ANNUAL REPORT 2000



software AG

in million EUR (unless stated)	Dec. 31, 2000	Dec. 31, 1999	Dec. 31, 1998
Revenue:	416.6	365.9	320.3
From:			
Licensing	132.9	113.7	96.3
Maintenance	127.9	122.5	109.8
Professional Services	154.9	128.1	111.0
Other revenue	0.9	1.6	3.2
Earnings before interest and taxes (EBIT)	105.8	59.3	40.6
as % of revenue	25	16	13
Profit before tax	112.9	66.3	44.6
as % of revenue	27	18	14
Net profit	66.6	38.4	26.7
as % of revenue	16	10	8
Earnings per share (EUR)	2.55	1.47	1.02
Earnings per share (EUR) according to DVFA/SG	1.51	1.34	0.93
Total assets	424.6	361.2	259.9
Cash and equivalents	215.3	197.1	115.7
Shareholders' equity	200.9	138.7	76.0
as % of total assets	47	38	29
Employees at Dec. 31	2,846	2,639	2,186
of these in Germany	1,292	1,257	1,170

SOFTWARE AG – A DRIVING FORCE FOR THE WORLDWIDE NETWORK ECONOMY

Software AG – Electronic business at the speed of XML

Software AG, with headquarters in Darmstadt, Germany, is one of the leading vendors of system software and services for mission-critical electronic business applications. In this market the company offers solutions for data management and tools for application development and integration.

By consistently building its new products on XML, the company provides key Internet technology for the worldwide Network Economy.

	million Euro	%
Germany	63.1	24.2
Rest of Europe	123.4	47.3
USA	39.1	15.0
Rest of world	35.2	13.5

Licensing and maintenance revenues in 2000 by region

Software AG associated companies

Software AG key distribution partners

SHIFTING GEARS

"Three years ago we began
to shift the focus of Software AG toward technologies
for e-business. The past financial year has clearly shown
that this strategy is successful."

Dr. Erwin Königs, Chairman and CEO, Software AG

LETTER TO OUR SHAREHOLDERS

Dear shareholders,

Back to the USA – this was Software AG's motto in fiscal year 2000. The US is the most important IT market in the world. So a software company that claims to be active on a global scale must be represented in this market and be successful there. The US market not only sets the technological trends in electronic business, it offers huge sales potential as well.

The US was already a highly significant market for Software AG in the past. The formation of our subsidiary at the end of 1999 was the first step towards establishing a direct presence there. We focused initially on acquiring partners and building alliances for our electronic business activities. The next step was to intensify direct sales to end customers. The establishment of our organization in the US was topped by and completed for the time being with our acquisition of Saga Systems Inc. As a result, we are strengthening our presence in North America dramatically. We have also come a decisive step closer to achieving our goal of positioning Software AG as a global market leader in XML technology for B2B e-commerce applications. The Saga acquisition will also strengthen our position in Japan, a leading market for mobile commerce technology. The convergence of the mobile telecommunications and Internet industries, which have both grown extremely rapidly in recent years, promises enormous business potential for the future.

However, our expansion on the North American market was not the only challenge we faced in the past fiscal year. To achieve rapid market penetration with our electronic business products, we had to establish indirect sales channels through partners. We acquired as many as 75 partners in the course of the year as a result of our partner program, which we launched at the beginning of 2000. These partners offer our electronic business products to customers in addition to our direct sales activities. This sales channel already contributed 12 percent to licensing revenue in Q4/2000.

Our electronic business products are the main drivers of Software AG's growth. Tamino – the first product platform in the world based entirely on the new Internet standard XML – had its market breakthrough in the past year. EntireX – our enterprise application integration (EAI) product – also experienced encouraging growth once again.

The fact that Tamino XML Database – the core of the *Tamino XML Platform* – has won several awards in the past year testifies to Software AG's lead in XML technology. The success of our new products is clear proof that XML is achieving greater and greater recognition.

Our company performed well in the enterprise transaction products market in 2000 in spite of an overall decline in the market. Software AG has continued to be successful in this market, although we expect growth prospects here to be relatively modest for the coming years. Our licensing, maintenance and services business in this area will also provide a secure base for further electronic business growth in the coming years. In addition, we consistently improved and further developed our enterprise transaction products Adabas and Natural in the past fiscal year in order to maintain their technological lead.

Fiscal year 2000 has clearly proven the success of the strategic reorientation of Software AG towards new electronic business technologies, which began three years ago. Fiscal year 2000 was the best in our company's history. Revenues and earnings have been improving continuously for four years.

Following the acquisition of Saga Systems Inc., the Software AG Group is represented by over 30 subsidiaries and over 90 branch offices in more than 70 countries – an excellent starting point from which to continue our successful expansion strategy in fiscal year 2001.

Dr. Erwin Königs
Chairman and CEO

SOFTWARE AG – CHRONICLE OF EVENTS IN 2000

Jan. 1	Seamless Y2K transition at Software AG and its customers.
Jan. 11	Software AG acquires equity in The Reference NV, Belgium's leading Internet software solutions provider.
Feb. 24	Global strategic partnership formed between Software AG and Microsoft in the middleware area.
April 13	Presentation of Natural Engineer, a product from the Natural family that Web-enables mainframe applications and simplifies software maintenance.
May 17	Software AG and IBM announce decision to market Tamino XML Database with the Linux operating system on IBM's S/390 hardware platform.
June 26	Software AG is named market leader for XML database management systems in an IDC study.
June 26	Tamino XML Database is made available for the Solaris operating system platform from Sun Microsystems.
June 30	Software AG forms subsidiary in Warsaw, Poland.
July 11	Software AG acquires equity in European Internet company Winsome S.A., Brussels, Belgium.
July 25	Software AG and Magirus conclude first distribution agreement for electronic business products.
Aug. 10	Version 5.3 of Software AG's EntireX middleware product released.
Oct. 12	Software AG is largest international middleware vendor according to IDC study.
Oct. 24	Software AG acquires Italian IT services provider Instrumatic 2000.
Oct. 26	Software AG and SCO provide Tamino XML Database for the UnixWare 7 operating system.
Nov. 1	Strategic XML partnership is concluded between Software AG and Sequoia.
Nov. 2	Software AG makes a takeover bid for US software company Saga Systems Inc.
Nov. 6	Unveiling of *Tamino XML Platform*.

REPORT OF THE SUPERVISORY BOARD

The Supervisory Board of Software AG monitored the Executive Board during the fiscal year 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 five joint meetings with the Executive Board, and individual transactions requiring the Supervisory Board's approval as stipulated by the law or the Company's Articles of Association were 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. The Supervisory Board analyzed in detail the acquisition of Saga Systems Inc., USA, before giving its approval. In addition, the Chairman of the Supervisory Board also received monthly written reports from the Executive Board on the state of the business.

Mr. Frank F. Beelitz was appointed to the Supervisory Board with effect as of January 1, 2000 following a resolution of the Darmstadt Local Court.

The Supervisory Board appointed Mr. Andreas Zeitler as a member of the Executive Board with responsibility for sales, marketing and services with effect as of April 15, 2000.

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.

BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, audited the financial statements and the consolidated financial statements as of December 31, 2000 and the management report including the accounting, and issued an unqualified audit opinion.

The audit report was submitted to the Supervisory Board and explained to the members of the Supervisory Board and the Executive Board personally by the auditor responsible for performing the audit.

The Supervisory Board examined the audit report in detail in its meeting on March 2, 2001 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 2001
The Supervisory Board

Dietrich-Kurt Frowein
Chairman

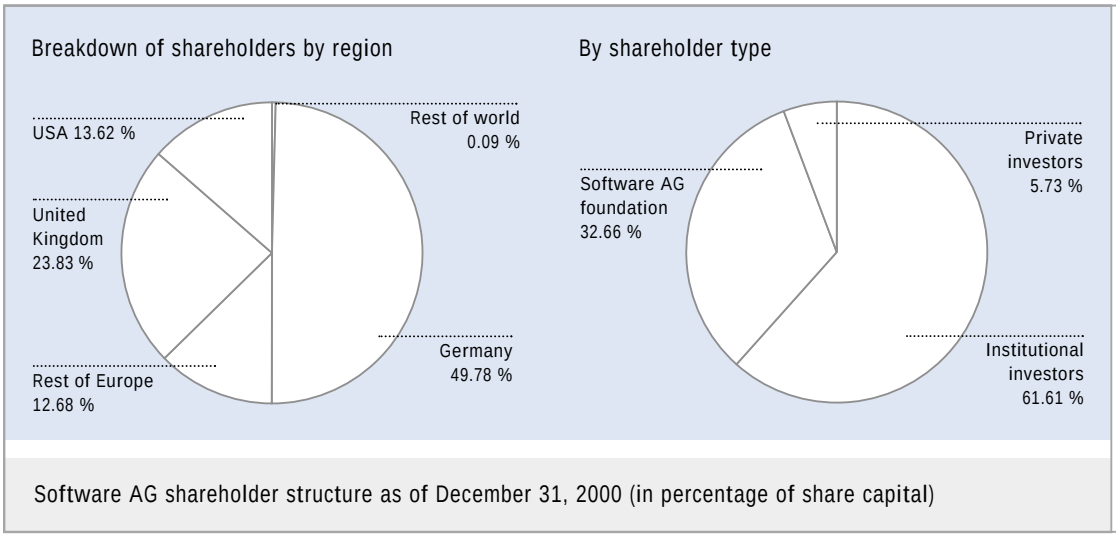
SOFTWARE AG'S STOCK

A turbulent year on the stock markets
2000 was a highly turbulent and eventful year for investors. The unprecedented boom on the stock market in the autumn of 1999 resulted in an all-time high in key indices in the spring of 2000. However, this upward trend, which was mainly accounted for by TMT stock (technology, media, telecommunications), was subsequently and suddenly replaced by an equally unprecedented slump. By the end of the year the Nasdaq Composite index had fallen by over 50 percent from its all-time high in March 2000. The losses recorded by Nemax 50, Europe's most important technology index, were even greater. Here the adjustment as against the high for the year amounted to almost 70 percent. The DAX also ended the year down, at –7.5 percent, for the first time since 1994. The trend among investors away from new economy stocks in the second half of 2000 is reflected in the performance of the MDAX. In contrast to the general trend, the index, which is dominated by companies from traditional industries, improved by almost 14 percent year-on-year.

All in all, Software AG´s stock performed well in 2000 in this difficult market environment. The general enthusiasm for the Internet and interest in our electronic business products led to our share price soaring in the spring. However, the extreme highs reached could only be maintained in the short term, and our share price could not escape the effects of the general market trend over the rest of the year. However, our highly encouraging revenue and earnings development – as well as other positive company news such as the announcement of the acquisition of Saga Systems Inc., the introduction of the *Tamino XML Platform* and the successful establishment of indirect sales activities – helped to at least curb the decline. Overall, our share price even increased by 37 percent on the previous year. Software AG`s stock thus performed significantly better than both key comparative indices, the MDAX and the Nemax.

More intensive communication with shareholders

The growing globalization of capital markets and their increased volatility has substantially increased investors' demands for professional financial market communication. The company's voluntary quarterly reports guarantee that all investors are provided with timely and comprehensive information on company performance. Interest in Software AG shares increased significantly in the past fiscal year. This is, among other things, evident from the liquidity of our shares, which increased continuously over the course of the year. Software AG is now one of the 35 most active stocks on the DAX 100 in terms of turnover.



Software AG shareholder structure as of December 31, 2000 (in percentage of share capital)

We took the opportunity offered by the increased interest in our stock to establish and expand additional contacts with analysts, investors and financial journalists. The number of financial analysts reporting regularly on the company rose to 18 in the course of the year.

Our investor relations activities focused on increasing public awareness of Software AG. Portraits of our company were published in numerous investor journals and important business newspapers. Although a large number of first-class investment funds have invested in Software AG, few private investors have taken the opportunity to invest directly in our shares. As a result, we intend to focus on acquiring further private investors in 2001.

Launch of registered shares

Registered shares are a valuable instrument for improving communication with shareholders. Our company's shares have been traded as registered shares on the stock exchange since December 4, 2000 following the stockholders´ meeting resolution on June 6, 2000 to convert bearer shares to registered shares. Registered shares are particularly advantageous in that

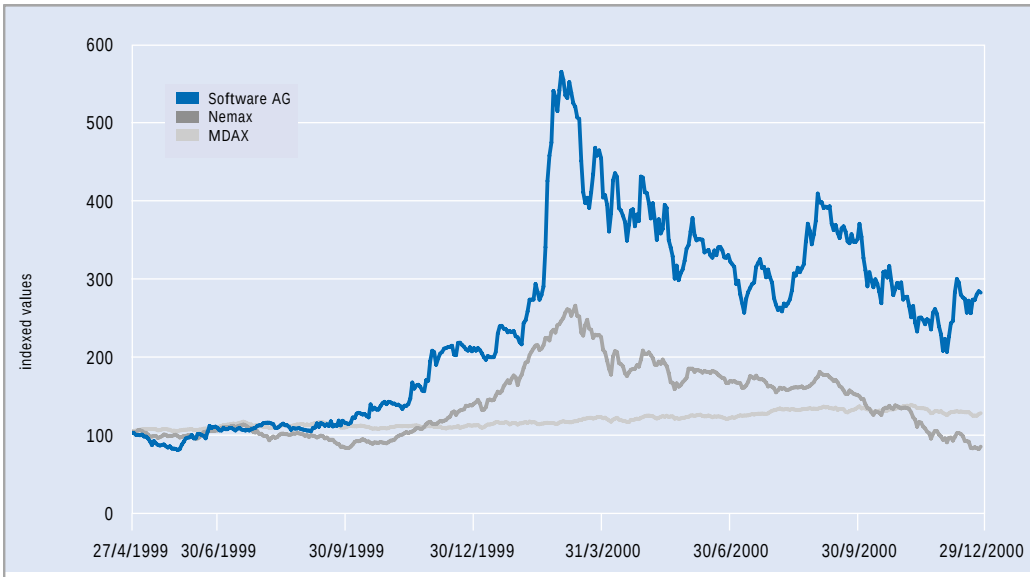
	April 26, 1999 *	Dec. 31, 1999	Dec. 31, 2000
Price	30.00 **	60.50	82.66
Stock market capitalization in EUR billion	0.78	1.58	2.18
Number of shares (increase due to exercise of stock options)	26,090,000	26,090,000	26,397,228
High/Low in 2000	167/57		
Dividend per share for 1999	0.28		

Software AG share price indicators in euros (XETRA closing prices)

Frankfurt Stock Exchange, Main Trading Segment, Index MDAX, Securities identification number (WKN) 724 264

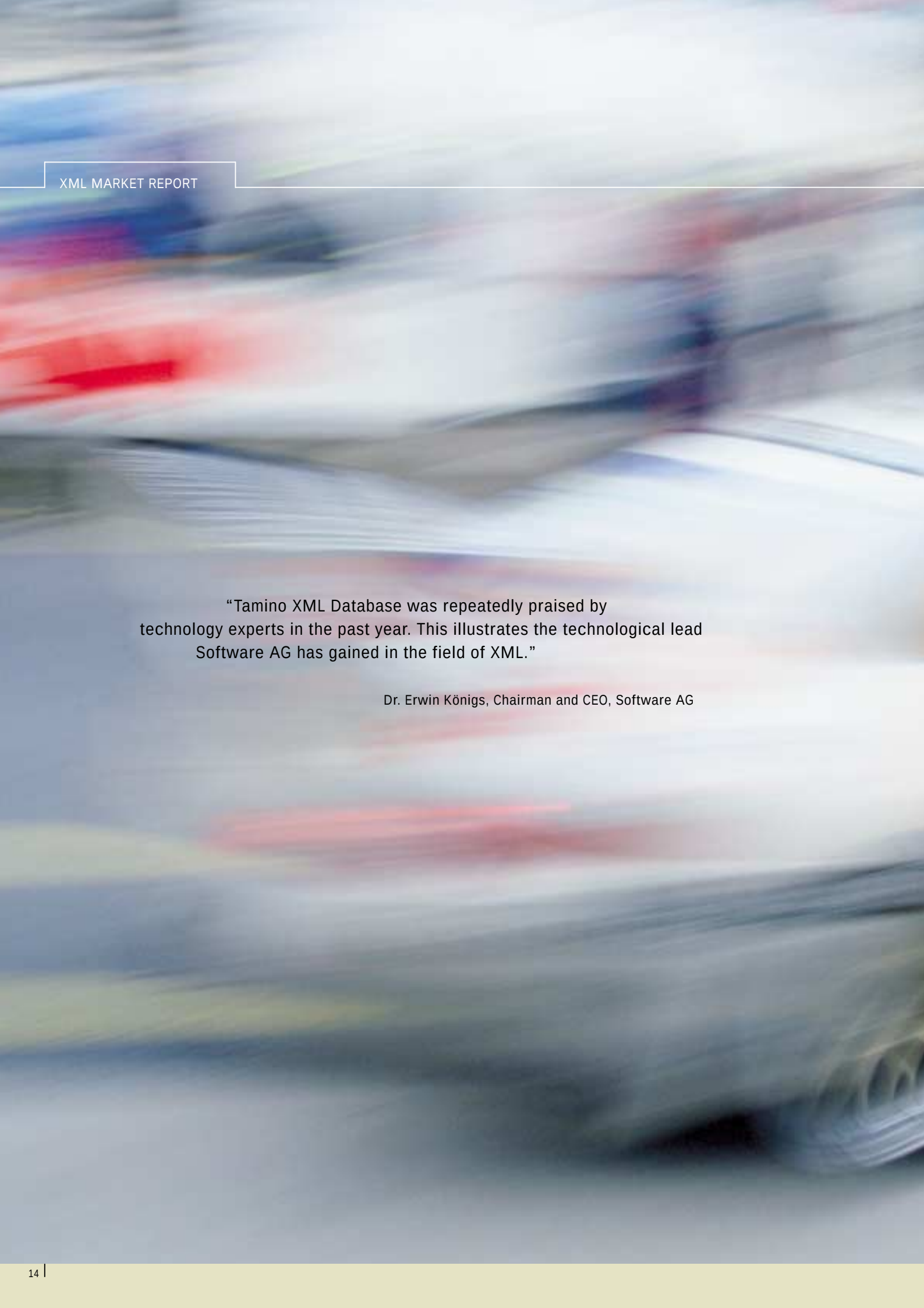
*IPO of Software AG

**Issuing price



Development of the Software AG's share price in comparison with MDAX and Nemax-All-Share (indexed)

they enable closer contact between the company and shareholders. The maintenance of a share register containing shareholder data means that registered shareholders can be kept informed of developments in a more timely and cost-effective manner. For example, shareholders will receive information on the annual stockholders´ meeting directly from the company. What is more, registered shares are common in English-speaking countries, which will make it easier for us to acquire international investors.



"Tamino XML Database was repeatedly praised by technology experts in the past year. This illustrates the technological lead Software AG has gained in the field of XML."

Dr. Erwin Königs, Chairman and CEO, Software AG

SPEEDING UP

HIGH-SPEED ELECTRONIC BUSINESS WITH XML

2000 got off to a successful start both for the IT industry and the global economy. As a result of extensive preparations to cope with the date change, computer systems generally hit the ground running in the new millennium! All over the world IT experts provided professional solutions to this important challenge. However, the industry is now faced with different challenges in the new millennium. For example, it became clear in 2000 that electronic business is now the pacemaker for the entire economy. Virtual marketplaces, supply chain integration, electronic procurement and mobile business are occupying the attention of management and IT experts

The global networks of information systems are the driving force behind the Network Economy

alike. In particular, issues such as content and document management have become even more important in today's globalized knowledge society.

According to many experts, the issues raised by these developments will continue to be relevant long after 2001. They mark the beginning of the third generation of information technology. This is based on the Internet as an information medium and is dominated by the global integration of information systems and transaction processing along the entire value chain. In this way information technology is becoming the engine of the network economy.

"The eXtensible Markup Language (XML) continues to gain ground as the language of choice to integrate data between applications and between companies, with strong acceptance in the rapidly emerging B2B e-commerce area."

Brian Skiba, Senior Research Analyst, Lehman Brothers

CUTTING-EDGE TECHNOLOGY FOR THE NETWORK ECONOMY

What is certain for IT experts and company managers is that state-of-the-art, high-performance technology is necessary to meet this challenge. Extensible Markup Language (XML) provides the core technology on which the new generation of information technology can build.

- As the standard for data exchange, XML plays a central role in electronic transaction processing in a globalized economy.
- As the lingua franca of the Internet, it can integrate different applications effortlessly and has therefore become the key technology for integrating distributed applications.
- XML boosts the speed of data exchange and other processes.
- XML replaces the complex technology architectures previously used to manage and store multimedia data in heterogenous data structures, and therefore supersedes traditional database concepts.
- XML provides a media-independent standard that simplifies information publishing processes.

Software AG has been focusing its development activities on this new standard since 1998. With its products and expertise, it is well equipped to help its customers migrate to third-generation information technology and rapidly enter the new world of electronic business. For many companies this is important for securing their strategic objectives and even their existence.

IT for global business processes

Electronic interaction between companies will go well beyond orders and confirmations in the future. Many companies will manage development, customer service, marketing planning and sales management activities together with partner companies via electronic channels. This will require extensive changes to internal IT systems to produce an approach that enables the modeling of global business relationships. Together with the Internet, XML – as an open standard – offers the flexibility required to process complex global business transactions.

However, such networked structures require a great deal of integration on the part of the systems of the companies concerned, something that is difficult to achieve using traditional database concepts alone. In addition, analysts from International Data Corporation (IDC) have reported in a study that integration is becoming a crucial aspect of electronic business and that XML is in a position to perform complex integration processes. Naturally, traditional databases will continue to be used to store pure data in the form of figures and text. However, where communication and business transaction processing are involved, XML will take center stage. The main advantage is that XML, a universal data description language, can "understand," relay and process data in the widest variety of formats. Until now, individual applications have used their own proprietary data formats, which often resulted in inflexible, isolated standalone solutions. XML-enabled applications, on the other hand, can exchange data without any problems. No comparable universal approach to performing integration processes in electronic business previously existed.

High-performance information technology is the basis for success in the globalized economy

Electronic business at high speed

The major advantage of electronic business lies in the speed of data exchange, which also improves productivity and process performance. Companies that can react immediately and integrate their processes seamlessly will be the preferred partners in the future. However, the performance advantages of XML can only be fully utilized if systems can process the data format directly – i.e. if no further conversion is necessary. The difference in performance between so-called "native" XML databases and other XML-enabled databases is not as clear when it is a case of merely storing data. However, if the data must be changed on an ongoing basis – as is the case in business transaction processing, for example – the use of native XML databases becomes crucial, as these are considerably more flexible and quicker. Software AG's Tamino XML Database is currently the only database on the market that enables the native storage of XML on different operating systems and thus makes full use of the advantages of XML.

Using information flexibly and effectively

Companies which work with and must integrate highly heterogenous data formats up to and including multimedia are among those profiting the most from the successful use and native storage of XML. In the past, processing multimedia data in particular required complicated technology architectures because this content was available in heterogenous data structures and could not be integrated without extra effort. XML offers a standardized data structure and can also process these types of multimedia data. Among the first industries to make comprehensive use of XML's potential are healthcare and multimedia – for example, in publishing, graphics and design, film and music or CAD/CAM.

With XML, data becomes not only faster and more flexible, but also multifunctional. Information publishing is one of the key areas to benefit from this feature as XML enables the publication of data across different types of media without requiring major effort. In the information society of the 21st century, it is not enough for companies to just make their information available on the Internet. The ability to provide the right information to the right target group and at the right place at the right time is

a decisive success factor. For example, a sales representative may want to query current orders via the Internet from a mobile phone or a journalist may want to file a report for a print or online edition directly to the publishing system while on the go. Information prepared in XML format can be displayed not only via Web browsers on WAP mobile phones, but also personal digital assistants, palmtops or electronic books, CD-ROMs and print processing applications without any problems. XML enables the easy separation of content from layout. Information can therefore be utilized very efficiently, in line with the idea "create one medium, publish multimedia."

The economic potential of XML

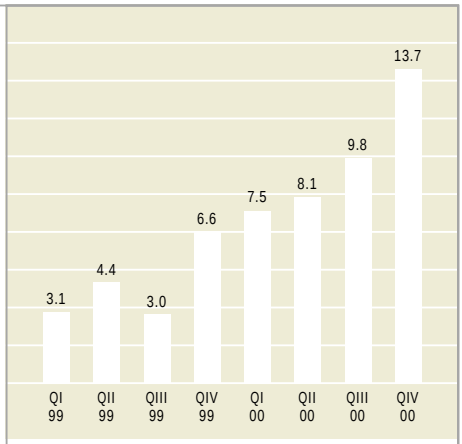
Extensible Markup Language (XML) offers a standard which can assume the role of a lingua franca in Internet communication. XML enables the seamless exchange of data. This not only provides companies with a link to the network economy, it also allows them to realize significant cost savings, as XML considerably reduces the effort involved in data exchange. Current IT systems use the major part of their computing power not for processing business-critical transactions, but quite simply for data exchange. Different data structures and proprietary systems do not enable data to be forwarded from one application to another without often laborious conversion. At the same time, it is becoming more and more important for companies in the network economy to be able to exchange data both internally and across company boundaries. Companies that have recognized the potential of XML can reduce the costs both of information procurement and of coordinating and settling business transactions for the long term, and hence secure a decisive competitive advantage.

POSITIVE DEVELOPMENTS IN THE XML MARKET

The XML applications segment of the IT market is currently in the "early adopters" phase. However, according to IDC, XML differs in one key aspect from many other new technologies launched on the market. It is very well known and everyone recognizes how important it is. Corporate IT managers on both a general managerial and a technical level know that XML is the standard for information exchange in the network economy. The "conversion" of IT experts to the new technology is thus almost complete. This can also be seen from the fact that the standard is very popular in application development, a trend which is reflected in a rapidly growing number of XML-based applications, among other things.

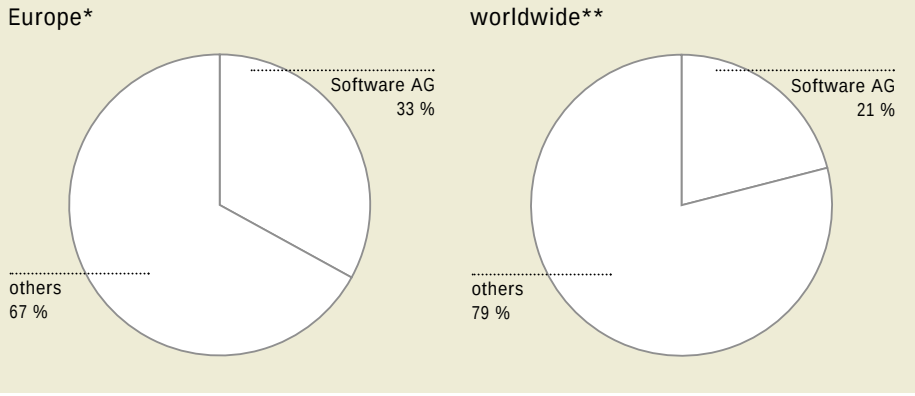
The reason for this is that there is an increasing need on the part of electronic business to exchange XML documents – both to forward information and to process transactions. Demand is therefore growing for a software infrastructure which allows companies to catalog, manage and distribute XML documents and implement changes. As a result, database systems have to fulfill a number of specific requirements.

- Databases must save XML documents in the hierarchical format in which they were created.
- Systems should be able to derive data structures directly from the documents.
- XML documents should be easy to find with an efficient search function.



E-business developments by quarter: licensing revenues EntireX/Tamino 1999/2000 (in million euros)

Over the past two years licensing revenues from e-business products have increased steadily



Market share of Software AG for XML and virtual databases

*Source: The Western European Information and Data Management Software Market Forecast and Analysis, 2000–2004, IDC, June 2000, reference unit: 1999 licensing and service revenues

**Source: Information and Data Management Systems Market Forecast and Analysis, 2000–2004, IDC, June 2000, reference unit: system software revenues 1997–1999

Software AG is well-positioned worldwide in this segment

Software AG has established itself as a pioneer in this area and has an excellent market position. According to an IDC analysis performed in 2000, the company had a 21 percent share of the global market for XML and virtual database management systems. IDC expects this XML database market segment, which is still in its infancy, to continue its strong growth. On average annual market growth rates of 129 percent are being forecast for the period up to 2004. And these figures are just the tip of the iceberg since XML is leading to an entirely new form of information processing whose potential is difficult to express in figures today.

Software AG's XML product range puts it in an excellent starting position from which to optimally exploit this market development. The Tamino database product is a high-performance database that enables the native storage of data in XML format. *Tamino XML Platform*, which Software AG launched in November 2000, expands this database with integration technology and development tools to form a comprehensive platform. This platform is characterized by its flexibility and openness to different system platforms and applications, and enables customers to realize the potential of this new technology for themselves. Software AG has further expanded its leading position with this offering – the first complete architecture for developing and implementing XML applications.

Mobile Business: Internet and telecommunications technology make it happen

XML MOBILIZES DATA AND ITS USERS

There will probably be more mobile than wired participants in electronic business by the end of 2002. In other words, the two technologies with the greatest growth potential of the past decade, the Internet and mobile communications, are converging. The mobile e-market is becoming one of the fastest growing markets – information and data are becoming mobile. In the future, it will be possible to execute all Internet transactions on mobile terminals such as WAP phones as well. According to estimates by Dataquest, up to 80 percent of mobile phones sold will be Internet-enabled by 2003.

This is not so much a unique development in information technology as the continuation of a known trend. The term "mobile applications" covers much more than just wireless communication. Rather, mobility comprises the ability to transport applications and to access these applications using different devices from different locations. Transmission technologies such as GPRS, UMTS or Bluetooth are only part of the solution according to this concept. The key challenge is not just to make terminals mobile, but also to mobilize data and applications so that they can be used on different output media at different locations. A prominent example of this technology is online banking, where transactions can be executed both via mobile phone and PC.

However, to be able to display and process the data on different terminals, a standardized data description using XML is necessary. This separates the data content from the form in which it is displayed and enables cross-media publication. XML enables content from the same data source to be made available for each terminal in accordance with the specific features of that device. It therefore not only supports existing business processes, it also enables the development of entirely new business models.

E-logistics using XML: modern fleet management at DaimlerChrysler

Whether for online shopping, electronic procurement or making purchases via electronic marketplaces, conducting business over the Internet simplifies many trading processes. However, online trading presents a particular challenge to logistics, which ensures the timely delivery of goods with the help of optimal information flows and first-class planning. For example, Mercedes-Benz FleetBoard, DaimlerChrysler's fleet management services provider, uses innovative Internet technology to make carrier vehicles available virtually. Software AG has developed a new transport management solution for FleetBoard on the basis of Tamino XML Database, which optimizes and makes transparent carrier workflows and enables efficient scheduling. The carriers can forward orders directly to the drivers and keep themselves informed of the position of goods and possible changes. As FleetBoard clearly shows, the right combination of Internet technology and XML enables intelligent concepts for cutting-edge e-logistics processes.

E-LOGISTICS – THE SPORT OF KINGS

This can clearly be seen in the area of e-logistics. Internet business implies faster order processing. However, countless online shops and their customers know from experience that Internet-based information exchange only brings benefits if logistics processes can keep up with it. Above all, electronic business requires that companies rethink their logistics processes radically towards e-logistics. This means a systematically designed concept that not only enables intelligent electronic networking of customers and suppliers but also integrates partners such as courier, express and package services right up to package shops. For example, Mercedes-Benz FleetBoard, DaimlerChrysler's fleet management services

Yellowworld: the Swiss postal service on the Web

Electronic business is also the right way to go for an established company such as Schweizer Post. The Swiss postal service has enhanced its traditional activities – providing postal services and payment transactions – to embrace the new economy with its new Yellowworld Internet portal. The portal also offers news services, e-mail and a comprehensive online shopping offering. Software AG developed a portal solution for the Schweizer Post together with Xmedia, its Swiss consulting partner, within just one year. Yellowworld aims to become Switzerland's largest virtual trading and online shopping center. Software AG's Tamino XML Database forms the efficient integration platform here. Its high level of performance and the short response times in particular have convinced the Swiss: they want to integrate up to 300 online shops into their shopping mall.

provider, is breaking new ground with XML in this area. In cooperation with Software AG FleetBoard has developed a new transport management solution based on Tamino XML Database, which enables carriers to enter their order data, plan routes and then forward this data directly to the vehicle driver's cab. In this way, service providers can optimize their capacity utilization and can react to changes in a flexible manner. Because data and processes are faster, electronically ordered goods reach their destination quicker – a clear competitive advantage for the logistics companies of the future.

Gaining a competitive advantage in e-logistics was also the goal for Schweizer Post, the Swiss Postal Service Organization. Convinced that the future of postal services lies in electronic business, Schweizer Post founded Yellowworld AG, designed to put its activities onto the Internet. Alongside e-logistics solutions, the new Yellowworld portal, which is based on Tamino XML Database, offers an impressive online shopping mall which integrates a wide variety of Web shops. Software AG developed the portal solution together with Xmedia, its Swiss e-business consulting partner, within just one year. The decisive advantage for Yellowworld is its seamless integration of different systems and the resulting ease of management of its Web shops.

PROCESS INTEGRATION ALONG THE VALUE CHAIN

The integration of logistics into business processes is not the only important factor for electronic business. Market researchers such as the North American Giga Information Group believe that companies can only utilize the potential of the Internet efficiently and on a lasting basis if they include their entire value chain on the Internet. They will only enjoy a strategic advantage when it is possible to integrate all procurement and supply processes up to and including product design.

These process chains will be largely responsible for the success of concepts such as e-procurement, portals or business-to-business marketplaces. They will be a major factor in deciding whether a company is successful in the globalized network economy.

xmedia

Successful cooperation:
working closely with Swiss consulting company Xmedia AG, Software AG developed the portal for Yellowworld AG. (From left: Daniel Grossen, member of Xmedia AG's managing board; Andreas Waber, portal manager of Yellowworld AG; Richard Bratschi, project manager at Yellowworld AG)

High-pressure information management

If companies want to stay competitive, they have to use information efficiently to add value to their business processes. Finding ways to employ information flexibly and for multiple purposes allows organizations to truly exploit the potential of their data. For example, Software AG has developed an XML-based content management system for Kaeser Kompressoren for creating manuals. With this system, the individual units of information that describe the wide array of products made by the compressor specialists can be managed and reused optimally. The solution benefits from the fact that XML separates content from presentation. And its users – in this case documentation writers – can assemble the information units for different formats and according to individual product characteristics. Manuals on demand.

Efficient content management optimizes the time to market at Kaeser Kompressoren

EFFICIENT INFORMATION MANAGEMENT WITH XML

The information age also lays down another basic condition for successful trading in this globally integrated economy – information must be processed efficiently and used strategically. Never before have companies published data such as product information, prices and technical documentation to the extent that they do today. To do this, data must be retrieved, sorted and consolidated to produce specific information offerings in a highly targeted manner across system boundaries.

For example, Software AG developed a content management solution for Kaeser Kompressoren in which the operating instructions for the company's extremely wide range of compressed air products are assembled automatically. The XML-based system supports technical documentation processes and hence shortens Kaeser Kompressoren's production time.

Success in electronic commerce also depends increasingly on whether companies can make available all necessary information at the time a query is made. The company that can provide its online customers not only with product and price information but also with user-specific data such as delivery times and more detailed specialist information will have the decisive competitive advantage. System platforms will have to be able to generate this type of information seamlessly in the future.

Mobilizing data in the World Wide Web

empolis, an Internet start-up company, is developing just such an intelligent user platform. The Bertelsmann subsidiary uses Software AG's Tamino XML Database to filter the specific information that each user requires from its heterogenous databases. empolis is working on integrating the results of its orenge search engine with a catalog system and content manager in such a way that different types of expert knowledge can be extracted from specific queries. The XML content description language considerably simplifies the process of finding this type of knowledge across media. Products such as orenge, which builds on Tamino technology, are thus an important step towards mobilizing information and ensuring that the Web is as user-oriented as possible.

SOLID AND FLEXIBLE – *TAMINO XML PLATFORM*

To meet the many challenges presented by a network economy and electronic business, companies need a reliable and efficient basis – a cross-system platform.

Automotive manufacturers offer a well-known example of a platform strategy. Almost all manufacturers use unified substructures from which different models can be built using standardized components and technologies. The advantage is considerably faster production and the related savings on production costs.

Openness is part of the concept

In contrast to automotive production, which in the final analysis remains manufacturer-specific, Software AG offers an "industry-wide" open platform with the *Tamino XML Platform*. It is composed of Tamino XML Database, the Tamino X-Bridge integration tool and the application development tools contained in Tamino X-Studio. The robust, mission-critical electronic business applications required by the network economy can be developed using XML. Systems must be accessible 24 hours a day, 7 days a week and must be able to adapt rapidly to meet changing business conditions, because systems that are not available represent a substantial financial risk in a network economy.

Dr. Stefan Wess, Chief Technology Officer at empolis, counts on XML when it comes to knowledge management

Bertelsmann subsidiary empolis mines expert knowledge from the Web

Water, water everywhere, but not a drop to drink... is the best way to describe the current status of the Web. Many users are frustrated when they cannot find the information they require among the enormous quantities of data available. Intelligent knowledge management is therefore a key success factor for e-commerce as well.

The Bertelsmann subsidiary empolis uses Software AG's Tamino XML Database in its orenge product to extract specific information from heterogenous data. orenge is like a virtual salesperson that understands what a "customer" on the Internet wants. It can select, offer and explain specific products and provide background information, for example. orenge makes expert knowledge available on the Web by closely interlinking search engines, catalog systems and knowledge brokerage on the basis of XML.

The *Tamino XML Platform* enables companies to develop the most varied of electronic business "models" using XML within very short periods of time. These companies, like those in the automotive industry, can expect substantial acceleration of their "production process" – i.e. an optimal time-to-e-business.

The *Tamino XML Platform* provides a solid and future-proof base for the development and operation of electronic business applications and offers the highest level of flexibility. It supports the most important operating systems and enables the linking of the most diverse applications and systems.

As an open system platform, *Tamino XML Platform* provides value-added resellers (VARs) and independent software vendors (ISVs) with an optimal base on which to develop customer-specific and standardized applications. Applications based on Tamino are characterized by their high level of compatibility. *Tamino XML Platform* enables seamless interaction with the most varied of solutions, which allows Software AG's many partners to concentrate fully on their core competencies in application development, and to build a large number of Tamino-compatible applications to meet a very wide range of requirements. At the same time, Software AG's future-proof and flexible products guarantee customers optimal investment protection and a large selection of e-business solutions. In other words, Software AG has positioned itself as an e-business enabler and focuses on cooperation with competent partners. In its indirect sales business, it works together with VARs such as Magirus Datentechnik, ADN, Softchina and Asiasoft and with ISVs such as Linkedwith, web2CAD, Mediascope and Ventas AG. Software AG intends to systematically expand this partnership strategy in the current fiscal year as well, and to significantly grow its solutions offering together with its partners.

"As long as you are just storing data, the difference (between native and non-native storage) isn´t that great. But if data has to be processed as well, the choice to use a native XML database is extremely logical, particularly considering the speed issue."

Dr. Anthony C. Picardi, Head of Worldwide Software Research, International Data Corporation (IDC)

NETWORK ECONOMY: XML INTEGRATES THE ECONOMY

From mobile business to e-logistics and content management - Software AG's new *Tamino XML Platform* creates optimal conditions for Internet-based transaction processing, for the end-to-end integration of processes across company boundaries and for making the virtual company a reality. XML opens up a completely new world of applications offering new, effective forms of information use and processing. With its focus on XML-based products, Software AG is in an excellent starting position to play a decisive role in the new generation of information technology.

PULLING AHEAD

“75 new distribution partners signed on last year.
The indirect sales channel has accelerated our
worldwide market penetration.”

Andreas Zeitler, Member of the Executive Board responsible for Sales, Marketing and Services, Software AG

COMBINED MANAGEMENT REPORT OF SOFTWARE AG AND THE SOFTWARE AG GROUP AS OF DECEMBER 31, 2000

Market developments

The development of the software industry in the past fiscal year was initially dominated by the anticipated year 2000 problem and the date change on February 29, 2000. The entire industry managed to master both events without major problems. The various doom-and-gloom scenarios that prophesied global computer failures and resulting production and delivery outages did not materialize. Nevertheless, the problem did leave its mark on the software industry. After most enterprises had solved their conversion problems and had made the corresponding investments by the middle of 1999, the year 2000 problem meant that they were substantially less inclined to invest in new software in the second half of 1999. This "investment backlog" was compensated for to a certain extent in the first six months of the past fiscal year.

After the year 2000 conversion problem had been solved, developments in the software industry in 2000 were clearly dominated by the Internet. Whereas in the past three years the focus was on solutions in the B2C (business-to-consumer) e-commerce area, many enterprises have now started B2B (business-to-business) e-projects. An increasing number of companies are using their information technology as a strategic tool. Converting workflow to electronic processes, the Internet acting as the driver, promises substantial productivity increases.

Software AG's systems software offering covers both electronic business and enterprise transaction products. Electronic business products enable business transactions to be processed using information systems and networks. This also includes Enterprise Application Integration (EAI) products, which integrate exi-

sting heterogeneous software applications. Enterprise transaction products consist of software that enables processing of mission-critical transactions.

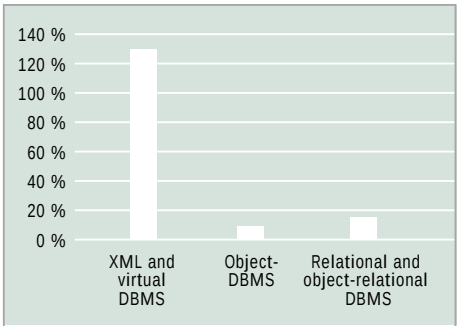
Electronic business software continued to be the most interesting and dynamic sector of the software industry in 2000, and Software AG was able to achieve above-average growth in this future-oriented market. Our Tamino XML Database, which was unveiled in November 1999, is the world's first database to be able to store and process native XML documents without having to convert them first. Tamino XML Database is the centerpiece of Software AG's *Tamino XML Platform* – the world's first fully XML-based product platform – which was launched in November 2000.

As in previous years, the market for Enterprise Application Integration software has witnessed double-digit growth in the period under review. This clearly demonstrates that EAI based on middleware or componentware technologies is becoming increasingly important for enterprises. The ability to integrate existing IT platforms and to link disparate software systems means long-term investment protection for customers, since legacy systems can easily be adapted to meet new requirements and to run in new environments.

This development is being reinforced by a change in the strategic direction of the software industry. Previously used proprietary systems are increasingly being opened up for integration and data interchange. Software AG is a long-term proponent of this philosophy, which is becoming increasingly important in today's e-business age: platform- and system-independent software makes it easier for customers to implement electronic business processes and hence to increase productivity.

In the past fiscal year, Software AG was able to further extend its position in the EAI market. According to International Data Corporation (IDC), Software AG is the leading international middleware supplier in a market that is otherwise dominated by US enterprises. IDC's independent sector analysts expect the middleware market to grow by 255 percent to USD 9.7 billion by the year 2004. Application integration for electronic business is considered to be driving growth in this market.

After three years of growth, the market for traditional database management systems (DBMSs) for mainframes and software development tools showed signs of weakness in 2000. Most software suppliers in this market segment had to cope with a decline in license revenues. This development did not come as a surprise to Software AG. We had assumed from the start that the global market for classic mainframe DBMSs did not offer much potential for growth: this is one of the main reasons why we have focused increasingly over the past three years



Average annual growth rates (CAGR 1999 – 2004e) in selected market segments for database management systems (DBMS)

Source: IDC 2000

With Tamino XML Database, Software AG is well positioned in the market for XML and virtual DBMS

on the development and sale of electronic business software. Nevertheless, the classic mainframe DBMS market continues to be extremely important, since revenue and earnings in this area form the foundation for the company's continued growth. Close customer relationships in this market segment mean that we will continue to provide our installed base with enhancements and innovations in the form of state-of-the-art software products. Moreover, these customers provide an excellent basis on which to successfully position our new electronic business products. The importance of these enterprise transaction applications for Software AG is also reflected in the level of research and development expenditure for our Adabas and Natural products. Thirty-eight percent of the R&D budget in 2000 was spent on the further development and enhancement of these products, which have been highly successful and proven their value for many years.

Strategy

Software AG's early adoption of XML as the technology standard for electronic business bore its first fruits in 2000. At 29 percent of license revenues, our electronic business product range made a substantial contribution to growth. A glance at the growth rates for this product group provides an indication of the dynamic developments in the B2B e-commerce market as a whole: license revenues for electronic business products surged 129 percent over the previous year.

A key component of our growth strategy is to establish indirect sales channels for our electronic business products. In the future, these products will be sold not only via the company's direct sales structures but also via a network of distributors and independent software houses. At the end of fiscal year 2000, Software AG's global sales network already comprised 75 sales and cooperation partners, all recruited since the start of the partner program at the beginning of the year.

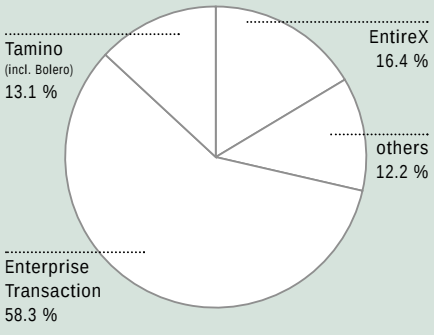
Our presence in the US market is extremely important for our continued growth. This region represents the largest single market in the IT industry and is the leader in the areas of B2B e-commerce and XML technology. At the end of 1999, Software AG, Inc. was founded in the US with headquarters in San Ramon near Silicon Valley in California. In the course of the period under review, we succeeded in concluding a

series of partnerships and cooperative agreements for the Software AG Group with well-known companies such as Microsoft, IBM and The Santa Cruz Operation, Inc. (SCO). These partners profit from Software AG's expertise in the areas of mainframes and XML technology. Not only can Software AG generate additional potential revenue as a result of these relationships, but we are also able to continue raising our profile as a leading e-business software supplier. The number of Software AG's US partners had increased to 30 by the end of 2000.

Besides gaining partners for indirect sales, an additional strategy was to reinforce our own direct product sales in the US. The search for suitable partners with strong sales organizations started at the beginning of 2000. After in-depth analyses, Software AG's former subsidiary and long-term sales partner Saga Systems, Inc. was chosen. The decisive factors influencing the decision were Saga's solid infrastructure (17 branch offices throughout North America), its experienced sales force with their in-depth knowledge of Software AG products, the attractive purchase price and the relatively low integration risks involved. On November 2, 2000, a purchase offer was extended to the shareholders of the company, which was listed on the New York Stock Exchange (NYSE). The offer was accepted by a large majority on February 1, 2001.

The takeover of Saga Systems, Inc. will enable Software AG to radically increase our direct presence in the US market. The acquisition guarantees direct access to a broad customer base in North America as well as sales rights in South America, Japan and Israel.

Software AG's expansion plans were supplemented by a tightly focused and highly selective acquisition strategy in Europe. We acquired minority interests in two Belgian companies: The



Licensing revenues 2000 (totaling 132.9 million euros) by product group

Compared with the preceding year, licensing revenues increased by 17 percent

Reference NV, Belgium, and Winsome S. A. The Reference is one of the European pioneers in the field of the development of complex electronic business applications. Winsome is a holding company for a series of young, innovative companies in a number of European countries that specialize in developing Web applications. In order to strengthen Software AG's position in the Italian market, we acquired 100 percent of Instrumatic 2000, an Italian e-business software services provider.

However, opportunities for growth are not limited to the Western industrialized countries. In June 2000, we established our own subsidiary in Poland, which is based in Warsaw.

Products

Enterprise Transaction Products

Software AG's Adabas is an extremely powerful database management system for business-critical applications. Several thousand large enterprises throughout the world use this DBMS. In principle, Adabas can be used by companies in all sectors, but it is particularly well represented in the areas of financial services, manufacturing, telecommunications, media, logistics and public authorities. Adabas is available on a broad range of systems platforms.

Further add-on products were launched last year for Adabas Version 7, which was released at the end of 1999, and the Adabas product range was rounded off to include additional mainframe platforms. As a result, Adabas 7 and all add-on products are now available for all relevant mainframe platforms.

Software AG's Adabas Transaction Manager was enhanced in line with numerous customer requests. In general, such customers operate multiple database products from multiple manufacturers in parallel. If applications access more than one database, these distributed transactions have to be synchronized. This is the job of Adabas Transaction Manager.

Javabas is another new development in the Adabas area. This product facilitates the use of Adabas from within Java-based Web applications. Javabas is used to generate Java code, which facilitates access to data in the database. This means that Java programmers basically do not need to know anything about the precise way in which data in the database is accessed.

Natural is Software AG's application development system (programming language and tools environment) for the design, development and implementation of business applications. This product was also extended and optimized in fiscal year 2000 in line with customer requirements.

Natural Version 4 for Windows, which was launched in 1999, was made available in 2000 for key Unix platforms and for OpenVMS. This means that improved opportunities for implementing Web applications entirely in Natural are now available for all relevant open systems platforms.

Another key strength of Natural is the easy, uniform and secure access it offers to different database systems. The Predict active data dictionary facilitates this by administering meta information on the data to be used. In the year under review, Predict was adapted to the current DBMS versions for all platforms.

One cost-effective way of making a production application available via a Web browser is not to change the application, but rather to convert the screen input and output data automatically into HTML code. This is the role of Entire Screen Builder. As a result, output can be generated not only for the Windows desktop but also for Java clients and Web/HTML browsers.

Another innovative product announced by Software AG in the past fiscal year was Natural Engineer. This new software product helps Natural users maintain legacy applications and optimize Web applications.

Electronic Business Systems

Software AG's EntireX product family is used to unify enterprise-specific business processes, and hence to integrate them more easily with those of other organizations (Enterprise Application Integration, EAI). This means that the technology has a crucial role to play in business-to-business and business-to-consumer solutions. Examples of this are electronic business and call center applications and so-called ERP (Enterprise Resource Planning) systems. Enterprises can use EntireX to gain productivity benefits and a high return on investment for new electronic business solutions by making more efficient use of their existing IT infrastructures.

EntireX substantially reduces the complexity of IT integration. The product is independent of individual programming languages and has been deployed successfully in many different sectors. It offers excellent performance and a high degree of scalability and reliability.

XML is increasingly becoming the standard for information exchange in electronic business. Processing business transactions, however, often means integrating existing systems that, in many cases, have not been XML-enabled. The new Version 5.3 of EntireX solves this problem – without requiring any additional programming effort. Companies that want to standardize their business processes around XML can now do so substantially faster and more easily.

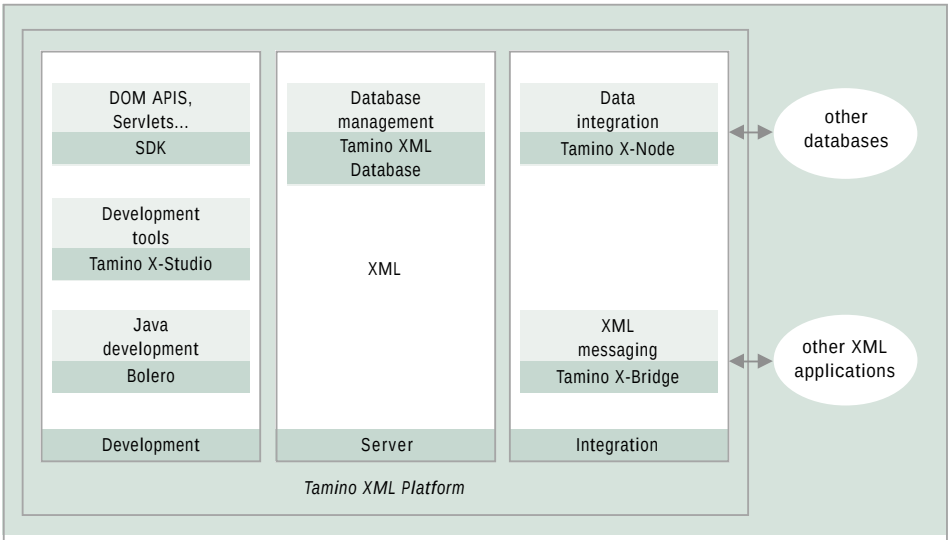
Another Software AG middleware product is Tiema. Tiema provides technology for linking Microsoft applications running under Windows 2000 with CICS mainframe applications.

Tamino XML Database is the first database management system in the world to be able to process native XML data. It was launched at the end of 1999 and became the market leader in fiscal year 2000. This XML database has won a number of awards from IT journalists and users throughout the world. Now with the arrival of additional new products, the original XML database has been transformed into the *Tamino XML Platform*, a comprehensive suite of XML based products. The introduction of the Platform in November 2000 underscores Software AG's competence in the XML field.

The *Tamino XML Platform*, comprising Tamino XML Database and the new products Tamino X-Studio and Tamino X-Bridge, builds on XML and Internet standards to support functions in the following areas:

- Data storage and management
- Application development
- Data and application integration
- XML messaging

In this way, the Platform helps Software AG's customers and sales partners rapidly introduce and successfully exploit XML-based electronic business processes.



Tamino XML Platform for electronic business

Tamino XML Platform offers all components for developing, integrating and operating electronic business applications based on XML technology

The heart of the XML Platform is Tamino XML Database. This database stores XML documents directly in XML format, i.e. without the need to convert them to other data formats. In addition to this "native" XML storage, the database has also been designed to combine different pieces of information from existing data sources and to integrate these in real time in XML data streams (using Tamino X-Node). This accelerates – and indeed makes possible – automatic global information exchange via the Internet, as well as access to and display on any terminal device desired (including those based on the Wireless Application Protocol telecommunications standard [WAP]).

In the year under review, Tamino XML Database was ported to and released for Windows 2000, various Unix platforms and the Linux operating system for IBM S/390, in addition to Windows NT.

Tamino X-Studio allows developers to program scalable XML-based applications quickly and easily. In addition, Tamino X-Studio contains a series of components from leading global technology partners of Software AG ("best-of-breed" concept). The range of products covers everything from an XML editor to schema and style sheet editors. In the year under review, Tamino X-Studio was fully integrated with Bolero Version 3.2. This offers customers the opportunity to use Bolero, Software AG's J2EE-compliant development environment for distributed, component-based applications going above and beyond XML, on Java platforms.

Tamino X-Bridge is a central component for XML-based information exchange. After the contents of XML documents have been analyzed, this XML messaging software can forward the documents received automatically, and can even convert them into a different, recipient-friendly format first. In this way, distributed applications can exchange XML data automatically as part of cross-enterprise business communication. Moreover, well-known electronic business standards such as BizTalk and SOAP are supported.

In the year under review, market readiness to use Tamino for storing XML-based information grew significantly. At the end of 2000, more than 200 customers throughout the world were already developing electronic business solutions on the basis of the XML database, particularly in the areas of m-commerce, e-publishing, portals and content management.

Professional Services

Services relating to our product range are an important source of revenue for the company. The Professional Services division grew by 21 percent in the past fiscal year, partly as the result of acquisitions and equity interests, and currently contributes more than one-third of the group's total revenue.

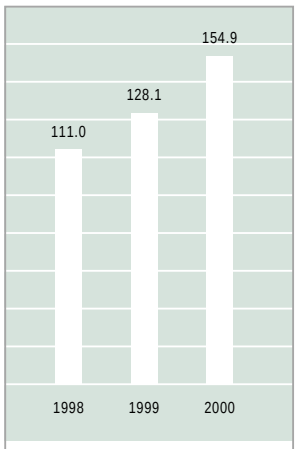
A large number of customers use Software AG products for business-critical applications, which requires a high degree of integration with the customer's existing IT infrastructure. The rule of thumb is as follows: the more complex and heterogeneous the IT and application structures are, the greater the customer's need for professional help from our expert staff. Customer-specific service project deals are often closed at the same time that licenses are sold. This helps to guarantee optimum deployment of our products at the customer location.

Software AG's services offering comprises the following areas:

- Management consulting
- Application development
- Technology consulting
- Training
- Outsourcing and technological services

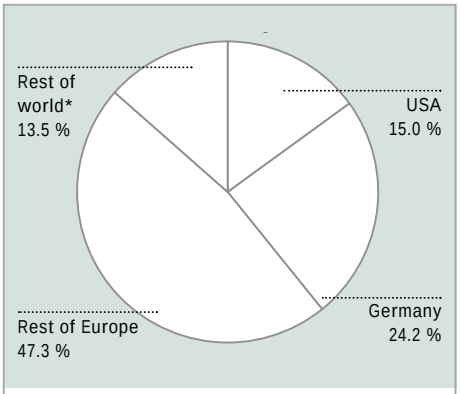
The year 2000 began with a very significant event for Software AG's Professional Services division: the Y2K conversion. A comprehensive standby service was available during New Year's Eve in order to cope with any systems failures. Thanks to carefully executed preparations, none of our customers experienced any notable problems.

The focus of our service offering in 2000 was on introducing the first customers to the benefits of XML technology and the ways in which it can be used. Interested contacts were able to obtain information on XML in workshops and compact seminars, some of which were held with the support of leading universities. As a supporting measure, an end-to-end training offering for the *Tamino XML Platform* was developed and implemented.



Development of revenues from Professional Services
(in million euros)

Services contribute more than one-third to Software AG's total revenues



Licensing and maintenance revenues in 2000 by region: 260.8 million euros

*including Asia, Australia, South Africa and the Middle East

Software AG products are used around the world

In the year under review, Software AG was also able to implement a large number of successful e-business projects, including many based on the Tamino product range. An additional focus was on projects designed to help customers prepare their existing IT systems for the e-business age ("Web-enabling") using middleware technology.

In the current fiscal year, we are expecting additional service projects to be commissioned in Europe as a result of the need to convert IT systems from national currencies to the euro. Software AG's Geneuro is a high-performance conversion tool that enables this problem to be solved rapidly. Since many IT systems were prepared for currency conversion at the same time as for year 2000 conversion, this should represent a comparatively small problem for major customers. Therefore, there has been much less demand for euro services than was the case for the year 2000 conversion.

We were able to further expand our technological expertise and grow our regional market share in the services business through selective acquisitions and equity interests. The main focuses here were on expanding capacity in growth markets and rounding off expertise in the areas of Internet applications, Java programming and XML usage. This also led to new customer groups being acquired in key strategic sectors.

Services will continue to be an integral part of Software AG's corporate strategy in the future. In-depth support of key accounts and the need to obtain reference customers for new products mean that in-house services will continue to be required. However, in the case of large-volume business and standardized products, such services will be supplemented and expanded by new service and sales partners.

Sales and Marketing

Software AG's classic Enterprise Transaction Products (Adabas and Natural) and related services are almost always sold via Software AG's own subsidiaries or branches. This is because customers generally use these products for business-critical applications in complex mainframe environments and thus have extremely high standards when it comes to the manufacturer's expertise. The situation is different in the case of the new electronic business products, which are also available for client/server architectures such as Windows NT or Unix and are offered to an extremely broad range of customers.

Direct sales are an important sales channel when it comes to translating our technological lead in the area of electronic business into a correspondingly large market share. Above and beyond this, though, rapid market penetration requires indirect sales channels in order to access additional, previously untapped market segments. For this reason, Software AG focused very clearly on winning partners for its high-volume business in the past fiscal year. This partner platform is a network of systems integrators, distributors, value-added resellers, independent software vendors, consulting, training and support specialists, and strategic partners in the hardware and systems software areas. The goal is for these partners to contribute a substantial portion of e-business product license revenues in the future.

The interest among potential partners in Software AG's technology and in cooperation is extremely high. In 2000, we were able to acquire a total of 75 partners. At the end of the year under review, 20 independent software vendors (ISVs) were already developing electronic business solutions based on the *Tamino XML Platform*. This success in attracting partners confirms the demand for our XML Platform. Indirect sales also started to make a substantial contribution to the company's growth, accounting for 12 percent of licenses in the fourth quarter of 2000.

Expansion in the US market started in 2000 with the establishment of the US subsidiary, Software AG, Inc. These activities were accompanied by a marketing campaign in the American market, which focused on Software AG's technological lead in electronic business.

The takeover of Saga Systems, Inc. will significantly speed up this expansion. With a base of more than 1,500 large customers in the US, Software AG will have gained a first-class platform for selling both enterprise transaction products and new electronic business products.

We consistently maintained and expanded our positioning as a technology leader in the XML-based electronic business segment in the past fiscal year. While industry experts have long agreed on the importance of XML for e-business, interest on the part of corporate IT managers also increased significantly in the past fiscal year. Software AG contributed to this development by participating in specialist conferences and exhibitions and by placing articles in trade magazines. These activities were rounded off by participation in market comparisons and competitive benchmarks.

Software AG has been able to win key reference customers and projects for its electronic business products, thus proving expertise in this area. In addition, our technology is being distributed worldwide via our partner platform. Software AG will continue to drive this strategy in the current fiscal year.

	Europe	USA	Asia/Pacific	Total
Global partners	–	3	–	3
Value-added distributors (VADs)	8	–	3	11
Value-added resellers (VARs)/system integrators	–	13	15	28
Independent software vendors (ISVs)	16	7	3	26
Original equipment manufacturers (OEMs)	–	2	–	2
Others	–	5	–	5
Total	24	30	21	75

Indirect sales partners

Status end of 2000

Software AG has signed 75 partners since the beginning of 2000

Financial position and result of operations

2000 was dominated by continued growth in all divisions. Total consolidated revenue rose by 14 percent year on year to EUR 416.6 million. Two important areas for Software AG recorded particularly strong increases: licenses (up 17 percent) and Professional Services (up 21 percent). Once again in 2000, we were able to substantially improve our equity and liquidity positions, which were already strong at the end of fiscal year 1999.

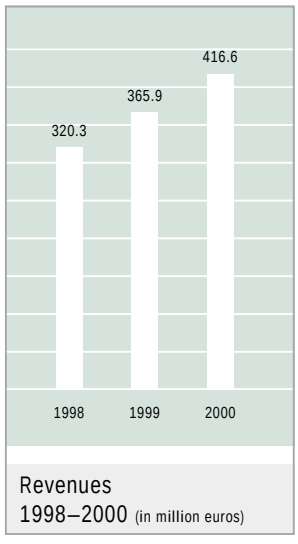
The measures taken in earlier years to increase productivity and earnings, together with one-time items, led to a substantial increase in profit in fiscal year 2000. Profits before taxes rose by 70 percent to EUR 112.9 million (previous year: EUR 66.3 million). At EUR 66.6 million, income after taxes was also substantially up from the previous year (1999: EUR 38.4 million). The pretax operating result (before income from the reduction of equity interests and before costs incurred in relation to the establishment of our indirect sales channel, our US business and the acquisition of SAGA) rose year-on-year by 29 percent, to EUR 85 million.

Organic growth in Professional Services was supplemented in fiscal year 2000 by the acquisition of Softwarematic 2000 S.r.l. and Instrumatic 2000 S.p.A. in Italy. These companies contributed around EUR 3.5 million to consolidated revenue in 2000.

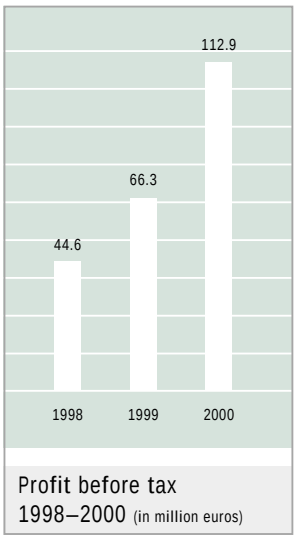
All regions and the Aktiengesellschaft (parent company) recorded positive results in 2000.

As of Dec. 31, 2000, the Group had cash and equivalents amounting to EUR 215.3 million (previous year: EUR 197.1 million). These assets were largely used in February 2001 to finance the takeover of Saga Systems Inc., USA. In addition, the Group had unused credit lines totaling around EUR 55 million at its disposal at the balance sheet date.

This very satisfactory business development has laid the foundation for further investments in the expansion of sales channels and in positioning Software AG as an electronic business company.



Revenues
1998–2000 (in million euros)



Profit before tax
1998–2000 (in million euros)

Over the past three years, Software AG's revenues and pretax results have grown steadily

Risk report

As an international company, Software AG is confronted with a large number of risks that are intrinsically linked with its business activities. At the same time, the organization of the company in different business areas and regions also offers many opportunities. It is our goal to take optimal advantage of chances and only to enter into the risks associated with business activities in order to generate appropriate added value.

A large number of management and control systems, which are subject to ongoing development, are used to measure, monitor and manage risks. They include a group-wide strategy, planning and budgeting process which is primarily concerned with operational opportunities and risks. The risks identified and the risk control measures laid down as part of the strategy, planning and budgeting process are monitored continuously.

At the beginning of 2000, a risk catalog was created jointly by Software AG and its auditors. During the course of the year risks were constantly evaluated. The risk catalog was used to inform the Executive Board of key risks at an early stage. The measures implemented to combat or minimize these risks have already led to a clear reduction in the identified risks.

Our continued growth, and hence long-term economic success, depend to a large extent on the successful marketing of our new electronic business products. This will be ensured by expanding Software AG's own sales activities in the USA (purchase of Saga Systems Inc.) and through additional partnerships, among other things. Current reactions by customers and prospects along with the measures taken lead us to expect that we will be able to achieve the above-average increases in future revenue planned for our electronic business division.

In the course of the integration of the companies acquired in 2000 and in previous years, Software AG has found that this process requires considerable effort. Due to past experiences and steps taken to facilitate new subsidiary integration, we anticipate that we will be able to master the risks associated with future acquisitions in an appropriate manner.

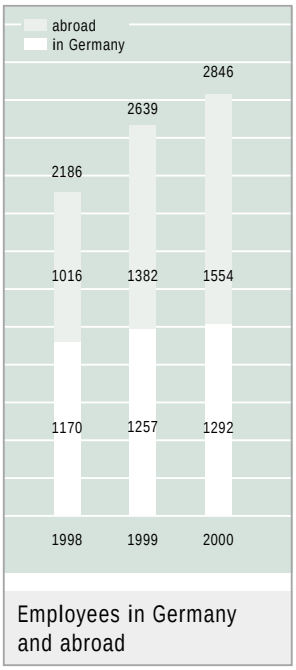
As part of our Group-wide risk management policy, we pay particular attention to managing financial risks. The top priority in relation to all treasury activities is risk limitation. Derivative financial contracts are used judiciously to hedge interest and exchange rate risks and, to a minor extent, to optimize interest income.

Software AG has purchased insurance coverage for potential cases of damage and liability risks; this ensures that the financial consequences of any risks that might occur are either limited or completely eradicated. The level of coverage provided is assessed on an ongoing basis and adjusted if necessary.

An evaluation of the current risk situation has revealed that there were no risks threatening the continued existence of the company in the year under review, nor can any risks threatening the continued existence of the company in the future be discerned at present.

Employees

Due to both organic growth and acquisitions, Software AG is reporting strong growth in terms of human resources. This requires increased support of new employees both in Germany and abroad. In the software industry in particular, the ability to retain employees is of existential importance for companies wishing to preserve their innovative ability. We offer our employees performance-related pay, the opportunity to participate in the company's success worldwide through stock options, and an attractive working environment focusing on personal competencies such as individual responsibility, integration within teams and customer orientation.



Employees in Germany and abroad

The number of people working for Software AG has been growing continuously due to worldwide business expansion

In the course of last year, Software AG expanded its range of human resources instruments. For example, the process for defining goals with employees was adapted to address the increasingly project-based work organization, and expanded to include feedback processes. We pay special attention to training new employees and continuous professional development for all. 2000 saw a substantial expansion of activities in this area. At the management level, a modular training program called the "Software AG Management Diploma" was introduced.

At the end of fiscal year 2000, Software AG had a total of 2,846 employees. This corresponds to a year-on-year increase of 8 percent. In Germany, the number of staff members rose by 3 percent to total 1,292. The number of employees outside Germany rose by 12 percent to 1,554. Software AG did not take advantage of the "Green Card" immigration provisions that were recently introduced in the Federal Republic of Germany.

Research and development

Our research and development activities form the basis of our technological expertise. In the past fiscal year, research and development activities were stepped up even further. This ensures that Software AG's products meet the highest standards in terms of quality and reliability. This is crucially important to our customers, since the products concerned are often relied on for business-critical transactions.

In the year under review, a total of EUR 57.5 million was spent on R&D activities. This corresponds to roughly 22 percent of product revenues. The number of employees active in research and development increased by nearly 10 percent to 545. Software AG's technological expertise attracts experts and managers from the R&D field in particular. This meant that we were able to recruit a number of leading XML experts in the past fiscal year. Research and development activities continue to be head-

quartered in Darmstadt, Germany. Additional R&D facilities are located in the US, Ireland, Great Britain and Latvia, to mention a few.

Research and development funds were invested in all product lines in 2000. Version 7.1 of the Adabas database management system has been available since April 2000 on all mainframe platforms. Further enhancements to performance were made during the year as well.

Other innovations are planned for the current fiscal year. For example, Adabas Cluster Services will be released in March 2001. This product enables customers to use Adabas with IBM's Parallel Sysplex Architecture, thus achieving true 24x7 availability.

The main focus of research and development activities for the Natural product has been on enhancing product functionality. For example, the concept of a "single point of development" allows all Natural applications, including those for mainframe platforms, to be developed, tested and put into production using Natural Studio's integrated toolset. In addition, Natural 4.1.2 was made available on all relevant Unix platforms and OpenVMS.

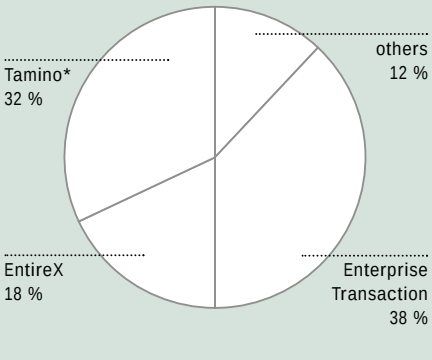
Software AG further enhanced its middleware portfolio with Version 5.3 of its EntireX product. EntireX now offers an XML wrapper that facilitates XML communication with conventional, non-XML-enabled applications such as host-based CICS software. Software AG's middleware gives companies a simple and extremely rapid way to standardize their business processes around XML.

Research and development in the area of the *Tamino XML Platform* concentrated on expanding the platform to additional software and hardware environments. Tamino XML Database has now been released for Windows 2000, various Unix platforms and for the Linux operating system on IBM S/390 machines.

Open standards are an important prerequisite for electronic business. Software AG's products support these standards. As Software AG is the leader in XML technology, our research and development facilities play a key role in further standards development. This is mainly achieved through our work in the W3C, the Internet standardization body, where we are now represented on a number of committees.

Software AG will continue its research and development activities unabated in the future in order to continue extending its technological lead.

With R&D spending of 22 percent of product revenues, Software AG takes a leading position in the IT industry



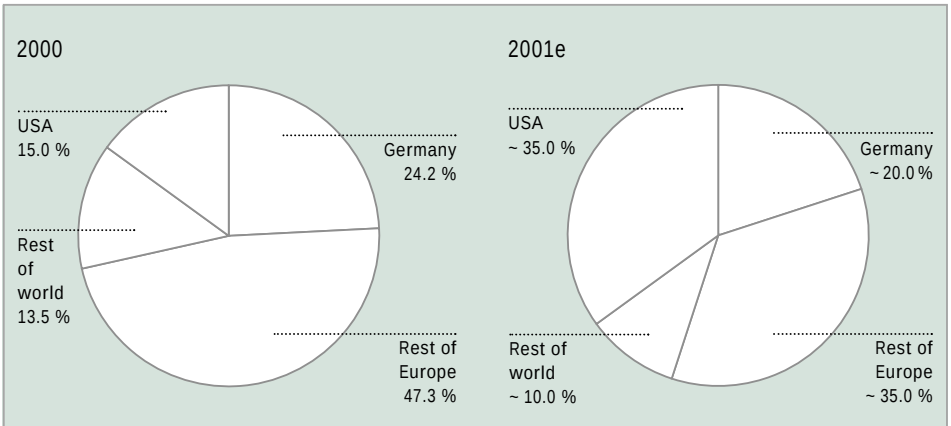
Total R&D spending in 2000:
57.1 million euros

* *Tamino XML Platform* including Bolero

Report on events after the balance sheet date

On February 1, 2001, the acquisition of Saga Systems, Inc. by Software AG was approved by a large majority at the former's annual stockholders´ meeting. Immediately after the acquisition, activities of Saga Systems, Inc. and of Software AG's existing subsidiary, Software AG, Inc., merged. The new US organization operates under the name Software AG, Inc. and comprises around 800 employees. The merger is accompanied by a series of synergy effects and cost savings that will improve the operating result in the long term. One-time expenses amounting to EUR 20 million, which arose from the reorganization, will be reported in the first quarter of the current fiscal year. Work on integrating the company started in November 2000, and so far everything has gone smoothly and according to plan. The new US subsidiary's sales force will begin selling Software AG's new electronic business products in the second quarter.

With effect from January 1, 2001, Software AG acquired an 80 percent interest in IC Group, a Dutch IT company. Bundling the IC Group's Java know-how with Software AG's XML expertise will considerably strengthen the two companies' market position in The Netherlands.



Effect of the SAGA acquisition: licensing and maintenance revenues (in %) by regions

The expansion of the US market will have a significant impact on the regional distribution of revenues in 2001

Outlook

2000 was an extremely satisfactory year for Software AG. Revenues and earnings both rose significantly, while our financial position was strengthened further. The high growth recorded by our new electronic business products, *Tamino XML Platform* and EntireX, is particularly encouraging, with revenues more than doubling from the previous year.

Software AG commenced the process of building up new sales channels, which are particularly important for the future development of the company. New sales partners accounted for a double-digit proportion of license sales in the fourth quarter. All in all, e-business products accounted for around 30 percent of license sales.

Software AG´s technological lead in the area of XML was reinforced through new product announcements and numerous market appearances.

Our re-entry into the North American market – which was driven first via our own subsidiary and then by the acquisition of Saga Systems, Inc. – is of particular note.

In the current 2001 fiscal year, we expect continued impetus from the electronic business market, fuelled by the spread of XML technology. As a result, we anticipate high double-digit growth rates for our electronic business products. Our newly established indirect sales channels will be expanded significantly. Business will be boosted in the US, in particular, as well as in Europe and Asia. And we expect indirect sales channels to account for a double-digit contribution to license revenues in the course of the current fiscal year.

Software AG is concentrating activities on expanding its North American business. We expect the formation of the new Software AG, Inc. to lead to roughly one-third of product sales out of this region. This corresponds to strong business growth. We anticipate that we will also be able to drive new business with our e-business products in the US market.

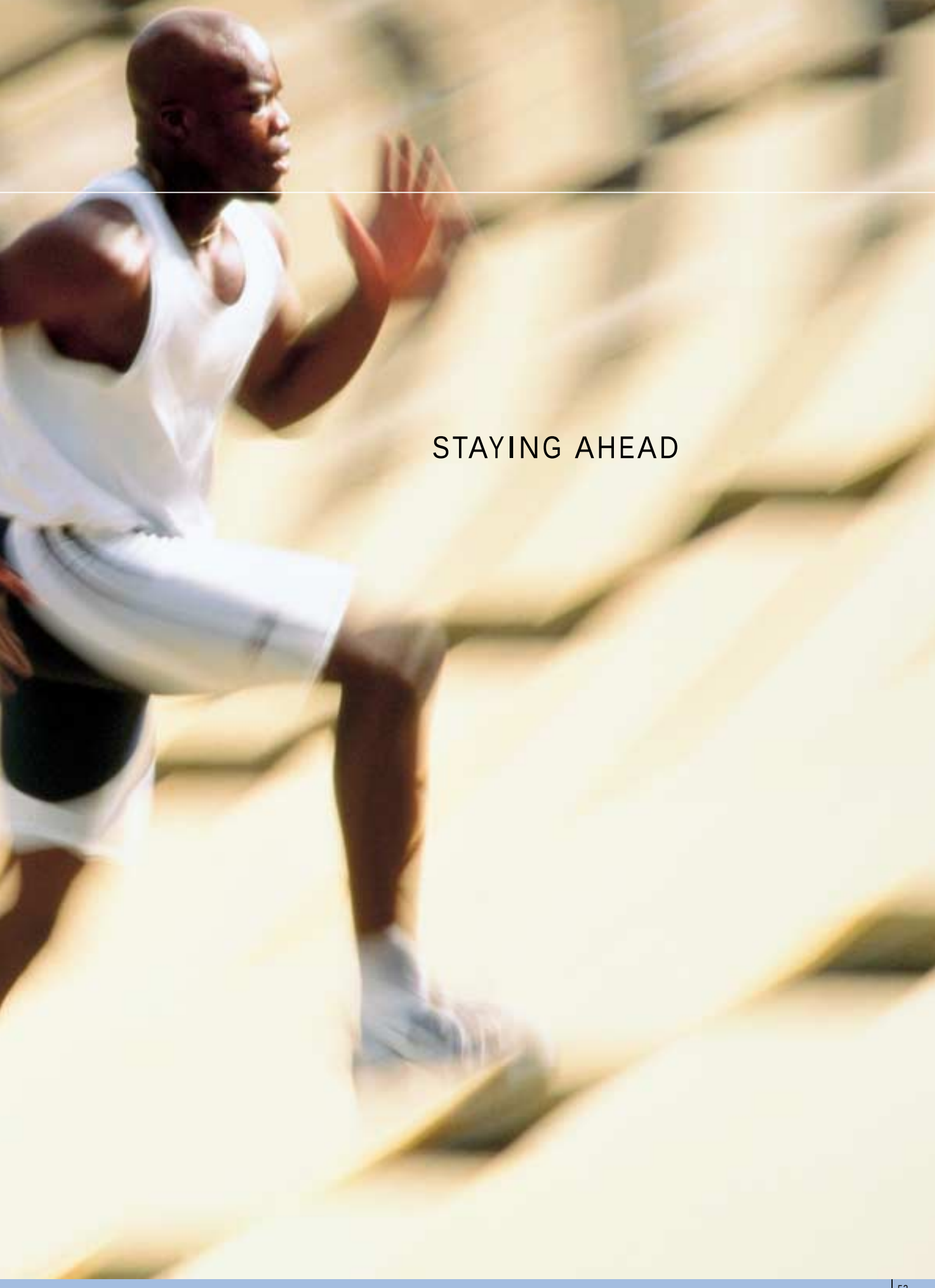
Despite uncertainty regarding the situation in the US, Software AG expects the climate for investment to be fundamentally positive in 2001, especially in the e-business market segment.

Our goal is to achieve clear double-digit growth in revenue over the year, with license sales expected to contribute proportionately higher to overall revenue growth. Software AG is anticipating a net operating margin in line with that from the previous year.

Medium-term success will depend largely on the acceptance of the new products and the expansion of indirect sales channels. Software AG has already put in place the key prerequisites for this and is therefore looking toward the current fiscal year with confidence.

"In 2000 we achieved the best financial results in the company's history. For the last four years we have continuously increased revenue and profits."

Volker Dawedeit, CFO, Software AG



STAYING AHEAD

CONSOLIDATED FINANCIAL STATEMENTS OF SOFTWARE AG FOR THE FISCAL YEAR ENDED DECEMBER 31, 2000

Consolidated Balance Sheet

Assets	EUR	Dec. 31, 2000 EUR	Dec. 31, 1999 EUR thousand
A. Fixed assets			
Intangible assets			
Concessions, industrial and similar rights and assets and licenses in such rights and assets		2,061,740.21	2,400
Tangible assets			
Land, land rights and buildings, including buildings on third-party land	25,192,098.88		24,848
Other equipment, operational and office equipment	11,732,635.26		11,866
Assets under construction	0.00	36,924,734.14	74
Financial assets			
Shares in affiliated companies	25,564.59		125
Participations	8,296,021.08		12,895
Long-term investments	4,717,485.80		203
Other loans	242,622.61	13,281,694.08	214
		52,268,168.43	52,625
B. Current assets			
Inventories			
Raw materials and supplies	176,766.62		137
Work in progress	3,471,577.83		5,450
Finished goods and merchandise	1,008,877.63	4,657,222.08	608
Receivables and other assets			
Trade receivables	118,782,342.17		81,815
Receivables from affiliated companies	0.00		118
Receivables from companies in which participations are held	16,437,219.08		8,097
Other assets	9,499,622.75	144,719,184.00	7,408
Securities			
Other securities		60,757,203.42	66,087
Cash in hand, postal giro balances, bank balances		154,568,359.04	130,989
		364,701,968.54	300,709
C. Prepaid expenses		7,631,987.65	7,885
		424,602,124.62	361,219

Equity and liabilities	EUR	Dec. 31, 2000 EUR	Dec. 31, 1999 EUR thousand
A. Equity			
Subscribed capital		67,483,441.81	66,698
Contingent capital EUR 3,641,732.67			
Capital reserves		24,099,868.70	21,974
Retained profit brought forward		42,659,062.30	11,697
Consolidated net income for the year		66,584,872.80	38,301
Minority interest		81,512.50	47
		200,908,758.11	138,717
B. Special tax-allowable reserves		1,427,447.50	2,367
C. Provisions			
Provisions for pensions	8,259,042.52		7,881
Provisions for taxes	36,415,150.87		34,381
Other provisions	56,489,920.36	101,164,113.75	67,970
D. Liabilities			
Liabilities to banks	3,262,988.99		3,660
Payments received on account of orders	1,346,259.50		2,757
Trade payables	16,527,937.16		14,801
Liabilities on bills accepted and drawn	3,443,279.89		2,958
Payable to affiliated companies	39,820.74		41
Payable to companies in which participations are held	9,151.56		12
Other liabilities	25,666,993.50	50,296,431.34	29,473
E. Deferred income		70,805,373.92	56,201
		424,602,124.62	361,219

Consolidated Income Statement of Software AG for the fiscal year 2000 (January 1 to December 31, 2000)

		2000	1999
	EUR	EUR	EUR thousand
Revenue		416,627,617.12	365,872
Decrease (previous year: increase) in finished goods, inventories and work in progress		–1,578,030.68	2,060
Other operating income		76,853,691.07	24,830
Cost of materials			
a) Cost of raw materials and supplies, and of purchased merchandise	–3,063,614.93		–786
b) Cost of purchased services	–38,910,871.35	–41,974,486.28	–45,332
Personnel expenses			
a) Wages and salaries	–177,048,425.04		–141,366
b) Social security and other pension costs	–31,623,284.41	–208,671,709.45	–28,097
Depreciation and amortization on intangible assets and property, plant and equipment		–8,132,333.25	–8,426
Other operating expenses		–127,259,252.03	–109,433
Income from investments		0.00	2,306
Income from other investments and long-term loans		64,914.21	9
Amortization of financial assets		0.00	–1
Other interest and similar income		8,316,256.97	5,943
Interest and similar expenses		–1,331,330.03	–1,250
Income before taxes		**112,915,337.65**	**66,329**
Income tax expense	–44,192,081.01		–25,873
Other taxes	–2,103,369.04	–46,295,450.05	–2,105
Income after taxes		**66,619,887.60**	**38,351**
Minority interests		–35,014.80	–50
Consolidated net income		**66,584,872.80**	**38,301**

Statement of Fixed Asset Movements

	Gross fixed assets in EUR thousand						
	Balance at Jan. 1, 2000	Additions	Disposals	Changes to companies consolidated	Transfers	Differences from currency translation	Balance at Dec. 31, 2000
I. Intangible Assets							
Concessions, industrial and similar rights and assets, licenses in such rights and assets	27,794	1,211	–2,478	–47	0	6	26,486
Goodwill	15	0	0	0	0	0	15
	27,809	**1,211**	**–2,478**	**–47**	**0**	**6**	**26,501**
II. Tangible Assets							
Land, land rights and buildings, including buildings on third-party land	46,838	1,513	–980	0	74	2	47,447
Other equipment, operational and office equipment	53,008	8,203	–19,161	249	0	234	42,533
Assets under construction	74	0	0	0	–74	0	0
	99,920	**9,716**	**–20,141**	**249**	**0**	**236**	**89,980**
III. Financial Assets							
Shares in affiliated companies	389	0	0	–100	–264	0	25
Participations	10,851	4,753	–3,358	0	–3,693	6	8,559
Long-term investments	212	1	–23	0	3,957	–5	4,142
Other loans	214	74	–46	0	0	1	243
	11,666	**4,828**	**–3,427**	**–100**	**0**	**2**	**12,969**
Total	**139,395**	**15,755**	**–26,046**	**102**	**0**	**244**	**129,450**

	Accumulated depreciation in EUR thousand								
	Balance at Jan. 1, 2000	Additions	Disposals	Changes to companies consolidated	Transfers	Write ups	Differences from currency translation	Balance at Dec. 31, 2000	Book value Balance at Dec. 31, 2000
I. Intangible Assets									
Concessions, industrial and similar rights and assets, licenses in such rights and assets	25,395	1,484	–2,464	3	0	0	6	24,424	2,062
Goodwill	15	0	0	0	0	0	0	15	0
	25,410	**1,484**	**–2,464**	**3**	**0**	**0**	**6**	**24,439**	**2,062**
II. Tangible Assets									
Land, land rights and buildings, including buildings on third-party land	21,991	1,493	–980	0	0	0	–249	22,255	25,192
Other equipment, operational and office equipment	41,141	5,155	–15,813	90	0	0	227	30,800	11,733
Assets under construction	0	0	0	0	0	0	0	0	0
	63,132	**6,648**	**–16,793**	**90**	**0**	**0**	**–22**	**53,055**	**36,925**
III. Financial Assets									
Shares in affiliated companies	264	0	0	0	–264	0	0	0	25
Participations	–2,043	0	–328	0	844	1,785	5	263	8,296
Long-term investments	9	0	0	0	–580	0	–4	–575	4,717
Other loans	0	0	0	0	0	0	0	0	243
	–1,770	**0**	**–328**	**0**	**0**	**1,785**	**1**	**–312**	**13,281**
Total	**86,772**	**8,132**	**–19,585**	**93**	**0**	**1,785**	**–15**	**77,182**	**52,268**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF SOFTWARE AG FOR THE FISCAL YEAR ENDED DECEMBER 31, 2000

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, 2000 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):

German companies	holding %	Abbreviation
Software GmbH Marketing, Darmstadt	100	SAG-MK
SAG East GmbH, A Software Company, Darmstadt	100	SAG-ME
SQL Datenbanksysteme GmbH, Berlin	100	SQL
SAG Systemhaus GmbH, Darmstadt	100	SAG-D

SAP-SI GmbH, a joint venture established in April 1997 together with SAP AG, Walldorf, was included in the consolidated financial statements in previous years using the equity method on the basis of the proportional results accruing to the parent company. The proportionate interest declined as a result of the merger of new companies with SAP-SI and the subsequent floatation of the company in fiscal year 2000 to 11.4% (1999: 40%). The necessary deconsolidation was implemented by retaining the previous consolidated equity book value. The interest in this company has been reclassified to long-term investments.

Foreign companies	holding %	Abbreviation
Software AG of the United Kingdom Ltd., Derby/England	**100**	**SAG-UK**
with its subsidiaries:		
Software AG Belgium S.A., Brussels/Belgium	100	SAG-B
SAG Software Systems AG S.A., Luxembourg/Luxembourg	100	SAG-LUX
Software AG France S.A., Saint-Quen/France	**100**	**SAG-F**
Software AG Italia S.p.A, Milan/Italy	**100**	**SAG-I**
with its subsidiaries:		
Instrumatic 2000 S.p.A., Milan, Italy	100	Instrumatic
Softwarematic 2000 S.r.l., Milan/Italy	100	Softmatic
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 A/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 AG Österreich, Vienna/Austria	**100**	**SAG-A**
Software AG Polska Sp.z o.o., Warsaw/Poland	**100**	**SAG-PL**
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 España S.A., Madrid/Spain	100	SAG-E
and its indirect holding:		
Software AG Portugal Lda., Lisbon/Portugal	100	SAG-P
Software AG, Inc., Walnut Creek/USA	**100**	**SAG-USA**
with its subsidiary:		
Software AG Australia (Holdings) Pty. Ltd., Melbourne/Australia	100	SAG-AUS (Holding)
and its indirect holding:		
Software AG Australia Pty. Ltd., North Sydney/Australia	100	SAG-AUS
SGML Technologies Ltd., London/England	**100**	**SGML-UK**
Software AG R&D Ireland Ltd., Dublin/Ireland	**100**	**SAG-IRL**
Software AG (Hongkong) Ltd., Hong Kong	**100**	**SAG-HK**
Software AG (Singapore) Pte. Ltd., Singapore	**100**	**SAG-SIN**
with its subsidiary :		
Software AG (Asia Pacific) Support Centre Pte Ltd. Singapore	100	SAG-AP
Software AG (Malaysia) Sdn. Bhd., Kuala Lumpur/Malaysia	**100**	**SAG-MAL**
Software AG Phillipines Ltd., Manila/The Philippines	**100**	**SAG-PHI**
Software AG Taiwan Ltd., Taipeh/Taiwan	**100**	**SAG-TW**

SAG-PL was included in the consolidated financial statements as of the date of its formation on February 25, 2000.

The two Italian companies Instrumatic and Softmatic were included in the consolidated financial statements as of date of their acquisition on July 1, 2000.

SAG-IRL, which was not included in the consolidated financial statements in 1999 in line with section 296 (2) of the HGB (German Commercial Code), was included in consolidation for the first time as of January 1, 2000.

The annual financial statements of Software GmbH Marketing (equity: EUR 31.8 thousand, net profit for the period: EUR 0.1 thousand) were not included in the consolidated financial statements in accordance with section 296 (2) of the HGB (German Commercial Code), since this company is insignificant and only has a minor influence on the Group's assets, financial situation and earnings.

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

The list of equity interests is contained in the Notes to the Financial Statements of the parent company.

Fiscal year and consolidation period

The consolidated financial statements were prepared as of December 31, 2000, 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 the subsidiaries' audited and certified annual financial statements.

With the approval of the stockholders' 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 large 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 and of the equity interests.

- The shareholders' equity of the subsidiaries included in consolidation is translated at the respective historic rates prevailing on the balance sheet date. The 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 income of the previous year. In 2000, this currency difference led to an increase in equity of EUR 844 thousand (1999: EUR 97 thousand).

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

- In the statement of fixed asset movements, additions, write-ups, transfers, disposals and write-downs for the year are calculated at the average rates for 2000, starting from the previous year's acquisition and manufacturing costs (as of December 31, 1999), with the year-end positions being 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.

- Software AG has elected to consolidate subsidiaries which it created itself on the date of formation. However, with respect to Softinterest Holding AG and its subsidaries, certain Asian subsidaries, SQL and SAG-IRL, the first time consolidation occurred after the date of formation.

- In the case of all other companies included in the consolidated financial statements, the date of acquisition was chosen as the consolidation date.

- 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.

- Debit balances arising from capital consolidation relating solely to goodwill are generally offset against capital reserves; credit balances arising from capital consolidation are generally offset against retained profits brought forward.

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

- As of December 31, 2000 all outstanding material intercompany services rendered had 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 in accordance with section 275 HGB using the total cost method. The following table summarizes the "thereof" notes that are required to be stated in the balance sheet and the income statement:

	I. Balance sheet	2000 EUR	1999 EUR
a)	**Assets**		
1)	Trade receivables	118,782,342	81,814,127
	thereof due in over one year	34,761,395	11,232,710
2)	Receivables from companies		
	in which participations are held	16,437,219	8,097,323
	thereof due in over one year	22,571	–
3)	Other assets	9,499,623	7,408,006
	thereof due in over one year	258,528	163,060
b)	**Equity and liabilities**		
1)	Liabilities to banks	3,262,989	3,659,683
	thereof due within one year	552,978	509,117
	thereof due in over five years	0	0
	thereof secured by land charges	3,087,657	3,596,775
2)	Payments received on account of orders	1,346,260	2,756,980
	thereof due within one year	1,346,260	2,650,425
3)	Trade payables	16,527,937	14,802,171
	thereof due within one year	16,527,937	14,802,171
4)	Liabilities on bills accepted and drawn	3,443,280	2,957,944
	thereof due within one year	3,443,280	2,957,944
5)	Payables to affiliated companies	39,821	41,202
	thereof due within one year	39,821	41,202
6)	Payables to companies in which		
	participations are held	9,152	11,855
	thereof due within one year	9,152	11,855
7)	Other liabilities	25,666,993	29,473,473
	thereof due within one year	16,184,770	18,426,513
	thereof due in over five years	7,899	0
	thereof taxes	10,453,236	8,673,025
	thereof social security	4,242,500	3,983,245

	II. Income statement	2000 EUR	1999 EUR
	Pension costs	4,886,326	4,484,598

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 predefined euro exchange rate.

Equity investments are valued at the lower of cost or market value.

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 of work in progress 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 on the balance sheet date.

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 predefined 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 on which the receivable or liability arose. In cases of hedging transactions, the applicable hedging rates are used.

2. Notes to the consolidated 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 the fiscal year, approximately EUR 8,203 thousand was invested in other equipment, operational and office equipment, with the large majority of this investment being devoted to IT equipment.

Financial assets

The financial assets relate principally to participations in Software AG Systems Inc., The Reference N.V., Winsome sa/nv, and SAG-MK. In addition, long-term loans to employees of the Software AG Group and long-term investments, which mainly consists of the remaining 11.4% interest in SAP-SI, are disclosed under this item.

Current assets

Inventories

The inventories principally include services relating to customer orders that 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 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 companies in which participations are held 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, 2000 is classified as follows:

	EUR thousand	EUR thousand
Subscribed capital as of Jan. 1, 2000	66,698	
Capital increase	785	
		67,483
Capital reserves as of Jan. 1, 2000	21,974	
Share premium from the capital increase	7,854	
Elimination of goodwill	–5,728	
		24,100
Retained profit as of Jan. 1, 2000	49,998	
Dividend paid in 2000	–7,337	
Net currency translation differences	–2	
Retained profit		42,659
Consolidated net profit		66,585
Minority interest		82
		200,909

In addition, contingent capital amounting to EUR 3,642 thousand, composed of up to 1,424,522 no-par value shares, existed at the balance sheet date in order to service the 1,210,692 options already issued on the balance sheet date to senior executives (593,267) and members of the Executive Board (617,425). 307,228 options had been exercised up to the balance sheet date in the year under review. As a result, the share capital increased by EUR 785 thousand.

The options have a term of seven years starting with the date on which they are granted. They can be exercised during their term, starting after the expiration of a waiting period of 24 months after the option rights have been granted, but at the earliest 12 months following the company's IPO. They may be exercised once a quarter, following publication of the annual report or the half-yearly or quarterly results.

The subscription price per share when the options are exercised corresponds to the issuing price minus a discount of 20%, but at least EUR 28.12 (DM 55.00). Since the issuing price was EUR 30, the minimum price was applied.

In order for the options to be exercised, the following three preconditions must be met:

(1) Income before taxes must increase in the years 1997 to 1999 by a total of 30%.

(2) Income before taxes must have amounted to at least 10% of revenue in the year preceding the exercise of the option.

(3) The share price must be higher than the minimum price at the time the option is exercised.

The share premium of EUR 7,854 thousand generated in the course of the capital increase was allocated to the capital reserves.

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 fiscal year 2000, the parent company paid a dividend of EUR 7,337 thousand to the shareholders.

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 EUR 2,367 thousand were set up in 1999. The effect on results of write-ups from equity interests totaling EUR 2,952 thousand was thus spread across five years. In 2000, EUR 944 thousand from the reversal of the special tax-allowable reserves was disclosed under other operating income.

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 2000, other provisions principally comprise provisions relating to the acquisition of the US company SAGA, provisions for litigation risks, foreign restructuring costs, employee bonuses and special payments, as well as provisions for employee vacation and overtime pay. The company has formed provisions for future operating expenses in an appropriate amount.

In addition, all 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 EUR 3,088 thousand, have been provided for bank loans on land and buildings in Eberstadt.

Payments received on account of orders

This item mainly includes payments received for services relating to customer projects by the German sales organization that still have 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.

Deferred income

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

Contingent liabilities

Liabilities from warranty agreements:

EUR 11,662 thousand

(1999: EUR 13,100 thousand)

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

Other financial commitments

As of Dec. 31, 2000, an obligation in the amount of EUR 365,412 thousand existed resulting from the conclusion of the contract to purchase SAGA Systems Inc. as of February 1, 2001.

The rental and leasing commitments for the following fiscal year 2001 amount to EUR 14,403 thousand. Commitments for future years total EUR 37,984 thousand.

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

Other operating income in the year under review amounted to EUR 76,854 thousand. The key items that this comprises are income from the sale of interests in SAP-SI as part of the floatation of the latter and income from the sale of shares in SAGA. In addition, this item also comprises income from the reversal of provisions, realized foreign exchange gains and income from the reversal of deferred items.

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 and obligations to external product partners (especially SAGA).

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, thus allowing greater flexibility in the Group's cost structure.

In 2000, the cost of materials includes expenditure for product obligations (EUR 1,717 thousand). In the previous year, this item was disclosed under "Other operating expenses."

Personnel expenses

As a result of the substantial increase in the number of employees from the previous year in addition to salary increases, personnel expenses rose to EUR 208,672 thousand (1999: EUR 169,463 thousand).

Depreciation and amortization on intangible assets and property, plant and equipment

At EUR 8,132 thousand, depreciation and amortization is approximately at the same level as the previous year (EUR 8,426 thousand).

Other operating expenses

The other operating expenses in the year under review totaled EUR 127,259 thousand. The major items included third-party sales commission, rental of premises, consulting costs, travel expenses, IT costs, other staff-related costs, and marketing and advertising expenses.

The income attributable to prior accounting periods totaled EUR 940 thousand; the expenditure attributable to prior accounting periods totaled EUR 594 thousand.

Interest income/expenditure

Due to the company's extremely good liquidity position, interest income totaling EUR 6,985 thousand was recorded.

Taxes

The substantial improvement in the consolidated result led to an increase in income tax expense to EUR 44,192 thousand (1999: EUR 25,873 thousand).

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 its subsidiaries SAG-N, SAG-S, and SAG-SF), and SQL.

(2) The "Southern Europe" segment comprises SAG-E, SAG-P and SAG-I, together with the latter's subsidiaries Instrumatic and Softmatic.

(3) SAG-F, SAG-NL SAG-IRL and SAG-UK, together with the latter's subsidiaries SAG-B and SAG-LUX, are included in the "Western Europe" segment.

(4) The "Asia" segment includes SAG-AUS and SAG-AUS (Holding) in addition to Software AG's Asian companies.

(5) SAG EAST, SAG-CS, SAG-TR, SAG-PL and SAG-USA (not including SAG-AUS and SAG-AUS (Holding)) form the "Rest of World" segment.

The license fees due under the cooperation agreement with SAGA were reported under the "Rest of World" segment in the year under review, as opposed to "Central Europe" the previous year.

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

The elimination amount in the segment's assets comprises interests in associates, goodwill and receivables from affiliated companies.

Liabilities payable to affiliated companies are consolidated in the segment's liabilities. In the previous year special tax-allowable reserves as well as deferred income were also reported at this position. The elimination of investments in long-term segment assets is in line with the capital consolidation.

Segment report (January 1 to December 31)

(in EUR thousand)	Central Europe		Southern Europe		Western Europe		Asia		Rest of World		Elimination		Group	
	2000	1999	2000	1999	2000	1999	2000	1999	2000	1999	2000	1999	2000	1999
Revenue:														
Licenses	61,109	67,399	15,968	14,387	33,964	25,029	6,008	6,911	31,549	10,690	–15,635	–10,689	132,963	113,727
Maintenance	60,211	74,253	14,603	14,709	29,527	27,904	9,306	8,511	32,979	12,064	–18,764	–15,003	127,862	122,438
Professional Services	56,974	53,700	46,767	39,325	32,890	33,777	3,906	1,903	16,196	1,683	–1,836	–2,333	154,897	128,055
Other sales	7,146	6,353	227	140	3,154	1,376	61	3	71	39	–9,753	–6,259	906	1,652
Total sales	185,440	201,705	77,565	68,561	99,535	88,086	19,281	17,328	80,795	24,476	–45,988	–34,284	416,628	365,872
Result:														
Depreciation/amortization	–5,267	–7,122	–848	–990	–1,286	–1,186	–255	–299	–476	–203	0	1,374	–8,132	–8,426
Interest income/expenditure	6,317	4,492	274	–181	1,233	733	–1,061	–402	213	66	9	–16	6,985	4,692
Income from participations	0	622	0	0	0	0	0	0	0	0	0	1,684	0	2,306
Taxes on income	–33,829	–16,681	–4,670	–4,296	–5,214	–2,332	–337	–569	–142	–461	0	–1,534	–44,192	–25,873
Net profit for the period	11,459	14,480	10,849	9,019	16,150	10,936	837	2,983	34,108	4,235	–6,783	–3,302	66,620	38,351
Balance sheet:														
Segment assets	325,985	363,165	62,324	52,959	107,080	81,255	11,903	27,002	52,315	54,270	–135,005	–217,432	424,602	361,219
Equity interests	8,172	10,670	120	120	4	4	0	0	0	0	0	2,101	8,296	12,895
Investments in long-term segment assets	9,766	59,339	861	755	2,187	3,780	606	397	2,437	17,779	0	–69,497	15,857	12,553
Segment liabilities	101,225	152,696	30,034	32,969	32,629	51,947	18,758	23,184	21,169	10,697	–52,354	–48,990	151,461	222,503
Average number of employees	1,421	1,327	572	517	405	400	107	76	300	67	0	0	2,805	2,387

5. Statement of cash flows

As in the past, the cash and cash equivalents comprise the balance sheet items cash in hand and bank balances and securities classified as current assets.

EUR 5,784 thousand was paid for the consolidated companies Instrumatic and Softmatic. This amount includes EUR 214 thousand taken over as a net bank balance. The goodwill for these companies was eliminated against capital reserves.

	2000 EUR thousand	1999 EUR thousand
Income after taxes	66,620	38,351
Depreciation/amortization (+)/asset write-ups (–)	7,297	5,263
Increase (+)/release (–) of long-term provisions	378	583
Gain (–)/loss (+) from the disposal of fixed assets	–49,536	527
Increase (–)/decrease (+) in inventories,		
receivables and other current assets	–45,491	–14,078
Increase (+)/decrease (–) in payables		
and other liabilities	1,210	39,146
Dividends received	835	622
Net cash used in/provided by		
operating activities	**–18,687**	**70,414**
Cash received from the sale of fixed assets	3,348	337
Investments in tangible assets	–10,133	–12,553
Cash received from the sale of intangible assets	55	0
Investments in intangible assets	–1,202	0
Cash received from the sale of financial assets	54,420	0
Investments in financial assets	–4,829	0
Cash received from the sale of		
associated companies	100	0
Investments in associated companies	–5,570	–58,249
Net cash used in/provided by		
investing activities	**36,189**	**–70,465**
Contribution from capital increase	8,639	90,000
Dividends paid	–7,337	–4,602
Repayment of loans	–397	–1,142
Net cash used in/provided by		
financing activities	**905**	**84,256**
Change in provisions	–158	–2,763
Net change in cash and cash equivalents	**18,249**	**81,442**
Cash and cash equivalents		
at the beginning of the period	197,076	115,634
Cash and cash equivalents		
at the end of the period	**215,325**	**197,076**

6. Other disclosures

Software AG's executive bodies

Members of the Supervisory Board:

Dietrich-Kurt Frowein
(Chairman)
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, Heidelberg
- Member of the Supervisory Board Mannesmann VDO AG, Schwalbach
- Member of the Supervisory Board Schunk GmbH, Thale

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

for 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
Lawyer at Dr. Mohren+Partner, Munich
Place of residence: Munich
Supervisory Board mandates: none

Frank F. Beelitz
(as of January 1, 2000)
Independent investment banker (Beelitz & Cie., Frankfurt am Main)
Place of residence: Bad Homburg v.d.H.
Supervisory Board mandates:
- Member of the Supervisory Board Syntec Capital AG, Munich
- Member of the Advisory Council Mero GmbH & Co. KG, Würzburg

Dipl.-Informatiker
Detlef Winterstein
(Employee representative)
Software AG employee, General Works Council
Place of residence: Weiterstadt

Karl-Heinz Hageni
(Employee representative)
SAG Systemhaus GmbH employee, Training/Consulting department
Place of residence: Alsbach-Hähnlein

In the year under review, the Executive Board comprised:

Dipl.-Physiker
Dr. Erwin Königs
Chairman of the Executive Board
Place of residence: Kelkheim/Taunus
Supervisory Board mandates:
- Member of the Supervisory Board SAP-SI GmbH, Alsbach-Hähnlein (until June 19, 2000)

Dipl.-Kaufmann
Volker Dawedeit
Member of the Executive Board
Place of residence: Seeheim-Jugenheim
Supervisory Board mandates:
- Member of the Supervisory Board SAP-SI GmbH, Alsbach-Hähnlein (until November 13, 2000)

Kaufmann
Andreas Zeitler
Member of the Executive Board
(as of April 15, 2000)
Place of residence: Kelkheim/Taunus
Supervisory Board mandates: none

The remuneration of Software AG's Supervisory Board totaled EUR 230 thousand. The members of the Executive Board received total annual remuneration of EUR 2,205 thousand. Furthermore, members of the Executive Board exercised 233,000 stock options, based on the subscription price of EUR 28.12, in the year under review as part of Software AG's stock option program. Former members of the Executive Board received EUR 169 thousand. Pension provisions for former members of the Executive Board amounted to EUR 1,842 thousand.

Number of employees

The average number of employees in the Software AG Group in 2000 was 2,805. As of December 31, 2000, the balance sheet date, the Group had a total of 2,846 employees.

Darmstadt, February 28, 2001
Software AG

Dr. E. Königs A. Zeitler V. Dawedeit

Software Aktiengesellschaft,
Independent auditors' report

We have audited the annual financial statements and the bookkeeping system of Software Aktiengesellschaft as well as the consolidated financial statements and report on the position of the Company and the Group prepared by the Company for the business year from January 1, 2000 to December 31, 2000. The preparation of these documents in accordance with German commercial law is 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 section 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 disclosures 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 spot 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 28, 2001

BDO Deutsche Warentreuhand
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Jacob	Braun
Independent Auditor	Independent Auditor

FINANCIAL CALENDAR

March 7	Financial statements press conference
March 8	Analyst conference/Darmstadt (by invitation)
April 25	Result Q1/2001
April 27	Annual Shareholders' Meeting
July 25	Result Q2/2001 and half-year report
July 26	Analyst conference/London and Derby, GB (by invitation)
October 24	Result Q3/2001

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