



Realise Visions –  
Intelligent Solutions

Annual Report 2003

## The Company in Figures

(Figures shown in million EUR  
in accordance with IAS/IFRS)

	1999	2000	2001	2002	2003
Sales	14.5	16.3	19.6	21.2	15.7
Total performance <sup>1</sup>	16.6	18.9	22.1	17.6	16.2
EBITDA <sup>2</sup>	2.6	1.6 <sup>3</sup>	-3.7	-4.5	-1.3
EBIT <sup>2</sup>	1.6	0.03 <sup>3</sup>	-7.4	-9.8	-2.3
Net income/Net loss	0.8	-0.3 <sup>3</sup>	-5.1	-10.3	-2.2
Profit/loss per share (in EUR)	0.55	-0.08 <sup>3</sup>	-1.18	-2.40	-0.50
Staff <sup>4</sup>	187	245	337	271	208
Balance sheet total	13.7	45.9	40.8	30.0	27.4
Equity ratio	53.6%	84.0%	82.0%	77.2%	76.8%
Liquid assets	2.5	22.5	16.3	15.9	14.0

<sup>1</sup> Total performance before other operating income

<sup>2</sup> After interest income

<sup>3</sup> Adjusted for IPO expenses

<sup>4</sup> Full-time equivalent, mean value

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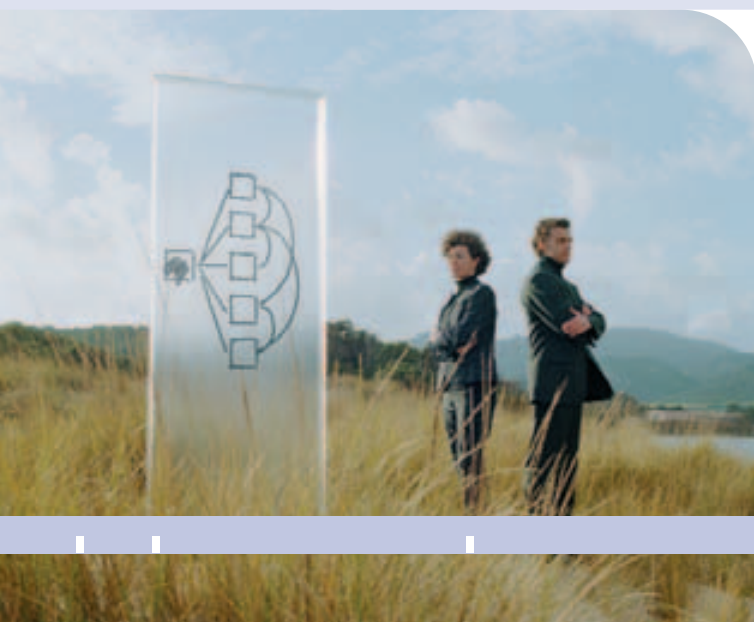
**Realise Visions –  
Intelligent Solutions**

PRO DV Software AG is one of the leading Germany systems companies for process-optimized and geo-based IT applications: we realise innovative solu-

tions customized to our customers requirements on the basis of market leading technologies.

Besides our many years of experience in IT and projects, the most important factors for our success are above all the comprehensive special expertise for applications in the areas of telecommunications, industry, government, utilities and retail and banking. Our special know-how in these industries in combination with leading technologies enables us to maintain a significant lead over our competitors.

Along with the established project fields, we especially want to expand our position on the growing market for geo-solutions in the coming years. PRO DV has set itself the clear goal of becoming one of the three leading providers in this field in Germany.



1979–2004

25 years PRO DV Software AG

Letter to  
Our Shareholders

The year 2003 saw no relief in the far-reaching recession in Germany. Thanks to the measures initiated at PRO DV, we were able to maintain stable turnover in a market environment which continued to be weak and were able to improve noticeably earnings. In particular, the restructuring into industry-oriented divisions brought with it major advantages in efficiency and sales strength. Presuming an improvement in the general economy, we believe that we will just break into the black in 2004.





## Dear Shareholders,

This past year continued to be overshadowed by the far-reaching recession in Germany. The IT industry as a whole once again had to absorb a significant loss in turnover. But in spite of this difficult environment, PRO DV was able, by and large, to achieve its turnover and result targets. The measures we began initiating as early as 2002 have had positive effects on our situation: even though the divesting of unprofitable holdings also meant a loss of part of our turnover, the core business divisions were able to compensate this loss in the first year, primarily as a result of organic growth. The restructuring of the Company into industry-oriented divisions which we undertook proved to be a major success factor, allowing us to make substantial gains in customer orientation, efficiency and sales strength.

As a whole PRO DV was able to maintain overall performance at a largely stable level of EUR 16.2m (2002: EUR 17.6m) in the past year, although the economic environment remained weak. Although our clients are still noticeably reluctant to award IT contracts, we were able to acquire not only major new contracts – such as those from Galvanoform, ThyssenKrupp and the State of Lower Saxony – but also numerous extensive follow-up contracts – including Aral, Volkswagen and the Federal Employment Agency – thanks to the concrete benefits and fast return on investment which characterize our solutions. The conclusion of a far-reaching general agreement with T-Mobile comprising sales of consulting and programming services amounting to EUR 4.5m through the middle of 2004 was especially satisfying. Following the repeated, stricter quality audit by T-Mobile, PRO DV can now count itself as one of a small group of strategic suppliers.



In the past year, we concluded strategic partnerships with key players on our markets, including SAP and CSC Ploenzke, with the aim of securing our continued growth. This will enable us to open up new potential and attract customers on the SAP market.

In addition to intensifying our sales activities, we provided support to leaner processes by pursuing a rigorous programme to cut costs. We were able to increase substantially the operative result (EBIT) to EUR -2.3m (EUR -9.8m). PRO DV continues to have a solid equity ratio of more than 76 % and liquid assets of EUR 14.0m (EUR 15.9m).

By concentrating industry crossover know-how in the Competence Center Geo Solutions, we were able to expand further the strong market position we had achieved as solution and service providers in the area of space-related IT applications even on a weak overall market. High two-digit growth rates are predicted for this market in the next few years. We have here a broad clientele ranging from T-Mobile to Aral to the Federal Ministry of the Interior and have already created a strong profile for ourselves on the market. Our goal is to become one of the three leading providers in Germany in the coming years.

We are entering the new year with the confidence befitting our position: in the second half of 2003, PRO DV reached the turning point thanks to improved efficiency and reduction of costs, and each of the last two quarters closed with a virtually balanced operating result (EBIT). The economic cycle appears to have reached, or even passed, its lowest point. If the economy begins to move, we can quickly return to a path of positive growth and earnings, as a substantial investment backlog has formed in our target industries. Since we did not delay in taking the necessary steps, we will be able to break into the black in terms of earnings once again this year. We foresee an economic recovery and the release of the investment backlog which has built up in the first half of 2004 so that PRO DV will profit directly and over-proportionately from a renewed increase in IT investments as of 2005 at the latest, once again showing sustained profitability.

We would like to thank everyone on our staff for their commitment and the work they have done in the past years. We are optimistic that the stimuli for a positive business development will have made themselves felt by the time of our Company's 25th anniversary on 01 July 2004. Our staff are the guarantee for our success; their know-how and commitment turn our visions and the visions of our clients into reality.

Sincerely,



Klaus Bullmann



Udo Bücher



Uwe Osterkamp

### The Corporate Strategy

Make structures leaner, cut costs, strengthen service – all of these vital management tasks can be summed up as one major topic: efficient corporate organization. PRO DV offers companies the decisive base for their success: an efficient IT infrastructure and expertise specific to their industry. Our customized solutions give our clients intelligent answers to the questions about their future challenges.





### > Experienced solution providers – concentration on five industries

Since the establishment of our Company as a software developer for technical information systems in 1979, we have developed into one of the leading systems companies for process-optimized and geo-based IT applications. As a solution and service provider, PRO DV Software AG concentrates specifically on five industries: Telecommunications, Government, Industry, Utilities and Retail & Banking. In setting up these divisions, PRO DV has simultaneously oriented its activities to especially interesting industries. Industry-focused distribution which can rely on long years of solution competence and renowned references at PRO DV opens up ideal access to these industries for us. We will be able to exploit this access in the coming years to expand further and consistently our position, already today a strong one, within these industries.

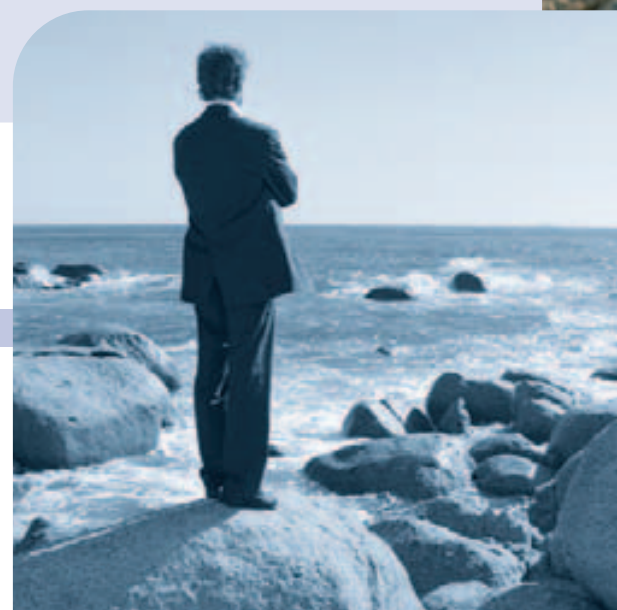
Our internal orientation to specific industries gives us a significant lead with respect to our competitors and creates an inestimable additional value for our clients. This is demonstrated by our list of clients, which includes well-known names from our target industries, among them Telecommunications (T-Mobile, E-plus, Vodafone, O<sub>2</sub>), Utilities (RWE, Ruhrgas, Verbundnetz Gas), Industry (Bayer, VW, Warner Music) and Government (Federal Employment Agency, Federal Ministry of the Interior).

PRO DV offers to the client solutions from a single source and covers the full length of the added-value chain. Our array of solutions comprises all of the major steps of a project, beginning with the identification of the tasks to be accomplished, the drawing up of the solution approach, the implementation through to real operation and the running servicing.

By focusing on five industries, we can exploit synergy effects in client projects intensively and thus further expand our leading position. Our special industry and solution competence is supplemented by the Competence Center Geo Solutions. We want to conquer a position among the Top 3 in Germany in this segment in the next few years.

### > The growing market information technology

Modern information technology is today the basis for numerous key developments in business and society. It is no longer possible to imagine production processes, business procedures and services without the detailed analysis of information, without the specific availability and intelligent use of real-time data. The example of mobile business, the connection of Internet and electronic commerce with mobile terminals such as notebooks, mobile phones or PDAs, shows how the dynamics of our market affects us



even in our personal life: just a few short years ago, very few people used mobile phones, which at that time were as large and heavy as a briefcase. Today, in the age of the Internet, GPRS and (soon) UMTS, more and more people are handling their personal and business affairs while on the go, using a device which barely weighs 100 grams. Along with the mobile phone, personal digital assistants (PDA) are enjoying increasing popularity, especially among business users. The spread of WLAN technology will undoubtedly help wireless communications via laptop – both within company networks and while travelling on business trips – to celebrate a decisive breakthrough. Especially for companies, the integration of service and field personnel in their own IT infrastructure which is possible today is a decisive step forward in terms of efficiency.

Our growth potential on this market is substantial: the German market, with a share of 22 %, is the most important western European market, ahead of Great Britain (21 %) and France (15 %). And western Europe itself is itself the world's second-largest IT market with a 30 % share and a total volume of EUR 285bn, surpassed only by the USA (world market share 41 %) (source: EITO).

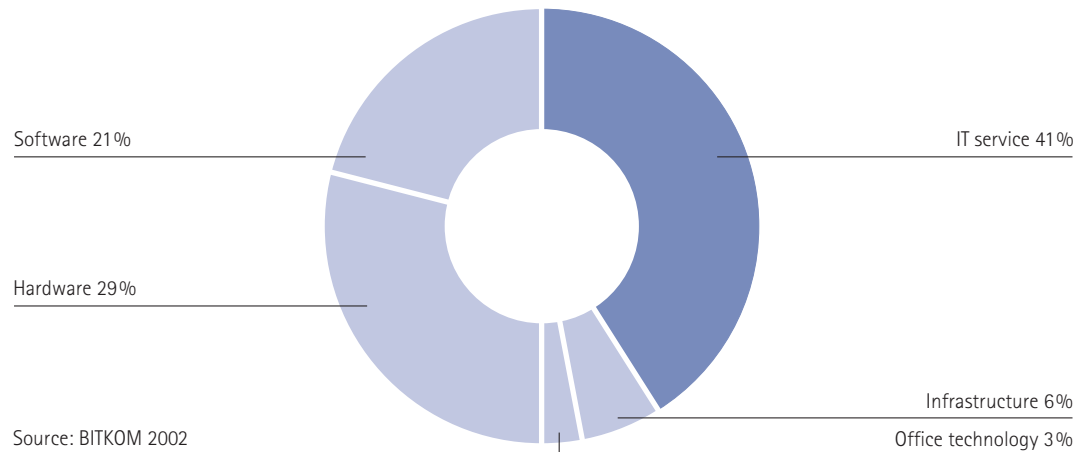


1982

1982: Move to the Company's first own office in Essen. The Company is renamed PRO DV Software GmbH. New clients: Bayer, Thyssen. Total of 12 employees.



### > Distribution of IT Investments in Germany



Since its founding, PRO DV has concentrated on the largest segment of the German IT market: according to BITKOM, about 40 % of the German IT market (total volume EUR 66bn) is related to IT services, the core competence of PRO DV. Our line of services – consulting, implementation and support services – covers in total about two-thirds of this market share of EUR 26bn.



1986

1986: Move to the Essen Technology and Development Centre (ETEC), which has room for up to 25 employees. New clients: Flachglas, Hoesch, VEW, Bergbau AG, Nixdorf.

### > Additional growth opportunities from strategic SAP partnerships

Last year PRO DV systematically entered into strategic cooperation ventures with established partners on the steadily growing SAP market with the goal of developing further our existing industry competence and of being able to expand faster into new markets.

At the end of May, PRO DV and SAP AG concluded a cooperation agreement for the development of specific application possibilities found in the SAP portal technology. SAP has designated its mySAP Enterprise Portal as a universal standard user interface and will discontinue its current client-server approach. The use of the SAP portal technology should allow various user groups to have individual access to specialist applications. The advantages are to be found in the move away from an application-oriented viewpoint to a context-centred, role-specific compilation of information content and functionalities from widely divergent sources. With the help of this individual assembly of so-called iViews, employees, customers and suppliers of a company can be offered ballast-free access to precisely those components on different systems which they require for their work. As a result, it is no longer necessary for these user circles themselves to be able to work with the specialist applications, some of which are highly complex. Since the various iViews „communicate“ with one another, they can respond jointly to user actions. The single sign-on technology, requiring only a one-time logon to the portal, offers additional benefits: the user's rights are taken into account in each of the various systems.

The strategic partnership with SAP is especially important for PRO DV in the division Utilities because almost all utility companies use SAP systems. The combining of operational and material data with geographic information is decisive for the network operators if they are to be able to process their data efficiently. Network information is virtually impossible to represent without map material.

PRO DV has had its own specialist application WinKKS certified by SAP and has been given official SAP partner status. WinKKS is an information system in which data for cathodic corrosion protection is collected and evaluated, e.g., protective currents whose flow through steel pipelines allows conclusions about possible corrosion to be drawn. In the next stage, we will work with SAP on a pilot project to construct a portal at a large utilities company. The integration of SAP PM and WinKKS will first result in a maintenance portal, which will then successively be expanded into a comprehensive enterprise portal.

The partnership with the base software producer was supplemented only a few months later by the cooperation agreement with an important SAP consulting company: in November 2003, PRO DV Software AG concluded a development partnership with the IT consulting company and service provider, CSC Ploenzke. The objectives of this venture are the joint development and sales activities of innovative solutions in the area of GIS/SAP integration for the optimization of business processes with a geographic relationship. PRO DV can exploit the SAP expertise and the process consultation know-how of CSC Ploenzke to set itself apart and position itself even more strongly on the market. The common market is large: the data of the two application areas enterprise resource planning (ERP) and geographic information systems (GIS) has as a rule not yet been homogenized.



### The Divisions

By combining expert knowledge and distribution in specialized divisions, PRO DV has specifically bundled industrial competence and sales power: our clients find experts with profound knowledge of their particular industry in five divisions. So our staff can quickly grasp the decisive requirements and develop in-depth understanding of the client's processes, together with the matching solution.



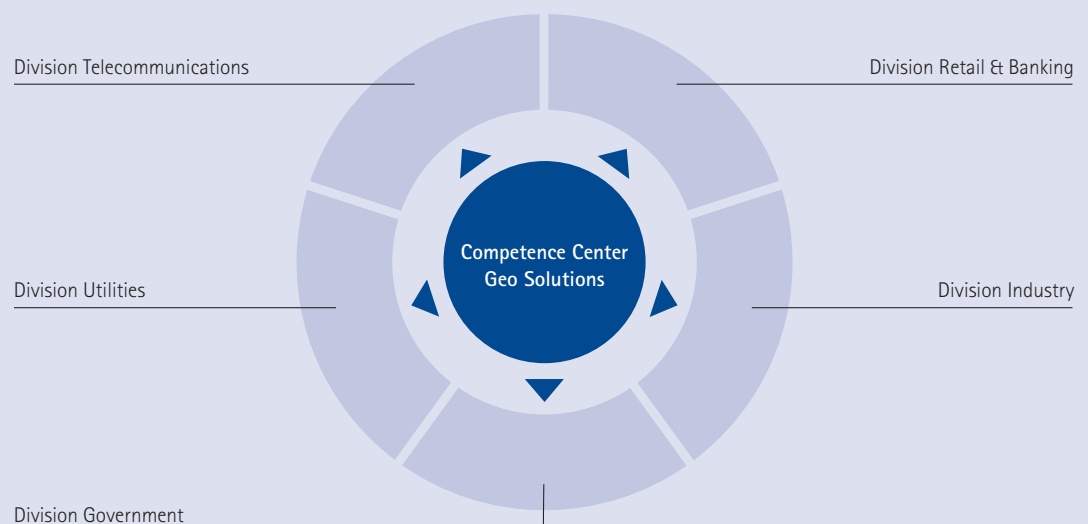


PRO DV has organized distribution and project realization teams into five divisions so that the existing industrial knowledge can be specifically bundled and the Company can perform strongly in sales as well. Our clients find experts with profound knowledge of their particular industry in our five divisions. So our consultants can quickly grasp the decisive requirements and develop in-depth understanding of the client's processes, together with the matching solution.

Thanks to the combination of our industrial competence with the Competence Center Geo Solutions, we offer virtually unique solution competence on the market. For example, we are one of the few providers who can customize integrated solutions in which applications for customer care are coupled to a geographical information tool.

This is why we now market our core competence geo-solutions with orientation to the client rather than the traditional competence and topic orientation in five target industries. The special know-how for geo-applications developed in the Competence Center Geo Solutions is made available to all of our divisions through our networked pools of knowledge and experts. The best ideas of everyone can be potentized by the bundling of the industrial know-how built up in the Company and the specific meshing of the technology-oriented expert knowledge. Unique and powerful solutions are created in cooperation with our clients from the direct connection of our industrial experts to the comprehensive knowledge of our engineers, IT specialists and economists.

In the divisions, our highly qualified staff with years of experience in similar projects are in direct contact with our target clients. All of the care of the client – from acquisition to project realization – is in the hands of the pertinent divisions, preventing problems with interfaces, allowing greater customer orientation and leading to the bundling of industrial competence.





Thanks to our proven solution competence and a circle of exclusive reference clients, we can address interesting new clients more specifically and can understand and solve their requirements better and faster. Overall, the restructuring has further increased both our own internal synergies and the added value for the client.

#### > Division Telecommunications

The intense pressures of competition and costs are forcing the telecommunications companies to optimize their infrastructures technically and, at the same time, to harmonize them worldwide due to the continuing internationalization, especially of the large wireless services companies. Since the growth potential on the landline market – but on the wireless services market as well – is limited and a merciless predatory competition has begun, companies want to keep their customer discontinuation ratios as low as possible by means of customer loyalty programs.

Here is where PRO DV offers support with specific solution packages in the areas of technical information systems, billing, knowledge management and customer care. For example, we develop applications for efficient network planning and network administration and make up-to-date network information – e.g., regarding disruptions and reach – available in customer relationship management systems. Customer enquiries can then be quickly and specifically answered. The Web-based applications from PRO DV also offer ideal solutions for direct customer queries via the Internet regarding network cover. Furthermore, PRO DV has a mature solution for the remote testing of mobile phone malfunctions with which the customer or mobile phone shop operator can close in on an error, or even eliminate it, using a controlled menu. This system, which is successfully used in all T-Punkte (Deutsche Telekom shops), has reduced repair work substantially and in many cases has even made it superfluous.

1990

1990: Move to Company's own software development centre in the Dortmund Technology Park. The Company has 35 permanent employees. Founding of the PRO DV subsidiary in Dresden.

Internally, our solutions for network planning, network monitoring and service control have created important competitive advantages for our clients, such as T-Mobile and O<sub>2</sub>, in an especially hotly contested industry. This is also the case for the internationalization, which represents a considerable growth potential for PRO DV: the worldwide acceptance of our technically leading solutions could open up new markets and customer circles for us.

> **Project example T-Mobile: Efficient complaint management strengthens customer loyalty**

Complaints are not so tragic. First of all, a company can learn a lot from them, and second, studies show that 95 % of complaining customers remain loyal to the company – if their complaints are professionally handled, at any rate. Efficient complaint management is thus an important success factor, above all on hotly contested markets.

Take wireless services as an example: having implemented an integrated service management solution developed by PRO DV for the Technical Customer Service, T-Mobile, the German market leader, can respond to enquiries and complaints quickly and efficiently. The system was completely integrated in the existing IT landscape of the Telekom subsidiary. Moreover, the solution has interfaces to other internal information management systems at T-Mobile. They include the connection to T-Map for the geo-





graphic visualization of network disruptions in the wireless services network – also a joint development of T-Mobile/PRO DV – as well as in particular the integration of the customer database and the data warehouse technology for generation of key values. The system also makes use of communications interfaces to e-mail, text message and fax services so that network status information can be actively forwarded to customers. PRO DV is currently working on the Release T-Map 2.0 on behalf of T-Mobile. The complete redesign focuses on the integration of the latest technology platforms, the integration of UMTS and the future worldwide availability of the system in various languages and in various IT landscapes.

By the way: if you log onto [map.t-mobile.de](http://map.t-mobile.de) on the Internet to find information about network coverage in certain areas, you will be shown the geographically visualized information right out of a solution developed by PRO DV.

#### > Division Government

The e-government solutions from PRO DV support the optimization of the processes of public administration through the use of modern Intranet and Internet technologies. If citizens, businesses and administration are to be able to use services efficiently, a multifaceted combination of information, communications, transaction and participation is decisive. Naturally the PRO DV experts make use of state-of-the-art procedures for security or verification in developing their solutions.

No matter whether it is the monitoring of foodstuffs, emergency situation management or information for the general population – our applications create leaner processes and greater proximity to citizens. The Federal Agency for Labour and the Federal Ministry of the Interior are just two of our clients. For forestry, we offer proforst, a market-leading application for state forest administrations and communities for operative production control which is used by the states Baden-Württemberg, Berlin and Hamburg as well as Saarland and others.

#### > Project example Federal Archives: 280,000 running metres of files presented on an Internet basis

PRO DV Software AG will be realizing a software system which serves to present archival development information (search books) on the Internet for the Federal Archives. The transformation of the data into an XML-based exchange format makes its integration into cross-archive search engines possible. The supplementation of the archive administration system established on a database, also developed by PRO DV, by the Web-based, platform-independent application means that the strictest requirements regarding guaranteed future and investments are met. The use of open source products which do not require payment of licence fees contributes to a fast return on investment.

The Federal Archives collects documentation of German contemporary history from 1815 to the present. If placed on a single shelf, the materials on file would have a total length of more than 280,000 running metres, corresponding approximately to the distance from Hamburg to Berlin. The archives collection is found in a wide diversity of media – on paper, on microfiches and increasingly in electronic form in many different data formats; it is developed and thereby made accessible to the public by documenting the information in the form of so-called search books. In the future, it will also be possible to look through these books on the Internet.

### > Division Industry

More and more diversification in product lines, accompanied by the simultaneous reduction in production depth – this is a new challenge for manufacturing companies today. In addition, customers expect short response and delivery times to their orders.

Exhausting all of the possible optimization reserves is the only way to meet the rising requirements of demand, procurement and competition markets. The industry experts at PRO DV have specialized in production/planning/control, computer-aided quality and logistics chain optimization. The tried and proven PRO DV manufacturing execution system f@stchain provides efficient process optimization by means of quick response manufacturing: the status of each individual production stage can be observed and analyzed within the overall production cycle in real time at any moment. This opportunity improves the supply chain management, quality management and the regulation of production processes within the operation. Our industry solutions reduce noticeably the throughput times, lower production costs and substantially improve the ratio of on-time deliveries.

The product group f@stchain, f@stcheck and f@stflow have been ported to the new Microsoft technology .NET since the beginning of 2003 so that the programs remain at the cutting edge of technological progress and at the same time open up new markets. We see great market opportunities in manufacturing industries for this technology so that integration development and customization are optimized.

### > Project example Galvanoform: Anticipatory planning with f@stchain.NET as success factor in production

Effective production planning and execution is one of the key factors for sustained success and maximum customer satisfaction for the manufacturing industry. The PRO DV solution f@stchain.NET is a future-proof, state-of-the-art solution which is characterized by a maximum degree of flexibility. Thanks to the use of the universal standard XML, the integration of applications in and between organizations is considerably simpler than in the past. All in all, the IT budget is relieved by the shortening of development, customization and integration times, and the fast return on investment becomes a competitive advantage.

Galvanoform Gesellschaft für Galvanoplastik mbH, an internationally recognized manufacturer of galvanically produced tools and mould shells, has introduced the PRO DV solution f@stchain.NET so that it can respond more flexibly to customer requests thanks to the optimized anticipatory planning and realize







rationalization potential with the aid of an efficient production management. By migrating to the development platform .NET from Microsoft, the company, which was founded in 1956 and has its main office in Lahr, profits from a software architecture for the future which can be customized flexibly and at low investment costs to current and future requirements.

Using f@stchain.NET, several versions of the offer and order data can be administrated. Based on this data, the solution prepares an anticipatory planning, along with scheduling of the orders, which permits early recognition of possible bottlenecks. The planning data is visualized in graphic form so that complex situations can be shown in an easily grasped presentation. This type of presentation provides effective support for assessment and decision-making in exceptional situations. For capacity planning, information on work progress is transmitted to the production data acquisition (PDA) terminals with barcode support. The comparison of various planning releases allows estimations of delivery dates to be made faster and more precisely than was previously the case. All in all, Galvanoform can also respond more flexibly to modification requests by customers. This increases customer satisfaction, especially for clients from the automobile and auto supply industries, aviation and medical technology – a major success factor on competitive markets.

#### > Division Utilities

The structural transformation on the energy market has confronted utilities with new challenges: greater pressure towards profitability has been followed by a clear increase in large corporate associations; the sustainability and ecological compatibility ordered by the politicians has also resulted in higher demands on the production side. As a consequence, the former regional monopolists emphasize today a far greater orientation to the customer and are revamping their entire organization to provide closer proximity to customers. This is a situation in which customer relationship management acquires significant meaning.

At the same time, the utilities are also optimizing their infrastructures. The network management solutions from PRO DV can help here in the expansion and maintenance of networks. For example, the PRO DV solution WinKKS is used to monitor corrosion in steel pipelines and to intervene specifically whenever there is trouble. And the use of our workforce management solutions allows service teams, e.g., for the repair of line damage, to be deployed quickly and efficiently so that outages become even more rare. The geo-based solutions from PRO DV help to optimize servicing intervals with the aid of data-integrating status management systems or to systematize exploration for natural gas, petroleum or other energy sources.

PRO DV has intensified its SAP activities and concluded strategic partnerships with SAP and the SAP consulting company CSC Ploenzke with the objective of further expanding its presence in this industry in the future. The PRO DV solution WinKKS has already been certified by SAP. An additional cooperation agreement has been concluded with AED-SICAD AG, a provider of geo-information for utilities on an ESRI basis. Utilities also have an increasing need for integration solutions due to the mergers, as mature IT landscapes must be harmonized in these cases. The SAP portal technology offers an outstanding platform here as it enables access to a wide diversity of specialist applications under a uniform user interface.

#### > Project example Stadtwerke Essen: Network management for utilities

The most important prerequisite for commercial success of utilities is the trouble-free operation of the extensive networks. The constant monitoring of the network and the ability to find the source of problems quickly is decisive. Every network element – whether a water main, gate valve, power line, transformer station or a house service connection – requires the allocation of a large amount of technical data and additional spatial information. Objects buried in the earth can be found and the network operated with maximum availability for the customer only with the help of precise, graphic documentation. The process-oriented view of all of the data of his network gives the operator the strategic information necessary to optimize his network and to maintain it in accordance with need and oriented to the customer. Geographical data and information systems enabling technical and space-related data to be linked, clearly presented and analyzed are irreplaceable aids for these tasks.

PRO DV has developed a comprehensive network information and planning system (NIPS) for the Stadtwerke Essen (SWE) over the course of several ongoing projects. The original objective of the NIPS project was the creation of an integrated information system for the documentation of the geographic position of the complete mains network, including technical and other material data. Once the existing island solutions had been replaced by this information system and a comprehensive set of data had been built



up, applications for more efficient handling of the operational procedures as well as the connection to external systems which would also allow clarification of commercial questions came more and more to the fore. Today, the system holds current mains data in readiness for the entire company as well as administrates almost the complete mains network of the Stadtwerke Essen and the municipal land registry map. It has decisively improved the planning and information basis and consequently made operational procedures substantially more efficient.

#### > Division Retail & Banking

Falling margins and price wars have led to a situation in retail trade in which all of the potential for savings and price optimization must be exhaustively exploited. Even the banks have been forced to reduce the cost of their processes in order to remain competitive. PRO DV offers to both industries support in the form of solutions to increase efficiency in specific areas. The market potential is great: in retail trade, the constant growth of sales floor space leads to predatory competition, and the banks must evaluate their real estate holdings audit-proof in line with Basle II.

Take expansion planning as an example: Our location analysis SAGIS evaluates infrastructure data and socio-demographic data for new and existing branch locations of retail companies so that the profitability of a branch can be assessed.

Another example is real estate assessment: banks and insurance companies can make use of our solution estateXpert for real estate assessments when deciding whether to grant mortgage loans and for the management of their own real estate portfolios. In this case, property-related information is combined with geographic and socio-demographic information on the infrastructure in order to determine the quality of the location and, as a result, to reduce substantially the loan risk. Moreover, workflow optimization also reduces the process costs involved in the granting of the loan. This solution is now being positioned more strongly on the market within the framework of a distribution cooperation venture with IBM.

#### > Project example Aral: Location planning using digital maps

As a specialist for space-related business solutions, PRO DV has developed a geographical marketing and planning system for the oil company Aral in Bochum. Price and turnover information from all of the filling stations of the oil company – market leader in Germany, turnover of more than EUR 10bn and almost 3,000 filling stations – is now captured at a central point and linked to external data such as traffic flow, demographic structure and points of sale of competitors in the trading area. Based on this graphically represented information, selling prices and marketing actions can be planned centrally and transmitted to the points of sale.

The Aral solution was expanded in December 2003 by an order to create a mobile solution so that field representatives and service staff could, while in the field, synchronize and update their data on notebooks and PDAs with the system at any time. The PRO DV technology, for which Aral obtained a corporate licence, allows the trouble-free integration of mobile devices, even PDAs, in the overall solution.



The Competence Center  
Geo Solutions

Whether network planning, route monitoring or service control – space-related applications are playing an increasingly significant role in all of our divisions. We have bundled our competence in the Competence Center Geo Solutions and are concentrating specifically on one of the fastest-growing segments of the IT market.





### > Growing market geo-solutions

More and more industries are making use of geo-based solutions. Without reliable spatial data, it can often be virtually impossible to make reliable statements about current and future business activities. Typical examples are governmental administrations planning for emergency situations and disaster protection, trading companies planning their locations and telecommunications companies and utilities managing their networks.

Geo-solutions, in combination with geographic information systems (GIS) and geo-data servers, offer the possibility to exploit fully the potential of spatial data. Geo-data servers administrate the data usually saved in various databases and data formats in a uniform manner and from a central point, while geographic information systems display spatial relationships and make them available for further analysis. At the same time, geographic data (e.g., road section data) is linked to a company's own information or to socio-demographic data.

The linking of spatial and material data is becoming more and more of a strategic factor for corporate decisions in many industries. Market research institutes are predicting well above average growth on this market in the coming years. 85% of all data has a spatial relationship – so the linking of the geographic with the arithmetic level provides important, often even decisive additional information.



1997: Move to the new office building Hauert 6 in Dortmund. PRO DV is converted into a joint stock company. Share capital DM 750,000. New clients: IBM, Arcor, E-plus.



A study by the Düsseldorf MICUS Institute prepared at the request of the Federal Ministry of Economics and Labour stresses the high potential to be found in the commercial use of geo information. Significant added value volume as well as major opportunities for development of qualified jobs and highly innovative products are foreseen for this market segment. The market potential itself is estimated to be almost EUR 7 billion.

In mobile business, for example, geo-data plays an increasingly greater role, especially in this age of Internet, GPRS and UMTS. So PRO DV has developed successful m-business solutions for personal digital assistants (PDA) as well as other products. The user receives spatially related applications and cartographic evaluations, even including information specific to the location and person (location-based services), on his PDA.

#### > PRO DV on its way to being one of the Top 3 on the market

A large contract from T-Mobile for the development of a reliable solution for the modelling of signal provision in a wireless network was a kind of „Big Bang“ for PRO DV in 1998: this was the Company's move into the growing market for geo-solutions. Today PRO DV is one of the leading companies on the market, with solutions for E-plus, O<sub>2</sub>, Vodafone, Aral, VW, and many others in both the private and public sectors. And we have ambitious goals: we want to become one of the Top 3.

We have already laid the groundwork technologically speaking: PRO DV has the leading know-how required to break down geo-data, which is still frequently available only as a monolithic block, and to use it whenever possible even as a user interface. The decisive factors are the speed of the display and visual presentation which is self-explanatory as much as possible – both of them strengths of the PRO DV solutions. One example is the simulation calculations we have developed for areas at risk of flooding, which are visualized in 3-D as relief-like depictions with height model. And of course we make sure that our solutions are easily scalable so that in the case of Web applications the greatest possible number of users may access them simultaneously.

Our growth rates in the geo-solutions segment were over 100 % in each of the past years. We were able to exceed substantially our budget targets for orders received in the past year as well. PRO DV is already one of the strongest partners of the GIS technology providers MapInfo and ESRI, whose basic technology generally serves as the foundation of our own solutions – and was honoured as ESRI Partner of the Year in 2003.

Examples of successful applications can be increasingly found in all industries: logistics companies plan their routes, wireless service providers or utilities expand their networks, real estate companies manage their properties, all using geo-solutions. Cartographic displays make many facts visible faster – accelerating decision-making processes: for example, how high is the regional turnover and market potential in a certain sales territory? PRO DV solutions for location analysis evaluate infrastructure data and socio-demographic data for the assessment of new or existing branch office locations. Routes and vehicles can be shown so that – controlled from operations centre – the ideal routes and the best use of vehicle

capacity can be achieved during tour planning. With the help of GPS, the movement of the vehicle fleet can even be visualized in real time. Well prepared geo-data is also essential in the public sector, such as in disaster services. PRO DV developed an innovative decision support system which aids in the efficient planning, execution and control of the deployment of aid in wide-area danger situations for the German emergency service information system (deNIS). This solution visualizes information so that it is self-explanatory.

A special feature of the PRO DV technology is the integration of mobile terminals, including PDAs, in the overall solution. Geo-based information is an ideal platform for many specialist applications – from alarm management and quality assurance to specialized customer consultation. T-Mobile is one of PRO DV's reference clients which efficiently uses GIS data in combination with supporting information systems, which has been proven to have increased customer satisfaction.

The result is that PRO DV clients profit from increased market presence, faster response times, lower costs, greater proximity to the customers and stronger customer loyalty.

#### > **Make efficient use of spatial data with the PRO DV solution PROconn**

Profound expertise in the creation of cartographic representations on mobile terminals and in geo-data tuning round off the know-how spectrum of PRO DV. Our IT experts, engineers and technicians develop the innovative components on which our exemplary industrial solutions can be built in the Competence Center Geo Solutions.

For example, a building block system, the GIS framework PROconn, which offers major advantages and simplifications during the integration of geo-components in customer projects on the basis of leading standard technology, was put together in the Competence Center. PROconn, based on ArcIMS (ESRI) and ArcSDE, is independent of data and platform and offers maximum security:

- Using PROconn, it is now possible to integrate into applications database formats such as Sybase, which previously caused virtually insurmountable compatibility problems, so that the combination of geo-data and material data is subject to almost no limitations. Independently of the form in which the data is available, PROconn recognizes and processes all formats and presents the data in graphic form.





- Platform-independent communications are handled by Java objects which can be encrypted. This makes PROconn outstandingly suitable for critical applications. Another advantage is a consequence of the single source approach: no matter whether the application is running on a workstation or a PDA, it automatically adjusts the representation to the output medium. This eliminates the high expenditures for the two systems or products otherwise frequently required.
- PROconn meets the strictest security requirements, such as those expected of disaster services systems, with its integrated SSL and https features.

The geo-based basic functionalities of PROconn offers an ideal foundation for the fast and investment-saving creation of geo-applications, which moreover feature high performance and excellent editability of the data. PROconn is found in proven practical use in various industries, above all in companies in the telecommunications field such as Vodafone or T-Mobile and in the public sector, e.g., the Federal Office of Administration.

#### > Enormous opportunities from internationalization

PRO DV's opportunities on the growing market for geo-solutions are outstanding. Telecommunications companies are planning to internationalize their current projects. This would make it possible for PRO DV to make a huge step across national boundaries. The advance of mobile solutions also offers enormous opportunities, as PRO DV is ready and waiting with unique technologies especially for these applications. If UMTS becomes successful, the trend to mobile solutions will presumably become even stronger.

The potential for growth can be enlarged even further by PRO DV's extension of the application areas as well as of the customer groups. In the future, geo-based solutions will also be used more and more in marketing and sales, since customer-oriented concepts can be supported substantially more effectively with such systems. For example, information from the Internet will operate more closely with geo-data to provide customers with the fastest possible overview.

### Our Staff

In addition to excellent professional qualifications, communicative and cooperative conduct with respect to customers and colleagues is the decisive foundation for competitiveness. Commitment, willingness to perform and the creativity of our staff are among the fundamental success factors for PRO DV. The further development of the Company will be decided in no small part by the personal involvement and the ideas of every single individual.





PRO DV invests in highly qualified employees according to specific objectives. As it is the most important source for our added value, the human capital is a key asset for PRO DV. The further development of the Company will be decided by the personal involvement and the ideas of every single individual. The Company's success is the sum of all of the individual performances. In addition to professional and social skills, the willingness to perform, creativity, initiative and a sense of responsibility of our staff members are among the major success factors at PRO DV.

#### > Our employees as client-oriented co-entrepreneurs

We have a clear guiding principle: we see our employees as client-oriented co-entrepreneurs. Our flat hierarchies and teams which steer themselves allow breathing room so that new ideas and concepts can be born. Along with comprehensive know-how, team spirit and an eye for what is technically and commercially feasible are important in our business.

This guiding principle was concretized in four statements for the first time last year in a cooperative effort with our staff:

- Our staff are characterized by excellent industry and solution know-how, one of our most important success factors.
- Our culture is based on personal responsibility and the orientation to success and results of all of our employees, who work together on a team and are oriented to the client.
- We are an attractive employer for our staff: we offer the best possible opportunities for development and invest strategically in the further and ongoing training of our professional and executive employees.
- Our culture is distinguished by openness, fairness and trust.

These statements, developed and approved in cooperation with our staff, are not just words for us; they are concrete instructions for action. One of the most important results for personnel management was the expansion and further development of our personnel management instruments.

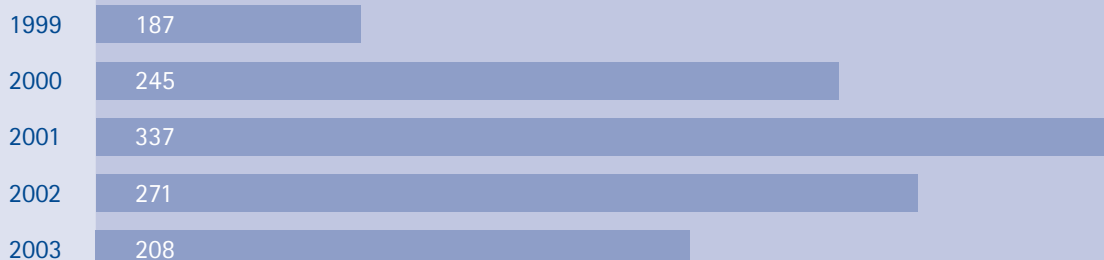
Going beyond the concept „Leading with Goal Agreements“ which has been established in the Company for many years, the management instrument „Balanced Scorecard“ was added to the overall company view of the employees. In addition, the first steps toward an extensive assessment system were successfully realised.

We use these instruments and measures to support the culture of personal responsibility in our Company and to promote the potential of our staff, to drive a continuous improvement process and to bring about changes. By doing so, we further strengthen the staff's identification with PRO DV and its corporate goals.





### > Staff Development, Full-time Equivalents, Mean Value



#### > Performance-oriented remuneration

Personnel management at PRO DV works with clear results targets and objectives. The remuneration for our employees is consistently determined with an orientation to success. The amount of the variable salary components results from the achievement of individual targets and the employee's function in the Company. In addition, employees profit from the Company's success in the form of incentives given for extraordinary performance.

#### > Specific training and further training

We offer a broad palette of training programmes on important technological trends and seminars on project management and personal further development so that our employees have an opportunity to further their personal development and to stay on top of the latest technologies. These investments in further training are a component of our client-oriented know-how strategy and a fundamental element for the satisfaction of our employees.

In addition, PRO DV annually gives young people a chance to enter professional life in the form of internships and apprenticeships. In particular, we want to point to our good experience in training IT specialists (application development) and IT systems electronic technicians in the past years.

#### > Systematic knowledge management

But having employees who are always up to date on professional and industry developments alone is not enough to ensure a Company's strength and ability to perform; this know-how must also be available to other employees at the right time and the right place. PRO DV has underlaid the required systematic knowledge management with a „knowledge map“. The exchange of knowledge throughout the Company and the formation of expert networks is economically reasonable and reinforces client orientation in the sense of best practice.

The sum of all of these activities is the basis for our success: satisfied and committed employees.

### The PRO DV Stock

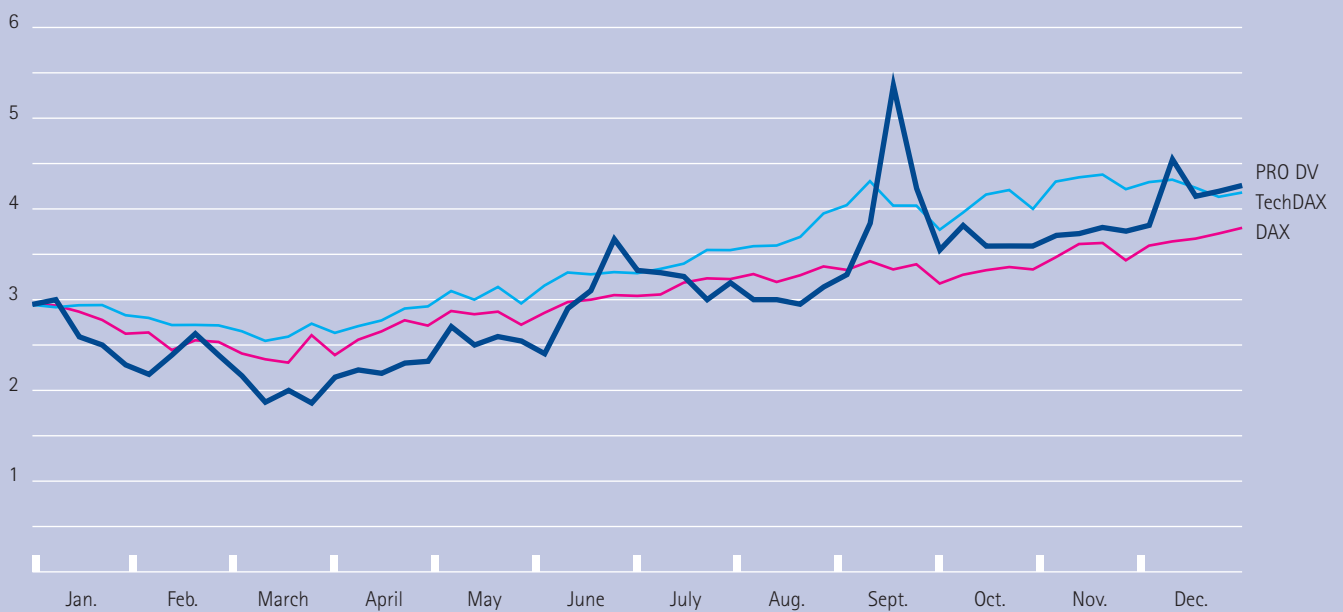
It is our philosophy to provide equally open, contemporary and comprehensively active information to any and all interested parties. This high degree of transparency is reflected in our commitment to corporate governance as well as in our comprehensive communications. As a result, we have been able to acquire new private and institutional investors for our Company, leading to further rises in the price of the PRO DV stock.



### > Turnaround on the stock exchange – PRO DV stock prices rises substantially

The downward trend which had lasted since the middle of 2000 on the international stock exchanges has stopped. At the same time, the German stock exchange took the lead in the upward movement in Europe last year. An average rise in prices of the 30 standard stocks in the DAX of 37 % put the German stock exchange barometer well ahead of the European competitors. The Euro Stoxx 50, by contrast, achieved only 15.6 %. The surprisingly strong recovery was the mirror image of the extreme fall in prices of the last three years. Between the high mark of 8130 points in March 2000 and its eight-year low point of 2189 in March 2003, the DAX lost almost 75 % of its value. Although it finished out the year at 3965 (31/12/2002: 2892 points), it still did not reach even the halfway point to its previous top value. The second-line stocks index MDAX (+47.8 %) and the new TecDAX (+50.9 %) performed even better than the blue chip index. After a number of changes had been made, the TecDAX took the place of the Neuer Markt last spring. Last year, however, there was once again not a single German IPO.

In comparison with the closing-out levels of the year, the PRO DV stock price corresponded to about the average of the market, closing out with a plus of more than 33 % at a year-end price of EUR 4.25 (31.12.2002: EUR 3.18). During the first few weeks of 2003, the general nervousness of the market led to strong sales so that the stock reached a price low of EUR 1.77 at the same time the market bottomed out in March 2003. However, the price then recovered steadily – interrupted only by a brief bolt caused by the recommendation of stock market „gurus“ well known in the appropriate circles – until it reached the year-end price of EUR 4.25.



## &gt; Key data of the stock

SIN	696780
ISIN	DE0006967805
Stock exchange abbreviation	PDA
Designated Sponsor	Seydler AG
Stock exchange segment	Prime Standard

	2003	2002
Number of shares	4,300,000	4,300,000
Close-out price (as of 31.12.)	EUR 4.25	EUR 3.18
High	EUR 5.65	EUR 3.95
Low	EUR 1.77	EUR 1.77
Trading volume (Daily average)	16,966	4,675
Market capitalization (as of 31/12)	EUR 18.28m	EUR 13.67m
Diversified holdings	45.1%	45.1%

## &gt; Stock held by officers and directors

	Stock held 31.12.2003	Stock held 31.12.2002	Subscription rights 31.12.2003	Subscription rights 31.12.2002
<b>Board of Management</b>				
Klaus Bullmann	491,225	491,225	10,000	10,000
Udo Bücher <sup>1</sup>	0	0	0	0
Uwe Osterkamp <sup>1</sup>	28,730	28,730	10,000	10,000
Siegfried Wenzel <sup>2</sup>	491,225	491,225	10,000	10,000
<b>Supervisory Board</b>				
Dr.-Ing. Knud Norden	0	0	0	0
Dr. Harald Obendiek <sup>2</sup>	0	0	0	0
Michael Petmecky	0	0	0	0
Siegfried Wenzel <sup>1</sup>	491,225	491,225	10,000	10,000

<sup>1</sup> since 01.01.2004<sup>2</sup> until 31.12.2003



### > Shareholder structure

The Company founders and other existing shareholders concluded a pool agreement, comprising 54.9 % of the stock capital, at the time of the IPO in March 2000, which prohibits the selling of stock to third parties before March 2004. In October 2003, prior to its expiration, this prohibition of sale was unanimously extended to 01 November 2004. A breach of this obligation is prevented by the issue of a separate securities identification number for the blocked shares.

### > Annual General Meeting – Day of the shareholders

On 04 June 2003, more than 200 shareholders, proxies and guests met in the Great Hall of the casino Hohensyburg in Dortmund for the Company's annual general meeting. They represented about 68 % of the share capital. The agenda included, among other points, the discharge of the Board of Management and Supervisory Board as well as the authorization to acquire own shares. In addition, various amendments were made to the articles of incorporation in connection with the entry into force of the Transparency in Publicity Act (TransPuG). Moreover, the personal interaction between shareholders and PRO DV management was a major element of the meeting. All of the points on the agenda and resolutions were passed with a majority of more than 99 %.

### > Comprehensive Information for our shareholders

Private and institutional investors demand a high degree of transparency from companies listed on the stock exchange today. This openness is a key fundament for making well-founded investment decisions. PRO DV provides information to anyone interested in the Company equally: open, contemporary and comprehensive. Besides the obligatory annual report, the quarterly reports and numerous releases regarding current developments at PRO DV Software AG, our Investor Relations Department ensures that there is a steady flow of communications between the Company and the world of finance. A large number of individual meetings were held with analysts, large investors and financial journalists and specific contact was sought to private investors in 2003 as well.

All of the significant corporate and financial information is constantly updated and can be called up on our Internet site [www.prodv.de](http://www.prodv.de) at any time. It goes without saying that all of our shareholders and interested persons can also sign up for our e-mail newsletter while on our Web site so that they do not miss any important news from the Company.

### > Corporate governance – Transparency in company management

Corporate governance means responsible corporate management and control oriented at long-term added value. It creates transparency for the legal and company-specific general conditions of the management of companies listed on the stock exchange, thus instilling trust in investors, customers, staff and the general public.

2001: The world economy worsens over the course of the year. Co-founder Heinz Leonhardt leaves the Company. Total of 337 employees.

### > Corporate governance at PRO DV

PRO DV Software AG welcomes the German Corporate Governance Codex and its objective of establishing and developing further in the future internationally accepted guidelines for good and responsible corporate management.

Corporate governance was a matter of course for PRO DV long before the publication of the codex at the beginning of 2002. The foundation has always been close and efficient cooperation between the Board of Management and the Supervisory Board, respect for shareholders' interest and open corporate communications. That is why the Board of Management and the Supervisory Board submitted their declaration of conformity to the recommendations of the German Corporate Governance Codex as revised on 26 February 2002 in accordance with Section 161 Company Law (AktG) on 02 July 2002, one of the first companies listed on the stock exchange to do so.

On 27 June 2003, the declaration of conformity in the latest revision was submitted and made permanently accessible to shareholders on the Company's Web site at [www.prodv.de](http://www.prodv.de). PRO DV deviates from the codex in only two points: no deductible was agreed (Item 3.8) for the liability insurance for Board of Management and Supervisory Board (D&O insurance), and no committees were formed (Item 5.2) due to the size of the Supervisory Board, which consists of only three people.





#### > The Supervisory Board

The Company's Supervisory Board comprises three members who are elected by the annual general meeting. Term of office for the Supervisory Board is five years. The Supervisory Board does not nominate any candidates for election to the Supervisory Board who are older than 65. Due to its size, the Supervisory Board has not formed any committees.

The members of the Supervisory Board disclose any conflicts of interest which may possibly occur due to consulting activities or director/officer functions on behalf of other companies to the Supervisory Board. The Supervisory Board notifies the annual general meeting of any conflicts of interest which have arisen and how they have been handled. The Company has concluded a D&O insurance policy for the members of the Supervisory Board. In accordance with the articles of incorporation, the remuneration of the Supervisory Board members comprises a fixed and a variable remuneration component, the latter oriented to the dividends.

#### > The Board of Management

The Board of Management, currently comprising three members, manages the Company and conducts its business. It is bound by the Company's interests and obligated to increase the lasting corporate value. It develops the strategic orientation of the Company, coordinates it with the Supervisory Board and bears responsibility for its realization. The Board of Management is responsible for the Company's annual planning and its long-term planning over several years as well as preparation of the quarterly, annual and consolidated annual accounts. Moreover, it bears responsibility for reasonable risk management and risk controlling as well as regular, contemporary and comprehensive reports to the Supervisory Board. Certain actions and transactions by the Board of Management require the approval of the Supervisory Board.

Members of the Board of Management disclose any conflicts of interest which may arise to the Supervisory Board without delay and notify their fellow Board of Management members thereof. Essential transactions with the Company by Board of Management members and persons close to them require the approval of the Supervisory Board. The acceptance of secondary employment also requires the approval of the Supervisory Board. The Company has concluded a D&O insurance policy for the members of the Board of Management. The remuneration of the members of the Board of Management comprises a fixed and a variable component, the latter oriented to the business success.

#### > The Annual General Meeting

The shareholders protect their interests at the annual general meeting and exercise their voting rights at that time. Each share entitles the holder to one vote. The ordinary general meeting is held annually – as a rule, within the first six months of each fiscal year. The agenda for the annual general meeting, including the reports and documents required for the annual general meeting, is also published on the Company's Web site; upon request, the convocation of the annual general meeting, together with the convocation documents, may be sent by electronic means.

For the Ordinary Annual General Meeting 2003, PRO DV Software AG provided to the shareholders a voting proxy bound by instructions as a simplification of the personal safeguarding of the shareholders' rights; this step is also planned for the annual general meeting of 2004. There are directions explaining how to give instructions for the exercise of the voting rights in advance of the annual general meeting in the notice of the annual general meeting. Furthermore, the shareholders are free to select a proxy of their choice to represent them.

#### > Transparency

PRO DV Software AG is obligated to observe the principle of equal treatment of all shareholders. The Company uses its Web site to provide contemporary and equal information to shareholders and investors. All interested parties are given information about the current development of the Company in quarterly reports in addition to the consolidated annual accounts and single annual accounts. Furthermore, PRO DV publishes a finance calendar showing all of the major dates and publications of the Company well in advance.

#### > Accounting and Risk Management

The consolidated annual accounts and the quarterly reports are prepared according to the principles of the International Accounting Standards/International Financial Reporting Standards (IAS/IFRS); the annual accounts of PRO DV Software AG are prepared in conformity with the provisions of the German Commercial Code (HGB).

The risk management system is reviewed by the Supervisory Board and our auditors. Moreover, we continuously develop the system further and adapt it to changing general conditions.



Consolidated  
Management Report  
for Fiscal Year 2003

The past year continued to be characterized by a tense market situation. The IT industry as a whole once again had to absorb a significant loss in turnover. Despite this adverse environment, PRO DV was able to achieve its earnings targets and has positioned itself with rigorous cost management, lean processes and a staff oriented to current market requirements in such a way that it will be possible to achieve a balanced result in this year.



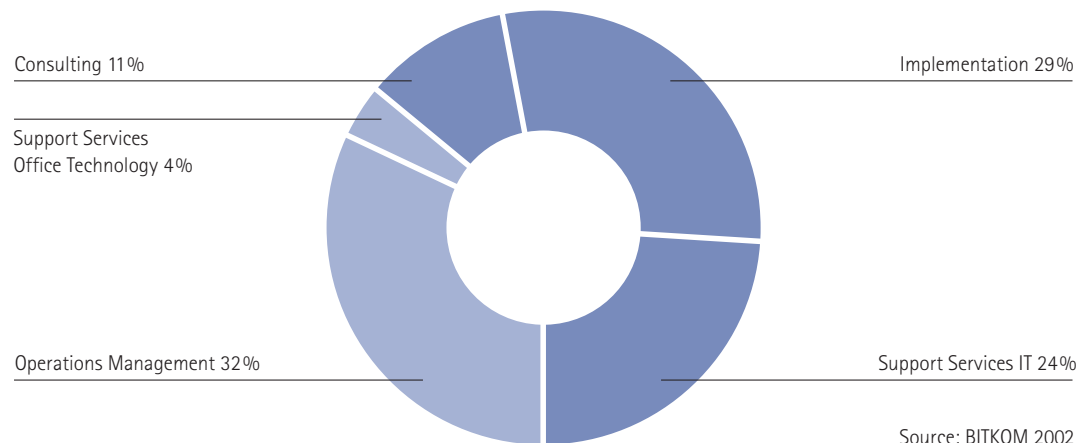


### > Market and general economic conditions

In 2003, PRO DV's markets and the world economy as a whole continued to develop regressively. For their part, buyers remain extremely reluctant to approve investment decisions; however, in the second half of the year there were the first indications that the investment backlog which had built up over recent years was beginning to break up little by little.

According to BITKOM, a total of about 40 % of the German IT market (total volume EUR 66bn) is related to IT services. PRO DV and its offered line of services – consulting, implementation and support services – is well positioned on this partial market with a volume of EUR 26bn.

### > Distribution of IT services in Germany

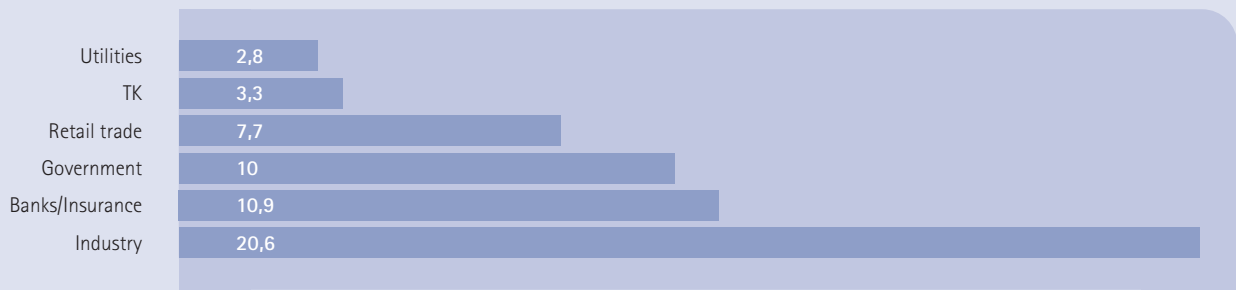


Our growth potential on this market is substantial: the German market, with a share of 22 %, is the most important western European market, ahead of Great Britain (21 %) and France (15 %). Western Europe is itself the world's second-largest IT market with a 30 % share and a total volume of EUR 285bn, surpassed only by the USA (world market share 41 %) (source: EITO).

The services provided by PRO DV target a series of important industries in Germany. PRO DV's clients come from telecommunications and government as well as from the areas of industry, retail trade and utilities.

**> IT Investments in Germany (EUR bn)**

PRO DV serves important industries

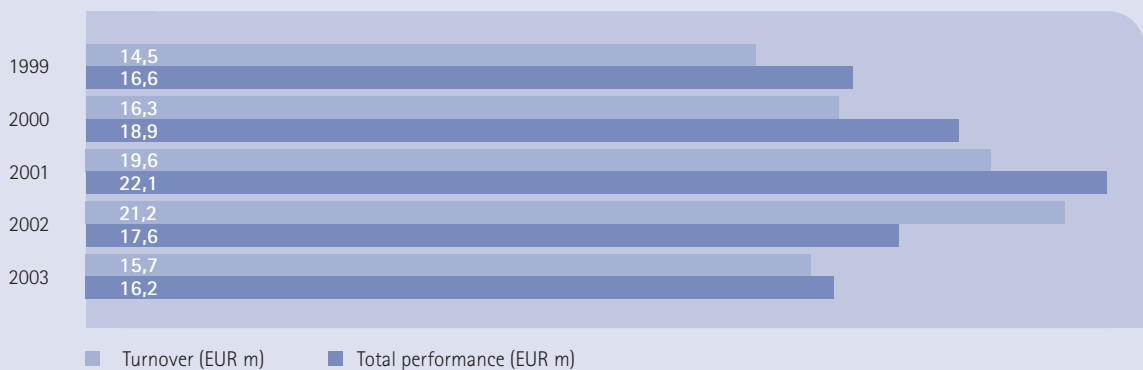


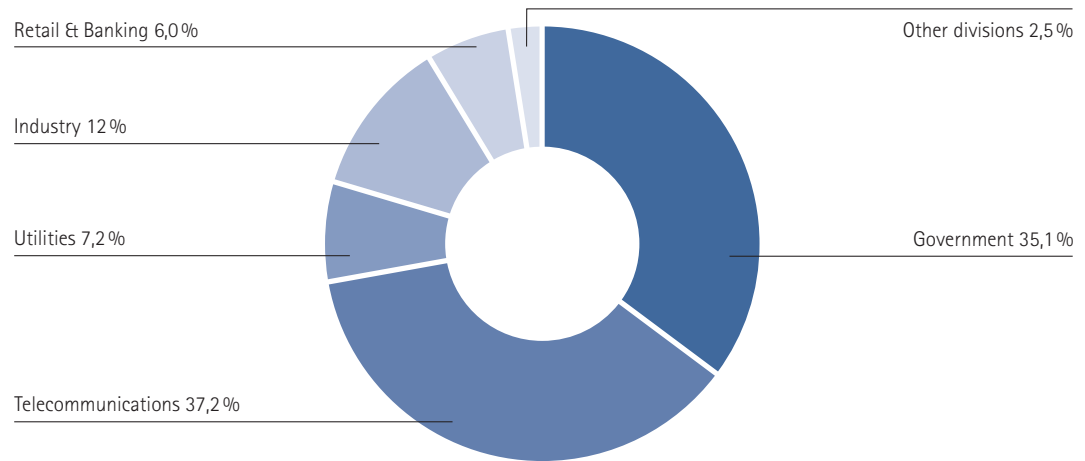
Source: BIT, Techconsult2000

**> Development of turnover and performance**

Total performance of the PRO DV Group during the reporting period came to EUR 16.2m (2002: EUR 17.6m) and is thus slightly lower than the performance of the previous year. Essentially, this development is a result of the continued stagnation of the market situation. IT budgets in our clients' companies continued to be sharply cut back and in some cases were even frozen at previous levels in 2003 as well. Another reason was the divestiture of two holdings in 2002. Moreover, the capacities, even in the core business, were adapted to the weak economic situation.

After being set off against payments on account, the work in progress amounted to EUR 0.7m (2002: EUR 0.7m). No development performances were capitalized in fiscal year 2003.





When broken down according to the individual divisions, the Division Government contributed EUR 5.7m (2002: EUR 6.6m) or 35.1 % of the total performance, the Division Telecommunications EUR 6.0m (= 37.2 %) (2002: EUR 5.4m), Utilities EUR 1.2m (= 7.2 %) (2002: EUR 1.1m), Industry EUR 1.9m (= 12.0 %) (2002: EUR 2.2m) and Retail & Banking EUR 1.0m (= 6.0 %) (2002: EUR 1.7m) to total performance. From other divisions, sports & bytes GmbH contributed EUR 0.4m (= 2.5 %) (2002: EUR 0.6m).

During the past fiscal year, orders for new projects with a total volume of EUR 16.3m were placed. Orders in hand as of 31.12.2003 came to EUR 5.2m for the entire Group.

#### > Earnings position

The operating result (EBIT) within the PRO DV Group came to EUR -2.3m in fiscal year 2003. In 2002, on the other hand, this value – burdened by extraordinary write-offs on goodwill – came to EUR -9.8m. Although the EBIT for the first half of 2003 was still EUR -2.0m, it was possible to continually stabilize this development over the course of the next six months.

This substantial improvement in results came from an increase in use of capacity in comparison with 2002 as well as from the continuation of our rigorous cost management and further efforts to make processes leaner. In the course of the last fiscal year, earnings factors caused the Board of Management to adjust employee capacity and to optimize the ratio of personnel expenses to performance revenues.

The Company was therefore able to stay within the boundaries of the targets it had set for itself for last year and opened up prospects for a further positive development in the future.

At the end of 2003, Dr Harald Obendiek resigned his position on the Supervisory Board, and the founding member Siegfried W. Wenzel moved from the Board of Management to the Supervisory Board. These changes led to extraordinary charge against earnings of EUR 0.25m.

Write-offs of EUR 0.1m were taken against goodwill in 2003. In 2002, by contrast, there were extraordinary write-offs against goodwill in the amount of EUR 3.6m. The operating result before depreciation (EBITDA) amounted to EUR -1.3m (2002: EUR -4.5m).

Broken down according to divisions, the Division Government had a contribution to earnings of EUR -0.9m, the Division Telecommunications EUR -0.1m, Utilities EUR -0.5m, Industry EUR -0.9m and Retail and Banking EUR -0.1m.

The net loss for the Group was determined to be EUR -2.2m (2002: EUR -10.3m). The result per share was determined at EUR -0.50 per share.

Last year PRO DV initiated an intensive change process. The measures derived and implemented from this process, such as the introduction of the balanced scorecard as a management instrument, have put PRO DV in a position which allows us – presuming that the economic climate continues to improve – to expect further improvement of the earnings position in fiscal year 2004. For 2004, we have set ourselves the goal of achieving a zero operating result (EBIT).

#### > Investments

Investments were made in fixtures, fittings and equipment during the past fiscal year. In addition, replacement investments were undertaken in the IT infrastructure in 2003 so that, for example, servers and PC workstations could be maintained at a state-of-the-art and secure level, thus assuring the performance capabilities of our team. A total of EUR 0.3m was invested in fiscal year 2003. Of this amount, EUR 0.17m was spent on property, plant and equipment and EUR 0.09m on intangible fixed assets.





### > Staff

Compared to the previous year, there has been a substantial easing of the situation on the labour market. As of 31.12.2003, a total staff of 208 (2002: 271), mean for the year, was employed throughout the Group, taking into account full-time equivalents and the share from the holdings in subsidiaries. The reduction by 23.3 % results essentially from specific adaptation of the employee capacity in both the divisions and in general administration.

### > Other important events in the fiscal year

In August 2003, PRO DV and T-Mobile Deutschland GmbH, Bonn, Germany's largest provider of services related to mobile telephony, concluded a general agreement for IT services with a value of several million euros. The contract guarantees PRO DV EUR 4.5m in turnover for consulting and programming work by the middle of 2004.

Just as many other large companies, T-Mobile is striving to reduce the number of its suppliers and in this way to optimize their processes. Pursuant to these efforts, PRO DV was subjected to intensive commercial and quality-related analyses before the contract was signed. As a consequence of this examination, PRO DV is now one of a select circle of strategic suppliers for T-Mobile. This has also been documented by the general agreement, which assures PRO DV of orders from the Telekom subsidiary until well into the coming year.

Aiming to strengthen trust in the German capital market, the Deutsche Börse has resegmented the German stock exchange since January 2003: the newly-created Prime Standard sets the highest standards for transparency in Europe for the companies listed here. For example, quarterly reports, conduct of analyst conferences, publication of a corporate calendar and the application of international accounting principles is obligatory. In General Standard, also a newly created segment, only the legal minimum requirements apply.

Thanks to our open information policy, PRO DV meets the requirements of Prime Standard completely. By moving into the premium segment, PRO DV assures itself of the continued high attention from institutional analysts and investors, which is in the interest of all of our shareholders. After reviewing fulfilment of the acceptance criteria, the Deutsche Börse admitted the PRO DV stock to trade in the Prime Standard as of 01.01.2003. This simultaneously ended trading of the PRO DV stock on the Neuer Markt.

About 55% of the PRO DV stock was collected in a stock pool, which includes the founders Joachim Beck, Klaus Bullmann and Siegfried Wenzel and others, at the time of the IPO in March 2000. All of the pool members decided to accept a voluntary four-year prohibition of sale of the stock until March 2004.



In undertaking this obligation, the shareholders at the time of the IPO far exceeded the six months required by the Deutsche Börse. In October of 2003, this same group of shareholders unanimously agreed to extend voluntarily this prohibition of sale, even before it lapsed, by more than six months to 01 November 2004, underscoring their unreserved trust in PRO DV and offering private and institutional investors the prospect of a stable shareholder structure.

Effective as of 31.12.2003, Dr Harald Obendiek resigned at his own request for personal reasons from the Supervisory Board of PRO DV Software AG. As planned, the founding member Siegfried W. Wenzel moved from the Board of Management to the Supervisory Board as of 01.01.2004. At the same time, the Supervisory Board named the authorized signatories Udo Bücher and Uwe Osterkamp to the PRO DV Software AG Board of Management, effective as of 01.01.2004; since that time, they have managed the Company jointly with the spokesman of the Board of Management, Klaus Bullmann.

At the end of the fiscal year, PRO DV sold its 50% holding in sports & bytes GmbH, Dortmund. sports & bytes GmbH is a media agency which focuses on IT services and marketing especially in the sports sector. With the sale of this holding, PRO DV concludes its process of specific industry orientation to the areas telecommunications, utilities, government, industry and retail trade and banks.

### > Assets, liabilities and financial position

The balance sheet total of PRO DV Group as of 31.12.2003 amounted to EUR 27.4m (2002: EUR 30.0m). As of the closing date, equity amounted to EUR 21.0m (2002: EUR 23.2m). This results in an equity ratio of 76.8 %.

Based on capital subscribed of 4.3 million no-par shares issued to the bearer, the equity per share (book value) comes to EUR 4.89. As of 31.12.2003, the closing price of the PRO DV stock was EUR 4.25.

As of the closing date, financial resources amounted to EUR 14.0m (2002: EUR 15.9m). When compared to the current liabilities of EUR 4.2m, the Group has a liquidity ratio of 3.3. The Group's outstanding liquidity basis is further underscored by an acid test ratio of 4.1 and a current ratio of 4.2.

As of 31.12.2003, current assets amounted to EUR 17.8m (2002: EUR 19.7m). In comparison to total assets, there is a current asset ratio of 64.9 %. This means that more than half of the assets are tied up only short-term, allowing the Company to respond flexibly to changes in the market situation.

The cash flow from operations in the past fiscal year came to EUR -2.2m (2002: EUR -0.1m). The cash flow from investment activity came to EUR 0.4m (2002: EUR -0.3m). Due to the reduction of liabilities in fiscal year 2003, the cash flow from financing activities came to EUR -0.1m.

### > Risks and risk management

The Board of Management at PRO DV has taken the necessary steps to conform with the stricter standards on risk management imposed by the „Corporate Sector Supervision and Transparency Act“



(KonTraG). The sources of risks have been identified and examined to determine their possible effects on the course of business at PRO DV. The results of this examination have been recorded in detailed documentation. Measures to minimize risks have been undertaken, and the Board of Management receives regular reports regarding their implementation.

Essentially the risks involve project and calculation risks from current fixed-price orders. PRO DV implemented quality management in accordance with ISO 9001 in 1994 with the objective of improving internal processes, and the system has been continually adapted to take into account new developments ever since.

In fiscal year 2003, adjustments were made in capacities to ensure a continued full use of capacities; sales activities were also actively expanded and active cost management was rigorously continued. These measures, in combination with the more favourable economic prospects and the consequent improvement in the market situation, led to a substantial improvement in earnings. Furthermore, there are currently no further discernible risks which could lead to a long-term adverse effect on the assets, liabilities, financial position and profit and loss.

#### > Research and development

In the past fiscal year, PRO DV invested engineering performance of about 5.1 billable years in development. A major part was the continuous further development in the area of modern technologies and platforms such as f@stchain, f@stcheck, SAP, estateXpert and the development of the geo-based framework PROconn.

#### > Events after the closing date of the fiscal year

There were no events of particular significance requiring mention in the report following the closing date.

#### > Outlook

Overall, we are planning to improve further our performance and profit situation in 2004. We consequently expect a zero operating result (EBIT) for the current fiscal year. After structuring our Company efficiently into divisions, each with an orientation to a specific industry, and achieving our target results, we plan to build on this basis. Subject to a further easing in the market and economic situation and the resultant continuous rise in use of capacities, we are confident that we will achieve our goals for 2004.

Dortmund, February 2004

The Board of Management



Klaus Bullmann



Udo Bücher



Uwe Osterkamp

## PRO DV in figures

Consolidated balance sheet to IAS/IFRS

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Assets	Financial statement 31.12.2003 TEUR	Financial statement 31.12.2002 TEUR
Current assets		
Cash and Cash Equivalents (39)	13,979	15,852
Short-term Investments/Marketable securities	-	-
Trade accounts receivable (35, 36, 37, 38)	2,378	2,434
Accounts receivable due from related parties	-	-
Inventories (30, 31, 32, 33, 34)	752	715
Deferred tax asset	-	-
Prepaid expenses and other current assets (38)	675	723
<b>Total current assets</b>	<b>17,784</b>	<b>19,724</b>
Non-current assets		
Property, plant and equipment (22, 26, 27, 28, 29)	5,690	6,199
Intangible assets (24, 25)	264	392
Goodwill (23)	1,000	1,062
Investments	-	-
Investments accounted for by the equity method	-	-
Notes receivable/loans	-	-
Deferred taxes (40)	2,518	2,675
Other assets (38)	136	-
<b>Total non-current assets</b>	<b>9,608</b>	<b>10,328</b>
<b>Total assets</b>	<b>27,392</b>	<b>30,052</b>



Liabilities and shareholders' equity	Financial statement 31.12.2003 TEUR	Financial statement 31.12.2002 TEUR
Current liabilities		
Current portion of capital lease obligation	-	-
Short-term debt and current portion of long-term dept (51)	66	66
Trade accounts payable (52)	297	640
Accounts payable due to related parties	-	-
Advance payments received (30, 31)	1,277	427
Accrued expenses (49, 50)	1,599	2,183
Deferred revenues	-	-
Income tax payable	-	-
Deferred tax liability	-	-
Other current liabilities (52)	931	1,073
Accrued income taxes (48)	23	-
<b>Total current liabilities</b>	<b>4,193</b>	<b>4,389</b>
Non-current liabilities		
Long-term debt, less current portion (51)	822	887
Capital lease obligations, less current portion	-	-
Deferred revenues	-	-
Deferred tax liability (48)	381	746
Pension accrual	-	-
Accrued expenses (49, 50)	183	-
Deferrals (63)	782	833
<b>Total non-current liabilities</b>	<b>2,168</b>	<b>2,466</b>
Minority interest	-	-
Shareholders' equity (47)		
Share capital (41, 42, 43, 44)	4,300	4,300
Capital reserve (45)	19,191	32,250
Treasury Stock	-	-
Retained Earnings/Accumulated deficit (45, 46)	-2,460	-13,353
Accumulated other comprehensive income/loss	-	-
<b>Total shareholders' equity</b>	<b>21,031</b>	<b>23,197</b>
<b>Total liabilities and shareholders' equity</b>	<b>27,392</b>	<b>30,052</b>

## Consolidated income statement to IAS/IFRS

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	4th Quarter 2003 01.10.2003- 31.12.2003 TEUR	4th Quarter 2002 01.10.2002- 31.12.2002 TEUR	Year 2003 01.01.2003- 31.12.2003 TEUR	Year 2002 01.01.2002- 31.12.2002 TEUR
Sales revenues (53, 55, 56, 57, 58)	4,613	8,117	15,696	21,189
Other operating income (54)	517	42	711	271
Changes in inventories of finished goods and work in progress	-293	-3,024	511	-3,578
Production of own fixed assets capitalized	-	-	-	-
Cost of purchased materials and services	518	1,022	1,305	1,570
Personnel expenses (59, 60)	3,225	3,391	13,423	16,166
Depreciation (61)	218	471	861	1,519
Amortization (and impairment) of goodwill (61)	15	1,370	102	3,773
Other operating expenses (62, 63)	1,094	1,427	3,883	5,134
<b>Operating income/loss</b>	<b>-233</b>	<b>-2,546</b>	<b>-2,656</b>	<b>-10,280</b>
Interest income and expense (65, 66)	60	105	306	431
Income from investments and participations	-	-	-	-
Income/expense from investments accounted for by the equity method	-	-	-	-
Foreign currency exchange gains/losses	-	-	-	-
Other income/expense	-	-	-	-
<b>Result before income taxes and minority interest</b>	<b>-173</b>	<b>-2,441</b>	<b>-2,350</b>	<b>-9,849</b>
Income tax (67, 68)	-280	10	-184	646
Extraordinary income/expenses	-	-	-	-
<b>Result before minority interest</b>	<b>107</b>	<b>-2,451</b>	<b>-2,166</b>	<b>-10,495</b>
Minority interest (71)	-	104	-	193
<b>Net income/loss</b>	<b>107</b>	<b>-2,347</b>	<b>-2,166</b>	<b>-10,302</b>
Loss brought forward			-13,363	-3,061
Withdrawal from capital surplus (45)			13,059	-
Accumulated deficit			-2,470	-13,363
Net income per share (basic/diluted) (69)	0.02	-0.55	-0.50	-2.40
Weighted average shares outstanding (basic/diluted)	4,300,000	4,300,000	4,300,000	4,300,000

## Consolidated cash flow statement to IAS/IFRS

	Year 2003 01.01.2003- 31.12.2003 TEUR	Year 2002 01.01.2002- 31.12.2002 TEUR
<b>Cash flows from operating activities</b>		
Net income/loss before tax	-2,350	-9,657
Adjustments for:		
Minority Interest	-	-93
Depreciation and amortization:		
Property, plant, equipment and intangible assets (61)	864	4,719
Production of own fixed assets capitalized	99	573
Interest income (65, 66)	-360	-481
Interest expense (65, 66)	54	50
<b>Operating profit before working capital changes</b>	<b>-1,693</b>	<b>-4,889</b>
Gains and Losses from disposal of fixed assets	9	315
Invalid payment loss from final consolidation	-	510
Invalid payment gain from final consolidation (11, 23)	-56	-
Changes in long-term assets	-136	-
Changes in inventories	-37	2,288
Changes in trade receivables	42	672
Changes in accounts receivable from associated companies	-	32
Changes in other assets	-510	338
Changes in long-term liabilities and shareholders' equity	132	110
Changes in short-term provisions	-575	697
Changes in trade payable	-299	-151
Changes in payments on account for orders	850	236
Changes in other liabilities and shareholders' equity	-99	-225
<b>Cash generated from operations</b>	<b>-2,372</b>	<b>-67</b>
Interest paid (66)	-54	-50
Taxes paid	181	-
<b>Net cash used in operating activities</b>	<b>-2,245</b>	<b>-117</b>
<b>Cash flows from investing activities</b>		
Disposal of consolidated companies net of cash sold (11, 23)	376	-462
Acquisition of subsidiaries net of cash acquired	-	-
Payment for investments in fixed assets	-298	-280
Interest received (66)	360	481
<b>Net cash used in investing activities</b>	<b>438</b>	<b>-261</b>
<b>Cash flows from financing activities</b>		
Cash repayments of amounts borrowed (51)	-66	-66
<b>Net cash used in financing activities</b>	<b>-66</b>	<b>-66</b>
<b>Net decrease in cash and cash equivalents</b>	<b>-1,873</b>	<b>-444</b>
Cash and cash equivalents at beginning of period	15,852	16,296
Cash and cash equivalents at end of period	13,979	15,852

## Changes in fixed assets for 2003 to IAS/IFRS

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	Cost of acquisition				
	01.01.2003 TEUR	Additions TEUR	Disposal through final consolidation TEUR	Disposal TEUR	31.12.2003 TEUR
<b>Tangible assets</b>					
Lands and buildings	6,027	-	-	-	6,027
Other facilities, office furniture and equipment	3,276	166	92	116	3,234
Payments on account and facilities under construction	-	-	-	-	-
<b>Total tangible assets</b>	<b>9,303</b>	<b>166</b>	<b>92</b>	<b>116</b>	<b>9,261</b>
<b>Intangible assets</b>					
Software and licences	927	92	21	30	968
Self-produced intangible assets	1,178	-	-	-	1,178
<b>Total intangible assets</b>	<b>2,105</b>	<b>92</b>	<b>21</b>	<b>30</b>	<b>2,146</b>
Goodwill	2,749	40	390	-	2,399
Financial investments	-	-	-	-	-
<b>Total fixed assets</b>	<b>14,157</b>	<b>298</b>	<b>503</b>	<b>146</b>	<b>13,806</b>

	Depreciation					Book value		
	01.01.2003 TEUR	Additions TEUR	Disposal through final consolidation TEUR	Disposal TEUR	31.12.2003 TEUR		31.12.2003 TEUR	31.12.2002 TEUR
	916	214	-	-	1,130		4,897	5,111
	2,188	430	70	107	2,441		793	1,088
	-	-	-	-	-		-	-
	3,104	644	70	107	3,571		5,690	6,199
	776	118	18	30	846		122	151
	937	99	-	-	1,036		142	241
	1,713	217	18	30	1,882		264	392
	1,687	102	390	-	1,399		1,000	1,062
	-	-	-	-	-		-	-
	<b>6,504</b>	<b>963</b>	<b>478</b>	<b>137</b>	<b>6,852</b>		<b>6,954</b>	<b>7,653</b>



# PRO DV Software AG

## IAS Notes on the Consolidated Annual Accounts of 31.12.2003

### A. General

- (1) The PRO DV Group is a corporate group with 4 subsidiaries and currently employing a staff of about 200 (cf. No. 60).
- (2) Parent company of the Group is PRO DV Software AG, Hauert 6, 44227 Dortmund, Germany.
- (3) The objective of the Group is to offer to its clients holistic, process-oriented consulting services which cover the development of Internet-capable information systems, including system integration and maintenance of the solutions. The range of services includes training programmes for the staff as well as customer care services. Within the scope of its crossover consulting and integration services, the Company makes use of its own software components, either independent of or specific to industries, as well as standard software components of other producers. If required, customized solutions for the individual clients are developed and programmed during the project on the basis of these software components. All of the products developed by the Company can be used on the Internet and on intranets.
- (4) PRO DV Software AG has prepared these consolidated annual accounts in accordance with the provisions of the standards issued by the International Accounting Standards Committee (IASC), London, and the IFRS (International Financial Reporting Standards) which were in force on the closing date. The applied accounting principles are in conformity with the European Union regulations on consolidated accounting. The prerequisites of Section 292 a HGB are observed.
- (5) The consolidated annual accounts comprise: consolidated balance sheet, consolidated income statement presentation, capital flow statement, statement of retained earnings and the IAS Notes. The consolidated annual accounts have been prepared in euros (EUR). If a degree of precision other than EUR is used, e.g., TEUR, it is shown in the appropriate designation of the dimensions.
- (6) The balance sheet date for the companies covered by the consolidated annual accounts is in each case 31 December of each year. The reporting period covered in these annual accounts is the period from 1 January 2003 – 31 December 2003.
- (7) **Stock option plan**  
The IFRS do not currently contain any provisions for the measurement and assessment of stock option plans. There are no provisions for special treatment of the balance sheet and the income statement. To this extent, it is not yet mandatory to show the corresponding expenditures as personnel expenses in the income statement, as, for example, provided for in the US-GAAP. In view of this background, the expenditures have been treated analogously to the HGB, whereby an accounting of the option plan in the balance sheet is not foreseen here (cf. No. 44).

(8) **Corporate Governance**

The Board of Management and the Supervisory Board submitted a declaration of conformity in the sense of the German Corporate Governance Codex (Section 161 HGB) on 27 June 2003 and have made the declaration accessible to shareholders on the Company's Web site.

(9) **Date of publication**

It is planned to release the annual accounts for publication on 17 March 2004. The release will be approved by the Board of Management and the Supervisory Board.

**B. Explanatory comments on accounting, evaluation and consolidation methods which deviate significantly from German law**

(10) The significant differences to accounting, evaluation and consolidation methods in accordance with German law affect the following circumstances:

- I. In accordance with IAS 12, deferred taxes are recognized for temporary differences between assets and liabilities shown in the commercial balance sheet in accordance with IFRS and those shown in the tax balance sheet (liability method).
- II. According to IAS 12, a deferred tax asset for unused tax losses is recognized in the balance sheet to the extent that it is probable that a future taxable profit will be available against which the unused tax losses can be utilized.
- III. In accordance with IAS 37, provisions are recognized only if the probability of payment is greater than 50 %.
- IV. In accordance with IAS 27, the minority interests are shown separately from loan capital and the parent's shareholders' equity in the consolidated balance sheet. Where losses of a consolidated subsidiary applicable to the minority exceed the minority interest in the equity of the relevant subsidiary, the excess is charged to the majority interest in the Group equity, unless the minority has a binding obligation to, and is able to, make good the losses. If the subsidiary in question subsequently reports profits, all such profits are attributed to the Group until the minority's share of losses previously absorbed by the Group has been recovered.
- V. The IFRS require more comprehensive disclosures with respect to the reports in the Appendix.

- VI. According to IAS 11, construction contracts should, under certain circumstances, be recognized according to the percentage of completion method. According to this profit realization method based on the degree of completion, the contract revenue is recognized as income in the income statement for the reporting period in which the work is performed (IAS 11). The prerequisite for the use of this method is that the outcome of the construction contract can be estimated reliably.
- VII. Self-created intangible assets (e.g., internal development projects) must, in contrast to Section 248, Paragraph 2 HGB, be capitalized if the criteria of IAS 38 (technical and commercial feasibility of the development, probable future benefits, intent and ability to sell by the developing company, assurance of the benefits to be expected from the development, reliable information regarding the incurred development costs) are met.
- VIII. According to IAS, reduced measurements attributable to write-offs which are permissible only in accordance with tax laws may not be included in the annual accounts. Extraordinary write-offs on buildings in accordance with Section 254 HGB which are founded on Section 6b EstG are to this extent irrelevant in the IFRS annual accounts.
- IX. In the case of business acquisitions, IAS 22 requires that the difference between the cost of acquisition and the acquiring enterprise's share of the fair values of the assets acquired less liabilities assumed be measured and recognized as goodwill. According to IAS 22.21, the cost of acquisition is the consideration, measured at current value, which the acquirer gives for the acquisition (fair value). The measurement of the cost of acquisition according to IAS may, in the case of acquisitions by contributions in kind, deviate from the assessments provided for according to German commercial law and may, especially in the case of a „silent premium“ (contribution at book values), be substantially higher. As a consequence, a capital consolidation on the basis of the IFRS values will result in higher goodwill.

### **C. Consolidation methods**

#### **Consolidated companies**

- (11) All of the subsidiaries of the parent company are included in the consolidated annual accounts of PRO DV Software AG in accordance with the principles of IAS 27.

The consolidation therefore includes the following companies:

Name	Registered office	Interest	Term of holding
PRO DV Software GmbH	Manfred-von-Ardenne-Ring 15, 01099 Dresden, Germany	80 %	01.01.03–31.12.03
pro dv online gmbh	Kapellenstr. 10, 85622 Feldkirchen Germany	100 %	01.01.03–31.12.03
Sports & Bytes GmbH	Berswordtstr. 1, 44139 Dortmund Germany	50 %	01.01.03–31.12.03 <sup>1</sup>
Immobilienverwaltungs- gesellschaft Hauert 6 mbH & Co. KG	Hauert 6, 44227 Dortmund Germany	100 %	01.01.03–31.12.03

<sup>1</sup>Final consolidation under 31.12.2003, cf. Nos. 12, 17, 38, 54

### Changes in the Group

- (12) The company's shares in Sports & Bytes GmbH were sold effective as of 31.12.2003, on the basis of the sales and conveyance contract of 18.12.2003 (Register of Authors No. 210/2003 of Mr Rüdiger Petzold, Notary Public, Dortmund).

### Consolidation principles

- (13) The consolidated annual accounts cover PRO DV Software AG and the companies which it controls. Control normally exists if the Group, directly or indirectly, holds more than 50% of the voting rights in a company and can govern its financial and operating policies. In addition, joint ventures are included in the consolidated annual accounts by means of proportionate consolidation (benchmark treatment; IAS 31.25).
- (14) Debt is consolidated in accordance with IAS 27. Intragroup receivables and liabilities among the companies included in the consolidated annual accounts are set off against each other. Income and expenses are consolidated in accordance with IAS 27 by setting off Intragroup income and expenses against each other.
- (15) Deferred taxes are to be recognized for consolidation measures affecting results to ensure a suitable statement of the taxes on income.
- (16) The purchase method of accounting is applied for acquired companies (IAS 22). Companies acquired during the fiscal year are included in the consolidated annual accounts as of the date of acquisition.

- (17) Companies which no longer meet the criteria of a subsidiary are excluded from the full consolidation (IAS 27.24). The point in time of the final consolidation is always determined by the date of the subsidiary's leaving the Group, i.e., the date on which the parent company loses control. The results of the final consolidation are calculated by contrasting the revenue from the sale with the disposal values of the assets and liabilities shown in the consolidated annual accounts. This also applies to companies included using the proportionate consolidation method.

#### **D. Explanatory comments on the balance sheet and on accounting and evaluation methods**

##### **General**

- (18) The consolidated annual accounts were prepared in accordance with the provisions of the International Accounting Standards (IAS) and the interpretations of the Standing Interpretations Committee (SIC) in force on the closing date. The balance sheets and income statements for the companies included in the consolidated annual accounts were essentially prepared according to the accounting and evaluation methods of the parent described below.

##### **Financial instruments**

- (19) IAS Standard 39 divides financial assets into the following categories:

- Financial instruments held for trading,
- Held-to-maturity financial investments,
- Loans and receivables,
- Available-for-sale financial assets.

In the PRO DV Group, financial instruments are generally categorized as „Loans and receivables“ or as „Available-for-sale financial assets“.

Financial instruments are recognized on the balance sheet on the trade date, i.e., on the day the asset is delivered or accepted, for „usual“ sale or purchase.

- (20) Financial instruments are recognized on the balance sheet at „continued cost of acquisition“ or the „fair value“. For short-term receivables and liabilities, the continued costs of acquisition always correspond to the nominal amount or the repayment amount. The fair value generally corresponds to the market or exchange value.
- (21) Financial instruments recognized on the balance sheet include cash and cash in banks, accounts receivable and payable from trading and liabilities due to banks. Derivative financial instruments according to IAS 32, e.g., options and swaps, do not appear in the PRO DV Group.



**Analysis of fixed assets**

- (22) The detailed development of fixed assets can be seen in the consolidated analysis of fixed assets which is an element of these consolidated annual accounts.

**Goodwill**

- (23) Goodwill represents the difference between the cost of acquisition for the purchase of the company and the acquired share of the fair value of the identifiable assets and liabilities on the date of acquisition. Goodwill arising in the course of the initial consolidation is always amortized on a straight-line basis over a useful life of 20 years in accordance with IAS 22.44.

The expectations regarding the acquisition of Sports & Bytes GmbH, Dortmund, failed to materialize. The income position of the company deteriorated steadily. The interest in this company was therefore sold. The goodwill in the balance sheet was therefore to be treated as a disposal.

**Other intangible assets**

- (24) Purchased intangible assets are to be measured at the cost of acquisition. They are regularly amortized according to their useful life by the straight-line method over a period of three years. Unscheduled write-offs were not taken.

**Software development costs**

- (25) Software development costs are always recognized as expenses in the income statement for the year in which they are incurred. However, costs which are clearly attributable to a development and for which future economic benefits can probably be expected are capitalized as self-created intangible assets. No self-created intangible assets were capitalized in 2003. Self-created intangible assets recognized on the balance sheet from previous years are amortized in total over a useful life of 5 years.

**Plant, property and equipment**

- (26) Items of plant, property and equipment are measured at cost of acquisition or manufacture, less subsequent depreciation, in accordance with IAS 16. Items are depreciated according to both the straight-line and the declining balance methods. Buildings are amortized over a useful life of 25 years, fixtures, fittings and equipment over a useful life of 3 – 13 years. Items of plant, property and equipment whose cost of acquisition does not exceed EUR 410.00 in the year of their addition are always depreciated in full immediately. This does not apply to the initial furnishing of office space.

- (27) Financing expenses are not capitalized, but are recognized immediately as expenses at the time they are incurred.
- (28) Repair and maintenance costs are recorded as expenses at the time they are incurred. Expenditures for modernizations and significant improvements are capitalized.
- (29) Plant, property and equipment used on the basis of leasing agreements are capitalized and depreciated in accordance with IAS 17 if the criteria of „finance leasing“ are met. The objects currently leased (e.g., motor vehicles) do not meet these criteria and are consequently not capitalized.

#### **Inventories**

- (30) Inventories comprise primarily works-in-process from construction contracts. The recognized amount of TEUR 752 has been calculated by deducting the advance payments received from clients in the amount of TEUR 2,267 (previous year TEUR 1,280). In accordance with IAS 11.42 and the following standards, construction contracts with a balance due from customers were recognized as assets and construction contracts with a balance due to customers were recognized as liabilities (TEUR 1,277k, previous year TEUR 427).
- (31) Work-in-process represents client contracts which have not been completed. According to IAS 11, construction contracts should, under certain circumstances, be recognized according to the percentage of completion method. Application of this method means that the contract revenues are shown as realization of profit in the income statement of the reporting period in which the work is done and proportionate to the stage of completion of contract activity. Revenues from fixed price contracts are recognized according to profit realization on the basis of the degree of completion. They are calculated according to the percentage of estimated total costs for each contract represented by the internal and external expenditures incurred as of the reporting date. To ensue clarity, the advance payments received from clients are shown separately from the inventories (TEUR 2,267).
- (32) The contract revenues realized in the reporting period amount to TEUR 5,297.

## (33) Determination of stage of completion:

Description	PRO DV	PRO DV	Joint	Total
	Software AG	Software GmbH Dresden	projects	
	TEUR	TEUR	TEUR	TEUR
<b>Initially agreed contract revenue</b>	<b>5,372</b>	<b>328</b>	<b>297</b>	<b>5,997</b>
Contract costs incurred as of reporting date	2,108	180	210	2,498
Contract costs until completion	2,162	93	50	2,305
<b>Estimated total contract costs</b>	<b>4,270</b>	<b>273</b>	<b>260</b>	<b>4,803</b>
<b>Estimated profit</b>	<b>1,102</b>	<b>55</b>	<b>37</b>	<b>1,194</b>
<b>Stage of completion</b>	<b>49 %</b>	<b>66 %</b>	<b>81 %</b>	<b>52 %</b>

## Determination of stage of completion of previous year:

Description	PRO DV	PRO DV	Total
	Software AG	Software GmbH Dresden	
	TEUR	TEUR	TEUR
<b>Initially agreed contract revenue</b>	<b>3,329</b>	<b>854</b>	<b>4,183</b>
Contract costs incurred as of reporting date	1,088	900	1,988
Contract costs until completion	1,538	278	1,816
<b>Estimated total contract costs</b>	<b>2,626</b>	<b>1,178</b>	<b>3,804</b>
<b>Estimated profit</b>	<b>703</b>	<b>-324</b>	<b>379</b>
<b>Stage of completion</b>	<b>41.43 %</b>	<b>76.40 %</b>	<b>52.26 %</b>

## Merchandise

(34) Merchandise was measured at cost of acquisition.

The inventories of merchandise changed during the reporting period as shown below:

	TEUR
Merchandise inventory on 01.01.2003	23
Change in inventory	1
<b>Merchandise inventory on 31.12.2003</b>	<b>24</b>

**Receivables and other assets**

- (35) All of the receivables and other assets have a remaining term of less than one year, with the exception of an item of TEUR 136 with a term of up to 5 years.
- (36) Value adjustments were made in the appropriate scope.

**Accounts receivable from trading**

- (37) Accounts receivable from trading were measured at nominal value. As all of the receivables are due within one year, the book value corresponds to the fair value of these receivables.

**Other assets**

- (38) Among other items, a receivable is shown from the sale of the holding in Sports & Bytes GmbH; it was agreed with the purchaser that the receivable would be paid by the performance of services and payment in kind. The long-term share of the other assets amounts to TEUR 136.

**Cash on hand and cash in banks**

- (39) The average interest rate for time deposits was about 2.4 %. The liquidity shown in the capital flow statement includes cash on hand and cash in banks.

**Deferred taxes**

- (40) Reserves for deferred taxes, both for temporary differences and deferred tax credits from tax losses brought forward, were created in accordance with IAS 12. The deferred taxes were measured at a tax rate which is expected to apply to the period in which an asset is realized or a liability is settled. A charge of 40 % was presumed as the future tax rate (for corporation tax, solidarity surcharge and trade tax). Temporary differences result primarily from the differences between the recognition of land and development costs on the balance sheets according to tax and commercial laws and from the percentage of completion method for the measurement of work-in-process. In addition, consolidation entries affecting profit in the consolidated annual accounts are recorded to the extent that they lead to temporary differences. Deferred tax assets were created only to the extent that a corresponding taxable income is expected for the future.

The following circumstances had to be taken into account in determining the deferred tax assets.

	TEUR	Taxes on earnings TEUR
Assessment differences, buildings	2,294	918
Accumulated deficit, brought forward	4,000	1,600
<b>Accruals for deferred tax assets</b>	<b>6,294</b>	<b>2,518</b>

### Equity

- (41) Capital subscribed amounts to EUR 4,300,000.00.
- (42) The share capital is distributed in 4,300,000 no-par shares. In 2001, 100,000 no-par shares were subscribed from the authorized capital.
- (43) Authorized capital of TEUR 2,000 is available to the Company for further financing of the firm.
- (44) The share capital has been conditionally raised by up to nominal TEUR 230 in up to 230,000 shares issued to the bearer (contingent capital). The contingent capital serves the granting of subscription rights to members of the Board of Management and employees of PRO DV Software AG as well as to members of management and employees of affiliated companies. The conditional increase in capital is undertaken only to the extent that the holders of subscription rights choose to exercise said rights. The new shares participate in profits from the beginning of the fiscal year in which they are created by exercise of the subscription rights.
- (45) The capital surplus comprises the premiums from the issue of shares. The amount of TEUR 13,059 was withdrawn from the capital surplus to balance out the net loss in 2003 and the accumulated deficits brought forward of the parent company.
- (46) The earnings reserves comprise solely legal reserves.



## (47) Equity development

Capital development in the reporting period:

Date	Item	Share capital	Capital surplus	Earnings reserves	Consolidated balance sheet profit	Total
		TEUR	TEUR	TEUR	TEUR	TEUR
01.01.2003		4,300	32,250	10	-13,363	23,197
31.12.2003	Consolidated net loss	-	-	-	-2,166	-2,166
31.12.2003	Withdrawals from capital surplus	-	-13,059	-	13,059	-
<b>31.12.2003</b>		<b>4,300</b>	<b>19,191</b>	<b>10</b>	<b>-2,470</b>	<b>21,031</b>

Capital development in the previous year:

Date	Item	Share capital	Capital surplus	Earnings reserves	Consolidated balance sheet profit	Total
		TEUR	TEUR	TEUR	TEUR	TEUR
01.01.2002		4,300	32,250	10	-3,061	33,499
31.12.2002	Consolidated net loss	-	-	-	-10,302	-10,302
<b>31.12.2002</b>		<b>4,300</b>	<b>32,250</b>	<b>10</b>	<b>-13,363</b>	<b>23,197</b>

**Accrued taxes**

(48) The accrued taxes include liabilities from current (corporation tax and trade tax) and deferred taxes.

Current taxes:

Accrued taxes	As of 01.01.03 TEUR	Usage TEUR	Reversal TEUR	Allocation TEUR	As of 31.12.03 TEUR
Trade tax	-	-	-	23	23
Corporation tax	-	-	-	-	-
<b>Total accrued taxes</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>23</b>	<b>23</b>

## Deferred taxes:

	As of 01.01.03 TEUR	Reversal TEUR	As of 31.12.03 TEUR
Deferred taxes	746	365	381
<b>Total</b>	<b>746</b>	<b>365</b>	<b>381</b>

The following circumstances had to be taken into account in determining the deferred tax liabilities:  
(cf. No. 40)

	TEUR	Taxes on earnings TEUR
Capitalized development costs	143	58
Elimination of lump-sum value adjustments	10	4
Inventories (percentage of completion)	766	306
Effects from debt consolidation	33	13
<b>Provision for deferred tax liabilities</b>	<b>952</b>	<b>381</b>

**Other provisions and accrued liabilities**

- (49) Other provisions are created in the amount which, according to reasonable commercial judgement on the balance sheet date, is required to cover future payment obligations, identifiable risks and uncertain liabilities of the Company. In accordance with IAS 37, the amount is allocated which, upon careful review of the circumstances, is shown to be most probable.

The provision for holiday leave is to be created for the employer's obligation to discharge holiday leave not yet taken on the balance sheet date and which will be granted or paid out in the following fiscal year.

The provision for warranties is to be created to cover the obligation to perform cost-free subsequent work and work performed at no charge for reasons of fairness.

A provision for litigation costs was created, among other reasons, for the procedural costs which are now known and are expected in the first and second instances of the legal dispute with the state of North Rhine-Westphalia (cf. No. 74).

The provision for unsettled bills arises from events for which a billing is expected in 2004, although the commercial cause was in the previous year.

(50) The other provisions have a term of less than one year for the most part.

Composition and development:

	As of 01.01.03	Usage	Reversal	Allocation	Disposal of final con- solidation	As of 31.12.03
Other provisions and accrued liabilities	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
<b>a. Provisions in personnel matters:</b>						
Bonuses/royalties for employees	218	218	-	180	-	180
Holiday leave	612	612	-	205	-	205
Overtime	36	36	-	16	-	16
Employers' liability insurance association	58	58	-	79	-	79
Equalization levy	31	27	4	24	-	24
Settlement	-	-	-	243	-	243
Travel expenses	-	-	-	22	-	22
<b>b. Other provisions:</b>						
Unsettled bills	557	499	58	143	-	143
Expenses for annual report	77	77	-	76	-	76
Close-out expenses	103	103	-	104	-	104
Commissions	46	46	-	107	-	107
Litigation risk	18	3	2	132	-	145
Warranties	239	92	-	112	-	259
Other provisions and accrued liabilities	188	141	4	145	9	179
<b>Total other provisions and accrued liabilities</b>	<b>2,183</b>	<b>1,912</b>	<b>68</b>	<b>1,588</b>	<b>9</b>	<b>1,782</b>

**Liabilities due to banks**

- (51) Liabilities due to banks were recognized on the balance sheet at the repayment amount and comprise the following items as of 31.12.2003:

	2003 TEUR	2002 TEUR
Loans	888	953
Current account loans	-	-
<b>Total</b>	<b>888</b>	<b>953</b>
Remaining		
of up to 1 year	66	66
1 to 5 years	263	263
over 5 years	559	624
<b>Total</b>	<b>888</b>	<b>953</b>

**Trade accounts payable and other liabilities**

- (52) The trade accounts payable and other liabilities are recognized on the balance sheet at the repayment amounts. Due to the short-term credit lines of these liabilities, this procedure corresponds to the fair value of these liabilities.

**E. Explanatory comments on the income statement****Turnover realization**

- (53) In the standard product area, turnover is realized when the product is delivered; with respect to service contracts, it is realized when the service has been performed. Revenues from construction contracts are realized in the income statement according to the stage of completion, if a reliable estimate is possible (IAS 11). Turnover is shown less turnover tax and sales deductions as well as credit notes.

**Other operating income**

- (54) Other operating income includes the final consolidation result from the sale of the interest in Sports & Bytes GmbH.

**Segment report**

- (55) Composition and development:

## Consolidated segment statement

By divisions from 01.01. – 31.12.2003 to IAS/IFRS

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	Division Telecommunications		Division Retail & Banking	
	31.12.2003 TEUR	31.12.2002 TEUR	31.12.2003 TEUR	31.12.2002 TEUR
<b>1. By areas of competence</b>				
Sales revenues	5,942	5,453	959	2,521
Production of own fixed assets capitalized	-	-	-	-
Changes in inventories of finished goods and work in progress	86	-95	13	-790
<b>Gross performance</b>	<b>6,028</b>	<b>5,358</b>	<b>972</b>	<b>1,731</b>
Other operating income	197	44	33	45
Cost of purchased materials and services	346	426	161	236
Personnel expenses	4,303	4,388	723	2,349
Depreciation	178	160	12	150
Other operating expenses	1,453	1,262	212	861
<b>Segment result</b>	<b>-55</b>	<b>-834</b>	<b>-103</b>	<b>-1,820</b>
<b>Non-attributable costs</b>				
Depreciation administration				
Legal and consulting costs				
Amortization (and impairment) of goodwill				
Financial result				
Income tax				
Minority interest				
<b>Net income/loss</b>				
<b>Other Information</b>				
Segment assets	2,624		457	
Non-attributable common assets				
<b>Consolidated assets</b>				
Segment liabilities	596		48	
Non-attributable liabilities				
<b>Consolidated liabilities</b>				
Investments	73		10	
Non-attributable investments				
<b>Consolidated investments</b>				

	Germany	
	31.12.2003 TEUR	31.12.2002 TEUR
<b>2. By geographical markets</b>		
<b>Gross performance</b>	<b>15,659</b>	<b>17,036</b>



	Division Utilities		Division Government		Division Industry		Other areas		Group	
	31.12.2003	31.12.2002	31.12.2003	31.12.2002	31.12.2003	31.12.2002	31.12.2003	31.12.2002	31.12.2003	31.12.2002
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
	1,282	1,549	5,087	8,642	2,014	2,463	412	561	15,696	21,189
	-	-	-	-	-	-	-	-	-	-
	-119	-420	601	-2,053	-70	-220	-	-	511	-3,578
	<b>1,163</b>	<b>1,129</b>	<b>5,688</b>	<b>6,589</b>	<b>1,944</b>	<b>2,243</b>	<b>412</b>	<b>561</b>	<b>16,207</b>	<b>17,611</b>
	36	6	186	121	154	52	105	3	711	271
	107	166	572	451	52	137	67	154	1,305	1,570
	1,285	1,369	4,639	4,944	2,141	2,601	332	515	13,423	16,166
	60	51	316	189	177	321	36	35	779	906
	250	292	1,217	1,248	648	962	103	147	3,883	4,772
	<b>-503</b>	<b>-743</b>	<b>-870</b>	<b>-122</b>	<b>-920</b>	<b>-1,726</b>	<b>-21</b>	<b>-287</b>	<b>-2,472</b>	<b>-5,532</b>
									82	613
									-	362
									102	3,773
									306	431
									-184	646
									-	193
									<b>-2,166</b>	<b>-10,302</b>
	583		2,402		2,214				8,280	
									19,112	
									<b>27,392</b>	
	114		1,865		1,755				4,378	
									1,983	
									<b>6,361</b>	
	32		46		19				180	
									118	
									<b>298</b>	

	EU		Other countries		Group	
	31.12.2003	31.12.2002	31.12.2003	31.12.2002	31.12.2003	31.12.2002
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
	<b>493</b>	<b>126</b>	<b>55</b>	<b>449</b>	<b>16,207</b>	<b>17,611</b>

(56) Designations and abbreviations in the segment report:

**Division Telecommunication:**

Support of clients in the telecommunications field with specific solution packages in the areas of technical information systems, billing, knowledge management and customer care.

**Division Government:**

Support and optimization of the processes of public administration through the use of modern Internet and intranet technologies.

**Division Utilities:**

Network management solutions for utilities as well as workforce management and geo-based solutions, along with data-integrating status management systems.

**Division Industry:**

PRO DV offers special products and solutions for production, planning, control, computer-aided quality and optimization of logistics chains for industrial companies.

**Division Retail & Banking:**

Support of trade and banks with solutions and products containing geo-based components.

**Other areas:**

This figure sums up primarily the performance of the affiliated company Sports & Bytes GmbH. Object of the company includes the operation of Internet portals.

The following areas were used in the previous year:

**PO:** Process Optimization

Information management solution for the optimization of business processes and corporate procedures

**GEO:** Geo Solutions

Geographic information management solutions

**CRM:** Customer Relationship Management

Information management solutions

**Web:** Web Business

(57) The activities of Sports & Bytes GmbH, which has been sold, are found exclusively in the segment „Other areas“.

### New and reorganized divisions

(58) The corporate organization was reorganized and restructured. The previous year's figures have been adjusted accordingly to the new corporate organization for comparison purposes. In this context, the divisions Process Optimization, Geo Solutions and CRM are no longer shown. The new divisions are shown in their place. In adjusting the previous year's figures, the distribution ratios of 2003 were, at least in part, applied in 2002 for reasons of practicality, because an exact adjustment is not possible in all of the divisions.

### (59) Personnel expenses

	TEUR	
Wages and salaries	11,284	
Social security	2,139	
<b>Total</b>	<b>13,423</b>	

(60) At the end of the reporting period, the Group employed a staff of 209 (previous year 265). Part-time employees and temporary employees were included according to the actual number of people. The year average for staff, considering full-time equivalents and the proportion and duration from the affiliated companies, came to 208 in the reporting period (previous year 271).

### Depreciation, amortization and other write-offs

(61) Extraordinary depreciation was taken on the goodwill of PRO DV Software GmbH, Dresden (TEUR 40) in the fiscal year. The remaining depreciation, amortization and other write-offs were taken as scheduled.

### Rent and lease expenses

(62) Rent and lease expenses for the reporting period amounted to:

	TEUR	
Rent expenses	324	
Lease expenses	312	

### Accounting of subsidies

- (63) Investment subsidies for intangible assets, buildings and fixtures, fitting and equipment in the amount of TEUR 412 (previous year TEUR 456) are recognized as deferred charges. The deferred charges items will be reversed appropriate for the period according to the useful life of the assets for which subsidies were granted. During the current reporting period, a total of TEUR 44 (previous year TEUR 53) was reversed with effect on profits. Job guarantees were given in return for the subsidies, and if the guarantees cannot be maintained, these subsidies would possibly have to be repaid. As a precaution, a provision of TEUR 50 was created for uncertainties with respect to the job guarantee.
- (64) Expense allowances of TEUR 7 (previous year TEUR 94) were received with effect on profits.

### Financial expenses

- (65) The financial result in the income statement results primarily from interest income and expenses related to cash in banks and liabilities due to banks.
- (66) Composition of the financial result:

	TEUR	
Other interest and similar income	360	
Interest and similar expenses	54	
<b>Financial Result</b>	<b>306</b>	

### Taxes on income

- (67) Due to current circumstances, there was an average tax burden of 0 % for fiscal year 2003. The transition from the nominal taxes (40 %) to the actual tax expenses (7.8 %) results as follows:

## (68) Transition of the rate for tax on income

	TEUR	%
Earnings before taxes on income	-2,350	
<b>Nominal taxes</b>	<b>-940</b>	<b>40.0</b>
Depreciation on goodwill	41	-1.7
Value adjustment on deferred tax credits from accumulated deficits brought forward	865	-36.7
Non-deductible expenses	73	-3.1
Non-taxable income	-157	6.7
Other	-66	2.6
<b>Actual tax expenses</b>	<b>-184</b>	<b>7.8</b>

**Result per share**

(69) The watered and the unwatered result per share came to EUR -0.50 (2002 EUR -2.40). The counter used to calculate the watered and the unwatered result is the net loss of TEUR -2,166 (previous year TEUR -10,302). The weighted average of the number of ordinary shares which was used as the denominator in the calculation of the watered and unwatered result was 4,300,000.

**Research and development**

(70) In the past fiscal year, engineering performance of about 5.1 billable years was invested in development. A major part was the continuous further development in the area of modern technologies and platforms such as f@stchain, f@stcheck, SAP, estateXpert and the development of the geo-based framework PROconn.

**Minority interests**

(71) The results from minority interests come exclusively from PRO DV Software GmbH, Dresden.

**F. Other information****Other financial obligations**

(72) There are other financial obligations for leasing agreements and for leases on property.

Leases on property exist mainly for rented office space at the places of business; they have terms of between 36 and 103 months and amount to TEUR 457 (previous year TEUR 589) for the entire duration of their terms. Leasing agreements exist primarily for the motor vehicles in use with terms of 3 years and amount to a total of TEUR 337 (previous year TEUR 515).



(73) Remaining terms:

	TEUR	
of up to 1 year	364	
1 to 5 years	407	
over 5 years	23	

### Contingent liabilities and receivables

(74) The Company is currently involved in litigation in which it finds itself in the role of the Defendant and faced with a claim of EUR 1.8 million in the suit. In this legal dispute, the state of North Rhine-Westphalia has asserted warranty rights from a software development contract and is seeking annulment of the contract. However, the contractual partner of the Plaintiff, the state of North Rhine-Westphalia, was not the Defendant, but rather the company Olivetti, in the meantime bankrupt, which engaged the Defendant as a subcontractor. The claim of the suit is based on a warranty agreement concluded with PRO DV, according to which the latter was supposed to perform certain warranty work in return for payment of EUR 12,782.30. The question as to whether PRO DV assumed in full the warranty obligations of the company Olivetti is of decisive importance for the suit. According to an indemnification declaration by Messrs Joachim Beck, Klaus Bullmann, Heinz Leonhardt and Siegfried Wenzel, these gentlemen will indemnify and hold harmless in the internal relationship PRO DV for any amount exceeding EUR 12,782.30 which may result from a claim by the state of North Rhine-Westphalia from a final legal decision or from a settlement concluded with the agreement of the aforementioned persons, so that the risk of a claim by the state of North Rhine-Westphalia is limited to this amount. Any costs which may result from the proceedings must be borne by the Company and are covered by the creation of a provision (cf. No. 49, 50).

### Relationships to close persons

(75) The members of the Board of Management and persons close to them hold 32.21 % of the shares. Mr Dipl.-Ing. Siegfried W. Wenzel, a member of the Company's Board of Management until 31.12.2003, is supposed to become a consultant to the company as of 01.01.2004. The Supervisory Board has unanimously authorized the Supervisory Board chairperson to negotiate and conclude an appropriate contract.

### Board of Management

(76) Mr Dipl.-Ing. Klaus Bullmann and Mr Dipl.-Ing. Siegfried W. Wenzel were members of the Board of Management of the parent company until 31.12.2003. As of 01.01.2004, the Supervisory Board named the authorized signatories, Mr Udo Bücher and Mr Dipl.-Inform. Uwe Osterkamp, to the Board of Management of PRO DV Software AG. Mr Dipl.-Ing. Siegfried W. Wenzel, joined the Supervisory Board at the beginning of January 2004 (cf. No. 77).

The remuneration of the members of the Board of Management in 2003 was distributed as follows: 77

	Current payments	Settlement	Total
K. Bullmann	TEUR 174 (previous year TEUR 184), thereof variable TEUR 0	TEUR 0 (previous year TEUR 0)	TEUR 174 (previous year TEUR 184)
S. Wenzel	TEUR 174 (previous year TEUR 184), thereof variable TEUR 0	TEUR 243 (previous year TEUR 0)	TEUR 417 (previous year TEUR 184)

### Supervisory Board

(77) During calendar year 2003, the Supervisory Board of PRO DV Software AG comprised the following members:

Dr.-Ing. Knud Norden (Chairman), Dortmund  
Board of Management, IT Division, RWE Systems AG  
Other Supervisory Board positions held: RWE Systems Applications GmbH, Eschborn (Chairman)

Michael Petmecky, Dortmund  
Board of Management SIGNAL IDUNA Versicherungsgruppe  
Other Supervisory Board positions held: Netlife AG, Hamburg  
VDG-Versicherungswirtschaftlicher Datendienst GmbH, Icking

Dr Harald Obendiek (Vice-Chairman), Oberhausen  
Personnel Director ThyssenKrupp Technologies  
No other Supervisory Board positions

Effective as of 31.12.2003, Dr Harald Obendiek is resigning at his own request for personal reasons from the Supervisory Board of PRO DV Software AG. As scheduled, Mr Dipl.-Ing. Siegfried W. Wenzel will move from the Board of Management to the Supervisory Board at the beginning of January 2004 (cf. No. 76).

Total remuneration for the Supervisory Board for the entire year 2003 came to TEUR 24.5 (previous year TEUR 24.5).

Dortmund, February 2004  
The Board of Management



Klaus Bullmann



Udo Bücher



Uwe Osterkamp

## Auditors' Report

We have audited the consolidated financial statements, comprising the balance sheet, the income statement and the statements of changes in shareholders' equity and cash flows as well as the notes to the financial statements, prepared by the Company PRO DV SOFTWARE AG, DORTMUND, for the business year from January 1, 2003 to December 31, 2003. We have also audited the inclusion of the companies to be consolidated, the used consolidation policies and the adequacy of the financial statements of the consolidated group companies. The preparation and the content of the consolidated financial statements are the responsibility of the Company's executive board. Our responsibility is to express an opinion whether the consolidated financial statements are in accordance with International Financial Reporting Standards (IFRS) / International Accounting Standards (IAS) based on our audit.

We conducted our audit of the consolidated financial statements in accordance with German auditing regulations and generally accepted standards for the audit of financial statements promulgated by the German Institute of Chartered Accountants (IDW) as well as in accordance with the International Standards on Auditing (ISA). Those standards require that we plan and perform the audit such that it can be assessed with reasonable assurance whether the consolidated financial statements are free of material misstatements. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the amounts and disclosures in the consolidated financial statements are examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the Group for the business year in accordance with IFRS/IAS.

Our audit, which also extends to the group management report prepared by the executive board for the business year from January 1, 2003 to December 31, 2003 has not led to any reservations. In our opinion, on the whole the group management report together with the other disclosures in the consolidated financial statements provides a suitable understanding of the Group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the group management report for the business year from January 1, 2003 to December 31, 2003 satisfy the conditions required for the Company's exemption from its obligation to prepare consolidated financial statements and the group management report in accordance with German law.

Munich, February 13, 2004

AWT Horwath GmbH  
Wirtschaftsprüfungsgesellschaft

S. Denk  
Wirtschaftsprüfer  
(German Public Auditor)

C. Küpper  
Wirtschaftsprüfer  
(German Public Auditor)

## Report of the Supervisory Board

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The Board of Management regularly reported to the Supervisory Board, in writing and orally, on the course of business, the business planning, the position of the Company and the significant business events during the reporting period. Four meetings were held in which the Supervisory Board appraised in detail the business development on the basis of the Board of Management's reports and monitored the management of the Company. Due to the size of the Supervisory Board, no committees were formed for this purpose. Any and all measures requiring the approval of the Supervisory Board were discussed in detail in the Supervisory Board meetings. Moreover, the chairperson of the Supervisory Board received running reports from the Board of Management regarding any and all major business transactions in progress.

In 2003, the Supervisory Board concerned itself with the general economic position of the Company, the implementation of the new client-focused orientation and the structural changes required for this purpose. In addition, the Supervisory Board continuously and intensively reviewed the company-wide risk prevention and monitoring system. Furthermore, additional measures for the expansion of the market position and the future corporate development, especially in the area of geo-solutions, were discussed. The Supervisory Board agreed to the sale of the 50% interest in sports & bytes GmbH, Dortmund, as this field of business is no longer appropriate for the Company's portfolio. A change of generations in top management was initiated at the turn of the year 2003/2004. Siegfried W. Wenzel, founding member and member of the Board of Management for many years, became a member of the Supervisory Board as of January 2004. He takes the place of Dr. Harald Obendiek, who for personal reasons and at his request resigned from the PRO DV Software AG Supervisory Board, effective as of 31/12/2003. The Supervisory Board would like to thank Dr Obendiek for the work he performed on our Board, which he had belonged to since 1997.

Effective as of 01/01/2004, the Supervisory Board named the previous authorized signatories of PRO DV Software AG, Udo Bücher and Uwe Osterkamp, to the Board of Management, to which founding member and Board spokesperson Klaus Bullmann already belongs. Udo Bücher, active in the Company since July 2002, is a proven sales expert and will be responsible on the Board of Management for the departments Sales and Marketing. Uwe Osterkamp, who has worked successfully for PRO DV in services and product business since April 1988, will direct as Board member Professional Services and the department Human Resources.

The accounting, the annual accounts and the management report for PRO DV Software AG as well as the consolidated annual accounts and the consolidated management report prepared for the fiscal year 2003 in accordance with IAS/IFRS were audited by AWT Horwath GmbH, Chartered Accountants, Munich. The auditor's opinion did not contain any reservations. The annual accounts and the management report of PRO DV Software AG, the consolidated annual accounts, the consolidated management report and the audit report of the auditor were submitted to the Supervisory Board. The Supervisory Board performed its own audit of the annual accounts, the management report, the consolidated annual accounts and the consolidated management report and did not determine any cause for objections. In its meeting on 16/03/2004, the Supervisory Board adopted the annual accounts and the consolidated annual accounts submitted by the Board of Management. The annual accounts of PRO DV Software AG for the year 2003 have therefore been approved. The Supervisory Board accepts the proposal of the Board of Management regarding the use of the balance sheet loss for the fiscal year 2003. We would like to express our thanks to the Board of Management and to all employees for their work and their commitment in fiscal year 2003.

Dortmund, March 2004  
The Supervisory Board



Dr.-Ing. Knud Norden, Chairman

## Glossar

### > **Balanced Scorecard**

Comprehensive key figure and management system which is strictly oriented to the corporate strategy.

### > **Competence Center**

Operative corporate area which supplements the industry-focused divisions through its bundled specialist knowledge (thematic or technological).

### > **Data Warehousing**

Intelligent use of databases for effective data storage and fast provision of large quantities of information.

### > **Division**

Operative corporate area, consisting of sales and solution development, which focuses its expertise exclusively on a single industry.

### > **EBIT**

Earnings before interest and taxes on earnings.

### > **EBITDA**

Earnings before interest and taxes on earnings, depreciation and amortization.

### > **GPRS – General Packet Radio Service**

New digital wireless standard which transmits data in form of single packets.

### > **GPS – Global Positioning System**

Satellite-supported positioning such as that used in vehicle navigation systems.

### > **LAN – Local Area Network**

Connection and wiring of a number of computers with each other (network), e.g., within a building.

### > **Location Based Services**

Services and offers which are related to and coordinated with the current location of the user.

### > **MES – Manufacturing Execution System**

Linking of material, quality and capacity management. Ensures integrated, simultaneous management of material and information flows crossing over business processes and companies.

### > **UMTS – Universal Mobile Telecommunications System**

Digital wireless services standard of the future with high transmission speeds, allowing the reproduction of pictures and films on mobile terminals.

### > **PDA – Personal Digital Assistant**

Portable small computer.

### > **WLAN – Wireless LAN**

Wireless connection of a number of computers with one another.

### > **Workflow**

Chain of work procedures within a business process.



## Finance Calendar

17 March 2004	Balance sheet press conference	Courtyard Marriott Hotel Düsseldorf Harbour
14 May 2004	First quarter report	
02 June 2004	Annual General Meeting	Casino Hohensyburg Dortmund
13 August 2004	Second quarter report	
12 November 2004	Third quarter report	
November 2004	Analysts conference	

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### Board of Management

Klaus Bullmann (Board Spokesman)  
Finance, Controlling,  
Investor Relations,

Udo Bücher  
Sales, Marketing,  
Business Development

Uwe Osterkamp  
Professional Services,  
Human Resources,  
Process/Quality Management

### Supervisory Board

Dr.-Ing. Knud Norden, Dortmund (Chairman)  
Michael Petmecky, Dortmund  
Dr. Harald Obendiek, Oberhausen (until 31.12.2003)  
Siegfried W. Wenzel (since January 2004)

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#### Contacts

PRO DV Software AG  
Hauert 6  
44227 Dortmund  
Tel.: +49 231 9792-0  
Fax: +49 231 9792-200

#### Investor Relations

E-Mail: [ir@prodv.de](mailto:ir@prodv.de)  
Tel: +49 231 9792-341  
Fax: +49 231 9792-200

Information about  
PRO DV Software AG on the Internet:  
<http://www.prodv.de>





# Annual Report 2003

Report according to HGB



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## Management Report for Fiscal Year 2003

### > Market and general economic conditions

In 2003, PRO DV's markets and the world economy as a whole continued to develop regressively. For their part, buyers remain extremely reluctant to approve investment decisions; however, in the second half of the year there were the first indications that the investment backlog which had built up over recent years was beginning to break up little by little.

According to BITKOM, a total of about 40 % of the German IT market (total volume EUR 66bn) is related to IT services. PRO DV and its offered line of services – consulting, implementation and support services – is well positioned on this partial market with a volume of EUR 26bn.

Our growth potential on this market is substantial: the German market, with a share of 22 %, is the most important western European market, ahead of Great Britain (21 %) and France (15 %). Western Europe is itself the world's second-largest IT market with a 30 % share and a total volume of EUR 285bn, surpassed only by the USA (world market share 41 %) (source: EITO).

The services provided by PRO DV target a series of important industries in Germany. PRO DV's clients come from telecommunications and government as well as from the areas of industry, retail trade and utilities.

### > Development of turnover and performance

Total performance of PRO DV Software AG came to EUR 14.1m during the reporting period (2002: EUR 13.9m), realizing turnover of EUR 13.3m (2002: EUR 16.4m). So in spite of the continuing stagnation of the market situation, performance was slightly higher than the overall performance of the previous year. IT budgets in our clients' companies continued to be sharply cut back and in some cases were even frozen at previous levels.

After being set off against payments on account, the work in progress amounted to EUR 0.3m (2002: EUR 0.4m). During the past fiscal year, orders for new projects with a total volume of EUR 15.3m were placed. Orders in hand as of 31.12.2003 came to EUR 4.6m for the entire company.

### > Earnings position

Earnings from ordinary business operations within PRO DV Software AG amounted to EUR -2.4m in fiscal year 2003 (2002: EUR -5.3m). This improvement in earnings in comparison with the previous year – earnings in 2002 were reduced by extraordinary write-offs on investment values – is the result of an increased use of capacity in comparison with 2002, in addition to the continued rigorous cost management and ongoing efforts to make processes leaner. In the course of the last fiscal year, earnings factors caused the Board of Management to adjust employee capacity and to optimize the ratio of personnel expenses to performance revenues.

The Company was therefore able to stay within the boundaries of the targets it had set for itself for last year and opened up prospects for a further positive development in the future.

At the end of 2003, Dr Harald Obendiek resigned his position on the Supervisory Board, and the founding member Siegfried W. Wenzel moved from the Board of Management to the Supervisory Board. These changes led to extraordinary charge against earnings of EUR 0.25m.

Last year PRO DV initiated an intensive change process. The measures derived and implemented from this process, such as the introduction of the balanced scorecard as a management instrument, have put PRO DV in a position which allows us – presuming that the economic climate continues to improve – to expect further improvement of the earnings position in fiscal year 2004. For 2004, we have set ourselves the goal of achieving a zero profit/loss result.

#### > Investments

In the past year, PRO DV Software AG allocated funds to the capital surplus of affiliated companies in order to strengthen their equity basis and liquidity.

Investments were made in fixtures, fittings and equipment of the item plant, property and equipment during the past fiscal year. In addition, replacement investments were undertaken in the IT infrastructure in 2003 so that, for example, servers and PC workstations could be maintained at a state-of-the-art, secure level, thus assuring the performance capabilities of our team.

#### > Staff

As of 31.12.2003, our Company employed a total staff of 177 (2002: 192) as the yearly average based on full-time equivalents.

#### > Other important events in the fiscal year

In August 2003, PRO DV and T-Mobile Deutschland GmbH, Bonn, Germany's largest provider of services related to mobile telephony, concluded a general agreement for IT services with a value of several million euros. The contract guarantees PRO DV EUR 4.5m in turnover for consulting and programming work by the middle of 2004.

Just as many other large companies, T-Mobile is striving to reduce the number of its suppliers and in this way to optimize their processes. Pursuant to these efforts, PRO DV was subjected to intensive commercial and quality-related analyses before the contract was signed. As a consequence of this examination, PRO DV is now one of a select circle of strategic suppliers for T-Mobile. This has also been documented by the general agreement, which assures PRO DV of orders from the Telekom subsidiary until well into the coming year.

Aiming to strengthen trust in the German capital market, the Deutsche Börse has resegmented the German stock exchange since January 2003: the newly-created Prime Standard sets the highest standards for transparency in Europe for the companies listed here.

Thanks to our open information policy, PRO DV meets the requirements of Prime Standard completely. By moving into the premium segment, PRO DV assures itself of the continued high attention from institutional analysts and investors, which is in the interest of all of our shareholders. After reviewing fulfilment of the acceptance criteria, the Deutsche Börse admitted the PRO DV stock to trade in the Prime Standard as of 01.01.2003. This simultaneously ended trading of the PRO DV stock on the Neuer Markt.

About 55 % of the PRO DV stock was collected in a stock pool, which includes the founders Joachim Beck, Klaus Bullmann and Siegfried Wenzel and others, at the time of the IPO in March 2000. All of the pool members decided to accept a voluntary four-year prohibition of sale of the stock until March 2004.



In undertaking this obligation, the shareholders at the time of the IPO far exceeded the six months required by the Deutsche Börse. In October of 2003, this same group of shareholders unanimously agreed to extend voluntarily this prohibition of sale, even before it had lapsed, by more than six months to 01 November 2004, underscoring their unreserved trust in PRO DV and offering private and institutional investors the prospect of a stable shareholder structure.

Effective as of 31.12.2003, Dr Harald Obendiek resigned at his own request for personal reasons from the Supervisory Board of PRO DV Software AG. As planned, the founding member Siegfried W. Wenzel moved from the Board of Management to the Supervisory Board as of 01.01.2004. At the same time, the Supervisory Board named the authorized signatories Udo Bücher and Uwe Osterkamp to the PRO DV Software AG Board of Management, effective as of 01.01.2004; since that time, they have managed the Company jointly with the spokesman of the Board of Management, Klaus Bullmann.

At the end of the fiscal year, PRO DV sold its 50% holding in sports & bytes GmbH, Dortmund. sports & bytes GmbH is a media agency which focuses on IT services and marketing especially in the sports sector. With the sale of this holding, PRO DV concludes its process of specific industry orientation to the areas telecommunications, utilities, government, industry and retail trade and banks.

#### **> Assets, liabilities and financial position**

The balance sheet total of PRO DV Software AG as of 31.12.2003 amounted to EUR 23.6m (2002: EUR 25.4m). As of the closing date, equity amounted to EUR 18.9m (2002: EUR 21.4m). This results in an equity ratio of 80.1 %.

As of the closing date, financial resources amounted to EUR 13.6m (2002: EUR 15.7m). When compared to the current liabilities of EUR 4.7m, the Company has a liquidity ratio of 2.9. The Company's outstanding liquidity basis is further underscored by an acid test ratio of 3.6 and a current ratio of 3.7.

As of 31.12.2003, current assets amounted to EUR 17.2m (2002: EUR 18.8m). In comparison to total assets, there is a current asset ratio of 72.9 %. This means that more than half of the assets are tied up only short-term, allowing the Company to respond flexibly to changes in the market situation.

#### **> Risks and risk management**

The Board of Management at PRO DV has taken the necessary steps to conform with the stricter standards on risk management imposed by the „Corporate Sector Supervision and Transparency Act“ (KonTraG). The sources of risks have been identified and examined to determine their possible effects on the course of business at PRO DV. The results of this examination have been recorded in detailed documentation. Measures to minimize risks have been undertaken, and the Board of Management receives regular reports regarding their implementation.

Essentially the risks involve project and calculation risks from current fixed-price orders. PRO DV implemented quality management in accordance with ISO 9001 in 1994 with the objective of improving internal processes, and the system has been continually adapted to take into account new developments ever since.

In fiscal year 2003, adjustments were made in capacities to ensure a continued full use of capacities; sales activities were also actively expanded and active cost management was rigorously continued. These measures, in combination with the more favourable economic prospects and the consequent improvement in the market situation, led to a substantial improvement in earnings. Furthermore, there are currently no further discernible risks which could lead to a long-term adverse effect on the assets, liabilities, financial position and profit and loss.

#### > Research and development

In the past fiscal year, PRO DV invested engineering performance of about 2.6 billable years in development. A major part was the continuous further development in the area of modern technologies and platforms such as SAP, estateXpert and the development of the geo-based framework PROconn.

#### > Events after the closing date of the fiscal year

There were no events of particular significance requiring mention in the report following the closing date.

#### > Outlook

Overall, we are planning to improve further our performance and profit situation in 2004. We consequently expect a zero profit/loss result for the current fiscal year. After structuring our Company efficiently into divisions, each with an orientation to a specific industry, and achieving our target results, we have laid a foundation we can build on. Subject to a further easing in the market and economic situation and the resultant continuous rise in use of capacities, we are confident that we will achieve our goals for 2004.

Dortmund, February 2004

The Board of Management



Klaus Bullmann



Udo Bücher



Uwe Osterkamp

## PRO DV in figures

Balance sheet according to HGB

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Assets	Financial statement 31.12.2003 TEUR	Financial statement 31.12.2002 TEUR
<b>A. Fixed assets</b>		
I. Intangible assets Concessions, industrial property rights and similar rights und values as well as licence from such rights an values	104	105
II. Tangible assets Other facilities, office furniture and equipment	655	843
III. Financial investments		
1. Shares in associated companies	5,654	5,654
2. Subsidiaries	-	-
	5,654	5,654
	<b>6,413</b>	<b>6,602</b>
<b>B. Current assets</b>		
I. Inventory		
1. Work in progress	2,057	1,306
2. Merchandise	23	21
3. Payments on account	-1,752	-937
	328	390
II. Accounts receivable and other assets		
1. Trade debtors	2,314	1,986
2. Accounts receivable from associated companies	162	165
3. Other assets	729	576
	3,205	2,727
III. Cash in hand, cash at banks	13,648	15,680
	<b>17,181</b>	<b>18,797</b>
<b>C. Accruals</b>	<b>60</b>	<b>50</b>
	<b>23,654</b>	<b>25,449</b>

Shareholders' equity and liabilities	Financial statement 31.12.2003 TEUR	Financial statement 31.12.2002 TEUR
<b>A. Shareholders' equity</b>		
I. Subscribed capital		
Conditional capital: TEUR 230 (2002: TEUR 230)	4,300	4,300
II. Capital reserve	14,607	27,667
III. Revenue reserves:		
Legal reserves	10	10
IV. Net loss	-	-10,619
	<b>18,917</b>	<b>21,358</b>
<b>B. Special item for investment allowance</b>	<b>79</b>	<b>106</b>
<b>C. Provisions</b>		
Other provisions	1,657	1,877
<b>D. Liabilities</b>		
1. Payments on accounts for orders	1,588	464
2. Trade creditors	279	258
3. Accounts payable to associated companies	279	522
4. Other liabilities	848	863
with a residual term up to one year: TEUR 848 (2002: TEUR 863)		
for taxes: TEUR 578 (2002: TEUR 595)		
for social security: TEUR 247 (2002: TEUR 238)		
	<b>2,994</b>	<b>2,107</b>
<b>E. Accruals</b>	<b>7</b>	<b>1</b>
	<b>23,654</b>	<b>25,449</b>

## Income statement according to HGB

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		01.01.2003- 31.12.2003		01.01.2002- 31.12.2002
	TEUR	TEUR	TEUR	TEUR
1. Sales revenues		13,331		16,400
2. Increase/decrease in work in progress		751		-2,542
<b>Total performance</b>		<b>14,082</b>		<b>13,858</b>
3. Other operating income		540		592
		<b>14,622</b>		<b>14,450</b>
4. Material costs:				
a. Expenditure on materials and suppliers and on good received	268		670	
b. Expenditure on services received	1,358	1,626	484	1,154
<b>Gross profit</b>		<b>12,996</b>		<b>13,296</b>
5. Staff costs:				
a. Wages and salaries	9,806		10,084	
b. Social security contributions and retirement pension costs	1,818		1,849	
Pension costs: TEUR 162 (2002: TEUR 150)				
6. Depreciation:				
a. on intangible fixed assets	422		624	
b. on current assets, as far as exceeding general depreciations	-		628	
7. Other operating costs	3,878	15,924	3,238	16,423
		<b>-2,928</b>		<b>-3,127</b>
8. Income from subsidiaries	157		-	
from associated companies: TEUR 157 (2002: TEUR 0)				
9. Other interests and similar income	401		573	
from associated companies: TEUR 45 (2002: TEUR 95)				
10. Depreciation on financial investments	40		2,761	
11. Interests and similar expenditure	3		1	
<b>Financial result</b>		<b>515</b>		<b>-2,189</b>
<b>12. Profit from ordinary activities</b>		<b>-2,413</b>		<b>-5,316</b>
13. Extraordinary income	-		2,668	
14. Extraordinary expenses	-		3,273	
15. Extraordinary result		-		-605
		<b>-2,413</b>		<b>-5,921</b>
16. Tax on income and earnings	-		-	
17. Other tax	27	27	30	30
<b>18. Loss for the year</b>		<b>-2,440</b>		<b>-5,951</b>
19. Loss brought forward		-10,619		-4,668
20. Withdrawal from capital surplus		13,059		-
<b>21. Net loss</b>		<b>-</b>		<b>-10,619</b>

## Appendix for Fiscal Year 2003

### 1. General information

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The Company is registered under the name PRO DV Software Aktiengesellschaft in the Commercial Register of the Local Court of Dortmund, Number HRB 12 956.

In the course of the initial public offering in March 2000, the Company was listed on the Frankfurt Stock Exchange. The Company has been listed in the newly created Prime Standard since January 2003.

The annual accounts as of 31 December 2003 have been prepared in accordance with the regulations of the Commercial Code (HGB) regarding accounting in stock capital companies and the supplementary regulations of the Company Law (AktG).

#### 1.1 Methods of accounting and evaluation

The methods of accounting and evaluation are the same as used in the previous year.

Intangible items of the fixed assets have been measured at cost of acquisition less scheduled straight-line depreciation. The depreciation was determined according to the presumed useful life of the assets.

Tangible asset items were measured at cost of acquisition or manufacture and – to the extent depreciable – less the scheduled depreciation. The depreciation was determined according to the presumed useful life of the assets. Depreciation in the fiscal year was essentially calculated according to the straight-line method. Low-value assets were written off in full in the year of their acquisition. The fixed assets movement is shown in a separate analysis of fixed assets movement included as an exhibit to the Appendix.

Scheduled depreciation is based on the following terms of useful life:

Software and licences	3 years	
Other tangible assets	3 to 13 years	

Financial assets were measured at the cost of acquisition. If required, extraordinary depreciation was taken on financial assets.

Work in progress has been measured at cost of manufacture, which includes, in addition to production costs, necessary production overhead costs, proportionate share of administrative overhead costs and special direct costs of production. If a loss is expected, the work in progress is measured regressively. In these cases, the work in progress is valued taking into account the costs yet to be incurred on the basis of a loss-free valuation.



If the production orders result in a credit balance with respect to clients, payments on account were openly deducted from the inventories in their nominal value for the reporting period. Payments on account are shown as liabilities to the extent that they exceed the valuation of the pertinent production order.

Accounts receivable and other assets with a residual term of up to one year are measured at nominal value in the balance sheet. If the residual term is greater than one year, the receivable is discounted to its cash value. Individual provisions and lump-sum allowances were created for discernible risks.

The capital subscribed is measured at the nominal amount.

Separate items for investment subsidies are measured at nominal value in the balance sheet. They are reversed corresponding to the useful life of the subsidized assets.

The provisions have been measured in line with commercial viewpoints and take into account the doubtful liabilities and risks discernible at the time of preparation of the balance sheet.

The liabilities have been measured at the repayment amount.

Accounts receivable from and payable to associated companies are shown separately.

## 2. Explanatory comments on the individual items of the balance sheet

The following compares the assets and liabilities of fiscal year 2003 with those of the previous year.

### 2.1 Fixed assets

The development of the single items of fixed assets, together with the pertinent depreciation, can be seen in the fixed assets movement which is included as an exhibit to the Appendix.

The company's shares in Sports & Bytes GmbH were sold effective as of 31.12.2003, on the basis of the sales and conveyance contract of 18.12.2003 (Register of Authors No. 210/2003 of Mr Rüdiger Petzold, Notary Public, Dortmund). The book profit is shown in the item Other operating income.

Associated company	Registered office	Amount of holding	Equity TEUR	Result 2003 TEUR
PRO DV Software GmbH	Dresden	80 %	-782,058.28	-556,474.12
pro dv online gmbh	Munich	100 %	1,562.62	-1,408.88
Immobilienverwaltungsgesellschaft Hauert 6 mbH & Co. KG	Dortmund	100 %	5,650,000.00	159,290.66

## 2.2 Inventories

Work in progress includes projects which have been started in the segments Telecommunications, Utilities, Government, Industry and others, of which the pertinent payments on account (TEUR 1,752) have been openly deducted as soon as there is a credit balance with respect to the client. Payments on account are shown as liabilities to the extent that they exceed the valuation of the pertinent production order (TEUR 1,588).

## 2.3 Receivables and other assets

Accounts due from associated companies (TEUR 162) result essentially from the claim to profits against the Immobilienverwaltungsgesellschaft Hauert 6 mbh & Co. KG (TEUR 157). An allowance has been made in the current year for the interest due from PRO DV Software GmbH, Dresden, (TEUR 45).

The other assets include essentially purchase price claims from the sale of the shares in Sports & Bytes GmbH, interest income tax and solidarity surcharge for 2002 and 2003 (TEUR 250), accrued interest income (TEUR 62) and other accounts receivable (TEUR 41).

Accounts receivable in the amount of TEUR 136 have a residual term of more than one year.

## 2.4 Cash on hand and cash in banks

This item essentially contains time deposits in the amount of TEUR 11,527.

## 2.5 Prepayments and accrued income

Contributions, fees and performance remunerations paid in advance are shown under this item.

## 2.6 Shareholders' equity and special items

Capital subscribed amounts to EUR 4,300,000.00.

Authorized capital of EUR 2.0m is available to the Company on 31.12.2003 for further financing of the firm.

The share capital is distributed in 4,300,000 no-par shares. In 2001, 100,000 no-par shares were subscribed from the authorized capital.

The share capital has been conditionally raised by up to nominal EUR 230,000.00 in up to 230,000 shares issued to the bearer (contingent capital). The conditional capital increase serves to grant subscription rights to Board of Management members and Company employees as well as members of management and employees of associated companies, in accordance with the resolution passed by the annual general meeting on 11.02.2000. The conditional increase in capital is undertaken only to the extent that the holders of subscription rights choose to exercise said rights.

The Board of Management is authorized, with the approval of the Supervisory Board, to determine the further details for the execution of the conditional capital increase and the form of the subscription rights. The Supervisory Board will determine any details to the extent that the Board of Management is affected by the execution.

### 2.6.1 Shareholders' equity movement for the period from 1 January to 31 December 2003

The complete shareholders' equity developed as shown below:

	Capital subscribed EUR	Capital surplus EUR	Earnings reserves EUR	Balance sheet loss EUR	Total EUR
As of 31.12.2002	4,300,000.00	27,666,569.37	9,780.37	-10,619,085.81	21,357,263.93
Net loss	0.00	0.00	0.00	-2,440,330.23	-2,440,330.23
Withdrawals from capital surplus	0.00	-13,059,416.04	0.00	13,059,416.04	0.00
<b>As of 31.12.2003</b>	<b>4,300,000.00</b>	<b>14,607,153.33</b>	<b>9,780.37</b>	<b>0.00</b>	<b>18,916,933.70</b>

### 2.6.2 Special reserves for investment subsidy

Special reserves for investment subsidy in the amount of TEUR 79 are shown in accordance with Section 281 HGB. The special reserves are reversed appropriate for the period corresponding to the useful life of the assets for which subsidies were granted. During the reporting period, TEUR 28 were reversed effective on earnings. In 2002, the lot Hauert 6 was sold to the Immobilienverwaltungsgesellschaft Hauert 6 mbH & Co. KG. The special reserves, to the extent allocated to the property, were reversed in the amount of TEUR 203. Job guarantees were given in return for the subsidies. If it is no possible to carry through on these guarantees, there may be a demand for repayment of the subsidies.

### 2.7 Other provisions

The other provisions have essentially been created for residual holiday leave due to staff (TEUR 177), overtime pay due to staff (TEUR 15), internal costs for the annual accounts and audits (TEUR 89), costs of the annual report (TEUR 76), contributions to employers' liability insurance association (TEUR 69), unsettled bills (TEUR 128), warranties (TEUR 229), imminent losses from uncertain rental leases (TEUR 83), staff commissions (TEUR 283), maintenance (TEUR 75), litigation risk (TEUR 145), settlements (TEUR 243) and other (TEUR 45).

The Company is currently involved in litigation in which it finds itself in the role of the Defendant and faced with a claim of EUR 1.8 million in the suit. In this legal dispute, the state of North Rhine-Westphalia has asserted warranty rights from a software development contract and is seeking annulment of the contract. However, the contractual partner of the Plaintiff, the state of North Rhine-Westphalia, was not the Defendant, but rather the company Olivetti, in the meantime bankrupt, which engaged the Defendant as a subcontractor. The claim of the suit is based on a warranty agreement concluded with PRO DV, according to which the latter was supposed to perform certain warranty work in return for payment of EUR 12,782.30. The question as to whether PRO DV assumed in full the warranty obligations of the company Olivetti is of decisive importance for the suit. According to an indemnification declaration by Messrs Joachim Beck, Klaus Bullmann, Heinz Leonhardt and Siegfried Wenzel, these gentlemen will indemnify and hold harmless in the internal relationship PRO DV for any amount exceeding EUR 12,782.30 which may result from a claim by the state of North Rhine-Westphalia from a final legal decision or from a settlement concluded with the agreement of the aforementioned persons, so that the risk of a claim by the state of North Rhine-Westphalia is limited to this amount. Any costs which may result from the proceedings must be borne by the Company and are covered by the creation of a provision.

## 2.8 Liabilities

The accounts payable to associated companies result are trade creditors (TEUR 56) and other liabilities.

The other liabilities include liabilities of TEUR 578 for taxes and TEUR 247 for social insurance.

All of the liabilities (TEUR 2,994) have a residual term of up to one year.

## 3. Explanatory comments on the individual items of the income statement

### 3.1 Sales

The sales during the fiscal year can be categorized as shown below:

According to activity	TEUR
Revenue from software developments	11,413
Revenue from the sale of licences	518
Revenue from maintenance	1,028
Revenue from the sale of merchandise	213
Revenue from the operation of software	159
<b>Sales</b>	<b>13,331</b>

All of the sales revenues, with the exception of an amount of TEUR 24 (third countries) and an amount of TEUR 11 (EU) were realized in Germany.

### **3.2 Other operating income**

Other operating income includes income from associated companies of TEUR 175. Of this amount, TEUR 23 is income from a different reporting period from allowances for interest due from the previous year. In addition, revenues from the reversal of the special item for investment subsidies of TEUR 28 (cf. No. 2.6.2), public subsidies of TEUR 8 and the book profit from the sale of the interest in Sports & Bytes GmbH are shown.

### **3.3 Depreciation on current assets, as far as exceeding general depreciation**

No item was shown in the reporting period.

### **3.4 Interest income**

The interest income includes income from associated companies in the amount of TEUR 45.

### **3.5 Depreciation on financial investments and securities of the current assets**

The depreciation shown here affects the holding in PRO DV Software GmbH, Dresden (TEUR 40).

### **3.6 Extraordinary result**

No item was shown in the reporting period.

### **3.7 Taxes on income**

There are no taxes on income to be shown. Consequently there is no charge to ordinary business operations.

## **4. Officers and Directors of the Company**

### **4.1 Board of Management**

Members of the Board of Management of PRO DV Software AG are:

- Mr Dipl.-Ing. Klaus Bullmann (Spokesman)
- Mr Dipl.-Ing. Siegfried W. Wenzel

As of 31.12.2003, Mr Siegfried W. Wenzel leaves the Board of Management and moves as planned to the Supervisory Board as of 01.01.2004. As of 01.01.2004, the Supervisory Board named the authorized signatories, Mr Udo Bücher and Mr Dipl.-Inform. Uwe Osterkamp, to the Board of Management of PRO DV Software AG.

Total remuneration for the Board of Management for the entire year 2003 came to TEUR 592 (previous year TEUR 368).

## 4.2 Supervisory Board

During calendar year 2003, the Supervisory Board of PRO DV Software AG comprised the following members:

- Dr.-Ing. Knud Norden (Chairman), Dortmund  
Board of Management, IT Division, RWE Systems AG  
Other Supervisory Board positions held: RWE Systems Applications GmbH, Eschborn (Chairman)
- Mr Michael Petmecky, Dortmund  
Board of Management SIGNAL IDUNA Versicherungsgruppe  
Other Supervisory Board positions held: Netlife AG, Hamburg  
VDG-Versicherungswirtschaftlicher Datendienst GmbH, Icking
- Dr Harald Obendiek (Vice-Chairman), Oberhausen (until 31.12.2003)  
Personnel Director ThyssenKrupp Technologies  
No other Supervisory Board positions

Effective as of 31.12.2003, Dr Harald Obendiek is resigning at his own request for personal reasons from the Supervisory Board of PRO DV Software AG. As planned, the founding member Siegfried W. Wenzel moves from the Board of Management to the Supervisory Board as of 01.01.2004.

Total remuneration for the Supervisory Board for the entire year 2003 came to TEUR 24.5 (previous year TEUR 24.5).

## 4.3 Corporate Governance

The Board of Management and the Supervisory Board submitted a declaration of conformity in the sense of the German Corporate Governance Codex (Section 161 AktG) on 27 June 2003 and have made the declaration accessible to shareholders on the Company's Web site.

## 5. Other financial obligations

The Company has rent liabilities to associated companies for the property Hauert 6 totalling TEUR 1,355 (annually TEUR 339). There are additional rent liabilities for offices in the amount of TEUR 457 (annually TEUR 188).

As of the balance sheet date, there were liabilities from leasing agreements of TEUR 249 (annually TEUR 130).

There is joint and several liability with the Immobilienverwaltungsgesellschaft Hauert 6 mbH & Co. KG with regard to the special item for investment subsidies of TEUR 203 which is to be reversed due to the sale of the building Hauert 6.

## 6. Size of staff

The size of the staff in number of persons developed as follows during the fiscal year:

Staff	Quarter I 31.03.2003	Quarter II 30.06.2003	Quarter III 30.09.2003	Quarter IV 31.12.2003	Annual average
Executives	22	22	21	19	21
Other full-time employees	158	165	156	142	155
Part-time employees	16	14	15	12	14
<b>Total</b>	<b>196</b>	<b>201</b>	<b>192</b>	<b>173</b>	<b>190</b>

The annual average of the number of employees, taking into account full-time equivalents, was 177.

## 7. Use of profits

The net loss of EUR 2,440,330.23, together with the accumulated deficits carried forward of EUR 10,619,085.81, will be compensated by a withdrawal from the capital surplus totalling EUR 13,059,416.04.

PRO DV Software AG

Dortmund, February 2004



Klaus Bullmann



Udo Bücher



Uwe Osterkamp



## Auditors' Report

We have audited the annual financial statements, together with the bookkeeping system and the management report of the Company PRO DV SOFTWARE AG, DORTMUND, for the business year from January 1, 2003 to December 31, 2003. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary provisions in the articles of incorporation agreement are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 of the German Commercial Code (HGB) and the generally accepted standards for the audit of financial statements promulgated by the German Institut of Chartered Accountants (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, the annual financial statements give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with principles of proper accounting. On the whole the management report provides a suitable understanding of the Company's position and suitably presents the risks of future development.

Munich, February 12, 2004

AWT Horwath GmbH  
Wirtschaftsprüfungsgesellschaft

S. Denk  
Wirtschaftsprüfer  
(German Public Auditor)

C. Küpper  
Wirtschaftsprüfer  
(German Public Auditor)

## Changes in fixed assets for 2003 according to HGB

20

### Cost of acquisition

	01.01.2003 TEUR	Addition TEUR	Disposal TEUR	31.12.2003 TEUR
<b>I. Intangible assets</b>				
Concessions, industrial property rights and similar rights and values as well as licence from such rights and values	607	86	30	663
<b>II. Tangible assets</b>				
Other facilities, office furniture and equipment	2,556	154	103	2,607
<b>III. Financial investments</b>				
1. Shares in associated companies	8,569	40	-	8,609
2. Subsidiaries	1,032	125	1,157	-
	<b>9,601</b>	<b>165</b>	<b>1,157</b>	<b>8,609</b>
	<b>12,764</b>	<b>405</b>	<b>1,290</b>	<b>11,879</b>

	Accumulated depreciation			31.12.2003 TEUR	Book value		2003 TEUR
	01.01.2003 TEUR	Addition TEUR	Disposal TEUR		31.12.2003 TEUR	31.12.2002 TEUR	
	502	87	30	559	104	105	87
	1,713	335	96	1,952	655	843	335
	2,915	40	-	2,955	5,654	5,654	40
	1,032	-	1,032	-	-	-	-
	<b>3,947</b>	<b>40</b>	<b>1,032</b>	<b>2,955</b>	<b>5,654</b>	<b>5,654</b>	<b>40</b>
	<b>6,162</b>	<b>462</b>	<b>1,158</b>	<b>5,466</b>	<b>6,413</b>	<b>6,602</b>	<b>462</b>

#### Contacts

PRO DV Software AG  
Hauert 6  
44227 Dortmund  
Tel.: +49 231 9792-0  
Fax: +49 231 9792-200

#### Investor Relations

E-Mail: [ir@prodv.de](mailto:ir@prodv.de)  
Tel: +49 231 9792-341  
Fax: +49 231 9792-200  
Information in the Internet on  
PRO DV Software AG:  
<http://www.prodv.de>