Quartely Report 2/2006

Industrial Automation
above plan,
Automotive Electronics does
not meet expectations

softing
your connection to excellence

Industrial Automation above plan, Automotive Electronics does not meet expectations

Ladies and gentlemen, dear friends of Softing AG,
First, the good news: Incoming orders, sales and EBIT of the Industrial Automation division considerably surpassed our

plans. This is particularly pleasing since we expect this positive development to strengthen in the second half of the year. Industrial Automation will therefore achieve a very good result this year and contribute more than expected to our sales and the anticipated EBIT of EUR 1.5 million for 2006. Now, the less positive news from the Automotive Electronics division: This division did not meet our expectations in the past quarter with regard to sales and earnings. Dr. Michael Siedentop, my new colleague on the Executive Board who has been responsible for the Automotive Electronics division since February, has initiated the necessary reorientation of the division. This will probably negatively effect the result in this division in the second half of the year as well, but we think the measures that have been implemented are promising. Several large orders are also due to be placed in the second half of the year, which will positively influence the result and, above all, the outlook for the coming years. The exact figures for both business divisions can be found in the segment report on page eight.

hard&soft Salwetter-Rottenberger GmbH in Reutlingen, which was acquired in 2005, is developing well and is making a positive contribution to the EBIT of the Softing Group. The same can be said of our subsidiary Softing North America: We anticipate highly profitably sales of around USD 2.5 million for 2006.

Overall, Softing was able to significantly increase its incoming orders and sales in the first half-year. Our incoming orders amounted to EUR 6.3 million in the second quarter of 2006 (2005: EUR 5.8 million) and totaled EUR 12.0 million in the first six months (2005: EUR 11.1 million). Sales were also up by nine percent in the first half of the year. Please see the table below for an easy comparison of this year's key financials with those from 2005:

All figures in EUR million	Quarterly report II/2006	Quarterly report II/2005	Six-month report 2006	Six-month report 2005
Incoming orders	6.3	5.8	12.0	11.1
Sales	5.6	5.6	10.9	10.0
Earnings (EBIT)	– 0.2	0.4	– 0.5	0.2
Net income/loss	– 0.2	0.2	– 0.4	0.1

The Softing Group is oriented on innovation, expansion and acquisition. At our Annual Shareholders' Meeting on July 16, shareholders approved the creation of new authorized capital and thus cleared the way for targeted strategic acquisitions. We are now in a position to acquire other suitable companies as a component of our market-oriented growth. This will happen only within clearly defined boundaries, though. In order to be considered for acquisition, the company in question must fulfill 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. Equipped with good cash reserves, we will also continue to push our internal growth.

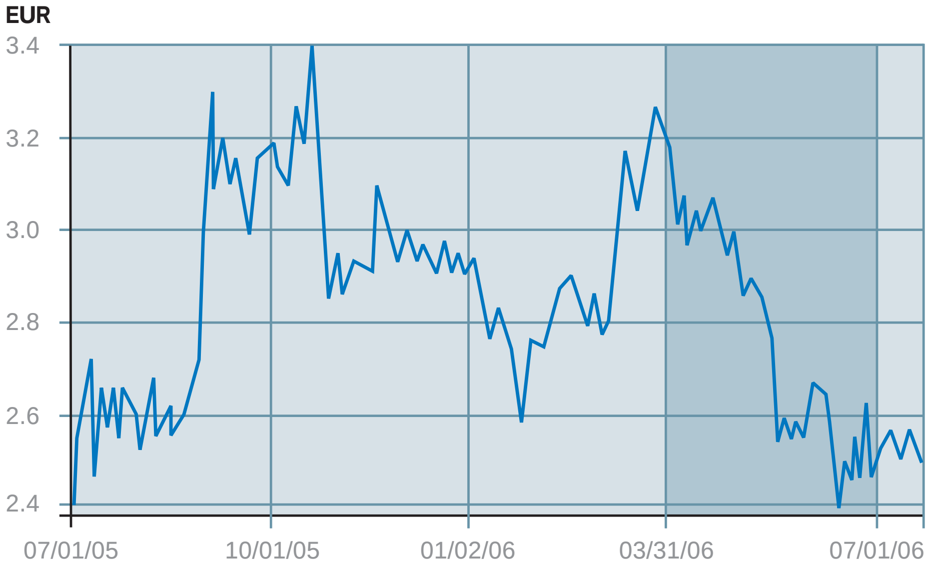
The results of the votes on the other agenda items at this year's Annual Shareholders' Meeting can be found in the Investor Relations setion of the Softing website.

We will promptly inform you, the friends and shareholders of Softing, of our further plans. We hope that you remain favorably disposed towards the company in the eventful times to come.

With warm regards,

Dr. Wolfgang Trier

Stock Price – Directors' Holdings Financial Calendar



Final quotation Frankfurt stock exchange (floor)

Directors' Holdings as of 06/30/2006

Boards	Number of shares		Number of options	
	As of 06/30/2006	As of 03/31/2006	As of 06/30/2006	As of 03/31/2006
Executive Board				
Dr. Trier	110,000	90,000	37,200	37,200
Dr. Siedentop	–	–	–	–
Supervisory Board				
Dr. Schiessl	–	–	–	–
Mr. Butscher	–	–	–	–
Dr. Patz	404,250	404,250	–	–

Financial Calender

Quarterly Report 2/2006	08/11/2006
Quarterly Report 3/2006	11/14/2006
German Equity Forum in Frankfurt	11/27/2006

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Consolidated Balance Sheet

According to IFRS as of June 30, 2006, unaudited

Assets	Quarterly report 06/30/2006 EUR	Financial statements 12/31/2005 EUR
Cash and cash equivalents	1,566,156	2,873,752
Marketable securities	1,854,868	1,854,868
Trade accounts receivable	4,059,497	4,395,633
Inventories	1,637,932	1,700,258
Prepaid expenses and other current assets	261,761	553,204
Total current assets	**9,380,214**	**11,377,715**
Property, plant and equipment	583,902	608,533
Intangible assets	5,361,248	5,459,510
Goodwill	2,351,125	2,351,125
Borrowings	396	0
Deferred taxes	2,967,301	2,820,072
Total non-current assets	**11,263,972**	**11,239,240**
Total assets	**20,644,186**	**22,616,955**

Liabilities and shareholders' equity		
Trade accounts payable	896,781	1,195,319
Provisions	93,000	111,800
Income tax liabilities	0	205,407
Deferred income and other current liabilities	2,536,980	3,621,598
Total current liabilities	**3,526,761**	**5,134,124**
Deferred tax liability	1,985,610	2,030,808
Pension provisions	1,272,168	1,223,871
Other non-current liabilities	688,592	660,722
Total non-current liabilities	**3,946,370**	**3,915,401**
Share capital	5,499,998	5,499,998
Capital reserves	1,475,784	1,475,728
Accumulated profits (incl. retained earnings)	6,195,273	6,591,704
Total shareholders' equity	**13,171,055**	**13,567,430**
Total liabilities and shareholders' equity	**20,644,186**	**22,616,955**

Consolidated Income Statement

According to IFRS as of June 30, 2006, unaudited

	Quarterly report II/ 2006 04/01/2006 – 06/30/2006 EUR	Quarterly report II/2005 04/01/2005 – 06/30/2005 EUR	Six-month report 2006 01/01/2006 – 06/30/2006 EUR	Six-month report 2005 01/01/2005 – 06/30/2005 EUR
Revenue	5,576,235	5,634,389	10,926,593	10,030,684
Other operating income	63,353	138,912	160,551	374,522
Other own work capitalized	590,923	592,502	1,184,930	1,104,543
Cost of purchased materials and services	– 1,270,708	– 1,132,376	– 2,512,538	– 2,085,065
Staff costs	– 3,358,092	– 3,037,544	– 6,689,189	– 5,873,616
Depreciation and amortization	– 823,619	– 772,635	– 1,641,995	– 1,513,784
Other operating expenses	– 974,623	– 979,249	– 1,919,797	– 1,815,091
Operating income/loss	**– 196,531**	**443,999**	**– 491,445**	**222,193**
Interest income and expenses	– 34,669	– 4,759	– 75,490	2,909
Result before income taxes	**– 231,200**	**439,240**	**– 566,935**	**225,102**
Income tax	58,036	– 189,677	155,422	– 120,113
Other taxes	7,652	– 1,324	0	– 6,064
Net income/loss (–)	**– 165,512**	**248,239**	**– 411,513**	**98,925**
Earnings per share (basic)	– 0.03	0.05	– 0.07	0.02
Earnings per share (diluted)	– 0.03	0.04	– 0.07	0.02
Average number of shares outstanding (basic)	5,499,998	5,499,998	5,499,998	5,374,999
Average number of shares outstanding (diluted)	5,523,960	5,522,076	5,524,370	5,396,025

Consolidated Cash Flow Statement

According to IFRS as of June 30, 2006, unaudited

		Six-month report 2006 01/01/2006 – 06/30/2006 TEUR	Six-month report 2005 01/01/2005 – 06/30/2005 TEUR
	Cash flows from operating activities		
	Net profit/loss for the period	– 412	99
	Exchange differences recognized in equity	16	0
+	Depreciation/amortization	1,642	1,514
–/+	Decrease/increase in provisions	– 221	22
+/–	Changes in net working capital	– 813	– 839
=	**Net cash provided by operating activities**	**212**	**796**
	Cash flow from investing actitivies		
–	Payments made for investments in self-produced intangible assets	– 1,369	– 1,300
–	Payments made for investments in other intangible assets and in property, plant and equipment	– 151	– 170
=	**Net cash used in investing activities**	**– 1,520**	**– 1,470**
	Cash flows from financing activities		
+	Proceeds from capital increase	0	1,102
=	**Net cash provided by financing activities**	**0**	**1,102**
–/+	Decrease/increase in cash and cash equivalents	– 1,308	428
	Cash and cash equivalents at beginning of period	4,729	6,338
=	**Cash and cash equivalents at end of period**	**3,421**	**6,766**

Changes in Shareholders' Equity

01/01 – 06/30/2006

Thsd. EUR	Share capital	Capital reserves	Retained earnings	Accumulated profits	Total
Balance as of December 31, 2005	5,500	1,476	6,415	176	13,567
Currency translation			16		16
Net loss 2006				– 412	– 412
Balance as of June 30, 2006	**5,500**	**1,476**	**6,431**	**– 236**	**13,171**

01/01 – 06/30/2005

Thsd. EUR	Share capital	Capital reserves	Retained earnings	Accumulated profits	Total
Balance as of December 31, 2004	5,000	879	18	6,523	12,420
Capital increase	500	602			1,102
Valuation of financial instruments			– 39		– 39
Net income 2005				99	99
Balance as of June 30, 2005	**5,500**	**1,481**	**– 21**	**6,622**	**13,582**

Notes to the Consolidated Financial Statements for Q2/2006

This quarterly report was prepared using the same accounting policies as in financial year 2005.

The German economy showed clear signs of recovery in the first half of 2006. The economic environment is expected to improve further in the course of the year. Based on existing market studies and our own estimates, we believe that economic growth of around 1.8 percent is possible in the Federal Republic of Germany in 2006. We anticipate even stronger growth for the euro area as a whole. We therefore expect Softing's sales to increase further.

Investments in self-constructed intangible assets amounted to EUR 1.4 million in the first six months of 2006 (2005: EUR 1.3 million).

As of 06/30/2006, orders on hand in the Group amounted to EUR 3.8 million (03/31/2006: EUR 3.1 million).

As of 06/30/2006, the Group had 205 employees (2005: 167). During the reporting period, no stock options were issued to employees.

Segment Reporting

As of June 30, 2006

	Quarterly report II/ 2006 04/01/2006 – 06/30/2006 EUR	Quarterly report II/2005 04/01/2005 – 06/30/2005 EUR	Six-month report 2006 01/01/2006 – 06/30/2006 EUR	Six-month report 2005 01/01/2005 – 06/30/2005 EUR
Automotive Electronics				
Revenue	2,417	2,536	4,995	4,412
Segment result (EBIT)	– 561	10	– 1,000	– 344
Depreciation/amortization	494	465	1,001	928
Segment assets			8,182	5,078
Segment liabilities			2,649	1,960
Capital expenditure (not including long-term investments)	358	490	821	900
Industrial Automation				
Revenue	3,160	3,099	5,932	5,619
Segment result (EBIT)	365	434	509	566
Depreciation/amortization	330	308	641	586
Segment assets			5,815	4,767
Segment liabilities			2,838	2,492
Capital expenditure (not including long-term investments)	359	287	657	509
Not distributed				
Revenue	–	–	–	–
Segment result (EBIT)	–	–	–	–
Depreciation/amortization	–	–	–	–
Segment assets			6,647	10,070
Segment liabilities			1,986	1,881
Capital expenditure (not including long-term investments)	26	27	42	61
Total				
Revenue	5,577	5,635	10,927	10,031
Segment result (EBIT)	– 196	444	– 491	222
Depreciation/amortization	824	773	1,642	1,514
Segment assets			20,644	19,915
Segment liabilities			7,473	6,333
Capital expenditure (not including long-term investments)	743	804	1,520	1,470

The division into business segments in accordance with IAS 14 is shown in the above table