Annual Report 2005

EBIT
boosted to more than EUR 1 million

Growth
continues to outpace market

hard&soft
integrated successfully

softing
your connection to excellence

Consolidated Key Figures

		2005	2004	2003
Revenue	(EUR million)	22.06	20.38	20.34
EBIT	(EUR million)	1.05	0.76	– 0.37
Group income	(EUR million)	0.61	0.46	– 0.50
Non-current assets	(EUR million)	11.24	7.60	7.96
Current assets	(EUR million)	11.38	11.32	10.46
Equity	(EUR million)	13.57	12.32	11.94
Cash and cash equivalents	(EUR million)	4.73	6.34	6.03
Number of employees (annual average)		181	156	148
DVFA/SG earnings per share	(EUR)	0.11	0.09	– 0.10

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Dear Shareholders, Employees, Partners and Friends of Softing,

The past financial year was a successful one for Softing: all of our key figures improved. Sales rose by nearly 10 percent compared to the same period of time last year, reaching over EUR 22 million. Despite the integration expenses for our new acquisitions, our operating income grew by 30 percent to around EUR 1 million.

"A balance is not what is, but what is made." It is not the dry figures alone that are important, but rather the new ideas and plans for future business that were implemented over the course of a year.

For example, in July, we fully integrated Reutlingen-based hard&soft Salwetter-Rottenberger GmbH into the Softing Group. This will strengthen and expand our Automotive Electronics division with test systems for control units in automobile manufacturing. In the past years, Softing has by no means taken full advantage of the market potential offered by the field of automotive electronics. With hard&soft, Softing has acquired a well-positioned and profitable company with a competent employee base. By closely integrating the hard&soft management team, Softing will continue to develop the company as an independent entity on the market. The integration of Softing technologies in 2005 will result in great synergistic potential for hard&soft in the acquisition of new customers, both in 2006 and the years to come.

A dominant topic in the field of automotive electronics is the AUTOSAR initiative (**AUT**OMOTIVE **O**pen **S**ystem **AR**chitecture) launched by major manufacturers and suppliers. The goal of AUTOSAR is to establish an open standard for electrical/electronic architectures in automobiles. In coordination with our customers, Softing will increasingly turn its attention to the programming of electronic control units. To this end, important strategic and operative foundations were laid for the organic growth of the Automotive Electronics division.

In October, we took over the full rights and expertise of a leading manufacturer of diagnostic components. This has drastically cut the time it will take us to build up a complete portfolio of diagnostic tools in Industrial Automation. A significant surge in the demand for diagnostic tools is expected in the upcoming years. The preparation of a new guideline for verifying the regular testing of fieldbus networks – and the standards which will derive from this – will result in an increased need for diagnostic tools in the years ahead. In this field, Softing is striving for no less than clear market leadership for products for fieldbus diagnostics. We will actively shape this market by expanding our own presence and entering into suitable partnerships.

Our SoftingROM subsidiary founded in 2005 is a development and project center which makes a significant contribution to the services Softing can offer. SoftingROM is another valuable member of the Softing Group, both as a pool of IT specialists involved in challenging development tasks, and from a cost perspective.

Additional highlights of the year 2005 can be found on the next page. This is followed by information on our products, new developments and services. Also, take a look at our website, www.softing.com, which will be redesigned in time for the Hannovermesse trade fair in April.

We achieved a great deal and laid important foundations for the future in 2005. Our new products are a testament to the effect this has had on our sales and earnings. Our ongoing developments and the ideas we invested in new products this year will form the basis for our growth in the coming years.

Final daily quotation Softing stock, Xetra

We anticipate that our sales will continue to increase by more than 10 percent in 2006 to reach a good EUR 24 million, and we expect an operating income of over EUR 1.5 million.

In early 2006, we welcomed Dr.-Ing. Michael Siedentop, my new colleague on the Executive Board of Softing. Since February, Dr. Siedentop has been in charge of the Automotive Electronics division of Softing AG. After studying electrical engineering and earning his doctorate, Dr. Siedentop worked for a leading automotive electronics supplier. He then became managing director of TÜV SÜD Group, where he initially headed TÜV Automotive GmbH and in 2002 took over the management of TÜV Product Service GmbH. Dr. Siedentop will be a major asset to Softing, contributing comprehensive technical expertise and sales experience as well as far-reaching contacts to the company.

His predecessor, Bernd Häußler, and the Supervisory Board mutually agreed to relieve Mr. Häußler from his duties as a member of the Executive Board and as the head of the Automotive Electronics division. We thank Mr. Häußler for his commitment during his time with Softing and wish him all the best for the future.

Softing is in good financial shape. We will not only continue to push ahead with internal growth but pursue opportunities of inorganic growth as well. But we will do so only within clearly defined limits: If we are to make another acquisition, the target company has to fill a strategic gap, has to operate in Softing's core field of business, has to demonstrate stable, proven business success, and has to be of a type and size that is easy to integrate.

Our employees guarantee the successful progress of the Softing Group. Their dedication and commitment are critical to the achievement of our goals. We would like to take this opportunity to thank them warmly for their work.

Viewed over the course of the year, our share price experienced an unsatisfactory lateral movement in 2005. This was not due to Softing's business model, but rather to the fact that the Old and the New do not always move in the same direction and at the same speed in times of change. This resulted in the sale of large numbers of Softing shares on the stock market. We reacted to this and have since acquired a significant number of new shareholders. They will help our share price develop more steadily in the future.

We would like to thank you for the trust you have placed in us. We are convinced that our performance in 2005 has laid the foundation for a long-term, above-average increase in company value.

We, the Executive Board and employees, will do everything we can to make Softing even more successful. We would be happy to have you join us in this endeavor.

Dr. Wolfgang Trier
Chairman of the
Executive Board

Highlights 2005

February	Market launch of Version 2.1 of the 4CONTROL FieldController
	Foundation of the Romanian subsidiary SoftingROM s.r.l. for development and project services
March	Market launch of Version PB-T3 of the PROFIBUS Tester
April	Presentation of the new OPC Connector Tools product family
May	Expansion of the EDIC hardware interfaces to include two new products for USB and Bluetooth interfaces
June	Softing Industrial Automation is represented in Brazil
July	Full integration of the Reutlingen-based hard&soft Salwetter-Rottenberger GmbH into the Softing Group
	Market launch of DTS Flash for the simple programming of control units in development and downstream (re-) programming tasks
August	Market launch of PROFIusb, a PROFIBUS interface for USB interfaces
	EDICnet is used by a major German automobile manufacturer for the wireless programming of control units and the default settings of automobile sub-systems in the final stages of assembly
September	Softing wins contract from Volkswagen for a basic group-wide ODX diagnostic system
	Volkswagen's VAS 5163 testing and inspection tool is supported by EDICblue and EDICusb
October	Investment in fieldbus diagnostics: takeover of the rights and expertise of a leading manufacturer of diagnostic components
	2nd Softing OPC Forum in Haar
	Official certification of the PROFIdtm from Softing by the FDT Group
	Softing specifies a new diagnostic concept for MOST for a major automobile manufacturer
November	Presentation of NETLink PRO, an interface for direct access to SPS controls
	Presentation of PROFINET Controller protocol software
	Presentation of the 4CONTROL Building Controller, a control for building automation
	Softing delivers basic control unit software as a proof of concept to the AUTOSAR consortium
December	Market launch of the FBK, the FF/PA connection for HART field devices
	DTS supports diagnostics for the new FlexRay bus system

Dear Readers of the 2005 Annual Report,

I have been a new member of the Executive Board of Softing and responsible for the field of Automotive Electronics since February 2006.

Let me briefly introduce myself: My name is Michael Siedentop, I am married and I have three children. After studying electrical engineering and earning my doctorate, I worked for a leading automotive electronics supplier from 1987 to 1999. During this time, I was responsible for the worldwide marketing and sales of car body electronics products and for the development and sales of on-board network systems. In 1999, I became managing director of TÜV SÜD Group, where I initially headed TÜV Automotive GmbH and in 2002 took over the management of TÜV Product Service GmbH. I look forward to fulfilling my new duties at Softing AG, an innovative SME with a very good position on the market and great prospects for the future.

Softing has achieved an excellent position in the field of automotive diagnostics. Through its work in committees such as ASAM (Association for Standardization of Automation and Measuring Systems), the company has made a significant contribution to the creation of international standards. Softing is the first provider in the world to offer a complete portfolio of hardware and software products for the ODX (Open Diagnostic Data Exchange) standard. ODX considerably simplifies processes for the development, testing, production and service departments of automobile manufacturers and suppliers, thus helping to improve quality and reduce costs. Softing's DTS products are the right software tools for everything from diagnostics to the programming of control units.

Significant sales growth is expected in this market in 2006. And Softing will continue to support innovative automotive electronics systems and offer our customers future-proof solutions.

Uniform data structures in electronic control units – from development to service – will play an important role in automobile manufacturing in the future. Production and after-sales in particular will therefore become increasingly important to Softing. Last year's acquisition of hard&soft Salwetter-Rottenberger GmbH – which will make a noticeable contribution to Softing's sales and earnings for the first time in 2006 – was a response to this development.

Besides its largely standardized products, another important pillar of business for Softing is its customer-specific development projects. Softing has positioned itself well in the field of innovative automotive bus systems (such as Flexray®, LIN®, Most®), and its extensive knowledge will benefit customer projects. Softing's order situation is stable thanks to the company's recognized expertise. Business is therefore expected to be satisfactory, despite what continues to be a strained situation in the automobile industry.

To secure its future development, Softing is involved in the AUTOSAR consortium (AUTomotive Open System ARchitecture). Our goal is to use the expertise we have acquired to develop services and products for the coming years. In doing so, we will ensure that Softing remains a synonym for the diagnosis of automobile control units.

Dear shareholders, employees and friends of Softing, the year ahead of us is filled with great opportunities for success, pioneering issues – and a lot of hard work. I look forward to the year 2006 with Softing: to making my own contribution to the company's success and to enabling you to benefit from this success as well.

Dr. Michael Siedentop

Softing – Your Connection to the Future

Softing is a successful, independent and global provider of hardware and software for **industrial automation** and **automotive electronics**. With over 180 employees, the Softing Group today achieves annual sales in excess of EUR 22 million. Many of the products Softing has developed since its foundation in 1979 have since become globally recognized standards.

In more than 25 years, we acquired the technical expertise that enables us to actively shape open technology standards and to be at the cutting edge of innovation. For the benefit of our customers. Cultivating the relationship with our customers is an ongoing process: It involves attention to and an understanding of the desires of our customers, which allows us to develop high-quality technological products in close cooperation with them. This results in the creation of customized solutions based on sophisticated standard products. Our top priority is to consistently transform new ideas into state-of-the-art, powerful and cost-efficient components and solutions. Professional and practice-oriented service goes without saying here. This allows partnerships to strengthen and grow. Our long-lasting, successful business relationships are a testament to this principle.

Industrial Automation

Softing has clearly positioned itself as a product and technology supplier in the field of **industrial automation**. We are a specialist for fieldbus technology and a competent partner for the networking of automation systems and industrial control solutions. Let us introduce some of our product groups.

Words printed in italics are explained in the glossary at the end of this annual report.

CAN – The Short-range Expert

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. Our CAN Interface Cards provide you with a large family of powerful interfaces to CAN, CANopen and DeviceNet networks. Our CAN Tools give device and system developers, as well as users, the necessary support in carrying out tasks such as interface development, network analysis, configuration and control. Through active involvement in the relevant organizations – *CAN in Automation e. V.* and the *Open DeviceNet Vendor Association* – we ensure that CAN products from Softing always conform to the latest international standards.

PROFIBUS Products – We Set the Standards

PROFIBUS is used to network manufacturing and processing systems. PROFIBUS is Europe's leading fieldbus for automation technology. Softing was actively involved in the creation of the first PROFIBUS specification. As early as 1988, Softing took over the first protocol implementation on behalf of the PROFIBUS user organization (*PNO*). Since then, we have continually expanded our portfolio of PROFIBUS products. We offer an extensive range of hardware and software components for the establishment and operation of PROFIBUS networks, including

Powerful interface board for connecting controls

interfaces, *gateways*, configurators and diagnostic tools. In accordance with Softing's company philosophy, we place great value in the functional integrity, performance and high quality of our products. Numerous renowned manufacturers and users in Europe, the USA and Japan rely on PROFIBUS products from Softing every day. This is reflected in an installed basis of tens of thousands of interface cards and countless customer systems equipped with Softing technology, as well as our certification as a PROFIBUS Competence Center.

Real-time Ethernet – The Communication Technology of the Future

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. One of the main requirements in this field is the ability to transmit information in real-time. Several technical approaches to solving this problem have been developed and marketed by various associations and manufacturers. Early on, we became actively involved in the specification of PROFINET, one of the most promising technical approaches. The anticipated market share suggests that PROFINET will reach a level of dissemination similar to that which PROFIBUS has achieved and which continues to grow. We will therefore offer our customers a PROFINET portfolio ranging from seminars, protocol software, interfaces and gateways to diagnostic tools. These products and solutions are aimed at device and control manufacturers, as well as system integrators and installation operators. Our strong expertise in this field has already been confirmed by our recognition as a PROFINET COMPETENCE CENTER.

We will also offer our customers a uniform integration platform which easily makes their devices fit for use with the other important technical solutions for real-time Ethernet communication, such as Ethernet IP and EtherCAT. This integration platform consists primarily of protocol software and various processors with scalable performance and functions – variable solutions for the communication of tomorrow.

FOUNDATION Fieldbus (FF) – Softing Sets the Standards

The number of *FF* projects has grown massively worldwide. In the oil, gas, chemical and pharmaceutical industries, traditional wiring is increasingly being replaced by the open, digital fieldbus. We have been a member of the Fieldbus Foundation right from the start, and we are actively involved in developing standards in its specification teams. Softing is a member of the FF Technical Steering Committee and the American, European and Chinese Marketing Committees. More than half of all certified *hosts* and field devices worldwide are based on FF technology from Softing.

Fieldbus integration kit:
Compact FF interface for HART devices

We are therefore clearly positioned as the technological leader in this market. Our status is strengthened through our products such as gateways, device interfaces and configurators.

OPC – Let Others Do the Work for You

OPC (Openness, Productivity & Collaboration) 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. As an industry-spanning, multi-vendor software interface, OPC minimizes production and maintenance overheads for the connection between software components. With OPC, we relieve you of the burdens of engineering and commissioning, thus freeing you to focus on your core activities. Here, too, we have many years of experience in the development of our own and customer-specific OPC products. Our OPC Toolkits for manufacturers as well as our OPC Servers and OPC Connector Tools set standards worldwide. We pass on the benefits of our knowledge to our customers in our seminars and technical literature.

Industrial Controls – 4CONTROL

Industrial control technology has become crucial for carrying out general technical processes in production and process engineering and building automation. For Softing, control technology stands not just for control, but also for programming in accordance with *IEC 61131-3*, operation, monitoring and error diagnosis. In addition to the existing vendor-specific PLCs, PCs are also becoming more established in the world of automation technology. Priority is being given to features such as computing power and storage capacity, standardized software interfaces, connectivity to different communication systems (e.g. bus systems) and high-performance operating systems. Softing offers an open, modular, flexible automation system based on this PC technology: 4CONTROL. Our product portfolio is rounded out by hardware platforms which are perfectly coordinated with one another.

Automotive Electronics – On-board and Off-board Communication

Electronic components and software today constitute 40 percent of the added value generated in automobile production. Due to the complexity of electronic networks, error diagnosis – which involves access to electronic control units (off-board communication) and the analysis of data traffic between these control units in a vehicle (on-board communication) – is one of the key technologies in automotive electronics. 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. With an installed base of some 50,000 test and diagnostic systems in automotive electronics, we are a leading provider in the growth market for control unit communication and vehicle diagnosis. We specialize in on-board and off-board vehicle communication, and our long-term customers include many leading automobile manufacturers.

DTS – The Diagnostic Product Family that Gets to the Bottom of Communication Problems

DTS is Softing's response to the growing variety and complexity in automotive communication. With DTS, our customers have access to standardized interfaces and open exchange formats. Our DTS products are the only ones whose individual expansion stages cover the entire process chain, from development through to the servicing of customer vehicles. Through our years of experience in standardization committees, particularly in ASAM e.V., we are able to immediately incorporate recent findings into our family of products. For example, Softing was the first in the market to offer an ASAM-enabled runtime system. Softing has also committed itself to the (follow-up) standard ASAM-ODX, with ODX-enabled tools for the entire process chain.

DTS Venice – A Tool for All Automotive Communication

Diagnostics communication and on-board communication are no longer separate worlds. There is a large overlap between the two forms of communication. Many parameters, values and environment variables are used both for diagnostics communication and for on-board communication. Instead of defining this data several times over in separate tools, our DTS Venice solution specifies the data once for all applications. DTS Venice ensures that data is described consistently. It also offers different levels of user guidance depending on the task, and it guarantees the thorough early detection of faults.

DTS Flash – Reliable, Flexible, Simple

In the automobile industry, code and data are regularly replaced in control units using existing bus systems (K-Line or CAN). Regardless of whether programming is carried out during development or testing, by the control unit supplier or automobile manufacturer, it is necessary to have an easy-to-use tool which completes its task quickly and reliably. The flash data is either stored in a centralized database or generated directly from a development tool. Whether the data is in a standardized or proprietary format is of secondary importance.

The key factor is that users can easily program the data in the control unit and the subsequent tests can be launched immediately. Our DTS Flash solution is ideally suited to all types of flash programming – that is, wherever data or code must be

A flash tool for all – for flash programmers and developers of flash processes

changed in a control unit. Thanks to its versatility, DTS Flash can handle individual programming tasks as well as general flash programming. Users save money by employing just one tool.

DTS Supports Diagnostics for FlexRay

A new bus system is currently establishing itself on the market: *FlexRay™*. This is a flexible, high-speed communication system which is tailored to the growing technical demands in automobiles. This communication system enables applications for real-time data transmission in distributed systems, such as X-by-Wire. Mechanical or hydraulic parts can be replaced by electronic systems with the help of this deterministic and fault-tolerant communication system. This means that even if individual components fail, the continued reliable operation of the remaining communication system is guaranteed. As a result, innovative and intelligent driver assistance systems can ensure more active safety and improved comfort in automobiles. We have expanded the DTS product family for the diagnosis of FlexRay bus systems. This enables access to the data of FlexRay™ control units and allows gateways (CAN/FlexRay™) to be tested. The enhancement of our DTS product family makes it possible for customers to access FlexRay™ control units at any point in the process chain, just as DTS has allowed them to do with other bus systems.

ODX – Saving Costs through Standardization

The data exchange format known as ODX (Open Diagnostic Data Exchange) optimizes workflows between OEMs and ECU suppliers. ODX enables vehicle manufacturers and ECU suppliers to exchange standardized diagnostic data with each other and amongst themselves. Coordination processes can be synchronized easily, since vehicle projects are carried out in a tool landscape based on a uniform data exchange format. With ODX, diagnostic information only has to be created and described once for development, testing, manufacturing and service departments, because the documentation of the ECU essentially corresponds to its implementation. This saves an enormous amount of time and money. Diagnostic quality is also improved, because by using ODX documentation as ODX test data, it is possible to achieve a considerably higher degree of test coverage in ECU diagnosis, which makes the entire data exchange process much more reliable. Softing's DTS product family comprises ODX tools for the entire diagnostic process chain.

EDIC® Product Family – A Stable Connection for Communication

Powerful interface cards based on microcontrollers are needed to handle the real-time requirements in automotive communication. Our interface cards in the *EDIC®* product family support common bus systems such as CAN, K-line, *LIN*, and J1850, as well as inputs and outputs for analog and digital data. Since the communication protocols are processed directly on the interface card, stable communication connections are guaranteed between electronic control units (ECUs) and PCs. EDIC® products are available in various form factors and thus form the basis both for our own software products, such as DTS, and for customer-specific solutions.

EDICnet with radio or wire coupling is particularly suited to flexible use in testing, production and customer service, where it is necessary to bridge large distances between the application computer and the vehicle diagnostic interface. For the past six months, EDICnet has been used successfully by a leading German automobile manufacturer. During the assembly process, automotive software is transmitted wirelessly by radio using a diagnostic head.

EDICmobil – So You're Always in the Picture

With the compact EDICmobil data logger, the automobile industry has a powerful tool for acquiring and visualizing measurement data. The EDIC-mobil V3 software makes it possible to select specific information from the ECU with CAN and K-line protocols. During measurement, the device can communicate with several different ECUs and carry out not only various measurement data acquisition tasks, but also specialized diagnostic jobs. Data recording can be triggered automatically, and it is even possible to switch automatically to other measurement configurations for carrying out special tasks. Thanks to its flexibility, EDICmobil is already being used by numerous automobile manufacturers and suppliers in various countries. It can be used purely as a laboratory application, or in a fleet of vehicles for summer and winter tests.

osCAR – Driving Quality Up and Costs Down

With osCAR, Softing is making an important contribution to quality assurance and cost reduction in the manufacturing of automobiles and ECUs. osCAR offers the first integrated, standards-based platform for the automation of tests on mechatronic components and ECUs. This solution avoids proprietary data formats and thus enables test systems to be adapted quickly for various vehicles, subsystems or electronic control units. osCAR aims at a homogeneous computer structure and reduces the number of system interfaces, which improves the quality of tests and reduces costs accordingly. Ethernet- and Web-based operating and engineering tools allow for the network-wide maintenance of a test facility, including preventive maintenance and remote maintenance over the Internet.

osCAR: Use in testing and manufacturing

Softing – Reliable Support in Your Language

Our customers benefit not only from the outstanding technical features of our products, but also from our comprehensive range of support services in their individual fields. Experienced and highly qualified experts are available to our customers at no additional charge. They will personally address detailed questions, and they will speak your language – and not just in the technical sense. Communication takes place fluently in one of ten local languages and is strictly oriented on your individual case. The support we offer goes far beyond installation issues alone. It only ends for us when our product has fulfilled its task within your architecture. Softing places great value on comprehensive product support. "You helped me a lot. As always." – Jörg Vogelsang, project manager for ABB Germany.

Trade Fairs 2005

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 9 – 11	Measurement & Control Show, Tokyo, Japan
November 15 – 18	System Control Fair, Tokyo, Japan
November 22 – 24	SPS/IPC/DRIVES, Nuremberg, Germany

Automotive Electronics

January 31 – February 3	Annual Euroforum Meeting, "Elektronik-Systeme im Automobil", Munich, Germany
February 22 – 24	Embedded World, Nuremberg, Germany
March 1 – 3	IIR Expert Conference, "Diagnosesysteme im Automobil", Sindelfingen, Germany
May 2 – 4	Euroforum Expert Conference, "Software im Automobil", Stuttgart, Germany
May 11	Developer Forum, "Kfz-Elektronik", Ludwigsburg, Germany
May 18 – 20	JSAE Annual Congress, Yokohama, Japan
May 31 – June 2	Testing Expo, Stuttgart, Germany
June 21 – 22	9th International Expert Conference, "Fortschritte in der Automobil-Elektronik", Ludwigsburg, Germany
October 6 – 7	VDI Conference, "Elektronik im Kraftfahrzeug", Baden-Baden, Germany

Trade Fairs 2006

Industrial Automation

February 14 – 16	Embedded World, Nuremberg, Germany
February 28 – March 1	General Assembly Fieldbus Foundation, Shanghai, China
April 23 – 27	light + building, Frankfurt/Main, Germany
April 24 – 28	Hannover Messe Industrie/INTERKAMA, Hanover, Germany
May 15 – 19	ACHEMA, Frankfurt/Main, Germany
May 16 – 18	Wärmetechnik 2006, Munich, Germany
November 28 – 30	SPS/IPC/DRIVES, Nuremberg, Germany

Automotive Electronics

February 7 – 8	Annual Euroforum Meeting, "Elektronik-Systeme im Automobil", Munich, Germany
February 14 – 16	Embedded World, Nuremberg, Germany
May 9 – 11	Testing Expo, Stuttgart, Germany
May 24 – 26	Automotive Engineering Exposition, Yokohama, Japan
June 22 – 24	KSAE, Jeju Island, Korea
September 20 – 21	10th International Expert Conference, "Fortschritte in der Automobil-Elektronik", Ludwigsburg, Germany
October 16 – 18	Convergence, Detroit, USA

Group Management Report for Financial Year 2005

The Company

The Softing Group consists of Softing AG, based in Haar near Munich; its subsidiary Softing North America Inc. (Softing North America), based in Newburyport (Massachusetts); and a branch office in Ratingen near Düsseldorf. Since 2005, Softing North America has had local development capacities, which makes it more than a pure marketing subsidiary. In February, Softing established its Romanian subsidiary SoftingROM s.r.l. (SoftingROM) for development and project services, whose staff has grown to 15 developers by the end of the year. SoftingROM is another valuable member of the Softing Group, both from the point of view of competitiveness and as a pool of IT specialists involved in challenging development tasks.

In July 2005, we fully integrated Reutlingen-based hard&soft Salwetter-Rottenberger GmbH into the Softing Group. 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.

The marketing subsidiary Softing Industrial Solutions Italia was liquidated as of the end of 2005. Customers in Italy are now served entirely through the parent company in Haar, which also cooperates with local distributors.

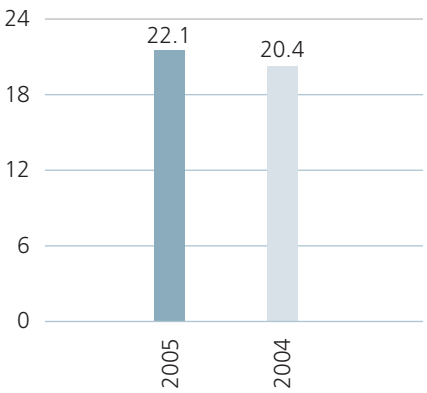
Softing has an international presence as a software and systems house in *industrial automation* and *automotive electronics*. The company develops complex, high-quality software, hardware and complete system solutions. Hardware prototypes are developed by the company itself; production takes place externally.

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.

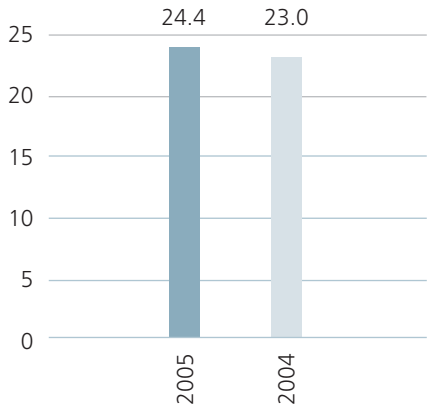
The powerful tools and solutions offered by its *Automotive Electronics* division have made Softing a systems partner to automobile manufacturers and systems and control unit suppliers for over 15 years. Softing specializes in on-board and off-board vehicle communication.

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

Sales
(in EUR million)



Total operating revenue
(in EUR million)



Softing primarily offers its services and products in Europe. In 2005, Softing North America in particular contributed to the Group's result by recording strong sales growth.

The share capital of Softing AG amounts to EUR 5,499,998 million. It is divided into 5,499,998 no-par value shares. In February, the Executive Board of Softing resolved to utilize the authorized capital in accordance with § 4 para. 4 of its Articles of Incorporation to carry out a capital increase by 499,998 shares, excluding subscription rights. The capital increase was approved by the company's Supervisory Board. The shares were placed with institutional investors at a price of EUR 2.22 per no-par value share. The capital increase was entered in the commercial register at the Munich local court.

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

Economic Environment and Course of Business

According to initial calculation of the Federal Statistical Office, the German gross domestic product grew by 0.9 % in real terms in 2005 compared to the previous year. This means that the economic recovery of 2004 (+1.6 %) has lost some of its momentum. The German automation industry including services recorded growth of about 5 % in 2005, according to estimates. In the past year, Softing's markets were once again affected by a reluctance to invest on the part of industry as a result of the economic situation. This became noticeable especially in the *Automotive Electronics* division.

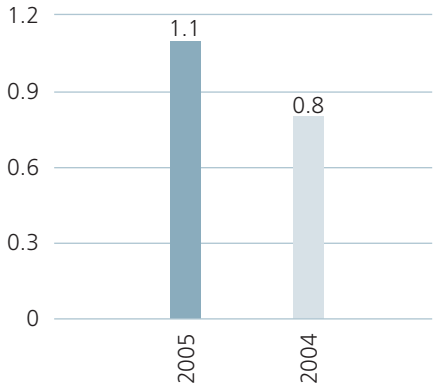
Earnings

Despite the continuing weak economic environment, the Softing Group was able to increase sales by 8 percent to EUR 22.1 million (previous year: EUR 20.4 million). Divided according to Softing's divisions, the *Industrial Automation* division achieved sales of EUR 11.3 million (previous year: EUR 10.8 million), and sales in the *Automotive Electronics* division amounted to EUR 10.8 million (previous year: EUR 9.6 million).

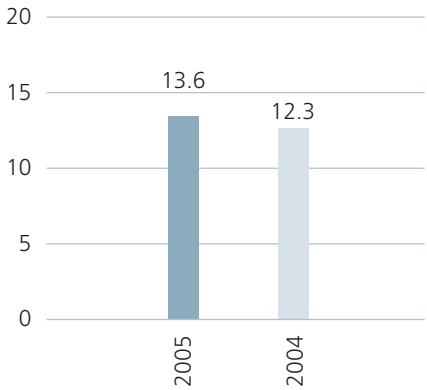
The total operating revenue of the Softing Group (sales revenue and own work capitalized) was EUR 24.4 million, up EUR 1.4 million compared to the previous year.

Earnings before interest and taxes (EBIT) also increased, by 37.8 %, to EUR 1.1 million (previous year: EUR 0.8 million). Softing was also able to boost its Group income considerably to EUR 0.6 million (previous year: EUR 0.4 million). The incoming orders of the Softing Group amounted to EUR 21.7 million (previous year: EUR 20.6 million).

EBIT
(in EUR million)



Equity
(in EUR million)



Staff costs as a percentage of total operating revenue decreased from 51.8 % to 50.6 %, which shows that our employees continue to be the Group's most important resource.

Softing North America recorded sales of USD 1.8 million (previous year: USD 1.1 million) and posted EBIT of USD 0.1 million (previous year: USD −0.2 million).

In the second half of 2005, hard&soft Salwetter-Rottenberger GmbH contributed EUR 1.5 million to the sales of the Softing Group. Its EBIT contribution was EUR 0.2 million.

The Romanian subsidiary SoftingROM, which was established in February, recorded sales of EUR 0.1 million. SoftingROM was founded to carry out development tasks and project services for Softing AG at competitive prices.

DVFA/SG earnings per share were EUR 0.11 for 2005 (previous year: EUR 0.09).

Assets and Financial Position

The Softing Group had equity of EUR 13.6 million at the end of 2005, as compared to EUR 12.3 million the year before. The return on equity (Group income as a percentage of equity) improved by 0.7 percentage points or 18.4 % to 4.5 % compared to the previous year.

The cash flow from operating activities decreased by EUR 0.6 million to EUR 2.8 million (previous year: EUR 3.4 million). The cash flow from operating activities expressed as a percentage of sales was 12.6 %, down four percentage points from the previous year. This was primarily due to the reduction of trade payables. At the end of 2005, funds (cash and cash equivalents and securities) amounted to EUR 4.7 million (previous year: EUR 6.3 million).

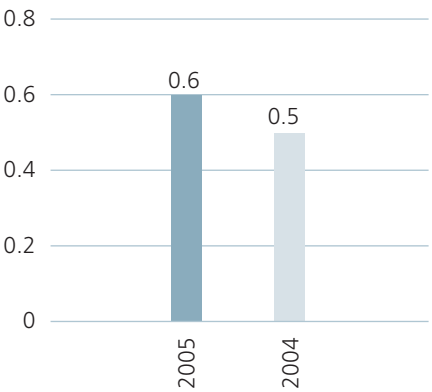
Research and Product Development

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 full-production status as quickly as possible.

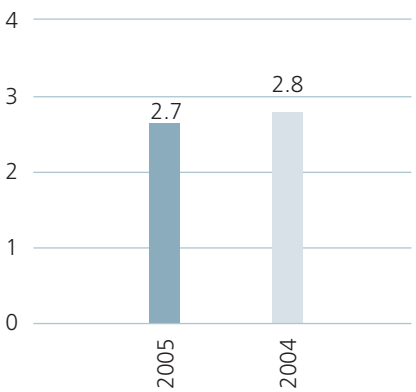
In total, Softing invested EUR 2.7 million (previous year: EUR 2.8 million) in the development of new products and the continued development of existing ones. As in previous years, these developments were financed exclusively through our own resources.

Investments of EUR 1.0 million were made in the *Industrial Automation* division (previous year: EUR 1.1 million). The main focus was on the development of new products and the 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 the communication with PROFIBUS networks. At the same time, Softing began developing Ethernet-based protocol soft-

Group income
(in EUR million)



Research and development expenses
(in EUR million)



ware, thus laying the foundation for entry in a market which is regarded as the growth market of the next decade by all experts. In November, we successfully presented or launched new products in all major segments, including CAN, PROFIBUS, PROFINET and OPC, at SPS/IPC/Drives, the most important automation exhibition in Europe.

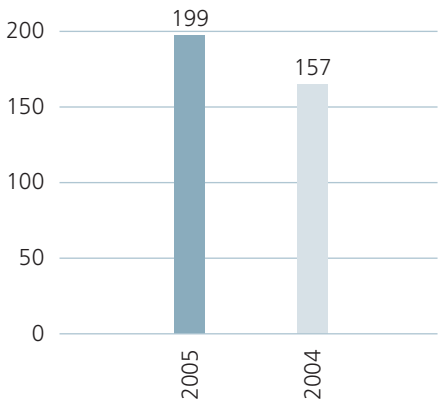
The *Automotive Electronics* division of Softing expanded the DTS (Diagnostic Tool Set) family to include new products and features in 2005. These essential comprise the comprehensive, end-to-end provision of the new ODX diagnostic standard across the entire diagnostic process chain, support of the new FlexRay bus system for diagnostic applications, and the market launch of DTS Flash, the flash programming product. Also, the hardware portfolio was upgraded in terms of usability and integrating modern PC interface technologies. Softing invested a total of EUR 1.7 million (previous year: EUR 1.7 million) in the *Automotive Electronics* division.

Employees

At the end of 2005, the Softing Group had a total of 199 full-time employees (previous year: 157). There were 130 employees working in product and project development (previous year: 96), and 48 in marketing and sales (previous year: 38).

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

Employees
(at year's end)



Forecast for the Future Development of the Company

Economic Revival and Market Growth

The economic environment is expected to improve in 2006. Based on existing market studies and our own estimates, we believe that economic growth of around 1.6 percent is possible in the Federal Republic of Germany in 2006. We anticipate even stronger growth for the euro area as a whole. Forecasts from the German Electrical and Electronic Manufacturers' Association (ZVEI) suggest that all sub-segments of the automation industry will participate in this growth. In the long term, the ZVEI predicts average growth of six to eight percent annually in the world market for automation technology.

Above-average growth in excess of ten percent is predicted for fieldbus systems. 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.

In 2005, we were able to massively 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 consid-

erably in 2006. This expansion strengthens Softing's position in one of the key segments of the industrial automation market. Softing's goal is to become the market leader in fieldbus diagnostics.

The use of fieldbus systems in production processes will continue to increase in the next years. As a result, supplying diagnostics tools to industry in order to improve equipment availability will remain a profitable growth market. Softing expects the takeover to deliver a significant increase in diagnostics tools sales from mid-2006. 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 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. Industry analysts predict that the market for automotive electronics will grow by 8 to 10 percent in the year 2006.

hard&soft Salwetter-Rottenberger GmbH, which was acquired in July, complements and strengthens the position of the *Automotive Electronics* division in the market for ECU test systems in the automotive manufacturing sector. The strategic strengthening of our production, the close integration of the management of hard & soft, and the company's continued existence as an independent enterprise offer great potential for the further growth of both hard&soft and Softing.

Outlook for Financial Year 2006

Softing expects its incoming orders and sales to increase in 2006. We anticipate sales of over EUR 24 million, 9 % higher than the previous year. This sales increase should be achieved in both business divisions. We expect EBIT of more than EUR 1.5 million.

Significant growth rates are also expected for our sales and, above all, our earnings in 2007.

We want to grow not just in Europe, but also in the United States, where business activities show a positive development. We foresee further sales growth and a continual improvement in EBIT for Softing North America.

Sales of around EUR 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

Use of New Technologies

PROFIBUS is by far the most dominant fieldbus protocol in Europe. Starting in 2006, however, the first customers will begin to prepare their devices and installations for its successor technologies: real-time Ethernet protocols. Softing is already engaged in discussions with some strategic customers. We will place the first protocol stacks with customers in 2006. This technology will be 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 should strengthen Softing's sales and earnings in the coming years.

SoftingROM Subsidiary

Softing continually develops new products and technologies in order to counter the decline in sales from old technologies, as well as to tap new markets and opportunities for growth. Our Romanian subsidiary SoftingROM has taken on the task of strengthening the development services necessary for this. Romania is an ideal location for Softing since it can be reached quickly and cheaply from Munich. There are also many well-educated young engineers and computer scientists in the region. In under a year, our Romanian subsidiary has grown into a 15-employee hotbed of technology for Softing. In 2006, SoftingROM will move into a new building which will give it the necessary space to further expand its development and project capacity.

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 circle of customers.

Softing North America, Inc.

Softing North America grew significantly in 2005, clearly passing the break-even point. Its product business is now established in the US market. The further expansion of its local sales and project capacity is planned for 2006. We expect this to result in considerable growth in both sales and earnings. Some of the new products planned for 2006 will sustainably support this development in the medium and long term. Smart alliances and product policies in 2006 will give the company a good chance of fending off competitors and becoming the de facto standard in industrial communication for the process industry.

hard&soft Salwetter-Rottenberger GmbH

The organizational integration of hard&soft was completed in 2005. The use of basic Softing software and the expansion of the company's sales structures through Softing will result in considerable synergies. This will allow hard&soft to acquire additional customers which would have been inaccessible without Softing. In return, hard&soft will significantly expand 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 that enable us to monitor and control our risks, including a centralized company planning process. 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 lead to 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 on earnings. Risks which we believe to be of little relevance to our business at this time are not mentioned.

Business Risks

In the year under review, we managed to increase both sales and earnings compared to the previous year. The situation on our markets was characterized by strong fluctuations of demand. This entails the risk of under utilization of capacities and the risk of sustaining pressure on realizable revenues. We meet these risks with stricter cost management measures and flexible working hour models so that we can quickly adapt to any changes in demand.

The situation on the market is characterized by a rapid change of the employed technologies. 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. Deviations from these plans can negatively affect our earnings and lead to claims for damages. We deal with this risk by planning such projects in accordance with a process model defined by our quality management system, and by carefully monitoring project progress with an alarm controlling system.

Risk of Damages

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

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

On January 18, 2006, the Supervisory Board of Softing AG appointed Dr.-Ing. Michael Siedentop to the company's Executive Board. Dr. Siedentop has assumed his responsibilities at Softing AG as of February 1, 2006. Bernd Häußler and the Supervisory Board mutually agreed to relieve Mr. Häußler from his duties as a member of the Executive Board and as the head of the *Automotive Electronics* division effective immediately.

Haar, Germany, February 10, 2006

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, 2005

Assets	Notes	Dec. 31, 2005 EUR	Dec. 31, 2004 EUR
A. Non-current assets			
I. Intangible assets			
1. Goodwill	B1	2,351,125	0
2. Development costs	B2	4,110,387	3,991,938
3. Other intangible assets	B3	1,349,123	218,291
		7,810,635	4,210,229
II. Property, plant and equipment			
Other equipment, furniture and fixtures and office equipment	B4	608,533	382,300
III. Deferred tax assets	C8	2,820,072	3,005,364
		11,239,240	**7,597,893**
B. Current assets			
I. Inventories	B7		
1. Raw materials and consumables		283,002	383,721
2. Finished goods		1,417,256	829,384
		1,700,258	1,213,105
II. Trade receivables			
1. Trade receivables	B8	3,448,454	3,046,722
2. Receivables from customer-specific construction contracts	B9	947,179	467,347
		4,395,633	3,514,069
III. Other receivables and assets	B10	266,369	185,877
IV. Current income tax assets	B11	286,835	70,450
V. Cash and cash equivalents	B12	4,728,620	6,337,828
		11,377,715	**11,321,329**
		22,616,955	**18,919,222**

Equity and liabilities	Notes	Dec. 31, 2005 EUR	Dec. 31, 2004 EUR
A. Equity			
I. Issued capital	B13	5,499,998	5,000,000
II. Capital reserves	B14	1,475,728	879,197
III. Retained earnings	B15	6,591,704	6,438,157
		13,567,430	**12,317,354**
B. Non-current liabilities			
1. Pension obligations	B16	1,223,871	901,540
2. Other non-current liabilities	B17	660,722	0
3. Deferred tax liabilities	C8	2,030,808	1,792,000
		3,915,401	**2,693,540**
C. Current liabilities			
I. Other provisions	B18	111,800	308,695
II. Trade payables			
1. Trade payables	B19	741,016	621,229
2. Payables from customer-specific production contracts	B9	454,303	551,469
III. Other current liabilities	B20	3,621,598	2,426,935
IV. Current income tax liabilities	B21	205,407	0
		5,134,124	**3,908,328**
		22,616,955	**18,919,222**

Consolidated Income Statement

for Financial Year 2005

		Notes	2005 EUR	2004 EUR
1.	Revenue	C1	22,063,060	20,376,101
2.	Other own work capitalized	C2	2,336,919	2,612,775
3.	Other operating income	C3	751,113	868,101
			25,151,092	**23,856,977**
4.	Cost of materials	C4		
	a) Cost of raw materials, consumables and purchased goods		– 4,007,756	– 3,802,541
	b) Cost of purchased services		– 649,531	– 735,378
			– 4,657,287	– 4,537,919
5.	Staff costs	C5		
	a) Wages and salaries		– 10,635,905	– 10,235,318
	b) Social security and retirement benefit costs		– 1,721,497	– 1,679,791
			– 12,357,402	– 11,915,109
6.	Depreciation and amortization		– 3,199,483	– 3,122,329
7.	Other operating expenses	C6	– 3,886,563	– 3,525,969
8.	**EBIT**		**1,050,357**	**755,651**
9.	Other interest and similar income	C7	102,417	99,860
10.	Interest and similar expenses	C7	– 96,488	– 98,392
			5,929	1,468
11.	**EBT**		**1,056,286**	**757,119**
12.	Income tax	C8	– 450,790	– 292,619
13.	**Group income (= attributable to the shareholders of the parent company)**		**605,496**	**464,500**
	Earnings per share (diluted = basic)		0.11	0.09

Consolidated Cash Flow Statement

for Financial Year 2005

	2005 EUR (in thsds)	2004 EUR (in thsds)
Group income	605	465
Adjustments		
Interest income	– 102	– 100
Interest expense	96	98
Income tax	451	293
Depreciation and amortization	3,199	3,122
Exchange differences	– 56	0
Result from the disposal of intangible assets and property, plant and equipment	0	8
Change in provisions	– 477	– 164
Change in inventories	224	– 147
Change in other receivables and assets	– 385	– 553
Change in liabilities	– 693	292
Interest received	102	100
Income tax paid	– 188	– 27
Cash flow from operating activities	**2,776**	**3,387**
Cash receipts from the disposal of intangible assets and property, plant and equipment	11	2
Cash payments for investments in property, plant and equipment	– 338	– 217
Cash payments for investments in intangible assets	– 3,620	– 2,870
Cash payments for the acquisition of consolidated companies	– 1,535	0
Cash receipts from the sale of investments	0	2
Cash flow from investing activities	**– 5,482**	**– 3,083**
Cash receipts from capital increase = Cash flow from financing activities	**1,097**	**0**
Net change in funds	– 1,609	304
Funds at the beginning of the period	6,338	6,034
Funds at the end of the period	**4,729**	**6,338**

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

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**

	Cost			
	Jan. 1, 2004	Additions	Disposals	Dec. 31, 2004
	EUR	EUR	EUR	EUR
I. Intangible assets				
1. Goodwill	61,706	0	0	61,706
2. Development costs	30,547,253	2,833,254	0	33,380,507
3. Other intangible assets	1,513,531	36,720	3,847	1,546,404
	32,122,490	**2,869,974**	**3,847**	**34,988,617**
II. Property, plant and equipment				
Other equipment, furniture and fixtures and office equipment				
Office equipment	2,645,647	172,083	25,925	2,791,805
Low-value assets	116,331	45,235	56,832	104,734
	2,761,978	**217,318**	**82,757**	**2,896,539**
	34,884,468	**3,087,292**	**86,604**	**37,885,156**

	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**

	Accumulated depreciation/amortization			Carrying amounts	
Jan. 1, 2004	Depreciation/amortiz. in the financial year	Disposals	Dec. 31, 2004	Dec. 31, 2004	Dec. 31, 2003
EUR	EUR	EUR	EUR	EUR	EUR
61,706	0	0	61,706	0	0
26,737,578	2,650,991	0	29,388,569	3,991,938	3,809,675
1,062,598	268,092	2,577	1,328,113	218,291	450,933
27,861,882	**2,919,083**	**2,577**	**30,778,388**	**4,210,229**	**4,260,608**
2,319,193	167,488	17,465	2,469,216	322,589	326,454
66,097	35,758	56,832	45,023	59,711	50,234
2,385,290	**203,246**	**74,297**	**2,514,239**	**382,300**	**376,688**
30,247,172	**3,122,329**	**76,874**	**33,292,627**	**4,592,529**	**4,637,296**

Consolidated Consolidated Statement of Changes in Equity

for Financial Year 2005

	Issued capital	Capital reserves	Retained earnings				Total Equity
			Valuation surplus	Currency translation	Other	Total	
	EUR (in thsds)	EUR (in thsds)	EUR (in thsds)	EUR (in thsds)	EUR (in thsds)	EUR (in thsds)	EUR (in thsds)
Notes	B13	B14				B15	
December 31, 2003/January 1, 2004	5,000	10,326	0	0	– 3,389	– 3,389	11,937
Changes in equity 2004							
Offsetting of actuarial losses	0	0	– 103	0	0	– 103	– 103
Measurement of financial instruments	0	0	18	0	0	18	18
Income and expenses recognized in equity	0	0	– 85	0	0	– 85	– 85
Group income 2004	0	0	0	0	465	465	465
Total income	0	0	– 85	0	465	380	380
Withdrawal from capital reserves	0	– 9,447	0	0	9,447	9,447	0
December 31, 2004/January 1, 2005	5,000	879	– 85	0	6,523	6,438	12,317
Changes in equity 2005							
Exchange rate changes	0	0	0	– 56	0	– 56	– 56
Offsetting of actuarial losses	0	0	– 373	0	0	– 373	– 373
Measurement of financial instruments	0	0	– 18	0	0	– 18	– 18
Income and expenses recognized in equity	0	0	– 391	– 56	0	– 447	– 447
Group income 2005	0	0	0	0	605	605	605
Total income	0	0	– 391	– 56	605	158	158
Addition from capital increase	500	610	0	0	0	0	1,110
Offsetting of transaction costs							
Capital increase	0	– 13	0	0	0	0	– 13
Changes in deferred taxes recognized in equity	0	0	0	0	– 5	– 5	– 5
December 31, 2005/January 1, 2006	**5,500**	**1,476**	**– 476**	**– 56**	**7,123**	**6,591**	**13,567**

Statement of recognized income and expense	**2005 EUR (in thsds)**	**2004 EUR (in thsds)**
Offsetting of actuarial losses	– 373	– 103
Measurement of financial instruments	– 18	18
Exchange rate changes	– 56	0
Income and expenses recognized in equity	– 447	– 85
Group income	605	465
Total income (= attributable to the shareholders of the parent company)	158	380
Effects of changes in accounting policies according to IAS 8 (= attributable to the shareholders of the parent company)		– 103

Notes to the Consolidated Financial Statements for Financial Year 2005

A. General Information

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 2005 financial year based on the reporting period from January 1 to December 31, 2005.

The consolidated financial statements and the Group management report are filed with the Commercial Register at Munich Local Court (HR B 127604).

The Executive Board of Softing AG released the consolidated financial statements to the Supervisory Board on February 10, 2006. It is the task of the Supervisory Board to examine the consolidated financial statements and declare whether it approves the consolidated financial statements.

1. 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.

2. New and Revised Standards

Changes in Accounting Policies Due to New Standards

In the 2005 financial year, the Company applied the IFRS whose application is mandatory for financial years beginning on or after January 1, 2005, and which form the so-called stable platform.

Of these standards – insofar as they are relevant for the business of our company – the following were applied for the first time in the 2005 financial year:

IAS 1	Presentation of Financial Statements
IAS 2	Inventories
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10	Events after the Balance Sheet Date
IAS 16	Property, plant and equipment
IAS 17	Leases
IAS 21	The Effects of Changes in Foreign Exchange Rates
IAS 24	Related Party Disclosures
IAS 27	Consolidated and Separate Financial Statements
IAS 28	Investments in Associates
IAS 31	Interests in Joint Ventures
IAS 32	Financial Instruments: Disclosure and Presentation
IAS 33	Earnings per Share
IAS 36	Impairment of Assets
IAS 38	Intangible Assets
IAS 39	Financial Instruments: Recognition and Measurement
IAS 40	Investment Property
IFRS 2	Share-based Payment
IFRS 3	Business Combinations
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations

The standards were applied in accordance with applicable transition provisions. Unless explicitly regulated in individual standards and explained separately below, all standards were applied retroactively, i.e., the presentation is made as if the new accounting policies had always been applied. Previous year's comparative figures were adjusted accordingly.

This had the following effects on the periods presented in the 2005 consolidated financial statements:

The consolidated balance must be presented based on the current/non-current distinction according to IAS 1 revised. This means that current and non-current assets and liabilities have to be reported separately. We regard items as being current if they are expected to be realized or settled within twelve months after the balance sheet date.

According to IAS 16, the statement of changes in non-current assets is also presented for the previous year.

The application of the other standards that became effective on January 1, 2005, did not have significant effects on the Group's financial position.

Early Adoption of Standards

In December 2004, the IASB published an amendment to IAS 19. The amendment that is relevant for the Softing Group essentially relates to the following aspects:

- Additional options for the recognition of actuarial gains and losses to include an optional recognition in equity of the amounts incurred in the reporting period
- Change of notes on defined benefit pension plans.

The application of the amendments to IAS 19 is mandatory for financial years beginning on or after January 1, 2006. The Company adopted this standard early for the 2005 financial year and availed itself of the right according to IAS 19.93D to recognize actuarial gains and losses no longer based on the corridor method as in previous years but to recognize them directly in equity.

In accordance with IAS 8, the early adoption of IAS 19 was made retroactively for the previous year as well, Previous year's figures were adjusted accordingly.

The effects according to IAS 8.28 are explained in connection with the respective balance sheet items.

Standards/Interpretations not Adopted Early

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

- IFRS 7 "Financial Instruments: Disclosures"
- 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"
- IFRIC 7 "Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies"
- IFRIC 8 "Scope of IFRS 2"
- Amendment to IAS 1 "Presentation of Financial Statements" – Capital Disclosures
- Amendment to IAS 39 "Financial Instruments: Recognition and Measurement" – Cash Flow Hedge Accounting of Forecast Intragroup Transactions
- Amendment to IAS 39 "Financial Instruments: Recognition and Measurement" – Fair Value Option
- Amendment to IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 4" Insurance Contracts – Financial Guarantee

The first-time application of the new standards will result in expanded disclosures. The Company believes that the application of the new standards and the new interpretations will not have a significant impact on its financial statements in the period of first-time application.

3. Scope of Consolidation

The consolidated financial statements as of December 31, 2005 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**	**2005** **%**	**2004** **%**
Softing AG, Haar/Germany		
Softing North America Inc., Newburyport/USA	100	100
hard&soft Salwetter-Rottenberger GmbH, Reutlingen/Germany	100	–
SoftingROM s.r.l., Cluj-Napoca/Romania	100	–
Softing Industrial Solutions Italia s.r.l., Bozen/Italy	–	100

SoftingROM s.r.l. was established on February 18, 2005.

Softing Industrial Solutions Italia s.r.l. was liquidated effective December 20, 2005.

On July 8, 2005, Softing AG acquired all of the shares of hard&soft Salwetter-Rottenberger GmbH. The company was consolidated for the first time effective July 1, 2005. hard&soft Salwetter-Rottenberger is involved in ECU test systems in the automotive manufacturing sector and thus strengthens the position of Softing AG in this area. The acquisition cost was EUR 3,848 thsd. It comprises a fixed amount of EUR 3,250 thsd. and a variable component of EUR 750 thsd. The variable component is linked to the gross margins generated in 2005, 2006 and 2007. Based on previous year's results, the Company expects to meet the gross margin targets. A discount interest rate of 5.6 % was applied to the acquisition costs.

The acquisition had the following effect on the net assets of the Softing Group immediately prior to initial consolidation on July 1, 2005:

	EUR (in thsds)
Goodwill	2,351
Customer-related intangible assets	180
Other non-current assets	547
Current assets	1,306
Cash and cash equivalents	465
Current liabilities	1,000

The company's share in Group income was EUR 137 thsd. If we assume that the merger had takes place effective January 1, 2005, the Softing Group would report sales of EUR 22,801 thsd. and EBIT of EUR 766 thsd.

4. Principles of Consolidation

The initial consolidation was based on the time the shares were acquired and on the time when the companies included in the consolidated financial statements were founded. Capital consolidation is carried out by offsetting the purchase price against the subsidiary's newly valued net assets at the time of acquisition. The recognizable assets, liabilities and contingent liabilities of subisidiaries are recognized at fair value. The remaining goodwill is capitalized.

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

5. Measurement Principles

Measurement is based on the cost of acquisition or production. Financial assets and financial liabilities are carried at fair value. The measurement methods are explained in connection with the relevant balance sheet items.

6. Exercise of Judgement and Estimate Uncertainties

The preparation of consolidated financial statements requires the use of estimates and assumptions which have an effect on the items reported in the consolidated balance sheet and consolidated income statement. Actual figures may vary from the reported figures. The most important items in connection with estimates and assumptions are receivables and payables arising from customer-specific construction contracts, goodwill and pension obligations.

7. 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.

Since 2005, Softing North America has had local development capacities, which makes it more than a pure sales subsidiary. As a result, the company's local currency is now its functional currency.

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 2005	USD/EUR 2004	RON/EUR 2005	RON/EUR 2004
Closing rate (Dec. 31)	1.18	1.36	3.69	–
Average exchange rate	1.24	1.25	3.60	–

B. Notes to the Consolidated Balance Sheet

1. 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.

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 %.

The value in use determined in this way was compared to the carrying amount of the cash generating unit to assess its impairment. No impairment was identified in the 2005 financial year.

Goodwill results from the acquisition of hard&soft Salwetter-Rottenberger.

2. 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 sales revenue exceeds the capitalized expenses. The development costs for new product lines and new product versions are amortized over three years using the straight-line method; for purposes of simplification, a half-year's amortization is charged in the year the products are completed. 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.

Research and development expenditures (without capitalized development costs) in the financial year ended amounted to EUR 1,370 thsd.

3. Other Intangible Assets

Intangible assets acquired for consideration are carried at amortized cost. Software is amortized over three years in accordance with its respective useful life using the straight-line method. The rights acquired in 2005 in the area of diagnostic tools for fieldbus systems are amortized over eight years. Interest costs were not capitalized.

4. Property, Plant and Equipment

Property, plant and equipment is measured at cost, less usage-based depreciation. Interest costs are not capitalized. Government grants are offset against cost.

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 recognized under cost and accumulated depreciation 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.

5. Impairment

The recoverable amount of assets 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.

No impairment losses had to be taken on non-current assets in the financial year ended. Impairments of current assets are reported under the respective balance sheet items.

6. Lease Agreements

The Company has only concluded operating lease agreements. There are no financing leases which would have to be capitalized under IAS 17. The other operating expenses contain leasing expenses of EUR 151 thsd. (previous year: EUR 185 thsd.).

7. Inventories

Inventories are carried 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. In 2005, inventories were written down by EUR 16 thsd. (previous year: EUR 58 thsd.). As in the previous year, no reversals of impairment losses were recognized in the income statement.

The balance sheet shows the total carrying amount of inventories. As in the previous year, no inventories were recognized at net realizable value.

8. Trade Receivables

Trade receivables are initially measured at cost and subsequently measured at depreciated cost. Necessary allowances are based on the actual bad debt risk. In 2005, an impairment loss of EUR 95 thsd. (previous year: EUR 115 thsd.) was charged on doubtful debts.

	Dec. 31, 2005 EUR (in thsds)	Dec. 31, 2004 EUR (in thsds)
Trade receivables	3,448	3,047
Of which: Services not yet billed	60	36

9. 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 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 from customer-specific construction contracts.

	Dec. 31, 2005 EUR (in thsds)	Dec. 31, 2004 EUR (in thsds)
Total construction work in progress	2,188	1,452
Less: Advances received	– 1,695	– 1,536
Net amount	493	– 84
of which reported under:		
Receivables from customer-specific construction contracts	947	467
Payables from customer-specific production contracts	– 454	– 551

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 expense of EUR 1,737 thsd. (previous year: EUR 1,060 thsd.) and a profit share of EUR 451 thsd. (previous year: EUR 392 thsd.).

10. Other Receivables and Assets

With the exception of derivative financial instruments, other receivables and assets are initially measured at cost and subsequently measured at depreciated cost. IAS 39 requires all derivative financial instruments to be measured at market value, regardless of the purpose for which they were concluded. Changes in market value were recognized directly in equity because hedge accounting was applied, which served to hedge cash flows.

	Dec. 31, 2005 EUR (in thsds)	Dec. 31, 2004 EUR (in thsds)
Other tax assets	66	26
Derivative financial instruments	–	18
Receivables from employees	22	2
Other	178	140
	266	**186**

Other tax assets essentially comprise sales tax balances.

Receivables from employees concern interest-free loans.

11. Current Income Tax Assets

The current income tax assets concern corporate income tax and trade income tax receivables.

12. Cash and Cash Equivalents

	Dec. 31, 2005 EUR (in thsds)	Dec. 31, 2004 EUR (in thsds)
Securities	1,855	2,804
Cash	2,874	3,534
	4,729	**6,338**

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 2.185 %. Every three months, the issuer adjusts the rate to the market interest rate. The securities are initially measured at fair value and are categorized as "available for sale." Subsequent measurement is made at fair value; any unrealized gains or losses arising from rate changes are recognized separately in equity until they are realized.

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.

13. Issued Capital

As of February 11, 2005, issued capital was increased EUR 500 thsd. by way of a capital increase. As of the balance sheet date, the fully paid-in share capital of the Company was EUR 5,499,998.00. It is divided into 5,499,998 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.

In the reporting year, the number of shares rose by 499,998 shares from 5,000,000 shares to 5,499,998 shares due to the capital increase.

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

14. Capital Reserves

The capital reserves contain the premium on the issue of shares less transaction costs. As of February 11, 2005, EUR 610 thsd. were transferred to capital reserves by way of a capital increase.

15. 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.

16. Pension Obligations

This item concerns the partially reinsured and defined-benefit pension commitments granted to the three previous Executive Board members, which provide for retirement and widow's benefits, as well as orphans' benefits in the event one or both parents are lost. There is a variable commitment in addition to a fixed commitment. The amount of benefits is determined individually. The liabilities in connection with the pension plans are determined annually by independent experts in accordance with the projected unit credit method. The capitalized value of the reinsurance cover of EUR 1,202 thsd. (previous year: EUR 1,061 thsd.) was offset against pension provisions according to IAS 19.116 during the reporting period. Actuarial gains and losses were recognized directly in equity 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 106.2 points in 2004 to 108.3 points in 2005.

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

Basis of calculation	Dec. 31, 2005 %	Dec. 31, 2004 %
Assumed interest rate	4.0	4.9
Salary trend	0.0	0.0
Expected rate of pension increases	1.5	1.5

Development	2005 EUR (in thsds)	2004 EUR (in thsds)
DBO as of January 1	1,962	1,692
Service cost	–	76
Return on plan assets	– 127	– 191
Interest cost	96	91
Interest earned from plan assets	– 14	–
Actuarial losses	373	102
Pension payments to pensioners	– 5	–
Fair value of the external plan asset as of January 1	– 1,061	– 869
As of December 31	**1,224**	**901**

The initial recognition of actuarial losses according to IAS 19.93D resulted in an increase in pension obligations by EUR 373 thsd. in 2005.Previous year's figures were adjusted by EUR 102 thsd.

Reconciliation with the balance sheet	Dec. 31, 2005 EUR (in thsds)	Dec. 31, 2004 EUR (in thsds)
Present value of the defined benefit obligations (DBO)	2,426	1,962
Fair value of the external plan assets as of December 31, 2005	1,202	– 1,061
	1,224	**901**

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
Dec. 31, 2001	767	268
Dec. 31, 2002	1,150	659
Dec. 31, 2003	1,692	869
Dec. 31, 2004	1,962	1,061
Dec. 31, 2005	2,426	1,202

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 ended, the interest rate for the plan assets was 1.3 % (previous year: 0.0 %).

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

17. Other Non-current Liabilities

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

18. 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 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, 2005 EUR (in thsds)	Use EUR (in thsds)	Reversal EUR (in thsds)	Addition EUR (in thsds)	As of Dec. 31, 2005 EUR (in thsds)
Operational provisions	272	193	79	112	112
Personnel provisions	37	15	22	–	0
	309	**208**	**101**	**112**	**112**

The operational provisions essentially comprise provisions for guarantee obligations which were calculated based on historical values.

19. Trade Payables

Trade payables are initially measured at cost and in subsequent years measured at depreciated cost.

20. Other Current Liabilities

Other current liabilities are initially measured at cost and in subsequent years measured at depreciated cost.

	Dec. 31, 2005 EUR (in thsds)	Dec. 31, 2004 EUR (in thsds)
Other tax liabilities	400	490
Liabilities related to social security	275	224
Wages and salaries payable	1,161	1,414
Other	1,785	299
	3,621	**2,427**

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

Of the other non-current liabilities, EUR 1,088 thsd. are related to the acquisition of hard&soft Salwetter-Rottenberger GmbH. They are recognized at depreciated cost using the effective interest rate method.

21. Current Income Tax Liabilities

These income tax liabilities essentially concern hard&soft Salwetter-Rottenberger GmbH.

C. Notes to the Consolidated Income Statement

1. Revenue

Revenue from the sale of products is recognized at the time risk is transferred. Revenue from the sale of services (= customer-specific construction contracts) are 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.

Revenue from customer-specific construction contracts in 2005 was EUR 736 thsd. (previous year: EUR 668 thsd.).

Revenue by regions	2005 EUR (in thsds)	2004 EUR (in thsds)
Domestic	14,831	13,174
Abroad	7,232	7,202
	22,063	**20,376**

Revenue by products and services	2005 EUR (in thsds)	2004 EUR (in thsds)
Products	14,531	13,983
Services	7,532	6,393
	22,063	**20,376**

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:

	2005 EUR (in thsds)	2004 EUR (in thsds)
Write-offs of liabilities	82	214
Reversal of provisions	101	198
Other income not related to the accounting period	63	18
	246	**430**
Income from exchange differences	117	4
Revenue from the provision of automobiles	100	119
Revenue from subsidized projects	199	177
Other income	89	138
	751	**868**

4. Cost of Materials

	2005 EUR (in thsds)	2004 EUR (in thsds)
Purchase of components and products	3,895	3,803
Third-party services	656	473
Fees, freelance personnel	106	262
	4,657	**4,538**

5. Staff Costs

	2005 EUR (in thsds)	2004 EUR (in thsds)
Salaries	9,230	8,778
Social security and retirement benefit costs	1,845	1,680
Profit-sharing, royalties	991	947
Provision of automobiles to employees	110	134
Severance pay	16	170
Temporary workers	65	108
Other	100	98
	12,357	**11,915**

Of the social security and retirement benefit costs, EUR 801 thsd. (previous year: EUR 759 thsd.) concern costs for the statutory pension scheme.

6. Other Operating Expenses

The other operating expenses are as follows:

	2005 EUR (in thsds)	2004 EUR (in thsds)
Operating expenses	2,180	1,812
Distribution costs	1,156	1,171
Administrative expenses	515	532
Expenses resulting from exchange differences	29	3
Expenses unrelated to the accounting period	7	8
	3,887	**3,526**

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

	2005 EUR (in thsds)
Audit of annual financial statements	60
Tax consultancy services	19
Other services	7
	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:

	2005 EUR (in thsds)	2004 EUR (in thsds)
Deferred taxes on temporary differences	175	– 11
Deferred taxes on tax loss carryforwards	192	301
Tax income/expense	84	2
	451	**292**
of which: Current income tax of prior periods	1	–

Deferred taxes are recognized for temporary differences between the financial statements prepared for financial reporting purposes and the financial statements prepared for tax purposes and for any differences arising from uniform accounting and consolidation. Deferred taxes are determined based on the applicable country-specific tax rates. The applicable domestic tax rate is determined as follows:

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

The tax rate for Softing Italia was calculated to be 36 %, including the regional ERAP; for Softing North America, it was calculated to be 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 shown only to the extent that a company will, in all likelihood, achieve taxable income sufficient to utilize the benefit of losses carried forward. The forecasts of the tax results indicate that the loss carryforwards will be realized in the next four years. The company has tax loss carryforwards of EUR 7,424 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, 2005	Usable until
Softing AG, trade tax loss carryforward	7,062	Unlimited
Softing AG, corporate income tax loss carryforward	6,908	Unlimited
Softing North America, Inc.	439	2010/2025

No deferred tax assets from losses carried forward in relation to state tax were recognized for Softing North America, Inc. Due to tax profits of Softing AG, a total of EUR 468 thsd. of the loss carryforward could be utilized in financial year 2005.

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.

	2005 EUR (in thsds)	2004 EUR (in thsds)
Earnings before taxes	1,056	764
Anticipated tax expense (37.34 %)	394	286
Non-recognition of deferred taxes on temporary differences	41	– 42
Non-recognition of deferred taxes on tax losses	7	– 17
Non-recognition of deferred taxes in previous years	– 12	41
Tax additions and deductions	18	7
Different tax rates	– 15	19
Non-recognition of deferred taxes on temporary differences, Group	14	–
Current taxes, previous years	1	–
Other	3	–2
Tax expense disclosed in the income statement	**451**	**292**

Deferred tax assets and liabilities are comprised as follows:

Deferred tax assets	Dec. 31, 2005 EUR (in thsds)	Dec. 31, 2004 EUR (in thsds)
Pension provision	146	150
Future tax benefits from loss carryforwards	2,674	2,855
	2,820	**3,005**

Deferred tax liabilities	Dec. 31, 2005 EUR (in thsds)	Dec. 31, 2004 EUR (in thsds)
Trade receivables	412	279
Intangible assets	1,577	1,491
Property, plant and equipment	26	22
Equity	5	–
Other liabilities	10	–
	2,030	**1,792**

D. 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	
	2005 EUR (in thsds)	2004 EUR (in thsds)	2005 EUR (in thsds)	2004 EUR (in thsds)	2005 EUR (in thsds)	2004 EUR (in thsds)	2005 EUR (in thsds)	2004 EUR (in thsds)
External sales	11,250	10,785	10,813	9,591	–	–	22,063	20,376
Depreciation/amortiz.	1,196	1,305	2,003	1,817	–	–	3,199	3,122
Segment result (EBIT)	1,147	647	– 97	109	–	–	1,050	756
Segment assets	5,692	4,236	8,719	4,899	8,206	9,784	22,617	18,919
Segment liabilities	2,895	2,336	3,919	2,473	2,236	1,792	9,050	6,601
Capital expenditure	1,987	1,148	1,856	1,847	114	92	3,957	3,087

2. Segment Allocation According to Products

Industrial Automation

Automation software 4CONTROL (Embedded and PC-based), control software (independent of the platform), visualization software, analytic software (4CONTROL Analyzer), optimization software (4CONTROL Energiser), libraries (technology software, all 4CONTROL libraries)

Control hardware (customized and standardized), 4CONTROL PanelPC, 4CONTROL FieldPC, 4CONTROL Ethernet Controller

Interface boards (PROFIBUS, CAN, CANopen, DeviceNet), gateways (PROFIBUS, FF), tools (configurators, analyzers (PROFIBUS, CAN)), servers (OPC, PROFIBUS, CANopen), development platforms (OPC Toolkits)

Customized 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

ECU communication software development

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 financial year 2005.

	2005 Number	2004 Number
As of January 1	93,800	101,900
New options granted	–	–
Options lapsed	– 4,700	– 8,100
As of December 31	**89,100**	**93,800**
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:

	2005 EUR
As of January 1	2.55
Options lapsed	3.19
As of December 31	2.51

5. Earnings per Share IAS 33

		2005	2004
Group income	EUR (in thsds)	605	465
Minority interest	EUR (in thsds)	0	0
Basic earnings (= diluted earnings)	**EUR (in thsds)**	**605**	**465**
Weighted average number of shares			
Basic	Number	5,442,464	5,000,000
Potential stock options	Number	24,342	19,126
Diluted	Number	5,466,806	5,019,126
Basic earnings per share	EUR	0.11	0.09
Diluted earnings per share	EUR	0.11	0.09

Furthermore, there exist 51,900 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 following persons are considered related parties of the Softing Group as defined in IAS 24:

Dr.-Ing. Dr. rer. oec. Wolfgang Trier, shareholder, Executive Board member Herr Dipl.-Ing. Bernd Häußler, shareholder, Executive Board member (until January 11, 2006)

Furthermore, a consulting agreement for the provision of support services was concluded with Dr. Manfred Patz. In 2005, this resulted in expenses of EUR 46 thsd.

Dr. Manfred Patz was awarded EUR 9 thsd. in a settlement agreement in connection with the loss of rights at the voting of the General Shareholders' Meeting on April 16, 2004.

7. Shareholdings in Softing AG

Softing AG was notified of the existence of the following shareholdings pursuant to § 21 para. 1 German Securities Trading Act:

MS-ONE Holding AG, Zurich/Switzerland, notified us in a letter dated February 25, 2005, that its share in the voting rights of Softing AG has fallen below the 5 % limit to 4.55 % due to the registration of the company's capital increase in the commercial register. These voting rights are directly held by MS-ONE Holding AG.

Mr. Hans-Peter Schmidt, Reutlingen/Germany, notified us in a letter dated February 25, 2005, that his share in the voting rights of Softing AG has fallen below the 5 % limit to 4.55 % due to the registration of the company's capital increase in the commercial register. These voting rights are attributable to Mr. Hans-Peter Schmidt pursuant to § 22 para. 1 sentence 1 no. 1 of the German Securities Trading Act.

Ms. Gabriele Müller, Reutlingen/Germany, notified us in a letter dated February 25, 2005, that her share in the voting rights of Softing AG has fallen below the 5 % limit to 4.55 % due to the registration of the company's capital increase in the commercial register. These voting rights are attributable to Ms. Gabriele Müller pursuant to § 22 para. 1 sentence 1 no. 1 of the German Securities Trading Act.

Correcting their notification dated February 25, 2005, MS-One Holding AG, Zurich/Switzerland, Mr. Hans-Peter Schmidt, Reutlingen/Germany, and Ms. Gabriele Müller, Reutlingen/Germany, notified us that the fall of their respective shares below the limit due to the capital increase did not occur on February 25, 2005 but on February 18, 2005.

U.C.A. AG, Munich/Germany, notified us in a letter dated September 1, 2005, that its share in the voting rights of Softing AG has fallen below the 5 % limit to 4.96 % due to the sale of stock.

Ms. Brigitte Mittmann, Munich/Germany, notified us in a letter dated September 6, 2005, that her share in the voting rights of Softing AG has fallen below the 5 % limit to 4.50 % due to the sale of stock.

8. Contingent Liabilities

There were and are no contingent liabilities.

9. Other Financial Obligations

As of the balance sheet date, the company had incurred purchase commitments in the amount of EUR 576 thsd. under long-term contracts (previous year: EUR 806 thsd.).

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

	2005 EUR (in thsds)	2004 EUR (in thsds)
< 1 year	699	813
1 – 5 years	2,264	352
> 5 years	506	0
Total	**3,469**	**1,165**

10. Personnel

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

	2005	2004
As of the balance sheet date	199	157
Annual average	181	156

11. Executive Board

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

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

Payments to members of the Executive Board in the reporting period totaled EUR 720 thsd. (previous year: EUR 970 thsd.). All of these payments are of a current nature.

Compensation is divided into a fixed salary component (EUR 486 thsd.) and a performance-based, variable component (EUR 234 thsd.). The performance-based variable component is determined based on goals that were defined in advance. The Executive Board also participates in the company's stock option plan.

Pension obligations for former members of the Executive Board as of December 31, 2005 amount to EUR 1,224 thsd.

Payments to former members of the Executive Board during financial year 2005 amounted to EUR 5 thsd.

12. Risk Management Policy and Hedging

The financial risk management is intended to enable the Softing Group to detect all material potential risks early on and take appropriate defense measures.

Liquidity risk management involves ensuring that sufficient cash and cash equivalents and/or credit lines are available at all times. The monthly budgets are monitored by the executive management as part of the installed management mechanisms.

The Group is not exposed to material foreign currency risks in its operations. Revenue is essentially generated within the euro-zone. The trade receivables and payables are essentially denominated in euros. In the current reporting period, we have begun to hedge the currency risks in connection with our subsidiary in the United States.

The Group's earnings and cash flow from operations to a large extent is not subject to interest rate risks. Cash and cash equivalents are invested short term.

With regard to credit risks (default risk), there is no material customer concentration in the Group. Transactions are made by taking the creditworthiness of business partners into account.

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

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

14. Supervisory Board

The following persons were members of the Supervisory Board of Softing AG in financial year 2005:

Dr. Horst Schiessl, attorney at law, Munich, Germany (chairman)
Karlheinz Butscher, graduate engineer, Langenargen, Germany (deputy chairman)
Dr. Manfred Patz, graduate engineer, Vaterstetten, Germany

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

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

Mr. Butscher is also a member of the Supervisory Board of the following companies:
Shanghai SIM-TEMIC Electronics CO. Ltd. (until July 31, 2005)
TEMIC Automotive Philippines Inc. (until July 31, 2005)
TEMIC Telefunken microelectronic Hungary Kft. (until July 31, 2005)
Continental Automotive Mexicana S.S. de C.V. (until July 31, 2005)

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) reported in the consolidated financial statements. The chairman receives 200 % of the fixed and variable amount, the deputy chairman 150 %.

Remuneration for the active members of the Supervisory Board in financial year 2005 is distributed as follows:

	Fixed	Variable	Total EUR (in thsds)
Dr. Horst Schiessl (chairman)	10	30	40
Karlheinz Butscher (deputy chairman)	8	22	30
Dr. Manfred Patz	5	15	20

Payments to members of the Supervisory Board in the reporting period totaled EUR 90 thsd.

Haar, Germany, February 10, 2006

Softing AG

Dr. Wolfgang Trier Dr. Michael Siedentop

Auditors' Opinion

We have issued the following unqualified audit opinion:

We have audited the consolidated financial statements of Softing AG, Haar, Germany, consisting of the balance sheet, the income statement, the statement of changes in equity, the cash flow statement and the notes as well as the Group management report for the financial year from January 1 to December 31, 2005. 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 (HGB) and 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, 2006

Bayerische Treuhandgesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Huber
Wirtschaftsprüfer

Pieper
Wirtschaftsprüfer

Report of the Supervisory Board

for Financial Year 2005

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 seven Supervisory Board meetings were held in the year under review (February 11, March 4, May 9, July 7, September 16, November 6, December 21). 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 was closely involved in the strategic orientation aimed at generating additional income, the restructuring of existing business areas and the commencement of new activities. 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, 2005 and the Group management report including the accounting were audited as required by law by Bayerische Treuhandgesellschaft AG, Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft, the auditors appointed by the

General Shareholders' Meeting. The auditors issued an unqualified audit opinion. The consolidated financial statements were prepared in accordance with International Accounting Standards/International Financial Reporting Standards (IAS/IFRS) and audited by the auditors in accordance with §317 German Commercial Code (HGB) and by taking into account the German standards for the proper audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland (IDW). The auditors confirmed that the consolidated financial statements and the Group management report for the financial year from January 1 to December 31, 2005, fulfill the requirements for exempting the company from its obligation to prepare consolidated financial statements and a Group management report in accordance with German law.

The annual financial statements and the audit reports of the auditors as well as the proposal of the Executive Board for the appropriation of accumulated profits were made available in time to all members of the Supervisory Board. At today's Supervisory Board meeting which was convened to discuss the financial statements, the Supervisory Board examined the annual financial statements and the Group management report of Softing AG presented by the Executive Board 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 2005 at today's Supervisory Board meeting. The annual financial statements for 2005 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, March 29, 2006

The Supervisory Board

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 complied with the recommendations regarding conduct contained in the Code's current and applicable version in the past fiscal year 2005, taking into account the exceptions and comments listed below. The Executive Board and the Supervisory Board also declare that they intend to comply with such recommendations in the future. The Management Board and Supervisory Board issued the Declaration of Conformity on March 13, 2006. Below, the Executive Board and the Supervisory Board disclose and explain any deviations from the Code. You can download the full text of the Code from the Investor Relations section of our website at www.softing.com.

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.

4.2.2

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

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 51 of the 2005 annual report. As in previous years, the annual report also contains information on the company's 2000 stock option plan.

4.2.4

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

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 is appropriate.

Remuneration for the active members of the Supervisory Board in fiscal year 2005 is presented on page 52 of this annual report.

Disclosures regarding directors' dealings pursuant to § 15a German Securities Trading Act (WpHG) are published in the Investor Relations sector of our website at www.softing.com.

For specific details regarding the stock option plan of Softing, please see page 48 of this annual report.

Corporate Boards and Directors' Holdings

Boards	Shares		Options	
	Sept. 30, 2005 Number	Dec. 31, 2005 Number	Sept. 30, 2005 Number	Dec. 31, 2005 Number
Supervisory Board				
Dr. Horst Schiessl (chairman), Attorney at Law, Munich	–	–	–	–
Dipl.-Ing. Karlheinz Butscher (deputy chairman), Langenargen	–	–	–	–
Dr. Dipl.-Ing. Manfred Patz, Vaterstetten	405,750	404,250	–	–
Executive Board				
Dr.-Ing. Dr. rer. oec. Wolfgang Trier, Grünwald	44,753	44,753	37,200	37,200
Dipl.-Ing. (FH) Bernd Häußler, Falkensee	12,000	12,000	–	–

Executive Board – Allocation of Responsibilities

Dr. Wolfgang Trier:	Chairman, Industrial Automation, Finance, Human Resources, Investor Relations
Bernd Häußler (until Jan. 2006):	Automotive Electronics
Dr. Michael Siedentop (from Feb. 2006)	Automotive Electronics

Financial Calendar

March 31, 2006	Financial Statements 2005
May 12, 2006	Quarterly Report 1/2006
July 26, 2006	Annual Shareholders' Meeting, Munich, Germany
August 11, 2006	Quarterly Report 2/2006
November 14, 2006	Quarterly Report 3/2006
November 27 – 29, 2006	Germany Equity Forum, Frankfurt/Main, Germany

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**tandardization 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.

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).

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.

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

Host

In computer systems with several *CPU*s 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.

LIN

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

Lightwave technology

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

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.

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.

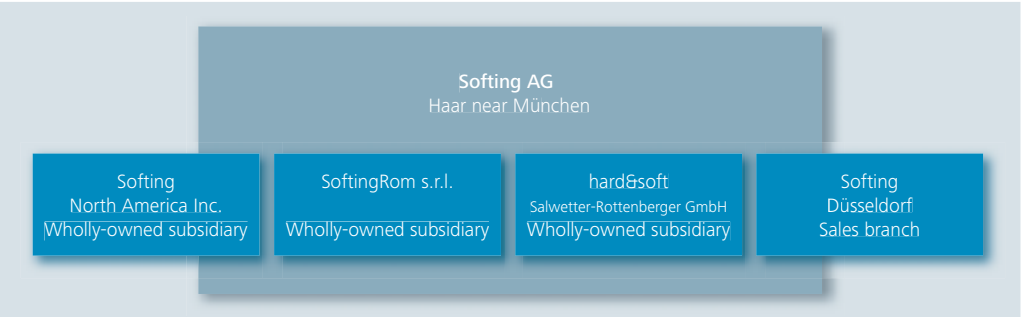
Real-time
A system works in real-time if it reacts fast enough to ensure that events are processed within a predefined period of time and are registered in the very sequence in which they occur. In the context of machine control systems, this usually includes response times between 1 and 50 milliseconds.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

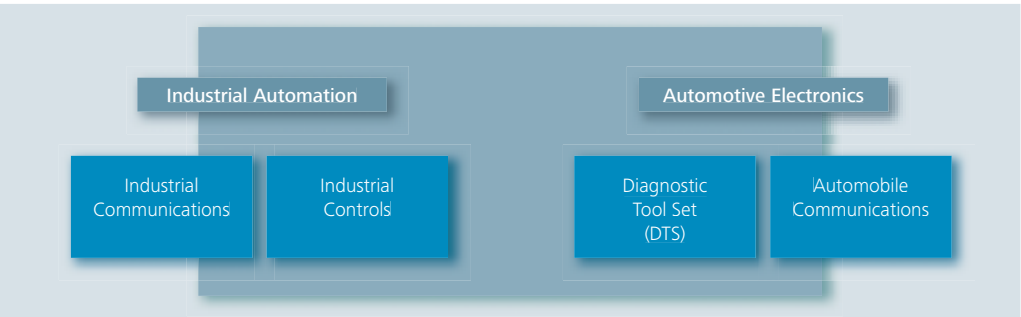
PLC
Programmable **L**ogic **C**ontroller. A digital electronic system with a user-programmable memory for storage of instructions that controls a variety of machines and processes by means of digital or analog input and output signals. PLCs are used for controlling technical processes in almost all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

TCP/IP
Transmission **C**ontrol **P**rotocol/**I**nternet Suit 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.

Business Structure



Divisions



Softing AG
Richard-Reitzner-Allee 6
85540 Haar, Germany
Phone +49 (89) 4 56 56-0
Fax +49 (89) 4 56 56-399
www.softing.com