

telecommunications  
utilities  
competence in  
geo solutions  
retail & banking  
government

Annual Report 2004

## The Company in Figures

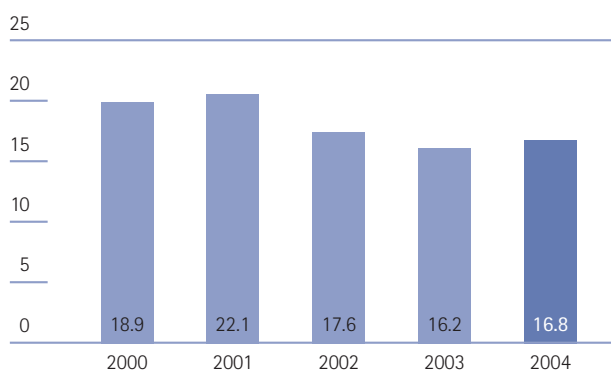
Figures shown in EUR million in accordance with IAS/IFRS	2000	2001	2002	2003	2004
Turnover	16.3	19.6	21.2	15.7	18.0
Total performance	18.9	22.1	17.6	16.2	16.8
EBITDA <sup>1</sup>	1.6 <sup>2</sup>	-3.7	-4.5	-1.3	0.7
EBIT <sup>1</sup>	0.03 <sup>2</sup>	-7.4	-9.8	-2.3	-0.1
Net income/Net loss	-0.3 <sup>2</sup>	-5.1	-10.3	-2.2	-0.9
Profit/loss per share (in EUR)	-0.08 <sup>2</sup>	-1.18	-2.40	-0.50	-0.21
Staff <sup>3</sup>	245	337	271	208	198
Balance sheet total	45.9	40.8	30.0	27.4	25.9
Equity ratio	84.0 %	82.0 %	77.2 %	76.8 %	77.5 %
Liquid assets	22.5	16.3	15.9	14.0	15.9

<sup>1</sup> After interest income

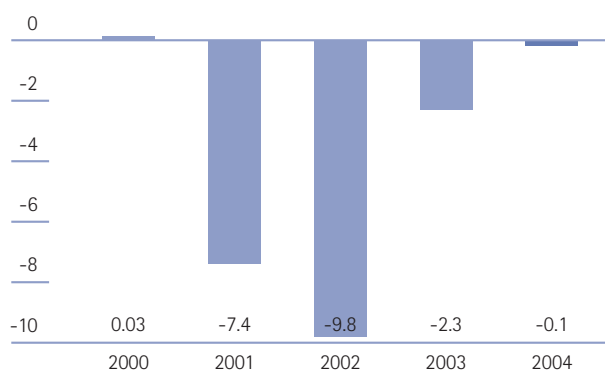
<sup>2</sup> Adjusted for IPO expenses

<sup>3</sup> Full-time equivalent, mean value

### Total Performance



### EBIT





We at PRO DV, system integrators and experts for geographic applications, merge our clients' processes and their classic IT into a cohesive system.

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**Dear Sir or Madam,**

It is no accident when business processes in companies and government agencies function well; trouble-free operation is the result of systematic work. Strategically planned complete solutions for information technology give rise to sustained competitive advantages for commercial businesses and guarantee citizen-friendly procedures in public administration. But the widely diverse measures required for setup and expansion of IT solutions must be carefully planned; only then will they secure the value of the required investments, optimize customer-oriented business processes and satisfy the expectations of everyone involved.

**Quality and Experience for Optimal IT Solutions**

The realization of IT infrastructures appropriate for the demands made by our times requires in-depth knowledge of our clients' processes. Moreover, experience with cutting-edge technologies and the integration of existing with added applications are essential requirements. This is why companies and government agencies require professional support. PRO DV is the reliable partner for these groups with regard to any and all questions related to planning and realization. Our decisive plus points are our vast experience in project business and the quality of the services we perform. Working as a team with our clients, often in cooperation with specialized partners, we realize individual IT solutions which can be used to optimize work processes and increase productivity.



The Management Board of the PRO DV Software AG: Uwe Osterkamp, Klaus Bullmann and Udo Bücher

When targeting the market, we start from our core competence for geo solutions and concentrate on four important industries with growth potential. We know this environment and become active on behalf of our clients in accordance with their specific needs. Depending on individual expectations of benefits, we assemble teams of high-performance staff members who complement one another. They bring complex projects involving information technology to a successful conclusion.

This Annual Report 2004 describes focal points of the PRO DV orientation. Project examples clearly show how we promote our clients' success in business: with innovative products, professional solutions, comprehensive services, competent staff and renowned partners.

#### Year of Further Development

2004 was a year of further development for us. The reorientation process which began two years ago was successfully continued, still with the objectives of strengthening client benefits and growing profitably. So we have rigorously cleaned out our portfolio of services, carried out a strict programme of cost reductions and tightened up our processes across the board. The division Industry was spun off by means of a management buy-out and a part of the real estate assets was sold in preparation for additional company growth. The funds obtained by these steps will secure our future investments.

Over the course of the reporting year, we were able to improve continuously the operating result. Presuming continued stabilization of the economic climate, we expect further consolidation of the earnings situation and a balanced operating result for the year 2005.

#### Focus on Potential

Especially promising prospects for PRO DV are opening up from the growing potential on the services market, which comprises some 40 % of the German IT market. Our offers in consulting, implementation and support services mean that we are well positioned to take advantage of this.

Our declared objective for 2005 is the expansion of our strong competitive position for geo solutions. Building on our broad professional competence and project experience, we are increasing our efforts to extend our clientele base into the focal industries retail trade and banking, utilities, telecommunications and government. In addition, we will continue to push the development of pioneering IT solutions with portal technology, as we have already demonstrated in the case of the GeoPortal.Bund. Broad user groups can obtain fast, reliable access to geographically based information.

Sincerely,



Klaus Bullmann



Udo Bücher



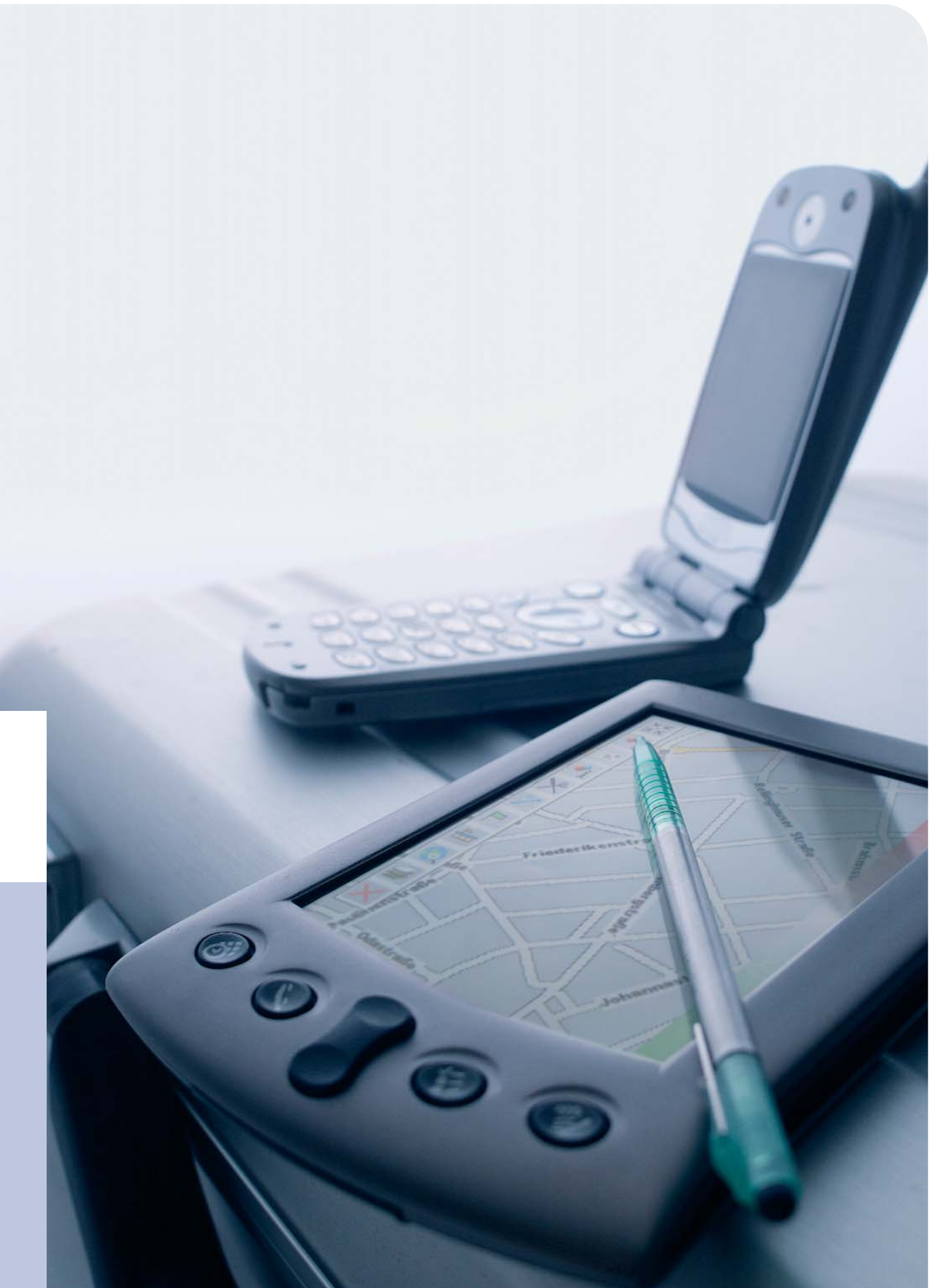
Uwe Osterkamp



# 80 % of all business decisions are related to space

Geodata is becoming increasingly significant for companies and government agencies. Virtually no industry can do without it. Demand is for IT solutions which link space-related data with material and company information. They support management just as sales, marketing and logistics activities do.







## Competent solution partner on the growth market geo solutions

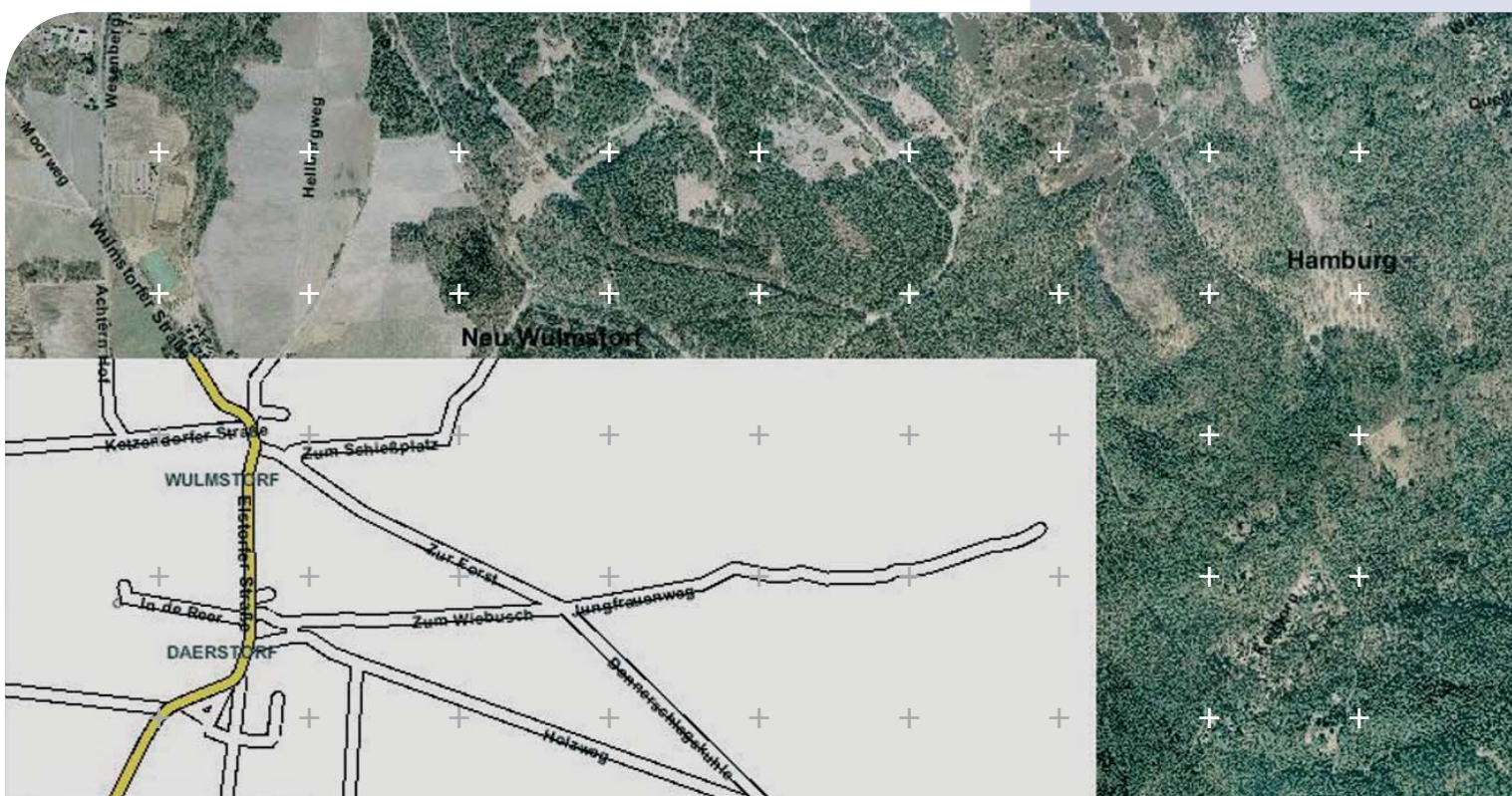
- Geo-know-how gives you a jump on your competitors
- Focus on specific industries guarantees specialization for market strength
- Cooperation with SAP integrates portal technology and opens up new business fields

Business and government are becoming increasingly dependent on their ability to maintain, process and make available growing amounts of information. Secure data processing and efficient data management are turning into decisive success factors. PRO DV specializes in optimizing and expanding existing IT landscapes. By using services, solutions and products from PRO DV, users profit from reduced costs, improved work processes and greater competitiveness. Both businesses and government agencies receive essential prerequisites for ideal business processes. At the same time, the preservation of existing applications translates into protection for your investments.

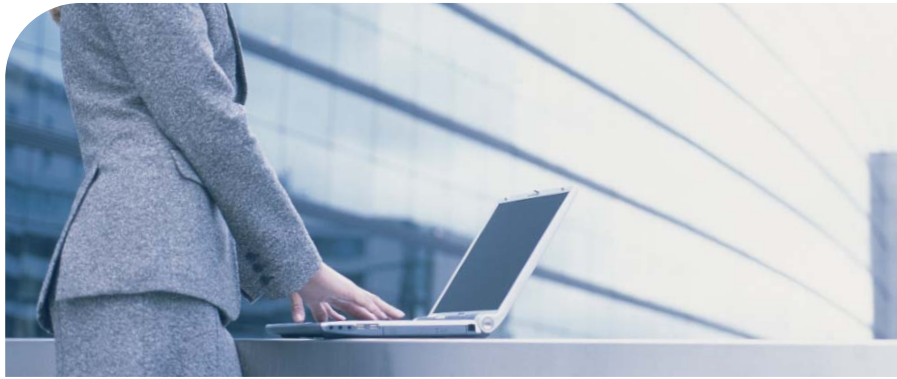
### Great Potential for Special Knowledge

One specific strength of PRO DV is its competence on the growth market geo solutions. Today, about half of all branches of business are already using geographic information. Commercial enterprises decide where to locate businesses, banks assess real estate, wireless services providers and utility companies manage their networks and public safety authorities support natural disaster management with the help of applications which take into account the spatial relationship of data. A study commissioned by the Federal Ministry for Economics and Labour from the MICUS Institute in Düsseldorf estimates the market potential for the commercial use of geoinformation to be almost EUR7 billion.

Expert knowledge and far-reaching experience in the field of geoinformation is concentrated in our Competence Center Geo Solutions. This is where we develop innovative components and applications which process and integrate space-related information. These applications join geographic data with material and corporate data. For example, a location analysis evaluates infrastructure data and sociodemographic data in terms of the economic potential found in a possible branch location.







Geo solutions develop in combination with geographic information systems (GIS) and geo-data servers. They link geographic information with the company's own data or sociodemographic data. They turn out cartographic representations which exploit to the full the potential of spatial data to support the making of decisions.

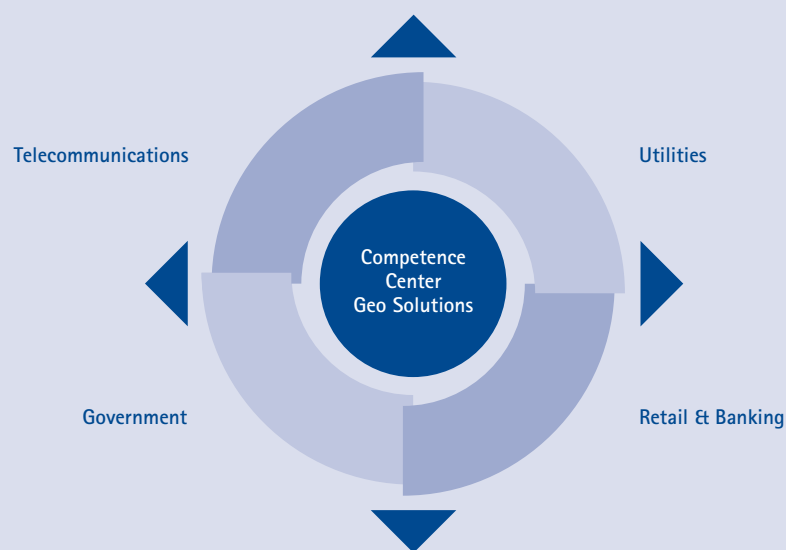
PRO DV also offers tried and proven planning and decision-making aids for geo-marketing. The evaluation of the customer base according to characteristics such as regional type, purchasing power, age structure or social status makes the clientele structure transparent. Attractive maps clearly show results and target group potential.

Geodata available interactively via mobile devices such as mobile phones, notebooks and personal digital assistants (PDAs) creates specially high added value. The spectrum ranges from support in the form of digital maps and road maps to intelligent navigation solutions. Typical areas of use are plant information systems, mobile plan information systems for utilities or onboard navigation in the field of logistics.

Our geo-applications often function as core technology for sought-after industry-specific solutions. Their market strength rests on two pillars: the technological competence of the Competence Center Geo Solutions and the special industry-specific know-how of our divisions. The combination of the two creates optimal conditions for the focused expansion of our position on the growth market for geo solutions.

#### Solution Partner in Four Key Industries

We develop solutions based on leading technology standards to satisfy the requirements for users in telecommunications, government, utilities and retail trade & banking. The tasks of project realization and customer care are organized in our four divisions oriented to these industries.

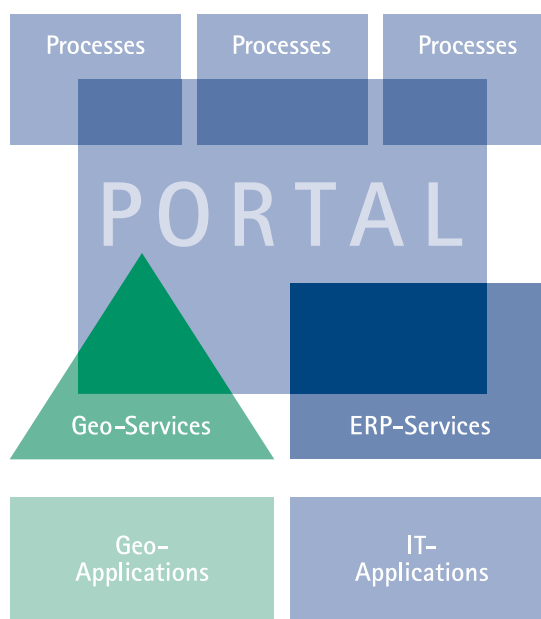


You will find some exemplary products and solutions from the four divisions on pages 10 to 25.

- The **Telecommunications** Division creates systems for network planning and management, for performance improvement of complex data warehouses and for implementation of customer care applications into the infrastructure of telecommunications companies.
- The **Utilities** Division provides geo-based systems for network management at utilities as well as mobile solutions for service team management. Activities revolve around IT harmonization and business process optimization by means of integration solutions with geo-focus, which are developed on the basis of the NetWeaver technology from SAP.
- The **Retail & Banking** Division provides geographically based site planning systems to retail groups and offers banks and savings and loans additional value solutions for cash and document management, processing of export transactions and for activities related to assessment of loan applications.
- The **Government** Division develops Internet-supported and geo-based solutions for public administrations to handle such tasks as natural disaster management, consumer protection, emissions protection or process control in forestry.

#### Pioneers in Portal Technology

One of our key strengths is our portal-based developments. They enable the harmonization of heterogeneous IT landscapes without the need to replace existing systems. Classic IT systems already in use in the company can be retained. They are connected to the portal via interfaces and flexibly make available their data, free of redundancies, for further use to the business processes of the industries we have focused. Geodata especially can be utilized in the simplest way by means of this architecture. Regardless of the electronic form or structure in which this geodata exists in the company or agency, geo-services developed by PRO DV can immediately make this data usable by all of the users connected to the portal.





The result: people, processes and information are all joined together across corporate boundaries. Portals are turned into strategic management instruments which enable a sustained increase in productivity and efficiency. As enterprise portals, they offer companies a uniform platform for customers, suppliers and/or employees.

#### **System Integration Creates Complete Systems**

Combinations of existing IT systems with new components produce efficient complete solutions. Being a system integrator, PRO DV can select the standard market products appropriate to meet the client's specific requirements. We advise our clients in the selection of standard software, then integrate it into existing system landscapes. If cooperative ventures are expedient, we assume responsibility for their direction. This guarantees solutions from a single source and positions PRO DV as the key contact partner for the clients.

#### **Solution Partnerships with Global Players**

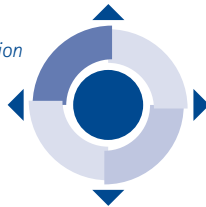
Our goal is to offer clients optimal IT architectures. Strategic cooperative partnerships enhance our competence. That is why we maintain solution partnerships with companies such as AED-SICAD, CSC, ESRI, MapInfo, TeleAtlas, Microsoft, Oracle and SAP.

PRO DV has concluded a partnership agreement with SAP AG, the world's leading provider of corporate software. In the course of this partner programme, solutions are developed on the basis of the SAP portal technology which integrate technical and commercial applications as well as harmonize heterogeneous IT infrastructures. They will be the starting point for additional cutting-edge projects and secure cross-industry market access for PRO DV.

Yet another world market leader has been acquired as a partner for the technological basis in the area of homeland security. Oracle is working with PRO DV to develop exclusively processes and applications for crisis management and natural disaster relief.

# 81 % of the German population uses mobile phones for their calls

Competition among providers is becoming even more keen as a consequence of the high degree of saturation on the mobile phone market. Quality and customer orientation reign over the business. No provider can afford shortcomings in network operation. Disruptions in the network must be spotted quickly; customer relations must be carefully cultivated. Geographic data provides effective support in both fields.







## Good Business Process Performance Promotes Customer Relationships

- Network infrastructures continuously optimized
- Trouble-free operation supported
- Maintenance in accordance with requirements guaranteed

Telecommunications companies are under strong pressures from competition and costs. Good customer relationships are of decisive importance on such a cutthroat market. In view of these circumstances, landline and wireless service providers must constantly optimize their network infrastructure and adapt business processes to meet changing demands.

Of primary importance for telecommunications providers and their customers is operation without network downtimes. When geographically supported network planning and management systems from PRO DV are in place, operators have all of the information they need to maintain, optimize and plan their networks according to their requirements. Trouble sources can be pinpointed precisely and quickly eliminated.





### **Remote Diagnosis Leads to Clarity**

Sophisticated system solutions secure reliable operation of wireless networks as well as increase availability in the landline network area. If there is a disruption, a remote check with menu commands helps users. The causes for errors can be found or eliminated right from the mobile phone. Expensive repair work can often be avoided. Telephone customers can also send questions about technology or service over the Internet. The desired answer is sent back to them quickly using the same medium.



### **Managing Customer Relationships with UMTS and Portals**

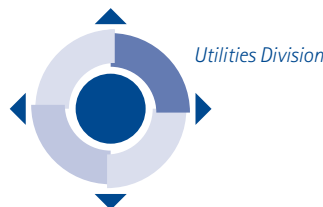
The Intranet solution T-Map, based on geographical data, from PRO DV is used in the customer service centre of T-Mobile, the market leader among German wireless service providers. It supports customer relationship management and at the same time displays the worldwide availability of the GSM network. The system has been fully integrated into the existing IT environment and connected to various internal information management systems so that it can handle the multifaceted consultation and service tasks of the T-Mobile teams. In the latest release, which also includes UMTS, T-Map has been conceived as a pioneering Internet portal solution.

### **Wireless Services Providers Put Their Trust in Competence**

One example: PRO DV has conducted an expansion of the software D2OnAir for Vodafone, aiding in the visualization of malfunction information in the D2 GSM network. Moreover, it also displays automatically UMTS malfunction information on the basis of site data which is updated daily. PRO DV is providing support for the changeover of geo-based applications on modern platforms and, in addition, developing a series of new geographic information systems for various business units at O2. PRO DV also provides industry-specific and geo-know-how to e-plus.

# 92 % of the industrial customers would switch to another utility company

Since the deregulation of the energy market, demands made by customers on their energy suppliers have risen significantly. If the offered services do not satisfy all of their expectations, they are prepared to change to another utility company. Utility companies make use of data related to location and space to improve their competitiveness and optimize their services.







## Portal Solutions Bring Together IT Applications

- Existing IT completely integrated
- Universal standard user interface created
- Productivity and efficiency increased noticeably

The energy utility industry is characterized by increasing competition and corporate mergers. Companies in the industry are striving for more efficiency, stronger customer loyalty and complete integration of existing information technology. At PRO DV, energy utility companies, whose business processes virtually always have a geographic relationship, find the right spectrum of solutions.

### Cooperation with SAP for Joint Added Value Solutions

The partner agreement concluded with SAP at the beginning of 2004 opens up additional potential. Objective of the cooperative venture: to develop and market jointly new added value solutions. Trailblazing industry-specific solutions using the SAP portal technology were the first step.



Energy utility companies want to bring together, integrate and harmonize in homogenous IT infrastructures their technical and commercial applications. So PRO DV has defined specific application possibilities in the SAP portal technology for the utility industry. This has led to solutions for information bundling and processing. Information from the company's management systems (ERP), the Internet, geographic information system and other data sources are brought together. The portal serves as a universal user interface. Staff, customers and suppliers can access exactly those components from various systems which they require for their specific tasks.

The optical presentation of the information makes use of standardized function building blocks which can be bundled with respect to task and grouped in any desired way. The business packages developed by PRO DV are characteristic for work processes in the areas sales and maintenance. As soon as a window is opened, information related to the content is automatically retrieved. The integration of people, information and business processes across such highly divergent technologies and organizational structures is exemplary in the IT industry and creates substantial added value.

### Reliable Network Management

Utility and disposal companies operate extensive pipeline networks. Trouble-free operation, fast location of error sources and always up-to-date information about what is happening in the networks are all of equal importance. Objects buried in the earth can be found and the network operated at maximum effi-





ciency and with great precision only with the help of precise, graphic documentation. This is exactly what the network management systems from PRO DV can do. The process-oriented view of all of the data provides all of the information required to optimize and maintain the infrastructure in line with requirements and oriented to the customer.

The solution uses master and variable data from geographic information systems, SAP and measurement systems as well as information from the maintenance teams for the ongoing analysis of the network's condition. Employees enter their findings in the system from right at the site with their mobile devices. The data related to location and space enables the central office to dispatch the service employees who are nearest to the point of service. Whenever there is any damage, the service teams can be at the location within a very short time.

Data from the SAP systems is combined with space-related information and functions of the geoinformation system (GIS) as relevant to the process. The coupling expands the SAP system by adding space-related structures and analysis opportunities. For example, the data for house connections can be created in the geographic information system eight to ten times faster than previously and automatically transferred to the SAP system. This holistic view of data and information proves to be especially useful for malfunction management.

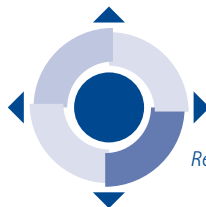
#### **An Aid to Making Decisions in Maintenance Questions**

The large regional energy utility company Avacon provides services with electricity, gas, heating and water to 1.3 million customers. The company depends on a management system called WinKKS for cathodic corrosion protection for the maintenance of its 3,000 kilometres of gas lines. The solution was developed by PRO DV in cooperation with E.ON Ruhrgas, Verbundnetz Gas and the Stadtwerken Essen. It ensures the greatest possible safety and efficiency for underground steel pipelines and tank systems. The system also aids in judging when the replacement of network elements is safer and more economical than the increased application of protective current to prevent corrosion.



# 75 % of all cash points have too much money

Cash logistics at banks and savings and loans involve enormous organizational tasks. There is generally too much cash on hand in machines and other cash points. Solutions for optimization of the stocks prevent unnecessary costs and improve the overall process through ongoing requirement recording, reliable predictions and specification of the correct points in time and quantities for refilling.





## Data Pools Make Markets Transparent

- Locations and expansions planned precisely
- Marketing and sales supported visually
- Bank processes designed efficiently

In view of the challenges on both a national and international scale, one of the primary objectives for retailers and banks is the improvement of business processes and the reduction of costs. New technologies and innovative IT solutions aid companies in their further development and refinement of customer-oriented business processes.

PRO DV offers a broad array of products for the industries retail and banking. They range from site analysis and expansion planning to control of the cash logistics at financial institutions.

### Right Location Leads to Success

The solution we offer for site analysis and expansion planning aids companies in determining the best location for branch offices or reviewing existing branches in terms of efficiency and profitability. The system makes regional competition and customer structures transparent by linking corporate, geographic and sociodemographic data. It simulates scenarios, including data about distances, travel times and the amount of traffic, so that decisions can be made with confidence. All of the evaluations are presented clearly on digital maps. So it is possible to identify reliably attractive property locations, plan product arrays dependably and recognize the development potential of existing sites early.







### **BP and Karstadt Plan Systematically**

At the oil company BP, a PRO DV solution for site and market analysis based on state-of-the-art Intranet technology is in use. The program enables BP staff to track prices and sales at all of the Aral filling stations in Germany from a central point and to combine these figures with information about the amount of traffic, population structure and the competitors' stations. The results of the calculations are used to produce charts and digital maps for planning and controlling filling stations as well as for marketing and sales measures.

Moreover, BP decided in 2004 to use the mobile property data recording with satellite navigation support for the field staff. The procedure, also realized by PRO DV, produces significant savings in time and money for BP employees.

Karstadt Immobilien, a fully-owned subsidiary of KarstadtQuelle AG, also selected a geo-based solution for site analysis and expansion planning from PRO DV in 2004.

### **Manage Cash on Hand Efficiently, Reduce Costs**

Logistics involving cash on hand is a major task for the employees at banks and armoured vehicle transport companies. If teller windows and automatic cash points are always filled at fixed points in time and always with the same amounts, the supplies of cash on hand are often higher than actually required. This leads to additional costs for interest, insurance and armoured vehicle transport. The solution cashXpert enables the institutions to calculate the actual cash requirements exactly and to control reliably the amount of cash to keep on hand. Practice has proven that the graphically supported optimization of cash stock using cashXpert enables savings potential of as much as 30 % in the process costs.

### **Efficiently Manage and Publish Documents**

docXpert is the name of a pioneering documentation and publication system developed by PRO DV in cooperation with the Rheinischer Sparkassen- und Giroverband. The Web-based solution accelerates the creation, revision, management and distribution of documents in the world of finance. Experience has shown that the use of the system significantly improves the collaboration of the people involved in the editorial process.

### **Consulting Competence for Banks and Savings and Loans**

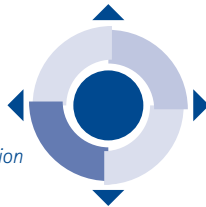
For some time now, banks and savings and loans have had to deal with stricter review and analysis tasks when assessing loan applications and other transactions. Against the background of these stricter requirements, we provide consulting services such as those to the savings and loan organization for the realization of an electronic individual analysis of balance sheets. The procedure aids in obtaining faster and better insights into the economic position and the development of the company under assessment.





# 40 % relative humidity ensures longer life for archives

If documents are to be archived for long periods of time, surrounding conditions must be right. Commercial and administrative archives contain valuable documents on microfilm or in electronic form as well as on paper. Special software systems provide access to this information. The documents can be located and read on the Internet without any trouble.





## E-Government Solutions Optimize Processes

- **Processes made leaner**
- **Transparency increased significantly**
- **Services for citizens improved**

In times of tight budgets, public administration must realize cost reductions and increases in productivity. However, traditional administrative processes cannot simply be transferred to the digital world without modification. Processes and structures can be reorganized and information and knowledge management systems integrated only by means of holistic IT solution approaches. E-government solutions from PRO DV support public administration in the optimization of its business processes. The results: leaner processes, greater transparency and better services for citizens.

### Modern Solution for the Federal Archives

280 running kilometres of records documenting contemporary German history are stored in the Federal Archives in Koblenz in the form of paper, microfiches or electronic files. PRO DV, IT service provider for the Federal Archives for many years, has built up a database archives management system. In addition, we are realizing a software system for the presentation of the documentation on the Internet. It will provide all of the advantages of modern access via electronic media while retaining the traditional form of archiving in so-called „finding aids“.

### Crisis Management with deNIS II

The German emergency services information system deNIS II is a PRO DV development for the management of wide-area danger situations. Used by the Federal Agency for Civil Defence and Disaster Relief (BBK), the knowledge management system offers fast and reliable help for making decisions based on digital maps. It is connected to the joint status and reporting centre for the national and state governments and supports the coordination work of the relief teams by means of a large group of users.



### Comprehensive Coordination to Avert Dangers

Public and corporate efforts to avert dangers must be more closely connected for improved cooperation in an expanded Europe. PRO DV has developed a portal for comprehensive coordination, based on deNIS II. deNIS II+ integrates competence and task areas which previously worked more independently of one another, e.g., police, intelligence, data protection and security.

deNIS II+ is an operative natural disaster, support and information management system which provides information related to the active parties and application situation. Resources are modelled in dependency on results. The seamless integration of external systems allows activities during large-area danger situations to flow together across institutional and national borders. The consequence is support of routine tasks, danger predictions, prevention and crisis management in equal measure. Added value is created for the administrative levels of the EU, for the national and state governments, for police, fire brigade, relief organizations and the private sector.



### Forestry Solutions

PRO DV offers a market-leading application, proforst, for the forestry industry. A modular information system, proforst supports state forest administrations and communities in the performance of their many diverse tasks in forest management. The forestry information system links geographic information, corporate data and the full length of the logistics chain. Using mobile devices enables information to be retrieved even in the field, or the geographical location of stands of trees can be shown on a map on the display. The field activities of forestry staff, timber purchasers, service providers and transporters is substantially simplified.

### Efficient Management of the Environment

Since PRO DV is thoroughly familiar with the requirements of government agencies, our environment management system ecoGuard sets the standard for companies such as Bayer or Infracor in the efficient provision and administration of information relevant for the environment from the key offices for environment, facility owners and plants. The focus is on the area of emissions data and European harmful emissions registers, waste water data, material registers according to the Hazardous Incident Ordinance and permit database. Interfaces to governmental systems such as AIS-I and ISA allow optimal use.



# 50 % of the public investments are related to geoinformation

The public sector in Euroland invests some EUR 5 billion in information with a geo-background every year. The linkage of the widely varied data inventories carries enormous potential. If this potential is to be realized, the data must be available in the right form at the right place at the right time. The creation of integrated overall systems demands team work on international projects across national borders.







## Geoportals Show the Way to the Right Information

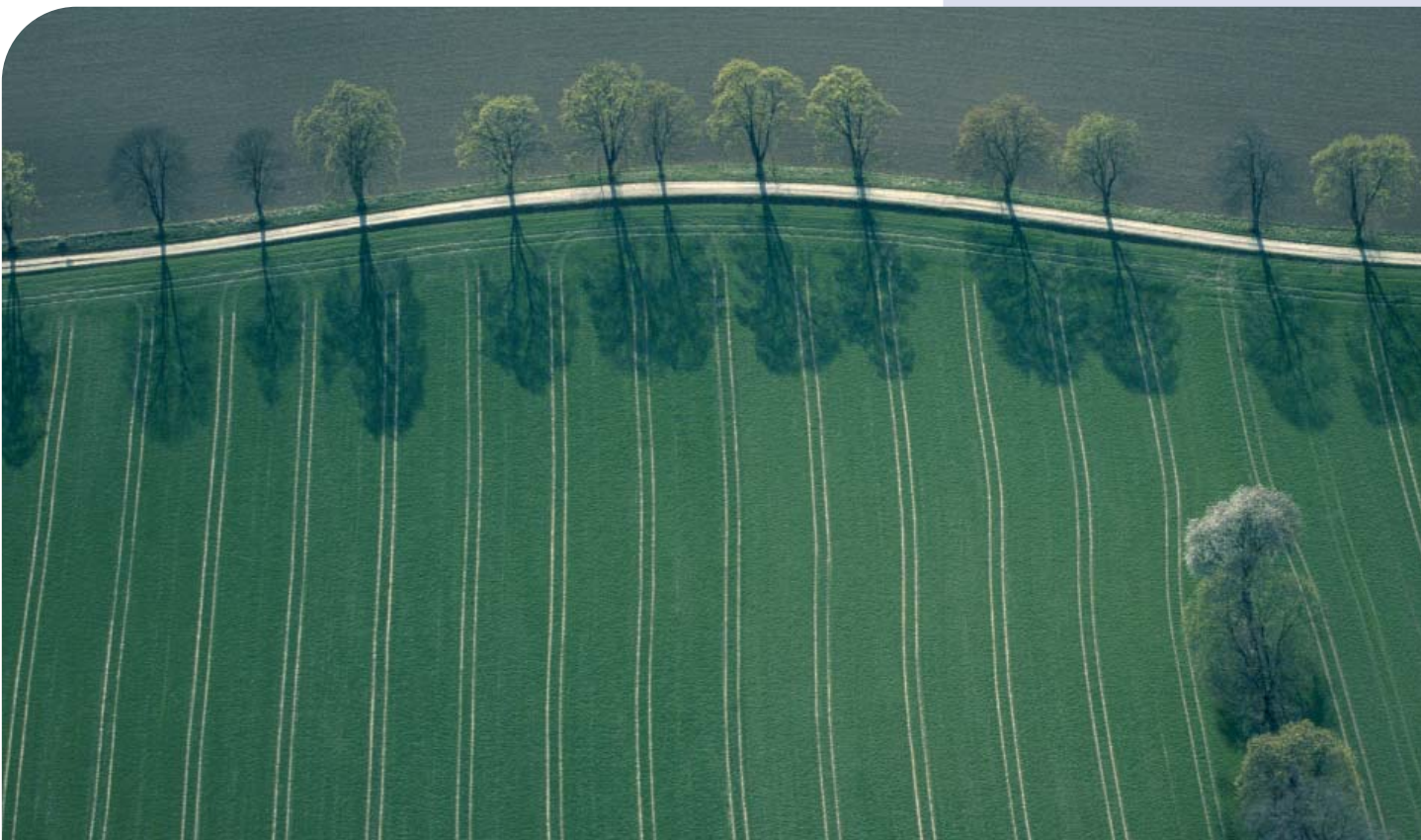
- **Creation of the German geodata portal**
- **Provision of information for natural disaster relief**
- **Portal solution gives specific information**

In autumn 2004, PRO DV was awarded the contract for the creation of the geodata portal for Germany. The objective of the complex project „GeoPortal.Bund“ is to collect the geographic information found in various government agencies and public institutions in a standard form at a central site and to make it accessible equally to administration, business, geosciences and citizens.

The Open Geospatial Consortium (OGC), located in Wayland (USA), is an international association of more than 250 companies, government agencies and universities which have set for themselves the goal of standardizing a format for geoinformation and establishing it as the worldwide norm.

Data from various sources and geographic information systems of various manufacturers will be integrated into the resulting comprehensive solution. At the core of the solution is the Internet-based, barrier-free and interoperable geodata search function as the provision of geo-Web services based on OGC-conform data.

This far-reaching project is a public infrastructure measure for the creation of the forward-looking national geodata infrastructure. It is being coordinated by the Interministerial Committee for Geoinformation IMAGI ([www.imagi.de](http://www.imagi.de)). The initiator is the Federal Office for Cartography and Geodesy (BKG) on behalf of the Federal Ministry of the Interior.





### Provision of Information among Government Offices

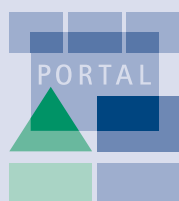
In addition to the data from the Federal Office for Cartography and Geodesy, information from other government agencies and organizations will be made available for utilization on this portal. Plans include the integration of information for civil defence and for natural disaster management in the portal. At the same time, the emergency services system deNIS II realized by PRO DV will be connected to the portal and serve as one of the data providers.

### Give Specific Information

Companies in other industries are also striving to make it possible to retrieve information quickly, effectively, anywhere and at any time. Since the deregulation of the energy market, energy utility companies are obligated to provide information about the location of their utility lines to other companies and private individuals. Construction projects or road works are only two examples of situations which lead to substantial numbers of enquiries to energy utility companies.

Since as a rule a number of employees are required to prepare the required information, the expenditures in time and money for the utility are hardly negligible. If, as is in fact necessary, these companies are to concentrate on their core business, this plan information process must be automated and a part of the expenditures shifted to the outside as part of customer self-service portals.

PRO DV is realizing for this purpose an online solution for network information based on the SAP Enterprise Portal. The plan information process will be unified and optimized to be legally secure, whereby the heterogeneous IT landscape of the utility company will no longer present an obstacle, thanks to the decoupling of business process and basic application by means of SAP NetWeaver.

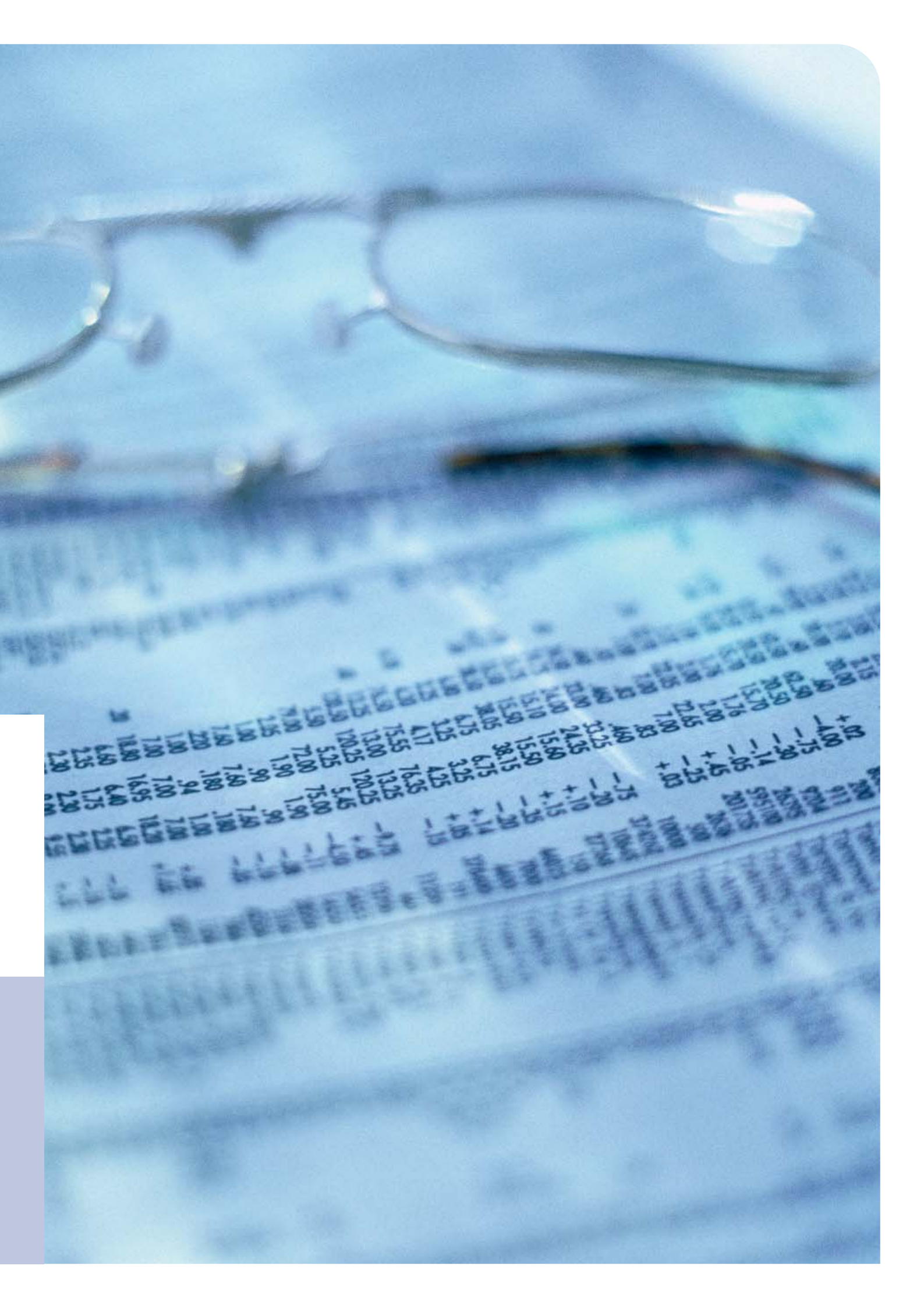




# 100 % Corporate Governance

The foundation of corporate policy for PRO DV has always been close and efficient cooperation between the Management Board and the Supervisory Board, respect for shareholders' interest and open corporate communications. It therefore goes without saying that PRO DV has committed itself to observance of the German Corporate Governance Codex. In addition, a stable shareholder structure from the longterm commitment of the founding families ensures greater independence, while at the same time promoting trust in the company's stock.





115	110	105	100	95	90	85	80	75	70	65	60	55	50	45	40	35	30	25	20	15	10	5	0	-5	-10	-15	-20	-25	-30	-35	-40	-45	-50	-55	-60	-65	-70	-75	-80	-85	-90	-95	-100	-105	-110	-115	-120	-125	-130	-135	-140	-145	-150	-155	-160	-165	-170	-175	-180	-185	-190	-195	-200	-205	-210	-215	-220	-225	-230	-235	-240	-245	-250	-255	-260	-265	-270	-275	-280	-285	-290	-295	-300	-305	-310	-315	-320	-325	-330	-335	-340	-345	-350	-355	-360	-365	-370	-375	-380	-385	-390	-395	-400	-405	-410	-415	-420	-425	-430	-435	-440	-445	-450	-455	-460	-465	-470	-475	-480	-485	-490	-495	-500	-505	-510	-515	-520	-525	-530	-535	-540	-545	-550	-555	-560	-565	-570	-575	-580	-585	-590	-595	-600	-605	-610	-615	-620	-625	-630	-635	-640	-645	-650	-655	-660	-665	-670	-675	-680	-685	-690	-695	-700	-705	-710	-715	-720	-725	-730	-735	-740	-745	-750	-755	-760	-765	-770	-775	-780	-785	-790	-795	-800	-805	-810	-815	-820	-825	-830	-835	-840	-845	-850	-855	-860	-865	-870	-875	-880	-885	-890	-895	-900	-905	-910	-915	-920	-925	-930	-935	-940	-945	-950	-955	-960	-965	-970	-975	-980	-985	-990	-995	-1000
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## Favourable Tendencies at the End of the Year

- Stock markets with weak performance
- Stockholder structure remains stable
- Codex is observed

Rising oil prices and the growing strength of the euro on currency markets set the course for the German stock market in 2004. Moreover, the weak domestic economy acted as a braking force. The hoped-for rise in consumer demand failed to materialize last year. The growth in the German economy continued to come primarily from exports.

In this general economic atmosphere, the stock prices of the German index securities moved mainly sideways, with little fluctuation. It was not until the last weeks of trading that the DAX reached a new high level. At the end of the year, it had reached 4,256 points, a growth in value of 7 %.

### TecDAX Slightly in the Red

The performance of technology stocks was weaker than that of the general market in 2004. The TecDAX, exchange barometer for technology stocks outside the DAX, fell during the first half of the year. During the following months, the index made up lost ground, but was unable to compensate the previous losses completely. At 520 points, the TecDAX had to accept a minus of just under 4 % for the year as a whole.

### Price Development of the PRO DV Stock





### In Line with the Trend of the Technology Stocks

The reservations of investors with respect to technology stocks affected the price development of the PRO DV stock. Corresponding to the confident start to the year, its highest level was reached at EUR4.93 at the beginning of February. The fall in the price continued into the summer, parallel to the TecDAX. The lowest price was noted at EUR3.04 in August. As of the beginning of October, the stock began to rise again and successfully made a turnaround, just as the technology index. The PRO DV stock closed at a price of EUR3.75 on the last day of trading.

### Key Figures for the Stock

	2004	2003
High	EUR4.93	EUR5.65
Low	EUR3.04	EUR1.77
Close-out price (as of 31/12)	EUR3.75	EUR4.25
Number of shares (as of 31/12)	4,300,000	4,300,000
Market capitalization (as of 31/12)	EUR16.13m	EUR18.28m
Trading volume (daily average)	10,505	16,966
Diversified holdings	49.3 %	45.1 %

### Dialogue of Trust with the Capital Market

Comprehensive, transparent and up-to-date information is a decisive feature of our investor relations. Our listing in the Prime Standard of the German Stock Exchange documents our standards. We regularly summarize events in our business in quarterly reports which we publish in German and English.

Last year, PRO DV was presented at two analyst conferences. Both were well attended, an indication of the great interest in the company and its stock. In addition, we took part in the respected Deutsches Eigenkapitalforum in Frankfurt in the autumn. At this two-day meeting, we spoke to a diverse group of primarily institutional investors and stabilized our contacts to analysts and business journalists.

### Basic Data of the PRO DV Stock

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

Log onto [www.prod.v.de/ir](http://www.prod.v.de/ir) for information about our stock.

One investor relations instrument which is rapidly gaining in importance is our Web site. Interested parties from all areas of the capital market can find information about current developments as well as retrieve background material from this source.

### Pooling Agreement Stabilizes Shareholder Structure

At the time of the IPO in 2000, the shares of the previous shareholders were collected into a share pool. The members of the pool promised not to hand their shares over to third parties. The lock-up period of four and a half years, one of the longest on the German stock exchange, expired in November 2004.

The Company's founders signed a new pooling agreement to continue the pool. It provides that 51 % of the PRO DV shares will remain with the founding families Beck, Bullmann and Wenzel. Sales of shares to third parties are still not planned, but are possible, subject to agreement of the pool members. This continued commitment documents the trust in our Company and secures the greatest possible independence for it. At the same time, the stable shareholder structure increased the attractiveness of our stock for institutional and private investors.

### Stock Held by Officers and Directors

	Stock held 31.12.2004	Stock held 31.12.2003	Subscription rights 31.12.2004	Subscription rights 31.12.2003
<b>Management Board</b>				
Klaus Bullmann	491,225	491,225	10,000	10,000
Udo Bücher	0	0	0	0
Uwe Osterkamp	28,730	28,730	10,000	10,000
<b>Supervisory Board</b>				
Knud Norden, Dr.-Ing.	0	0	0	0
Michael Petmecky	0	0	0	0
Siegfried Wenzel	491,225	491,225	10,000	10,000

### Annual General Meeting Decisions Virtually Unanimous

At the Ordinary Annual General Meeting on 02 June 2004, Siegfried W. Wenzel was elected to the Supervisory Board as the successor of Dr Harald Obendiek. It was also decided to revoke the existing approved capital and to grant a new authorization on this point which would remain in force until 2009. Furthermore, the Management Board was authorized once again to acquire own stock. The General Meeting voted with a majority of over 99.9 % to accept all of the administration's proposals on all of the points on the agenda.

### In Conformity with the Codex

The foundation of corporate policy for PRO DV has always been close and efficient cooperation between the Management Board and the Supervisory Board, respect for shareholders' interest and open corporate communications. It was therefore a matter of course that PRO DV committed itself to observance of the principles of the German Corporate Governance Codex shortly after the first version was passed in 2002.

PRO DV was one of the first companies to respond and published a declaration of conformity in July 2002.

The declaration of conformity in accordance with Section 161 AktG (Company Law) is available to our shareholders on our Web site at [www.prodv.de/ir](http://www.prodv.de/ir). It is updated annually as well as in the event of modifications with respect to observance of the German Corporate Governance Codex.

PRO DV is currently in conformity with the Codex as passed in 2002 and extended in 2003 with only two exceptions:

- The D&O insurance policy for members of the Management Board and Supervisory Board does not provide for a deductible (Codex Item 3.8).
- The Supervisory Board does not form any committees (Codex Item 5.2). Since this board at PRO DV consists of only three members, but committees must have at least three members to pass resolutions, it is not possible to form any committees.

PRO DV also fulfils a large number of the non-obligatory suggestions in the Corporate Governance Codex going beyond the recommendations.

#### **Compensation for Management Board and Supervisory Board**

The compensation for the Management Board members is related to their personal performance, the performance of the Management Board and the economic position, the success and the future prospects for the Company. Consideration is given to the situation in companies comparable with PRO DV. The total compensation includes fixed and variable elements. We reported on the compensation for the Management Board on an individual basis in the Annual Report 2003.

The compensation for the Supervisory Board is mandated by the Company Charter. Just as the payments to the Management Board, this compensation is appropriate for the responsibility and scope of activities of the members as well as the economic position and the success of PRO DV.

#### **Compliance is Systematized**

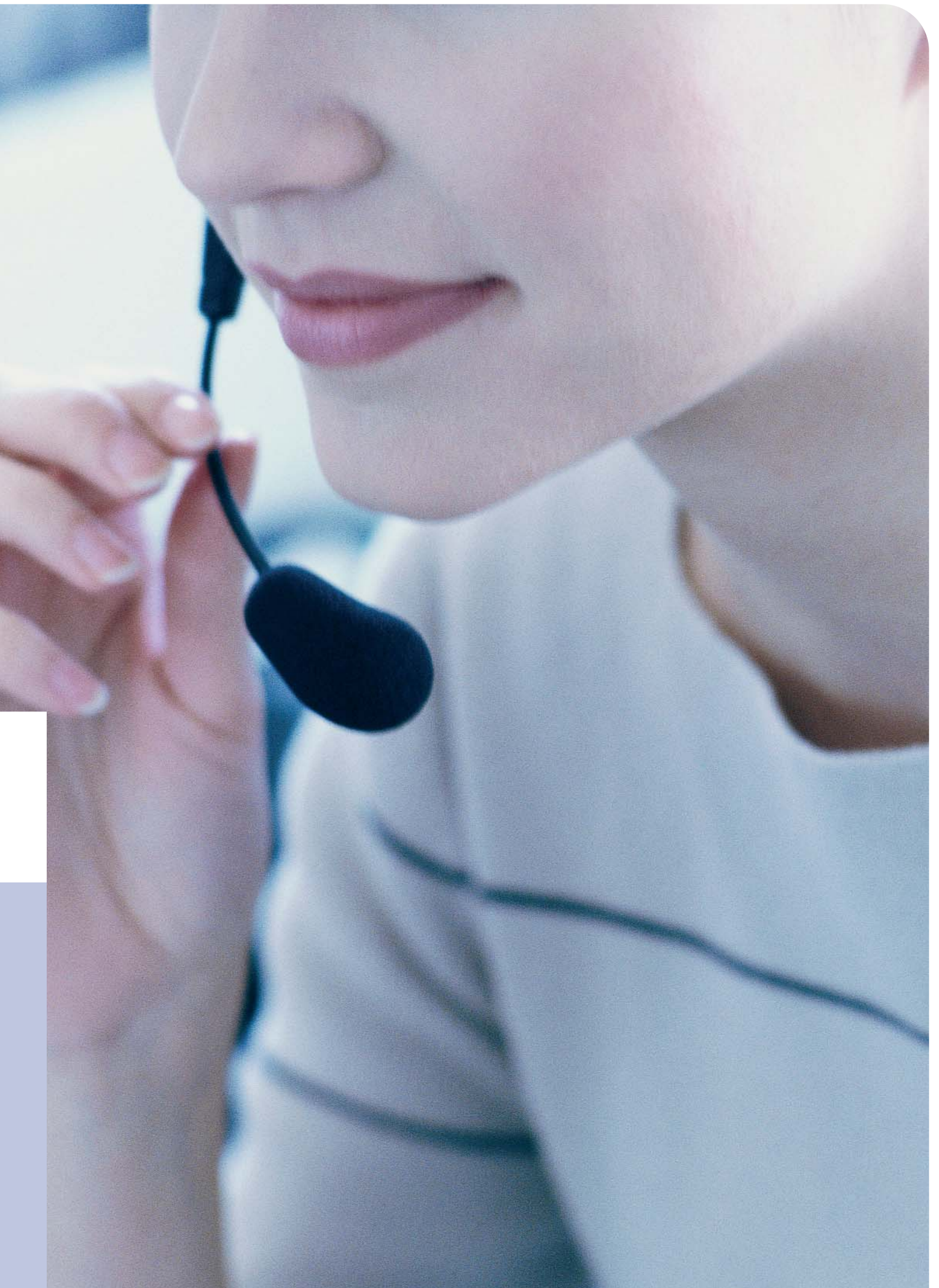
In analogy to the legal statutes aimed in strengthening investor trust in the capital market, we installed a compliance system back in 2002. This secures risk-free communications with the goal of reinforcing the integrity of PRO DV. The system is supervised by the compliance commissioner who ensures that legal provisions as well as the requirements of the Codex are in agreement with the corporate policy.



# 40 % of the German IT market is comprised of services

PRO DV and its array of products and services is well positioned in a promising segment of the IT services market. Supported by the solid service competence, it was possible for us to increase overall performance and significantly improve results in 2004. The Company is looking ahead to continued positive development.







## Consolidated Management Report for Fiscal Year 2004

### Market and General Economic Conditions

2004 was a somewhat better year for IT companies in Germany, following a relatively long slump. Although clients were still reluctant to undertake investments, there was an ongoing break-up of the investment backlog that had built up in the past over the entire year. Apparently there has been a change in the thought process of companies seeking IT services and products. There is a recognizable tendency for companies to consider once again their use of IT from a strategic viewpoint. Consequently, IT is no longer seen as only a cost factor. Clients have learned from their experience in recent years when it comes to their requirements. They have become more demanding and goal-oriented. Universal applications are no longer at the centre of their attention. On the contrary, companies are now looking for concrete solutions to their specific problems. In demand is IT support for individual, customer-related processes – with the fastest possible ROI. As a consequence, knowledge of their clients' business processes is becoming increasingly important for providers.

In such a situation, providers who know their clients exactly will have good opportunities. Furthermore, it is necessary to combine software and services in such a way that projects can be carried out quickly and at low cost. It is of no minor significance for providers to have their own processes and cost structures so well under control that they can compete against low-price offers by giving high quality at fair prices.

The lack of relief in the keen competition kept pressure on prices in 2004. The market for information technology once again proved to be a buyer's market from a structural viewpoint as well. On the clients' side, purchasers exploited the strength of their negotiating position. IT providers must adapt to this situation today. PRO DV recognized this fact some time ago and responded accordingly: we take aim at the most important industries in Germany with our services. PRO DV's clients come from telecommunications and government as well as from the areas of retail trade, banking and utilities.



According to BITKOM, the German IT market in 2004 recorded a total volume of EUR66 billion. Some 40 % of this figure went to IT services. Our portfolio of consulting, implementation and support services puts PRO DV in a good position on this partial market with a value of EUR27 billion.

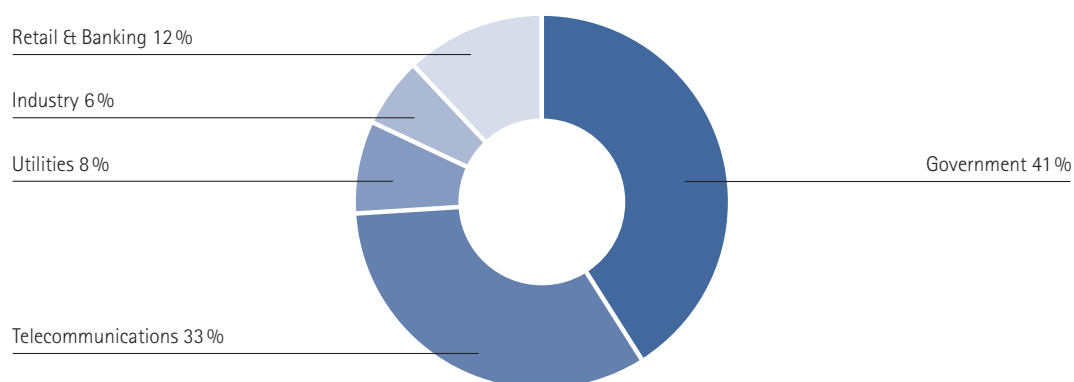
Our growth potential on the IT services market is substantial for the future as well: with its share of 21.2 %, the German IT market – ahead of Great Britain (20.5 %) and France (14.9 %) – is positioned as the most important one in western Europe. Globally speaking, Europe has a total volume of EUR293 billion, making it the second-largest IT market in the world (world market share 30 %) – immediately after the USA with 32 % (source: EITO).

### Development of Turnover and Performance

In fiscal year 2004, the total performance of the PRO DV Group rose by 4 % to EUR16.8 million (2003: EUR16.2 million). This growth is essentially the result of our strengthened business with existing clients as well as the Retail & Banking Division, which doubled its performance in comparison with the previous year by means of targeted expansion.

After being set off against payments on account, the work in progress amounted to EURO.7 million (2003: EURO.7 million). No development performance was capitalized.





#### Total performance in EURm

	2004	Share	2003	Share
Government	6.9	41 %	5.7	35 %
Telecommunications	5.4	33 %	6.0	37 %
Utilities	1.4	8 %	1.2	7 %
Retail & Banking	2.0	12 %	1.0	6 %
Industry	1.1	6 %	1.9	12 %
Other areas	-	-	0.4	3 %
<b>Group</b>	<b>16.8</b>		<b>16.2</b>	

During the past fiscal year, orders for new projects with a total volume of EUR17.1 million were placed (2003: EUR16.3 million).

The order backlog for fixed-price projects as of 31.12.2004 amounted to EUR1.6 million (2003: EUR3.0 million). In addition, maintenance projects and other time and material projects in the amount of EUR3.8 million were ordered so that the order backlog for the entire Group totalled EUR5.4 million.

#### Profitability

It was possible to improve the operating result (EBIT) of the PRO DV Group to -EUR0.1 million (2003: -EUR2.3 million) after interest income. We made significant progress in results in the last quarter of the year after showing an EBIT of -EUR1.4 million after the first nine months of 2004.

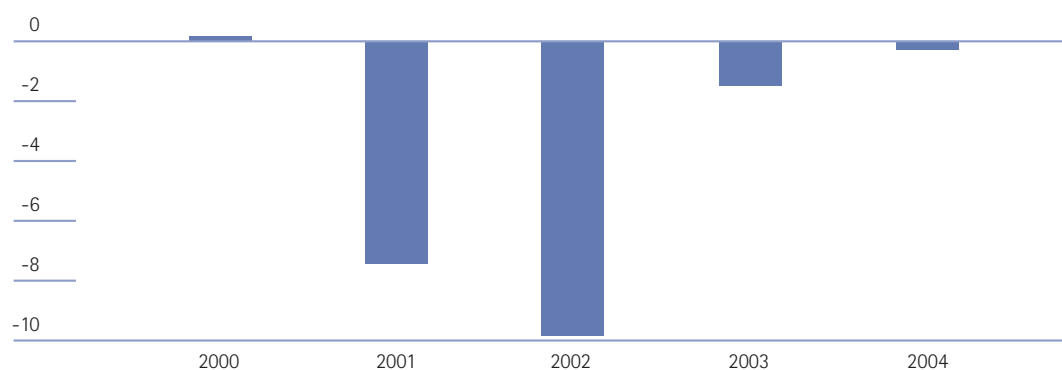
We decided to sell a part of the real estate assets so that the Company could be prepared for further growth. The incoming funds will be used to enable and secure future investments. This decision was realized by selling a part of the building at Hauer 6 in Dortmund to a subsidiary of VR-Leasing AG, Eschborn, on 31.12.2004. Thanks to a sale and lease back agreement, the headquarters facility in Dortmund remains available to PRO DV in its full scope. As a result of this transaction, the net income for the year contains a return of EUR1.8 million.

Result in EURm	2004	2003	Change
Government	-0.1	-0.9	89 %
Telecommunications	-0.1	-0.1	0 %
Utilities	-0.3	-0.5	40 %
Retail & Banking	-0.1	-0.1	0 %
Industry	-1.4	-0.9	-56 %

The Industry Division lost EUR0.7 million in the first half of 2004. After nine months, this deficit had grown to EUR1.4 million. We took a determined response to this development and decided to close down this division. In the course of a management buy-out, the managers of the unit took over the business as of 30.09.2004 and transferred it to a separate company.

Despite the below-average development of the Industry Division, we were able to realize a significant improvement in results in comparison with the previous years. This is a result of the selective clean-up of our portfolio, our continued determination in our approach to cost management and the ongoing tightening of processes. Excluding the Industry Division and without taking the real estate transaction into account, the result would have been -EUR0.7 million.

#### EBIT



The Company is thus within the tolerance limits of the goals it set for itself for 2004, and prospects for an ongoing positive development have been opened at the same time.



Write-offs of EUR0.02 million were taken against goodwill in 2004. The operating result before depreciation (EBITDA) amounted to -EUR0.7 million (2003: -EUR1.3 million) after interest income.

The consolidated result was calculated at -EUR0.9 million (2003: -EUR2.2 million). The result per share came to -EUR0.21.

During the reporting year, we resolutely continued the change process initiated two years ago. Thanks to the measures derived from this process which have been initiated, such as the introduction of balanced scorecards as a management instrument, we have stabilized the profitability and put PRO DV in a solid position.

### Investments

In fiscal year 2004, we invested a total sum of EUR0.4 million. Of this amount, EUR0.3 million was spent on property, plant and equipment and EUR0.1 million on intangible fixed assets. One focal point in the area of fixtures, fittings and equipment was the internal IT infrastructure. Maintaining this structure at a modern and secure level secures the performance capability of our team.

### Assets, Liabilities and Financial Position

The balance sheet total of the PRO DV Group as of 31.12.2004 amounted to EUR25.9 million (2003: EUR27.4 million). As of the closing date, equity amounted to EUR20.1 million (2003: EUR21.0 million). This corresponds to an equity ratio of 77.5 %.

Based on capital subscribed of 4.3 million no-par shares issued to the bearer, the equity per share (book value) came to EUR4.68. The close-out price for the PRO DV stock on 31.12.2004 was EUR3.75.

As of the closing date, financial resources amounted to EUR15.9 million (2003: EUR14.0 million). The sale of real estate in 2004 brought liquid assets of EUR3.9 million to the Company.

When compared to the current liabilities of EUR4.0 million, the Group has a liquidity ratio of 4.2. The Group's outstanding liquidity basis is further underscored by an acid test ratio of 5.0 and a current ratio of 5.2.







Current assets as of 31.12.2004 amounted to EUR19.7 million (2003: EUR17.8 million), a ratio of 76.0 % in relationship to total assets. In other words, more than half of the Company's assets are tied up only for the short term. This enables the Company to respond flexibly to changes in the market situation. The cash flow from operations in the past fiscal year came to -EUR1.9 million (2003: -EUR2.2 million). The cash flow from investment activity came to EUR3.9 million (2003: EURO.4 million). Due to the reduction of liabilities in fiscal year 2004, the cash flow from financing activities came to -EURO.1 million.

#### **Staff**

As in the previous years, the situation on the labour market for highly qualified personnel remained relaxed in 2004. As an average for the year, we employed a staff of 198 (2003: 208) for the entire Group. This figure takes into account full-time equivalents as well as the participation ratio in subsidiaries.

#### **Other Important Events in the Fiscal Year**

Following the move of the founding member Siegfried W. Wenzel to the Supervisory Board, the authorized officers Udo Bücher and Uwe Osterkamp were appointed to the PRO DV Software AG Management Board as of 01.01.2004. They, together with the Management Board spokesman, Klaus Bullmann, have been managing the Company since that time.

The majority of the PRO DV shares were collected in a share pool at the time of the IPO in March 2000. All of the pool members decided to accept a voluntary lock-up period for the shares lasting four and a half years until 2004. In undertaking this voluntary obligation, the shareholders agreed to one of the longest lock-up periods on the German stock exchange.

This philosophy will be pursued in the future as well: the founding families Beck, Bullmann and Wenzel concluded a new pooling agreement immediately after the expiration of the previous one. It provides that 50.7 % of the PRO DV stock will remain with the families. The sale to third parties is not planned, but is nevertheless possible, subject to the approval of the other pool members.

Another significant event in November was the awarding of the contract for the creation of the geodata portal for the German government (GeoPortal.Bund) to PRO DV. PRO DV will act in the capacity of general contractor to realize the project. The central element is the Internet-based, barrier-free and interoperable geodata search. Furthermore, it involves the availability of geo-Web services.

GeoPortal.Bund is a project of the Federal Ministry of the Interior. Acting on the Ministry's behalf, the Federal Office for Cartography and Geodesy is pushing the expansion of a pioneering national geodata infrastructure as a public infrastructure measure. The objective is to collect the geoinformation maintained in various government agencies and public institutions at a central point in a uniform format and make it accessible without boundaries to government, businesses, geosciences and citizens.

### Risks and Risk Management

The Management Board 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). Sources of risk have been identified and their possible effects on the course of business analyzed. The results of this examination have been recorded in detailed documentation. Measures to minimize risks have been undertaken, and the Management Board receives regular reports regarding their implementation.

Essentially the risks involve project and costing risks from current fixed-price orders. As early as 1994, PRO DV introduced a quality management programme in accordance with ISO 9001 to improve internal processes. It has been continuously adapted to the latest developments ever since that time.

Sales activities have been expanded to ensure that capacity is always utilized to the full. We continued our strict cost management. These measures, in combination with the more favourable economic outlook and the consequent improvement of the market situation, contribute to a further optimization of the profitability. Furthermore, there are currently no further discernible risks which could lead to a long-term adverse effect on the assets, liabilities, financial position and profitability.

### Research and Development

In the past fiscal year, we invested engineer services of about 14 billable years in development for the Group. A major share of this work was devoted to the further development of modern technologies and platforms in the environment of SAP NetWeaver, cashXpert and estateXpert. Furthermore, focus was on the development of solutions for the emissions protection ecoGuard and the natural disaster protection SaSIS.

### Events after the Closing Date of the Fiscal Year

In 2004, a suit related to the acquisition of the shares of concept software GmbH in 2000 was filed at the District Court Dortmund by Carsten Gebhardt and Ulrich Kretschmer, Berlin, against PRO DV Software AG. During the oral hearing on 23.02.2005, the plaintiffs changed the suit, originally filed as an affirmative action for a right, into an action for performance and filed a motion to require PRO DV Software AG to transfer 220,100 shares of PRO DV Software AG stock to each of the two plaintiffs. Alter-



natively, a motion was filed „to determine that the Defendant, in the event that the stock transfer owed in accordance with the operative provisions of Item 1 is not possible for legal reasons, shall ensure that the Plaintiffs enjoy a commercially equivalent position.“ According to the pleading of the plaintiffs, a commercially equivalent position would mean a payment of at least EUR713k to each of the two plaintiffs. We believe that there is no foundation for any of the points of the suit.

### Looking Forward

We are assuming that we will be able to continue improvement of our performance and profitability in 2005. If the economy – as predicted – continues its upward swing, we expect a further stabilization of the profitability with a balanced operating result (EBIT) for fiscal year 2005.

Now that the efficiency of our industry-specific organization in the divisions has been confirmed, we want to expand continuously the four fields of government, telecommunications, utilities and retail and banking. In view of the constantly rising demand for solutions and products with geocomponents, there will be good opportunities for organic growth in the coming years.

Parallel to this general development, we see opportunities to accelerate the profitable growth of PRO DV by acquisitions. We are already working on concrete projects, some of which could be brought to a successful conclusion in 2005.

Dortmund, 24 February 2005

The Management Board



Klaus Bullmann



Udo Bücher



Uwe Osterkamp



# Annual Accounts

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## PRO DV in figures

## Consolidated balance sheet to IAS/IFRS

		Financial statement 31.12.2004 TEUR	Financial statement 31.12.2003 TEUR
<b>Assets</b>			
<b>Current assets</b>			
Cash and Cash Equivalents	(47, 48)	15,895	13,979
Trade accounts receivable	(43, 44, 45)	2,792	2,378
Inventories	(37, 38, 39, 40, 41, 42)	726	752
Prepaid expenses and other current assets	(43)	257	675
<b>Total current assets</b>		<b>19,670</b>	<b>17,784</b>
<b>Non-current assets</b>			
Property, plant and equipment	(28, 29, 30, 31, 32, 33, 34)	3,215	5,690
Intangible assets	(25, 26, 27)	175	264
Goodwill	(23, 24)	984	1,000
Investments	(35, 36)	3	-
Deferred taxes	(49)	1,713	2,518
Other assets	(43, 46)	184	136
<b>Total non-current assets</b>		<b>6,274</b>	<b>9,608</b>
<b>Total assets</b>		<b>25,944</b>	<b>27,392</b>

		Financial statement 31.12.2004 TEUR	Financial statement 31.12.2003 TEUR
<b>Liabilities and shareholders' equity</b>			
<b>Current liabilities</b>			
Short-term debt and current portion of long-term debt	(61)	66	66
Trade accounts payable	(62)	449	297
Advance payments received	(37, 39)	282	1,277
Accrued expenses	(58, 59, 60)	2,040	1,599
Deferred revenues	(63, 64, 83)	223	-
Other current liabilities	(62)	949	931
Accrued income taxes	(57)	-	23
<b>Total current liabilities</b>		<b>4,009</b>	<b>4,193</b>
<b>Non-current liabilities</b>			
Long-term debt, less current portion	(61)	756	822
Deferred tax liability	(57)	311	381
Accrued expenses	(58, 59, 60)	135	183
Deferrals	(63, 64, 83)	617	782
<b>Total non-current liabilities</b>		<b>1,819</b>	<b>2,168</b>
Minority interest	(91)	-	-
<b>Shareholders' equity</b>			
Share capital	(50, 51, 52, 53)	4,300	4,300
Capital reserve	(54)	17,398	19,191
Retained Earnings/Accumulated deficit	(55, 56)	-1,582	-2,460
<b>Total shareholders' equity</b>		<b>20,116</b>	<b>21,031</b>
<b>Total liabilities and shareholders' equity</b>		<b>25,944</b>	<b>27,392</b>

**Consolidated income statement  
to IAS/IFRS**

	4th Quarter 2004 01.10.2004- 31.12.2004 TEUR	4th Quarter 2003 01.10.2003- 31.12.2003 TEUR	Year 2004 01.01.2004- 31.12.2004 TEUR	Year 2003 01.01.2003- 31.12.2003 TEUR
Sales revenues (65, 68-78)	6,500	4,613	17,981	15,696
Other operating income (66, 67, 83, 84)	1,873	517	2,120	711
Changes in inventories of finished goods and work in progress (38)	-2,000	-293	-1,179	511
Cost of purchased materials and services	472	518	1,165	1,305
Personnel expenses (79, 80)	3,029	3,225	12,907	13,423
Depreciation (81)	179	218	741	861
Amortization (and impairment) of goodwill (23, 81)	-	15	15	102
Other operating expenses (82)	1,468	1,094	4,460	3,883
<b>Operating income/loss</b>	<b>1,225</b>	<b>-233</b>	<b>-366</b>	<b>-2,656</b>
Interest income and expense (85, 86)	8	60	187	306
<b>Result before income taxes and minority interest</b>	<b>1,233</b>	<b>-173</b>	<b>-179</b>	<b>-2,350</b>
Income tax (87, 88)	739	-280	735	-184
<b>Result before minority interest</b>	<b>494</b>	<b>107</b>	<b>-914</b>	<b>-2,166</b>
Minority interest (91)	-	-	-	-
<b>Net income/loss</b>	<b>494</b>	<b>107</b>	<b>-914</b>	<b>-2,166</b>
Loss brought forward			-2,470	-13,363
Withdrawal from capital surplus (56)			1,792	13,059
<b>Accumulated deficit</b>			<b>-1,592</b>	<b>-2,470</b>
Net income per share (basic/diluted)	0.11	0.02	-0.21	-0.50
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 2004 01.01.2004- 31.12.2004 TEUR	Year 2003 01.01.2003- 31.12.2003 TEUR
<b>Cash flows from operating activities</b>		
Net income/loss before tax	-179	-2,350
Depreciation and amortization:		
Property, plant, equipment and intangible assets (81)	674	864
Production of own fixed assets capitalized	82	99
Interest income (85, 86)	-272	-360
Interest expense (85, 86)	85	54
<b>Operating profit before working capital changes</b>	<b>390</b>	<b>-1,693</b>
Changes in long-term liabilities and shareholders' equity	-213	132
Gains and Losses from disposal of fixed assets	-1,773	9
Invalid payment gain from final consolidation	-	-56
Changes in long-term assets	-48	-136
	-2,034	-51
Changes in:		
Inventories	26	-37
Trade receivables	-414	42
Other assets	248	-510
Short term provisions	441	-575
Trade payable	152	-299
Payments on account for orders	-995	850
Other liabilities and shareholders' equity	241	-99
	-301	-628
<b>Cash generated from operations</b>	<b>-1,945</b>	<b>-2,372</b>
Interest paid (86)	-85	-54
Taxes paid	146	181
<b>Net cash used in operating activities</b>	<b>-1,884</b>	<b>-2,245</b>
<b>Cash flows from investing activities</b>		
Proceeds from the disposal of fixed assets (32, 33, 66, 67)	3,947	-
Disposal of consolidated companies net of cash sold	-	376
Payment for investments in fixed assets	-353	-298
Interest received (86)	272	360
<b>Net cash used in investing activities</b>	<b>3,866</b>	<b>438</b>
<b>Cash flows from financing activities</b>		
Cash repayments of amounts borrowed (61)	-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>1,916</b>	<b>-1,873</b>
Cash and cash equivalents at beginning of period	13,979	15,852
<b>Cash and cash equivalents at end of period</b>	<b>15,895</b>	<b>13,979</b>

Cash and cash equivalents corresponds to balance sheet's cash and cash equivalents.

**Changes in fixed assets for 2004  
to IAS/IFRS**

	Cost of acquisition			
	01.01.2004 TEUR	Additions TEUR	Disposals TEUR	31.12.2004 TEUR
Tangible assets				
Lands and buildings	6,027	-	2,871	3,156
Other facilities, office furniture and equipment	3,234	272	283	3,223
<b>Total tangible assets</b>	<b>9,261</b>	<b>272</b>	<b>3,154</b>	<b>6,379</b>
Intangible assets				
Software and licences	968	79	21	1,026
Self-produced intangible assets	1,178	-	319	859
<b>Total intangible assets</b>	<b>2,146</b>	<b>79</b>	<b>340</b>	<b>1,885</b>
Goodwill	2,400	-	-	2,400
Financial investments	-	3	-	3
<b>Total fixed assets</b>	<b>13,807</b>	<b>354</b>	<b>3,494</b>	<b>10,667</b>



Depreciation

Book value

01.01.2004 TEUR	Additions TEUR	Disposals TEUR	31.12.2004 TEUR	31.12.2004 TEUR	31.12.2003 TEUR
1,130	214	701	643	2,513	4,897
2,441	360	280	2,521	702	793
<b>3,571</b>	<b>574</b>	<b>981</b>	<b>3,164</b>	<b>3,215</b>	<b>5,690</b>
846	85	20	911	115	122
1,036	82	319	799	60	142
<b>1,882</b>	<b>167</b>	<b>339</b>	<b>1,710</b>	<b>175</b>	<b>264</b>
1,401	15	-	1,416	984	1,000
-	-	-	-	3	-
<b>6,854</b>	<b>756</b>	<b>1,320</b>	<b>6,290</b>	<b>4,377</b>	<b>6,954</b>

## PRO DV Software AG

### IAS/IFRS Notes to the Consolidated Annual Accounts as of 31.12.2004

#### A. General

- (1) The PRO DV Group is a corporate group with 3 subsidiaries and currently employing a staff of about 200 (see also No. 80).
- (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 Board (IASB), London, and the IFRS (International Financial Reporting Standards) which were in force on the closing date. If and when the IAS (International Accounting Standard) issued by the predecessor organization of the IASB, the International Accounting Standards Committee (IASC), was valid on the closing date, said standard was applied. In the following Notes, the form IAS/IFRS will be used for general reference. Specific references will show the relevant standard, e.g., IAS 12 or IFRS 1. 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 and IAS/IFRS Notes, including statement of retained earnings. 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 2004 – 31 December 2004.
- (7) **Stock option plan**

The IAS/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. also No. 53).

(8) **Corporate Governance**

The Management Board and the Supervisory Board submitted a declaration of conformity in the sense of the German Corporate Governance Codex (Section 161 HGB) on 16.11.2004 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 17.03.2005. The release will be approved by the Management Board 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 tax assets are recognized for temporary differences between assets and liabilities shown in the commercial balance sheet in accordance with IAS/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 IAS/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/IFRS, 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 IAS/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 22.1, 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 IAS/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	Life
PRO DV Software GmbH	Manfred-von-Ardenne-Ring 15, 01099 Dresden, Germany	80 %	01.01.04–31.12.04
pro dv online gmbh	Kapellenstr. 10, 85622 Feldkirchen Germany	100 %	01.01.04–31.12.04
Immobilienverwaltungs- gesellschaft Hauert 6 mbH & Co. KG	Hauert 6, 44227 Dortmund Germany	100 %	01.01.04–31.12.04

The following companies have not been included in the consolidation:

Name	Registered office	Interest	Life
VR-Leasing Milvus GmbH & Co. Immobilien KG	65727 Eschborn, Germany	47 %	20.12.04–31.12.04

Cf. for consolidated companies Nos. 13-17 and No. 35.

### Changes in the Group

- (12) Pursuant to the contract of purchase and conveyance of 20 December 2004, a limited partner interest in VR-LEASING MILVUS GmbH & Co. Immobilien KG was acquired (cf. No. 11).

### 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), the International Financial Reporting Standards (IFRS) and the interpretations of the Standing Interpretations Committee (SIC) in force on the closing date (cf. also No. 4). 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. According to IAS/IFRS, scheduled amortization of goodwill is no longer permitted. Instead, a so-called impairment test must be performed. An impairment test was performed in accordance with IFRS 3. The result of the test was that no allowance was created for goodwill.
- (24) The amortization of the goodwill is recognized separately in the income statement.

### **Other Intangible Assets**

- (25) 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.
- (26) Write-offs on intangible assets are contained in the item write-offs on tangible and intangible fixed assets in the income statement.

### **Software Development Costs**

- (27) 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 2004. Self-created intangible assets recognized on the balance sheet from previous years are amortized in total over a useful life of 5 years.

### **Tangible Assets**

- (28) 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 EUR410.00 in the year of their addition are always depreciated in full immediately. This does not apply to the initial furnishing of office space.
- (29) Financing expenses are not capitalized, but are recognized immediately as expenses at the time they are incurred.

- (30) Repair and maintenance costs are recorded as expenses at the time they are incurred. Expenditures for modernizations and significant improvements are capitalized.
- (31) 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.
- (32) An 81 % interest in the building at Hauert 6, 44227 Dortmund, was sold to VR-Leasing MILVUS GmbH & Co. Immobilien KG during the reporting period. 19 % of the area remains the Group's property. The distribution of the disposal value was based on the actual cost of construction of the two parts of the building. The part of the building which was sold has been leased by PRO DV Software AG by means of a sale and lease back procedure. This leasing relationship is a so-called operating leasing relationship (cf. Nos. 31, 35, 66, 94).
- (33) The disposal of the part of the building with its historical values and book values can be seen in the analysis of fixed assets movement included as an exhibit.
- (34) Write-offs on tangible assets are contained in the item write-offs on tangible and in-tangible fixed assets in the income statement.

#### **Financial Assets**

- (35) An interest in the amount of TEUR3 was recognized for the first time under the financial assets. The disclosures refer to the interest in a limited partnership which took over the part of the building sold (cf. Nos. 31, 32, 66, 94). The interest is not to be included in the consolidated companies as no control is exercised (cf. No. 13). SIC-12 deals with the interest in a special purpose entity (the special purpose in this case is the performance of a leasing transaction). An entity of this nature is to be consolidated only if commercial consideration of the relationships shows that the affiliated company is controlled. In this case, commercial consideration (participation in the majority of opportunities and risks) does not reveal control, either through the interest held or indirectly through the lease.
- (36) Financial assets were measured at cost of acquisition.

#### **Inventories**

- (37) Inventories comprise primarily work in progress from construction contracts. The recognized amount of TEUR726 (previous year TEUR752) has been calculated by deducting the advance payments received from clients in the amount of TEUR1,098 (previous year TEUR2,267). 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 (TEUR282, previous year TEUR1,277).
- (38) Depreciation of TEUR18 was taken on stocks as of 31.12.2004 on the basis of the lower attributable value. Moreover, a provision for contingent losses of TEUR90 was created. The devaluation on the attributable value is contained in the change in inventory.

(39) Work in progress 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 (TEUR1,098).

(40) The contract revenues from fixed-price projects recorded in the reporting period amount to TEUR6,978.

(41) Determination of stage of completion:

Description	PRO DV Software AG	Joint projects with PRO DV Software GmbH	Total
	TEUR	TEUR	TEUR
<b>Initially agreed contract revenue</b>	<b>3,013</b>	<b>324</b>	<b>3,337</b>
Contract costs incurred as of reporting date	1,325	136	1,461
Contract costs until completion	1,248	66	1,314
<b>Estimated total contract costs</b>	<b>2,573</b>	<b>202</b>	<b>2,775</b>
<b>Estimated profit</b>	<b>440</b>	<b>122</b>	<b>562</b>
<b>Stage of completion</b>	<b>52 %</b>	<b>67 %</b>	<b>53 %</b>

Determination of stage of completion of previous year:

Description	PRO DV Software AG	PRO DV Software GmbH Dresden	Joint projects	Total
	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>

### Merchandise

- (42) Merchandise was measured at cost of acquisition.

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

	TEUR
Merchandise inventory on 01.01.2004	24
Change in inventory	-17
<b>Merchandise inventory on 31.12.2004</b>	<b>7</b>

### Receivables and Other Assets

- (43) All of the receivables and other assets have a remaining term of less than one year, with the exception of a share of TEUR108 with a term of up to 5 years and of a share of TEUR76 with a term greater than 5 years.
- (44) Valuation allowances were made in the appropriate scope.

### Accounts Receivable from Trading

- (45) 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

- (46) The disclosure includes a receivable for the performance of service and non-cash benefits. This performance will be carried out over a period of 11 years. Interest was paid to this extent. The assumed discount interest rate is 5.5 %. The long-term share of the other assets amounts to TEUR184 (cf. No. 86).

### Cash on Hand and Cash in Banks

- (47) The average interest rate for time deposits was about 2.25 %. The liquidity shown in the capital flow statement includes cash on hand and cash in banks. They are valued at the nominal amount. No cash is held in foreign currencies.
- (48) There is a restraint on disposal in the amount of TEUR4,000 on funds from the sale of the part of the building Hauert 6. The restraint expires ten days after notification by the Land Register Office that the priority notice of conveyance has been entered.



## Deferred Taxes

- (49) 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 progress. 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	283	113
Accumulated deficit, brought forward	4,000	1,600
<b>Accruals for deferred tax assets</b>	<b>4,283</b>	<b>1,713</b>

## Shareholders' Equity

- (50) Capital subscribed amounts to EUR4,300,000.00.
- (51) 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.
- (52) Authorized capital of TEUR2,150 is available to the Company for further financing of the Group.
- (53) The share capital of the parent company has been conditionally raised by up to nominal TEUR230 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 Management Board 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.
- (54) The capital surplus comprises the premiums from the issue of shares. The amount of TEUR1,792 was withdrawn from the capital surplus to balance out the net loss of the parent company in 2004.
- (55) The earnings reserves comprise solely legal reserves.

**(56) 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
01.01.2004	Balance brought forward	4,300	19,190	10	-2,470	21,030
31.12.2004	Consolidated net loss	-	-	-	-914	-914
31.12.2004	Withdrawals from capital surplus	-	-1,792	-	1,792	-
<b>31.12.2004</b>		<b>4,300</b>	<b>17,398</b>	<b>10</b>	<b>-1,592</b>	<b>20,116</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
01.01.2003	Balance brought forward	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>19,190</b>	<b>10</b>	<b>-2,470</b>	<b>21,030</b>

**Accrued Taxes**

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

Current taxes:

	As of 01.01.04	Usage	Reversal	Allocation	As of 31.12.04
Accrued Taxes	TEUR	TEUR	TEUR	TEUR	TEUR
Trade tax	23	23	-	-	-
Corporation tax	-	-	-	-	-
<b>Total accrued taxes</b>	<b>23</b>	<b>23</b>	<b>-</b>	<b>-</b>	<b>-</b>

Deferred taxes:	As of 01.01.04 TEUR	Reversal TEUR	As of 31.12.04 TEUR
Deferred taxes	381	70	311
<b>Total</b>	<b>381</b>	<b>70</b>	<b>311</b>

The following circumstances had to be taken into account in determining the deferred tax liabilities (cf. No. 49):

	Taxes on earnings TEUR	
	TEUR	TEUR
Capitalized development costs	60	24
Elimination of lump-sum valuation allowances	12	5
Inventories (percentage of completion)	687	275
Effects from debt consolidation	18	7
<b>Provision for deferred tax liabilities</b>	<b>777</b>	<b>311</b>

#### Other Provisions and Accrued Liabilities

- (58) 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. 95).

As a precaution, the possible litigation risks of another action in which the official receiver for the former subsidiary concept software gmbh has sued PRO DV Software AG for payment of TEUR322 were included in the provisions. A total provision of TEUR109 (thereof TEUR9 for procedural costs) has been created (cf. No. 96). PRO DV Software AG has been sued by Mr Kretschmer and Mr Gebhardt. A detailed explanatory comment on this action and an appraisal of the risks can be found under No. 97. A provision was not created.

The provision for unsettled bills arises from events for which a billing is expected in 2005, although the commercial cause was in the previous year.

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

Composition and development:

	As of 01.01.04 TEUR	Usage TEUR	Reversal TEUR	Allocation TEUR	As of 31.12.04 TEUR
Other Provisions and Accrued Liabilities					
<b>a. Provisions in personnel matters:</b>					
Bonuses/royalties for employees	180	180	-	351	351
Holiday leave	205	205	-	208	208
Overtime	16	16	-	18	18
Employers' liability insurance association	79	52	27	56	56
Equalization levy	24	21	3	25	25
Settlement	243	60	-	12	195
Travel expenses	22	22	-	5	5
<b>b. Other provisions:</b>					
Unsettled bills	143	98	44	103	104
Expenses for annual report	76	76	-	82	82
Close-out expenses	104	104	-	104	104
Commissions	107	107	-	-	-
Litigation risk	145	63	-	125	207
Warranties	259	206	-	356	409
Other provisions and accrued liabilities	179	5	16	253	411
<b>Total other provisions and accrued liabilities</b>	<b>1,782</b>	<b>1,215</b>	<b>90</b>	<b>1,698</b>	<b>2,175</b>

(60) The provision for settlements rose to TEUR12 during the reporting year due to the passage of time.

#### Liabilities due to Banks

(61) Liabilities due to banks were recognized on the balance sheet at the repayment amount and comprise the following items as of 31.12.2004:

	2004 TEUR	2003 TEUR
Loans	822	888
Current account loans	-	-
<b>Total</b>	<b>822</b>	<b>888</b>
Remaining term		
of up to 1 year	66	66
1 to 5 years	263	263
over 5 years	493	559
<b>Total</b>	<b>822</b>	<b>888</b>

The loan is secured by a land charge of TEUR1,150, entered in the Land Register of Dresden-Klotzsche.

#### Trade Accounts Payable and Other Liabilities

- (62) 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.

#### Deferred Income

- (63) The short-term deferred income essentially contains advance payments received for software maintenance agreements.
- (64) The long-term deferred income contains investment subsidies and investment grants (cf. No. 83).

### E. Explanatory Comments on the Income Statement

#### Turnover Realization

- (65) 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

- (66) Other operating income includes the results from the sale and lease back procedure as part of the disposal of a part of a building. Since this is a sale and lease back transaction which is to be classified as an operating leasing relationship, any profit or loss must be registered immediately in accordance with IAS 17.52 (cf. Nos. 32, 33, 35, 67, 94).
- (67) Other operating income breaks down as shown below:

	TEUR
Other operating income	344
Profit from the sale of a building part	1,776
<b>Total</b>	<b>2,120</b>

#### Segment Statement

- (68) Composition and development:



## Consolidated segment statement to IAS/IFRS

	Division Telecommunications		Division Retail & Banking	
	31.12.2004	31.12.2003	31.12.2004	31.12.2003
	TEUR	TEUR	TEUR	TEUR
<b>1. By areas of competence</b>				
Sales revenues	5,565	5,942	2,010	959
Production of own fixed assets capitalized	-	-	-	-
Changes in inventories of finished goods and work in progress	-112	86	-3	13
<b>Gross performance</b>	<b>5,453</b>	<b>6,028</b>	<b>2,007</b>	<b>972</b>
Other operating income	72	197	55	33
Cost of purchased materials and services	142	346	121	161
Personnel expenses	4,014	4,303	1,506	723
Depreciation	128	178	32	12
Other operating expenses	1,290	1,453	454	212
<b>Segment result</b>	<b>-49</b>	<b>-55</b>	<b>-51</b>	<b>-103</b>
<b>Non-attributable costs</b>				
Other operating income				
Depreciation administration				
Amortization (and impairment) of goodwill				
Financial result				
Income tax				
<b>Net income/loss</b>				
<b>Other Information</b>				
Segment assets	2,344	2,624	466	457
Non-attributable common assets				
<b>Consolidated assets</b>				
Segment liabilities	438	596	266	48
Non-attributable liabilities				
<b>Consolidated liabilities</b>				
Investments	62	73	31	10
Non-attributable investments				
<b>Consolidated investments</b>				

	Germany	
	31.12.2004	31.12.2003
	TEUR	TEUR
<b>2. By geographical markets</b>		
<b>Gross performance</b>	<b>16,326</b>	<b>15,659</b>

Division Utilities		Division Government		Division Industry		Andere Bereiche		Konzern	
31.12.2004	31.12.2003	31.12.2004	31.12.2003	31.12.2004	31.12.2003	31.12.2004	31.12.2003	31.12.2004	31.12.2003
TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
1,172	1,282	7,760	5,087	1,474	2,014	-	412	17,981	15,696
-	-	-	-	-	-	-	-	-	-
226	-119	-879	601	-411	-70	-	-	-1,179	511
<b>1,398</b>	<b>1,163</b>	<b>6,881</b>	<b>5,688</b>	<b>1,063</b>	<b>1,944</b>	<b>-</b>	<b>412</b>	<b>16,802</b>	<b>16,207</b>
18	36	129	186	70	154	-	105	344	711
119	107	667	572	116	52	-	67	1,165	1,305
1,235	1,285	4,741	4,639	1,411	2,141	-	332	12,907	13,423
46	60	229	316	133	177	-	36	568	779
361	250	1,509	1,217	846	648	-	103	4,460	3,883
<b>-345</b>	<b>-503</b>	<b>-136</b>	<b>-870</b>	<b>-1,373</b>	<b>-920</b>	<b>-</b>	<b>-21</b>	<b>-1,954</b>	<b>-2,472</b>
								1,776	-
								173	82
								15	102
								187	306
								735	-184
								<b>-914</b>	<b>-2,166</b>
651	583	1,307	2,402	-	2,214	-	-	4,768	8,280
								21,176	19,112
								<b>25,944</b>	<b>27,392</b>
265	114	1,630	1,865	-	1,755	-	-	2,599	4,378
								3,229	1,983
								<b>5,828</b>	<b>6,361</b>
38	32	119	46	-	19	-	-	250	180
								103	118
								<b>353</b>	<b>298</b>

EU		Other countries		Group	
31.12.2004	31.12.2003	31.12.2004	31.12.2003	31.12.2004	31.12.2003
TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
<b>210</b>	<b>493</b>	<b>266</b>	<b>55</b>	<b>16,802</b>	<b>16,207</b>

(69) Designations and abbreviations in the segment report:

**Division Telecommunications Division:**

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

**Retail & Banking Division:**

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

**Utilities Division:**

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

**Government Division:**

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

**Industry Division:**

PRO DV offers special products and solutions for production, planning, control, computer-aided quality and optimization of logistics chains for industrial companies. This division has been closed (cf. Nos. 70 and following).

**Other Divisions:**

In the previous year, this item included essentially the performance of the affiliated company of that period, Sports & Bytes GmbH. Object of the company included the operation of Internet portals.

**Closure of Divisions**

- (70) The Industry Division was divested, effective as of 30.09.2004, on the basis of a so-called enterprise conveyance agreement. The company which took over the division assumed all of the rights and obligations related to the Industry Division and indemnified and held harmless the PRO DV Group in the internal relationship. Effective as of 01.10.2004, the PRO DV Group no longer renders any concrete services in the Industry Division. The division has therefore been closed.
- (71) The company taking over the division did not assume any fixed assets shown in the balance sheet. Parts of the fixed assets are leased to the company taking over the division. They include parts of the building at Manfred-von-Ardenne-Ring 15, 01099 Dresden, as well as parts of the other fixed assets such as hardware, software and office equipment.
- (72) The conveyance included the rights to the software products Provisor, f@stchain, f@stcheck and f@stflow. These rights were not included in the fixed assets shown in the balance sheet for the PRO DV Group in the past and consequently no disposal has been recorded.
- (73) The personnel which worked in the Industry Division left the Group on the basis of cancellation agreements. 2 employees were transferred to the new company on the basis of the legal provisions of BGB.

- (74) In total, the closure of the Industry Division lowered the result by TEUR287.
- (75) The work in progress from the Industry Division shown in the balance sheet on 30.09.2004 was sold to the company taking over the division at the value shown in the balance sheet and recorded as turnover.
- (76) Receivables and liabilities from the Industry Division as of the closing date 30.09.2004 remained in the PRO DV Group.
- (77) As of 31.12.2004, a receivable of gross EUR58,000.00 was still shown in the balance sheet; it had been paid in full by the end of January 2005.
- (78) The results of the closed division are shown in detail in the segment report (cf. No. 68).

(79) **Personnel Expenses**

TEUR

Wages and Salaries	10,860
Social security	2,047
<b>Total</b>	<b>12,907</b>

- (80) At the end of the reporting period, the Group employed a staff of 194 (previous year 209), excluding Management Board members. 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 198 in the reporting period (previous year 208), excluding Management Board members.

**Depreciation, Amortization and Other Write-offs**

- (81) No unscheduled write-offs were taken in the fiscal year.

**Rent and Lease Expenses**

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

TEUR

Rent expenses	200
Lease expenses	346

**Accounting of Subsidies**

- (83) Investment subsidies for intangible assets, buildings and fixtures, fitting and equipment in the amount of TEUR368 (previous year TEUR412) are recognized as deferred income. The deferred income 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 TEUR44 (previous year TEUR44) 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 TEUR50 was created for uncertainties with respect to the job guarantee.

- (84) Expense allowances of TEUR21 (previous year TEUR7) were received with effect on profits.

### Financial Expenses

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

	TEUR
Other interest and similar income	272
Interest and similar expenses	85
<b>Financial Result</b>	<b>187</b>

TEUR42 of the interest and similar expenses result from the increased interest expenditures consequent to the postponement of the utilization of services (cf. No. 46).

### Taxes on Income

- (87) Due to current circumstances, there was an average tax burden of 0% for fiscal year 2004. The transition from the nominal taxes (40 %) to the actual tax expenses (-409.3 %) results as follows:

- (88) **Transition of the rate for tax on income**

	TEUR	%
Earnings before taxes on income	-179	
<b>Nominal taxes</b>	<b>-72</b>	<b>40,0</b>
Depreciation on goodwill	6	-3,4
Valuation allowance on deferred tax credits from accumulated deficits brought forward	935	-521,2
Non-deductible expenses	9	-5,2
Non-taxable income	-6	3,2
Other	-138	77,3
<b>Actual tax expenses</b>	<b>734</b>	<b>-409,3</b>



### Result per Share

- (89) The watered and the unwatered result per share came to -EUR0.21 (2003 -EUR0.50). The counter used to calculate the watered and the unwatered result is the net loss of -TEUR914 (previous year -TEUR2,166). 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

- (90) In the past fiscal year, engineering performance of about 14.0 billable years (equivalent to TEUR1,193) was invested in development. A major part of this was the continuous further development in the area of modern technologies and platforms such as homeland security and natural disaster protection applications and the development of the geo-based framework PROconn.

### Minority Interests

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

## F. Other Information

### Other Financial Obligations

- (92) 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 up to 55 months and amount to TEUR242 (previous year TEUR457) 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 TEUR529 (previous year TEUR337).

- (93) Remaining terms:

TEUR

of up to 1 year	319
1 to 5 years	452
over 5 years	0

- (94) As of 31.12.2004, the Company held 19 % of the area of the building Hauert 6 in its fixed assets. The remaining 81 % of the area of the building has been leased from VR-Leasing MILVUS GmbH & Co. Immobilien KG, Eschborn, since 01.01.2005. The obligation, including administrative costs, for the next 15 years amounts to TEUR5,143 (following year TEUR339), whereby the obligation includes the accumulation of a tenant loan of TEUR497. There is an option to buy back the property at book value, setting off the tenant loan, after a period of 10 years. The lessee has a purchase option for the leased property at the end of 15 years.

#### Contingent Liabilities and Receivables

- (95) The Company is currently involved in litigation in which it finds itself in the role of the defendant and faced with a claim of EUR1.8 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 EUR12,782.30. The question as to whether PRO DV assumed in full the warranty obligations of the company Olivetti is among the factors 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 EUR12,782.30 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 be incurred for the proceedings must be borne by the Company and are covered by the creation of a provision. In the first instance, the decision ordered PRO DV to make payment of TEUR1,801, plus interest. PRO DV has appealed the decision (cf. No. 58).
- (96) The official receiver of the former subsidiary concept software gmbh has sued PRO DV Software AG for payment of TEUR322. The suit is regarded as unfounded in many points from a legal standpoint (cf. No. 58).
- (97) In 2004, a suit related to the acquisition of the shares of concept software GmbH in 2000 was filed at the District Court Dortmund by Mr Gebhardt and Mr Kretschmer, Berlin, against PRO DV Software AG. During the oral hearing on 23.02.2005, the plaintiffs changed the suit, originally filed as an affirmative action for a right, into an action for performance and filed a motion to require PRO DV Software AG to transfer 220,100 shares of PRO DV Software AG stock to each of the two plaintiffs. Alternatively, a motion was filed „to determine that the Defendant, in the event that the stock transfer owed in accordance with the operative provisions of Item 1 is not possible for legal reasons, shall ensure that the Plaintiffs enjoy a commercially equivalent position.“ According to the pleading of the plaintiffs, a commercially equivalent position would mean a payment of at least TEUR713 to each of the two plaintiffs, corresponding to a contingent liability of TEUR1,426. Mr Gebhardt and Mr Kretschmer sold 80 % of the shares in concept software gmbh to PRO DV Software AG in return for cash compensation as well as the

issue of 100,000 new shares in PRO DV Software AG, to be created by means of a capital in kind increase, on the basis of the contract of 07.11.2000. Among other points, it was agreed in the contract that the sellers would receive a (put) option to convey their remaining 20 % of the concept software gmbh to PRO DV Software AG. The plaintiffs exercised this put option in 2003, which was received by PRO DV Software AG in 2004, although the company had in the meantime filed a petition for bankruptcy. PRO DV Software AG regards the suit to be unfounded in every point. The Company is of the opinion that the contractual provision represents a price guarantee and is therefore in violation of both the requirement to raise capital and the requirement to maintain capital. The provision is therefore invalid (Sections 185, 57 AktG, 134 BGB). Furthermore, PRO DV Software AG is of the opinion that, even if this provision is valid, there can be no claim because this provision is a part of the purchase contract created by exercise of the option. PRO DV Software AG had declared rescission of this purchase contract as concept software gmbh was already insolvent at the point in time at which the option was issued and the plaintiffs had given to the Company a guarantee that the former company was not bankrupt. As a consequence, the creation of a provision for litigation risks was not required as the probability of the risk becoming reality is significantly less than 50 %.

#### Relationships to Related Persons

- (98) The Management Board members, Supervisory Board members and related persons hold a total of 32.88 % of the shares.
- (99) Mr Siegfried W. Wenzel, Dipl.-Ing., Supervisory Board members, has been active as a consultant for the PRO DV Group since 01.01.2004. In 2004, he submitted bills for services in the amount of TEUR69.

#### Management Board

- (100) Members of the Management Board of the parent company are Mr Klaus Bullmann, Dipl.-Ing., Mr Udo Bücher and Mr Uwe Osterkamp, Dipl.-Inform.

The compensation of the members of the Board of Management in 2004 was distributed as follows:

	Base compensation	Compensation in car	Compensation in kind	Total
Klaus Bullmann	TEUR 176 (previous year TEUR 165)	TEUR 9 (previous year TEUR 9)	TEUR 0 (previous year TEUR 0)	TEUR 185 (previous year TEUR 174)
Udo Bücher	TEUR 155	TEUR 8	TEUR 24	TEUR 187
Uwe Osterkamp	TEUR 155	TEUR 14	TEUR 24	TEUR 193

The figures for the Management Board members Udo Bücher and Uwe Osterkamp do not include the previous years because these Board members did not join the Management Board until 01.01.2004.

### Supervisory Board

(101) During calendar year 2004, the Supervisory Board of PRO DV Software AG comprised the following members:

Knud Norden, Dr.-Ing. (Chairperson), Dortmund  
Management Board, IT Division, RWE Systems AG

Seats on other Supervisory Boards:

RWE Systems Applications GmbH, Eschborn (Chairperson)  
Networkers AG, Hagen (Chairperson)

Mr Siegfried W. Wenzel (Deputy Chairperson), Herten  
No other Supervisory Board seats held

Mr Michael Petmecky, Dortmund  
Management Board SIGNAL IDUNA Versicherungsgruppe

Seats on other Supervisory Boards:

VDG-Versicherungswirtschaftlicher Datendienst GmbH, Icking  
has programm service AG

Total compensation for the Supervisory Board for Supervisory Board activities for the entire year 2004 came to TEUR24.5 (previous year TEUR24.5).

Dortmund, 24 February 2005

The Management Board



Klaus Bullmann



Udo Bücher



Uwe Osterkamp

## Auditor's 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, 2004 to December 31, 2004. 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, 2004 to December 31, 2004 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, 2004 to December 31, 2004 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 25, 2005

AWT Horwath GmbH  
Wirtschaftsprüfungsgesellschaft

S. Denk  
Wirtschaftsprüfer  
(German Public Auditor)

ppa. A. Haas  
Wirtschaftsprüfer  
(German Public Auditor)



## Report of the Supervisory Board

The Management Board 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 Management Board'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 Management Board regarding any and all major business transactions in progress.

The Supervisory Board considered the general economic position of the Company in 2004. In particular the development and prospects for the business unit Industry were at the focus of the consultations. In addition, the Supervisory Board continuously and intensively reviewed the company-wide risk prevention and monitoring system. Moreover, measures for broadening the market position and the future corporate development were discussed. The Supervisory Board also approved the sale of a part of the real estate assets.

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 2004 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 16.03.2005, the Supervisory Board adopted the annual accounts and the consolidated annual accounts submitted by the Management Board. The annual accounts of PRO DV Software AG for the year 2004 have therefore been approved. The Supervisory Board accepts the proposal of the Management Board regarding the use of the balance sheet loss for the fiscal year 2004.

We would like to express our thanks to the Management Board and to all employees for their work and their commitment in fiscal year 2004.

Dortmund, March 2005

The Supervisory Board



Knud Norden, Dr.-Ing.  
Chairperson

## Officers and Directors

### Management Board

#### **Klaus Bullmann (53)**, Management Board Spokesperson

After obtaining a degree in informatics, Klaus Bullmann began his career as a project engineer at Siemens in 1977. Only two years later he decided to take the step of becoming selfemployed. In 1979, he and three other founding members established the predecessor of the company that is today PRO DV. After its conversion into a stock corporation, he began preparations for the IPO, which was successfully carried out in 2000.

Klaus Bullmann is today the Management Board spokesperson and executive officer for the divisions Financials, Controlling, Investor Relations and Mergers & Acquisitions.

#### **Udo Bücher (48)**

After working for many years in an executive position at Karstadt AG, Udo Bücher moved to NCR to become key account manager for the retail industry in IT sales in 1988. Further stages in his career were at Metro, AT&T, RWE and Deutsche Telekom, where he was director of key account sales. In 2002, he assumed responsibility for sales at PRO DV in the position of authorized officer and sales director.

Udo Bücher was appointed to the Management Board as of 01 January 2004 and is executive officer for the divisions Sales, Marketing and Business Development.

#### **Uwe Osterkamp (40)**

After obtaining a degree in informatics with a minor in machine construction, Uwe Osterkamp began his career at Mannesmann. In 1988, he assumed a position as systems analyst at PRO DV. After gaining his initial management experience as department head, he was made an authorized officer in 1998 and assumed responsibility for development of geoinformation systems as division head. In 2001, he became Director of Professional Services with overall responsibility for product and service business at PRO DV.

Uwe Osterkamp was appointed to the Management Board as of 01 January 2004 and is the executive officer for the divisions Professional Services, Human Resources and Process and Quality Management.

### Supervisory Board

#### **Knud Norden, Dr.-Ing.**

Dortmund (Chairperson)

#### **Siegfried W. Wenzel**

Herten (Deputy Chairperson)

#### **Michael Petmecky**

Dortmund

## Glossary and Abbreviations

### 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.

### GPS

Global Positioning System: satellite-supported positioning such as that used in vehicle navigation systems.

### GSM

Global System for Mobil Communications: Common standard for digital wireless services in Germany, generally used by all national network operators.

### Intranet

Network within a company which is inaccessible to outside users.

### Management buy-out

Takeover of a company or a part of a company by the company's own management.

### PDA

Personal Digital Assistant: portable small computer.

### 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.

### Workflow

Chain of work procedures within a business process.



## Finance Calendar

17 March 2005	Balance sheet press conference	PRO DV Software AG, Dortmund
17 March 2005	Analysts conference	PRO DV Software AG, Dortmund
13 May 2004	First quarter report	
31 May 2005	Annual General Meeting	Casino Hohensyburg, Dortmund
12 August 2004	Second quarter report	
14 November 2004	Third quarter report	
21-23 November 2005	Analysts conference	Frankfurt am Main



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<http://www.prodv.de>

telecommunications  
utilities  
competence in  
geo solutions  
retail & banking  
government

telecommunications  
utilities  
competence in  
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retail & banking  
government

Annual Report 2004  
Report according to HGB



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# Management Report for Fiscal Year 2004

## Market and General Economic Conditions

2004 was a somewhat better year for IT companies in Germany, following a relatively long slump. Although clients were still reluctant to undertake investments, there was an ongoing break-up of the investment backlog that had built up in the past over the entire year. Apparently there has been a change in the thought process of companies seeking IT services and products. There is a recognizable tendency for companies to consider once again their use of IT from a strategic viewpoint. Consequently, IT is no longer seen as only a cost factor. Clients have learned from their experience in recent years when it comes to their requirements. They have become more demanding and goal-oriented. Universal applications are no longer at the centre of their attention. On the contrary, companies are now looking for concrete solutions to their specific problems. In demand is IT support for individual, customer-related processes – with the fastest possible ROI. As a consequence, knowledge of their clients' business processes is becoming increasingly important for providers.

In such a situation, providers who know their clients exactly will have good opportunities. Furthermore, it is necessary to combine software and services in such a way that projects can be carried out quickly and at low cost. It is of no minor significance for providers to have their own processes and cost structures so well under control that they can compete against low-price offers by giving high quality at fair prices.

The lack of relief in the keen competition kept pressure on prices in 2004. The market for information technology once again proved to be a buyer's market from a structural viewpoint as well. On the clients' side, purchasers exploited the strength of their negotiating position. IT providers must adapt to this situation today. PRO DV recognized this fact some time ago and responded accordingly: we take aim at the most important industries in Germany with our services. PRO DV's clients come from telecommunications and government as well as from the areas of retail trade, banking and utilities.

According to BITKOM, the German IT market in 2004 recorded a total volume of EUR66 billion. Some 40 % of this figure went to IT services. Our portfolio of consulting, implementation and support services puts PRO DV in a good position on this partial market with a value of EUR27 billion.

## Development of Turnover and Performance

Total performance of PRO DV Software AG came to EUR16.3 million during the reporting period (2003: EUR14.1 million), while realizing turnover of EUR17.2 million (2003: EUR13.3 million). This rise in turnover is primarily a consequence of our strengthening of business with existing clientele and the expansion of the Retail & Banking Division. Targeted expansion in this division enabled the Company to double its performance in comparison with the previous year in this division.

After being set off against payments on account, the work in progress amounted to EUR0.3 million (2003: EUR0.3 million). During the past fiscal year, orders for new projects with a total volume of EUR16.6 million were placed (2003: EUR15.3 million).

The order backlog for fixed-price projects as of 31.12.2004 amounted to EUR1.6 million (2003: EUR2.9 million). In addition, there was as of the closing date a backlog of maintenance projects and of other time and material basis projects in the amount of EUR3.8 million so that the order backlog for the entire Company came to EUR5.4 million.

### Profitability

Earnings from ordinary business operations within PRO DV Software AG amounted to -EUR1.8 million in fiscal year 2004 (2003: -EUR2.4 million). The result was adversely affected above all by the unprofitable Industry Division. The Management Board took a determined response to this development and decided to close down this division. Moreover, improved use of employee capacity led to a stabilization in the development of the results.

PRO DV lives continuously the process of change initiated two years ago. 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 2005. For 2005, we have set ourselves the goal of achieving a balanced profit/loss result.

### Investments

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 2004 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.

### Assets, Liabilities and Financial Position

The balance sheet total of PRO DV Software AG as of 31.12.2004 amounted to EUR21.3 million (2003: EUR23.6 million). As of the closing date, equity amounted to EUR17.1 million (2003: EUR18.9 million). This results in an equity ratio of 80 %.

As of the closing date, cash and cash equivalents amounted to EUR11.3 million (2003: EUR13.6 million). When compared to the current liabilities of EUR4.1 million, the Group has a liquidity ratio of 2.8. The Company's outstanding liquidity basis is further underscored by an acid test ratio of 3.6 and a current ratio of 3.6.

As of 31.12.2004, current assets amounted to EUR15.0 million (2003: EUR17.2 million). In comparison to total assets, there is a current asset ratio of 70 %. 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.

### Staff

As of 31.12.2004, our Company employed a total staff of 163 (2003: 177) as the yearly average based on full-time equivalents.

### Other Important Events in the Fiscal Year

Following the move of the founding member Siegfried W. Wenzel to the Supervisory Board, the Prokuristen Udo Bücher and Uwe Osterkamp were appointed to the PRO DV Software AG Management Board as of 01.01.2004. They, together with the Management Board spokesman, Klaus Bullmann, have been managing the Company since that time.

The majority of the PRO DV shares were collected in an share pool at the time of the IPO in March 2000; all of the pool members voluntarily agreed to accept a lock up period of four and a half years which expired in November 2004. In undertaking this voluntary obligation, the shareholders agreed to one of the longest lock-up periods on the German stock exchange.

This philosophy will live in the future as well: the founding families Beck, Bullmann and Wenzel concluded a new pooling agreement immediately after the expiration of the previous one. This agreement provides that 50.7 % of the PRO DV stock will remain within the three families. The sale to third parties is not planned, but is nevertheless possible, subject to the approval of the other pool members.

Another significant event in November was the awarding of the contract for the creation of the geodata portal for the German government (GeoPortal.Bund) to PRO DV. PRO DV will act in the capacity of general contractor to realize the project. The project focuses on the Internet-based, barrier-free and interoperable geodata search as well as provision of geo-Web services.

The Federal Office for Cartography and Geodesy is acting on behalf of the Federal Ministry of the Interior to push the development of „GeoPortal.Bund“ as a pioneering national geodata infrastructure as part of public infrastructure measures. The objective is to collect the geo-information maintained in various government agencies and public institutions at a central point in a uniform format and make it accessible without boundaries to government, businesses, geo-sciences and citizens.

### **Risks and Risk Management**

The Management Board 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.

Sales activities were actively expanded further and active cost management was rigorously continued to ensure an ongoing full use of capacities. 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 8.7 billable years in development. A major share of this was the ongoing further development in the environment of modern technologies and platforms such as in the area of SAP NetWeaver and the development of the solution for emissions protection, ecoGuard, and for natural disaster protection, SaSIS.

### Events after the Closing Date of the Fiscal Year

In 2004, a suit related to the acquisition of the shares of concept software GmbH in 2000 was filed at the District Court Dortmund by Carsten Gebhardt and Ulrich Kretschmer, Berlin, against PRO DV Software AG. During the oral hearing on 23.02.2005, the plaintiffs changed the suit, originally filed as an affirmative action for a right, into an action for performance and filed a motion to require PRO DV Software AG to transfer 220,100 shares of PRO DV Software AG stock to each of the two plaintiffs. Alternatively, a motion was filed „to determine that the Defendant, in the event that the stock transfer owed in accordance with the operative provisions of Item 1 is not possible for legal reasons, shall ensure that the Plaintiffs enjoy a commercially equivalent position.“ According to the pleading of the plaintiffs, a commercially equivalent position would mean a payment of at least TEUR713 to each of the two plaintiffs. PRO DV Software AG regards the suit to be unfounded in every point.

### Looking Forward

Overall, we are planning to improve further our performance and profit situation in 2005. We consequently expect a zero profit/loss result for the current fiscal year.

Now that the efficiency of our industry-specific organization in the divisions has been confirmed, we want to expand continuously the four fields of government, telecommunications, utilities and retail and banking. In view of the constantly rising demand for solutions and products with geo-components, there will be good opportunities for organic growth in the coming years.

These opportunities and prospects, and assuming a continued favourable development of the market and the economy, give us confidence that we will achieve our objectives for 2005.

Dortmund, 24 February 2005

The Management Board

A handwritten signature in black ink, consisting of a stylized 'K' followed by a horizontal line.

Klaus Bullmann

A handwritten signature in black ink, appearing as a cursive 'U' followed by 'Bücher'.

Udo Bücher

A handwritten signature in black ink, appearing as a cursive 'U' followed by 'Osterkamp'.

Uwe Osterkamp



## PRO DV in figures

## Balance sheet according to HGB

	Financial statement 31.12.2004 TEUR	Financial statement 31.12.2003 TEUR
<b>Assets</b>		
<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	101	104
II. Tangible assets		
Other facilities, office furniture and equipment	608	655
III. Financial investments		
Shares in associated companies	5,660	5,654
	<b>6,369</b>	<b>6,413</b>
<b>B. Current assets</b>		
I. Inventory		
1. Work in progress	1,211	2,057
2. Merchandise	7	23
3. Payments on account	-876	-1,752
	342	328
II. Accounts receivable and other assets		
1. Trade debtors	2,769	2,314
2. Accounts receivable from associated companies	135	162
3. Other assets	363	729
with a residual term more than one year TEUR184 (2003: TEUR265)	3,267	3,205
III. Cash in hand, cash at banks	11,267	13,648
	<b>14,877</b>	<b>17,181</b>
<b>C. Accruals</b>	50	60
	<b>21,297</b>	<b>23,654</b>

	Financial statement 31.12.2004 TEUR	Financial statement 31.12.2003 TEUR
<b>Shareholders' equity and liabilities</b>		
<b>A. Shareholders' equity</b>		
I. Subscribed capital		
Conditional capital: TEUR230 (2003: TEUR230)	4,300	4,300
II. Capital reserve	12,815	14,607
III. Revenue reserves:		
Legal reserves	10	10
IV. Net loss	-	-
	<b>17,125</b>	<b>18,917</b>
<b>B. Special item for investment allowance</b>	51	79
<b>C. Provisions</b>		
Other provisions	1,896	1,657
<b>D. Liabilities</b>		
1. Payments on accounts for orders	505	1,588
2. Trade creditors	414	279
3. Accounts payable to associated companies	339	279
4. Other liabilities	797	848
with a residual term up to one year: TEUR797 (2003: TEUR848)		
for taxes: TEUR472 (2003: TEUR578)		
for social security: TEUR238 (2003: TEUR247)		
	<b>2,055</b>	<b>2,994</b>
<b>E. Accruals</b>	170	7
	<b>21,297</b>	<b>23,654</b>

**Income statement  
according to HGB**

		01.01.2004- 31.12.2004		01.01.2003- 31.12.2003
	TEUR	TEUR	TEUR	TEUR
1. Sales revenues		17,188		13,331
2. Increase/decrease in work in progress		-846		751
<b>Total performance</b>		<b>16,342</b>		<b>14,082</b>
3. Other operating income		386		540
		<b>16,728</b>		<b>14,622</b>
4. Material costs:				
a. Expenditure on materials and suppliers and on good received	328		268	
b. Expenditure on services received	2,787	3,115	1,358	1,626
<b>Gross profit</b>		<b>13,613</b>		<b>12,996</b>
5. Staff costs:				
a. Wages and salaries	9,147		9,806	
b. Social security contributions and retirement pension costs	1,722		1,818	
Pension costs: TEUR157 (2003: TEUR162)				
6. Depreciation on intangible fixed assets	382		422	
7. Other operating costs	4,383	15,634	3,878	15,924
		<b>-2,021</b>		<b>-2,928</b>
8. Income from subsidiaries	-		157	
from associated companies: TEURO (2003: TEUR157)				
9. Other interests and similar income	309		401	
from associated companies: TEUR48 (2003: TEUR45)				
10. Depreciation on financial investments	-		40	
11. Interests and similar expenditure	44		3	
<b>Financial result</b>		<b>265</b>		<b>515</b>
<b>12. Profit from ordinary activities</b>		<b>-1,756</b>		<b>-2,413</b>
13. Other tax		36		27
<b>14. Loss for the year</b>		<b>-1,792</b>		<b>-2,440</b>
15. Loss brought forward		-		-10,619
16. Withdrawal from capital surplus		1,792		13,059
<b>17. Net loss</b>		<b>-</b>		<b>-</b>

## Notes for Fiscal Year 2004

### 1. General Information

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 2004 have been prepared in accordance with the regulations of the Commercial Code regarding accounting in stock capital companies and the supplementary regulations of the Company Law.

#### 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. It was essentially calculated in the fiscal year 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 Notes.

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 remaining term of up to one year are measured at nominal value in the balance sheet. If the remaining 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 2004 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 Notes.

Associated companies	Registered office	Amount of holding	Shareholders' Equity EUR	Result 2004 EUR
PRO DV Software GmbH	Dresden	80 %	-1,293,394.63	-511,336.35
pro dv online gmbh	Munich	100 %	5,534.94	-1,027.68
Immobilienverwaltungsgesellschaft Hauert 6 mbH & Co. KG	Dortmund	100 %	5,607,268.08	-42,731.92

### 2.2 Inventories

Work in progress includes projects which have been started in the segments Telecommunications, Utilities, Government and Retail & Banking, of which the pertinent payments on account (TEUR876) 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 (TEUR505).

### **2.3 Receivables and Other Assets**

The accounts due from affiliated companies relate essentially to the recoverable part of the trade receivables due from PRO DV Software GmbH, Dresden. Valuation allowances for the full amount were provided for the increase in the loan (TEUR250), the interest (TEUR48) and the non-collectible part of the trade accounts receivable (TEUR49) due from PRO DV Software GmbH, Dresden.

Other assets contain primarily discounted receivables from payment in kind claims (TEUR215), interest income tax and solidarity surcharge for 2004 (TEUR94), deferred interest income (TEUR36), receivables due from personnel (TEUR7) and other claims (TEUR11).

Accounts receivable in the amount of TEUR184 have a remaining term of more than one year. The information from the previous year regarding the remaining term was increased to the actual value.

### **2.4 Cash on Hand and Cash in Banks**

This item essentially contains disclosure of time deposits (TEUR11,130) and giro accounts (TEUR137).

### **2.5 Deferred Expenses**

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

### **2.6 Shareholders' Equity and Special Items**

Capital subscribed amounts to EUR4,300,000.00.

Authorized capital of EUR2.15 million is available to the Company on 31.12.2004 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 EUR230,000.00 in up to 230,000 shares issued to the bearer (contingent capital). The conditional capital increase serves to grant subscription rights to Management Board 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 Management Board 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 Management Board is affected by the execution.



### 2.6.1 Shareholders' Equity Movement for the Period from 1 January to 31 December 2004

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 31.12.2003	4,300,000.00	14,607,153.33	9,780.37	0.00	18,916,933.70
Net loss	0.00	-1,792,296.89	0.00	0.00	-1,792,296.89
<b>As of 31.12.2004</b>	<b>4,300,000.00</b>	<b>12,814,856.44</b>	<b>9,780.37</b>	<b>0.00</b>	<b>17,124,636.81</b>

### 2.6.2 Special Reserves for Investment Subsidy

Special reserves for investment subsidy in the amount of TEUR51 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, TEUR28 were reversed effective on earnings. 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 and Accrued Liabilities

The other provisions have essentially been created for warranties (TEUR399), residual holiday leave due to staff (TEUR190), overtime pay due to staff (TEUR14), internal costs for the annual accounts and audits (TEUR89), costs of the annual report (TEUR82), contributions to employers' liability insurance association (TEUR44), unsettled bills (TEUR101), contingent losses from pending transactions (TEUR154), staff commissions (TEUR259), maintenance (TEUR58), litigation risk (TEUR207), settlements (TEUR195), restructuring (TEUR72) and other (TEUR32).

The Company is currently involved in litigation in which it finds itself in the role of the defendant and faced with a claim of EUR1.8 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 EUR12,782.30. The question as to whether PRO DV assumed in full the warranty obligations of the company Olivetti is among the factors of decisive importance for the suit. According to an indemnification declaration by Mssrs 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 EUR12,782.30 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.

In the first instance, the decision ordered PRO DV to make payment of TEUR1,801, plus interest. PRO DV has appealed this decision.

As a precaution, the possible litigation risks of another action in which the official receiver for the former subsidiary concept software gmbh has sued PRO DV Software AG for payment of TEUR322 were included in the provisions. Provisions total TEUR109 (thereof TEUR9 for litigation costs).

## 2.8 Liabilities

The liabilities due to associated companies comprise trade accounts payable (TEUR266) and other liabilities (TEUR74).

The other liabilities include liabilities of TEUR472 for taxes and TEUR238 for social insurance.

All of the liabilities (TEUR2,055) have a remaining term of up to one year.

## 2.9 Deferred Income

The short-term deferred income essentially contains advance payments received for software maintenance agreements.

## 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	13,846
Revenue from the sale of licences	661
Revenue from maintenance	2,051
Revenue from the sale of merchandise	65
Revenue from the sale of services	565
<b>Sales</b>	<b>17,188</b>

All of the sales revenues, with the exception of an amount of TEUR68 (third countries) and an amount of TEUR138 (EU), were realized in Germany.

### 3.2 Other Operating Income

Other operating income includes income from associated companies of TEUR162. Furthermore, there is income from the reversal of the special provision for investment subsidy of TEUR28 (cf. No. 2.6.2), public subsidies of TEUR21 and damage compensation and insurance benefits of TEUR42.

### 3.3 Interest

The interest income includes income from associated companies in the amount of TEUR48.

The interest expenses result from the effects on interest payments from the postponement of the utilization of claims to a later point in time than originally scheduled.

### 3.4 Other Taxes

TEUR12 of the other taxes is related to back payments for previous years: TEUR4 for value-added tax and TEUR8 for income tax on salaries and wages.

### 3.5 Research and Development

The expenditures for research and development in the fiscal year amounted to 12,147 billable hours.

## 4. Officers and Directors

### 4.1 Management Board

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

Mr Klaus Bullmann, Dipl.-Ing. (Spokesperson)

Mr Udo Bücher

Mr Uwe Osterkamp, Dipl.-Ing

Total remuneration for the Management Board for the entire year 2004 came to TEUR570 (previous year TEUR592).

### 4.2 Supervisory Board

During calendar year 2004, the Supervisory Board of PRO DV Software AG comprised the following members:

Knud Norden, Dr.-Ing. (Chairperson), Dortmund

Profession: Management Board, IT Division, RWE Systems AG

Seats on other Supervisory Boards: RWE Systems Applications GmbH, Eschborn (Chairperson)

Networkers AG, Hagen (Chairperson)

Mr Siegfried W. Wenzel (Deputy Chairperson), Herten (since 01.01.2004)

Profession: Dipl.-Ing.

No other Supervisory Board positions

Mr Michael Petmecky, Dortmund

Profession: Management Board SIGNAL IDUNA Versicherungsgruppe

Seats on other Supervisory Boards: has programm service AG, Hamburg

VDG-Versicherungswirtschaftlicher Datendienst GmbH, Icking

Total compensation for the Supervisory Board for Supervisory Board activities for the entire year 2004 came to TEUR24.5 (previous year TEUR24.5). Moreover, Mr Siegfried Wenzel received TEUR69 for as payment for consulting services.

#### **4.3 Corporate Governance**

The Management Board and the Supervisory Board submitted a declaration of conformity in the sense of the German Corporate Governance Codex (Section 161 AktG) on 16 November 2004 and have made the declaration accessible to shareholders on the Company's Web site.

#### **5. Other Financial Obligations**

The Company has rental obligations due to affiliated companies for the property at Hauert 6 totalling TEUR163 (following year TEUR54) for 19 % of the area of the building Hauert 6. The remaining 81 % of the area of the building has been leased from VR-Leasing MILVUS GmbH & Co. Immobilien KG, Eschborn, since 01.01.2005. The obligation for the next 15 years amounts to TEUR5,143 (following year TEUR339), whereby the obligation includes the accumulation of a tenant loan of TEUR497. There is an option to buy back the property at book value, setting off the tenant loan, after a period of 10 years.

Obligations from leases in the amount of TEUR242 (following year TEUR99) exist for business offices.

As of the balance sheet date, there were liabilities from leasing agreements of TEUR393 (following year TEUR186).

There is joint and several liability with the Immobilienverwaltungsgesellschaft Hauert 6 mbH & Co. KG with regard to the special item for investment subsidies of TEUR203 which is to be reversed due to the sale of the building Hauert 6.

In 2004, a suit related to the acquisition of the shares of concept software gmbh in 2000 was filed at the District Court Dortmund by Mr Gebhardt and Mr Kretschmer, Berlin, against PRO DV Software AG. During the oral hearing on 23.02.2005, the plaintiffs changed the suit, originally filed as an affirmative action for a right, into an action for performance and filed a motion to require PRO DV Software AG to transfer 220,100 shares of PRO DV Software AG stock to each of the two plaintiffs. Alternatively, a motion was filed „to determine that the Defendant, in the event that the stock transfer owed in accordance with the operative provisions of Item 1 is not possible for legal reasons, shall ensure that the Plaintiffs enjoy a commercially equivalent position.“ According to the pleading of the plaintiffs, a commercially equivalent position would mean a payment of at least TEUR713 to each of the two plaintiffs, corresponding to a contingent liability of TEUR1,426. Mr Gebhardt and Mr Kretschmer sold 80 % of the shares in concept software gmbh to PRO DV Software AG in return for cash compensation as well as the issue of 100,000 new shares in PRO DV Software AG, to be created by means of a capital in kind increase, on the basis of the contract of 07.11.2000.

Among other points, it was agreed in the contract that the sellers would receive a (put) option to convey their remaining 20 % of the concept software gmbh to PRO DV Software AG. The plaintiffs exercised this put option in 2003, which was received by PRO DV Software AG in 2004, although the company had

in the meantime filed a petition for bankruptcy. PRO DV Software AG regards the suit to be unfounded in every point. The Company is of the opinion that the contractual provision represents a price guarantee and is therefore in violation of both the requirement to raise capital and the requirement to maintain capital. The provision is therefore invalid (Sections 185, 57 AktG, 134 BGB). Furthermore, PRO DV Software AG is of the opinion that, even if this provision is valid, there can be no claim because this provision is a part of the purchase contract created by exercise of the option. PRO DV Software AG had declared rescission of this purchase contract as concept software gmbh was already insolvent at the point in time at which the option was issued and the plaintiffs had given to the Company a guarantee that the former company was not bankrupt.

## 6. Size of Staff

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

Staff	Quarter I 31.03.2004	Quarter II 30.06.2004	Quarter III 30.09.2004	Quarter IV 31.12.2004	Annual average
Executives (excluding Management Board)	16	16	15	14	15
Other full-time employees	141	141	143	142	142
Part-time employees	12	13	14	14	13
<b>Total</b>	<b>169</b>	<b>170</b>	<b>172</b>	<b>170</b>	<b>170</b>

The annual average of the number of employees, taking into account full-time equivalents, was 163.

## 7. Appropriation of Earnings

In conformity with the resolution of the Management Board of 09.02.2005, the net loss of TEUR1,792 will be covered by a corresponding withdrawal from the capital surplus.

PRO DV Software AG

Dortmund, 24 February 2005



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, 2004 to December 31, 2004. 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 Institute 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 25, 2005

AWT Horwath GmbH  
Wirtschaftsprüfungsgesellschaft

S. Denk  
Wirtschaftsprüfer  
(German Public Auditor)

ppa. A. Haas  
Wirtschaftsprüfer  
(German Public Auditor)

**Changes in fixed assets  
according to HGB**

**Cost of acquisition**

	01.01.2004 TEUR	Addition TEUR	Disposal TEUR	31.12.2004 TEUR
<b>I. Intangible assets</b>				
Concessions, industrial property rights and similar rights and values as well as licence from such rights and values	662	68	19	711
<b>II. Tangible assets</b>				
Other facilities, office furniture and equipment	2,607	267	282	2,592
<b>III. Financial investments</b>				
Shares in associated companies	8,610	5	-	8,615
	<b>11,879</b>	<b>340</b>	<b>301</b>	<b>11,918</b>



	Accumulated depreciation			Book value		Depreciation	
	01.01.2004 TEUR	Addition TEUR	Disposal TEUR	31.12.2004 TEUR	31.12.2004 TEUR	31.12.2003 TEUR	2004 TEUR
	559	70	19	610	101	103	70
	1,953	311	280	1,984	608	654	311
	2,955	-	-	2,955	5,660	5,655	-
	<b>5,467</b>	<b>381</b>	<b>299</b>	<b>5,549</b>	<b>6,369</b>	<b>6,412</b>	<b>382</b>

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telecommunications  
utilities  
competence in  
geo solutions  
retail & banking  
government