ANNUAL REPORT 1999

THE XML COMPANY
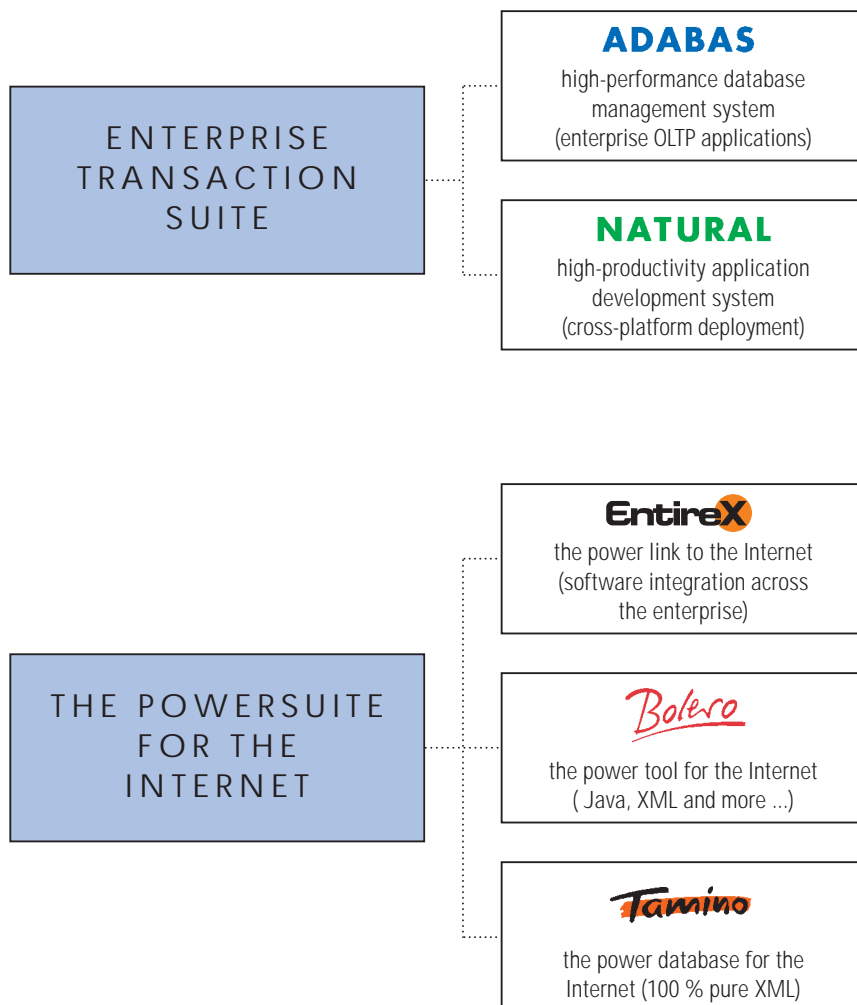
SOFTWARE AG

KEY FIGURES

DM, in million, unless stated	Dec. 31, 1999	Dec. 31, 1998	Dec. 31, 1997*
Revenues	715.6	626.4	575.2
From:			
Licensing	222.4	188.4	159.9
Maintenance	239.5	214.8	216.8
Professional Services	250.5	217.0	189.3
Other turnover	3.2	6.2	9.2
Earnings before interest and taxes (EBIT)	116.0	79.4	70.9
as % of revenues	16	13	12
Profit before tax	129.7	87.3	64.7
as % of revenues	18	14	11
Net Profit	75.0	52.2	55.0
as % of revenues	10	8	10
Earnings per share (DM)**	2.88	2.00	2.11
Earnings per share (DM) according to DVFA/SG	2.62	1.82	1.50
Total assets	706.5	508.3	415.2
Cash and equivalents	385.4	226.2	109.8
Shareholders' equity	271.3	148.6	96.7
as % of total assets	38	29	23
Employees at year end	2,639	2,186	2,096
of these in Germany	1,257	1,170	1,118

* Based on comparable figures

** The share is traded on the Frankfurt Stock Exchange. MDAX (SIC: 724260)

CUTTING-EDGE TECHNOLOGY FOR ELECTRONIC BUSINESS – THE PRODUCTS OF SOFTWARE AG

ENTERPRISE TRANSACTION SUITE

ADABAS
high-performance database
management system
(enterprise OLTP applications)

NATURAL
high-productivity application
development system
(cross-platform deployment)

THE POWERSUITE FOR THE INTERNET

EntireX
the power link to the Internet
(software integration across
the enterprise)

Bolero
the power tool for the Internet
(Java, XML and more ...)

Tamino
the power database for the
Internet (100 % pure XML)

SUCCESSFUL ELECTRONIC BUSINESS…

… calls for reliable transaction technology and the systematic interconnection of all applications and data sources. Both these capabilities are to be found in Software AG's internationally known products: secure transactions and data integration. This not only safeguards the customer's existing IT investment: it also opens up new dimensions for powerful Web systems. On the basis of its proven know-how in the field of "traditional" IT applications (Adabas and Natural), Software AG offers its customers excellent business opportunities in the global electronic business sector with its new products EntireX, Tamino and Bolero.

ALL FUTURE BUSINESS IS ELECTRONIC BUSINESS

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LETTER TO SHAREHOLDERS

1999 was an eventful year for Software AG, and very satisfactory overall. Clear double-digit sales growth and a pre-tax return of over 18% mean that this was the most successful year in the company's over 30 year history. Please allow me to describe a few of the most important of last year's many events.

Our initial public offering in April 1999 should certainly take pride of place. We floated over 50% of Software AG's share capital in the largest initial public offering in the history of the software industry. The shares were successfully placed on the main trading segment (Amtlicher Handel) of Frankfurt Stock Exchange, despite the difficult global investment climate for our industry. The high level of interest in our shares was also documented by Software AG's subsequent swift inclusion in the MDAX. Our share price doubled from the issue in April to the end of December 1999, making the shares one of the most successful new issues of the year in the DAX 100. Substantial proceeds accrued to the company from the issue. This led to a significant increase in equity and allowed us to acquire other companies, strengthening and supplementing our own business. Last year, we acquired companies in the US, Australia, France, Belgium, Luxembourg and Ireland. This further reinforced our service business and will benefit the company in future.

One very important event last year was Software AG's re-positioning on the US market. The existing agreement with our American sales partner was amended to allow Software AG to market new and future products directly in the world's largest IT market as from October 1999.

The formation of our own US subsidiary in California and the acquisition of a US IT services company with six locations in the US has given Software AG the infrastructure it needs to market its new products directly in the US, especially in the crucial electronic business segment.

Software AG recorded satisfactory progress in 1999, a relatively difficult year for the software industry worldwide due to the Y2K problem. Our core business with our proven products Adabas and Natural was very pleasing, resulting in clear double-digit sales growth in our licensing business, continued strong maintenance revenues and satisfactory services business. A large number of new product versions offering improved and enhanced functionality and greater performance allowed us to compensate for reluctance of large companies in particular to invest as a result of the Y2K problem. Our middleware products continued to experience high growth. We were able to win a large number of new, highly interesting customers in this market segment last year.

As already announced last year, Software AG also focused consistently on new technologies for the electronic business market. This market, which first started to take shape last year, is seen in professional circles as one of the largest growth opportunities ever in the information technology sector.

Software AG entered this market at an early stage with two new product lines – Bolero at the start of the year and Tamino at the end of 1999. We expect significant future market opportunities thanks in particular to Tamino and the new XML technology supported for the first time by this product. XML (Extensible Markup Language) is a completely new language standard for commercial Internet applications and transactions. Professionals expect that this technology will quickly become established as a market standard. Software AG was one of the first companies to support the new standard.

Overall, we are very pleased with the year's results and we achieved the key goals we set ourselves.

The challenge now is to consistently convert these new forces for growth and our technological expertise in the electronic business market into business success. In general, we feel that we are well equipped for the immediate future to achieve substantial sales growth and a gratifying return on sales.

Dr. Erwin Königs
Chairman of the Managing Board

REPORT OF THE SUPERVISORY BOARD

In the past fiscal year, Software AG's Supervisory Board monitored the Managing Board and was informed in detail about the company's development and all key business transactions. Current business developments were discussed and analyzed thoroughly in a total of four joint meetings with the Managing Board, and individual transactions requiring the Supervisory Board's approval as stipulated by the law or the Company's Articles of Association were also examined, discussed and resolved. The discussions covered the economic situation of Software AG and its subsidiaries, as well as the long-term development of the individual divisions.

In addition, the Chairman of the Supervisory Board also received monthly written reports from the Managing Board on the state of the business.

In accordance with the regulations, the Supervisory Board appointed BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, to audit the financial statements and consolidated financial statements for the current fiscal year.

The following members of the Supervisory Board retired during the course of fiscal year 1999:

Karin Oppel (employee representative)
as of March 27, 1999
Friedhelm Müller (employee representative)
as of September 30, 1999
and Christian Wedell
as of December 31, 1999

The Supervisory Board and the company would like to thank the retiring members for their hard work and commitment.

Software AG's employees elected Detlef Winterstein and Karl-Heinz Hageni as their new Supervisory Board representatives with effect from May 11, 1999 (Detlef Winterstein) and October 28, 1999 (Karl-Heinz Hageni).

Frank F. Beelitz was appointed to the Supervisory Board by resolution of the Darmstadt Local Court with effect from January 1, 2000.

BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, audited the financial statements, the consolidated financial statements as of December 31, 1999 and the management report including the accounting, and issued an unqualified audit opinion.

The audit report was submitted to the Supervisory Board and presented to the members of the Supervisory Board and the Managing Board personally by the auditor.

The Supervisory Board examined the audit report in detail in its meeting on March 3, 2000 and concurs with the results of the audit, thus approving the financial statements and the consolidated financial statements. The financial statements presented are therefore approved.

Darmstadt, March 2000

The Supervisory Board

Dietrich-Kurt Frowein
Chairman

SHARE PRICE DEVELOPMENT

NEW CHAPTER IN COMPANY HISTORY

Software AG shares were admitted to the main trading segment (Amtlicher Handel) on the Frankfurt Stock Exchange on April 26, 1999. This day marked the beginning of a new era in the company's 30-year history.

Software AG's initial public offering was the largest IPO worldwide in the software sector, with a total volume of over DM 850 million.

The shareholder structure has changed substantially since then. Many new investors have joined, whereby the interest of private investors in particular has increased due to extensive reporting on Software AG. The original sole shareholder, the Software AG Stiftung (a charitable trust), still holds around one third of the 26,090,000 shares. Around two thirds are in free float with institutional investors in Germany, Europe and the US, and with private investors.

The strength of the company proved itself once again after only 6 months on the Frankfurt Stock Exchange, when Software AG's shares were admitted to the MDAX. In terms of market capitalization and stock exchange turn-over – the key criteria - the company ranks high among the midcap values.

OUTPERFORMER ON THE MDAX

Software AG's IPO provided it with the necessary capital for future business growth. As a result, the company was able to further drive forward its new strategic focus on e-business, which has already had a positive effect on earnings and its share price in the past fiscal year:

The company's shares were one of the top performers in the DAX 100 in 1999. At the end of the year its price was EUR 60.50, around 100% higher than at the start of trading. Software AG shares thus recorded disproportionately positive growth in comparison with the DAX and MDAX.

The company's strong showing among the DAX shares is accompanied by the encouraging development of key company figures. Thus EBIT (Earnings before Interests and Taxes) rose to DM 116 million in 1999, a 46% increase over the previous year's figure.

FOCUS ON LONG-TERM CAPITAL APPRECIATION

The strengthening of the company's equity base was the primary reason for Software AG's IPO. The company began a systematic acquisition strategy during the past fiscal year, which is intended to yield positive returns for shareholders

as early as 2000. The overall objective of the company's senior management is stable long-term capital appreciation.

INTENSIVE COMMUNICATION WITH INVESTORS

Software AG pays particular attention to its relationship with the financial community. During the past fiscal year, the company engaged in more intensive investor relations work in order to meet the information needs of the capital markets - a need which has grown worldwide. This commitment went far beyond the publications which it is obliged to publish: Software AG conducted numerous individual and group meetings and made presentations at investor conferences, in order to enhance personal contacts with fund managers, sector analysts and financial analysts.
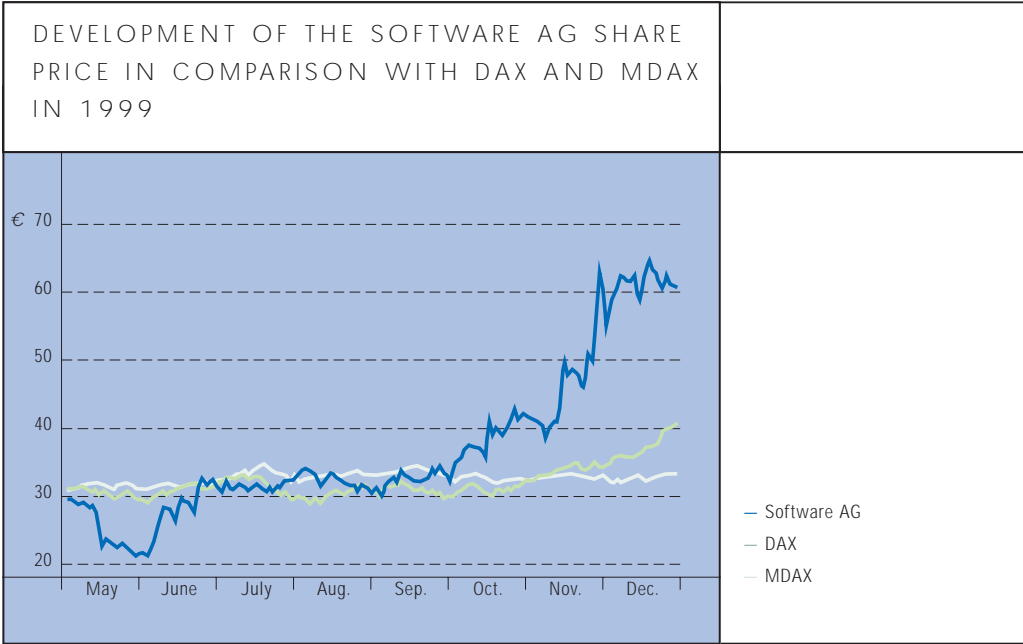
Private investors also benefit from this: they can find reports of current developments in the financial press or can access detailed information directly on Software AG's Web site.

OUTLOOK

The launch of the new e-business products and the announcement of the company's first partnerships further aroused investors' interest both in Germany and abroad. Software AG wants to cater to the resulting increase in information requirements and persuade additional financial institutes to publish reports and analyses. This will continuously expand the company's information base for the capital market. Current studies are listed on our Web site.

Assuming continued interest on the part of investors in technology stocks, Software AG's new products will be among the first to be considered. This puts Software AG's shares a good position to outperform the DAX 100 once again in the year 2000. However, if Internet securities do not play a central role in market trends, Software AG's strong market position, high sales in the conventional IT business and attractive financial performance will offer a sound investment platform.

DEVELOPMENT OF THE SOFTWARE AG SHARE PRICE IN COMPARISON WITH DAX AND MDAX IN 1999

— Software AG
— DAX
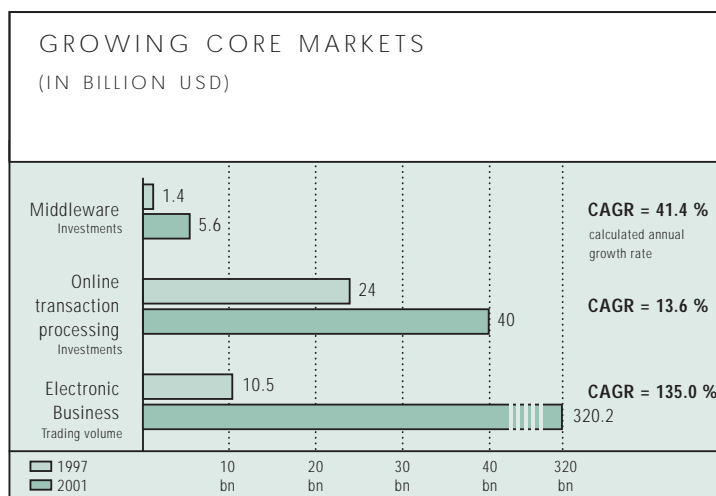— MDAX

MANAGEMENT REPORT

1999 was a comparatively difficult year for the IT industry. Despite a generally positive global investment climate without major economic crises or problems, customer behavior, particularly in the software industry, was dominated by the millennium date change. As is known, numerous applications had to be checked and modified to ensure Y2K compliance. This problem had an adverse effect, in particular, on new customer business for software licenses worldwide. From the start of the year, mid-sized and large companies, above all, invested a large amount of their IT budgets and capacity in Y2K projects, often to the detriment of new applications.

After the majority of the companies had mastered the bulk of their changeover problems towards the middle of the year, a few isolated projects were started, although not very many commenced operations in 1999.

Due to this phenomenon, many software suppliers reported problems in their ongoing business but Software AG was able to mitigate any adverse effects in this environment. Sales of our Adabas, Natural and EntireX products each recorded double-digit growth in 1999 despite the challenges mentioned above. On one hand, we can attribute this to our stable customer base and the trust they show in us and on the other hand to an increasing recentralization of mission-critical applications.

Despite this generally positive business situation, however, our company has also not been totally spared its share of Y2K problems. First of all, our traditionally very strong year-end business was somewhat weaker than usual although we had anticipated this in our forecast. In addition, the launch of our new electronic business products was delayed as a result of the Y2K conversion process. Neither of these effects, however, had a significant influence on our 1999 earnings.

Software AG's initial public offering in April 1999 suffered from the fact that many in-

GROWING CORE MARKETS
(IN BILLION USD)

	1997	2001	CAGR
Middleware Investments	1.4	5.6	CAGR = 41.4 % calculated annual growth rate
Online transaction processing Investments	24	40	CAGR = 13.6 %
Electronic Business Trading volume	10.5	320.2	CAGR = 135.0 %

☐ 1997
☐ 2001

10 bn   20 bn   30 bn   40 bn   320 bn

Software AG is active in three strongly expanding markets. With a projected growth rate of 135%, the e-business segment is clearly the front-runner in this trend.
(Source: IDC)

stitutional investors were less willing to invest in software companies due to the Y2K problem. In spite of this, however, we achieved our goal of placing over 50% of the share capital.

THE INDUSTRY

In addition to the dominant trends and developments experienced in previous years, the Internet has become the dominant focus of attention for software investments. Companies from a wide range of market sectors have begun to prepare for electronic business on a broad front. In this process, transactions between companies are processed electronically on the Internet. A large number of new technologies in such fields as communication, integration, data security, and network access have helped focus industry interest squarely on the Internet and the World Wide Web. Of course, the large number of new companies being formed and initial public offerings in the field of e-commerce, many of which were quite spectacular, also played their part. In contrast to electronic business (i.e. electronic transactions between companies), e-commerce focuses on processing transactions between suppliers and end users. And while the primary

concern of electronic business is to seamlessly link and handle administration and supply processes between different companies, e-commerce focuses on providing end users with simple, attractive network access to the supplier's products.

The increasingly strong industry focus on Web-based electronic business solutions during the course of the year caused a decline in the growth of the market share for standard software solutions for business applications – so-called ERP (enterprise resource planning) systems which had seen rapid growth for the past few years. This is due to ERP solutions generally being based on classic, monolithic software architectures, which are less suited to Web use.

Although electronic business applications are currently in their infancy, the following trends, which are also relevant for Software AG, can already be identified:

RECENTRALIZATION OF MISSION-CRITICAL APPLICATIONS

One development already seen in the last few years continued in 1999: larger companies in particular are now tending to migrate their more complex, mission-critical software applications from decentralized, networked IT systems (so-called server/client architectures) back to powerful host systems. This is partially due to the significant increase in complexity and required resources for operating and managing applications running in large, decentralized system architectures. This can easily lead to a disproportionate rise in operating costs. Moreover, central computer systems often offer significantly better performance, are more reliable to operate and are more easily scaled to fit increased processing volumes than server/client systems. The substantial improvement in price-performance ratios for mainframe computers has also reinforced this trend.

Software AG benefited considerably from this development in the reporting year. We believe that recentralization is the key reason for

the powerful growth experienced by our core products Adabas and Natural.

We are of the opinion that recentralization will also continue in years to come, although it is difficult to assess the speed at which this will progress.

REUSABILITY OF EXISTING SOFTWARE SOLUTIONS

Although the bulk of IT investments in the past were made in hardware such as computers and network infrastructures, the investment focus has increasingly shifted to software applications in the last few years. The investments being made, at least by large companies, are concentrated on IT applications designed to maintain the company's ability to operate, or indeed to facilitate this in the first place. User-friendly, powerful software applications can constitute a significant competitive advantage. This fact is forcing more and more companies to protect their investments in their existing software solutions – i.e. to be able to modify these applications to meet new demands as fully as

BLG:
mobile logistics
management via WAP

Mobile data transmissions from WAP-enabled mobile telephones make communication around the container terminal easier — building on a solution from Software AG.

possible and with minimum effort. In the past, this task was difficult and complex due to heterogeneous, incompatible software architectures, computer languages, data formats, etc.

In the last few years, the development of new concepts such as middleware and componentware technologies has significantly simplified this problem. Both technologies have been designed to provide tight integration of different software applications with each other, even though they were not originally designed for this purpose.

Today, industrial standards such as DCOM and CORBA or Enterprise Java Beans can be used as a technology platform for this type of integration.

Software AG has long been a player in this industry segment with its own products on the market for so-called enterprise application integration (EAI). Sales of our key product, EntireX, which is based on Microsoft's DCOM (the industry standard), grew by over 40% last year –

faster than the market, which grew by roughly 30% according to industry experts.

IT analysts also expect significant double-digit growth rates for the future in this market. This forecast is principally based on the expectation that – at least in the short term – electronic business applications will result mainly from the further development and/or reuse and integration of existing business applications.

Bremer Lagerhaus Gesellschaft AG & Co. is one of Germany's leading logistics providers. Working with its subsidiary BLG Automobile Logistics GmbH & Co., BLG supplies solutions to numerous automobile manufacturers. Every year more than one million fully assembled cars pass through the BLG terminal in the port of Bremerhaven. Moreover, the huge, state-of-the-art warehouses operated by BLG International Logistics GmbH & Co. form a hub for distributing and supplying spare parts to car manufacturers using the supply-in-line sequence method.

Managing these giant logistics hubs is the task of a comprehensive IT system that BLG developed in-house. Built on Software AG products, this innovative solution is now WAP-enabled too. Using XML database Tamino, BLG developed an office application its employees can use on the road to check appointments, messages and addresses via WAP-enabled mobile phones. This step into the era of mobile logistics management is only the first in a wave of others. For instance, Tamino-based applications will soon allow the mobile management of this and like logistics terminals throughout Europe.

BP powers ahead
with electronic business

From online shop to virtual company: With support from Software AG, BP has joined a number of leading computer companies under a single virtual umbrella.

ELECTRONIC BUSINESS

The Internet has been playing an increasingly important role in the IT industry for several years now. Although Web technologies were originally used as a comfortable, low-cost platform for internal and external communication (intranets and extranets), and then for low-cost advertising (home pages), the World Wide Web is now progressively moving into the limelight as a sales platform. This transition started around two years ago, with the introduction of e-commerce environments for direct sales of consumer goods such as music, books and travel to end users. A large number of mostly smaller suppliers are now operating in this high-growth market and offer a large variety of products and services. Due to the diversity of the products and the associated lack of transparency, new approaches such as Web portals, which structure and simplify Web-access, are becoming increasingly important.

Now, an additional, far larger market has started to develop alongside e-commerce – electronic business. This focuses on the electronic – and largely automatic – handling of inter-company transactions via the Internet or the World Wide Web. This technology serves to make transactions between companies less dependent on time, place and infrastructure, and is therefore a key tool for rationalizing business processes in terms of both time and cost.

IT industry experts are predicting a very positive future for this business. For example, IDC analysts are predicting the market for electronic business transactions to grow from USD 46 billion to USD 180 billion in 2001. This means that electronic business is growing significantly more rapidly than the e-commerce market, giving it the greatest growth potential in the history of the IT industry.

One crucial difference between electronic business and e-commerce is that in the former, the emphasis is on handling business processes and transactions that are as complete as possible. It is therefore not enough to present elegant, visually exciting network access, as is the case for e-commerce applications. The key step is rather to link the entire processing chain with the Internet transaction as seamlessly as possible. Technically, this is very complex and only a partial solution has been found to date. As a result, the electronic business industry is still in its infancy. IT analysts believe that the most successful suppliers of electronic business technology will be the ones who most successfully integrate their supply chain management.

In addition to the demand for powerful integration and migration technology, electronic business calls for completely new concepts in areas such as transaction processing, data management, and the development of high-performance commercial applications on the Web.

ELECTRONIC BUSINESS IS BOOMING
(IN BILLION USD)

Software AG has now been driving the development of powerful system software for commercial electronic business solutions for more than two years. Its EntireX middleware product – which underwent substantial further development in 1999 – has now been supplemented by the launch of two new products – Bolero and Tamino. Both of these were designed for particularly high-performance electronic business applications from their inception.

These products support the most recent standards, such as JAVA or XML, and we believe that we are therefore well equipped to play a leading role in the market for software solutions for electronic business applications.

By 2003 the market volume for software products and services in the business-to-business segment is expected to rise to a total of USD 12.5 billion.
(Source: Datamonitor)

Taking advantage of Bolero, the power tool for the Internet, BP has turned a fascinating idea into reality: The oil corporation has linked leading computer manufacturers into a virtual company. Their high-quality products are now sold on the Internet at www.BPExpress.de. The point of the story: Bolero, Software AG's development platform, joins the different IT structures of these partner companies into one harmonious, powerful system in record time. Soon a single mouse-click in the online shop will get the whole process going at a range of partners — from placing the order all the way to production and delivery.

Adabas is Software AG's powerful database for mission-critical applications. The product is characterized by its extraordinary performance and robustness. Adabas is number 2 on the global mainframe market. More than 5,000 companies in a wide variety of sectors, such as banking, insurance, transportation, telecommunications and the public sector among others use Adabas successfully, mainly for their key mission-critical applications. The database is available on a number of platforms, such as mainframe systems, Windows NT, OpenVMS and UNIX.

Last year, Adabas took a major step forward by providing non-stop availability for full 24x7 operation. Adabas Starfire, the new Adabas version 7, operates in production mode 24 hours a day, while still allowing all necessary administration, such as data reorganization, to be carried out simultaneously. In addition, database recovery following system downtime has been accelerated considerably in order to keep database downtime to a minimum.

Moreover, the search algorithms have been optimized further. This has allowed us make another substantial improvement to the database's traditionally excellent performance. Substantial enhancements and new developments were also made to Adabas add-ons last year. These increase the security, speed and versatility of data processing using Adabas. For example, the Adabas Transaction Manager, a new product development, is used to ensure data integrity across multiple databases. Depending on the user's demands and environment, all of these add-ons provide significant value added and therefore make a positive contribution to Adabas' total sales.

Software AG products collect data across the company and make them available as financial ratios.

Philips managers at the speed of light: controlling data in real time

Philips is one of the few large corporations managing to publish their annual reports just six weeks after the closing of the business year. Philips achieves this astonishing speed thanks to COMAR, its system for data collection and consolidation. Built on Software AG's Adabas, COMAR was designed and developed in the Natural environment. It takes only five days to collect, consolidate and analyze the financial information from all corporate areas and to communicate this data to management and shareholders. This type of reliable, transparent financial communications is especially appreciated by investors. Philips management is now in a position to analyze the company's profitability down to the very last detail — and to react swiftly to current developments while other companies are still busy compiling their data.

Natural comprises a fourth generation programming language for business application development plus a tool environment for designing, drafting, and implementing business applications. Natural allows the development of state-of-the-art, component-based software applications supporting enterprise-wide business processes to be developed more securely and cost-effectively, and allows these to be better maintained than is possible with standard programming languages.

Natural underwent consistent further development in the reporting year. New versions for Windows NT and mainframes were released.

Natural for Mainframes was expanded to produce NaturalX, which enables DCOM-based component development on a mainframe for the first time. At the same time, the Natural Server was optimized to make it even less resource intensive. Natural is used not only with Adabas but also with other database management systems. Performance was further enhanced and expanded, particularly for the IBM database DB2.

Software AG has taken yet another step towards supplying leading-edge development tools with the new Natural 4 for Windows NT. We have also set a new standard for heterogeneous, component-oriented development environments with Natural Studio, our new, completely revamped developer workstation. New tools, such as our "Class Builder" and "Component Browser", enable efficient processing and integration of software components for software applications programmed in Natural. The components of these applications can be reused across both mainframes and Microsoft environments. This opens up new opportunities for developing large business applications and enables considerable cost reductions in the development environment.

Lufthansa Cargo — consignments cleared for takeoff

Lufthansa Cargo uses Software AG products to coordinate consignments and capacities swiftly and flexibly.

EntireX is a component-based solution for integrating enterprise-wide applications across heterogeneous operating systems. The product is aimed at companies wanting to maintain the value of their investments in existing applications, as EntireX allows tried and trusted application systems to be combined with state-of-the art technologies to form new solutions quickly and effectively. EntireX is used to integrate mission-critical applications from areas such as electronic business, call centers and enterprise resource planning with one another.

High speed is one of EntireX's key features: EntireX solutions can be implemented very quickly and offer excellent performance. EntireX's powerful DCOM functionality makes it particularly powerful when it comes to seamlessly connecting mainframes and Unix applications to Microsoft's Windows platform.

In the year under report, we substantially enhanced EntireX's functionality and extended it to additional software platforms. In particular, we opened up a completely new market segment for EntireX by providing support for the IBM AS/400 platform. In addition, EntireX's integrated security concept was expanded to enable the completely different security systems for Windows and mainframes to work together smoothly. This is achieved using a mechanism (patent pending) in which no user password has to be transferred via the network connection. The EntireX CORBA wrapper provides CORBA-based systems with easy access to application functionality outside the CORBA world. A large number of companies can now make the functionality of their tried and trusted mainframe applications available to other applications as components without having to make any modifications to the program code. This saves extensive re-programming and enhances the usefulness of existing infrastructures.

Bolero is a Java-based software platform for the professional development of electronic business applications. Version 2.1 of the product has been on the market since October 1999. This version places particular emphasis on supporting the new Internet language standard XML and on close integration with Tamino. Other additional features include enabling Bolero to be used by development teams, thereby allowing them to access a common database containing all Bolero objects (the Team Repository). In addition, a debugger has been built in to the software, which helps to identify programming errors. Bolero can now also be used to write either Java Byte Code or Java Source Code. The latter was an important factor for many customers and analysts in ensuring the openness of the applications they had generated with Bolero.

The Bolero Component Studio offers an integrated, visual development environment while the Bolero Application Server, coupled with the Java Virtual Machine, supports electronic business application processing. In the process, Bolero considerably reduces the volume and complexity of the program code required to generate business applications.

Bolero can be easily expanded using CLIPs (component library integration packages). CLIPs enabling access to Adabas, Tamino and SAP R/3 application data have already been supplied. Bolero is currently available on a large number

Lufthansa Cargo, the world's largest cargo carrier with scheduled international services, uses the Cargo Revenue Accounting System to report earnings from transport-related revenues. Developed with Software AG's Natural, CRAS continuously provides detailed operational and financial information to top management, as well as the marketing and finance departments. This helps Lufthansa Cargo keep tabs on performance, revenues and customer preferences. It also helps the carrier ensure that its services are running smoothly around the world. Switching from mainframes to UNIX was easily accomplished, thanks to Natural. The advantage for Lufthansa Cargo? More flexible deployment options and lower costs.

of platforms such as Microsoft Windows NT, numerous Unix flavors including the popular Linux version, and IBM mainframes.
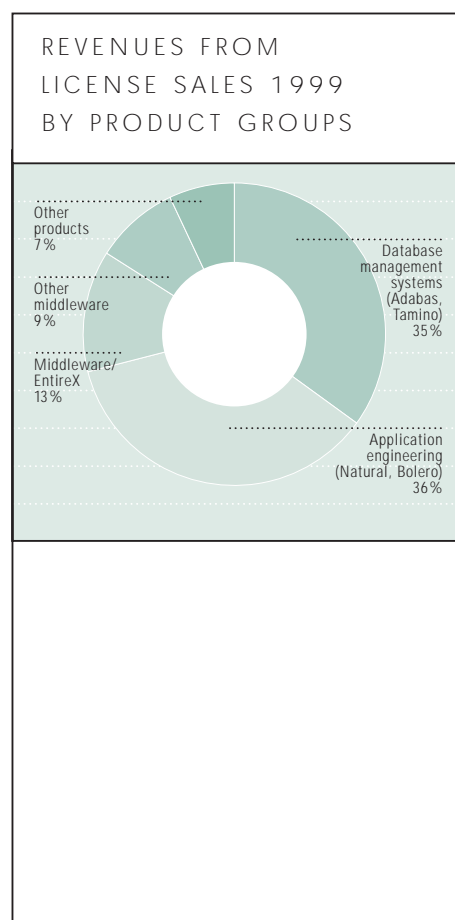
In addition, Bolero Component Studio will support the new platform Microsoft Windows 2000, while the Bolero Application Server will support Siemens BS2000 and UNIXWARE from SCO.

Tamino is the first information server for electronic business in the world to support a data model based on the new Internet language standard XML. Tamino was developed specially for the Internet and enables companies to successfully introduce and implement electronic business processes based on industry standards, and in particular XML. The product was initially announced in March 1999 and was released in October 1999.

XML documents are stored directly (i.e. without first being converted into another data format). Two main uses for the product are for publishing and searching for structured and unstructured complex information (e.g. catalogs) on the Internet. In order to do this, the product allows the storage and management of access to all data types, for example relational data, office documents, or multimedia data. Single or multiple Tamino servers can be accessed and managed from every corner of the earth via the Internet. Server functionality can be easily modified to meet customer-specific requirements on a case-by-case basis.

Tamino has been designed to combine a wide variety of different information from existing data sources. Real-time XML conversion of external data will accelerate the automated global exchange of information via the Internet – or even enable it for the first time. Windows NT is the first platform to be supported by Tamino – Unix and mainframes will follow. The readiness of the market to automate business processes using XML has grown by an extraordinary amount in the reporting period. Initial projects re-

REVENUES FROM
LICENSE SALES 1999
BY PRODUCT GROUPS

Other products
7 %

Other middleware
9 %

Middleware/
EntireX
13 %

Database management systems (Adabas, Tamino)
35 %

Application engineering (Natural, Bolero)
36 %

The license business achieved the highest growth rate: a total of 18%.

veal the new opportunities that XML offers the information society in the coming years: Tamino already facilitates mobile phones access to business information via the Web by supporting the new WAP telecommunications standard (wireless application protocol). This makes selective access to up-to-the-minute information more efficient.

Connection to customers' and suppliers' systems: Electronic data interchange was only implemented to a very limited extent in the business-to-business segment due to its high cost and great complexity, and then generally only by very large companies. XML is a logical supplement to EDI and will enable a rapid and, above all, cost-effective expansion of EDI processes, so that companies of all sizes can participate.

XML: ACCELERATING ELECTRONIC BUSINESS

The increased professional use of the Internet for automating business processes and quick access to the market (electronic business) has created new ground rules for information technology. Internet-enabled applications with an unlimited number of users demand new types of systems offering top performance and high transaction rates.

The information used for these processes must be available for different groups of recipients in a range of formats and on various media, for example as printed catalogs, CD ROMs, computer records or HTML files on the Internet. Formatting and maintaining the same information to suit the needs of various target media is expensive, as this has to be done manually. Information based on XML can be prepared or filtered in various ways since the information itself is separated from the manner in which it is presented. Every company and every industry can use its own vocabulary to freely supplement the raw data with additional information needed to allow it to be interpreted correctly by customers, partners or suppliers. In other words, the information itself, its meaning and its context can all exchanged universally via XML. Separately transferable formatting rules describe how data described in XML are output in the format desired. This allows the same XML documents to be used for different purposes, e.g. for display on standard Internet browsers or on palmtops, mobile phones and other peripherals.

This represents another crucial breakthrough by XML. For the first time, there is a completely vendor-independent format for saving, transferring and processing information.

A further reason for the interest in XML is the ability to link existing enterprise-wide systems, irrespective of geographical location. Due to restructuring, mergers and changes in the technical and business environment, enterprise-wide IT must be able to communicate with new systems, even if these are based on a monolithic design. More and more industrial associations and software suppliers are rushing to use XML as their lingua franca. As a result, XML is now a central component of the Web, only two years after its "invention", as it is sufficiently universal to process data from various sources to produce information that can be widely understood.

PROFESSIONAL SERVICES

Service is an elementary component of Software AG's business. One reason is due to the fact that our customers generally have relatively complex, heterogeneous IT and application structures. In addition, our service offering is necessary because of the manner in which our products are used, which is primarily for mission-critical applications. This demands a high level of integration with individual customers' IT infrastructures as well as simultaneous optimization in terms of throughput, stability, operating costs, among other factors. As a result, customer-specific service projects are concluded at the same time as a large number of license transactions, enabling and supporting direct use of the products at customer locations. As in the past, strong, competent, professional

service is an integral part of Software AG's long-term corporate strategy. The following services are currently offered:

- Business consulting
- Application development
- Technology consulting
- Education and training services
- Outsourcing and technology services

In addition, in the last two years we offered specific Y2K testing and conversion services to examine and remedy customers' applications. Our customers did not experience any major problems with Software AG's products during the millennium changeover thanks to our careful, timely concentration on this matter.

In 1999 organic growth in the professional services division was supplemented by selective acquisitions. The criteria behind these acquisitions were both to acquire regional market share and to expand Software AG's techno-

The electronic transfer of safety data sheets in the XML format — based on products from Software AG — has replaced the mailing of paper documents.

Danger pinpointed,
danger prevented.
Magis brings transparency
to safety-related data.

REVENUE DEVELOPMENT PROFESSIONAL SERVICES (in million DM)
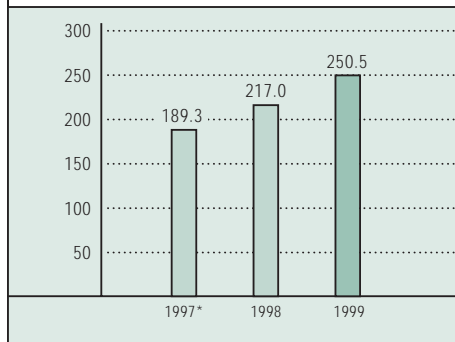
Our acquisition of several software service providers accelerated expansion in this business area.

*based on comparable figures

logical expertise. The following companies were fully acquired:

- GOAL Technologies, France
- SGML Group, Great Britain/Belgium/Luxembourg
- ESD Division USA of SPL Worldgroup, USA
- ESD Division Australia of SPL Worldgroup, USA

All of these companies were integrated into the local Software AG companies and will trade under the Software AG name in future. We are convinced that these acquisitions have significantly strengthened our ability to be able to offer professional services in future.

Transporting hazardous goods by truck also involves a certain risk for other motorists. Now a project has been launched to minimize such risks by using safety data sheets. How does this work? If a substance's hazards are documented in detail, more effective precautions can be taken in the event of an accident. Until just recently, though, it was not possible to exchange this information electronically, as the components of safety data sheets come in such a broad range of formats.

Building on Software AG's XML information server Tamino, Magis has developed an application that allows the smooth exchange of safety data sheets. Magis now offers documentation for hazardous shipments in 29 languages via the Internet, using XML as a universal data exchange format. That means significant cost savings for shippers — and makes Europe's roads safer.

SALES AND MARKETING

GLOBAL SALES
NETWORK EXPANDED

Worldwide, our products and services are primarily sold by our own subsidiaries and branch offices, and in some regions we use long-standing exclusive distribution partners. As part of our continued expansion, we substantially extended our direct presence in key markets, especially in the U.S.. This direct presence is a major prerequisite for quickly launching our new electronic business products and tailoring these closely to regional customer needs.

The formation of Software AG, Inc. in the US was the most important step taken in 1999 to establish a direct presence in the key electronic business market. This company is based in Walnut Creek, California, which is situated close to Silicon Valley. This proximity, our continuous contact to potential partners and early recognition of the latest developments are enabling us to increase awareness of and distribute Software AG's technology among the leaders in the electronic business field.

On December 1, 1999, we acquired the U.S. operations of Enterprise Systems Division from SPL Worldgroup and integrated this business into Software AG, Inc. This has also given us our own branch offices in additional key U.S. locations such as Boston, Chicago, Atlanta and New York, plus approximately 200 qualified software consultants. We will further expand our sales team in the current fiscal year with the focus being on acquiring technology and distribution partners who will then market our new electronic business products or combine these with their own software and distribute them as OEM products. This will allow us to develop new market segments far beyond our existing customer base. We believe that Software AG Inc. will generate sales of over USD 30 million in its first full fiscal year (2000). We anticipate a similar contribution to sales from our partner, SAGA Inc., which will continue to distribute our Adabas and Natural products in the Americas.

BOSTON

NEW YORK

CHICAGO

RESTON
(Washington D.C.)

WALNUT CREEK
(San Francisco)

DENVER

RALEIGH

ATLANTA

Located in Walnut Creek, California, group company Software AG, Inc. maintains a presence close to Silicon Valley and other IT centers in the United States.

We also expanded our direct presence further in other regions in the reporting period. The acquisition of the Australian and New Zealand activities of our long-term distribution partner SPL has laid the foundation for further growth. In Asia, we increased our total number of employees to 75 to keep up with the continued upturn in the economy. We are primarily expanding our operations in the Chinese market (China, Hong Kong, Taiwan), the Singapore region and Malaysia as well as India and Thailand. We expect these dynamic Asian markets to generate great interest in Internet solutions and therefore also in our technology.

MARKETING/XML

Once again, we consistently maintained Software AG's positioning as a future-oriented electronic business company. The focus was on making the market aware of the crucial importance of XML, the up and coming language standard for electronic business, and of our technology leadership for XML products. The message "No electronic business without XML – no XML without Software AG" was reinforced by an advertising campaign in our Press and Public Relations work, at trade fairs and at numerous customer events.

Our active membership in the W3C consortium, the international industry group responsible for further development of common XML standards for the Internet, ensures that our products are geared for the future. Since implementing the first software application to allow interactive database use via mobile telephones

PRODUCT REVENUES 1999 BY REGIONS

USA
13%

Rest
of the
world
13%

Germany
27%

Other
European
countries
47%
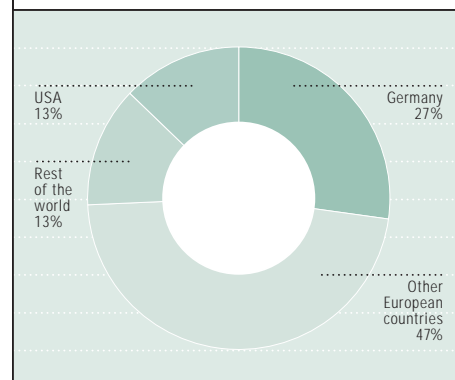
Software AG's products are at work around the world.

together with Nokia in the second half of 1999, Software AG has been one of the pioneers of WAP (wireless application protocol) technology. Our company is now an official member of the WAP Forum responsible for the further development of this standard, which is revolutionizing the market.

In the coming year, our strategic goal is to reinforce Software AG's image as an electronic business company and to expand this image internationally. Independent technology experts regard our electronic business software as leading the field and we will continue to invest substantially to position this software in new market segments. In the reporting period, the total cost of sales and marketing activities was approximately 26% of sales.

British Sky Broadcasting
captures viewer wishes right at the TV set

Products from Software AG help smart cards give viewers access to multiple services.

Great Britain's largest pay-TV provider chose EntireX, an EAI solution from Software AG, to restructure entirely the way it handles subscriptions. A smart card in the set-top box connected to the customer's television set now transmits subscription data to the system for further processing. EntireX also allows the transmission of this information to other providers of digital TV programs. The advantage for customers? They get improved service and broader program choices. Individual integration via EntireX gives viewers access to video-on-demand, pay-per-view and many other interactive services.

CUSTOMERS

For the majority of our customers, fiscal year 1999 was still dominated by the finalization of their Y2K software conversion activities. We supported our customers in a large number of Y2K compliance testing and remedy projects, and through our extensive preparations, we eliminated discernable risks from the outset. We were available in our service centers around the world during the critical phase of the date change to be able to provide assistance directly if needed. Numerous system consultants were on call on New Year's Eve to assist customers in eliminating any problems on location if necessary. All in all, we can say that no major system crashes occurred. Now the world has gone back to business as usual, with the IT boom for electronic business replacing one caused by Y2K conversion.

We expect that our customers will now turn their attention more closely to integrating the Internet with their mission-critical business processes. Last year, a large proportion of human and financial resources were still tied up in the Y2K conversion, and electronic business projects were of secondary importance. This also slowed the launch of our Bolero product. More than 80 customers in different sectors have already used Bolero but have not yet actively implemented it into their business activities. This backlog, coupled with the great interest our customers and new business partners have shown in Tamino, will increase sales of our electronic business products substantially, as soon as the last potentially hazardous date change on February 29, 2000 has come and gone. Our goal is to generate half of our licensing revenue from electronic business products in roughly two years' time.

This assumption is backed by promising initial projects. For example Bolero was used to develop the first software solution to combine

the companies belonging to the oil group Deutsche BP to form a virtual shop on the Internet. Now BP can use this facility to sell computer hardware and software supplied by its partner companies, and can diversify its product range as it likes. This solution has a special feature: the electronic business processes of all participating suppliers (i.e. their individual production control, inventory management, invoicing procedures and other processes) can be linked without the underlying software applications and processes having to be modified). This enables additional shop partners or products to be quickly included in order to adjust to the rapidly changing demands of the market.

Interest in Tamino has grown rapidly since it was launched on time in October last year. By the end of the year, more than 20 pilot customers from a number of different industries were working with Tamino. More than half of these users are new customers, who had not previously worked with Software AG's products. This highlights Tamino's high potential for dynamic sales growth. As early as November, the first users presented themselves to over 100 media representatives from all across the globe. The solutions in the fields of engineering, hospital software, logistics and mobile commerce (i.e. business transactions conducted using mobile telephones) are evidence of the wide scope of use for our technology. Over 50 existing applications will be used to demonstrate the deployment of Tamino at CeBIT 2000 in Hanover, marking the full-scale roll-out of our XML technology to the market.

FINANCIAL POSITION AND RESULTS OF OPERATIONS

1999 was characterized by additional growth in all of our divisions. The Group's total sales increased by 14% on the previous year to DM 716 million. Particularly strong growth was recorded by licenses (up 18%) and professional services (up 15%), two of our key divisions. In addition, the high equity strength and liquidity already seen at the end of 1998 was substantially improved still further by the initial public offering in 1999.

The measures already implemented in previous years to increase productivity and earnings led to a significant improvement in earnings in fiscal year 1999. Pre-tax profit increased by 49% to DM 129.7 million (previous year: DM 87.3 million). Annual net profits also showed substantial growth over the previous year at DM 75.0 million (1998: DM 52.2 million). With the exception of the U.S. business, we recorded positive business growth in all of our regions.

The organic growth shown by the professional services division was supplemented in fiscal year 1999 with the acquisition of GOAL Technologies, France, the SGML-Group (with companies in the UK, Belgium and Luxembourg) and the ESD Division, of SPL Worldgroup in the U.S. and Australia. These companies already contributed approximately DM 33 million to group sales in 1999.

A major event in fiscal year 1999 was Software AG's initial public offering, the world's largest ever software industry IPO. A total of 14.5 million shares – of which 3 million were from a capital increase – were placed with private and institutional investors. The company's liquidity and equity basis were improved appreciably by the positive development in earnings and the initial public offering, which contributed approximately DM 167 million to Software AG.

As of December 31, 1999, the Group's liquid funds total DM 385 million (previous year: DM 226 million). In addition, the company had unused credit lines totaling roughly DM 100 million available on the balance sheet date.

This highly encouraging business development forms the basis for additional investments to expand the sales channels and to position Software AG as an Electronic Business Company.

REVENUE DEVELOPMENT
(in million DM)

	1997*	1998	1999
	575.2	626.4	715.6
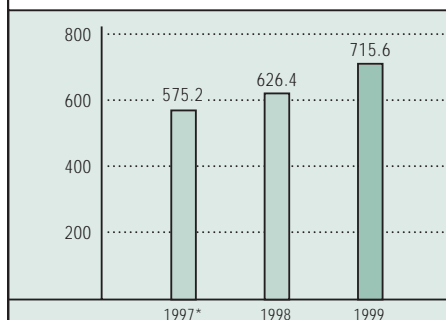
All three business areas contributed to our 14% revenue increase in 1999.

*based on comparable figures

As an international company, Software AG is confronted with numerous risks inherent in international trade. At the same time, our business and regional presence also offer extensive opportunities. We therefore aim to take advantage of the opportunities offered to the greatest possible extent, and to run only those risks that are related to our business in order to generate appropriate added value.

We use a large number of risk management, monitoring and control systems, which are continuously being enhanced. These include a uniform, enterprise-wide strategy, forecasting and budgeting process, which is principally concerned with operational opportunities and risks.

Within the IT industry, year 2000 conversion was discussed as being a considerable risk. Thanks to our intensive preparations, no major problem occurred or became known either at Software AG's customers or at the company itself. As a result, the company believes that the balance sheet provisions are sufficient to offset any potential financial effects (this also applies to the leap year problem).
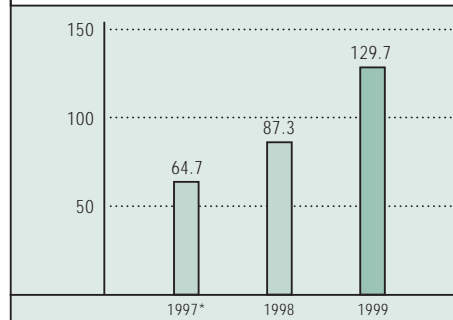
Successful marketing of our new electronic business products is a key factor for our continued growth and hence for our long-term economic success. One of the measures to be implemented to ensure success in this area is the expansion of direct sales and sales partnership in the U.S. market. The current reactions from

PRE-TAX RESULTS
(in million DM)

Increasing its pre-tax profits by 49% in 1999, Software AG achieved the best result in its history.

*based on comparable figures

existing and potential customers lead us to believe that we will be able to achieve above-average increases in sales in this area.

In the course of integrating the companies we acquired in 1999, we have learned that the process entails substantial effort and certain risks. In most cases, this integration has been successfully concluded. Based on our experience to date, we believe that we will be able to adequately master the risks entailed by future acquisitions.

As part of our enterprise-wide risk management, we place particular importance on the management of financial risk. The overriding principle for all of our treasury activities is risk minimization. Derivative financial contracts are concluded in order to guard against concrete interest and currency risks, and also to a limited extent to optimize interest income.

We are insured against possible claims for damages and liability risks in order to ensure that any financial consequences arising from possible risks are kept to a minimum or excluded entirely. The level of coverage is continuously monitored and adjusted as necessary.

Examination of the current risk situation has shown that no risks which could endanger our existence arose during the reporting period and that no such risks are discernible for the future.

OUR EMPLOYEES

Hardly any other industry can record the same pace of change as the software industry. Today's standards and knowledge may be made obsolete overnight by new developments. The economic success of a software company depends significantly on the commitment, the expertise and the readiness of its employees to accept and actively participate in change. Software AG supports this by:

- Integrating new employees
- Vocational and on-the-job training
- An open corporate culture
- Transparent remuneration structures
- Employee share ownership as a component of remuneration

Integration of new employees

Fiscal year 1999 was characterized by successful recruitment on the labor market and the integration of new employees from our associated companies. The number of employees worldwide increased in 1999 from 2,186 to 2,639, which represents growth of 20.7%. In Germany,

the number of employees increased by 7% from 1,170 to 1,257 employees from 38 different nations. Almost 75% of employees are university graduates. This has considerably strengthened the human resources base for global corporate expansion.

The tight situation in the labor market for IT professionals requires that Software AG has to take a wide range of actions when recruiting new employees. Measures range from classic print media advertisements to direct recruitment at universities and career centers through to the most important innovative medium – the Internet. In addition to active and passive candidate searches using online job exchanges, our own Web site plays a major role as a marketing instrument. Timely advertising of job offers from all of our subsidiaries worldwide is a significant stimulus for spontaneous applications. The high level of feedback in the form of applications received around the world highlights Software AG's appeal as an employer. Applicants value our innovative products, our open corporate culture and our attractive salaries.

Apprenticeships and vocational training

The managerial expertise and specialist knowledge of our employees are two equally impor-

EMPLOYEES IN
GERMANY AND ABROAD

3,000		
2,000	978	1,016
		1,382
1,000	1,118	1,170	1,257
	1997*	1998	1999

☐ in Germany   ☐ abroad
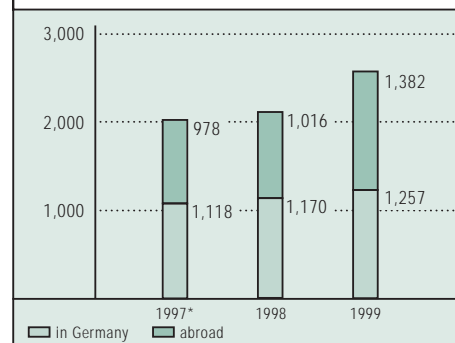
The number of our employees abroad increased in 1999 primarily due to acquisitions in the area of professional services.

*based on comparable figures

tant factors in our competitive success. Software AG rates specialist career paths just as highly as management career paths. Ongoing specialist training is based on individual requirements and is conducted both internally and externally, in Germany and abroad. All of our managers undergo a uniform training program based on our corporate principles. The application of uniform management principles promotes effective cooperation among all of our employees, increases individual success and thus increases the productivity of all our employees.

RESEARCH AND DEVELOPMENT

Software applications for mission-critical enterprise-wide transactions are a decisive factor for the success of public companies and authorities alike. As a result, maximum quality, highly reliable software products are also crucial. Our consistent further development and strategic innovation of our products enables our customers to modify their IT applications to meet up-to-the-minute requirements.

As a result of the company's traditionally intensive research and development work, Software AG has achieved a leading position in its areas of technology. The large number of R&D employees with many years of professional experience forms an excellent base of technological expertise in comparison to the remainder of the IT industry. This core competence was further reinforced during the reporting period with the recruitment of leading specialists, such as internationally renowned XML experts. This allows us to combine our knowledge of the complex software architectures of existing mainframe systems with the new demands posed by the Internet in an ideal manner.

In the reporting period, research and development expenditure totaled DM 102 million, DM 12 million more than the previous year. R&D expenditure therefore amounted to the forecast 14% of total sales. In terms of pure product sales, the calculation used by most software manufacturers, this figure would increase to over 20% – one of the best ratios in the industry. On December 31, 1999, we had 511 R&D employees in various locations across the globe. The focus remains on Darmstadt, followed by two locations in the U.S.. We also have additional development facilities in Berlin, Riga (Latvia) and Derby (Great Britain).

The acquisition of the Dublin-based software developer SCP Ltd. laid the foundation for a development center in Ireland: Software AG R&D Ireland Ltd. has now grown to a total of 19 employees. Ireland offers a favorable environment for investment and qualified personnel. The 73 employees in our American research fa-

INVESTMENTS IN RESEARCH AND DEVELOPMENT

Application development tools 41%

Database management systems 32%

Middleware 22%

Others 5%
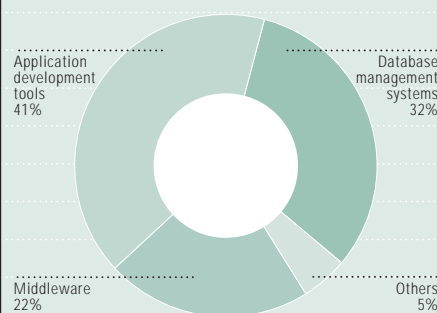
In 1999 Software AG invested about DM 102 million in research and development. This is equivalent to 22% of revenues from product sales.

cilities in Reston (Virginia) and Denver (Colorado) have been incorporated into our newly formed U.S. subsidiary, Software AG, Inc. This is one of the prerequisites for being able to serve the special needs posed by U.S. business and to provide intensive support to our new electronic business distribution partners.

In the reporting period, a total of over 130 new product versions or add-ons were released – the highest number in the history of Software AG. The most important of these include three new versions of the Bolero development environment, a new version of EntireX and the further development of Adabas to allow permanent continuous operations. The new version of the Natural development environment (4.1) is setting standards in the IT industry with its completely new graphic user interface for Windows NT. Above all, the launch of Tamino, the XML-based information server, is a sign of Software AG's technological expertise.

In addition to the reliability of our products, our ability to keep to key product development deadlines is as important for us as it is for our customers. Today, image and market success often depend on the timely release of the supporting software. In the reporting period, we succeeded in this every time. The on-schedule rollout of Tamino helped us gain a significant advantage in the market for XML products.

The switch in data delivery methods for our software products is further proof of our customer service orientation. All products for the Open Systems applications area (Unix, Open VMS, Windows) are now supplied on CD-ROM.

Y2K conversion also demanded particular efforts from our Research and Development facilities, which entailed a very intensive Y2K check that was conducted on all of Software AG's products using an appropriate test series. The extensive preparations paid off: None of Software AG's products showed any Y2K-related defects at the turn of the millennium.

Technology leadership continues to be one of Software AG's goals and we will therefore maintain the level of our research and development activities. Expenditure for the current year (roughly DM 100 million) has once again been planned at 15% of total sales.

OUTLOOK

Overall, 1999 was a highly gratifying year for Software AG. In addition to our successful initial public offering, we recorded the best financial result in our company's 30-year history. Both of these events have substantially strengthened the company's financial position. The company grew satisfactorily as a result of both organic growth and specific acquisitions. Above all, our new positioning in the largest global IT market, the U.S., offers significant strategic potential for the future.

Software AG was not significantly affected by the Y2K problem that, at times, cast a strong shadow on the software industry.

We have continued our focus on our core business with consistent concentration on the highly interesting electronic business growth market. We see ourselves as being technologically well equipped for this, thanks to our new products Tamino and Bolero. We believe that these products offer tremendous opportunities for Software AG's continued growth, in terms of both direct sales and future partner business.

We expect that the current fiscal year will see a strong drive towards investment in electronic business products, especially now that many potential customers are no longer holding back due to the Y2K problem.

Of course the new products will have to prove themselves in the marketplace and new partner distribution channels will have to be set up especially for this business. In particular, it is crucial that we gain a rapid foothold in the U.S. market.

We expect our new products to generate more than half of our license revenues in the next two to three years, with a major proportion coming from indirect distribution channels that have yet to be set up.

We intend to continue the intensive acquisition strategy followed in 1999 and to use strategic acquisitions of companies and equity interests to further promote Software AG's growth in certain regions and select vertical market segments. The main focus here will be on the professional services area, although we are not ruling out isolated technology acquisitions.

We expect a generally positive investment climate for 2000 and in the electronic business market in particular. We believe that investments in new technologies will rise significantly, especially in the second half of the year.

Our aim is to achieve substantial double-digit growth. In spite of the major investments in our new U.S. business, we aim to maintain our current return on sales recorded in 1999.

Our medium-term success depends to a large extent on the acceptance of our new products. We have already implemented the necessary measures for this and are therefore approaching the current fiscal year in confidence.

ASSETS

	Dec. 31, 1999 DM	Dec. 31, 1999 DM	Dec. 31, 1998 DM thousand
A. Fixed Assets			
Intangible assets			
Concessions, industrial and similar rights and			
assets and licences in such rights and			
assets		4,693,676.16	4,848
Tangible assets			
Land, land rights and buildings			
including buildings on third-party land	48,598,856.80		49,993
Other equipment, operational and office equipment	23,207,869.67		19,860
Assets under construction	144,798.62	71,951,525.09	0
Financial assets			
Shares in affiliated companies	245,221.46		53
Participations	25,219,607.46		15,916
Long-term investments	396,764.73		585
Other loans	418,517.05	26,280,110.70	319
		102,925,311.95	91,574
B. Current assets			
Inventories			
Raw materials and supplies	268,100.45		477
Work in progress	10,659,182.15		6,581
Finished goods and merchandise	1,190,186.79		1,239
Payments on account	0.00	12,117,469.39	1
Receivables and other assets			
Trade receivables	160,014,523.71		144,710
Receivables from affiliated companies	230,688.10		0
Receivables from companies in which			
participations are held	15,836,987.84		18,644
Other assets	14,488,801.03	190,571,000.68	8,985
Securities			
Other securities		129,253,992.97	10,271
Cash in hand, postal giro balances,			
bank balances		256,193,493.65	215,889
		588,135,956.69	406,797
C. Prepaid expenses		15,421,179.82	9,938
		706,482,448.46	508,309

EQUITY AND LIABILITIES

	DM	Dec. 31, 1999 DM	Dec. 31, 1998 DM thousand
A. Equity			
Subscribed capital		130,450,000.00	115,450
Contingent capital DM 8,658,750.00			
Capital reserves		42,977,352.35	1,096
Retained profit brought forward (previous year: accumulated losses)		22,877,026.38	-20,144
Consolidated net income for the year		74,909,964.88	52,210
Minority interest		90,941.59	-9
		271,305,285.20	148,603
B. Special tax-allowable reserves		4,630,275.60	10
C. Provisions			
Provisions for pensions	15,413,017.37		14,272
Provisions for taxes	67,242,707.28		30,124
Other provisions	132,937,324.09	215,593,048.74	121,326
D. Liabilities			
Liabilities to banks	7,157,717.10		9,391
Payments received on account of orders	5,392,184.76		15,502
Trade payables	28,950,530.30		22,504
Liabilities on bills accepted			
and drawn	5,785,235.16		5,014
Payable to affiliated companies	80,583.68		92
Payable to companies in which			
participations are held	23,186.00		94
Other liabilities	57,645,102.27	105,034,539.27	30,198
E. Deferred income		109,919,299.65	111,179
		706,482,448.46	508,309

CONSOLIDATED INCOME STATEMENT OF SOFTWARE AG
FOR FISCAL YEAR 1999
(JANUARY 1 TO DECEMBER 31, 1999)

	DM	1999 DM	1998 DM thousand
Revenue		715,583,122.17	626,386
Increase in finished goods,			
inventories and work in progress		4,029,266.91	400
Other operating income		48,564,131.02	49,067
Cost of materials			
a) Cost of raw materials and			
supplies, and of purchased merchandise	-1,536,803.72		-1,411
b) Cost of purchased services	-88,660,963.33	-90,197,767.05	-83,245
Personnel expenses			
a) Wages and saleries	-276,486,628.39		-232,436
b) Social security and other			
pension costs	-54,952,086.34	-331,438,714.73	-43,486
Depreciation and amortization on intangible assets and			
property, plant and equipment		-16,479,743.06	-14,293
Other operating expenses		-214,033,301.70	-221,613
Income from investments		4,509,780.00	2,413
Income from other investments and long-term			
loans		17,851.05	35
Amortization of financial assets		-2,529.82	0
Other interest and similar income		11,623,052.56	7,698
Interest and similar expenses		-2,444,166.49	-2,174
Income before taxes		129,730,980.86	87,341
Income tax expense	-50,604,175.59		-30,814
Other taxes	-4,117,083.39	-54,721,258.98	-4,317
Income after taxes		75,009,721.88	52,210
Minority interests		-99,757.00	0
Consolidated net income		74,909,964.88	52,210

STATEMENT OF FIXED ASSET MOVEMENTS
(ALL FIGURES IN THOUSANDS OF DM)

	Gross Fixed Assets						
	Balance at Jan 1, 99	Additions	Disposals	Changes to companies consolidated	Transfers	Differences from currency translation	Balance at Dec. 31, 99
I. Intangible Assets							
Consessions, industrial and similar rights and assets,							
licenses in such rights and assets	51,407	2,368	-2,514	2,604	0	497	54,362
Goodwill	30	0	0	0	0	0	30
	51,437	2,368	-2,514	2,604	0	497	54,392
II. Tangible Assets							
Land, land rights and buildings,							
including buildings on third-party land	90,173	809	-114	705	0	33	91,606
Other equipment, operational							
and office equipment	103,547	15,548	-19,315	1,743	0	2,153	103,676
Assets under construction	0	145	0	0	0	0	145
	193,720	16,502	-19,429	2,448	0	2,186	195,427
III. Financial Assets							
Shares in affiliated companies	569	195	-4	0	0	0	760
Participations	20,917	0	0	7	229	70	21,223
Long-term investments	603	42	-100	92	-229	7	415
Other loans	319	290	-194	4	0	-1	418
	22,408	527	-298	103	0	76	22,816
Total	267,565	19,397	-22,241	5,155	0	2,759	272,635

	Accumulated Depreciation							Book value
	Balance at Jan. 1, 99	Additions	Disposals	Changes to companies consolidated	Write-ups	Differences from currency translation	Balance at Dec. 31, 99	Balance at Dec. 31, 99
I. Intangible Assets								
Concessions, industrial and similar								
rights and assets, licenses								
in such rights and asstes	46,559	2,532	-2,514	2,590	0	501	49,668	4,694
Goodwill	30	0	0	0	0	0	30	0
	46,589	2,532	-2,514	2,590	0	501	49,698	4,694
II. Tangible Assets								
Land, land rights and buildings,								
including buildings on								
third-party land	40,180	2,583	-111	334	0	24	43,010	48,596
Other equipment, operational								
and office equipment	83,687	11,365	-17,701	1,174	0	1,941	80,466	23,210
Assets under construction	0	0	0	0	0	0	0	145
	123,867	13,948	-17,812	1,508	0	1,965	123,476	71,951
III. Financial Assets								
Shares in affiliated companies	516	0	-1	0	0	0	515	245
Participations	5,001	0	0	0	-9,068	70	-3,997	25,220
Long-term investments	18	0	0	0	0	0	18	397
Other loans	0	0	0	0	0	0	0	418
	5,535	0	-1	0	-9,068	70	-3,464	26,280
Total	175,991	16,480	-20,327	4,098	-9,068	2,536	169,710	102,925

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF SOFTWARE AG FOR THE FISCAL YEAR ENDED DECEMBER 31, 1999

1. GENERAL DISCLOSURES ON THE CONSOLIDATED FINANCIAL STATEMENTS, AND ON CONSOLIDATION AND ACCOUNTING POLICIES

The annual financial statements and management report as of December 31, 1999 were prepared in accordance with the statutory requirements.

CONSOLIDATED COMPANIES

The following affiliated companies are members of the Software AG Group (parent company: Software AG):

a) German companies

	% holding	Abbreviation
Software GmbH Marketing, Darmstadt	100	SAG-MK
SAG EAST GmbH, Darmstadt	100	SAG-ME
SQL Datenbanksysteme GmbH, Berlin	100	SQL
SAG Systemhaus GmbH, Darmstadt	100	SAG-D
SAP-SI GmbH, Alsbach-Hähnlein	40	SAP-SI

SAP-SI GmbH, a joint venture established in April 1997 together with SAP AG, Walldorf, is included in the consolidated financial statements using the equity method on the basis of the proportional results accruing to the parent company.

b) Foreign companies

	% holding	Abbreviation
Software AG of the United Kingdom Ltd., Derby/England	100	SAG-UK
Software AG France S.A., Saint-Quen/France	100	SAG-F
with its subsidiary:		
GOAL Technologies S.A., Paris/France	100	GOAL
Software AG Italia S.p.A, Milan/Italy	100	SAG-I
Software AG Belgium S.A., Brussels/Belgium	100	SAG-B
Software AG Nederland B.V., Amsterdam/The Netherlands	100	SAG-NL
Software AG Nordic A/S, Taastrup/Denmark	100	SAG-DK
with its subsidiaries:		
Software AG Norge Ai'S, Oslo/Norway	100	SAG-N
Software AG Sverige AB, Stockholm/Sweden	100	SAG-S
Oy Software AG Finland, Espoo/Finland	100	SAG-SF
Software Aktiengesellschaft, Vienna/Austria	100	SAG-A
Software AG s.r.o., Prague/Czech Republic	100	SAG-CS
Software AG Bilgi Sistemleri Ticaret A.S., Istanbul/Turkey	90	SAG-TR
Softinterest Holding AG, Zug/Switzerland	100	SIH
with its subsidiaries:		
Software Systems AG, Dietikon/Switzerland	100	SAG-CH
Software AG Espar.a S.A., Madrid/Spain	100	SAG-E
and its indirect holding		
Software AG Portugal Lda., Lisbon/Portugal	100	SAG-P
Software AG, Inc.; WalnutCreek/USA	100	SAG-USA
with its subsidiary:		
Software AG Australia (Holdings) Pty. Ltd., Melbourne/Australia (Holding)	100	SAG-AUS
and its indirect holding		
Software AG Australia Pty. Ltd., North Ryde/Australia	100	SAG-AUS
SGML Technologies Ltd., London/England	100	SGML Tech
with its subsidiaries:		
International Software Engineers Associated S.A., Luxemburg	100	ISEA
Associated Consultants and Software Engineers SA, Brussels/Belgium	100	ACSE

Software AG R&D Ireland Ltd., Dublin/Ireland	100	SAG-IRL
Software AG (Hong Kong) Ltd., Hong Kong	100	SAG-HK
Software AG (Singapore) Pte. Ltd., Singapore	100	SAG-SIN
Software AG (Malaysia) Sdn. Bhd., Kuala Lumpur/Malaysia	100	SAG-MAL
Software AG Philippines Ltd., Manila/The Philippines	100	SAG-PHI
Software AG Taiwan Ltd., Taipei/Taiwan	100	SAG-TAI

The annual financial statements of Software GmbH Marketing (equity: DM 60 thousand, net profit for the period: DM 0) and Software AG R&D Ireland Ltd., Dublin (equity: DM 265 thousand, net profit for the period: DM 79 thousand) were not included in the consolidated financial statements in accordance with section 296 (2) of the HGB (German Commercial Code) since these companies are insignificant and only have a minor influence on the Group's assets, financial situation and earnings.

Minority interests in our Turkish subsidiary are held by a Turkish national (10%).

FISCAL YEAR AND CONSOLIDATION PERIOD

The consolidated financial statements were prepared as of December 31, 1999, the balance sheet date of the parent company. Since all companies included in consolidation also prepare their financial statements as of this date, consolidation was based on each subsidiary's audited and certified annual financial statements.

With the approval of the shareholders' meeting, SAG East GmbH and SAG Systemhaus

GmbH made use of the exemption rule under section 264 (3) clause 4 of the HGB.

CONSOLIDATION PRINCIPLES

The financial statements of the consolidated companies have been prepared in accordance with uniform accounting and valuation principles. They have been audited by public accountants, who issued unqualified audit opinions in all cases. The majority of the foreign auditors are members of the international BDO Deutsche Warentreuhand AG, or belong to another reputable international accounting and auditing organization.

CURRENCY TRANSLATION

The annual financial statements of the subsidiaries prepared in the relevant local currency are translated as follows for the consolidated financial statements:

- Balance sheet items have been translated at the rates prevailing on the balance sheet date, with the exception of shareholders' equity

- The shareholders' equity of the subsidiaries included in consolidation is translated at the respective historic rates prevailing on the balance sheet date. Any resulting currency differences in the equity of the subsidiaries being consolidated are eliminated against the retained profit brought forward in the consolidated financial statements. This results in the profit brought forward for the relevant fiscal year deviating from the net in-

come of the previous year. This currency difference amounted to DM -190 thousand in 1999 and DM 668 thousand in 1998.

■ The items in the income statement are translated at average exchange rates (arithmetical mean of the end-of-month rates). Differences resulting from the translation of subsidiaries' income statements are disclosed as other operating income or other operating expenditure in the consolidated income statement.

■ In the statement of fixed asset movements, write-ups, transfers, disposals and write-downs for the year are calculated at the average rates for 1999 based on the previous year's acquisition and manufacturing costs (as of December 31, 1998) with the year-end positions translated at the rate prevailing at the balance sheet date. Any resulting exchange rate differences in fixed asset movements are carried on the face of the statement of fixed asset movements.

CONSOLIDATION METHODS
Statutory full consolidation pursuant to sections 300 ff. of the HGB (German Commercial Code) was applied to the preparation of the consolidated financial statements. As a result, all intercompany assets and liabilities and all intercompany income and expenses were eliminated. The following additional principles and methods were also applied:

■ Software AG has elected to consolidate subsidiaries which it created itself on the date of formation. However, with respect to Soft-

interest Holding AG and its subsidiaries and certain Asian subsidiaries, the first-time consolidation occurred in 1994, after the date of formation.

■ For the companies initially included in consolidation in 1999 (GOAL Technologies, SAG Inc., SGML UK, ACSE, ISEA, SAG AUS) the date of the acquisition was chosen for the initial inclusion in the consolidated financial statements.

■ The initial consolidation of all companies was undertaken using the book value method (section 301 (1) sentence 2 clause 1 of the HGB). Subsequent consolidation is based on the figures stated at the time of first-time consolidation.

■ Goodwill arising from the capital consolidation is generally offset against reserves, credit balances arising from the capital consolidation are generally offset against retained profits brought forward.

■ In the consolidation of debt, differences arise from foreign currency netting are recognized as income or expense, as appropriate.

■ As of December 31, 1999, all outstanding material intercompany services rendered between affiliated companies have already been invoiced to customers. This obviated the need to eliminate intercompany profits. In contrast, intercompany sales of intangible assets are consolidated through elimination of intercompany profits.

CONSOLIDATED INCOME STATEMENT

The income statement is prepared using the total cost method as described in section 275 of the HGB (German Commercial Code). The following table summarizes the "thereof" notes required to be stated in the balance sheet and the income statement:

I. Balance sheet	1999	1998
	DM	DM
a) Assets		
1) Trade receivables	160,014,524	144,709,535
thereof due in over one year	21,969,272	11,021,126
2) Receivables from companies in which participations are held	15,836,988	18,644,350
thereof due in over one year	0	191,160
3) Other assets	14,488,801	8,985,403
thereof due in over one year	318,917	569,211
b) Equity and liabilities		
1) Liabilities to banks	7,157,717	9,391,330
thereof due within one year	7,157,717	2,356,650
2) Payments received on account of orders	5,392,185	15,501,519
thereof due within one year	5,183,781	14,393,057
3) Trade payables due within one year	28,950,530	22,504,305
4) Liabilities on bills accepted and drawn due within one year	5,785,235	5,013,715
5) Payable to affiliated companies due within one year	80,584	91,715
6) Payable to companies in which participations are held		
due within one year	23,186	94,346
7) Other liabilities	57,645,102	30,198,306
thereof due within one year	36,039,127	26,246,665
thereof taxes	16,962,963	13,525,216
thereof social security	7,790,550	5,375,130
II. Income statement		
Pension costs	8,771,112	10,820,571

VALUATION PRINCIPLES

Intangible assets and tangible assets are measured at their cost of acquisition, generally less straight-line depreciation and amortization over the standard useful life at the maximum amount permitted by tax law. In the case of buildings, the declining-balance method of depreciation has been applied in some instances.

Receivables and liabilities from European Monetary Union member states are measured at the pre-defined euro exchange rate.

Equity investments are valued at the lower of cost or market value. Software AG's participation in SAP-SI is carried at equity using the book value method.

Loans (primarily to employees) are measured at their nominal values.

Inventories are valued at their cost of acquisition or manufacture. In addition to individual unit costs, the manufacturing costs include an appropriate share of overheads and depreciation (section 255 (2) sentences 2 and 3 of the HGB).

Receivables from software licenses are recognized only if there is a signed contract with the customer, any rights of return have expired and the software has been delivered in accordance with the terms of the contract. Receivables and other assets are carried at their nominal value, unless specific write-downs were necessary to take account of default risks. As in previous years, provision was made for the general default risk by means of a general reserve adjustment. Standard discounts have been applied to take account of receivables with maturities in excess of one year.

Securities are stated at the lower of cost or market value.

Liabilities are stated at their repayment amount. Provisions for pensions are set up on the basis of actuarial rules and tax principles using an interest rate of 6%. Provisions for taxes and other provisions have been set up as deemed necessary in accordance with prudent business judgment.

CURRENCY TRANSLATION

Foreign currency income and expenses arising during the year are recorded at the rates prevailing at the time such income is recognized and expenses incurred. Receivables and liabilities from countries participating in the European Monetary Union outstanding at the balance sheet date were valued at the pre-defined euro exchange rate. For countries not participating in the European Monetary Union, they were valued at the rate prevailing at the balance sheet date, where such rates were lower (credit items) or higher (debit items) than those at the date the receivable or liability arose. In cases of hedging transactions, the applicable hedging rates are used.

2. NOTES TO THE CON-
SOLIDATED BALANCE SHEET

FIXED ASSETS
The gross values comprise all assets held at the balance sheet date.

Intangible assets
The intangible assets relate to software licenses purchased from third parties and rights to software marketed by the Group.

Tangible assets
Land included in this item primarily refers to land owned by the parent company.

During 1999, approximately DM 17.3 million was invested in operating and office equipment, principally IT equipment.

Financial assets
The financial assets relate principally to participations in SAP-SI, Software AG Systems Inc. and SAG-MK. In addition, long-term loans to employees of the Software AG Group and long-term investments are disclosed under this item.

CURRENT ASSETS
Inventories
The inventories principally include services relating to customer orders which have not yet been invoiced. These inventories are valued at the cost of production, based on the appropriate hourly rate. Other items disclosed here are finished goods (documentation). Stocks of paper carried under raw materials, consumables and supplies have been stated at a fixed value wherever possible. Other raw materials and merchandise are stated at acquisition cost.

Receivables
Trade receivables increased over the previous year due to the inclusion of the new companies, among other reasons. Receivables from an associate relates to SAGA.

Other assets
At the balance sheet date, this item included claims for tax refunds and deferred interest income, among other things.

Securities
The securities portfolio is held exclusively by the parent company.

Prepaid expenses
This item relates primarily to deferred license fees and prepaid rental expenses.

EQUITY

The equity section of the balance sheet as at December 31, 1999 is classified as follows:

	DM thousand	DM thousand
Subscribed capital	115,450	
Capital increase	15,000	
		130,450
Capital reserves	1,096	
Share premium from IPO	161,024	
Elimination of goodwill	-119,143	
		42,977
Retained profit		22,877
Consolidated net profit		74,910
Minority interest		91
Total		271,305

In addition, contingent capital of up to EUR 4,427,148.58 (DM 8,658,750) existed at the balance sheet date and was composed of 1,731,750 no-par value shares in order to service the 1,450,510 options already issued to members of the Management Board and certain eligible employees at the balance sheet date.

In accordance with section 20 of the AktG (Aktiengesetz – German Public Companies Act), the Software AG Stiftung (Foundation) has disclosed that it no longer holds a majority interest in the company.

"Minority interest" consists of the interest of a Turkish national in SAG-TR.

During 1999, the parent company paid a dividend of DM 9 million to the Software AG Stiftung, Darmstadt.

SPECIAL TAX-ALLOWABLE RESERVES

In line with section 273 of the HGB, combined with section 52 (16) of the EStG (Einkommensteuergesetz – Income Tax Act), special tax-allowable reserves of DM 4.6 million were set up. The effect on results of write-ups from equity interests totaling DM 5.8 million was thus spread across five years.

PROVISIONS

Provisions for pensions

The provisions for pensions relate exclusively to commitments to certain employees.

Provisions for taxes

The provisions for taxes relate to income and other taxes.

Other provisions

In 1999, other provisions now principally comprise provisions for residual risks from Y2K business, provisions for legal costs and pending losses from project contracts, outstanding invoices, foreign restructuring costs, employee bonuses and special payments, as well as provisions for employee vacation pay.

In addition, all other risks discernible at the balance sheet date have been accounted for.

LIABILITIES
Liabilities to banks
At the balance sheet date, these liabilities existed principally at the parent company.

All liabilities to banks are due in less than five years.

As collateral for liabilities of the parent company, certified land charges amounting to DM 7.0 million on land and buildings in Eberstadt have been provided as security for bank loans.

Payments received on account of orders
This item mainly includes payments received for services relating to customer projects by the French and German sales companies which have still to be invoiced.

Other liabilities
This item relates principally to tax liabilities, social security liabilities and liabilities from the acquisition of SGML Technologies Ltd., London and GOAL Technologies S.A., Paris.

DEFERRED INCOME
This item mainly consists of maintenance income attributable to subsequent years.

CONTINGENT LIABILITIES
Liabilities from warranty agreements:
DM 25.6 million (previous year: DM 23.9 million)

The contingent liabilities at the balance sheet date relate to guarantees provided by banks on behalf of Group companies and liabilities from guarantees to customers.

OTHER FINANCIAL COMMITMENTS
The rental and leasing commitments for fiscal year 2000 amount to around DM 26.3 million, with commitments for future years totaling approximately DM 68.6 million.

3. NOTES TO THE CONSOLIDATED INCOME STATEMENT

As in the previous year, the total cost method was applied.

REVENUE
Revenue is broken down by business sector and region as shown in the segment report (see note 4).

OTHER OPERATING INCOME
The other operating income totaled DM 48.6 million in the year under review. The key items this comprises are income from the reversal of provisions, realized foreign exchange rate gains, income from the reversal of deferred items, income from receivables that have been written off in prior years and income from write-ups on financial investments.

COST OF MATERIALS
Cost of raw materials and supplies, and of purchased merchandise
The cost of raw materials and supplies principally relates to printing supplies.

Cost of purchased services
In addition to external development work, the cost of purchased services primarily includes the use of external companies for service projects, allowing greater flexibility in the Group's cost structure.

PERSONNEL EXPENSES
As a result of the acquisition of five new companies and the associated increase in the number of employees together with salary increases, personnel expenses rose to DM 331.4 million (previous year: DM 275.9 million).

DEPRECIATION AND AMORTIZATION ON INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT
Depreciation and amortization on intangible assets and property, plant and equipment in 1999 (DM 16.5 million) is higher than the previous year's figure of DM 14.3 million. This is mainly due to the increase in tangible assets as a result of the new acquisitions and planned investments made.

OTHER OPERATING EXPENSES
The other operating expenses in the year under review totaled DM 214.0 million. The major items included third-party sales commission, rental of premises, consulting costs, travel expenses, IT costs and marketing and advertising expense.

The expenditure attributable to prior accounting periods totaled DM 1.1 million; the income attributable to prior accounting periods totaled DM 17.8 million.

INTEREST INCOME/EXPENDITURE

Due to the substantial improvement in liquidity, interest income totaling DM 9.2 million was recorded.

TAXES

The tax loss carryforwards were almost completely utilized in 1999.

4. SEGMENT REPORT

The Software AG Group is divided into five segments according to geographical and organizational aspects.

(1) The "Central Europe" segment includes Software AG in addition to SAG-D, SAG-A, SAG-CH, SIH, SAG-DK (including the subsidiaries SAG-N, SAG-S and SAG-SF) and SQL. The royalties arising from the cooperation agreement with SAGA are included in Software AG's revenue.

(2) The "Southern Europe" segment comprises SAG-E, SAG-P and SAG-I.

(3) SAG-F, GOAL, SAG-NL, SAG-B, SAG-UK and SGML Technologies (together with the subsidiaries ACSE and ISEA) are included in the "Western Europe" segment.

(4) In addition to the Asian companies, the "Asia" segment includes SAG-AUS and SAG-AUS (Holding).

(5) SAG-CS, SAG-TR, SAG-ME and SAG-USA (excluding SAG-AUS and SAG-AUS (Holding)) form the "Rest of World" segment.

All the intercompany assets and liabilities and all the intercompany income and expenses within each segment have been eliminated against one another.

The interest in SAP-SI is recorded within the Software AG Group using the equity method. This results in the adjustment to investment income. The elimination amount in the segment's assets comprises interests in associates, goodwill and receivables from associated companies.

Liabilities to associates are consolidated in the segment's liabilities. The elimination of investments in long-term segment assets is in line with the capital consolidation.

Segment report as of December 31, 1999

(DM thousand)	Central Europe	Southern Europe	Western Europe	Asia	Rest of World	Elimi- nation	Group
Revenue							
Licenses	131,818	28,139	48,953	13,516	20,908	-20,906	222,428
Maintenance	145,227	28,768	54,576	16,647	23,595	-29,343	239,470
Professional Services	105,028	76,913	66,063	3,721	3,292	-4,562	250,453
Other sales	12,426	273	2,692	5	77	-12,241	3,232
Total sales	394,500	134,092	172,284	33,890	47,871	-67,053	715,583
Result							
Depreciation/amortization	-13,930	-1,937	-2,320	-585	-398	2,690	-16,480
Interest income/expenditure	8,786	-354	1,434	-786	130	-31	9,179
Income from participations	1,217	0	0	0	0	3,293	4,510
Taxes on income	-32,625	-8,402	-4,561	-1,112	-901	-3,003	-50,604
Net profit for the period	28,320	17,639	21,388	5,835	8,283	-6,454	75,010
Balance sheet							
Segment assets	710,289	103,578	158,921	52,812	106,143	-425,261	706,482
Equity interests	20,868	234	7	0	0	4,110	25,220
Investments in long-term							
segment assets	116,057	1,477	7,394	776	34,773	-135,925	24,552
Segment liabilities	298,648	64,481	101,600	45,343	20,921	-95,816	435,177
Average number							
of employees	1,327	517	400	76	68	0	2.387

5. STATEMENT OF CASH FLOWS

The statement of cash flows shows investments in financial assets (DM 113.9 million) and the increase in liquid proceeds from the public offering (DM 176.0 million) as gross figures. In the balance sheet, goodwill is eliminated against capital reserves.

	1999	1998
	DM thousand	DM thousand
Net cash used in / provided by operating activities		
Income after taxes	75,009	52,210
Depreciation/amortization (+) / asset write-ups (-)	10,294	11,880
Increase (+) / reversal (-) of long-term provisions	1,141	877
Gain (-) / loss (+) from the disposal of fixed assets		
(including effects of currency translation)	1,031	-3,342
Cash flow	87,475	61,625
Increase (-) / decrease (+) in inventories	-3,820	-591
Increase (-) / decrease (+) in receivables		
and other current assets	-23,715	30,777
Increase (+) / decrease (-) in liabilities		
and other short-term liabilities		
and provisions	76,562	41,278
Dividends received	1,217	0
Net cash used in / provided by operating activities (a)	137,719	133,089
Investments in		
Tangible assets	-24,551	-17,917
Financial assets	-113,925	-19
Cash received from the sale of fixed assets	659	5,891
Net cash used in / provided by investing activities (b)	-137,817	-12,045
Increase (+) / decrease (-) in liabilities		
to banks	-2,233	-890
Dividends paid	-9,000	-1,000
Contribution from capital increase	176,024	0
Net cash used in / provided by financing activities (c)	164,791	-1,890
Increase/decrease in non-cash equity reserves		
(including minority interests and		
special tax-allowable reserves)	-5,406	673
Change in provisions (d)	-5,406	673
Net change in cash and cash equivalents (a-d)	159,287	119,827
Cash and cash equivalents at the beginning of the period	226,160	106,333
Cash and cash equivalents at the end of the period		
(including securities)	385,447	226,160

6. OTHER DISCLOSURES

SAG's executive bodies

Members of the **Supervisory Board**:

Dietrich-Kurt Frowein (Chairman)
    (from January 1, 1999)
    Place of residence: Frankfurt am Main
Supervisory Board mandates:
- Chairman of the Supervisory Board
  Commerzbank AG, Frankfurt am Main
- Member of the Supervisory Board
  Heidelberger Druckmaschinen AG, Heidel-
  berg
- Member of the Supervisory Board
  Mannesmann VDO AG, Schwalbach
- Member of the Supervisory Board
  Schunk GmbH, Thale
- Member of the Supervisory Board
  Nukem GmbH, Alzenau

Dipl.-Ingenieur Dieter Schacher
    (Deputy Chairman)
    Head of Management Organization and
    Systems, Volkswagen AG, Wolfsburg
    Place of residence: Berlin
Supervisory Board mandates:
- Chairman of the Supervisory Board
  gedas GmbH, Berlin
  in gedas subsidiaries:
- Member of the Supervisory Board
  gedas NA, Puebla, Mexico
- Member of the Supervisory Board
  gedas Inc., Auburn Hills, USA
- Member of the Supervisory Board
  Volkswagen Sachsen GmbH

Dr. Peter Lex
    (until September 30, 1999)
    Lawyer in Munich
    Place of residence: Munich

Dipl.-Informatiker Christian Wedell
    (until December 31, 1999)
    President of Nextgen, Inc.
    Place of residence: Gröbenzell
Supervisory Board mandates:
- Member of the Supervisory Board
  abilitree AG, Unterföhring
- Member of the Supervisory Board
  INEX Corporation, Toronto, Canada
- Member of the Supervisory Board
  Q-Research Inc., North Bend, USA

Dipl.-Sozialwirt Friedhelm Müller
  (Employee Representative)
  (until September 30, 1999)
  Software AG employee
  in the administration area
  Place of residence: Seeheim-Jugenheim

Dipl.-Informatikerin Karin Oppel
  (Employee Representative)
  (until March 27, 1999)
  Software AG employee
  in the product marketing area
  Place of residence: Kaiserslautern

Dipl.-Informatiker Detlef Winterstein
  (Employee Representative)
  (from May 11, 1999)
  Software AG employee,
  General Works Council
  Place of residence: Weiterstadt (from December 1999, previously Darmstadt)

Karl-Heinz Hageni
  (Employee representative)
  (from October 28, 1999)
  SAG Systemhaus GmbH employee in the
  training / consulting area
  Place of residence: Alsbach-Hähnlein

In the year under review,
the **Management Board** comprised:

Dr. Erwin Königs
  Chairman of the Management Board
  Place of residence: Kelkheim/Taunus
Supervisory Board mandates:
- Member of the Supervisory Board
  SAPSI GmbH, Alsbach-Hähnlein
- Member of the Supervisory Board
  SAGA Systems, Inc., Reston, USA
  (until October 7, 1999)

Dipl.-Kaufmann Volker Dawedeit
  Member of the Management Board
  Place of residence: Seeheim-Jugenheim
  (from April 1999, previously Darmstadt-
  Eberstadt)
Supervisory Board mandates:
- Member of the Supervisory Board
  SAPSI GmbH, Alsbach-Hähnlein

Dr. Helmut Wilke
  (until December 31, 1999)
  Member of the Management Board
  Place of residence: Königstein

The remuneration of Software AG's Supervisory Board totaled DM 360 thousand, the members of the Management Board received total remuneration of DM 4,024 thousand. Former members of the Management Board received DM 330 thousand. Pension provisions for former members of the Management Board totaled DM 3,679 thousand.

NUMBER OF EMPLOYEES

The average number of employees in the Software AG Group was 2,387 in 1999. As of December 31, 1999, the balance sheet date, the Group had a total of 2,620 employees.

Darmstadt, February 29, 2000
Software AG

Dr. E. Königs   V. Dawedeit

SOFTWARE AKTIENGESELLSCHAFT
INDEPENDENT AUDITORS' REPORT

We have audited the annual financial statements together with the bookkeeping system of the Company Software Aktiengesellschaft as well as the consolidated financial statements and its report on the position of the Company and the Group prepared by the Company for the business year from January 1, 1999 to December 31, 1999. The preparation of these documents in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements and the report on the position of the Company and the Group, based on our audit.

We conducted our audit of the annual and consolidated financial statements in accordance with § 317 HGB („Handelsgesetzbuch"; „German Commercial Code") and the generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland (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 and the consolidated financial statements in accordance with German principles of proper accounting and in the report on the position of the Company and the Group 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 diclosures in the books and records, the annual and consolidated financial statements and the report on the position of the Company and the Group are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual and the consolidated financial statements and the report on the position of the Company and the Group. 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 and the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Company and the Group, respectively, in accordance with German principles of proper accounting. On the whole the report on the position of the Company and the Group provides a suitable understanding of the Company's and the Group's position and suitably presents the risks of future development.

Frankfurt am Main, February 29, 2000

BDO Deutsche Warentreuhand Aktiengesellschaft (Auditors)

Dr. Jacob   Braun
Independent auditor   Independent auditor

SOFTWARE AG