8

In 2005, actuarial gains and losses were recognized immediately in retained earnings in accordance with IAS 19.93D. Recognition in 2005 did not take into account related income tax benefits.

The effect of taking into account related income tax benefits is as follows for the following balance sheet items (amounts in EUR):

	Dec. 31, 2004 old	Adjustment acc. to IAS 8	Dec. 31, 2004 new
Deferred tax assets	3,005,364	38,315	3,043,679
Retained earnings	6,438,157	38,315	6,476,472

	Dec. 31, 2005 old	Adjustment acc. to IAS 8	Dec. 31, 2005 new
Deferred tax assets	2,820,072	177,737	2,997,809
Retained earnings	6,591,704	177,737	6,769,441

5. 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.

Government grants are offset against cost.

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 charged 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.

6. 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.

7. 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 charged which reduces the respective assets to their recoverable amount.

8. Lease Agreements

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

9. 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.

10. 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.

11. Customer-specific Construction Contracts

Customer-specific construction contracts (software development for customers) are recognized according to the percentage of completion method under IAS 11. Contract revenue in this context is the revenue agreed upon in fixed-price contracts, up to the current degree of completion of such goods and services. The degree of completion of such goods and services is determined by the ratio of the costs incurred as of the balance sheet date relative to the estimated total costs (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.

12. 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.

13. 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.

14. 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.

15. Other Provisions

The other provisions are made 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.

16. 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.”

17. Other Liabilities

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

18. 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.

19. 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 2006	USD/EUR 2005	RON/EUR 2006	RON/EUR 2005
Closing rate (Dec. 31)	1.32	1.18	3.38	3.69
Average exchange rate	1.26	1.24	3.51	3.60

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.

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 960 thsd. (previous year: EUR 1,370 thsd.).

In the 2006 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 117 thsd. (previous year: EUR 199 thsd.). The grants are offset against the cost of capitalized development costs.

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, impairment losses on intangible assets totaling EUR 1,684 thsd. (previous year: EUR 0 thsd.) were recognized in the income statement under the item amortization and impairment of intangible assets and property, plant and equipment.

Of this amount, EUR 1,481 thsd. relate to the Automotive Electronics segment and EUR 203 thsd. relate to the Industrial Automation segment.

Based on the initiated realignment of the Automotive Electronics segment, an impairment loss of EUR 1,145 thsd. was identified in the "standard products automotive" product group due to lowered earnings expectations. At hard&soft Rottenberger GmbH, which is part of the Automotive Electronics segment, a reduced value in use due to changed market conditions was identified for a license acquired in 2005, resulting in an impairment loss of EUR 336 thsd.

In the Industrial Automation segment, an impairment review resulted in an impairment loss of EUR 203 thsd. due to lower earnings expectations in relation to CGU 4CONTROL, which comprises all activities in the 4CONTROL product group.

A discount rate of 7% was recognized in the determination of the values in use. All realizable amounts were determined based on a calculation of the values in use.

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 123 thsd. (previous year: EUR 151 thsd.).

7. Inventories

A valuation allowance of EUR 170 thsd. (previous year: 16 thsd.) was recognized on inventories in 2006. As in the previous year, no reversals of impairment losses were recognized in profit or loss.

8. Trade Receivables

In 2006, a valuation allowance of EUR 117 thsd. (previous year: EUR 95 thsd.) was recognized for doubtful debts.

	Dec. 31, 2006 EUR (in thsds)	Dec. 31, 2005 EUR (in thsds)
Trade receivables	4,001	3,448
Of which: Services not yet billed	38	60

9. Receivables from Customer-specific Construction Contracts

	Dec. 31, 2006 EUR (in thsds)	Dec. 31, 2005 EUR (in thsds)
Total construction work in progress	1,628	2,188
Less: Advances received	– 1,132	– 1,695
Net amount	496	493
of which reported under:		
Receivables from customer-specific construction contracts	658	947
Payables from customer-specific production contracts	– 162	– 454

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 1,269 thsd. (previous year: EUR 1,737 thsd.) and a profit share of EUR 359 thsd. (previous year: EUR 451 thsd.).

10. Other Financial Receivables

	Dec. 31, 2006 EUR (in thsds)	Dec. 31, 2005 EUR (in thsds)
Receivables from employees	4	22
Other	35	77
	39	**99**

Receivables from employees concern interest-free loans.

11. Other Assets

	Dec. 31, 2006 EUR (in thsds)	Dec. 31, 2005 EUR (in thsds)
Other tax assets	1	66
Advances on property, plant and equipment	39	0
Accruals	108	65
Other	132	36
	280	**167**

Other tax assets essentially comprise sales tax balances.

12. Current Income Tax Assets

The current income tax assets concern corporation tax receivables.

13. Cash and Cash Equivalents

	Dec. 31, 2006 EUR (in thsds)	Dec. 31, 2005 EUR (in thsds)
Securities	632	1,855
Cash	2,108	2,874
	2,740	**4,729**

Securities 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 3.499% (previous year: 2.185%). 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

	Shares outstanding	Issued capital	Capital reserves	Retained earnings				Treasury shares	Total Equity
				Valuation surplus	Currency translation	Other	Total		
	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, 2004/ January 1, 2005	5,000,000	5,000	879	– 47	0	6,523	6,476	0	12,355
Changes in equity 2005									
Income and expenses recognized in equity	0	0	0	– 251	– 56	0	– 307	0	– 307
Group income 2005	0	0	0	0	0	605	605	0	605
Addition from capital increase	499,998	500	610	0	0	0	0	0	1,110
Offsetting of transaction costs Capital increase	0	0	– 13	0	0	0	0	0	– 13
Changes in deferred taxes recognized in equity	0	0	0	0	0	– 5	– 5	0	– 5
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 expenses 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	– 100,000	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	**5,499,998**	**5,600**	**1,683**	**– 293**	**– 31**	**5,761**	**5,437**	**– 273**	**12,447**

Issued Capital

On December 19, 2006, the issued capital was increased by EUR 100 thsd. (100,000 shares) as part of a capital increase from authorized capital. As of the balance sheet date, the fully paid-in share capital of the Company was EUR 5,599,998.00. It is divided into 5,599,998 no-par-value shares. There is also conditional capital in the amount of EUR 260,000.00, which was created in connection with a stock option plan.

Authorized Capital

The Executive Board is authorized to increase the Company's share capital once or several times by up to EUR 2,000,000 until July 25, 2011, 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 rights. 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, 2006, was EUR 1,900,000.00.

The accumulated profits available for distribution are determined on the basis of unappropriated retained earnings 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 December 19, 2006, EUR 179 thsd. were transferred to capital reserves by way of a capital increase.

In the financial year just ended, transaction costs of EUR –36 thsd. related to the IPO and EUR 8 thsd. related to the capital increase in 2006 were offset against capital reserves.

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, 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 Annual Shareholders' Meeting on July 26, 2006, and based on the resolution of the Executive Board of August 21, 2006, the Company purchased own shares:

Purchase date	Number	Price per share	Price
		EUR	EUR
	(in thsds)		(in thsds)
September 1, 2006	35,000	2.6900	94
September 18, 2006	25,000	2.7600	69
September 29, 2006	25,000	2.7950	70
October 24, 2006	15,000	2.6900	40
			273

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. Pension Provisions

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 1,536 thsd. (previous year: EUR 1,202 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 108.6 points in 2005 to 110.2 points in 2006.

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

Basis of calculation	Dec. 31, 2006 %	Dec. 31, 2005 %
Assumed interest rate	4.25	4.0
Salary trend	0.0	0,0
Expected rate of pension increase	1.75	1.5

Development	2006 EUR (in thsds)	2005 EUR (in thsds)
DBO as of January 1	2,426	1,962
Service cost	–	–
Return on plan assets	– 145	– 127
Interest cost	96	96
Interest earned from plan assets	– 6	– 14
Actuarial losses	– 8	373
Pension payments to pensioners	– 23	– 5
Fair value of the external plan assets as of January 1	– 1,202	– 1,061
As of December 31	**1,138**	**1,224**

Reconciliation with the balance sheet	Dec. 31, 2006 EUR (in thsds)	Dec. 31, 2005 EUR (in thsds)
Present value of the defined benefit obligations (DBO)	2,492	2,426
Fair value of the external plan assets as of December 31, 2006	– 1,354	– 1,202
	1,138	**1,224**

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, 2002	1,150	659
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

In 2006, pension expenses of EUR 29 thsd. were recognized (previous year: EUR 19 thsd.).

	Dec. 31, 2006	Dec. 31, 2005
Pension payments to pensioners	23	5
Expense from additions to pension provisions	96	96
Less		
interest cost included (offset against interest earned from plan assets totaling EUR 6 thsd. [previous year: EUR 14 thsd.])	– 90	– 82
	29	**19**

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 0.5% (previous year: 1.3%).

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 105 thsd. from additions to pension provisions in the current financial year.

16. Other Financial Liabilities (Non-current)

The other non-current financial liabilities are related to the acquisition of hard&soft Salwetter-Rottenberger GmbH. They are recognized at depreciated cost using the effective interest rate method (5.6%).

17. 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, 2006 EUR (in thsds)	Use EUR (in thsds)	Reversal EUR (in thsds)	Addition EUR (in thsds)	As of Dec. 31, 2006 EUR (in thsds)
Operational provisions	112	5	13	–	94
Contingent loss	0	–	–	49	49
	112	**5**	**13**	**49**	**143**

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

18. Trade Payables

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

19. Other Financial Liabilities (Current)

	Dec. 31, 2006 EUR (in thsds)	Dec. 31, 2005 EUR (in thsds)
Liabilities related to social security	116	275
Wages and salaries payable	1,239	1,161
Other	863	1,706
	2,218	**3,142**

20. Other Liabilities

	Dec. 31, 2006 EUR (in thsds)	Dec. 31, 2005 EUR (in thsds)
Other tax liabilities	**494**	**398**

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

21. Current Income Tax Liabilities

In 2005, these income tax liabilities essentially concerned hard&soft Salwetter-Rottenberger GmbH.

D. Notes to the Consolidated Income Statement

1. Revenue

Revenue from customer-specific construction contracts in 2006 was EUR 1,437 thsd. (previous year: EUR 1,757 thsd.).

Revenue by regions	2006 EUR (in thsds)	2005 EUR (in thsds)
Domestic	16,106	14,831
Abroad	7,490	7,232
	23,596	**22,063**

Revenue by products and services	2006 EUR (in thsds)	2005 EUR (in thsds)
Products	15,310	14,531
Services	8,286	7,532
	23,596	**22,063**

2. Other Own Work Capitalized

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

3. Other Operating Income

The other operating income comprises the following items:

	2006 EUR (in thsds)	2005 EUR (in thsds)
Derecognition of liabilities	45	82
Reversal of provisions	13	101
Other income not related to the accounting period	5	63
	63	**246**
Income from exchange differences	24	117
Revenue from the provision of automobiles	112	100
Revenue from subsidized projects	117	199
Other income	51	89
	367	**751**

4. Cost of Materials

	2006 EUR (in thsds)	2005 EUR (in thsds)
Purchase of components and products	4,943	4,008
Third-party services	622	649
	5,565	**4,657**

5. Staff Costs

	2006 EUR (in thsds)	2005 EUR (in thsds)
Current salaries	10,061	9,354
Social security and retirement benefit costs	1,950	1,721
Profit-sharing, royalties	1,165	991
Provision of automobiles to employees	118	110
Temporary workers	50	65
Other	385	116
	13,729	**12,357**

The statutory pension scheme in Germany is treated as a defined contribution scheme. Expenses recognized for the statutory pension scheme total EUR 855 thsd. (previous year: EUR 801 thsd.).

6. Other Operating Expenses

The other operating expenses are as follows:

	2006 EUR (in thsds)	2005 EUR (in thsds)
Operating expenses	1,811	2,180
Distribution costs	1,253	1,156
Administrative expenses	720	515
Expenses resulting from exchange differences	96	29
Expenses unrelated to the accounting period	27	7
	3,907	**3,887**

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

	2006 EUR (in thsds)	2005 EUR (in thsds)
Audit of annual financial statements	52	60
Tax consultancy services	18	19
Other services	12	7
	82	**86**

7. Interest Income and Expense

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. Income Tax

The current income tax expense breaks down as follows:

	2006 EUR (in thsds)	2005 EUR (in thsds)
Deferred taxes on temporary differences	– 770	175
Deferred taxes on tax loss carryforwards	– 45	192
Tax income/expense	48	84
	– 767	**451**
of which: Current income tax of prior periods	42	1

Deferred taxes are recognized for temporary differences between the financial statements prepared for financial reporting purposes and the tax accounts, 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 applicable domestic tax rate is determined as follows:

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

The tax burden for Softing North America was calculated to be 24.5% and for SoftingROM s.r.l. it was calculated to be 16%. Tax rate changes approved as of the balance sheet date were taken into account.

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 four years. The Company has tax loss carryforwards of 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, 2006	Usable until
Softing AG, trade tax loss carryforward	7,179	Unlimited
Softing AG, corporate income tax loss carryforward	7,026	Unlimited
Softing North America, Inc.	250	2010/2025

Deferred tax assets from losses carried forward in relation to state tax, and for the first time in relation to federal tax, were recognized for Softing North America, Inc. This has led to a decrease in deferred tax liabilities of EUR 23 thsd., which was caused by the write-up of the tax losses, and to a decrease in the current income tax expense of EUR 14 thsd., which was caused by the use of previously unused losses.

No tax losses of Softing AG could be utilized in financial year just ended.

The current income tax expense is derived from the expected tax expense. 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.

	2006 EUR (in thsds)	2005 EUR (in thsds)
Earnings before taxes	– 2,130	1,056
Anticipated tax expense (37.34 %)	– 795	394
Non-recognition of deferred taxes on temporary differences	32	41
Non-recognition of deferred taxes on tax losses	– 14	7
Reversal of impairment losses of deferred taxes on tax losses	– 23	–
Non-recognition of deferred taxes in previous years	–	– 12
Tax additions and deductions	19	18
Different tax rates	– 25	– 15
Non-recognition of deferred taxes on temporary differences, Group	– 1	14
Current taxes, previous years	42	1
Other	– 2	3
Tax expense disclosed in the income statement	**– 767**	**451**

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

Deferred tax assets	Dec. 31, 2006 EUR (in thsds)	Dec. 31, 2005 EUR (in thsds)
Equity	6	–
Pension provision	312	324
Other provisions	18	–
Other liabilities	10	–
Future tax benefits from loss carryforwards	2,713	2,674
	3,059	**2,998**

Deferred tax liabilities	Dec. 31, 2006 EUR (in thsds)	Dec. 31, 2005 EUR (in thsds)
Trade receivables	257	412
Intangible assets	978	1.577
Property, plant and equipment	31	26
Equity	15	5
Other liabilities	0	10
	1,281	**2,030**

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	
	2006 EUR (in thsds)	2005 EUR (in thsds)	2006 EUR (in thsds)	2005 EUR (in thsds)	2006 EUR (in thsds)	2005 EUR (in thsds)	2006 EUR (in thsds)	2005 EUR (in thsds)
External sales	12,611	11,250	10,985	10,813	–	–	23,596	22,063
Depreciation/amortiz.	1,284	1,196	1,964	2,003	–	–	3,248	3,199
Impairment	203	–	1,481	–	–	–	1,684	–
Segment result (EBIT)	890	1,147	– 2,881	– 97	–	–	– 1,991	1,050
Segment assets	6,149	5,692	6,681	8,719	6,120	8,384	18,950	22,795
Segment liabilities	2,169	2,895	3,054	3,919	1,280	2,236	6,503	9,050
Capital expenditure	1,563	1,987	1,448	1,856	55	114	3,066	3,957

2. Segment Allocation of Products

Industrial Automation

Interface cards (PROFIBUS, PROFINET, CAN, CANopen, DeviceNet), integration modules (fieldbus kit) 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. Expired option rights are canceled.

No subscription rights were granted in the 2006 financial year.

	2006 Number	2005 Number
As of January 1	89,100	93,800
New options granted	–	–
Options lapsed	– 1,900	– 4,700
As of December 31	**87,200**	**89,100**
of which: Exercisable options	37,200	37,200

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

The weighted average exercise prices were as follows:

	2006 EUR	2005 EUR
As of January 1	2.51	2.55
Options lapsed	13.66	3.19
As of December 31	2.27	2.51
of which: Exercisable options	1.03	1.03

5. Earnings per Share IAS 33

		2006	2005
Group income	EUR (in thsds)	– 1,362	605
Minority interest	EUR (in thsds)	0	0
Basic earnings (= diluted earnings)	**EUR (in thsds)**	**– 1,362**	**605**
Weighted average number of shares			
Basic	Number	5,475,669	5,442,464
Potential stock options	Number	21,101	24,342
Diluted	Number	5,496,770	5,466,806
Basic earnings per share	EUR	– 0.25	0.11
Diluted earnings per share	EUR	– 0.25	0.11

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).

Furthermore, there exist 50,000 option rights whose exercise prices as of the balance sheet date could exceed the price of the stock (100-day average) and impact the 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.

Furthermore, a consulting agreement for the provision of support services was concluded with Dr. Manfred Patz. In 2006, this resulted in expenses of EUR 23 thsd.

7. Contingent Liabilities

There were and are no contingent liabilities.

8. Other Financial Obligations

As of the balance sheet date, the Company had incurred purchase commitments in the amount of EUR 1,133 thsd. under long-term contracts (previous year: EUR 576 thsd.).

There were also liabilities under long-term rental and lease agreements. These liabilities stem primarily 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:

	2006 EUR (in thsds)	2005 EUR (in thsds)
< 1 year	681	699
1 – 5 years	1,959	2,264
> 5 years	244	506
Total	**2,884**	**3,469**

9. Personnel

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

	2006	2005
As of the balance sheet date	195	199
Annual average	198	181

10. Executive Board

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

Dr.-Ing. Dr. rer. oec. Wolfgang Trier, Munich, Germany
Dipl.-Ing. Bernd Häußler, Falkensee, Germany
(until January 11, 2006)
Dr.-Ing. Michael Siedentop, Neutraubling, Germany
(appointed from February 1, 2006)

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

Compensation of the Executive Board members was as follows (EUR):

	2006 Fixed	2006 Variable	2006 Total
Dr. Trier	335,345.98	90,000.00	425,345.98
Dr. Siedentop	163,079.71	55,000.00	218,079.71
B. Häußler	4,166.67	21,388.89	25,555.56
	502,592.36	**166,388.89**	**668,981.25**

Payments made to a former member of the Executive Board due to the termination of his office in the year of leaving the Board were (EUR):

	Fixed	Variable	Severence pay	Total
B. Häußler	108,754.48	36,111.14	24,998.00	169,863.62

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.

Pension obligations for former members of the Executive Board as of December 31, 2006 totaled EUR 1,138 thsd. (previous year: EUR 1,224 thsd.).

11. 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, 2005, 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, 2006, totaled EUR 117 thsd. (previous year: EUR 95 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 1,684 thsd. (previous year: EUR 2,486 thsd.) and securities totaling EUR 632 thsd. (previous year: EUR 1,855 thsd.) bear interest of 1.75% to 2.9% (previous year: 1.5% to 2.1%) and 3.5% (previous year: 2.2%), respectively.

Fair Values

The fair values compared to the carrying amounts of financial assets and liabilities are as follows:

	Dec. 31, 2006 Carrying amount EUR (in thsds)	Dec. 31, 2006 Fair value EUR (in thsds)	Dec. 31, 2005 Carrying amount EUR (in thsds)	Dec. 31, 2005 Fair value EUR (in thsds)
Trade receivables	4,660	4,660	4,396	4,396
Other financial receivables	39	39	99	99
Other assets	280	280	167	167
Cash and cash equivalents				
Cash	2,108	2,108	2,874	2,874
Securities	632	632	1,855	1,855
Trade payables	880	880	1,276	1,276
Other financial liabilities	2,218	2,218	3,142	3,142
Other liabilities	495	495	399	399

The amounts shown for securities classified as cash equivalents correspond to the market prices as of the balance sheet date.

The carrying amounts of trade receivables and trade payables as well as other financial receivables and liabilities are a reasonable approximation to determine their fair value.

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

The Executive Board and Supervisory Board issued the Declaration of Conformity pursuant to § 161 of the German Stock Corporation Act on March 4, 2005 and made this declaration permanently available to its shareholders on the Company's website.

13. Supervisory Board

The following persons were members of the Supervisory Board of Softing AG in the 2006 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

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
Swiss FE Steel Group AG, Baar, Switzerland
Thor Immobilien AG, Zurich, Switzerland
azemos partner AG, Zurich, Switzerland

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

Remuneration for the members of the Supervisory Board in the reporting period totaled EUR 23 thsd. and is distributed as follows:

	Fixed	Variable	Total
			EUR (in thsds)
Dr. Horst Schiessl (chairman)	10	0	10
Karlheinz Butscher (deputy chairman)	8	0	8
Dr. Manfred Patz	5	0	5

Haar, Germany, February 12, 2007

The Executive Board of Softing AG

Dr. Wolfgang Trier Dr. Michael Siedentop

Changes in Intangible Assets and Property, Plant and Equipment

in Financial Year 2006

	Cost					
	Jan. 1, 2006	Changes in the scope of consolidation	Additions	Market price changes	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	Changes in the scope of consolidation	Market price changes	Depreciation/ amortization in the financial year	Impairment loss	Disposals	Dec. 31, 2006	Dec. 31, 2006	Dec. 31, 2005
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	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**

Changes in Intangible Assets and Property, Plant and Equipment

in Financial Year 2005

	Cost					
	Jan. 1, 2005	Changes in the scope of consolidation	Additions	Market price changes	Disposals	Dec. 31, 2005
	EUR	EUR	EUR	EUR	EUR	EUR
I. Intangible assets						
1. Goodwill	61,706	2,351,125	0	0	61,706	2,351,125
2. Development costs	33,380,507	0	2,755,502	0	535,230	35,600,779
3. Other intangible assets	1,546,404	585,834	864,408	675	0	2,997,321
	34,988,617	**2,936,959**	**3,619,910**	**675**	**596,936**	**40,949,225**
II. Property, plant and equipment						
Other equipment, furniture and fixtures and office equipment						
Office equipment	2,791,805	254,041	286,120	– 3,857	77,939	3,250,170
Low-value assets	104,734	14,455	51,478	0	47,589	123,078
	2,896,539	**268,496**	**337,598**	**– 3,857**	**125,528**	**3,373,248**
	37,885,156	**3,205,455**	**3,957,508**	**– 3,182**	**722,464**	**44,322,473**

	Accumulated depreciation/amortization						Carrying amounts	
	Jan. 1, 2005	Changes in the scope of consolidation	Market price changes	Depreciation/ amortization in the financial year	Disposals	Dec. 31, 2005	Dec. 31, 2005	Dec. 31, 2004
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
	61,706	0	0	0	61,706	0	2,351,125	0
	29,388,569	0	0	2,637,053	535,230	31,490,392	4,110,387	3,991,938
	1,328,113	9,162	– 276	311,199	0	1,648,198	1,349,123	218,291
	30,778,388	**9,162**	**– 276**	**2,948,252**	**596,936**	**33,138,590**	**7,810,635**	**4,210,229**
	2,469,216	103,545	– 2,176	211,165	68,990	2,712,760	537,410	322,589
	45,023	14,454	0	40,066	47,588	51,955	71,123	59,711
	2,514,239	**117,999**	**– 2,176**	**251,231**	**116,578**	**2,764,715**	**608,533**	**382,300**
	33,292,627	**127,161**	**– 2,452**	**3,199,483**	**713,514**	**35,903,305**	**8,419,168**	**4,592,529**

Auditors' Opinion

We have issued the following unqualified audit opinion:

"Auditors' 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, 2006. 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 as well as with IFRS overall, 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 15, 2007

Bayerische Treuhandgesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Huber
Wirtschaftsprüfer

Pieper
Wirtschaftsprüfer

Report of the Supervisory Board

for Financial Year 2006

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. 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 year under review (January 11, March 13, May 19, October 25, December 14). 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 events for the Company. Between meetings, the Supervisory Board was also informed of plans and developments that were of particular importance.

The Supervisory Board responded to the difficulties experienced by the Automotive Electronics division by placing the management of the division's operations in the competent hands of a new division head, Dr. Michael Siedentop, at the start of 2006. Dr. Siedentop, a man with special experience in automotive electronics, quickly analyzed the situation and developed a set of measures in coordination with the Supervisory Board. Besides achieving tangible cost reductions, the main goal was to create a solid foundation for future sales growth. The Supervisory Board was closely involved in the strategic orientation aimed at generating additional income and in the restructuring associated with this strategy. 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.

Furthermore, in regular discussions with the Executive Board, the chairman of the Supervisory Board obtained information about important decisions and business transactions of special significance. The Supervisory Board regularly discussed matters of corporate governance. In principle, the Supervisory Board accepted the recommendations of the German Corporate Governance Code. At its meeting on March 13, 2006, the Supervisory Board and the Executive Board issued an updated Declaration of Conformity 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 of Softing AG.

At its meeting on March 13, 2006, 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 Conformity. There was no conflict of interest of members of the Supervisory Board in the financial year ended.

The financial statements and the management report of Softing AG, the consolidated financial statements as of December 31, 2006, 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 finan-

cial statements and the Group management report for the financial year from January 1 to December 31, 2006, 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 the Supervisory Board meeting on February 28, 2007, which was convened to discuss the financial statements, 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 2006 at its meeting on February 28, 2007. The annual financial statements for 2006 are therefore formally adopted.

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

Haar, Germany, February 28, 2007

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 Conformity on February 27, 2007. Below, the Executive Board and the Supervisory Board disclose and explain any deviations from the Code.

2.2.2
§ 4 sub-paragraph 5 of the Articles of Incorporation of Softing AG excludes shareholders' subscription rights for conditional capital to service the stock option plan by issuing up to 260,000 no-par bearer shares.

2.3.4
The Executive Board and the Supervisory Board are generally in favor of broadcasting the entire Shareholders' Meeting; however, considering the size of Softing, Company costs are in no relation to the benefits for shareholders and do not justify a broadcast of the Shareholders' Meeting by modern communication media.

3.8
A D&O insurance policy for the Executive and Supervisory Boards, which has existed since 2001, currently does not include a deductible.

4.2.3
The current contracts of the members of the Executive Board do not provide for performance-based limits. In all other respects, the Company complies with the provision. The basic outlines of the compensation system are described on page 60 of the 2006 annual report. As in previous years, the annual report also contains information on the company's 2000 stock option plan.

4.2.5
The statutory disclosure requirements are fulfilled.

5.3.1, 5.3.4, 5.3.5
The Supervisory Board of Softing AG currently consists of three members; therefore, we do not consider a formation of committees to be useful.

5.4.1
The election of Supervisory Board members is solely a matter of the Annual Shareholders' Meeting and not within the responsibility of the Executive Board and Supervisory Board. For nominees, the criteria mentioned above and recommendations of major shareholders are taken into account. A specific age limit could be regarded as an undesired exclusion criterion for qualified Supervisory Board members.

5.4.3
Softing does not believe that general time limits for the mandatory appointment of new Supervisory Board members are appropriate.

Remuneration for the active members of the Supervisory Board in the 2006 financial year is presented on page 63 of this annual report.

Disclosures regarding directors' dealings pursuant to § 15a German Securities Trading Act (WpHG) are published 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 57 of this annual report.

Corporate Boards and Directors' Holdings

Boards	Shares		Options	
	Sept. 30, 2006 Number	Dec. 31, 2006 Number	Sept. 30, 2006 Number	Dec. 31, 2006 Number
Supervisory Board				
Dr. Horst Schiessl (chairman), Attorney at Law, Munich	–	–	–	–
Dipl.-Ing. Karlheinz Butscher (deputy chairman), Langenargen	–	–	–	–
Dr. Dipl.-Ing. Manfred Patz, Vaterstetten	404,250	401,950	–	–
Executive Board				
Dr.-Ing. Dr. rer. oec. Wolfgang Trier, Grünwald	110,000	110,000	37,200	37,200
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 30, 2007	Financial Statements 2006
May 14, 2007	Quarterly Report 1/2007
August 14, 2007	Quarterly Report 2/2007
August 24, 2007	Annual Shareholders' Meeting, Munich, Germany
November 14, 2007	Quarterly Report 3/2007

Glossary

Arbitration unit
In multi-master systems, the arbitration unit is the component that prioritizes and manages access to resources when several units try to access a resource at the same time.

ASAM
Association for **S**tandardisation of **A**utomation and **M**easuring Systems. An organization promoting the international standardization of motor vehicle electronics, e. g. in measuring, calibration and diagnosis (www.asam.de).

CAN
Controller **A**rea **N**etwork. A serial bus system for vehicle construction and industrial ECUs. Specifications according to ISO 11898. Good short-distance transmission properties up to 40 meters at a rate of 1 mbps. Maximum number of participants: theoretically unlimited, practically up to 64 in real-time.

CAN in Automation e.V
Consortium of companies for the definition of the CAN standard and for promoting the use of CAN in the automation market.

CPU
The **C**entral **P**rocessing **U**nit in a computer.

EDIC®
Electronic **D**iagnostic **I**nterface **C**omputer. A Softing product family that offers a wide variety of interfaces to automotive electronics.

Embedded platforms
Customer- and user-specific hardware and software environments.

Ethernet
A communications system according to IEEE 802.2 that has become a standard in office networks and is now becoming increasingly popular in industrial environments as well.

FF – FOUNDATION™ fieldbus
FOUNDATION™ fieldbus is a fieldbus standard oriented primarily on the requirements of process automation. It is the most functionally complete fieldbus solution for this area of application. The High Speed Ethernet (HSE) specification expands FOUNDATION™ fieldbus to include an Ethernet-based protocol variant which integrates harmoniously with the overall architecture.

Fieldbus
An industrial communication network for the digital exchange of data and information that connects control systems and distributed field devices in real-time.

FlexRay™
FlexRay™ is a fast, deterministic and fault-tolerant bus system that is used in automobiles. Applications range from higher-bandwidth scenarios (10 mbps) to redundant systems for security-critical applications (e. g. x-by-wire).

Gateway
A communications bridge between two different communications systems or networks such as PROFIBUS and Ethernet.

Host
In computer systems with several *CPUs* and bus masters, the host is the part of the system with the *Arbitration unit* and the host *CPU* or the part that controls the overall system. In connection with the Internet, the term host designates a permanently available network server.

IEC 61131-3
The IEC **I**nternational **E**lectrotechnical **C**ommission is involved, among others, in the definition of global standards for electrical engineering. The 61131-3 standard is an international language standard for the programming of programmable logic controllers. It contains graphic and textual variants.

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

Lightwave technology
Technology which uses optical fibers to transmit data; immune to electromagnetic interferences; very important as a transmission medium in local area networks.

LIN
Local **I**nterconnect **N**etwork. A serial low-cost bus (< 20 kbps) for networking simple ECUs, typically in the automotive body.

MOST®
Media **O**riented **S**ystems **T**ransfer. A serial communications system for the transmission of audio, video, voice and control data via optical fibers in the vehicle.

ODX
Open **D**iagnostic Data E**x**change. ODX is a standard for the exchange of all types of information that is relevant in diagnostics communication. The ODX format facilitates the coordination between vehicle manufacturers, system suppliers and ECU suppliers in all diagnostic data exchange processes.

OLE
Object **L**inking and **E**mbedding. Microsoft protocol for distributed objects. It enables the embedding of objects, e. g. data of any format such as text files, spreadsheets, images or parts of such files, into other documents. Double-clicking the object embedded in the target document opens the source application where the object can then be edited.

OPC
Formerly: **O**LE for **P**rocess **C**ontrol; today: **O**peness **P**roductivity **C**ollaboration. The OPC development aims at providing an open interface for the seamless and standardized exchange of data between control units, operating and monitoring systems, field devices and office applications of different vendors.

Open DeviceNet Vendor Association
Consortium of companies for the definition of the DeviceNet standard and for promoting the use of DeviceNet in the automation market.

PLC
Programmable **L**ogic **C**ontroller. A digital electronic system with a user-programmable memory for storage of instructions that controls a variety of machines and processes by means of digital or analog input and output signals. PLCs are used for controlling technical processes in almost all areas of industry.

PNO
PROFIBUS **N**utzer **O**rganisation (PROFIBUS user organization). Consortium of companies for the definition of the PROFIBUS standard and for promoting the use of PROFIBUS in the automation market (www.profibus).

PROFIBUS

PROFIBUS was specified by a German consortium and initially defined as a German standard. It later became part of EN 50170. Since 1999, PROFIBUS has been part of the IEC 61158 standard. There are a number of technical variants of PROFIBUS, the most widespread of which are PROFIBUS DP for high-speed communication with decentralized input/output modules and PROFIBUS PA for use in the process industry.

PROFINET

Open, component-based, industrial communications system for distributed automation systems using Ethernet technology.

Real-time

A system works in real-time if it reacts fast enough to ensure that events are processed within a pre-defined period of time and are registered in the very sequence in which they occur. In the context of machine control systems, this usually includes response times between 1 and 50 milliseconds. For process controls, real-time response ranges from 50 milliseconds to several seconds.

Real-Time-Ethernet

A communication system that enables real-time communication based on the ISO/IEC 8802-3 (Ethernet) standard.

TCP/IP

Transmission **C**ontrol **P**rotocol/**I**nternet Suite of **P**rotocols. Network protocol and universally accepted standard for the exchange of data in heterogeneous networks. TCP/IP is used in local area networks for communication between different types of computers.

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