# ANNUAL REPORT 2001

SOFTWARE AG ANNUAL REPORT 2001

software AG

| in million EUR (unless stated) | Dec. 31, 2001 | Dec. 31, 2000 | Dec. 31, 1999 |
|---|---|---|---|
| Revenue | 588.5 | 416.6 | 365.9 |
| From | | | |
| Licensing | 199.1 | 132.9 | 113.7 |
| Maintenance | 196.0 | 127.9 | 122.5 |
| Professional Services | 190.3 | 154.9 | 128.1 |
| Other revenue | 3.1 | 0.9 | 1.6 |
| Operational earnings* | 121.1 | 70.4 | 67.7 |
| as % of revenue | 21 | 17 | 19 |
| Income before taxes | 70.3 | 112.9 | 66.3 |
| as % of revenue | 12 | 27 | 18 |
| Income after taxes | 38.7 | 66.6 | 38.4 |
| as % of revenue | 7 | 16 | 10 |
| Earnings per share (EUR) | 1.44 | 2.55 | 1.47 |
| Earnings per share (EUR) according to DVFA/SG | 1.33 | 1.51 | 1.34 |
| Total assets | 504.0 | 424.6 | 361.2 |
| Cash and cash equivalents | 50.2 | 215.3 | 197.1 |
| Shareholders' equity | 196.2 | 200.9 | 138.7 |
| as % of total assets | 39 | 47 | 38 |
| Employees | 3,326 | 2,846 | 2,639 |
| of these in Germany | 1,306 | 1,292 | 1,257 |

*EBITDA before extraordinary items

### ADABAS
Software AG's high-performance database for mainframes. Enjoys a reputation as one of the world's fastest databases, and is employed by several thousand customers – generally to provide centralized data management for mission-critical processes.

### B2B
Business-to-business. Inter-enterprise business processes.

### BPM
Business process management. Software-assisted modeling, management, tracking, and continuous improvement of business processes.

### CASHFLOW
Cash receipts minus cash payments over the reporting period.

### CRM
Customer relationship management – generic term for all activities geared to building and maintaining lasting customer relationships. CRM systems are employed to capture, store, share and analyze information about customer-related transactions and activities.

### EBITDA
Earnings before interest, taxes, depreciation and amortization.

### ELECTRONIC BUSINESS
Automated handling of business transactions. Includes electronic integration of enterprises, their customers, suppliers, banks, etc. on the basis of Web technologies.

### ENTERPRISE APPLICATION INTEGRATION (EAI)
Integration of software within an enterprise, enabling all applications to access and use the same data. Standard software components are employed to reduce programming overhead.

### ENTERPRISE TRANSACTION PRODUCTS
Software for enterprise-wide handling of transactions and applications. The more reliable these products are, the more smoothly companies can handle their business processes, which is a major determinant of competitiveness. Software AG's Adabas and Natural are enterprise transaction products.

### ENTIREX
Software AG's comprehensive, efficient integration toolset. Consists of several products that enable the integration of platforms, applications and data, as well as Web connectivity and XML data processing. Integration solutions that leverage EntireX can incorporate standard applications, traditional transaction systems, and cutting-edge Web services.

### G2000 COMPANIES
The 2000 largest enterprises worldwide.

### MIDDLEWARE
Software that enables data to be exchanged between different applications on diverse systems platforms within an enterprise. Middleware is usually tailored to the needs of the relevant applications.

### MOBILE BUSINESS
Mobile business is a subset of electronic business. A generic term for information exchange and business transactions based on mobile electronic media and wireless networks.

### NATURAL
Software AG's platform-independent application development environment (programming language and tool) for designing, developing and building business applications.

### SOAP
Simple Object Access Protocol. XML-based protocol used for accessing Web services, for instance. Enables communication between different programs that can reside on different computers and operating- system platforms. Information is exchanged using Internet technologies on an XML framework.

### TAMINO XML SERVER
Software AG's XML server. The server incorporates a range of products for application development and integration, as well as for processing, searching and storing data based on the XML standard. At the heart of Tamino XML Server is a database capable of storing information of all kinds. The database stores and processes XML documents in their native form, preserving their original structure.

### TBI
Total business integration. Integration of software applications within enterprises, and more especially, across company boundaries. Also supports business-process modeling, tracking, management and control. TBI calls for open standards such as XML.

### UDDI
Universal Description, Discovery and Integration. An XML-based standard for directories listing companies and their Web services (the "Yellow Pages" of the Internet).

### WAP
Wireless Application Protocol. Standard for Internet access via cell phones and other mobile devices. In existence since 1997, it is supported by all leading vendors. WAP is based on WML (Wireless Markup Language), an XML data description language.

### WEB SERVICES
Programs or program components that reside on an Internet server and can be called by other application components. Web services are listed in central, online industry directories known as UDDI repositories.

### WSDL
Web Service Description Language. An XML language employed to describe a Web service including technical details about how to call up and use it.

### XML
Extensible Markup Language. A meta language for data description. XML enables standardized, platform- and application-independent data processing, and simplifies data exchange over the Internet. Separates content from presentation and allows information to be displayed in any format on any end device.

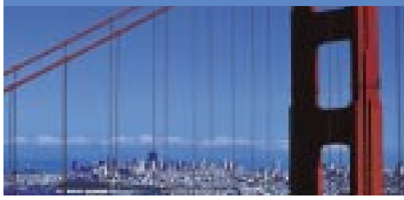
# THE FUTURE IS INTEGRATION – INTEGRATION IS THE FUTURE.

Successful business models require imagination, rational analysis and detailed planning. They are the result of a good idea and the quest for workable implementation. Do we have the necessary resources? Is the idea technically feasible? Will there be a fast enough return?

As often as not, the greatest obstacle to new business ideas are legacy IT systems: either the data is unavailable, or it's inaccessible. Integrating new applications with existing ones is impossible or takes far too long.

But good ideas are much too precious to be defeated by technicalities. Our XML-based integration solutions ensure that the IT systems of today don't inhibit the thriving businesses of tomorrow. After all, the best ideas are often the ones originally declared impossible.

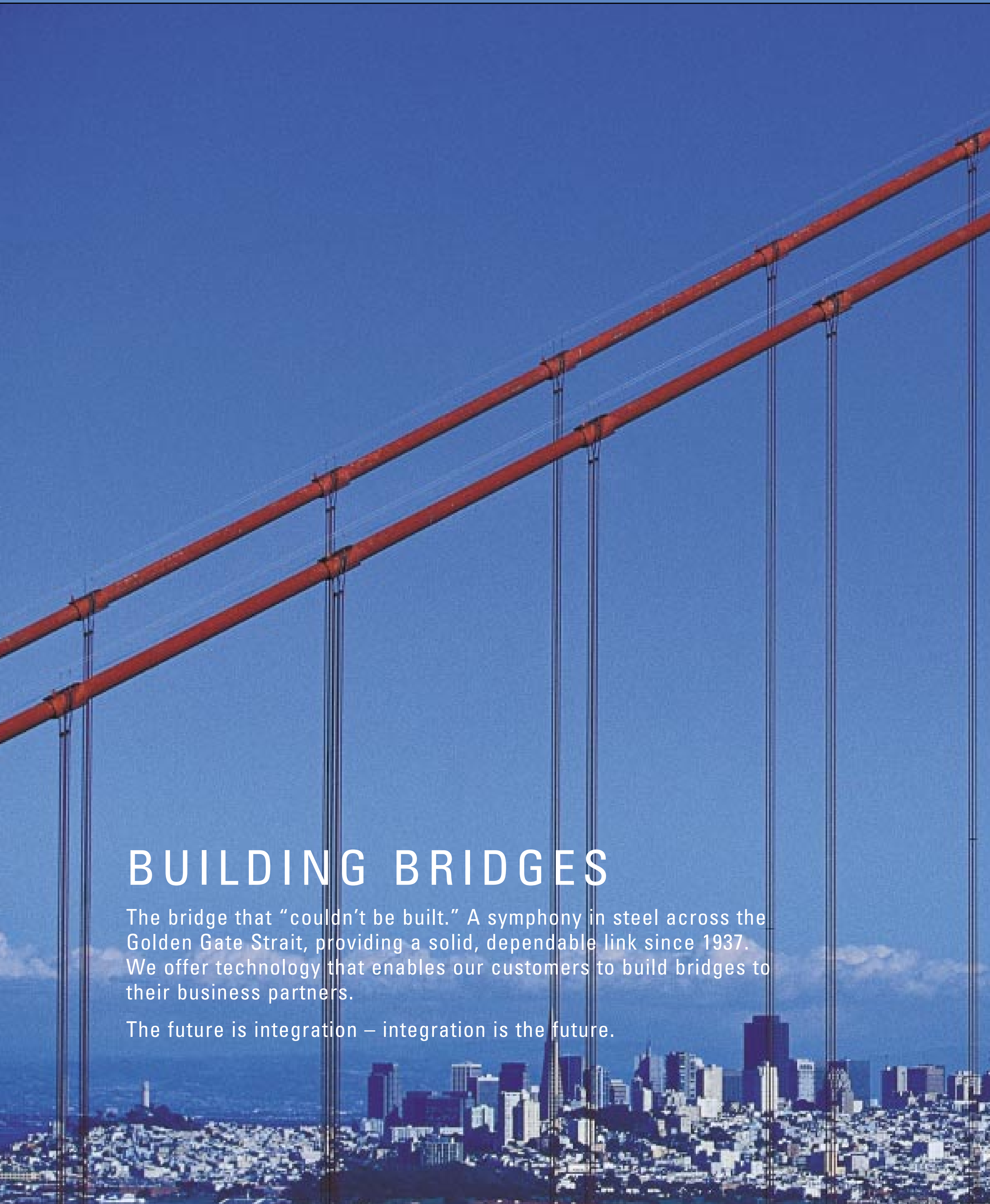
THE GOLDEN GATE BRIDGE IN SAN FRANCISCO



THE EUROTUNNEL LINKING CALAIS AND FOLKESTONE

CHEK LAP KOK AIRPORT IN HONG KONG

THE SINGLE EUROPEAN CURRENCY



# BUILDING BRIDGES

The bridge that “couldn’t be built.” A symphony in steel across the Golden Gate Strait, providing a solid, dependable link since 1937. We offer technology that enables our customers to build bridges to their business partners.

The future is integration – integration is the future.

# LETTER TO OUR SHAREHOLDERS

Dear shareholders,

2001 was not an easy year for software companies. Steadily worsening economic conditions over the past twelve months, exacerbated by the horrific terrorist attacks in the United States, forced many enterprises to revise sales and earnings forecasts. However, Software AG's well-balanced business model proved highly robust, bringing the company through difficult times unscathed. In fact, fiscal 2001 was the most successful in our 30-year history. Our enterprise transaction products, Adabas and Natural, achieved particularly impressive sales growth. Enterprises are currently focusing on raising the productivity of their existing IT systems and increasing business process automation. Deployed by top-tier companies all over the world, Natural and Adabas are capitalizing on this trend. We will introduce further innovations to ensure that this product line remains a cornerstone of our business, generating healthy profits for a long time to come.

In 2001, we put many of the elements of Software AG's future strategy in place. As a leading provider of systems software and services for business-critical IT solutions, we began exploring the possibilities of XML (Extensible Markup Language) four years ago. At that time, we predicted that this technology would trigger the next wave of innovation in the software industry following the Internet revolution. This is now starting to happen. XML is gaining general acceptance as a standard format for the Internet-mediated exchange of data and documents both within and between companies. XML is the enabling technology for business-to-business process efficiency. However, our XML products did not quite meet our ambitious sales targets in 2001. This was due, among other things, to a widespread reluctance to invest in e-business. We are convinced that the emergence of XML-enabled applications and the rising number of Web services will boost XML data traffic. Companies, seeking to leverage the Internet to automate their business processes, require efficient ways to handle their XML data. Having expanded our Tamino XML Database into a powerful XML server, we now deliver full capabilities for quick, easy and secure data management as well as fast, efficient storage of XML documents.

Business-to-business transactions over the Internet are now a reality. And while the underlying technology is XML, the key prerequisite is total business integration (TBI) – the seamless connection of existing IT environments within and between enterprises. In fiscal 2001, we significantly enhanced our product portfolio for this segment. EntireX, our integration product, is now a full-fledged EAI (enterprise application integration) product. We will add further functionality to EntireX this year in order to offer our customers comprehensive TBI capabilities.

The acquisition of our long-standing US sales partner on February 1, 2001, marked an important milestone in our company history, and considerably increased our presence on the US market. The integration of the company went smoothly, and the hoped-for synergies already became evident in 2001. Our US-based customers – more than 1,500 enterprises – welcomed our direct market presence.

The indirect sales network for our electronic business products, Tamino XML Server and EntireX, has been substantially expanded. Further leading enterprises have been signed up as partners.

Software AG's current strategic emphasis on XML and TBI products places new demands on our Professional Services division. We have identified five industries that will invest substantially in infrastructure software and related implementation and consulting services over the next few years. Our local service organizations already have the necessary industry expertise, and we must now exploit this knowledge worldwide.

Our sales organization has also been adapted to the new challenges. We now dedicate about one-half of our sales resources to winning new customers.

In order to accelerate the spread of XML applications, we are now selling solutions developed by partner companies using our technologies. We have made a start by targeting the market for content management in collaboration with a European and a US-based partner.

Even if the economic climate remains unsettled, we will press forward in 2002 with our plans to make Software AG an even stronger, more successful company. In particular, we will be focusing on profitability rather than sales growth in the next twelve months.

Dr. Erwin Königs
Chairman and CEO

# SOFTWARE AG –
# CHRONICLE OF EVENTS IN 2001

| | |
|---|---|
| **Jan. 1** | Software AG takes majority stake in Dutch IT enterprise IC Group. |
| **Feb. 1** | Software AG acquires Saga Systems Inc., Reston, VA, USA. |
| **Mar. 22** | Software AG unveils the X-Bridge XML integration tool and the Tamino X-Studio development environment. |
| **April 25** | IBM Global Services and Software AG forge alliance. |
| **May 10** | Software AG and Tridion agree to jointly market a content management solution based on Tamino XML Server. |
| **May 29** | Bea Systems and Software AG announce a global strategic alliance. |
| | Hewlett-Packard and Software AG agree sales and technology partnership. |
| **July 17** | IDC Corp. reports that Software AG is the global market leader for XML databases. |
| **Sept. 11** | Adabas is first database to utilize IBM's new 64-bit virtual storage architecture for mainframes. |
| **Sept. 19** | Software AG's XML Academy kicks off with a new program of courses. |
| **Oct. 17** | EntireX is revamped as a complete TBI platform. |
| | Functional enhancements make Tamino a versatile XML server. |
| **Oct. 30** | Software AG wins the Star Award in the USA for outstanding service and enters the Service & Support Professionals Association (SSPA) Hall of Fame. |
| **Nov. 30** | Natural Version 5 for Windows makes its debut. |
| **Dec. 20** | Tamino XML Server Version 3.1 is released with a wide range of new services. |

# REPORT OF THE SUPERVISORY BOARD

The Supervisory Board monitored the management of the Company during the year under review. It regularly reviewed the Company's position and major business developments. A total of four meetings took place in 2001 – one per quarter.

The Supervisory Board and the Executive Board discussed and analyzed current business developments in detail. Transactions requiring the Supervisory Board's consent by law or by the Company's Articles of Association were examined and discussed individually before approval was given.

Issues addressed at the meetings included the financial state of the Company and its subsidiaries, the current and longer-term development of the various business units, and the Company's product, sales and marketing strategies.

The Supervisory Board was kept informed on the integration of Saga Systems Inc. (now Software AG Inc.). The Executive Board also provided the chairman of the Supervisory Board with monthly written reports on general business developments.

The Supervisory Board's Personnel Committee (for issues concerning the Executive Board) held two meetings in fiscal 2001. The Board has no other committees.

With effect from June 1, 2001, the Supervisory Board appointed Dr. Detlef Purschke to the Executive Board. Dr. Purschke is responsible for Professional Services and Maintenance business.

Dieter Schacher retired as deputy chairman of the Supervisory Board for personal reasons, effective December 31, 2001. The Supervisory Board thanks Mr. Schacher for his hard work and commitment.

The Darmstadt Municipal Court appointed Karl Heinz Achinger to the Supervisory Board, effective January 1, 2002.

In accordance with the resolution of the shareholders' meeting, the Supervisory Board appointed BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, to audit the year-end financial statements and consolidated financial statements for 2001.

Software AG's year-end financial statements and consolidated financial statements, the management report, and the accounts, were audited by BDO and certified without qualification.

The audit report was submitted to the Supervisory Board, and the auditors explained the report's findings in person to all Supervisory Board and Executive Board members.

The Supervisory Board examined the audit report in detail at its meeting on March 1, 2002, and has declared itself in agreement with the auditors' findings. The annual accounts and consolidated financial statements are hereby approved.

Darmstadt, March 2002
The Supervisory Board

Dietrich-Kurt Frowein
Chairman

# SOFTWARE AG STOCK

**Fiscal 2001: Technology stocks feel the pressure**

Fiscal 2001 witnessed a global economic slowdown that forced companies in many industries to downgrade their earnings forecasts. Technology stocks were particularly badly affected. Virtually all the major stock indices fell considerably over the year, including Germany's DAX, which shed nearly 20 percent of its value. The weakness of the technology sector was reflected in the fall of the Nemax All Share Index, which plummeted 60 percent. In contrast, the MDAX (mid-cap) index put in a robust performance despite the unfavorable climate. Over the year, it fell by only eight percent.

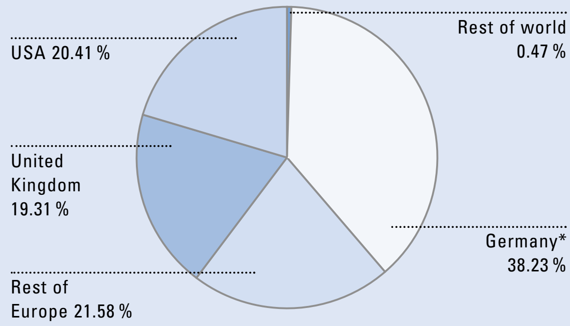
Software AG's stock was affected by investors' loss of confidence in the software sector as a whole. Although Software AG posted excellent results in the first half of 2001, met virtually all its annual forecasts and had the most successful year in its history, the share price fell considerably. By December 31, it had lost 48 percent over the year.

**Growing investor interest**

During 2001, Software AG's stock was included in the MSCI family of indices. This reflects the continuing growth of investor interest. It also helps raise Software AG's profile among international investors. Software AG holds 33rd position on the DAX 100 index of leading German shares, as measured by liquidity, and has a middle ranking in terms of market capitalization (1.17 billion euros at year-end 2001). From mid-2002, Deutsche Börse AG will take free float into account when compiling its indices, which could improve our standing on the DAX 100.

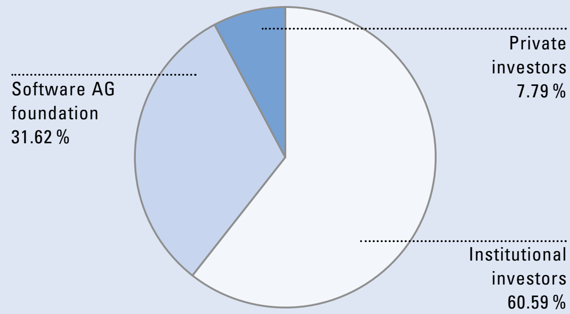
Software AG's well balanced business model combines high-margin sales of the Company's traditional transaction systems with activities in the high-growth e-business sector. Against this background, we have increasingly targeted investors who favor sustainable, long-term value. There has been a corresponding decline in interest from investors looking exclusively for stocks with potential for above-average, short-term growth.

The Executive Board held a number of conferences and one-on-one discussions to communicate with institutional investors in Germany and beyond. A day-long event for financial analysts was also staged at corporate headquarters in Darmstadt. To take account of international interest in Software AG, the Company's interim results for the first half of 2001 were, for the first time, presented in London. On both occasions, the response of financial analysts and fund managers was exceptionally positive. The number of financial institutions covering the Company has risen from 18 to 30.




Shareholders by region in percentage of Free Float as of December 31, 2001

*excluding Software AG foundation




Shareholder structure in percentage of share capital as of December 31, 2001

**Intensified communication with shareholders**

The Internet is becoming increasingly important as a platform for Software AG's investor relations activities. Private investors, in particular, use it to access timely and comprehensive information on developments. Software AG's Web offering has been enhanced by the addition of an interactive annual report. We now also broadcast our quarterly analysts' conferences live over the Web.

The Executive Board and Supervisory Board of Software AG will propose to the shareholders' meeting a dividend of 0.43 euros for fiscal 2001. This compares with dividends of 0.28 and 0.38 euros in fiscal 1999 and 2000, respectively.

Software AG held its annual shareholders' meeting for 2001 at the end of April. This allowed us to report more promptly on the preceding fiscal year and to disburse dividends earlier. As a result, Software AG is one of the first companies in Germany to hold its annual shareholders' meeting.

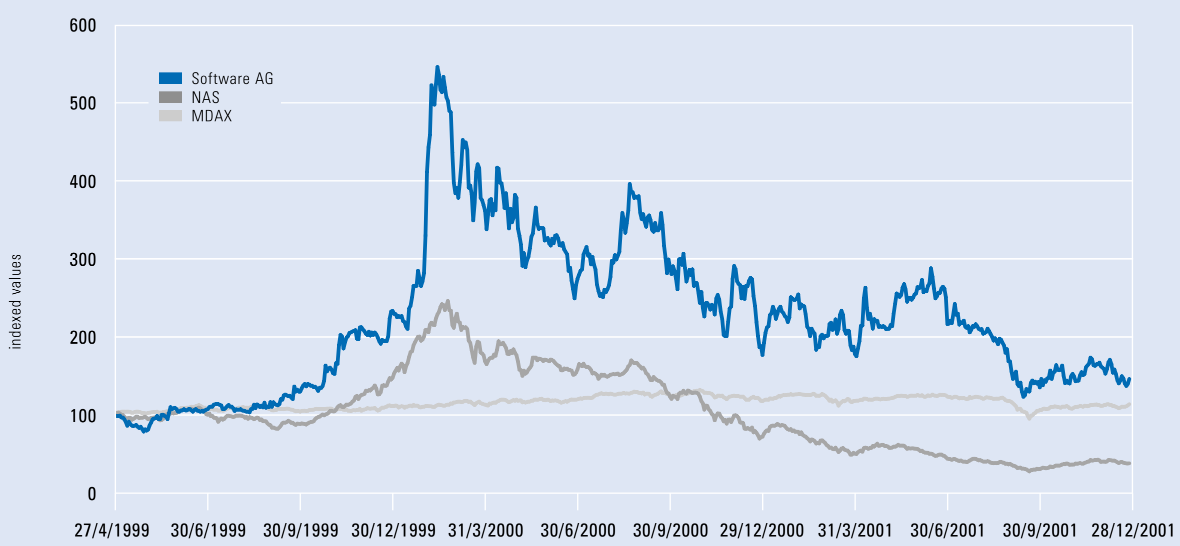
| | Issue price April 26, 1999 | Dec. 31, 1999 | Dec. 31, 2000 | Dec. 31, 2001 |
|---|---|---|---|---|
| Price (XETRA closing price, in EUR) | 30.00 | 60.50 | 82.66 | 43.00 |
| Market capitalization in billion EUR | 0.78 | 1.58 | 2.18 | 1.17 |
| Number of stocks (increase due to exercise of stock options) | 26,090,000 | 26,090,000 | 26,397,228 | 27,261,483 |
| | | 1999 | 2000 | 2001 |
| Dividend per stock in EUR | | 0.28 | 0.38 | 0.43 * |
| High/Low in EUR | | | | 87.00/35.90 |

Software AG stock key figures

Frankfurt (official trading/MDAX) German stock identification number (WKN) 724 264, ISIN DE 0007242646, Symbol SOW4

During 2001, Software AG was included in the following indices: MDAX, Dow Jones STOXX, MSCI Germany

* Recommendation of the Supervisory Board and the Executive Board to the stockholders' meeting of April 30, 2002




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

For more information, contact Software AG's
Investor Relations department at:

**Software AG,** Investor Relations
Uhlandstraße 12, 64297 Darmstadt
Germany
Tel.: +49 (0) 61 51-92-0
Fax: +49 (0) 61 51-92-19 33
E-Mail: investor.relations@softwareag.com
www.softwareag.com

# FASTER CONNECTIONS

The breakthrough came 200 years after the first plans were drawn. The Eurotunnel has simplified travel for millions of people. Our integration technology links stand-alone IT solutions to create seamless, end-to-end systems.

The future is integration – integration is the future.

# TOTAL BUSINESS INTEGRATION AND XML

## DRIVING THE NETWORKED ECONOMY

2001 was a difficult year for most vendors of e-business software. But despite the woes of many Internet startups, the online world has lost none of its appeal. Many innovative business models may have proved unworkable, but the e-economy is here to stay. And corporate customers are returning to the larger, more established players to get their IT systems in shape.

Some useful lessons can be learned from the experiences of recently established enterprises. Developments have shown which ideas can make money – and which technologies can help. The dramatic rise and fall of many a dot-com has made it abundantly clear that success in the 21st century still depends on age-old criteria: efficient business processes, good relationships with customers, and the intelligent use of information to create value. Mastering these challenges in the Internet age calls for the seamless integration of data, applications and systems. Companies must have anytime, anywhere access to information, and be able to exchange data with their business partners along the value chain.

**The challenge of total business integration**
Customer relationship management (CRM), process optimization, protection of investment: issues such as these are high on many corporate agendas. IT directors and experts alike have realized that these challenges can only be mastered within a comprehensive integration framework – total business integration – and with the help of powerful XML technologies. The following three propositions explain why that is so:

- Total business integration and XML can transform point solutions into open, flexible architectures. This is important because a great many proprietary solutions and systems are still in use today. In the networked economy, companies must be able to handle a multitude of ad-hoc business relationships with ease and speed. The new "Web services" concept was created to support this "business agility," as the analysts call it. Enterprises also need to develop and adapt business processes on the fly. Business process management (BPM) and process control are the buzzwords here.



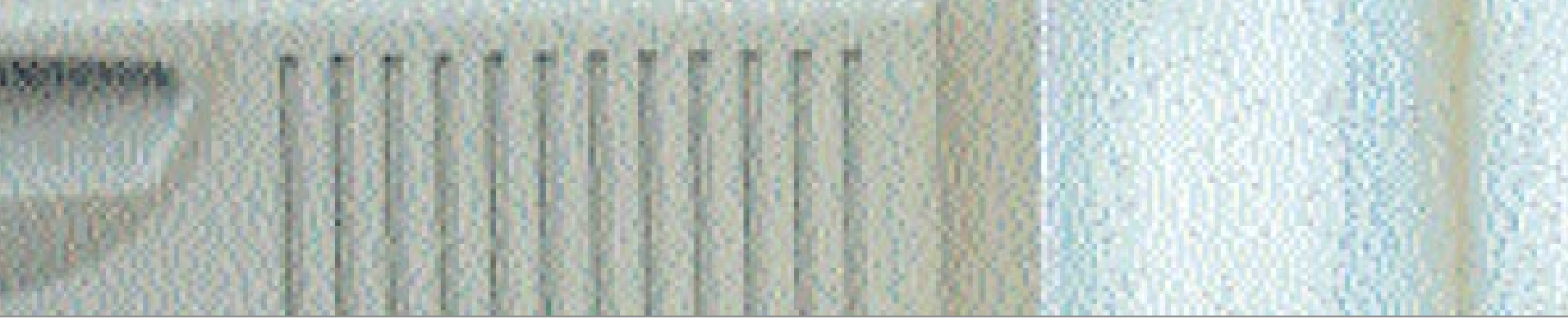
- Total business integration is a precondition for automating business processes using existing systems. Without automation, companies cannot participate in the networked economy. At the same time, enterprises want to protect their investments in tried and trusted legacy applications. They can leverage this reliability by incorporating these applications into new electronic business infrastructures.
- Total business integration and XML make information processes more flexible. To generate value from information using concepts such as knowledge management and business intelligence, that information must be amenable to semantic processing. In addition, information needs to be easily accessible wherever it is required, using various types of equipment, including mobile devices. XML is a description language that transforms data into information, and total business integration ensures a seamless flow of information between all parties.

Software AG's product strategy dovetails perfectly with these challenges, which all of our customers face. XML technology has been the company's strategic focus since 1998. Furthermore, the acquisition of SAGA in 2001 has considerably broadened Software AG's portfolio of integration software. The company offers its customers infrastructure and services with which they can pass the e-business reality check.

## From EAI to TBI – an integration concept takes shape

*Enterprise application integration (EAI) is the interconnection of data, applications and systems within an enterprise. EAI is employed for business process automation. For example, a company might receive a production order via its EDI system, by e-mail, or over the Internet. Various systems are involved in processing the order, such as financial accounting applications, sales software, and the production planning system. The company needs to integrate all these applications to ensure that the order is processed promptly, accurately, and cost-effectively. The more complex the application landscape, the more demanding this task will be. Studies show that the average Fortune 500 enterprise employs more than 40 different systems.*

*Business processes can also be optimized by extending integration beyond the company firewall to include business partners. This is the essence of total business integration, a term coined by Gartner Group. In their view, Internet technology and emerging standards provide ideal means to flexibly link all parties involved in a business process, enabling end-to-end process automation. Tight integration with suppliers, distributors and logistics companies allows the automation of many inter-enterprise processes. The Web services concept has a major role to play here. Total business integration is not feasible, however, without highly flexible IT infrastructures that enable information flows and transactions to be managed reliably and efficiently.*



# GROWTH MARKETS XML AND TBI

Two significant trends are shaping developments in the IT market. Extensible Markup Language (XML) has begun to play a key role in data management, while more and more companies are signing up to the total business integration model.

In the last two years, XML has become an established standard for business-to-business integration. Gartner Group and International Data Corporation (IDC) expect the market for XML database management systems to reach a volume of 1.6 billion US dollars by 2005. With its Tamino XML Server, Software AG is well placed to capitalize on this boom.

According to IDC, the market for integration software will grow faster than the software market as a whole. IDC predicts an annual growth rate of around 43.9 percent, based on the following considerations:

- Application integration enables enterprises to exploit their legacy, heterogeneous systems to create value.
- Many companies have not yet resolved the problem of integrating existing systems with their next-generation applications.
- Thanks to the Internet, users have come to expect quick and easy access to information, and demand the same from their inhouse IT systems.
- Mergers and acquisitions are becoming increasingly common, making the rapid integration of heterogeneous IT environments a pressing issue for many companies.

Gartner Group also expects the integration market to flourish. It has identified integration brokers as the market segment with the greatest growth potential, with sales predicted to increase by up to 500 percent between now and 2005. Admittedly, this market is highly fragmented at present: the twelve leading vendors have a collective market share of 70 percent. A major wave of consolidation looks likely in the next two years.

With its EntireX, Software AG offers a truly comprehensive range of products for just about any integration task.

# ENTERPRISE CONTENT MANAGEMENT

Content management is no longer just about website editing. Enterprises can and should do much more with their content management systems than merely display their products on the Web. Many of them have recognized the value of their information assets and see the need for flexible information management and easy accessibility. They must integrate content management applications into their supply chains, organize all kinds of content effectively, and incorporate it intelligently into their business processes. Engineering companies require fast, efficient ways of exchanging design data and product documentation with partners and suppliers. Medical research institutes, clinics and hospitals need to share complex multimedia information. It takes a highly versatile data description format such as XML to master challenges like these.

**XML content is smart content**

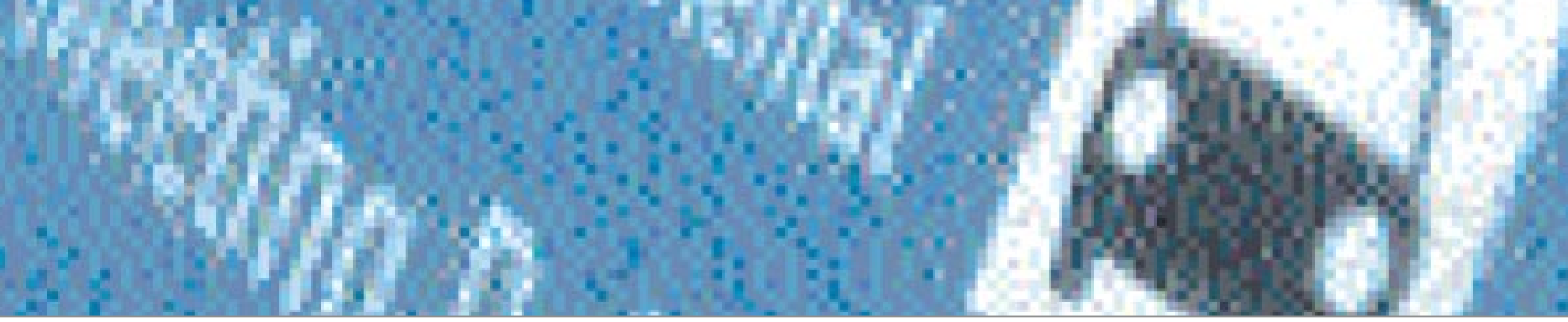
With XML, organizations can establish a central enterprise pool, storing information in a standard format which can be retrieved easily, and made available on any media. At the same time, the applications that supply the information must be integrated into the IT infrastructure to guarantee a smooth exchange with other parties.

*"By its nature, XML content is smart content. XML separates content from layout so the same information can be published to a website, an intranet site or a wireless device."*

*Jouk Pleiter*

*Jouk Pleiter, President of Netherlands-based Tridion B.V., is a recognized pioneer in the content management sector, thanks to his XML-based Tridion DialogServer.*

**Software AG now markets partner solutions. The first two sales agreements were signed with two leading vendors of content management solutions: Tridion B.V. (Netherlands) and US-based Stellent Inc.**



# WEB SERVICES:
# A NEW BUSINESS PARADIGM

**Seamlessly integrating business partners: Airlines can deploy Web services to offer rental cars to their online customers.**


Some of the IT world's most creative minds have developed a promising new integration concept: Web services. Web services are programs that reside on an Internet server and can communicate with other application components of a similar type. Web-based financial applications are a good example. Web services are listed in central, online industry directories known as UDDI (Universal Description, Discovery and Integration) repositories. These directories offer search functions, information about providers and their Web services, and help with connecting to a service. Enterprises can access a service directly over the Internet. Web services make use of open standards: the XML-based Web Service Description Language (WSDL), and Simple Object Access Protocol (SOAP). WSDL is used to provide detailed descriptions of Web services, while SOAP facilitates data exchange. Both are open, vendor-neutral standards.

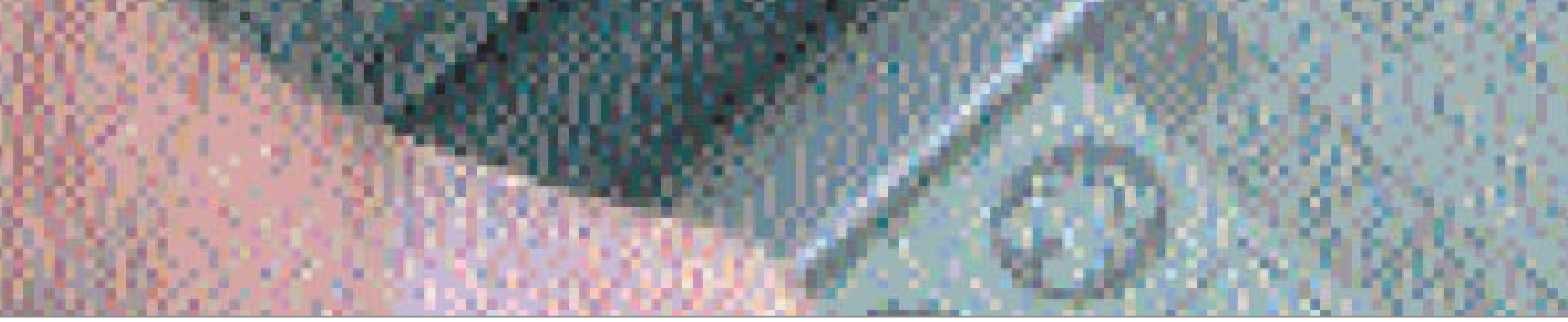
In addition to applications for business-to-business invoice and payment processing, leading Web service candidates include credit checking – important for online store operators – and payroll accounting. But there are many other examples. Airlines can use Web services to offer their online customers rental car services when they book a flight, for example. And in the power utility market, where deregulation has led to a sharp rise in data traffic, Web services can be used to transmit meter readings and billing information.

In all of these examples, Web services enable individual tasks in the process chain to be executed automatically once a company has found the right business partner on the Internet. The assumption is that the companies involved operate IT infrastructure equipped for total business integration. Their IT systems must be sufficiently open and must allow them to externalize existing applications in the form of Web services.

Already, 7,000 companies are listed in UDDI repositories. Many more are preparing to launch or use Web services. IT experts advise enterprises to begin by using Web services within their corporate firewalls – to integrate internal processes and adapt them for use by business partners via the Internet. Apollo 2000, Britain's largest retailer of electrical appliances, has taken this route. By implementing Tamino XML Server and EntireX, Apollo 2000 has prepared its in-house systems for the deployment of Web services.

## Web services optimize communications with partners and customers

*A key requirement for today's electronic trading is applications integration, an area in which the new Web services concept will have a major role to play. Apollo 2000 – one of Britain's leading retailers of electrical appliances – has placed Web services at the heart of its IT strategy. The company began by focusing on the integration of its online shop, through which it sells electric household and consumer goods of all kinds – from washing machines and freezers to digital camcorders and DVD players. The shop is part of the company's new IT infrastructure, which automatically sends incoming orders via the Web both to its in-house merchandise management system and to an appropriate supplier. Logistics and financial processes are also handled online. Integrating the various systems posed the project's greatest challenge. Tamino XML Server and EntireX manage the data and guarantee secure, flexible data exchange between all parties. With this future-proof infrastructure, Apollo 2000 is ideally placed to exploit the potential of new integration concepts such as Web services.*



# THE FUTURE OF BUSINESS IS MOBILE

Mobile access is becoming increasingly important as a way of ensuring rapid, cost-effective handling of business processes. Market researchers Mummert & Partner forecast that, by 2004, more people will be accessing the Internet via their mobile devices than home PCs. The most popular mobile applications are financial services such as online brokering and mobile payment. GZS, Germany's leading provider of payment-processing services, has developed an innovative solution for mobile transactions based on Tamino XML Server. The solution lets users make secure credit-card payments using their cell phones.

IDC also expects a rapid rise in mobile user numbers: A recent study predicts that the figure for the USA will exceed 49 million by 2005, which represents an annual rise of 73 percent. IDC argues that although the market is currently divided equally between consumers and professional users, there will be a marked swing toward business use over the next few years. Salespeople and other field service employees will be among the first to benefit. Insurance representatives can access enterprise applications, download information, and conclude or modify contracts while visiting the customer at home. As a result, customers enjoy a better service and the insurance company optimizes its business processes. Thick, glossy brochures can be dispensed with, and staff no longer have to type up the details following customer contacts. Software AG and max.mobile, a wholly-owned subsidiary of T-Mobile International, have developed an application based on Tamino XML Server for recording work times and job data. Professionals on the road can use a mobile device to record when they start and finish work, and to enter information on customers and projects. NÖ Volkshilfe, Austria's biggest non-profit organization, has implemented a solution of this type. It has developed a mobile application that helps its welfare and healthcare workers organize their schedules and enter data on services rendered. The application leverages powerful XML technology provided by Tamino XML Server.

## Mobile integration optimizes business processes – from the patient to the health insurer

*Solutions for mobile data entry cut costs and generate significant time savings. These benefits appealed to NÖ Volkshilfe, a non-profit organization that provides a wide range of services for health and long-term care, children and families, job training and job creation, and help in the home. Currently, more than 9,000 people make use of these services.*

*NÖ Volkshilfe partnered with Software AG to implement a mobile business solution for activity recording. The organization is the first in Austria to use WAP technology to track mobile employees' activity times. A key requirement was that the WAP-based solution should integrate seamlessly with legacy billing systems. Mobile workers use the solution to access customer data stored in the existing central database. As well as viewing information, they can enter new details directly into the system. This has created a largely paperless data flow from the patient to the insurer, considerably simplifying the billing process.*

# CUSTOMER-FOCUSED THROUGH INTEGRATION

All enterprises are aware of the pressing need to be service-driven, to put the customer first. In the old economy, this frequently caused friction between customers and salespeople. Combined with cutting-edge customer relationship management (CRM), electronic business creates opportunities to improve the quality of customer care. Professionally operated and integrated call centers, transparent processes, and after-sales service via electronic channels are excellent ways of giving customers what they most want and do not always get: the feeling that their needs are taken seriously. A survey conducted by management consultants PriceWaterhouseCoopers (PWC) revealed that 60 percent of customers expect to be able to reach a company through multiple channels. Enterprises with intense customer contact need to make multichanneling a priority. This includes banks and insurance companies, who cannot hope to be competitive without an excellent communications infrastructure. Public services have also recognized the potential of CRM. E-Government solutions have cut red tape for many UK citizens, for example. Aylesbury Vale District Council and Bristol City Council offer citizens easy-to-use e-services based on Tamino XML Server and EntireX. Similarly, retailers stand to gain from being more customer-focused. Ordering via the Internet is not only customer-friendly, it also accelerates processing and cuts costs. Web-based order tracking simplifies planning and organization in the construction industry. National Gypsum, the USA's second largest manufacturer of gypsum products, has deployed EntireX to integrate its Internet-based ordering facilities with its call center, order management and logistics applications. The solution creates significant added value not only for the company itself, but also for its customers and supply chain partners.

**Effective customer relationship management often requires the intelligent integration of existing mainframe applications.**

Implementing these solutions involves integration. Because the only way to become truly customer-focused is to ensure a smooth flow of data between sales, marketing, customer service and the back office.

**Total business integration for the networked economy**

Software AG's products are geared to the current and future challenges of the networked economy. We provide the infrastructure customers need to master these challenges. Equipped with innovative technologies for total business integration, they can integrate legacy systems to protect investment; implement mobile business, effective information management and customer relationship management; and generate value with Web services.

## Integration enhances customer service

*When competition is tough, the ability to maintain customer loyalty through high-quality customer service is a major determinant of success. National Gypsum, the USA's second largest manufacturer of gypsum products, enhanced its customer service capabilities by introducing a new IT solution. The company developed a Web application that lets customers place their orders and track the status of those orders online. Customers have complete access to their account – from orders, to invoices, adjustment and statements – even summary activity reports. The application is supplied with the latest data from the company's customer relationship management/customer service management system, an Adabas/Natural development that has been running very successfully for some years. EntireX takes charge of the key task of integration: It connects the Web application with the legacy system as well as incorporating hourly shipment status/GPS location information that logistics partners send to National Gypsum in the form of EDI and XML documents. The solution lets customers place orders and look up the latest prices, special offers, or the status of an order – 24 hours a day, seven days a week. They can even find out – in real time – exactly where their shipments are currently located.*

**National Gypsum has leveraged Software AG's powerful technology to enhance customer service and ensure timely delivery of its products.**

# NEW DESTINATIONS

To connect Hong Kong with the rest of the world,
a new island was created in the sea for Chek Lap Kok Airport.
Our integration technology helps our customers reach new destinations.

The future is integration – integration is the future.

# COMBINED MANAGEMENT REPORT OF SOFTWARE AG AND SOFTWARE AG GROUP AS OF DECEMBER 31, 2001

## Economic climate and market developments

### A gloomy economic picture

The economic climate in 2001 was characterized by faltering growth in almost all leading industrial nations. The USA's economy slowed sharply after almost a decade of continuous growth. Later in the year, there were signs of recession. Europe, the second most important economic region after the USA, could not make up for the weakness. On the contrary, economic performance in Europe fell far short of expectations. Against this background, conditions were very difficult in Software AG's key markets.

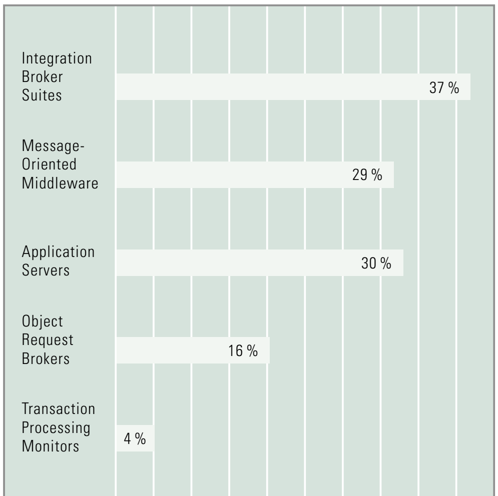
The IT industry – one of the most dynamic sectors in the last two decades – was severely hit by the downturn in 2001. Hesitant investment by customers, postponed projects, and reduced budgets impacted demand for hardware, software and services.

### Unexpectedly strong demand for enterprise transaction systems

The software industry segments relevant to Software AG had mixed fortunes in 2001. Contrary to expectations, the market for enterprise transaction systems, where Software AG markets its Adabas database management system and Natural development tool, remained stable. This was attributable to two key factors. First, the performance of the hardware required by these systems has improved considerably. Many customers are making use of this enhanced performance, which has led to additional license revenue, because many license agreements are linked to hardware performance. In addition, it is becoming increasingly apparent that these systems can be readily adapted to new requirements and business practices, such as the use of the Internet. That removes the need to replace these systems, protecting customers' investment.

### Integration technology: a growth market

Software AG's EntireX is a total business integration (TBI) product. In other words, it supports the interconnection of existing IT infrastructures not only within enterprises but also across enterprise boundaries. Many customers give integration projects a high priority, since the seamless linking of IT platforms and applications enables greater process automation. This cuts costs, speeds up business processes, and increases transparency. In difficult economic times, benefits like these look especially attractive to IT directors. As a result, the market for TBI software and services grew, although not as strongly as anticipated at the beginning of the year.




European application integration and middleware key market segments forecast (CAGR 2000–2005e)

Source: Gartner, Dataquest (Sept. 2001)

**The XML market is expanding more slowly than expected**

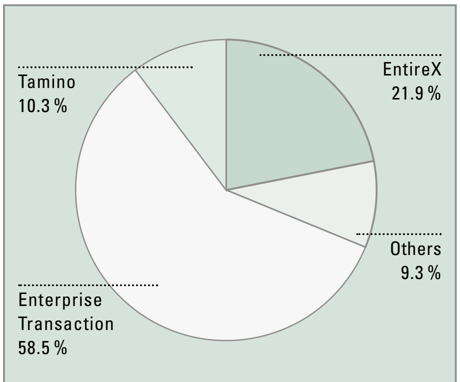
For most companies, leveraging the Internet to facilitate business-to-business processes is an important strategic goal because it enables them to achieve considerable efficiencies. XML is the enabling technology for efficient B2B transactions.

Despite the importance of B2B integration, the market for this type of software did not expand as rapidly as many analysts had predicted. Companies need to integrate their in-house IT infrastructures as a precondition for introducing electronic business processes. Many enterprises have only just started to do this. A further contributing factor was the global economic slowdown, which led to reduced investment in new technologies, especially electronic business.

## Strategy

Software AG's classic enterprise transaction products, Adabas and Natural, were the main profit drivers in fiscal 2001. We will build on this strong foundation, and further expand our electronic-business offering. All product lines have been improved and enhanced. This includes not only the enterprise transaction products but also the electronic business products, Tamino XML Server and EntireX. With regard to the enterprise transaction products, the main priority is to serve the existing customer base, while the electronic business products create opportunities for winning new customers and penetrating new markets. Our goal is to leverage our technology leadership in XML to capture market share in the TBI and B2B segments.

By acquiring our former US distribution partner, Saga Systems Inc., we have considerably expanded our presence in this key market. We have also strengthened our international sales network through new partnerships. In collaboration with partners, we have begun to penetrate the market for XML solutions. At the same time, we are reorganizing our sales force to place greater emphasis on electronic business products. In addition to these strategic changes, some of which were initiated before 2001, we have also begun restructuring the Professional Services division.




Licensing revenue in 2001 by product group: 199.1 million EUR

## Products

### Retaining enterprise transaction system customers

Adabas is a database management system (DBMS) for business-critical applications. Natural is an application development system (a programming language with corresponding workbench). Business-critical applications represent a considerable investment, and are often kept in service for many years, even decades. This produces stable, lasting relationships which put Software AG in a position of considerable responsibility: Our customers rely on us to help them master new challenges by constantly enhancing and refining our products. This is a key element of our product strategy vis-à-vis enterprise transaction systems. Significant investment in research and development guarantees that we will continue to meet our customers' specific requirements in the future. One new challenge for our customers' legacy IT systems is the incorporation of the

Internet in their business strategies. They can only realize cost efficiencies if they continue to use those legacy systems without major new investment. The aim of our product development will be to help them protect their IT investments while maximizing return on the systems they deploy already.

**Adabas: one of the world's fastest databases**

Adabas Cluster Services are a good example of this approach. With this technology, which is based on IBM's Parallel Sysplex architecture, a cluster of up to 32 Adabas servers can share data resources. Should one server fail, the others take over its duties. As a result, Adabas databases can provide 24x7 availability, eliminating both scheduled downtime and unplanned outages. However, permanent availability is not the only benefit of Adabas Cluster Services; they also boost performance. In load tests with a cluster of 13 Adabas servers, database processing speeds were increased by a factor of 40. These findings underline Adabas' reputation as one of the world's fastest databases.

**Natural: future-proofing mainframes**

Thanks to e-business and the World Wide Web, mainframes are experiencing a renaissance. However, users and software engineers alike are demanding greater interactivity and direct Web access from mainframe systems. Software AG's answer is the latest version of Natural. Natural Version 5 for Windows can process XML documents and provides direct access to the Web via HTTP. That means even mainframe applications are now deployable as Web applications within a multi-layer architecture. The finished application, developed under Windows, can be deployed on diverse operating systems. In this way, Natural helps our customers to reap additional benefits from their existing systems while reducing their software development costs.

**Electronic business products are converging**

XML is increasingly seen not only as an ideal format for exchanging data and documents over the Internet, but also as a powerful integration technology. In the future, enterprises will be expected to allow customers and partners to make use of their in-house IT-based services quickly and easily. The associated processes must be automated, flexible and seamless. In such scenarios, XML will be used to support the integration of business processes. In fact in some cases, integration would not be possible without this new technology.

Against this background, Software AG expects that by the end of this year, most companies will have evaluated XML as a tool for integration. Clearly, IT application integration and B2B e-commerce are but two sides of the same coin. B2B e-commerce only makes sense if there is end-to-end process integration across enterprise boundaries. XML is the key enabling technology for both developments, as underlined by the Web services concept. Web services are based on XML-related standards and enable companies to locate and use online services anywhere on the Web. The many advantages of Web services will accelerate the adoption of XML-based applications and integration solutions.

Software AG has extended its technology leadership in this area through the continued improvement of its e-business products, EntireX and Tamino XML Server.

**Total business integration with EntireX**

Completely electronic business processes, applications that exchange data and perform all necessary validations autonomously, flexible IT infrastructures that allow new customers or business partners to be integrated on the fly. Total business integration promises all this and more. The prospect of major productivity improvements and cost efficiencies is currently driving this development. But there is still a big gap between the vision and the IT reality. Enterprises generally deploy multiple IT platforms with numerous custom and standard applications that do not mesh. This often leads to problems with data consistency and data exchange. It is essential to integrate these disparate IT landscapes in order to efficiently handle internal business processes and those involving customers, suppliers and other partners. Middleware technologies facilitate and enable integration within (enterprise application integration) and between companies (total business integration).

In the course of 2001, EntireX was functionally enhanced into a full-fledged TBI server. As a result, Software AG now offers customers an end-to-end solution for integrating platforms and applications within the company firewall and beyond. But EntireX provides much richer functionality than most of today's TBI tools. It supports the processing of XML data and documents without prior conversion (native XML processing). Customers can employ intelligent adapter technologies to integrate applications without coding. In 2002, business process management functionality will be available to complement EntireX.

**Tamino is now a full-fledged XML server**

In 2001, further leading software vendors announced that their products supported XML or that future developments would be based on XML technologies. This dispelled any lingering doubts about XML's imminent breakthrough as an integration tool for B2B processes. At the same time, it creates a pressing need for efficient means of handling XML data and documents. Software AG's enhanced Tamino XML Server now provides an end-to-end solution for creating, using, and managing XML data. While the core Tamino XML Database enables native storage of XML data, the server offers rich additional functionality to facilitate XML data handling. In the future, customers will deploy Tamino XML Server side by side with their existing database, integration and application servers. With its open architecture, Tamino XML Server guarantees seamless connectivity with existing IT infrastructures.

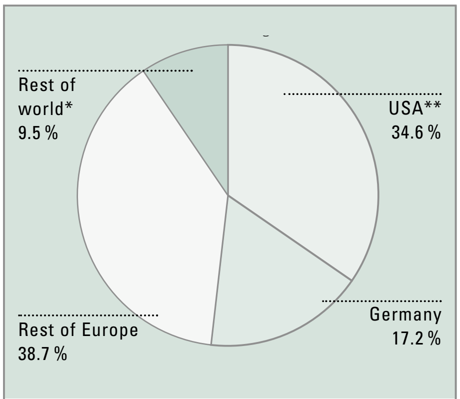
## Sales and marketing

**US market presence and sales organization strengthened by acquisition**

By acquiring our former US sales partner, Saga Systems Inc., on February 1, 2001, Software AG has expanded its presence in the North American market. Over 1,500 companies in the region, most of them large corporations, already deploy our systems. Saga was quickly integrated into the Software AG fold, and training of our new sales staff in the new Tamino XML Server and EntireX products was completed in good time. Our existing American customers not only form an excellent basis for marketing these products; they also provide reference projects, enabling us to convince potential customers of the quality of our products and service. The US is the world's most important single market for software. Following the acquisition, this market now accounts for some 35 percent of Software AG's revenue. Future development of this particularly important market remains one of the company's strategic goals.

**Successful development of indirect sales**

To accelerate market penetration of our Tamino XML Server and EntireX electronic business products, Software AG began recruiting indirect sales partners for these products in early 2000.




Revenue in 2001 by region:
588.5 million EUR

* including Asia, Australia, South Africa, the Middle East
** including Canada, Mexico

This sales network now comprises some 300 partners. Of particular note are the partnerships with IBM, Hewlett-Packard and Bea Systems, which were concluded in 2001.

We now have the world's largest systems integrator – IBM Global Services – on board as a partner. This global leader has integrated Tamino XML Server and EntireX into its product and service portfolio. Tamino XML Server and IBM's WebSphere application server are now marketed jointly. The partnership with IBM Global Services will initially concentrate on the US market.

Our collaboration with Hewlett-Packard, which focused on the European market, was extended to a global partnership during the course of the year. Hewlett-Packard markets Tamino XML Server in conjunction with its Bluestone application server. Tamino is also available for the HP-UX 11 operating system.

Bea Systems and Software AG intend to jointly market Bea Systems' WebLogic application server and Software AG's Tamino XML Server. The partnership is primarily geared to the European market.

Shortly after each of the partnerships was initiated, the first pilot customers were acquired, and joint projects implemented. Overall, indirect sales contributed some 12 percent to license revenues in fiscal 2001.

**Entry into software solution business**

The success of our partner strategy depends on winning over other system integrators. In the field of independent software vendors (ISV), we have succeeded in finding a large number of expert partners. ISVs leverage our technology to develop industry-specific XML solutions, for example. In content management, we have entered into close collaboration with one European (Tridion) and one US (Stellent) software house. Both companies offer solutions that incorporate Tamino XML Server. Software AG will also distribute these products itself. Experts predict high growth in the content management market. For example, a Meta Group study forecasts that over 95 percent of all G2000 companies will deploy XML-based content management systems in 2003.

**XML expertise increased and demand stimulated**

In order to translate Software AG's technological edge in XML into corresponding market share in the face of much larger competitors, we raised the company's profile as an XML technology leader. This was achieved by means of an advertising campaign and attendance at numerous conferences and seminars on XML and new technologies.

Another important element of this strategy is our participation in the Worldwide Web Consortium (W3C), the Internet standardization body. Software AG has experts on the W3C advisory committee, enabling us to take an active part in the development and adoption of XML standards.

XML is still a "young" technology. By founding the XML Academy, we have contributed to the dissemination of XML expertise. The XML Academy offers training courses on XML. These range from courses for executives, who are primarily interested in how deploying this technology will impact on their company's business processes, to courses for developers.

Software AG's increased orientation toward electronic business products requires a change in the company's sales structure. In 2002, some 50 percent of sales resources will be used to attract new customers. Furthermore, certain members of the sales team will handle the specific requirements of strategic customers, of our established customer base, and of our partners.

## Services

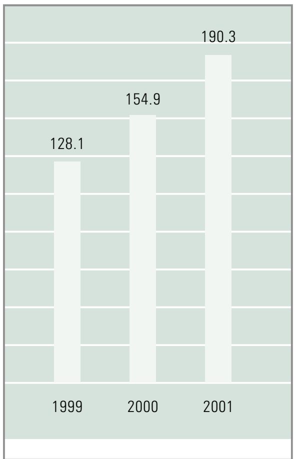
**Leading service provider for integration and XML technologies**

Software AG offers a broad range of services. Our employees leverage their skills and experience to assist with integration projects and help customers use their IT systems as effectively and efficiently as possible. We possess the following core competencies:

- Technology consulting
- Solution design and implementation
- Operational services (product maintenance)
- Development of software applications
- User education and training

Software AG's services leverage the company's experience as a vendor of software for mission-critical processes.

Implementing B2B strategies presents IT managers with numerous challenges. The integration of existing IT systems and the establishment of interconnectivity with partners, customers or suppliers are just two examples. Our customers therefore have an increasing need for new kinds of consulting and IT services. In response, Software AG will continue to develop its portfolio. Currently, the lion's share of our services are associated with the implementation of our own products. In the future, we will increasingly offer consulting and implementation services geared to integrating XML-based solutions. Our overriding goal will be to protect our customers' existing IT investments




Development of revenue from Professional Services
(in million EUR )

and ensure a fast ROI. We aim to become a leading global provider of XML application and total business integration solutions and services.

### Service organization to focus on specific industries and solutions

We have identified five industries that will have a particular need for consulting and investment in integration and XML technology in the next few years:

- Pharmaceutical and foodstuff manufacturers
- Healthcare
- Financial services, especially insurance
- Media and high-tech enterprises
- Public-sector organizations

We will establish dedicated competence centers for these industries, and develop solutions to provide future-proof support for selected business processes. This will produce a global pool of experience, skills and software solutions that will be of immediate benefit to existing customers in other regions or to new customers in the same industry. For selected areas – such as content management – Software AG is forging alliances with international specialists, allowing us to offer customers one-stop, end-to-end solutions – from consulting to worldwide operational support.

## Financial position and result of operations

### Balance sheet and assets

Fiscal 2001 saw strong growth in all areas of Software AG's business. Total consolidated revenue rose by 41 percent to 588.5 million euros. The 50-percent surge in Software AG's license sales was a particularly positive development.

Software AG's all-round growth was helped significantly by the February 1, 2001 acquisition of Saga Systems Inc., the Company's former distribution partner in the USA. The acquisition was carried out by merging a subsidiary of Software AG, created especially for this purpose, with Saga Systems Inc. and renaming the combined entity Software AG Inc. In fiscal 2001, Software AG Inc. accounted for 35 percent of the Software AG's consolidated revenue.

The price of the acquisition was approximately 327 million U.S. dollars, of which 247 million U.S. dollars was settled immediately using the cash reserves of Software AG and Saga Systems Inc. (70 million U.S. dollars). The remaining 80 million U.S. dollars was initially financed through a loan agreement with Thayer Capital, the major shareholder in Saga Systems Inc. As of December 31, 2001, 20 million U.S. dollars remained outstanding on this loan. This balance was settled in mid-January 2002. On December 31, 2000, Software AG had a 7.4 percent holding in Saga Systems Inc., worth some 25.3 million U.S. dollars.

Following the consolidation of the new acquisition (effective as of February 1, 2001), total assets rose by some 19 percent to 504.0 million euros (2000: 424.6 million euros). The most important items on the balance sheet are as follows:

- Goodwill of 196.2 million euros (zero in 2000) has been entered in the balance sheet for Saga Systems Inc., acquired in 2001. This item is to be amortized over ten years, commencing on February 1, 2001.
- Tangible assets and financial assets remain unchanged at 50.0 million euros in total.
- The increase in trade receivables to 179.3 million euros, an increase of 51 percent over the 2000 figure of 118.8 million euros, is higher than the rise in business volume (41 percent). This can largely be attributed to the longer periods for payment granted major customers in the USA.
- As a result of the 100 percent acquisition of Saga Systems Inc. (Software AG held 7.4 percent of Saga's stock on December 31, 2000) the balance sheet item "Receivables from companies in which a participation is held" has fallen from 16.4 million euros to zero.

- There was an overall decrease in shareholders' equity resulted from 200.9 million euros at year-end 2000 to 196.2 million euros at year-end 2001. These included consolidated net income (plus 38.7 million euros), the issue of stocks as a result of the exercise of stock options (plus 24.3 million euros), payment of a dividend (minus 10.1 million euros), and the posting of goodwill and other effects arising from the consolidation of the U.S. acquisition and the IC Group in the Netherlands (minus 58.9 million euros).
- Total provisions have risen to 114.9 million euros (101.2 million euros in 2000). This includes an increase in other provisions of 37 percent: from 56.5 million euros to 77.2 million euros.
- The increase in other liabilities to 49.1 million euros (25.7 million euros in 2000) is largely the result of 23.0 million euros owed under a credit agreement at December 31, 2001 to the former major shareholder of the U.S. company acquired by Software AG.
- Deferred income consists largely of income from maintenance agreements. This has risen from 70.8 million euros in 2000, to 115.3 million euros, largely as a result of acquisitions.

**Liquidity**

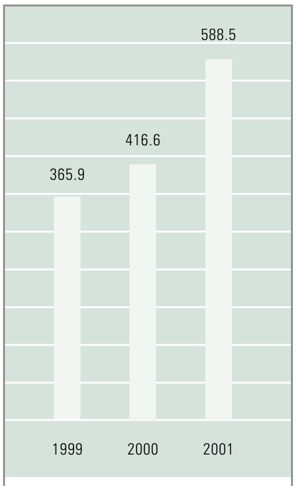
At year-end 2001, the Group had cash and cash equivalents of 50.2 million euros (215.3 million euros in 2000). As outlined above, the decrease in cash and equivalents is wholly a result of acquisitions.

Two particularly welcome developments were the increase in net cash provided by operating activities to 83.2 million euros (minus 18.7 million euros in 2000), and Software AG's ability to finance acquisitions made during the year solely out of Group assets, and without recourse to bank loans.

On December 31, 2001, the Group had unused credit lines available totaling some 49.8 million euros.

**Result of operations**

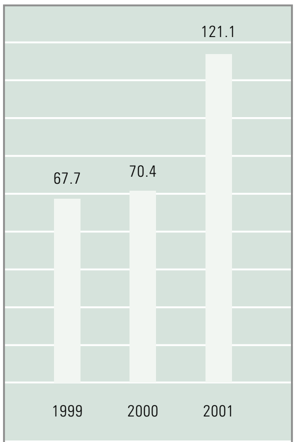
Software AG's income before taxes for fiscal 2001 of 70.3 million euros (112.9 million euros in 2000) was impacted by one-time expenses of 40.5 million euros for restructuring and goodwill amortization related to the acquisition of Saga Systems Inc. on February 1, 2001.




Revenue
1999–2001 (in million EUR)

The Group's income for 2000, in contrast, benefited from exceptional income of 49.7 million euros from the sale of holdings. As a result, consolidated net income for 2001 was 38.7 million euros (66.6 million euros in 2000). Operational earnings (EBITDA before acquisition-related one-time charges of 20.7 million euros) increased by 72 percent to 121.1 million euros. The comparable earnings figure from 2000 (adjusted for exceptional income from the sale of holdings) was 70.4 million euros. The operating profit margin rose to 20.6 percent (16.9 percent in 2000).

The successful development of Software AG's business during fiscal 2001 will enable it to expand its profitable license sales and professional services activities.




Operational earnings
(EBITDA before extraordinary items)
1999–2001 (in million EUR)

**Risk report**

As an international company, Software AG is exposed to a number of risks simply by virtue of its entrepreneurial activity. At the same time, the company's market presence in various sectors and regions offers immense opportunities. We aim to make the most of these opportunities, and to ensure that we only take the associated risks in a controlled manner, and where they are justified by the potential gain to the company.

Software AG has implemented various management and control processes to assess, monitor and manage risk, and these processes continue to be refined. They include a standard, group-wide process for strategy development, planning and budgeting, focusing on operational opportunities and risks. All identified risks, and all risk control measures adopted as part of the strategy development, planning and budgeting process, are documented and monitored.

A risk catalog was created jointly by Software AG and its auditors, and all risks identified in the course of 2001 were assessed. This procedure ensured that the Executive Board was given timely notice of all major opportunities and risks. The risk control measures implemented succeeded in significantly reducing the identified risks in comparison to the previous year.

Our continued growth and long-term success depends not only on the general economic situation and the risks associated with the global marketplace. It also depends on how effectively we market our new electronic business products. To this end, we are expanding our direct and indirect sales network, particularly in the USA, and forging new partnerships. It is our belief that these measures will help us to achieve our growth targets in this segment.

Integrating acquisitions always requires considerable effort – and inevitably involves certain risks. Software AG has now virtually completed the integration of companies acquired in 2001 and earlier. On the basis of past experience and in view of the effectiveness of the company's risk control systems, we are confident of mastering the risks associated with any future acquisitions.

Our group-wide risk management policy pays particular attention to treasury activities, with risk limitation being the overriding priority. Judicious use is made of derivatives to hedge interest and exchange rate fluctuations and, to a lesser extent, to optimize interest income.

Software AG is insured against claims for damages, including claims under liability law, in order to exclude or at least minimize the potential negative financial consequences of associated risks. The extent of the company's coverage is regularly reviewed and where necessary adjusted.

According to current assessment, there were no risks threatening the continued existence of the company in the year under review, nor are there currently any risks apparent that could jeopardize the company's continued existence. Furthermore, there were no risks evident at the balance sheet date that could materially affect the company's financial position and result of operations.

## Employees

### Innovative strategies in human resource management

In 2001, Software AG's Human Resources department focused on developing innovative policies and strategies. For example, the "management by objectives" approach was established as an integral part of the corporate culture. This entails managers and employees jointly identifying and defining common goals for the year. Involving employees more closely in decision-making increases motivation and identification with the company.

### Continuing education is an integral part of working life

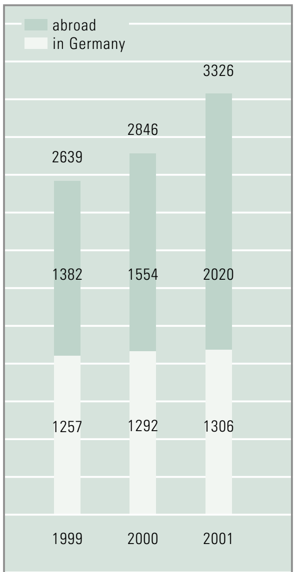
Software AG offers a broad program of training and skills development courses. These include the following: technical skills, personal development, work-efficiency and public-speaking skills, management training, team-building exercises, and foreign languages.

Software AG's XML Academy, which was launched in September 2001, is not only open to customers but also to all employees. It allows staff to familiarize themselves with the technologies vital to the company's future development, and to acquire skills that will further their careers at Software AG.

Software AG also offers a modular management training program. This targets both employees who already have managerial responsibility and personnel with leadership potential.

### Training at Software AG

Software AG cannot meet all of its human resources requirements by recruitment of fully qualified professionals. It therefore trains young people as systems integration specialists, enabling them to start their careers at the cutting edge of a highly innovative industry. Furthermore, the company cooperates with the Darmstadt University of Applied Sciences to provide




Employees
1999–2001

practical training to students on the innovative, collaborative bachelor's degree course in information technology.

**Stock option plan for all employees**

Since summer 2001, employees have been able to exercise the options allocated in 1999. The last shareholders' meeting resolved to continue this plan for all employees. As a result, employees can continue to directly participate in the company's success.

**Payroll increases in wake of acquisition**

The number of employees has increased sharply due to the acquisition of the former distribution partner Saga Systems Inc. At year-end 2001, the group employed 3,326 people. The headcount in Germany has remained relatively constant, at 1,306 (1,292 in 2000), while outside Germany, it has risen sharply to 2,020 (1,554 in 2000). Software AG expects a modest increase in its worldwide payroll in line with business development.

**A word of thanks**

Software AG owes its success to a very large degree to the loyalty and commitment of its employees. The Executive Board wishes to express its thanks to all employees for their hard work and dedication in 2001.

## Research and development

**R&D – The backbone of our business**

Research and development are vital for infrastructure software providers such as Software AG. For example, ongoing development of our products is essential to ensure that our customers can make the most of Internet technology. Many of our customers deploy our software for mission-critical transactions, and this places high demands on the quality, reliability and performance of our products. In addition, we have to maintain and enhance our competitive edge by developing innovative, groundbreaking solutions.

**Increased R&D expenditure**

In 2001, as in previous years, the company invested considerable human and financial resources in R&D. Expenditure in this area was 65.9 million euros (17 percent of product revenue). With spending of some 23.9 million euros, the Adabas and Natural enterprise transaction products continue to account for a major share of our R&D budget. The second largest R&D item is Tamino XML Server. 20.7 million euros were spent enhancing server performance, and developing new services for handling of

XML data. R&D of 15.0 million euros for EntireX reflected the company's realignment toward the total business integration market.

**Electronic business products: innovations enhance competitive edge**

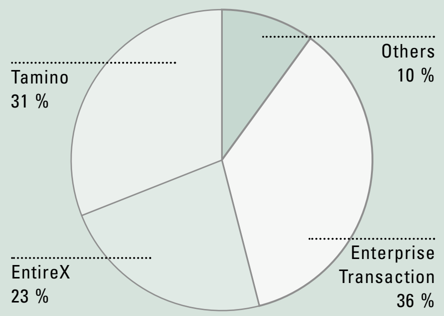
In 2001, we released major new versions of all our product lines.

A key task faced by IT departments is the integration of applications and systems across enterprise borders. This has to be achieved without complex programming – and should ideally be performed via a graphical user interface. With EntireX Communicator 6.1 and EntireX Orchestrator 7.1, Software AG has significantly expanded its enterprise application integration offering within a very short timespan. Additional functionality for business process management will follow in 2002.

Tamino Version 3.1 provides customers with a completely redesigned XML server. Additional services enable users to tailor the XML server to meet virtually any requirements. The services include modules for XML-based access to external data storage systems, migration tools, schema editors, WebDAV servers, and interfaces to Java- and Microsoft-based applications. This provides a collection of easily integrated services that can be extended almost infinitely. Moreover, the performance of the native XML database, which is the key component of the Tamino XML Server, has been boosted.

**Enterprise transaction products: improved performance and richer functionality**

The performance of the Adabas database management system has been further enhanced by Adabas Cluster Services. Adabas now also supports IBM's new 64-bit virtual storage architecture. This makes Adabas the first database to leverage IBM's 64-bit architecture for mainframes. The launch of an add-on module for Adabas coincided with the release of IBM's new z/OS 1.2 operating system. The new module enables Adabas to use memory areas above the 31-bit address space. This also helps accelerate the processing speed of Adabas: the larger the allocatable memory area, the fewer time-consuming physical I/O operations required.




Total R&D spending in 2001:
65.9 million EUR*

*equals 17 % of product revenue
equals 15 % increase versus 2000

A new version of the Natural development environment, incorporating important new features, was also released during 2001. For example, the new XML toolkit enables XML documents to be translated into Natural source code from within Natural applications, and vice versa. This user-friendly tool enables companies that already use Natural to edit XML data via existing applications and to make information from these applications available in XML format. Furthermore, Natural has new benefits for developers: Version 5 for Windows enables programmers to develop all their applications under Windows and to implement them on a wide variety of operating systems. This makes Natural a single point of development for all applications.

**Use of standard components**

The development and use of standard components is another area in which we have made significant progress. Developing and programming components that can be used in a large number of products or product groups has an obvious advantage: Reusable components of this type save time and money. This allows functionality to be "retrofitted" to our products. A classic example is the latest version of Adabas, which provides access to some of the administration functionality via the system management hub.

**Software AG's XML developer community keeps users up to speed with all the latest trends in XML**

To promote the dissemination of XML applications, Software AG has established an XML developer community. A dedicated website enables software developers to call up information on all the latest XML trends and developments. The website also provides forums, allowing users to exchange ideas, discuss applications and technological challenges, and report on interesting applications and the latest XML trends. Users can also download components, new interface programs and entire applications. They can also upload their own programs to the site, making them available to the community.

## Events subsequent to the balance-sheet date

In mid-January 2002, Software AG and Hewlett-Packard extended the scope of their marketing agreement. In the future, the two companies will offer an end-to-end solution, based on XML and Java 2 Enterprise Edition (J2EE), for storing and distributing data. The new agreement extends Software AG's relationship with Hewlett-Packard to include marketing and sales activities for complementary customer solutions.

The Group has also expanded its partnerships with Netherlands-based Tridion and US-based Stellent Inc. Both enterprises are vendors of content management solutions, an area in which Software AG is considerably broadening its skills. By expanding our sales partnerships, we aim to increase our presence on this market.

## Outlook

**Continued investment in existing IT systems**

Software AG does not expect underlying economic conditions to change significantly in the first half of 2002. As in fiscal 2001, customers will continue to invest primarily in enhancing their existing IT infrastructure to increase productivity, cut costs, and further automate processes involving business partners. Against this background, Software AG's established Adabas and Natural enterprise transaction products enjoyed considerable success in 2001, and increased revenues are also anticipated for these products in 2002.

**TBI market set to grow**

The continuing trend toward total business integration (TBI) has created further growth potential for the new Tamino XML Server and EntireX server products, which are increasingly being incorporated into our partners' solutions. Since Software AG's servers are among the first to support the XML standard, we anticipate a further increase in sales partners' interest in these products. On the whole, we expect this segment to account for the strongest growth in license revenues. Demand for Web applications is expected to gradually pick up during 2002, and to achieve significant growth in 2003.

**Stable earnings from maintenance and services**

Maintenance is likely to remain a healthy source of earnings during fiscal 2002. Because the processes covered by Software AG's products are mission-critical, customers are prepared to invest heavily in systems maintenance. This and Software AG's internationally acclaimed service quality, ensure stable earnings, even during the current economic downturn. Software AG is now targeting its professional services at projects that promise higher margins, and at industries with attractive IT budgets. Assuming an economic upswing in the second half of 2002, Software AG expects revenue from professional services to increase slightly for the year as a whole.

**Increased profitability before increased revenue**

Software AG forecasts a single-digit percentage increase in overall revenue for 2002. As regards operating profit, we expect to again achieve our target of 20 percent of revenue. Strict cost control and a moderate increase in headcount will form part of an approach that gives priority to profitability growth over increased revenue.

# SIMPLER EXCHANGE

A vision come true – the euro is now the common currency of 300 million people. A milestone on the way to a united Europe. The XML data definition language is the new common standard for simple document exchange and a key element of our integration technology. A milestone for global business.

The future is integration – integration is the future.


1
EURO

# CONSOLIDATED FINANCIAL STATEMENTS OF SOFTWARE AG FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

## Consolidated Balance Sheet

| **Assets** | EUR | Dec. 31, 2001 EUR | Dec. 31, 2000 EUR thousand |
|---|---|---|---|
| **A. Fixed assets** | | | |
| **Intangible assets** | | | |
| Concessions, industrial and similar rights and assets and licenses in such rights and assets | 1,766,813.66 | | 2,062 |
| Goodwill | 196,189,980.61 | 197,956,794.27 | 0 |
| **Tangible assets** | | | |
| Land, land rights and buildings, including buildings on third-party land | 27,570,238.90 | | 25,192 |
| Other equipment, operational and office equipment | 13,928,907.84 | | 11,733 |
| Assets under construction | 104,181.53 | 41,603,328.27 | 0 |
| **Financial assets** | | | |
| Shares in affiliated companies | 25,564.59 | | 26 |
| Participations | 3,373,564.18 | | 8,296 |
| Long-term investments | 4,747,239.45 | | 4,717 |
| Other loans | 234,861.99 | 8,381,230.21 | 243 |
| | | **247,941,352.75** | **52,269** |
| **B. Current assets** | | | |
| **Inventories** | | | |
| Raw materials and supplies | 135,692.10 | | 177 |
| Work in progress | 3,683,806.68 | | 3,471 |
| Finished goods and merchandise | 264,411.94 | 4,083,910.72 | 1,009 |
| **Receivables and other assets** | | | |
| Trade receivables | 179,329,519.80 | | 118,782 |
| Receivables from companies in which participations are held | 0.00 | | 16,437 |
| Other assets | 10,890,745.48 | 190,220,265.28 | 9,500 |
| **Securities** | | | |
| Other securities | | 0.00 | 60,757 |
| **Cash in hand, postal giro balances, bank balances** | | 50,244,368.24 | 154,568 |
| | | **244,548,544.24** | **364,701** |
| **C. Prepaid expenses** | | **11,549,633.61** | **7,632** |
| | | **504,039,530.60** | **424,602** |

| **Equity and liabilities** | EUR | Dec. 31, 2001 EUR | Dec. 31, 2000 EUR thousand |
|---|---|---|---|
| **A. Equity** | | | |
| Subscribed capital | | 81,784,449.00 | 67,483 |
| Contingent capital EUR 19,887,693.00 | | | |
| Capital reserves | | 0.00 | 24,100 |
| Retained profit brought forward/retained earnings | | 75,735,326.93 | 42,659 |
| Consolidated net income for the year | | 38,687,769.61 | 66,585 |
| Minority interest | | –38,545.07 | 82 |
| | | **196,169,000.47** | **200,909** |
| **B. Special tax-allowable reserves** | | **7,063.07** | **1,428** |
| **C. Provisions** | | | |
| Provisions for pensions | 8,627,884.18 | | 8,259 |
| Provisions for taxes | 29,089,308.25 | | 36,415 |
| Other provisions | 77,220,652.52 | **114,937,844.95** | 56,490 |
| **D. Liabilities** | | | |
| Liabilities to banks | 2,573,258.35 | | 3,263 |
| Payments received on account of orders | 1,181,331.01 | | 1,346 |
| Trade payables | 21,029,191.55 | | 16,528 |
| Liabilities on bills accepted and drawn | 3,637,220.03 | | 3,443 |
| Payable to affiliated companies | 35,536.57 | | 40 |
| Payable to companies in which participations are held | 0.00 | | 9 |
| Other liabilities | 49,144,349.68 | **77,600,887.19** | 25,667 |
| **E. Deferred income** | | **115,324,734.92** | **70,805** |
| | | **504,039,530.60** | **424,602** |

## Consolidated Income Statement of Software AG for the fiscal year 2001 (January 1 to December 31, 2001)

| | EUR | 2001<br>EUR | 2000<br>EUR thousand |
|---|---|---|---|
| Revenue | | 588,465,271.80 | 416,628 |
| Decrease in finished goods, inventories and work in progress | | –3,162,045.62 | –1,578 |
| Other operating income | | 25,773,867.14 | 76,854 |
| Cost of materials | | | |
| a) Cost of raw materials and supplies, and of purchased merchandise | –2,005,982.87 | | –3,064 |
| b) Cost of purchased services | –50,319,446.10 | –52,325,428.97 | –38,911 |
| Personnel expenses | | | |
| a) Wages and salaries | –237,333,469.33 | | –177,049 |
| b) Social security and other pension costs | –44,178,455.43 | –281,511,924.76 | –31,623 |
| Depreciation and amortization | | | |
| a) on intangible assets and property, plant and equipment (of which goodwill 19,789,988.87) | –30,774,703.04 | | –8,132 |
| b) on current assets where the level of depreciation exceeds the normal level | –568,569.48 | –31,343,272.52 | 0 |
| Other operating expenses | | –156,120,161.54 | –127,260 |
| Income from other investments and long-term loans | | 1,752.78 | 65 |
| Amortization of financial assets | | –1,500,000.00 | 0 |
| Other interest and similar income | | 5,964,013.99 | 8,316 |
| Interest and similar expenses | | –3,218,262.11 | –1,331 |
| Income before taxes | | **91,023,810.19** | **112,915** |
| Extraordinary charges | | –20,675,843.23 | 0 |
| Extraordinary earnings | | – 20,675,843.23 | 0 |
| Income tax expense | –28,856,353.83 | | –44,192 |
| Other taxes | –2,808,501.54 | –31,664,855.37 | –2,103 |
| Income after taxes | | **38,683,111.59** | **66,620** |
| Minority interests | | 4,658.02 | –35 |
| Consolidated net income | | **38,687,769.61** | **66,585** |

## Statement of Fixed Asset Movements

| | Gross fixed assets in EUR thousand | | | | | | |
|---|---|---|---|---|---|---|---|
| | Balance at Jan. 1, 2001 | Additions | Disposals | Changes to companies consolidated | Transfers | Differences from currency translation | Balance at Dec. 31, 2001 |
| **I. Intangible Assets** | | | | | | | |
| Concessions, industrial and similar rights and assets, licenses in such rights and assets | 26,486 | 1,036 | –750 | 2,827 | 0 | 46 | 29,645 |
| Goodwill | 15 | 215,989 | 0 | 0 | 0 | 0 | 216,004 |
| | **26,501** | **217,025** | **–750** | **2,827** | **0** | **46** | **245,649** |
| **II. Tangible Assets** | | | | | | | |
| Land, land rights and buildings, including buildings on third-party land | 47,447 | 1,237 | –1,230 | 13,119 | 0 | 245 | 60,818 |
| Other equipment, operational and office equipment | 42,533 | 5,104 | –3,653 | 20,678 | 0 | 549 | 65,211 |
| Assets under construction | 0 | 104 | 0 | 0 | 0 | 0 | 104 |
| | **89,980** | **6,445** | **–4,883** | **33,797** | **0** | **794** | **126,133** |
| **III. Financial Assets** | | | | | | | |
| Shares in affiliated companies | 25 | 0 | 0 | 0 | 0 | 0 | 25 |
| Participations | 8,559 | 0 | 0 | –3,422 | 0 | 0 | 5,137 |
| Long-term investments | 4,142 | 32 | –3 | 0 | 0 | 0 | 4,171 |
| Other loans | 243 | 77 | –87 | 0 | 0 | 2 | 235 |
| | **12,969** | **109** | **–90** | **–3,422** | **0** | **2** | **9,568** |
| **Total** | **129,450** | **223,579** | **–5,723** | **33,202** | **0** | **842** | **381,350** |

| | Accumulated depreciation in EUR thousand | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Balance at Jan. 1, 2001 | Additions | Disposals | Changes to companies consolidated | Transfers | Differences from currency translation | Balance at Dec. 31, 2001 | Book value Balance at Dec. 31, 2001 |
| **I. Intangible Assets** | | | | | | | | |
| Concessions, industrial and similar rights and assets, licenses in such rights and assets | 24,424 | 1,757 | –735 | 2,396 | 0 | 35 | 27,877 | 1,768 |
| Goodwill | 15 | 19,799 | 0 | 0 | 0 | 0 | 19,814 | 196,190 |
| | **24,439** | **21,556** | **–735** | **2,396** | **0** | **35** | **47,691** | **197,958** |
| **II. Tangible Assets** | | | | | | | | |
| Land, land rights and buildings, including buildings on third-party land | 22,255 | 2,014 | –1,100 | 9,910 | 0 | 169 | 33,248 | 27,570 |
| Other equipment, operational and office equipment | 30,800 | 7,205 | –3,158 | 16,056 | 0 | 379 | 51,282 | 13,929 |
| Assets under construction | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 104 |
| | **53,055** | **9,219** | **–4,258** | **25,966** | **0** | **548** | **84,530** | **41,603** |
| **III. Financial Assets** | | | | | | | | |
| Shares in affiliated companies | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 25 |
| Participations | 263 | 1,500 | 0 | 0 | 0 | 0 | 1,763 | 3,374 |
| Long-term investments | –575 | 0 | 0 | 0 | 0 | 0 | –575 | 4,746 |
| Other loans | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 235 |
| | **–312** | **1,500** | **0** | **0** | **0** | **0** | **1,188** | **8,380** |
| **Total** | **77,182** | **32,275** | **–4,993** | **28,362** | **0** | **583** | **133,409** | **247,941** |

## 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, 2001 were prepared in accordance with German statutory requirements.

**Consolidated companies**

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

| German-domiciled 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 |

The IC-Group was included in the consolidated financial statements for the first time from the date of its acquisition: January 1, 2001. The holding was purchased for 4.722 million euros. In fiscal 2001, the IC-Group posted revenue of 4.642 million euros (4.406 million euros in 2000), operating profit of 247 thousand euros (320 thousand euros in 2000), and a net profit of 247 thousand euros (190 thousand euros in 2000). Minority interests are held by the previous owners of the company (20 percent).

| Companies domiciled outside Germany | Holding % | Abbreviation |
|---|---|---|
| **Software AG of the United Kingdom Ltd., Derby/England** | **100** | **SAG-UK** |
| with its subsidiary: | | |
| 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** |
| **Software AG Belgium S.A., Brussels/Belgium** | **100** | **SAG-B** |
| **Software AG Nederland B.V., Amsterdam/The Netherlands** | **100** | **SAG-NL** |
| with its subsidiary: | | |
| IC-Group B.V., Capelle/The Netherlands | 80 | IC-Group |
| **Software AG Nordic A/S, Taastrup/Denmark** | **100** | **SAG-DK** |
| with its subsidiary: | | |
| 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 subsidiary: | | |
| 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., Reston, VA/USA** | **100** | **SAG-USA** |
| with its subsidiary: | | SAG-USA Group |
| Software AG Technologies, Inc., Delaware/USA | 100 | |
| Software AG, LLC, San Ramon, CA/USA | 100 | |
| Software AG Funding Corp., Delaware/USA | 100 | |
| Software AG International, Inc., Delaware/USA | 100 | |
| Software AG (Canada), Inc., Ontario/Canada | 100 | |
| Software AG Atlantic, LLC, Delaware/USA | 100 | |
| Software AG S.A. de C.V. Lomas de Chapultepec/Mexico | 100 | |
| Software AG Australia (Holdings) Pty. Ltd., Melbourne/Australia | 100 | SAG-AUS (Holding) |
| with its subsidiary: | | |
| 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 (Hong Kong) 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 Philippines Ltd., Manila/The Philippines** | **100** | **SAG-PHI** |
| **Software AG Taiwan Ltd., Taipeh/Taiwan** | **100** | **SAG-TW** |

The SAG-USA Group was first included in the consolidated financial statements on February 1, 2001, the date on which purchase was completed. The shareholdings were purchased for 359.3 million euros. The associated goodwill was set at 216 million euros, which will be amortized over ten years on a straight-line basis. In the year under review, the SAG-USA Group posted revenue of 225.468 million euros (214.828 million euros in 2000), operating profit of 67.195 million euros (12.204 million euros in 2000) and a net profit of 42.977 million euros (9.925 million euros in 2000). The figures for 2001 refer to the twelve-month period and were calculated according to the German Commercial Code (HGB). The figures for 2000 were determined according to US GAAP. As a result, the two sets of figures are not fully comparable.

Following consolidation of the SAG-USA Group, the figure of 3.422 million euros stated in the previous year under "Participations" was eliminated. It is now presented in the "Changes to companies consolidated" column in the "Statement of Fixed Asset Movements" table.

The annual financial statements of Software GmbH Marketing (equity: 32 thousand euros, net profit: 1 thousand euros) were not included in the consolidated financial statements in accordance with section 296 (2) of the German Commercial Code, since this company is insignificant and only has a minor influence on the Group's financial position and results of operations.

A Turkish national holds a (10 percent) minority interest in Software AG's Turkey-based subsidiary.

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, 2001, the balance sheet date of the parent company. Since all companies included in consolidated accounts also prepare their financial statements as of this date, consolidation was based on the subsidiaries' audited and certified annual financial statements according to the German Commercial Code.

With the approval of the respective shareholders' meetings, SAG East GmbH, SAG Systemhaus GmbH and SQL Datenbanksysteme GmbH, Berlin, made use of the exemption rule under section 264 (3) clause 4 of the German Commercial Code.

**Consolidation principles**

The financial statements of the consolidated companies have been prepared in accordance with consistent accounting and valuation principles. They have been audited by public accountants, who issued unqualified audit opinions in all cases. The overwhelming majority of the auditors outside Germany are members of BDO International 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.

- Shareholders' equity of subsidiaries included in consolidation is translated at historic rates. 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.

- The items in the income statement are translated at average exchange rates (arithmetical mean of the end-of-month rates). Differences resulting from the translation of subsidiaries' income statements are disclosed as other operating income or other operating 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 2001, starting from the previous year's acquisition and manufacturing costs (as of December 31, 2000), 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 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 – which were consolidated for the first time in 1994 – as well as certain Asian subsidaries, SQL and SAG-IRL, 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 first-time consolidation of all companies was undertaken using the book value method (section 301 (1) sentence 2 clause 1 of the German Commercial Code). Subsequent consolidation is based on the figures stated at the time of first-time consolidation.

- For the first time in 2001, debit balances arising from capital consolidation relating solely to goodwill (acquisition of the SAG-USA Group) were predominantly carried as assets and will be amortized over ten years. Other such debit balances are offset against capital reserves.

- In the consolidation of debt, currency differences were offset against profit brought forward, without affecting income. Other netting differences were treated as income or expenses. In previous years, all netting differences were treated as income or expenses without consideration of their individual relevance.

- As of December 31, 2001, 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 corrected through elimination of intercompany profits.

**Consolidated balance sheet and consolidated income statement**

The income statement has ben prepared in accordance with section 275 of the German Commercial Code using the total cost method. The following table summarizes the details that are required to be stated in the balance sheet and the income statement:

| | **I. Balance sheet** | 2001 EUR thousand | 2000 EUR thousand |
|---|---|---|---|
| **a)** | **Assets** | | |
| 1) | Trade receivables | 179,330 | 118,782 |
| | of which due in over one year | 34,068 | 34,761 |
| 2) | Receivables from companies | | |
| | in which participations are held | 0 | 16,437 |
| | of which due in over one year | 0 | 23 |
| 3) | Other assets | 10,891 | 9,500 |
| | of which due in over one year | 204 | 259 |
| **b)** | **Equity and liabilities** | | |
| 1) | Liabilities to banks | 2,573 | 3,263 |
| | of which due within one year | 2,573 | 553 |
| | of which due in over five years | 0 | 0 |
| | of which secured by land charges | 2,535 | 3,088 |
| 2) | Payments received on account of orders | 1,181 | 1,346 |
| | of which due within one year | 1,181 | 1,346 |
| 3) | Trade payables | 21,029 | 16,528 |
| | of which due within one year | 21,029 | 16,528 |
| 4) | Liabilities on bills accepted and drawn | 3,637 | 3,443 |
| | of which due within one year | 3,637 | 3,443 |
| 5) | Payables to affiliated companies | 36 | 40 |
| | of which due within one year | 36 | 40 |
| 6) | Payables to companies in which | | |
| | participations are held | 0 | 9 |
| | of which due within one year | 0 | 9 |
| 7) | Other liabilities | 49,144 | 25,667 |
| | of which due within one year | 41,598 | 16,185 |
| | of which due in over five years | 0 | 8 |
| | of which taxes | 11,964 | 10,453 |
| | of which social insurance contributions | 4,316 | 4,243 |

| **II. Income statement** | 2001 EUR thousand | 2000 EUR thousand |
|---|---|---|
| Pension costs | 7,422 | 4,886 |

**Valuation principles**

Intangible assets and tangible assets are valued at their cost of acquisition, generally less straight-line depreciation and amortization over the standard useful life in compliance with German commercial law and 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 valued at the predefined euro exchange rate.

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

Loans (primarily to employees) are valued 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 German Commercial Code).

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.

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 six percent. Provisions for taxes and other provisions have been set up as deemed necessary and reasonable in accordance with prudent business practice.

**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, provided that this rate was not higher (in the case of receivables) or lower (in the case of liabilities) than the rate prevailing at the transaction date. 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 mainly to the goodwill from the purchase of SAG-USA group and to software licenses and rights to software programs purchased from third parties.

#### Tangible assets

Land included in this item primarily refers to land owned by the parent company. Changes in the scope of consolidation are mainly related to the SAG-USA Group.

During the fiscal year, approximately 5.104 million euros were invested in other equipment, operational and office equipment – mainly IT equipment.

#### Financial assets

The financial assets relate principally to participations in 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 percent interest in SAP-SI, are disclosed under this item.

### Current assets

#### Inventories

Inventories principally include services relating to customer orders that have not yet been invoiced. These inventories are valued at the cost of manufacture, 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 standard value wherever possible. Other raw materials and merchandise are stated at acquisition cost.

#### Receivables

Trade receivables increased over the previous year. This was due primarily to inclusion of new companies.

#### Other assets

At the balance sheet date, this item included claims for tax refunds and deferred interest income.

#### Securities

Securities held in 2000 were sold to finance the purchase of the SAG-USA Group.

### Prepaid expenses

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

**Equity**

Equity as of December 31, 2001, comprised the following:

| | EUR thousand | EUR thousand |
|---|---|---|
| Subscribed capital as of Jan. 1, 2001 | 67,483 | |
| Options exercised | 2,567 | |
| Capital increase for renominalization of share values to round euro amounts | 11,734 | |
| | | 81,784 |
| Capital reserves as of Jan. 1, 2001 | 24,100 | |
| Premium on capital increase due to options exercised | 21,737 | |
| Capital increase for renominalization of share values to round euro amounts | –11,734 | |
| Elimination of goodwill | –34,103 | |
| | | 0 |
| Retained earnings as of Jan. 1, 2001 | 109,244 | |
| Dividend paid in 2001 | –10,123 | |
| First-time consolidation of the SAG-USA Group | –21,139 | |
| Elimination of goodwill | –3,692 | |
| Net currency translation differences | 1,445 | |
| Retained earnings | | 75,735 |
| Consolidated net profit | | 38,688 |
| Minority interest | | –38 |
| | | **196,169** |

In addition, contingent capital at December 31, 2001 comprised the following amounts:

(1) Up to 3.373 million euros in up to 1,124,231 no-par value shares, reserved to cover subscription rights granted under the first share option plan (Management Incentive Plan I, MIP I) for Executive Board members and senior executives of Software AG Group. In fiscal 2001, the beneficiaries exercised a total of 300,291 subscription rights (of which the Executive Board exercised 188,972). This increased subscribed capital by 875 thousand euros. As of December 31, 2001, 428,453 subscription rights had been granted under MIP I to Executive Board members and 616,037 to senior executives. However, these rights are exercisable only after the balance sheet date.

The options have a term of seven years from the grant date. They can be exercised after a waiting period of 24 months from the grant date, but not earlier than 12 months after the initial public offering. The options can only be exercised once a quarter, following the publication of the annual results or the half-yearly or quarterly results.

The exercise price of an option corresponds to the issue price minus a 20 percent discount, but not less than 28.12 euros (DM 55.00). As the issue price was 30 euros, the minimum price applied.

Options can only be exercised where the following three conditions are met:

(1.1) The Group's income from operations must have increased by 30 percent between 1997 and 1999.

(1.2) The Group's income from operations must have amounted to at least 10 percent of revenue in the year preceding exercise of the option.

(1.3) The share price must be higher than the minimum option exercise price.

(2) Up to 3 million euros in up to 1 million no-par value shares, reserved to cover subscription rights granted under the second share option plan (Management Incentive Plan II, MIP II) for Executive Board members and senior executives employed by the Software AG Group. None of the beneficiaries were permitted to exercise subscription rights in fiscal 2001. At December 31, 2001, 25,000 subscription rights were granted to Executive Board members, and 27,375 to senior executives, under MIP II. These rights are exercisable only after the balance sheet date.

The exercise price corresponds to the average price in the XETRA closing auction on the Frankfurt Stock Exchange over the five trading days preceding the grant date.

Options can only be exercised where the following conditions are met:

(2.1) The Group's revenue in the year preceding exercise of the option was at least 10 percent higher than the previous year.

(2.2) The Group's income from operations amounted to at least 10 percent of the revenue in the year preceding exercise of the option.

The option's term, waiting period and vesting time periods correspond to the conditions described above for MIP I.

(3) Up to 13.515 million euros in up to 4,505,000 no-par value shares, reserved to grant option rights to holders of warrants from cum-warrant bonds, and to grant conversion options to holders of convertible bonds in accordance with the bonds' terms. The Executive Board is authorized to issue such bonds, with a term of up to 10 years, once or more than once in the period to April 27, 2006, up to a total nominal value of 500 million euros. The Executive Board did not make use of this authorization in fiscal 2001.

At the balance-sheet date, the Executive Board is further authorized, with the consent of the Supervisory Board, to increase the company's subscribed capital up to 37.989 million euros once or more than once in the period to April 27, 2006, by issuing up to 12,663,036 registered shares against cash and/or non-cash contributions (authorized capital). With the exception of the cases detailed below, shareholders will be granted pre-emptive subscription rights.

- The Executive Board is authorized to deviate from shareholders' pre-emptive subscription rights with respect to fractional amounts.

- The Executive Board is further authorized, with the consent of the Supervisory Board, to deviate from shareholders' pre-emptive subscription rights with respect to capital increases against non-cash contributions effected for the purpose of acquiring holdings, companies or business units.

- The Executive Board is also authorized, with the consent of the Supervisory Board, to deviate from shareholders' pre-emptive subscription rights provided that the capital increase against cash effected on the basis of this authorization does not exceed ten percent of the subscribed capital at the time this authorization is first exercised, and provided that the issue price is not significantly lower than the market value.

- Finally, the Executive Board is authorized, with the consent of the Supervisory Board, to deviate from shareholders' pre-emptive subscription rights with respect to a nominal amount not exceeding 6.503 million euros in order to offer new shares to employees of Software AG and its affiliated companies (in accordance with sections 15 ff. of the German Stock Corporation Act) under an employee share option plan. The new shares can also be purchased via a bank on condition that such purchases are restricted to entitled persons in accordance with the company's instructions.

The Executive Board has exercised this power and increased subscribed capital by 1.692 million euros by issuing 563,964 new shares to SAG Group employees while excluding shareholders' pre-emptive rights.

The 21.737 million euro premium resulting from the capital increase was transferred to capital reserves.

In accordance with the decision made at last year's shareholders' meeting, the company's subscribed capital was increased by 11.734 million euros in order to renominalize shares to round euro amounts. The increase was effected by converting capital reserves.

In fiscal 2001, the parent company distributed 10.123 million euros in dividends to shareholders. The "Minority interest" entry comprises the interest of a Turkish national in SAG-TR and the holdings of the previous owners of the IC Group.

In accordance with section 20 of the German Stock Corporation Act, the Software AG Stiftung (Foundation) has disclosed that it does not hold a majority interest in Software AG.

**Special tax-allowable reserves**

In accordance with section 273 of the German Commercial Code and section 52 (16) of the German Income Tax Law, special tax-allowable reserves of 2.367 million euros were set up in 1999. Following the first-time consolidation of the SAG-USA Group, the amount remaining on January 1, 2001, for the SAG USA Group – 1.418 million euros – was written back and reported under "Other operating income."

**Provisions**

**Provisions for pensions**

The provisions for pensions relate exclusively to commitments to certain employees. They are based on the calculations of an actuarial consultant.

**Provisions for taxes**

The provisions for taxes relate to income and other taxes.

**Other provisions**

In 2001, other provisions principally comprised provisions for restructuring, litigation and bonuses as well as for vacation and overtime entitlements. The company has formed appropriate provisions for future operating expenses.

In addition, appropriate and adequate provision has been made to cover all risks evident at the balance sheet date.

## Liabilities

**Liabilities to banks**

At the balance sheet date, these liabilities existed principally at the parent company. As collateral for liabilities of the parent company certified land charges, amounting to 2.535 million euros, have been provided for bank loans on land and buildings in Eberstadt.

All liabilities to banks are due in less than one year.

**Payments received on account of orders**

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

**Other liabilities**

This item relates principally to liabilities associated with the acquisition of Instrumatic 2000 S.p.A., Milan, Italy and of the SAG-USA Group, as well as tax and social insurance contributions.

## Deferred income

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

## Contingent liabilities

**Liabilities from warranty agreements:**

3.289 million euros (11.662 million euros in 2000)

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 December 31, 2001, an obligation in the amount of 1.177 million euros existed resulting from the conclusion of the contract to purchase the remaining 20 percent of shares in the IC Group in 2002.

Rental and leasing commitments for the following fiscal year 2002 amount to 25.326 million euros. Commitments for future years total 85.253 million euros.

## 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 25.774 million euros. In the main, this is income from currency exchange profits, proceeds from the recovery of amounts previously written off as unrecoverable, rental receipts, and income from provisions written back.

**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.

**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.

**Personnel expenses**

The number of employees rose substantially following the acquisition of the SAG-USA Group and the IC-Group. This, combined with salary increases, caused personnel expenses to rise to 281.512 million euros (compared with 208.672 million euros in 2000).

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

Due to the amortization of goodwill in 2001 following the acquisition of the SAG-USA Group (19.799 million euros), depreciation and amortization rose to 30.775 million euros.

**Other operating expenses**

The other operating expenses in the year under review totaled 156.120 million euros. 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 other accounting periods totaled 12.207 million euros; expenses attributable to other accounting periods totaled 1.465 million euros.

**Interest income/expenses**

Due to the outflow of funds used to purchase the SAG-USA Group, interest income fell to 2.746 million euros.

**Extraordinary charges**

Restructuring measures implemented following the acquisition of the SAG-USA Group led to an extraordinary charge of 20.676 million euros.

**Taxes**

Income from tax-liable disposals of holdings (in Germany) was significantly lower than in the previous year. As a result, income taxes fell to 28.856 million euros (44.192 million euros in 2000).

## 4. Segment report

The Software AG Group is divided into six segments according to geographical and organizational criteria.

(1) North America comprises the SAG-USA Group. For easier comparison, the previous year's figures for the former subsidiaries in the USA, which in last year's report were included in the Rest of World segment, have been reassigned to this segment. The license fees due under the cooperation agreement with the former distribution partner Software AG Systems Inc. (SAGA), which were reported under the Rest of World segment last year, have been reassigned to the Central Europe segment.

(2) Central Europe 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.

(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 Southern Europe segment comprises SAG-E, SAG-P and SAG-I.

(5) The Asia segment includes SAG-AUS, SAG-AUS (holding) and the revenues of the Japan-based sales partner in addition to Software AG's Asian companies.

(6) SAG EAST, SAG-CS, SAG-TR, SAG-PL and the revenues of sales partners in South America and Israel form the Rest of World segment.

All intercompany assets and liabilities and all intercompany income and expenses within each segment have been offset 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. The elimination of investments in long-term segment assets results from the capital consolidation.

## Segment report (January 1 to December 31)

| (in EUR thousand) | North America | | Central Europe | | Western Europe | |
|---|---|---|---|---|---|---|
| | 2001 | 2000 | 2001 | 2000 | 2001 | 2000 |
| Revenue: | | | | | | |
| Licenses | 75,858 | 2,211 | 71,141 | 76,633 | 37,298 | 33,964 |
| Maintenance | 82,948 | 81 | 75,792 | 80,066 | 28,989 | 29,527 |
| Professional Services | 43,272 | 15,969 | 53,224 | 56,974 | 40,570 | 32,890 |
| Other sales | 1,754 | 0 | 7,856 | 7,146 | 2,092 | 3,154 |
| Total sales | 203,832 | 18,261 | 208,013 | 220,819 | 108,949 | 99,535 |
| Result: | | | | | | |
| Depreciation/amortization | –2,925 | –386 | –6,883 | –5,267 | –1,327 | –1,286 |
| Interest income | 7,950 | 889 | 2,998 | 8,290 | 1,288 | 1,358 |
| Interest expenses | –247 | –881 | –8,652 | –1,973 | –53 | –125 |
| Interest income/expenses | 7,703 | 8 | –5,654 | 6,317 | 1,235 | 1,233 |
| Income from participations | 0 | 0 | 158 | 0 | 0 | 0 |
| Taxes on income | –8,729 | 0 | –6,577 | –33,829 | –8,593 | –5,214 |
| Extraordinary charges | –18,034 | 0 | –1,000 | 0 | 0 | 0 |
| Net profit for the period | 35,486 | –8,766 | –31,172 | 46,838 | 16,334 | 16,150 |
| Balance sheet: | | | | | | |
| Segment assets | 340,439 | 43,748 | 504,809 | 325,985 | 101,232 | 107,080 |
| Equity interests | 0 | 0 | 3,250 | 8,172 | 4 | 4 |
| Investment in long-term segment assets | 997 | 2,144 | 387,532 | 9,766 | 1,279 | 2,187 |
| Segment liabilities | 35,037 | 17,977 | 271,470 | 101,225 | 32,137 | 32,629 |
| Average number of employees | 731 | 266 | 1,420 | 1,421 | 475 | 405 |

| Southern Europe | | Asia | | Rest of World | | Elimination | | Group | |
|---|---|---|---|---|---|---|---|---|---|
| 2001 | 2000 | 2001 | 2000 | 2001 | 2000 | 2001 | 2000 | 2001 | 2000 |
| 16,709 | 15,968 | 8,501 | 6,008 | 22,739 | 13,814 | –33,159 | –15,635 | 199,087 | 132,963 |
| 14,579 | 14,603 | 10,240 | 9,306 | 17,156 | 13,043 | –33,671 | –18,764 | 196,033 | 127,862 |
| 52,721 | 46,767 | 3,177 | 3,906 | 361 | 227 | –3,021 | –1,836 | 190,304 | 154,897 |
| 204 | 227 | 136 | 61 | 100 | 71 | –9,101 | –9,753 | 3,041 | 906 |
| 84,213 | 77,565 | 22,054 | 19,281 | 40,356 | 27,155 | –78,952 | –45,988 | 588,465 | 416,628 |
| –907 | –848 | –339 | –255 | –95 | –90 | –19,799 | 0 | –32,275 | –8,132 |
| 615 | 432 | 55 | 47 | 183 | 243 | –7,125 | –2,943 | 5,964 | 8,316 |
| –304 | –158 | –977 | –1,108 | –121 | –38 | 7,136 | 2,952 | –3,218 | –1,331 |
| 311 | 274 | –922 | –1,061 | 62 | 205 | 11 | 9 | 2,746 | 6,985 |
| 0 | 0 | 0 | 0 | 0 | 0 | –158 | 0 | 0 | 0 |
| –4,229 | –4,670 | –511 | –337 | –219 | –142 | 2 | 0 | –28,856 | –44,192 |
| 0 | 0 | 0 | 0 | 0 | 0 | –1,642 | 0 | –20,676 | 0 |
| 10,296 | 10,849 | 4,065 | 837 | 15,294 | 7,495 | –11,620 | –6,783 | 38,683 | 66,620 |
| 65,609 | 62,324 | 8,124 | 11,903 | 9,494 | 8,567 | –525,667 | –135,005 | 504,040 | 424,602 |
| 120 | 120 | 0 | 0 | 0 | 0 | 0 | 0 | 3,374 | 8,296 |
| 777 | 861 | 262 | 606 | 34 | 293 | –167,302 | 0 | 223,579 | 15,857 |
| 26,888 | 30,034 | 18,054 | 18,758 | 3,728 | 3,192 | –194,775 | –52,354 | 192,539 | 151,461 |
| 641 | 572 | 106 | 107 | 33 | 34 | 0 | 0 | 3,406 | 2,805 |

## 5. Statement of cash flows

| | 2001<br>EUR thousand | 2000<br>EUR thousand |
|---|---|---|
| Income after taxes | 38,688 | 66,620 |
| Depreciation/amortization (+)/asset write-ups (–) | 32,275 | 7,297 |
| Increase (+)/release (–) of long-term provisions | 369 | 378 |
| Gain (–)/loss (+) from the disposal of fixed assets | –302 | –49,536 |
| Decrease (+)/increase (–) in inventories, | | |
| receivables and other current assets | 43,800 | –45,491 |
| Decrease (–)/increase (+) in payables and other liabilities | –31,669 | 1,210 |
| Dividends received | 0 | 835 |
| **Net cash used in/provided by operating activities** | **83,161** | **–18,687** |
| | | |
| Cash received from the sale of tangible assets | 927 | 3,348 |
| Investments in tangible assets | –6,693 | –10,133 |
| Cash received from the sale of intangible assets | 22 | 55 |
| Investments in intangible assets | –1,053 | –1,202 |
| Cash received from the sale of financiel assets | 3,510 | 54,420 |
| Investments in financial assets | –108 | –4,829 |
| Cash received from the sale of associated companies | 0 | 100 |
| Investments in associated companies | –279,280 | –5,570 |
| **Net cash used in/provided by investing activities** | **–282,675** | **36,189** |
| | | |
| Contribution from capital increase | 24,303 | 8,639 |
| Dividends paid | –10,123 | –7,337 |
| Cash proceeds from short-term borrowings | 92,212 | 0 |
| Repayment of loans | –68,521 | –397 |
| **Net cash used in/provided by financing activities** | **37,871** | **905** |
| | | |
| **Change in provisions** | **–3,438** | **–158** |
| | | |
| **Net change in cash and cash equivalents** | **–165,081** | **18,249** |
| Cash and cash equivalents at the beginning of the period | 215,325 | 197,076 |
| **Cash and cash equivalents at the end of the period** | **50,244** | **215,325** |

**Notes to the cash flow statement**

The reconciliation of income before taxes to income after taxes is included in the consolidated income statement.

Cash and cash equivalents correspond to the balance sheet item "bank balances." The securities previously held by the Company were sold to finance the purchase of the SAG-USA Group.

Interest paid in 2001 amounted to 3.688 million euros.

Depreciation/amortization comprises the amortization of goodwill from the acquisition of the SAG-USA Group, amounting to 19.799 million euros, depreciation of intangible and tangible assets totalling 10.976 million euros, and depreciation of financial assets amounting to 1.5 million euros.

"Investments in associated companies" consist of payments of 364.170 million euros for the SAG-USA Group and for the IC-Group, minus the sum of 84.890 million euros that was transferred to Software AG in the form of net bank balances. These two companies were consolidated for the first time in the period under review. Liabilities to the respective sellers, amounting to 92.212 million euros, were included under "Cash proceeds from short-term borrowings." "Repayment of loans" comprised the reduction of the seller's loans (67.831 million euros) and the reduction of mortgage loans (690 thousand euros).

The opening balances of the new subsidiaries were corrected in the cash flow statement in accordance with DRS Standard 2 of the German Accounting Standards Committee. These are assets of 92.646 million euros (primarily amounts receivable) and liabilities of 91.786 million euros (primarily deferred income).

## 6. Other disclosures

**Members of the Supervisory Board:**

Dietrich-Kurt Frowein
(Chairman)
Place of residence: Frankfurt am Main
Supervisory Board mandates:
- Member of the Supervisory Board Commerzbank AG, Frankfurt am Main (Chairman of the Supervisory Board until May 25, 2001)
- Member of the Supervisory Board Heidelberger Druckmaschinen AG, Heidelberg
- Member of the Supervisory Board Mannesmann VDO AG, Schwalbach (until May 28, 2001)
- Member of the Supervisory Board Schunk GmbH, Thale

Dipl.-Ingenieur
Dieter Schacher
(Deputy Chairman)
(until December 31, 2001)
Head of Management Organization and Systems, Volkswagen AG, Wolfsburg
Place of residence: Berlin
Supervisory Board mandates:
- Chairman of the Supervisory Board gedas GmbH (AG since June 27, 2001), 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, Mosel

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

Frank F. Beelitz
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.-Kaufmann
Karl Heinz Achinger
(since January 1, 2002)
Independent management consultant
Place of residence: Seefeld
Supervisory Board mandates:
- Chairman of the Supervisory Board Heyde AG, Bad Nauheim
- Chairman of the Supervisory Board Magix AG, Munich
- Member of the Supervisory Board debitel AG, Stuttgart
- Member of the Supervisory Board RWE Systems, Dortmund
- Member of the Supervisory Board USU AG, Möglingen
- Member of the Supervisory Board Tiscon AG, Ulm

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: none

Dipl.-Kaufmann
Volker Dawedeit
Member of the Executive Board
Place of residence: Seeheim-Jugenheim
Supervisory Board mandates: none

Kaufmann
Andreas Zeitler
Member of the Executive Board
Place of residence: Kelkheim/Taunus
Supervisory Board mandates: none

Dipl.-Geograph
Dr. Detlef Purschke
(since June 1, 2001)
Member of the Executive Board
Place of residence: Mainz
Supervisory Board mandates: none

The remuneration of Software AG's Supervisory Board totaled 154 thousand euros. The members of the Executive Board received total annual remuneration of 2.535 million euros. Furthermore, in the year under review, members of the Executive Board exercised 188,972 share options, based on a subscription price of 28.12 euros, as part of Software AG's share option plans. Former members of the Executive Board received 169 thousand euros. Pension provisions for former members of the Executive Board amounted to 1.801 million euros.

**Number of employees**

The average number of employees in the Software AG Group in 2001 was 3,406. As of December 31, 2001, the Group had a total of 3,326 employees.

Darmstadt, February 25, 2002
Software AG

Dr. E. Königs A. Zeitler

V. Dawedeit Dr. D. Purschke

**Software Aktiengesellschaft,**
**Independent auditors' report**

We have audited the annual financial statements and accounts 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 fiscal year from January 1, 2001 to December 31, 2001. The preparation of these documents in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements and the report on the position of the Company and the Group, based on our audit.

We conducted our audit of the annual and consolidated financial statements in accordance with section 317 HGB (Handelsgesetzbuch – German Commercial Code) and the generally accepted German 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 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 the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the internal reporting and control system and the evidence supporting the disclosures in the accounts and records, the annual and consolidated financial statements and the report on the position of the Company and the Group are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual and the consolidated financial statements and the report on the position of the Company and the Group. We believe that our audit provides a reasonable basis for our opinion.

As auditors, we have no cause to raise objections to the accounts and financial statements presented to us.

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 26, 2002

BDO Deutsche Warentreuhand
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| Schumacher | Braun |
| Independent Auditor | Independent Auditor |

**Photos**
Aumaury Miller,
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Airport Authority Hong Kong,
National Gypsum

| | |
|---|---|
| **March 6** | Financial statements press conference |
| **March 7** | Analyst conference |
| **April 24** | Result Q1/2002 |
| **April 30** | Annual shareholders' meeting |
| **July 24** | Result Q2/2002 and half-year report |
| **July 25** | Analyst conference |
| **October 30** | Result Q3/2002 |

Software AG
Corporate Headquarters
Uhlandstraße 12

64297 Darmstadt
Germany

Tel.: +49 (0) 61 51-92-0
Fax: +49 (0) 61 51-92-19 33

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