

Critical Software, S.A.
Parque Industrial de Taveiro, Lote 48
3045-504 Coimbra, Portugal
Tel:+351(239)989100 - Fax:+351(239)989119
WWW.CRITICALSOFTWARE.COM



ACTIVITY REPORT 2004

Critical Software, S.A.

1. BOARD STATEMENT

We have written this report to show the main economic and financial indicators for 2004, as has been done for the previous years. It is destined to our customers, partners, workers and all the friends that have been with us since 1998.

It isn't an extensive report, but only an objective recapitulation of what we consider relevant to become public and what, from our point of view, reflects the evolution of Critical Software in the last year.

The year 2004 was, business wise, much more favourable than 2003. It was therefore possible to obtain a significant growth in activity. Thus, the year closed with a growth of 28% in total turnover, which hit 4.4ME. The total number of workers reached 96 at the end of the year.

In the last 5 years, the average growth rate was 46%, while being above 20% every year.

The customer portfolio has become increasingly extensive and more diversified, including important customers in different sectors where the company is active: Aerospace, Defense, Telecommunications, Public Sector, Industry and Services. In 2004 we gained important customers, such as Infineon Technologies, PT, Westland Helicopters, COTEC Portugal and Peugeot/ Citroën, and big deals were signed in the Defense and Telecommunications Sectors.

2004 was also a year of extensive investments: 560 thousand Euros in fixed assets and 636 thousand in R&D, bringing the total amount of investments to a sum of 1.2ME.

A significant part of the R&D effort is related to product development, most notably edgeBOX, which was launched worldwide at CeBIT 2005.

A set of other important events have occurred during the last year.

In March, the new headquarters building was inaugurated - a decisive step, taking into account that the company used other entities' buildings since its foundation. Also, in March, our QMS was certified according to ISO 9001:2000 TickIT standards (Critical Software was the only Iberian company to attain that IT specific certification).

In April, we organized in Estoril's "Congress Centre", with extraordinary success, the 2nd International SPICE Conference (Software

Process Improvement and Capability Determination, ISO 15504 standards).

In June, following an audit by the Portuguese National Security Bureau, we achieved NATO Secret certification. That same month, SIT ("Transport Information System"), developed for the Ministry of Public Works and Transports, won the "Fernandes Costa" Award.

In September, the brand "Critical Software" was highlighted and certified "PortugalTrade pt" by ICEP (Portuguese Institute for Foreign Trade).

At the end of the year, we created a subsidiary in the United Kingdom (Critical Software Technologies Limited), creating a base for sales growth in that market.

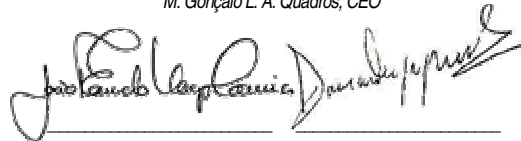
In short, Critical Software left 2004 behind with assurance that it has become more solid and better prepared to satisfy its costumers, respond to new challenges and to continue a route of consolidated growth.

Before finishing, we want to express our sincere acknowledgement to all the customers, partners, workers, shareholders and friends that honour us with their invaluable trust and support, and the desire to keep contributing, in the future, to their success.

Coimbra, 31 de Março 2005



M. Gonçalo L. A. Quadros, CEO



João F. V. Carreira, VP

Diamantino J.G. Costa, VP

2. GENERAL INFORMATION

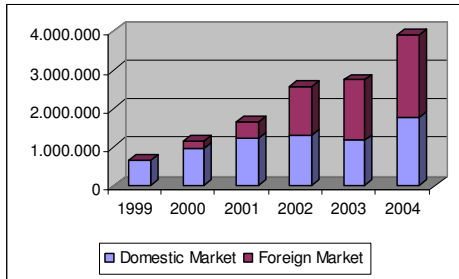
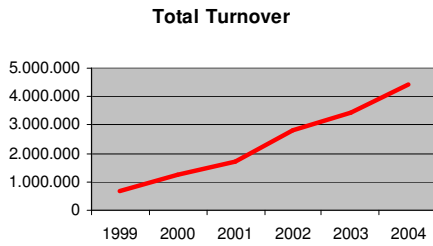
Critical Software S.A.

- Anonymous Society
- Headquarters: Parque Industrial de Taveiro, Lote 48, 3045-504 Coimbra, Portugal
- Branch: Lispólis - Pólo Tecnológico de Lisboa, Estrada do Paço do Lumiar, Lisboa
- Subscribed capital: 500.000€
- Trade Register: Coimbra # 7239
- NIPC/VAT#: PT 504 208 187
- Subsidiaries: Critical Software Limited, San Jose, California, USA
Critical Software Technologies Limited, London, UK
- Participations: ACETECNO - Tecnologias de Informação, Comunicações e Electrónica, A.C.E.
- Affiliated: ANETIE, PROESPAÇO, DANOTEC, ANJE, ASSOFT, ACIC.
- Independent SME from financial or industrial groups (2003/361/CE, 6/05/2003)

OUTLINE

1. BOARD STATEMENT	1
2. GENERAL INFORMATION	2
3. OPERATING INCOME.....	3
4. STAFF	3
5. COST BREAKDOWN	3
6. TRADE DEBTORS AND LIABILITIES.....	3
7. ASSETS, CAPITAL AND LIABILITIES	4
8. INVESTMENTS	4
9. CASH FLOW AND VALUE ADDED	4
10. EBIT AND EBITDA	4
11. EARNING AND TAXES.....	5
12. FINANCING RATIOS.....	5
13. FINAL MESSAGE	5

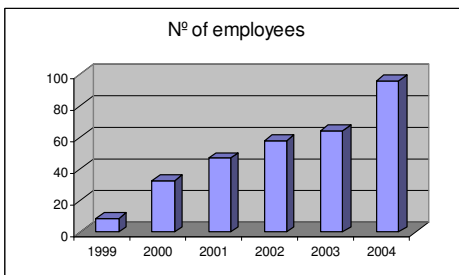
3. OPERATING INCOME



In 2004 a growth of 28% in operating income was registered, to a total of 4.4M€.

The foreign market has a dominant role for the second consecutive year. In 2004, it represented 55% of Critical's sales. Foreign sales grew 37% in the last year, while domestic sales grew 49% during the same period.

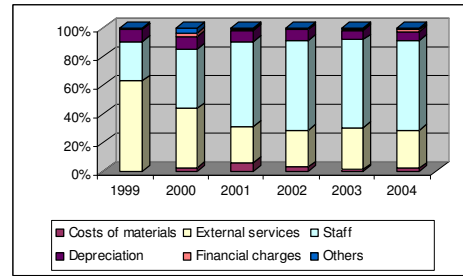
4. STAFF



In the end of 2004 the company had 96 people in its workforce, a growth of 50% since the end of 2003 (64 workers).

The number of the company's employees working at customer's premises also grew, namely in new customers, e.g. Infineon (Portugal), Westland Helicopters (United Kingdom) e DFID (Mozambique), and also with the renewal of some contracts (Soporcel, Eumetsat and European Southern Observatory).

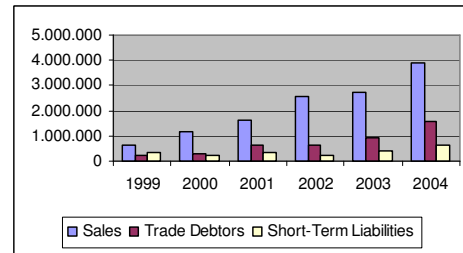
5. COST BREAKDOWN



The main cost items have been very stable since 2001. Staff Costs correspond to 62.9% of the total costs, external charges equal 26.9% and depreciation stand for 5.9%.

The remaining costs represent less than 5%.

6. TRADE DEBTORS AND LIABILITIES

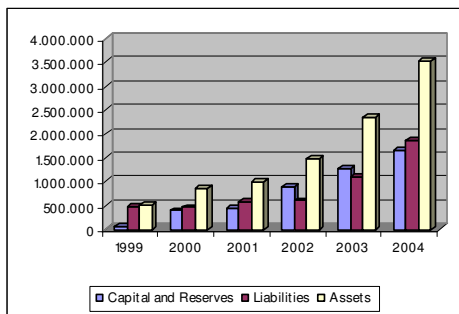


Trade debtors went up 77% in the last year, to almost 1.6M€. It is of notice that this increase was accommodated with the cash flow level: for the same period the cash at bank and in hand tripled from 61.859€ to 248.175€.

Short term liabilities were 613K€, a 48% growth from last year. This growth is explained by the fast sales growth recorded in that period.

Medium and long term liabilities grew from 167 668€ in the end of 2003 to 664 041€ in 2004.

7. ASSETS, CAPITAL AND LIABILITIES



Total Assets amount to 3.528554€ at the end of the year, versus 2.344.107€ the year before, an increase of more than 50% (total assets growing rate has been around 50% every year since 2002).

Capital and Reserves grew, in the same period, from 1.258.548€ to 1.664.363€ (a 32% increase).

As for Liabilities, there was a 72% increase, from 1.085.559€ at the beginning of the year to 1.864.191€ at its end.

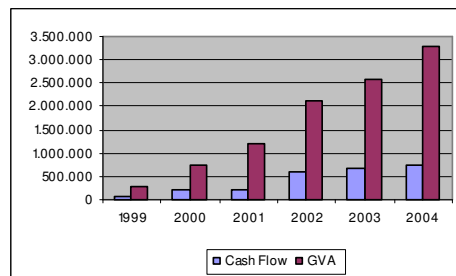
8. INVESTMENTS

2004 saw the conclusion of the new company's headquarters, a total investment of 810 thousand euros (about 490 thousand in 2003 and the rest in 2004).

The investment in Tangible fixed assets in 2004 was 535 590 (including 319 641€ related to the headquarters construction).

Research and Development is still one of the company's essential elements. In 2004, R&D expenditures represented 16.3% of the total sales (636 316€).

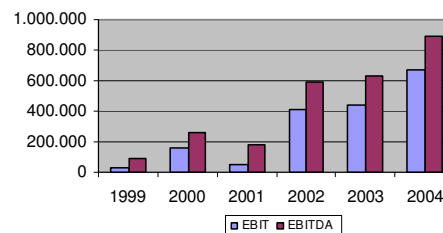
9. CASH FLOW AND VALUE ADDED



Cash Flow went up 12% to 742 463€, versus 664 015 in 2003.

Gross Value Added rose to 3 296 553€, i.e. a 28% growth rate, a similar rate to the recorded for the total turnover.

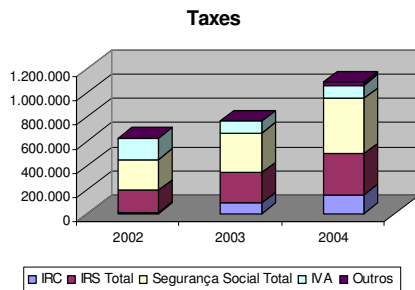
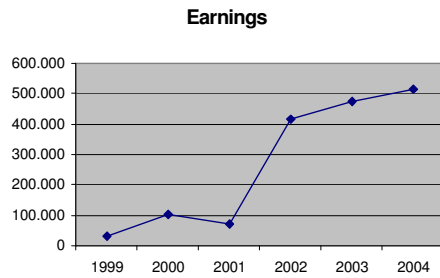
10. EBIT AND EBITDA



EBIT stood at 667.142€, a 51% jump over the previous year (it was 442.563€ in 2003). The growth rate in 2003 was 7%.

EBITDA hit 893.874€, increasing 41% from 2003.

11. EARNING AND TAXES



Critical Software reported in 2004 a 515 732€ profit, a 9% growth over the previous year.

The company generated 1.089.804€ in taxes during the year (769.069€ in 2003).

It is of note that about 45% of the earnings will be distributed among the company's employees during 2005, which doubles the portion distributed in the year before.

Both of the ratios have been falling since 2002, in which the first was 59.5% and the latter 146.9%, but still stand at comfortable values (similar to the ones reported in 2000 and 2001).

This fall is explained by the increase of the Long Term Debt (went from 50.337€ in 2002 to 664.041€ in 2004), related to the large amount of investments in the last two years, mainly related with the construction of the new headquarters.

13. FINAL MESSAGE

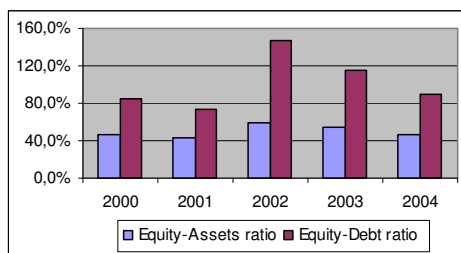
The elements presented above are self-explanatory and clearly show that the company managed to overcome the main challenges it pledged itself to face in 2004, namely business expansion, building of the new headquarters, and the QMS certification according to ISO9001:2000 TickIT standards.

As a recognition of this performance and the evolution of the financial indicators in 2004, the company obtained a 2A2 rating by D&B (reduced risk), featuring in "Rating Book 2005", section "3500 Portuguese companies with a 1 or 2 rating", and a COFACE rating of 8 (low risk).

The achievement of the defined goals doesn't make us lose sight of the complex challenges Critical Software is continually facing, in its desired path to become a reference in its sector and in the different markets in which it operates.

The main goal for 2005 is to maintain the sustained growth of revenues, particularly through product sales.

12. FINANCING RATIOS



The Equity-Assets ratio stood at 47.2% at the end of 2004, while the Equity-Debt ratio was 89.3%.