



ATOSS

2006

ANNUAL REPORT

CORPORATE OVERVIEW ACCORDING TO IFRS: 12-MONTH COMPARISON IN T EUR

	2006				2005				Change 2006 / 2005
	until December	until September	until June	until March	until December	until September	until June	until March	
Software	12,929	9,470	6,124	3,056	12,144	8,785	5,887	3,117	6%
Software licence	4,612	3,360	2,112	1,074	4,001	2,718	1,847	1,063	15%
Software maintenance	8,317	6,110	4,012	1,982	8,143	6,067	4,040	2,055	2%
Consulting	5,558	4,069	2,708	1,346	4,963	3,627	2,462	1,215	12%
Hardware	2,809	1,906	1,258	587	2,321	1,485	866	522	21%
Other	695	486	302	129	988	670	351	175	-30%
Total Sales	21,991	15,930	10,392	5,117	20,416	14,566	9,566	5,030	8%
EBITDA	3,210	2,412	1,503	811	1,189	244	228	172	>100%
EBITCB*	2,868	2,177	1,358	755	882	-28	-15	37	>100%
EBIT	2,779	2,095	1,293	706	563	-267	-175	-43	>100%
EBT	3,193	2,385	1,529	862	1,112	132	87	84	>100%
Net Income	1,885	1,396	855	497	459	-51	-32	9	>100%
Cash Flow	4,312	5,358	2,757	2,650	1,406	2,875	355	1,348	>100%
Liquidity**	10,784	11,664	9,119	30,543	27,836	28,823	26,393	27,916	-61%
EPS in EUR	0.48	0.36	0.22	0.13	0.12	-0.01	-0.01	0.00	>100%
Employees***	169	171	162	165	177	181	188	180	-5%

CORPORATE OVERVIEW ACCORDING TO IFRS: QUARTERLY COMPARISON IN T EUR

	2006				2005			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Software	3,459	3,346	3,068	3,056	3,359	2,898	2,770	3,117
Software licence	1,252	1,248	1,038	1,074	1,283	871	784	1,063
Software maintenance	2,206	2,098	2,030	1,982	2,076	2,027	1,986	2,055
Consulting	1,489	1,361	1,362	1,346	1,336	1,165	1,247	1,215
Hardware	904	648	671	587	836	619	344	522
Other	209	184	173	129	319	319	176	175
Total Sales	6,061	5,538	5,275	5,117	5,849	5,001	4,536	5,030
EBITDA	798	910	692	811	944	17	55	172
EBITCB*	690	819	604	755	910	-13	-52	37
EBIT	684	802	587	706	830	-93	-132	-43
EBT	809	856	666	862	980	45	3	84
Net Income	488	542	358	497	510	-19	-40	9
Cash Flow	-1,045	2,600	107	2,650	-1,469	2,520	-993	1,348
Liquidity**	10,784	11,664	9,119	30,543	27,836	28,823	26,393	27,916
EPS in EUR	0.12	0.14	0.09	0.13	0.13	-0.01	-0.01	0.00
Employees***	169	171	162	165	177	181	188	180

* EBIT CB: Earnings before interest, taxes and effects from convertible bonds

** Liquidity: Cash and marketable securities

*** Employees: end of quarter

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LETTER TO SHAREHOLDERS

**Dear Shareholders,
Ladies and Gentlemen,**

The past financial year 2006 was the most successful in our Company's history, which reaches back almost twenty years now. We succeeded not only in bringing to market an entirely new generation of products based on the most up-to-date, leading-edge technology (Java J2EE), but also in generating substantial growth in our software licensing business and achieving record results.

After adjustment for revenues associated with the software product AENEIS, which was sold effective January 01, in the year 2006 our sales increased in total by some 10 %. The principal factor driving this growth was the steep rise in software licensing which was up by 21 % over the year before.

Record results

This gratifying development in sales led to an outstanding increase in results. Here, the positive effects are apparent of consistently focusing our business model on working time management and personnel resource planning, in conjunction with a marked increase in revenues. Overall, the Company recorded the best results in its history to date.

Strong cash flow and excellent liquidity

Cash flow from operations – one of the key factors determining the Company's financing ability – more than doubled in comparison with the year before to reach EUR 4.3 million, despite the continuing high level of expenditure on research and development which stood at 18 % of sales.

This in turn had a positive effect on liquidity. While on the one hand a special dividend distribution amounting to EUR 21.5 million caused liquidity to fall from its previous

year's level (EUR 27.8 million) to some EUR 10.8 million, after adjustment for this payment, liquid resources were in fact increased by EUR 4.5 million. Consequently, ATOSS enjoys excellent funding power as well as very comfortable liquidity reserves with which to develop sustained positive future prospects. On this basis we are able to offer our customers first class, long-term investment security.

Firm commitment to research and development remains unchanged

Our firm commitment to research and development over recent years is now bearing fruit: Our new, platform-independent technology programmed entirely in Java is meeting with increasingly strong demand, as are our sector-specific solutions, particularly for retailing. The extensive options for customization provide for a high degree of technical investment security.

Increasing demand in the current financial year

The current year has already seen a substantial increase in demand for ATOSS solutions, as witnessed by major orders from significant new customers such as Austrian Airlines, T-Punkt Vertriebsgesellschaft and further members of the EDEKA Group of retailing and trading companies.

In particular, prominent retailers such as the Max Bahr DIY stores chain and K+L Ruppert now placed their trust in working time management and personnel resource planning solutions from ATOSS.

The trend is evident not least from the software licensing orders received, which are 24 % up on the year before, and from the marked rise in orders on hand. One effect has

« In the past year we have achieved a great deal. Our goals for the years to come are no less ambitious. We shall continue to seek growth – in sales, earnings and enterprise value. »

been to substantially strengthen the reliability of our forecasts for the coming quarters.

Continued growth in the 20th financial year in our Company's history

Against the background of the consistently positive developments in business in financial year 2006, we look forward with much confidence to the current year, the 20th in our Company's history. We aim to build upon our successes, particularly in the retail sector, to access new growth areas and to establish a basis for the future scalability of our business model. With this in mind we expect to see a moderate increase in sales in financial year 2007 and an improvement in results at least in comparison with the operating result for 2006 after adjustment for extraordinary effects.

As in financial year 2006, further improvements are possible provided that the gratifying order situation continues. An increased emphasis upon attracting premium customers on the basis of our clearly established position



Andreas F.J. Obereder



Christof Leiber

as a specialist provider, coupled with our advanced, leading-edge technology and solid financial strength, will remain at the heart of the ATOSS corporate strategy.

Yours truly

Andreas F.J. Obereder
(CEO)

Christof Leiber
(CFO)

THE COMPANY



ATOSS Customer »Deutsche See« GmbH



ATOSS Customer MAN Nutzfahrzeuge Österreich AG

The ATOSS Vision. We are shaping and designing the transformation of the world of work to the advantage of companies, employees and society. We enable more creative, intelligent and humane ways of working, and are thereby revolutionizing the interaction of economic efficiency and the humanization of working life.

The ATOSS Mission. Day by day, we are improving our customers' efficiency, supporting their innovative strength and increasing the motivation and satisfaction of their people. Our performance range is convincing more and more professionals of the advantages of Staff Efficiency Management.

« 20 years of experience in working time management and flexibilization means knowing exactly where key potentials and opportunities lie »



ATOSS Customer T-Punkt Vertriebsgesellschaft mbH



ATOSS Customer Geobra Brandstätter GmbH & Co. KG

Looking ahead. In the next years human resource topics - and the key component of demand oriented personnel deployment - will gain increasing impact as a decisive competitive factor. Employee structures and employment forms are changing in times of globalization, internationalization and major demographic shifts. In the process, standard working time and employment relationships are

becoming a thing of the past. New approaches and future oriented working concepts are called for. The scope for shaping and designing working hours must be utilized, and the course set for a successful future. In charting this course, we are accompanying our customers. This is precisely where our strengths lie, and this added value is precisely what our customers appreciate.

THE TEAM



The people behind ATOSS. Our staff impress by their competence, their initiative and willingness to take responsibility, as well as their team spirit and enthusiasm for their work – regardless of what area of the company they may be active in. We promote committed and loyal employees who are dedicated to delivering top performance. Winning such individuals, supporting their further development and integrating them into the company over the long term are among the key objectives of our human resources policies.

Perceiving talents. With our Young Professional Program we are offering junior staff with excellent academic qualifications the opportunity to undergo a one-year, well founded on the job-training course and qualify themselves for the challenging and sophisticated tasks that await them at ATOSS.

Appreciating experience. In our teams we place strong emphasis on the right combination of younger and more senior members of staff. Especially in consulting intensive projects our customers place their trust in the knowledge and the personal competence that our experts have acquired in the course of many years of vocational experience.

« The future of a company depends on its people »



Strengthening knowledge. Staff know-how and competence rank among our key success factors, strengths that our people demonstrate again and again in their daily work. By way of consistent, ongoing development measures we ensure that our team is always abreast of the latest developments and know-how – whether in terms of personal, vocational or technical skills and knowledge. Companies need highly motivated and qualified employees to prevail in today's competitive markets. In the year 2006, around 170 members of staff at ATOSS were working on solutions that plan, steer and administrate the activities of more than 2 million employees – and the trend is gaining increasing momentum.

MARKETS



ATOSS Customer Max Bahr Holzhandlung GmbH & Co. KG



ATOSS Customer BENE AG

Demand oriented personnel deployment is increasingly harnessed as a strategic instrument for boosting competitive capabilities. And what holds true in downturns is all the more relevant in buoyant markets. Flexible working time models enable rapid and cost optimized response to market requirements. The fact that our topics are high on company agendas in the meantime is not only reflected by the increased demand for our products and services, but is also documented by independent market research institutes. In a report on workforce management issued in September

2006, the UK based market research company IMS Research, for example, estimated the total volume in the USA and EMEA at more than US \$ 2.7 billion by the year 2010. In its survey, IMS emphasized that to date, the majority of the companies had underestimated the potential benefits of modern working time management systems. And this is all the more surprising, given that expenditures on employees account for the major share of costs in today's companies.

« Breakthrough in working time management:
demand rising »



ATOSS Customer Österreichische Post Aktiengesellschaft



ATOSS Customer MAGNA STEYR Fahrzeugtechnik AG & Co. KG

As factors driving this market growth IMS perceives above all the urgent need to cut costs in connection with boosting productivity – a challenge that is mainly facing manufacturing companies operating within a global competitive environment. In addition, there are demographic developments in the industrial nations and the associated shortage of qualified employees that will become even more critical over the next years.

ATOSS Survey. The international figures are also reflected by the assessments of German managers. A survey conducted by ATOSS in cooperation with the SRH Fachhochschule Heidelberg and the FAZ (Frankfurter Allgemeine Zeitung), three quarters of the human resources managers and line managers assigned tremendous significance to flexible working hours today – and even more so with a look to the future. Here, we perceive major potential for our products and services.

SOFTWARE & SERVICES



ATOSS Customer Feneberg Lebensmittel GmbH



ATOSS Customer Western Store Beran mister+lady jeans GmbH

Return on Investment included. We are the specialists for demand and requirements oriented personnel deployment. Our software portfolio is unsurpassed in terms of functionalities, technologies and user friendliness. We have the right solutions for all requirements scenarios, as well as for every company and enterprise size. And we make success measurable – most of our customers record a tangible return on investment within an 8 to 12 month period.

Leading edge technology and the latest standards.

We commit consistent, ongoing investments to the further development of our solutions. This is because we are convinced that our software must always reflect the latest standards – not only in terms of functionalities, but also with regard to technology. Our flagship product ATOSS Staff Efficiency Suite is the result of 20 years of experience in practical scenarios as well as some 500 years of development work. The software is 100% Java-based and completely platform independent. This guarantees top performance, optimal scalability, a minimum of integration costs and the free choice of database and operating systems. In this way, our customers' investment security is guaranteed – without entailing system technology compromises.

« Demand oriented workforcemanagement is our core competence – driven by leading-edge technologies »



ATOSS Customer Augustiner-Bräu Wagner KG



ATOSS Customer Küppersbusch Hausgeräte AG

A look behind the scenes: Concentrated software engineering power generates greater and faster customer benefits. While release issue cycles of 18 months used to be standard in the software branch, ATOSS is now practicing a dynamic model. In the same period of time, a major release and up to four minor releases in short intervals are launched on the markets. Our agile process model is the success formula at work here, and faster response capabilities to market and customer requirements are the gratifying results.

ATOSS commits annual investments totaling almost 20% of sales to software development.

ATOSS Time Control

Windows-based complete solution – tailored to the needs of smaller SMEs.

ATOSS Startup Edition

Modular Web-based solution family for high-growth medium sized companies.

ATOSS Staff Efficiency Suite

The Web-based solution for demand and requirements oriented personnel deployment – capable of meeting the most complex scenarios.

ATOSS Medical Solution

The multiple award-winning solution for personnel resources management in the health care sector.

ATOSS Retail Solution

The modular solution for sales and frequency oriented personnel deployment in the retailing sector.

SOFTWARE & SERVICES



ATOSS Customer BLG LOGISTICS GROUP AG & Co. KG



ATOSS Customer S-Bahn Berlin GmbH

ATOSS Consulting – Value added consulting. No two companies are ever the same, and their sets of problems are never 100% identical either. Our consultants have the answers to even the most demanding questions revolving around efficient personnel deployment. Their many years of experience in our core topic areas guarantee practice oriented, comprehensive consulting – from the determination of personnel requirements through to deployment planning and on to working time management. Productivity and return on investment analyses enable potentials to be calculated, while delivering the necessary transparency for decision-making.

« We regard consulting as a matter of trust –
and excellent service as a matter of course »



ATOSS Customer Meyer Werft GmbH



ATOSS Customer Swiss International Air Lines Ltd.

Full service guaranteed. Our Professional Services experts accompany customers in all phases of their software implementation: from the requirements analysis, detailed and fine-tuned concepts through to the provision of the technical infrastructure, software implementation and training. But this is only the start. As part of our continuous customer care and long-term partnership based cooperation with our clients, a dedicated member of staff is always at hand for long-term customer support during the software's productive phase. A professional maintenance and hotline concept rounds off the service range and guarantees the smooth operation of ATOSS solutions. And our customers are always abreast of the latest developments and technologies – while time and cost frames are kept within clearly defined boundaries.

CUSTOMERS



ATOSS Customer Privatbrauerei Erdinger Weißbräu Werner Brombach GmbH



ATOSS Customer Molkerei Meggle Wasserburg GmbH & Co. KG

The success of ATOSS stands on a solid foundation:

In the meantime, more than 3,500 companies of all sizes and active in all branches and industrial sectors are utilizing our solutions. With the help of ATOSS software, they are currently steering more than 2 million employees. They are realizing productivity gains of up to 25 percent. At the same time, customer orientation and employee motivation improve in a sustained manner. This success explains why more than 30% of our customers have remained faithful clients for more than 10 years.

Our customers are saving between 16 and 168 euros

per month and employee where it matters the most in global competition: overtime, idling or slack periods, bonus payments for special shifts are drastically reduced, while processes are optimized and streamlined. At the same time, client's competitive and response capabilities on the markets improve. These are the reasons why ATOSS solutions and consulting services are so successful, and many new customers opt for ATOSS year after year.

« We are the experts for competitive advantages and productivity gains – we make our customers more successful »



ATOSS Customer Meffert AG Farbwerke



ATOSS Customer Sixt GmbH & Co. Autovermietung KG

In high wage countries such as our core market of Germany, personnel intensive services and competitive products can only be economically produced and sold if the cost structures are right – which also, and most especially applies to personnel deployment. And it is precisely here, that we are finding our clients: whether globe spanning enterprises with tens of thousands of employees, or SMEs – ATOSS is fielding a unique product portfolio that meets the requirements of every customer group and every market.

HEALTH CARE SECTOR



ATOSS Customer Klinikum Rosenheim



ATOSS Customer Klinikum Ingolstadt GmbH

Public funds are depleted. Clinics, senior citizen's and care facilities are under increasing pressure. By way of legislation, funding instances are demanding greater cost efficiency, as well as binding service and quality agreements. The organization of working time concepts in the health care sector are undergoing far reaching change. Flexible working hour concepts are called for that ensure process oriented patient care and service quality, as well as meeting employees needs and their wish for self-determination of working hours.

Personnel costs and care quality are high priority topics on the agenda at today's hospitals. The divergence between negotiated wage rises and approved budgets is constantly growing – while the number of patients is rising at the same time. Economic constraints and the ECJ judgment on stand-by and emergency duty are forcing hospitals to make the most efficient use of physicians and care personnel as possible. Ideally, the exact number of qualified staff required for optimal patient care are at hand at all times.

« Our success formula is combating rising costs in the health care area – and benefiting patients, employees, companies and health care providers alike »



ATOSS Customer Kongregation der Barmherzigen Schwestern



ATOSS Customer Klinikum Saarbrücken gGmbH

Advantage ATOSS Medical Solution. Integrated software solutions represent an expedient instrument for demand and requirements oriented, cost-optimized service planning. A hospital with 2,000 members of staff can save up to EUR 8.3 million within a period of five years. Consequently, especially in view of their difficult economic environment, clinics are investing in proven software solutions resulting in greater efficiency and productivity.

Many clinics and care facilities comprising a total workforce in the region of 100,000 members of staff are already relying on our software and consulting services. Notable customers in the health care sector include the HSK Dr.-Horst-Schmidt Clinics, the Klinikum Ingolstadt, the Main-Kinzig-Clinics, the Klinikum Rosenheim, Klinikum Saarbrücken as well as the Zentrum für Soziale Psychiatrie Emmendingen.

RETAIL



ATOSS Customer dodenhof GmbH & Co. KG



ATOSS Customer EDEKA Minden-Hannover Holding GmbH

Increasing price wars, declining sales, longer opening hours and high personnel costs are factors determining the German retail sector. Personnel savings are usually to the detriment of service and do not remain without consequences. The balancing act between sales losses on the one hand, and expensive overcapacities on the other represents a considerable challenge.

Securing service and economic efficiency. In the retail sector, the forecasting of fluctuating personnel requirements is of paramount importance. The mere observation of sales developments will not suffice. According to the given retail format, factors such as customer frequency, special activities and campaigns, weather forecasts or item sales must enter into planning. Such complex planning processes call for a system that integrates all relevant data and makes them available on an up to the minute basis.

« Treat your customers like royalty: Our solution to the cost/service dilemma. »



ATOSS Customer Q2 (Germany) Shop GmbH



ATOSS Customer MUSTANG-Bekleidungswerke GmbH & Co. KG

The ATOSS Retail Solution combines unsurpassed functionality and many years of branch experience with leading edge technology. The modular standard software factors in all criteria that are of significance for demand and requirements oriented, economic personnel deployment in retail chains or large stores and branch outlets.

Growth perspectives. The demand for our retail solutions was especially strong in 2006. We gained a number of renowned customers, such as T-Punkt Vertriebsgesellschaft, Max Bahr Baumärkte and K+L Ruppert, as well as additional sales companies of the EDEKA Group. And the positive trend continues. Following merchandise, personnel expenditures represent the major cost factor in the retail sector. This holds tremendous optimization potential waiting to be tapped and offers genuine opportunities to secure future viability. A must for retailers, and an exciting market for ATOSS that holds a wealth of perspectives.

PARTNERS



Ludwig Stocker Hofpfisterei GmbH,
Project of our partner CompData Computer GmbH



Georg-Simon-Ohm-Fachhochschule Nürnberg,
Project of our partner HENRICHSSEN AG

Team spirit has played a pivotal role in the growth of ATOSS and its success over the years – creating a strong community, from which everyone stands to benefit. Together with our partners we are charting new courses and expanding our strong position on the markets. In this way we are able to bundle resources and competencies in order to provide our customers with the best solutions at all times.

Strong partners wanted. Since years ATOSS has been successfully serving SME customers with its sales partner concept. Our aim is to stake out an even larger share of the market for working time management solutions. To this end, we are consistently expanding our cooperation with competent companies in all regions and branches. Our customers benefit from our capable partners on location, as well as from specialists, who also command in-depth market know-how in niche markets, and understand the language and the specific requirements of these markets.

« 1+1 is more than 2. Thanks to our strong partners we are even more successful »

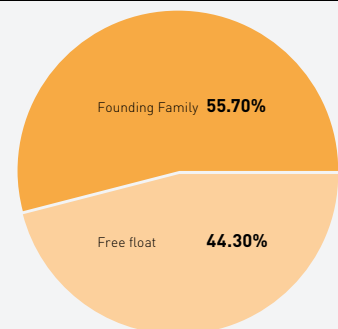


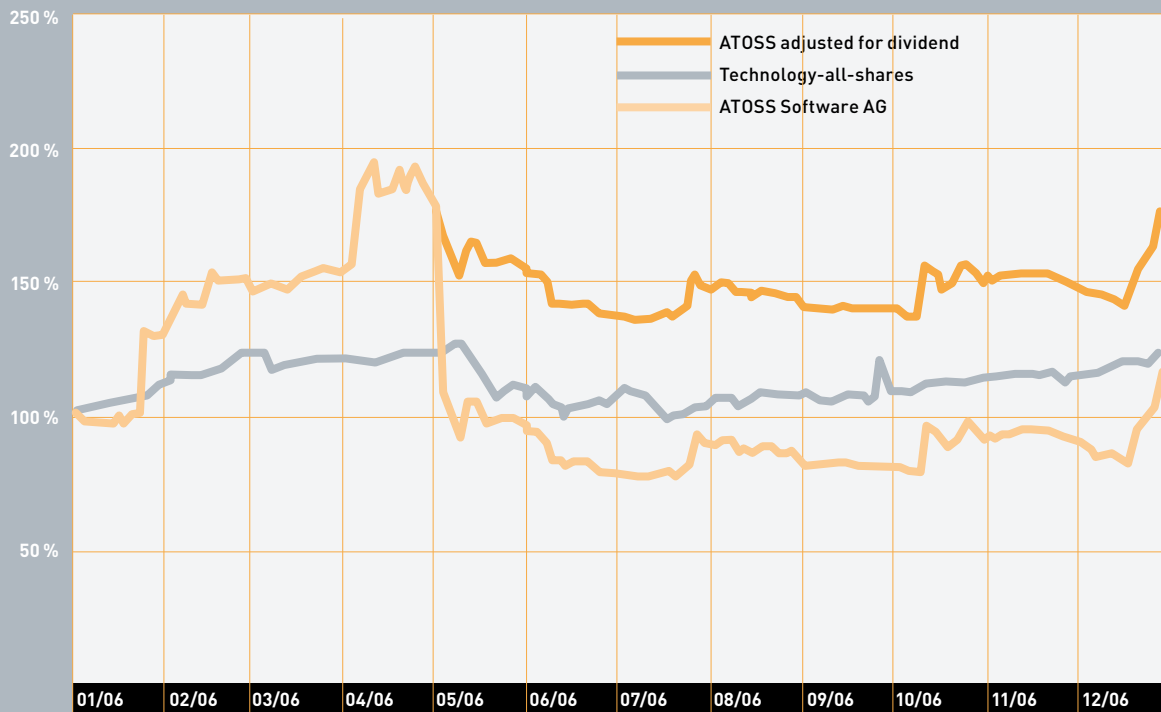
Our partners profit from an established network and many years of experience, an attractive partner concept and tailored cooperation opportunities. Our cooperation creates win-win situations, and is based on fair business relations based on a long-term perspective. In future, we aim to continue to grow with our partners, and are consistently expanding our networks – on regional, national and international levels.

INVESTOR RELATIONS

« Our strategy is one of growth and steadily increasing value. In achieving these aims, we are consistently focused on our core fields of working time management and personnel resource planning. Our success proves the value of our strategy. »

ATOSS STOCK			
EUR		Reporting period	Previous year
		2006	2005
ISIN/WKN	DE0005104400 / 510440		
Class	no par value bearer shares		
Capital stock		4,025,667	4,025,667
Number of shares		4,025,667	4,025,667
Free float		44.30 %	44.55 %
Founding family		55.70 %	55.45 %
Listings	Prime Standard (regulated market, F) XETRA and OTC B-B, D, HH, M, S		
Indices	Prime All Share, Prime Software, Technology All Share		
Designated Sponsor	Gebhard & Co. Wertpapierhandelsbank AG		
Financial year	January 1 to December 31		
First listing	March 21, 2000		
Stock market code	AOF		
Dividend paid	in this period for the preceding year	5.50	0.11
Dividend proposed	for approval at the AGM 2007	0.24	
Earnings per share		0.48	0.12
Annual high		19.00	10.60
Annual low		6.69	7.85
Average price		9.53	8.80
P/E ratio high		40	82
P/E low		14	60
P/E average		20	68
Opening price January 2		8.93	9.95
Closing Price December 31		10.25	8.95
Market capitalization at Dec. 29		Mio. EUR 41.26	Mio. EUR 36.03

SHAREHOLDERS ATOSS AG



KEY FIGURES PER SHARE

EUR	2006				2005			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
High	10.34	8.15	19.00	14.00	9.21	8.78	10.10	10.60
Low	6.76	6.65	6.69	8.57	7.90	7.85	8.35	9.12
Price at end of quarter	10.34	7.00	6.85	13.85	8.95	8.55	8.49	9.90
Own shares held in treasury (1)	76,054	97,221	114,755	122,666	150,058	203,566	206,101	206,334
Dividend paid per share	0.00	0.00	5.50	0.00	0.00	0.00	0.11	0.00
Cash flow per share	-0.27	0.66	0.03	0.68	-0.38	0.66	-0.26	-0.35
Liquidity per share	2.75	2.98	2.34	7.85	7.21	7.55	6.92	7.33
EPS	0.12	0.14	0.09	0.13	0.13	-0.01	-0.01	0.00
EPS (diluted)	0.12	0.13	0.09	0.12	0.12	0.00	-0.01	0.00

* at the end of quarter

Positive year-end balance on the equity markets

In 2006, as in the year before, the international equity markets, and with them the mood on Germany's stock markets, developed along welcome lines, with the Dow Jones Industrials even reaching a new all-time high. In Germany the technology sector in particular recorded impressive growth in the first quarter, albeit followed initially by a certain correction as the year progressed. As a result, after a promising start, investors found themselves subject to an endurance test intra-year. Markets worldwide were weighed down by concerns over inflation and growth, but by the year-end sustained high profits gave cause for returning confidence. Investors in Dax and TechDax stocks were rewarded with a solid increase in value over the year as a whole.

Welcome development in the ATOSS stock price

The trend on the capital markets also impacted on the price of ATOSS stock. Nevertheless it was evident that thanks in particular to the Company's positive announcements in the course of the year, overall performance was highly successful, with ATOSS shares clearly outperforming major comparable indices.

Following the Company's statement that it would be proposing at its General Meeting to pay a special dividend of EUR 5.50, demand rose continuously until shortly before the Meeting on May 2, 2006, with the stock price reaching a high of EUR 19.00. It is to be assumed that the tax treatment of special dividends played a substantial role in this development.

Following distribution of the dividend on May 3, 2006, and the expected correction in the share price, the general decline in demand for technology stocks in May and June led to a downturn in prices, with ATOSS stock falling to a 2006 low of EUR 6.65 in July. This steep downward adjustment was not diminished to any material extent, even though the Company increased its forecasts on two occasions.

The markedly improved development in business coupled with improvements in essential key figures such as EBIT, pre-tax margins, return on equity and cash flow were sufficient to induce the Board of Management on October 25 to raise its forecast for 2006 for a third time. On this basis, the Board proceeded to intensify its communications with the capital markets and ultimately announced a definitive

outlook for the year on December 19. This increase in the forecast for the year and the accompanying investor relation activities coincided with a mild upturn in the mood of the capital markets, from which second-tier stocks also benefited, and by the year end the ATOSS share price had risen well above the level of the previous year, closing at EUR 10.34 on December 29, 2006. This represented an increase in value of 15 % achieved over twelve months. Furthermore our shareholders also enjoyed a special dividend distribution of EUR 5.50 per share on May 3, 2006, which made a substantial addition to overall performance.

In 2006, ATOSS stock has thus rewarded long-term shareholders in particular both with a special dividend and also thanks to the performance of the share price with a significant increase in value.

On the one hand the 15 % rise in the share price over the year 2006 contributed noticeable portfolio benefits, while on the other, the dividend of EUR 5.50 was essentially tax-free to shareholders and thereby represented a significant return. Given that the tax-free element of the distribution amounted to EUR 5.26, the year 2006 yielded growth of 74 % with associated tax advantages.

These are facts that are not immediately apparent from a simple glance at the stock price charts without making the appropriate adjustment for the tax-free element of the dividend.

Repeated buy recommendations by analysts

As the Company raised its forecasts, analysts too increased their upside targets for the stock on several occasions in 2006. In a news flash at the beginning of the year, SES Research set a price target of EUR 10.35, before adjusting this to EUR 12.40 following the announcement of the dividend pay-out, and raising it again to EUR 15.00 when the figures were published for the first quarter. Since the stock price was moving faster than the forecasts could be adjusted, SES issued a hold recommendation for the shares.

Following the dividend payment, the price target was accordingly corrected downwards to EUR 9.50, before being adjusted first to EUR 10.00 and ultimately EUR 10.20. A further moderate increase in the upside target cannot be excluded for 2007.

CORPORATE GOVERNANCE

« Responsible and sustainable management is integral to the corporate culture of ATOSS. »

1. INTRODUCTION
2. DECLARATION OF CONFORMITY
3. BOARD OF MANAGEMENT REMUNERATION REPORT
4. SUPERVISORY BOARD REMUNERATION REPORT
5. OWNERSHIP OF AND DEALINGS IN SHARES AND FINANCIAL INSTRUMENTS
6. SECURITIES-BASED INCENTIVE SYSTEMS

1. Introduction

Responsible and sustainable management is integral to the corporate culture of ATOSS Software AG. The primary foundations are provided by the German Stock Corporation Act and the German Corporate Governance Code. The Company believes firmly that compliance with corporate governance standards and guidelines is an important factor in securing the enduring confidence of customers, employees and shareholders in the management of our enterprise and thereby supports the sustained success of ATOSS Software AG.

The central pillars of good corporate governance are efficient cooperation between the Board of Management and the Supervisory Board, the protection of the interests of all those with a stake in the success of the enterprise, and openness, reliability and transparency in corporate communication.

Since 2001 the Company has therefore regularly reported on its Principles of Corporate Governance and on its annual declarations of conformity, directors' dealings and other essential information regarding the corporate governance of the Company. This information in transparent and up to date form is available in equal measure to customers, employees and shareholders. Details of the development in business and accounting information are disclosed in quarterly, half-yearly and annual reports. Other relevant information is published in ad hoc announcements and press releases. All information is continuously available for inspection on the Company's Web site (www.atoss.com) in the Investor Relations section.

2. Declaration of conformity 2006

Once again in 2006 the Board of Management and Supervisory Board have concerned themselves intensively with the new requirements of the German Corporate Governance Code, comparing these with the Company's own principles and identifying those points in which deviations exist from the recommendations of June 12, 2006, of the Government Commission on the German Corporate Governance Code.

On November 14, 2006, the Board of Management and Supervisory Board adopted a new declaration of conformity pursuant to § 161 of the German Stock Corporation Act in which it is confirmed that the recommendations of the Commission on Corporate Governance appointed by the German Government

are complied with, with the exception of those points stated in the declaration. This declaration is published on the Company's Web site. It is consequently evident that the Company fundamentally conforms with the recommendations and deviates in three points only.

Deviations apply in respect of the following three points:

- The existing directors and officers insurance contracts do not include an agreed self-insured deductible. The organs of the Company are of the opinion that the commitment and responsibility with which they perform their duties are not to be improved by the integration of a self-insured deductible, and they therefore do not anticipate making such provision.
- In accordance with the margin of discretion afforded by the German Corporate Governance Code, in view of the specific circumstances pertaining at the Company and in particular the size of the Company the Supervisory Board has dispensed with the formation of separate committees and in particular of an audit committee.
- When share options and comparable schemes are granted, the German Corporate Governance Code further foresees that these should be linked with demanding and relevant parameters for comparison; and when such are granted to members of the Board of Management, some means of limitation or cap should be ensured. The convertible bonds already issued in favor of organs of the Company in accordance with the legal specifications for such instruments do not contain specific performance criteria that need be fulfilled in order to exercise the conversion rights, nor do they provide for any means of limitation or cap. In the estimation of the Company, because of the inherent capital commitment over their lifetime, convertible bonds exercise a loyalty effect that in the view of the Company is just as significant.

3. Board of Management remuneration report

The members of the Board of Management are:

Andreas F.J. Obereder	Chief Executive Officer Appointed until December 31, 2008
Christof Leiber	Member of the Board of Management Appointed until March 31, 2012

The remuneration paid to members of the Board of Management is oriented towards their contribution to the success of the business, and towards industry standards. It includes performance-related and non-performance-related elements as well as components with a long-term incentive effect dependent on the development in the price of ATOSS stock. The non-performance-related remuneration is paid monthly in the form of a salary. An advance on the performance-related remuneration is paid monthly up to a maximum of 50 % of

the target profit-share payment for the financial year in question.

The Supervisory Board turns its attention at least once per year to the appropriateness of this remuneration and sets new performance targets for the performance-related elements yearly in advance. The level of the performance-related remuneration (profit-share payment) is oriented towards the Group sales target and operating profit target before adjustment for the effects of the Company's convertible bond programs.

The remuneration component with long-term incentive effect (securities-based incentive systems) took the form of convertible bonds awarded in the years 2000 to 2004 and is described separately in this Corporate Governance Report.

Moreover, the contracts with members of the Board of Management also include other elements of remuneration in the form of insurance premiums paid by the Company and other ancillary benefits, as well as the provision of company motor vehicles. The corresponding benefit of these elements in money's worth is listed below under "Miscellaneous".

The remuneration paid to the Board of Management per financial year is composed as follows:

	2006	2005
Andreas F.J. Obereder	EUR	EUR
Non-performance-related remuneration		
Salary	290,000	290,000
Miscellaneous	93,642	90,653
Performance-related remuneration		
Profit-share payment	139,650	0
Total remuneration	523,292	380,653
Christof Leiber		
Non-performance-related remuneration		
Salary	115,000	115,000
Miscellaneous	21,065	17,966
Performance-related remuneration		
Profit-share payment	89,775	0
Total remuneration	225,840	132,966

The profit-share payments shown here relate to entitlements deriving from the achievement of targets in the respective financial year. Since these entitlements are determined only after the conclusion of the financial year, actual payments deviate.

Finally, a non-forfeitable pension commitment also exists in favor of the CEO which is classified as a defined benefits plan. Pursuant to this agreement, pension payments will commence when the recipient reaches the age of 65 and will be paid for life. The level of future pension rights will vary during the accrual period to an extent equal to future adjustments in the fixed salary of the CEO.

4. Supervisory Board remuneration report

The Supervisory Board of ATOSS Software AG is comprised of three members who were appointed by a resolution of the General Meeting on April 30, 2003. In accordance with § 9 of the Articles of Association of ATOSS Software AG, the term of office of the members of the Supervisory Board continues until the conclusion of the General Meeting at which the said Supervisory Board members are formally discharged for the financial year 2007.

The members of the Supervisory Board are:

Peter Kirn	Chairman, corporate consultant, Böblingen
Bernhard Dorn	Deputy Chairman, corporate consultant, Leonberg
Rolf Baron Vielhauer von Hohenhau	President of the Bavarian Taxpayers Association, Munich

The remuneration paid to the Chairman, Deputy Chairman and members of the Supervisory Board was determined by resolutions adopted at the General Meetings on May 22, 2001, May 22, 2002, and April 22, 2004, and is oriented towards the extent of their responsibility, and towards industry standards. In each case this remuneration includes performance-related elements as well as components with a long-term incentive effect (securities-based incentive systems) that are described separately in this Corporate Governance Report.

The Supervisory Board remuneration is composed as follows:

	2006	2005
Peter Kirn	EUR	EUR
Remuneration	20,000	20,000
Attendance allowances	7,500	10,500
Total	27,500	30,500
Bernhard Dorn		
Remuneration	20,000	20,000
Attendance allowances	7,500	10,500
Total	27,500	30,500
Rolf Baron Vielhauer von Hohenhau		
Remuneration	10,000	10,000
Attendance allowances	3,750	5,250
Total	13,750	15,250

In financial year 2006, as in the preceding year, there were no payments made for consultancy work beyond the scope of Supervisory Board activities.

5. Ownership of and dealings in shares and financial instruments

5.1 Ownership of shares and financial instruments

The Company reports the ownership of shares by members of Company boards and the possession of convertible bonds relating to Company shares in its annual and interim reports.

Share ownership on the part of board members on December 31, 2006, in comparison with the preceding year was as follows:

	31.12.2006	31.12.2005
	Unit numbers	Unit numbers
Andreas F.J. Obereder	1,981,184	1,971,184
Peter Kirn	23,760	13,760
Bernhard Dorn	19,000	13,000
Total	2,023,944	1,997,944

Board members' holdings of convertible bonds relating to Company shares on December 31, 2006, in comparison with the preceding year were as follows.

On the relevant balance sheet closing date, by subscribing for convertible bonds board members held conversion rights to the following numbers of shares in ATOSS Software AG:

	31.12.2006	31.12.2005
	Unit numbers	Unit numbers
Andreas F.J. Obereder	0	5,000
Christof Leiber	10,000	22,000
Peter Kirn	6,000	12,000
Bernhard Dorn	6,000	12,000
Rolf Baron Vielhauer von Hohenhau	12,000	12,000
Total	34,000	63,000

5.2 Reportable securities transactions

The Company publishes details of all reportable securities transactions by board members on its Web site at http://www.atoss.com/atoss/de/Company/Investor_Relations/Directors_Dealings/default.htm. This information remains available for at least 12 months following publication.

In financial year 2006 the following reportable transactions were undertaken by board members and disclosed.

Name	Transaction	Date of transaction	Number	Price EUR	Date of publication
Andreas F.J. Obereder	Purchase	03.05.2006	1,000	9.50	04.05.2006
	Purchase	03.05.2006	1,000	9.52	04.05.2006
	Purchase	03.05.2006	1,000	9.50	04.05.2006
	Purchase	03.05.2006	2,000	9.53	04.05.2006
	Purchase through the exercise of convertible bonds	06.11.2006	5,000	1.00	06.11.2006
Christof Leiber	Purchase through the exercise of convertible bonds	07.02.2006	1,333	5.21	07.02.2006
	Sale	07.02.2006	1,333	12.62	07.02.2006
	Purchase through the exercise of convertible bonds	08.05.2006	1,500	2.52	10.05.2006
	Sale	08.05.2006	810	9.30	10.05.2006
	Purchase through the exercise of convertible bonds	08.05.2006	667	1.00	10.05.2006
	Sale	12.05.2006	1,357	9.20	15.05.2006
	Purchase through the exercise of convertible bonds	27.07.2006	1,000	3.52	28.07.2006
	Sale	01.08.2006	600	7.80	03.08.2006
	Sale	03.08.2006	400	7.60	03.08.2006
	Purchase through the exercise of convertible bonds	09.08.2006	2,000	6.18	10.08.2006
	Sale	09.08.2006	2,000	7.65	10.08.2006
	Purchase through the exercise of convertible bonds	27.10.2006	2,500	3.52	31.10.2006
	Purchase through the exercise of convertible bonds	27.10.2006	2,000	6.18	31.10.2006
	Sale	27.10.2006	2,000	8.50	31.10.2006
	Sale	30.10.2006	2,500	8.40	31.10.2006
	Purchase through the exercise of convertible bonds	07.11.2006	1,000	6.18	07.11.2006
	Sale	07.11.2006	1,000	8.01	07.11.2006
Peter Kirn	Purchase	08.05.2006	2,000	9.30	10.05.2006
	Purchase	12.06.2006	2,000	7.31	13.06.2006
	Purchase through the exercise of convertible bonds	31.07.2006	6,000	4.01	31.07.2006
Renate Kirn	Purchase	08.05.2006	700	9.30	10.05.2006
Bernhard Dorn	Purchase through the exercise of convertible bonds	27.07.2006	6,000	4.01	28.07.2006

6. Securities-based incentive systems

Elements of the remuneration received by members of the Board of Management and Supervisory Board are oriented towards the stock price; these components take the form of convertible bonds.

The structure and terms of the convertible bonds programs were determined by resolutions adopted at General Meetings. The principal structural elements of these convertible bonds are summarized as follows, insofar as board members still held such bonds on December 31, 2006.

Convertible bonds program 2002/2010

This program affords the opportunity to subscribe for convertible bonds at a nominal price of EUR 1.00. Upon expiry of two and three years, the convertible bonds on each occasion permit the holder to convert one half of his or her holding into Company shares upon payment of the conversion price. The relevant conversion price equates to the average closing price in Xetra trading on the last five trading days before the convertible bond was granted. The convertible bonds have a term of seven years from date of offer. Convertible bonds are granted to members of the Board of Management by a resolution of the Supervisory Board. By a resolution of the General Meeting in the year 2004 the convertible bonds program for members of the Board of Management and Company employees (Convertible bonds program 2002/2011) was extended for three years and is now designated as the "Convertible bonds program 2002/2014".

Convertible bonds program 2004/2012

In financial year 2004 the Company at its General Meeting on April 22, 2004, resolved upon a further convertible bonds program for members of the Supervisory Board (Convertible bonds program 2004/2012). The same terms and conditions apply as in the case of the Convertible bonds program 2002/2010.

Following authorization granted by the General Meeting on May 2, 2006, by a resolution also passed by the Board of Management and Supervisory Board on May 2, 2006, the conversion price for all convertible bonds in circulation at the time of the dividend distribution was reduced by EUR 5.50, this being the amount of the dividend paid per share, or alternatively – should a reduction in price of EUR 5.50 result in a conversion price of less than EUR 1.00 – to the level of EUR 1.00.

Board members' convertible bond holdings on December 31, 2006, were as follows.

	Program	Exercise price EUR	Outstanding Option	Contractual validity in years	Potential rights
Christof Leiber	2002/2010	6.18	10,000	4.5	2,500
Peter Kirn	2004/2012	4.01	6,000	4.6	0
Bernhard Dorn	2004/2012	4.01	6,000	4.6	0
Rolf Baron Vietbauer von Hohenhau	2004/2012	4.01	12,000	4.6	6,000
			34,000		8,500

SUPERVISORY BOARD

Dear Shareholder,

In 2006 the Company's continuing high level of expenditure on research and development and its sustained positioning as a specialist in working time management and personnel resource planning impacted with a highly gratifying effect on the development in both sales and results. ATOSS exceeded the welcome growth rates in Germany's economy as a whole, and in particular recorded a sustained improvement in its results. The Supervisory Board fully supports the strategy of the Board of Management in continuously developing the Company as a specialist provider in the field of working time management and personnel resource planning. This extends both to the ongoing and sustained development of the Company's solutions portfolio in these core areas as well as to strengthening market access.

We are satisfied that this strategy for ATOSS Software AG constitutes a sound basis for future sales and earnings growth.

Five Supervisory Board meetings in 2006

Once again in the 2006 reporting period the Supervisory Board fulfilled its duties under the law and in accordance with the Articles of Association to advise the Board of Management and continuously supervise the management of the business. In the course of our work we have paid particular attention to the requirements incumbent upon the Supervisory Board to comply with the provisions of the German Corporate Control and Transparency Act (KonTraG), the Transparency and Disclosure Act (TransPuG) and the recommendations and proposals contained in the German Corporate Governance Code.

In 2006 we held a total of five meetings, each of which was attended by all members. Consultations with the Board of Management were preceded by internal discussions, during which a review of the efficiency of our activities was regularly on the agenda. We continue to verify the efficiency of our supervisory activities by way of self-evaluation. Our recommendations are recorded in writing and reviewed by us in committee in a continuous, ongoing manner.

We were kept promptly and comprehensively informed by the Board of Management throughout the year by means of both written and verbal reports. Items on the agenda at our joint meetings regularly included the current course of business, in particular the development in sales and the situation of the Company, ongoing corporate strategy, product development and matters relating to personnel, investment and financing and risk management, as well as other business events of particular significance. Members of the Supervisory Board were sent all essential documents in good time in order to prepare prior to these meetings.

In addition to these meetings, several telephone conferences took place and various discussions were held both in person and by telephone. The Chairman of the Supervisory Board in particular was in continuous contact with the Board of Management and was directly involved in all decisions of material importance. Decisions made outside of Supervisory Board meetings were adopted by a process of consultation. The extension of Mr. Leiber's appointment as Member of the Board of Management for a further five years, following the end of his first term of office effective 31.3.2007, was approved in this manner in April 2006. Further resolutions

« The ATOSS strategy provides a sound basis for future growth in sales and earnings. »

adopted by a written procedure concerned the redrafting of Mr. Leiber's Board Member contract for his new term of office, Board of Management remuneration, the adjustment of conversion prices in relation to convertible bonds subsequent to the special dividend distribution and other matters outside of regular meetings.

In addition, outside of our shared meetings the Board of Management kept the Supervisory Board informed in full and detailed form in writing on a monthly basis. Among other items, each of these reports included an income statement, cash flow analysis, individual departmental costs, types of sales as well as progress in the development of new products and ongoing projects. These documents were in each case reviewed by the Supervisory Board upon receipt to confirm their plausibility, accuracy when compared over time and on a sectoral basis, and completeness.

Due to the size of the Company and to the fact that in the interests of lean efficiency the Supervisory Board is intentionally composed of only three members, once again in financial year 2006 we dispensed with the formation of committees.

Other matters discussed at the individual meetings of the Supervisory Board:

At the meeting on January 24, 2006

In preparation for the meeting scheduled for February 22, 2006, to adopt the accounts, at an extraordinary meeting on January 24, 2006, the Supervisory Board discussed the

matter of a special dividend distribution. Following an in-depth examination of the Company's capital requirements and having reviewed the equity structure and verified the assets, financial and earnings situation of the Company, a decision was taken to propose to the General Meeting that a special distribution be made in the amount of EUR 5.50 per dividend-bearing share and to prepare the annual financial statements accordingly.

At the meeting on February 22, 2006

This was also the Supervisory Board meeting scheduled to approve the accounts for financial year 2005. Together with the Management Board and the auditors, Ernst & Young AG Wirtschaftsprüfungsgesellschaft, Munich, the annual financial statements, consolidated financial statements and management reports prepared by the Board of Management were discussed in detail. The verifications performed by the Supervisory Board gave rise to no reservations. The annual financial statements and consolidated financial statements for financial year 2005, each of which was awarded an unqualified audit certificate, were approved and the annual financial statements were adopted. The Supervisory Board endorsed the proposal by the Board of Management regarding the application of surplus profits in line with the resolutions adopted at the Supervisory Board meeting on January 22, 2006.

In addition the resolutions proposed as agenda items for the forthcoming Ordinary General Meeting on May 2, 2006, were discussed and agreed.

The Board of Management also reported on the profitability

of the Company, in particular the return on equity, as well as on intended business policy and other fundamental matters of business planning.

At the meeting on May 2, 2006

This meeting took place in conjunction with the preceding Ordinary General Meeting, the proceedings at which were a central focus of discussion. Another agenda item of material importance was the report by the Board of Management on the progress of business and the outlook for the first half of the financial year 2006.

At the meeting on July 12, 2006

The Board of Management having raised its forecasts, the Supervisory Board concerned itself with an analysis of the highly gratifying development in business. In this context the Board of Management gave an explanation of the course of business to date and described its expectations for further progress. At the same time some initial assumptions were clarified, on which to base plans for the financial year 2007.

At the meeting on November 14, 2006

In advance of this meeting, which was concerned above all with a presentation of plans for 2007, the Supervisory Board was furnished with the relevant documentation for analysis.

During the discussions the Board of Management first reported on the course of business in the first three quarters and on the outlook for the year 2006 as a whole. On this basis, the Board of Management then proceeded to explain its planning for 2007. The Company's sales and budget planning as well the projected accounts and cash flow plans for 2007 were presented and approved.

A further important item on the agenda was the approval of the declaration of conformity, pursuant to § 161 of the German Stock Corporation Act, with the Corporate Governance Code as currently amended.

Appointment of Ernst & Young AG Wirtschaftsprüfungsgesellschaft as auditors

At the Ordinary General Meeting held on May 2, 2006, in Munich, the shareholders voted in favor of Ernst & Young AG, Wirtschaftsprüfungsgesellschaft, Stuttgart (Munich Branch) as auditors for the financial year 2006. The Supervisory Board duly made the appointment in particular consideration of the rules contained in the corporate governance principles of ATOSS Software AG regarding cooperation on the part of the Supervisory Board with the auditors.

The scope of the auditors' instructions also included the early warning system for the detection of risk and the declaration of conformity given by the Management and Supervisory Boards pursuant to § 161 of the German Stock Corporation Act.

Supervisory Board meeting on February 26, 2007, to adopt the financial statements

In good time prior to this meeting scheduled to adopt the financial statements, all members of the Supervisory Board were furnished with the annual financial statements and consolidated financial statements as well as the management reports for financial year 2006 prepared by the Board of Management and each awarded unqualified audit certificates. Prior to discussions with the Board of Management and the auditors, the members of the Supervisory Board had the opportunity to inspect the accounts documentation and verify this also.

At a joint meeting the annual financial statements were then discussed in detail with the Board of Management and the auditors. The Supervisory Board endorsed the report by the auditors as well as the annual financial statements, consolidated financial statements and management reports by the Board of Management. The 2006 annual financial statements and consolidated statements for ATOSS Software AG were approved by the Supervisory Board without reservation and the annual financial statements are

accordingly adopted. The Supervisory Board further endorses the proposal by the Board of Management regarding the appropriation of surplus profits.

We should like to express our sincere thanks to the Board of Management for their endeavors and for their trust and cooperation in financial year 2006. Our thanks are due equally to all members of staff.

Munich, February 2007



Peter Kirn
Chairman of the Supervisory Board



Peter Kirn

Members of the Supervisory Board, with a summary of other supervisory board positions held

Peter Kirn

Corporate consultant, Böblingen.

Mr. Kirn holds the following other supervisory board positions:

- Chairman of the Supervisory Board of NIIT Technologies AG, Mohnheim
- Member of the Supervisory Board of businessMart AG, Stuttgart
- Member of the Supervisory Board of UNILOG Integrata AG, Tübingen

Rolf Baron Vielhauer von Hohenhau

President of the Bavarian Taxpayers Association, Munich. Baron Vielhauer von Hohenhau holds the following other supervisory board positions:

- Chairman of the Supervisory Board of ce Consumer Electronic AG, Munich
- Chairman of the Supervisory Board of Pro Cura Buchprüfungs AG, Augsburg

Bernhard Dorn

Corporate consultant, Leonberg

Mr. Dorn holds the following other supervisory board positions:

- Deputy Chairman of the Supervisory Board of TDS AG, Neckarsulm
- Deputy Chairman of the Supervisory Board of United Internet AG, Montabaur
- Member of the Supervisory Board of AXA Service AG, Cologne
- Member of the Supervisory Board of 1&1 Internet AG, Montabaur
- Member of the Supervisory Board of Inverto AG, Cologne

The members of the Supervisory Board are not members of additional comparable controlling bodies of commercial enterprises in Germany or abroad.

GROUP MANAGEMENT REPORT

« For ATOSS, 2006 was the most successful year in the history of our undertaking. »

1. BUSINESS AND ECONOMIC BACKGROUND
2. EARNINGS
3. FINANCIAL AND ASSET POSITION
4. REPORT ON SUBSEQUENT EVENTS
5. RISK REPORT
6. DIVIDEND DISTRIBUTION

1. Business and economic background

Economic climate

The German Federal Government estimates GDP growth in 2006 to have been in the order of 2.5 percent in real terms. However it is anticipated that budget consolidation measures in 2007 will have a temporary weakening effect on growth which in the coming year is likely to average 1.5 percent. This assessment is based on the expectation that the global economic growth will continue at a high level, if somewhat less buoyant than in 2006.

Research institutes are of the opinion that growth in 2006 and 2007 was and will continue to be driven by foreign trade. On the other hand, at least some of the forces driving the domestic economy also underwent an upturn, particularly with regard to investments and consumer spending, thereby broadening the basis for a general economic revival. According to the Federal Office of Statistics, it is likely that real economic growth in the coming year will prove to be somewhat weaker than in 2006, due in particular to the increase in German value added tax.

Segmental environment and market background

A 2006 year-end survey of IT and communications companies undertaken by industry association BITKOM (Bundesverband Informationswirtschaft, Telekommunikation und neue Medien, Federal Association of IT, Telecommunications and New Media) reveals a predominantly positive outlook for the development in sales and earnings relative to the year before: 62 percent of these businesses expect sales to rise and 46 percent look forward to an increase in results. Given the positive momentum in the marketplace, 42 percent of companies are therefore planning to take on new staff. BITKOM expects sales growth in the software sector in 2006 to amount to some 6.3 percent.

ATOSS can confirm this development in the German-speaking world – sales, results and employment all increased in the past financial year 2006, in some cases

substantially. The Company anticipates further growth in the coming year 2007. From the Company's perspective there has also been an improvement in the investment climate. The both technologically and functionally new generation of ATOSS products fell upon fertile soil in 2006 and numerous customers – in particularly major customers in the transport and logistics sector and in retailing – were won over by the efficiency and competence of ATOSS staff and the investment security afforded by their choice of a financially sound and independent partner.

In the German-speaking territories our potential clients comprise on the one hand the extensive numbers of small and medium-sized enterprises (the SME market) with up to 500 employees, and on the other, the premium market represented by the high-end small businesses and major companies. It was in this premium market in particular that we were able to exploit opportunities for growth in the past financial year. By contrast, the needs for efficient personnel resource planning are less pronounced in the SME market and the competitive pressures higher.

The Company continues to pursue a strategy in Germany especially of consolidating growth. In the past financial year were successful in accomplishing this. Domestic sales amounted to EUR 20.3 million, representing an increase of 9 percent over the previous year's figure of EUR 18.6 million. Outside of Germany, we aim to follow our international customers in particular, and offer products and services at their locations abroad.

Positioning of the ATOSS Group

ATOSS has long pursued a vision of offering solutions which impact upon the structures of the modern working world in such a manner as to result in more creative, more intelligent and more humane ways of working.

ATOSS specializes in solving customers' problems in the fields of personnel demand measurement, working time modeling, working time management (time management and access control) and personnel resource planning. In

addition to more efficient material flows and optimized production processes, customers of the ATOSS Group also benefit from the improved performance resulting from economically rational and employee-oriented personnel deployment.

ATOSS regards itself as a best of breed specialist in its core fields of working time management and personnel resource planning, offering an in-depth range of integrated solutions that meet even the highest functional and technological demands. And with the availability of interfaces to solutions from complementary providers, we can meaningfully address the needs of customers of every size and in every industry. ATOSS is particularly successful in serving large scale customers. The Company can offer supremely competent consultancy services coupled with solutions of convincing depth, with the guarantee that its customers will benefit from improved efficiency and enhanced productivity. As a financially independent partner with a long-term outlook, ATOSS offers investment security.

Numerous productivity studies as well as our own observations and sales successes confirm that more than ever before the market demands solutions capable of meeting the most complex requirements in niche segments in the interests of improving productivity per hour worked.

The right staff

ATOSS' consistent, end-to-end portfolio includes solutions that highlight the qualifications of available personnel, thereby facilitating rapid deployment. Short-term and even seasonal bottlenecks can be overcome by accessing a large number of employees.

At the right time

In almost every industry, demands on capacity are likely to fluctuate, whereas staff cannot always be employed on a pattern that mirrors these fluctuations. Taking into account operational requirements, wage agreements and statutory regulations as well as factors such as vacations, sickness, part-time employment and so on, ATOSS

provides solutions which optimize personnel deployments to cover peaks in demand.

In the right place

Flexible staff deployments at varying locations enable decentrally organized businesses and branch-based operations to make more efficient use of capacity and raise their level of productivity.

Working on the right job

Even today it is rare indeed for personnel resource scheduling to be integrated into the process of production planning. Nevertheless a meaningful exchange of data in this very instance can underpin planning reliability and accelerate production processes.

At the right cost

Nowadays, operational working time models can often yield more flexible options for staff deployment than is possible with rigid working hours. However, deploying staff under conditions of optimized cost can be achieved only by evaluating hours worked in association with wage supplements and ancillary costs.

It is generally the case that many companies lag behind their potential. For example, only 44 % of companies in Germany believe that they have efficient planning and control instruments at their disposal (Proudfood productivity study 2005-2006). Many customers of ATOSS have achieved significant improvements thanks to ATOSS solutions, as their own analyses have shown. In serving its broad range of customers, ATOSS offers functional competence supported by the latest technologies. When deciding upon a long-term partnership, major customers in particular are increasingly focusing on independent companies with a sound financial base. When investment decisions are made, our robust equity ratio of 55 percent (previous year: 84 percent), our strong operating cash flow amounting to EUR 4.3 million (previous year: EUR 1.4 million) and our continuing high level of expenditure on technological development are among the determining factors.

Business development

Having focused firmly in 2005 on the core areas of working time management and personnel resource planning and restructured its activities and involvement with the product AENEIS, in financial year 2006 ATOSS was rewarded with sales of EUR 22.0 million (previous year: EUR 20.4 million). This growth reversed the trend in the previous year, which had resulted from the changeover in technologies, among other reasons. In fact, by the fourth quarter of 2005 the entirely new ASES 3.1 introduced at CeBIT that year had attracted a significant number of reference customers, laying the foundation for further successes in 2006. Of particular importance are major customers including the DIY stores chain Max Bahr Baumärkte, Austrian Airlines and T-Punkt Vertriebsgesellschaft.

Development in sales of software licenses and maintenance

Software sales were increased in 2006 with revenues rising 6 percent to EUR 12.9 million (previous year: EUR 12.1 million). After adjusting for revenues generated in the previous year by the product AENEIS which was disposed of effective January 01, 2006, the growth amounted to 10 percent. As in the year before the proportion of sales accounted for by software stood at 59 percent.

Following the disposal of AENEIS, in the course of the year software maintenance sales at first lagged behind the preceding year, before ending the period up 2 percent at EUR 8.3 million (previous year: EUR 8.1 million). After adjusting for the contribution to sales made by AENEIS, growth actually amounted to 5 percent.

Sales of software licenses were driven in particular by orders from major customers, who in the course of the year were not only instrumental in lifting sales from EUR 4.0 million to EUR 4.6 million, a rise of 15 percent, but also in increasing the security of forward planning as the period progressed. After adjustment for AENEIS, sales growth amounted to 21 percent.

Development in consultancy sales

Consultancy sales in 2006 reached EUR 5.6 million, up by 12 percent over the previous year's figure of EUR 5.0 million. As a result consultancy accounted for 25 percent of overall sales (previous year 24 percent). The strong response to the newly developed Version 3 of our ATOSS Staff Efficiency Suite in particular ensured that our Professional Services and Consulting capacities were well utilized. After adjustment for AENEIS, sales growth amounted to 14 percent.

Development in hardware and other sales

Sales of hardware also increased substantially in 2006. The total for the year of EUR 2.8 million represented a rise of EUR 0.5 million, equal to 21 percent, over the previous year's figure of EUR 2.3 million. As a proportion of total sales, this represented some 13 percent (previous year 11 percent). Other sales, the heading under which notably identification media and customer-specific programming services are reported, amounted to EUR 0.7 million, down by 30 percent from EUR 1.0 million the year before.

Corporate strategy

Whereas in 2005 the focus was on core business in the field of working time management and personnel resource planning, in 2006 we set ourselves the goal of attracting an increasing number of premium customers. The main thrust of the ATOSS corporate strategy continues to be to highlight the sustained benefits to our customers on the basis of the clear positioning of our enterprise, our up-to-date technology and our sound financial strength, coupled with the skills and competence of our workforce. In the past financial year some notable successes were achieved which are in turn reflected in sales and results.

We continue to see further opportunities for growth in the German-speaking world. At the same time, our products are available in ten countries and eight languages. Consequently, we also have the potential for international growth over the medium term. In the premium market especially we see substantial prospects for development. In distinguishing ourselves from our competitors we can already point to a large number of reference customers

such as Lufthansa, Deutsche Bahn, Edeka, etc.. In serving these clients we have been able to demonstrate not only the functionality of our products, but also our competence in the implementation of software projects.

We shall also continue to allocate a high level of funding to secure market access and thus also future growth. As in the past we shall concentrate particularly on developing the skills of our sales staff.

ATOSS continues to focus on the German-speaking markets.

Research and development

For ATOSS customers it is of decisive importance to deploy technically sustainable, high-performance solutions which will be able to master increasingly complex future requirements and return a high level of economic benefits in the long term. For this reason we shall continue to maintain our substantial commitment to the development of our products.

Expenditure on research and development will also continue at a high level. Our outlay in the year 2006 amounted to EUR 3.9 million (previous year: EUR 4.1 million). The bulk of this figure in the amount of EUR 2.9 million (previous year: EUR 3.1 million) was accounted for by the personnel costs for 51 (52) software developers. Not least due to the increase in sales, the proportion of overall turnover represented by research and development stood at 18 percent (compared with 20 percent the year before).

We utilize modern technology platforms as a basis on which to create solutions that can replicate every customer- and industry specific requirement, covering all aspects of intelligent personnel deployment. To simplify release updates, full upward compatibility is guaranteed, thereby allowing the latest solutions to be implemented at any time.

As in preceding years, expenditure on research and development is not capitalized but is instead reported in full as an expense. At December 31, 2006, ATOSS employed 51 (previous year: 52) software developers.

It remains our objective to integrate our solutions into a wide variety of system environments. In fact in our new Java-based versions of ASES (ATOSS Staff Efficiency Suite) and ASE (ATOSS Startup Edition), we have been impressively successful in implementing integration with differing system platforms. The opportunities for linking to and with other applications via what is termed a service-oriented architecture (SOA) represent potential future benefits for our customers who will then be able to exchange data with ease between a variety of systems.

We now offer a fully Java-based package of solutions for software-supported working time management which is suitable for use in a wide range of industries. Moreover the ATOSS Startup Edition and ATOSS Time Control (ATC) in particular are distinguished by the simplicity of their user interface. The ATOSS Startup Edition is designed to appeal to customers using a variety of system environments who as their future requirements become progressively more complex will then find it simple to migrate to the ATOSS Staff Efficiency Suite. ATOSS Time Control, on the other hand, is focused on customers who primarily use Microsoft system platforms. Here too the new release now offers essential new developments in line with Microsoft technology.

Subsidiaries and international business

All of our subsidiaries continued to record positive development in financial year 2006 and all of them reported mildly positive results to December 31, 2006. The proportion of Group sales accounted for by our international business in 2006 amounted to 8 percent, against 9 percent in the preceding year.

The excess debt accumulated in preceding years by ATOSS Software Ges.mbH, Vienna, was again offset by a letter of subordination from the parent company.

Officers, employees, development in personnel

At the end of the end of the year 2006 the Company employed a staff of 169 (December 31, 2005: 177). Of these 51 (previous year: 52) were employed in product development, 49 (previous year: 50) in consulting and 40 (previous

year: 38) in sales and marketing. Personnel costs in 2006 amounted to EUR 11.6 million, slightly below the figure of EUR 12.0 for the preceding year. The Company is managed primarily on the basis of a broad system of targets. Company, departmental and individual targets are agreed with almost every member of staff and linked with an appropriate variable salary component, dependent on each employee's level of responsibility. These variable components range between 10 percent and 50 percent of the contractually agreed target salary. The company targets are in turn keyed to the relevant scheduled sales and operating profit data for the financial year. Departmental targets take the form of a uniform table of sales or performance targets dependent on position and responsibility, while individual targets are linked to the performance of each individual employee.

At December 31, 2006, there were 6 positions for trainees (previous year: 7) The three trainees who completed their training in financial year 2006 were offered contracts of employment.

The Supervisory Board of the Company remained unchanged in 2006, comprising Peter Kirn as Chairman, Bernhard Dorn as Deputy Chairman and Rolf Baron Vielhauer von Hohenhau. Similarly, the Board of Management continues to comprise Andreas F.J. Obereder as CEO and Christof Leiber as Finance Director.

Corporate Governance

Since its activities in connection with its flotation, ATOSS Software AG has concerned itself intensively with the subject of corporate governance and the statutory regulations. The Company has reported regularly since 2001 on its activities in this regard. The Company's boards examine developments and changes in the German Corporate Governance Code in particular detail. In contrast to the provisions of the law, however, the Code is not binding in its standardizing effect and in fact allows deviations from its recommendations.

Once again in 2006 the Board of Management and Supervisory Board have concerned themselves intensively with the new

requirements of the German Corporate Governance Code, comparing these with the Company's own principles and identifying those points in which deviations exist from the recommendations of June 12, 2006, of the Government Commission on the German Corporate Governance Code.

On November 14, 2006, the Board of Management and Supervisory Board adopted a new declaration of conformity pursuant to § 161 of the German Stock Corporation Act in which it is confirmed that the recommendations of the Commission on Corporate Governance appointed by the German Government are complied with, with the exception of those points stated in the declaration. This declaration is published on the Company's Web site. It is consequently evident that the Company in broad measure conforms with the recommendations and deviates only in respect of a small number of points which in the Company's view are of only marginal importance.

Deviations apply in respect of the following three points:

The existing directors and officers insurance contracts do not include a self-insured deductible. The Company boards are of the opinion that the commitment and responsibility with which they perform their duties are not to be improved by the integration of a self-insured deductible, and they therefore do not anticipate making such provision.

In accordance with the margin of discretion afforded by the recommendations of the Government Commission, in view of the specific circumstances pertaining at the Company and in particular the size of the Company the Supervisory Board has dispensed with the formation of separate committees and in particular of an audit committee.

When share options and comparable schemes are granted, the German Corporate Governance Code further foresees that these should be linked with demanding and relevant parameters for comparison; and when such are granted to members of the Board of Management, some means of limitation or cap should be ensured. The convertible bonds already issued in favor of organs of the Company in

accordance with the legal specifications for such instruments do not contain specific performance criteria that need be fulfilled in order to exercise the conversion rights, nor do they provide for any means of limitation or cap. In the estimation of the Company, because of the inherent capital commitment over their lifetime, convertible bonds exercise a loyalty effect, which in the view of the Company is just as significant.

The remuneration paid to members of the Board of Management is oriented towards their contribution to the success of the business, and towards industry standards. It includes performance-related and non-performance-related elements as well as components with a long-term incentive effect dependent on the development in the price of ATOSS stock. The non-performance-related remuneration is paid monthly in the form of a salary. An advance on the performance-related remuneration is paid monthly up to a maximum of 50 % of the target profit-share payment for the financial year in question.

Moreover, the contracts with members of the Board of Management also include other elements of remuneration in the form of insurance premiums paid by the Company and other ancillary benefits, as well as the provision of company motor vehicles.

The Supervisory Board turns its attention at least once per year to the appropriateness of this remuneration and sets new performance targets for the performance-related elements yearly in advance. The level of the performance-related remuneration (profit-share payment) is oriented towards the Group sales target and operating profit target before adjustment for the effects of the convertible bonds programs.

In contrast to previous years, with effect from financial year 2006 the Company now conforms with the recommendation that a separate Corporate Governance Report which includes a description of the remuneration system for board members should be published within the annual report.

Other statements

The Company's capital is divided into 4,025,667 bearer shares with a nominal value of one euro which carry full voting and dividend rights. Of this total the majority shareholder, Andreas F.J. Obereder, holds 1,981,184 shares, representing a proportion of 49.21 %. No other shareholders with a notifiable holding of more than 10 percent of voting rights are known to the Company.

By a resolution adopted by the General Meeting on May 02, 2006, the Board of Management is authorized on or before November 01, 2007, to purchase Company shares in the amount of up to 10 percent of capital stock.

In addition by a resolution adopted by the General Meeting on April 22, 2004, the Board of Management is authorized on or before April 22, 2009, with the approval of the Supervisory Board to increase the Company's capital stock by up to EUR 2,012,833 through the issue of new bearer shares in return for contributions in cash or kind, whereby the right of shareholders to subscribe may be excluded.

Members of the Board of Management are appointed and dismissed in accordance with § 84 of the German Stock Corporation Act and § 6 of the Company's articles of association.

Changes to the articles of association follow the regulations contained in §§ 179 ff. of the Stock Corporation Act.

2. Earnings

The earnings situation in financial year 2006 was defined by increased sales of all types amounting to a total of EUR 22.0 million (previous year: EUR 20.4 million), by reduced costs – without taking account of sales input – amounting to EUR 17.1 million (previous year: EUR 17.7 million) achieved primarily as a result of the restructuring of activities relating to the product AENEIS, and by the proceeds from the disposal of AENEIS which amounted to EUR 0.4 million. As a result, profitability was increased in line with forecasts.

Earnings before interest, taxes and the costs of the employee convertible bonds participation programs (EBITCB) rose from EUR 0.9 million to EUR 2.9 million. The essential key figure determining the Company's profitability, namely its earnings before interest and taxes (EBIT) was improved from EUR 0.6 in the preceding year to EUR 2.8 million. The return on sales represented by earnings before taxes stood at 13 percent (previous year: 3 percent).

Earnings before taxes (EBT) were EUR 3.2 million (previous year: EUR 1.1 million) and the net income amounted to EUR 1.9 million (previous year: EUR 0.5 million). As a result, earnings per share increased to EUR 0.48 (previous year: EUR 0.12); after adjustment for the dilution effect of convertible bonds in circulation the figure was EUR 0.47 (previous year: EUR 0.11).

Thus thanks in particular to its success in winning further premium customers and by focusing on core areas while maintaining a high level of expenditure on the development of functionally superior products, the Company has increased its profitability and secured a sound financial basis for a long-term strategy that is proving to be correct.

In the reporting period orders received for software licenses and software products reached a total of EUR 5.4 million (previous year: EUR 4.3 million). Projects undertaken for major customers made an important contribution.

Orders on hand for software licenses at December 31, 2006, stood at EUR 1.3 million (previous year: EUR 0.7 million), thereby affording a high degree of planning security for the coming quarters.

3. Financial and asset position

The Company regards equity as an essential control parameter in covering economic, sector- and company-specific risks. Therefore the Company's financial strategy is directed towards maintaining a level of equity commensurate with such risks. The intention is to guarantee shareholders an appropriate return on equity and offer customers and suppliers investment security for their software decisions through the medium of long-term partnerships.

In this respect the ATOSS Group was highly successful in financial year 2006:

Operating cash flow developed most satisfactorily during the reporting period. At December 31, 2006, it amounted to EUR 4.3 million (previous year: EUR 1.4 million). As a result the Company's liquidity (financial resources) which had been reduced by some EUR 21.5 million following the dividend distribution was somewhat restored by ongoing business activities. The ability of the Company to meet its payment obligations therefore remains securely guaranteed.

Cash flow from investment activities amounted to EUR –0.2 million, following on from EUR –0.1 million in the year before. As a result in particular of the EUR 21.5 million dividend distribution, as of December 31, 2006, cash flow from financing amounted to EUR 21.1 million (previous year: EUR –0.1 million).

The balance sheet total to December 31, 2006, stood at EUR 15.7 million, against EUR 33.1 million in the year before. This decline likewise is essentially attributable to the dividend of EUR 5.50 per share paid on May 03, 2006. Liquidity (cash and marketable securities) also fell, although the fall was somewhat offset by positive business activities. Liquidity as

a proportion of total assets now amounts to 69 percent, compared with 84 percent in the preceding year. Liquidity per share – based on the total of 3,916,853 shares in circulation – amounts to EUR 2.75 (previous year: EUR 7.21).

Despite the rise in sales, trade accounts receivable were reduced from EUR 3.8 million to EUR 3.7 million. This was largely attributable to improvements in our accounts control.

The Company is financed through its ongoing cash flow from operations. Short-term liabilities included trade accounts payable in the amount of EUR 0.5 million (previous year: EUR 0.7 million), short-term provisions amounting to EUR 2.4 (previous year: EUR 1.4 million), deferred revenues of EUR 1.5 million (previous year: EUR 0.7 million), tax provisions amounting to EUR 0.5 million (previous year: EUR 0.4 million) and miscellaneous short-term liabilities of EUR 0.5 million (previous year: EUR 0.7 million). At December 31, 2006, short-term liabilities in total had risen to EUR 5.5 million (previous year: EUR 3.9 million). This increase was essentially attributable to short-term provisioning and deferred tax liabilities.

The short-term provisions relate predominantly to commitments to employees in respect of variable salary components to be disbursed in the following year. In addition adequate provisions were formed for warranties, accounting and auditing costs and anticipated charges.

Among the items reported under long-term liabilities are the deposits on convertible bonds. Of the 252,850 convertible bonds outstanding at December 31, 2005, some 74,004 were converted during the financial year, with the result that by December 31, 2006, there were 85,673 bonds still in circulation.

Group equity capital as of December 31, 2006, amounted to EUR 8.7 million (previous year: EUR 27.8 million), resulting in an equity ratio of 55 percent in comparison with 84 percent on December 31, 2005.

As a matter of principle, ATOSS reports its expenditure on research and development in its income statement. As in the past, intangible assets of our own manufacture are not capitalized.

Investments in fixed assets (excluding financial investments) declined in the financial year from EUR 0.4 million to EUR 0.3 million. Revenues from the sale of fixed assets in 2006 amounted to EUR 0.1 million. As in the previous year (EUR 0.3 million) these were derived essentially from the disposal of AENEIS.

Thanks to excellent earnings and to its continuing sound position despite the dividend distribution, the Company expects its ability to meet its financial commitments to remain unchanged in the future.

4. Report on subsequent events

There have been no reportable events of particular import subsequent to the balance sheet closing date.

5. Risk report

In accordance with its long-term business strategy the Company endeavors to avoid exposure to any unreasonable risks. Nevertheless, in the course of its ordinary business activities the Company is unavoidably exposed to a variety of risks that arise from these business operations, as well as from changes in environmental conditions.

In order to make these risks transparently clear and to evaluate these and the accompanying opportunities that present themselves, the Company has developed a comprehensive risk management system. The object is not merely to identify and monitor risks on an ongoing basis, but also having assessed the probability of their occurrence and the conceivable level of damage that may be caused, to provide decision-making criteria which convey a transparent picture of the Company's willingness to accept risk exposure.

During 2006 the risk management system was revised and adapted in line with changes in our organizational structure. The system now also takes account of risks arising from deficiencies in data security. Consequently in the view of the Board of Management, ATOSS now has at its disposal an extremely comprehensive and easily comprehended system which meaningfully supports the Company's risk strategy.

In the past financial year two extensive risk reviews were undertaken. The results were compiled by the risk management committee in a risk report and submitted to the Board of Management pending a decision. The risks described in this report are in some cases new, while others have been described in previous reports.

In addition to risks arising from data protection and data security, particular attention was paid to market risks relating to competitive situations, including for example consolidation on the part of competitors and changes in the market environment. Risks are also perceived as a result of technological changes and from the loss of key personnel.

The Company continues in its endeavors to counter these risks by organizational means. The risk resulting from the loss of key personnel is in principle covered by the fact that knowledge is distributed within departments.

The Company counters risks contingent upon the competitive environment by consolidating its functionality in the key areas of working time management and personnel resource planning. In these areas the Company clearly distinguishes itself from its competitors, for whom access to the market is proportionately more difficult.

Financial risk continues to be countered by an unvaryingly conservative investment strategy. Given the possible risk of interest rate changes and other credit risks, the Company invests its funds in short-term fixed deposits with reputable financial institutions, in due consideration of the liability limits imposed by the deposit guarantee fund. The market price risk associated with financial assets thus remains negligible.

As in the preceding year, at our Austrian company only investments were made in an equity fund in accordance with legal requirements. This is subject to the usual market price risks inherent in the equity markets. Out of considerations of materiality pursuant to IAS 1.31, the Company continues to dispense with the quantification of the risk categories of financial instruments and corresponding sensitivity analyses as otherwise called for in IFRS 7.36-42.

Trade accounts receivable are continuously assessed in terms of feasibility and value adjustments are made where noticeable problems arise. Since the Company has no single customers which account for more than 10 percent of sales, the credit risk does not present a potential hazard to the continued existence of the business.

Given that even after the dividend distribution the Company continues to dispose over substantial cash funds available at short notice and given also the long-term positive operating cash flow, the Company is not subject to any liquidity risk.

Risks arising from existing and future customer contracts are likewise continuously monitored and assessed.

It is possible that legal risks or changes to regulatory requirements may impair business operations. Similarly, as a stock market-listed company there is a risk that at some point it may no longer be possible to satisfy increasing legal requirements in an economically tenable manner. For this eventuality formal procedures are created within our organization, the purpose of which is to take account of changes in conditions.

Finally, there is also the possibility that as yet unrecognized and unreported risks may arise which might also have negative effects on business activities. The combination of in principle mutually independent risks may present additional hazards to the Company which may amplify one another. Therefore ATOSS will continue to constantly monitor its environment and review the effectiveness of measures taken and of the risk management system as a whole. Despite continuous adjustments to the risk management

system, it is not possible to entirely quantify either the probability of the described risks occurring or their financial impact.

6. Dividend distribution

As announced some long time in advance, in 2005 the Company reviewed its capital requirements and in January 2006 took the decision to propose to the General Meeting that a dividend be paid in the amount of EUR 5.50 per share. The General Meeting approved this proposal unanimously.

The Company has now reverted to its long-term dividend policy under which between 30 percent and 50 percent of the profit per share generated in the financial year is distributed as a dividend. The Board of Management has therefore resolved to propose to the General Meeting that a dividend of EUR 0.24 be paid for the financial year 2006.

7. Outlook: Future economic and sector climate, future position of the Company

The economic climate improved steadily in the course of the year 2006. Both the economic indicators and the forecasts by the German Council of Economic Experts pointed to a rising trend, and the final forecast in November anticipated growth of 2.4 percent in 2006, just a little lower than the 2.5 percent expected by the Federal Government. Looking forward to 2007, caution prevails and there is a general presumption that with the increase in value added tax, the economy will develop at a somewhat depressed rate in the order of 1.8 percent. The Federal Government expects buoyant foreign trade will continue to provide the momentum for growth.

According to the industry association BITKOM, the IT sector can look forward to sales growth of 2.9 percent in 2007, with software companies likely to record increases which will outstrip even the 6.3 percent achieved in 2006.

For the ATOSS Group, it is essential that we continue to exploit existing market potential to safeguard future growth. The Group must convince both present and future customers not only of the benefits of our products and skills, but also of the long-term investment security to be gained by entering into partnership with a financially independent solution provider. Favorable market conditions alone are not enough to guarantee future growth for a niche provider such as ATOSS. Therefore the decisive factor remains our continuing ability to successfully address both the premium and SME markets.

The Company anticipates that the strong response to its new products will be sustained and that the strong order intake in 2006 will continue in the coming year. Sales are therefore expected to be at a slightly higher level.

Income from the disposal of the software product AENEIS constituted an exceptional item in financial year 2006. After adjustment for these revenues, earnings before interest and taxes (EBIT) amounted to EUR 2.3 million. In the coming year the Company expects to slightly exceed this figure. As in the past, further increases are possible if the current satisfactory order situation continues in 2007. In the medium term the Company expects a further rise in sales and profitability.

Munich, February 02, 2007

The image shows two handwritten signatures in black ink. The signature on the left is 'A. Obereder' and the signature on the right is 'C. Leiber'. Both are written in a cursive, flowing style.

Andreas F.J. Obereder

Christof Leiber

CONSOLIDATED BALANCE SHEET

CONSOLIDATED BALANCE SHEET TO DECEMBER 31, 2006			
Assets EUR	Note	Dec. 31, 2006	Dec. 31, 2005
Current assets	8		
Cash	28	10,779,750	27,831,181
Marketable securities	9, 29	4,573	4,804
Trade accounts receivable (net)	10, 30	3,675,459	3,788,143
Inventories	11, 32	12,267	12,660
Other current assets	12, 33, 49	372,036	343,994
Total current assets		14.844.085	31,980,782
Non-current assets	13		
Tangible fixed assets (net)	14, 34	373,373	369,694
Intangible assets (net)	15, 34	125,284	255,036
Deferred taxes	16, 35	395,271	487,272
Total non-current assets		893,928	1,112,002
Total assets		15,738,013	33,092,784
Equity and liabilities (EUR)	Note	Dec. 31, 2006	Dec. 31, 2005
Short-term liabilities	17, 36		
Trade accounts payable	38	526,526	720,294
Short-term provisions	18, 38	2,381,674	1,390,546
Deferred revenues	19, 39	1,501,730	694,549
Tax provisions	20	504,061	431,736
Other short-term liabilities	36, 40	552,705	651,986
Total short-term liabilities		5,466,696	3,889,111
Long-term liabilities			
Convertible bonds	21, 36, 41, 42	81,421	155,250
Pension provisions	22, 43	1,219,232	1,229,912
Deferred taxes	16	253,547	6
Total long-term liabilities		1,554,200	1,385,168
Shareholders' equity	44		
Subscribed capital	45	4,025,667	4,025,667
Capital reserve	46	362,241	450,013
Treasury stock	24, 47	-1,102,252	-1,670,304
Unappropriated retained earnings	73	5,431,461	25,013,111
Change in equity not recognized in the income statement	48	0	18
Total shareholders' equity		8,717,117	27,818,505
Total equity and liabilities		15,738,013	33,092,784

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED INCOME STATEMENT FOR FINANCIAL YEAR 2006			
EUR	Note	Jan. 01, 2006 Dec. 31, 2006	Jan. 01, 2005 Dec. 31, 2005
Sales revenues	25, 49	21,990,970	20,415,851
Cost of sales	50	-7,173,793	-7,050,941
Gross profit on sales		14,817,177	13,364,910
Marketing costs	51	-6,024,661	-5,478,277
Administration costs	52	-2,604,599	-3,275,405
Research and development costs	26, 53	-3,936,225	-4,055,931
Other operating income		526,991	7,396
Operating income		2,778,683	562,693
Interest and similar income	27, 55	472,091	632,937
Interest and similar expenses	27, 55	-57,594	-83,905
Earnings before taxes		3,193,180	1,111,725
Taxes on income and earnings	58	-1,308,324	-652,741
Net income for the year		1,884,856	458,984
Earnings per share (undiluted)	59	0,48	0,12
Earnings per share (diluted)	59	0,47	0,11
Average number of shares in circulation (undiluted)		3,916,853	3,859,109
Average number of shares in circulation (diluted)		4,037,839	4,084,105

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED CASH FLOW STATEMENT FOR FINANCIAL YEAR 2006			
EUR	Note	Jan. 01, 2006 Dec. 31, 2006	Jan. 01, 2005 Dec. 31, 2005
Net income for the year	59	1,884,856	458,984
Depreciation of fixed assets	34	431,229	625,842
Loss incurred on the disposal of fixed assets	34	11,863	2,964
Change in deferred taxes	35	345,542	84,524
Personnel costs arising from the convertible bonds program	41	89,279	319,325
Provisions for pension commitments	43	-10,679	-149,234
Change in net current assets			
Trade accounts receivable	30	10,010	-406,318
Other current assets, prepayments and deferrals	12	-27,649	127,768
Trade accounts payable	36	-193,768	42,923
Short-term provisions	38	991,128	-25,837
Deferred revenues	19	807,181	44,498
Tax provisions	35	72,325	328,021
Other short-term liabilities	40	-99,281	-47,848
Cash flow generated through business operations (1)		4,312,036	1,405,611
Cash flow from investment activities (2)			
Cash flow from investment activities			
Fixed assets acquired	34, 61	-321,786	-369,392
Income from fixed asset disposals	61	107,442	292,361
Cash flow generated through investment activities (2)		-214,344	-77,031
Cash flow from financing activities (3)			
Cash flow from financing activities			
Dividends	73	-21,466,506	-420,127
Tax refund on flotation costs	46, 78	98,477	0
Unrealized exchange losses on financial resources	29	-19	19
Disbursements resulting from the redemption of convertible bonds	41	-1,500	-23,200
Income from the sale of treasury stock	24, 47	220,194	362,169
Cash flow generated through financing activities (3)		-21,149,354	-81,139
Change in liquidity - total of (1) to (3)		-17,051,662	1,247,441
Liquidity at beginning of year		27,835,985	26,588,544
Liquidity at end of year		10,784,323	27,835,985
of which cash		10,779,750	27,831,181
of which marketable securities		4,573	4,804
Income tax paid		904,137	158,133
Interest paid		2,444	4,644
Interest received		528,010	612,718

CONSOLIDATED STATEMENT OF SHREHOLDERS' EQUITY

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY AT DECEMBER 31, 2006						
EUR	Subscribed capital	Capital reserve	Treasury stock	Unappropriated retained earnings	Changes in equity not impacting on earnings	Total
Note	45	46	24, 47	73	48	
As at Jan. 01, 2005	4,025,667	20,166,012	-2,306,204	5,133,789	0	27,019,264
Net income 2005	0	0	0	458,984	0	458,984
Dividends	0	0	0	-420,127	0	-420,127
Sale of treasury stock	0	-194,859	635,900	0	0	441,041
Transfer to capital reserve deriving from convertible bonds	0	319,325	0	0	0	319,325
Withdrawal from capital reserve	0	-19,840,465	0	19,840,465	0	0
Other changes in equity not recognized in the income statement	0	0	0	0	18	18
As at Dec. 31, 2005/Jan. 01, 2006	4,025,667	450,013	-1,670,304	25,013,111	18	27,818,505
Net income 2006	0	0	0	1,884,856	0	1,884,856
Dividends	0	0	0	-21,466,506	0	-21,466,506
Sale of treasury stock	0	-275,528	568,052	0	0	292,524
Transfer to capital reserve deriving from convertible bonds	0	89,279	0	0	0	89,279
Transfer to capital reserve deriving from tax refunds	0	98,477	0	0	0	98,477
Other changes in equity not recognized in the income statement	0	0	0	0	-18	-18
As at Dec. 31, 2006	4,025,667	362,241	-1,102,252	5,431,461	0	8,717,117

One share corresponds to a proportion of 1 euro of subscribed capital.

NOTES ON THE CONSOLIDATED FINANCIAL STATEMENTS

« ATOSS managed its affairs with success in 2006 and achieved a sustained increase in enterprise value. At the same time we also laid the foundation for continued growth. The figures speak for themselves. »

- I. HEADQUARTERS AND BUSINESS ACTIVITIES
- II. ACCOUNTING AND VALUATION METHODS
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- VIII. EXPLANATIONS OF ACCOUNTING, VALUATION AND CONSOLIDATION METHODS WHICH DIFFER FROM GERMAN COMMERCIAL LAW

I. Headquarters and business activities

ATOSS Software AG with headquarters in Munich, Germany, hereinafter also referred to as "ATOSS" or "the Company", is a leading provider engaged in the development and sale of software licenses, software maintenance, hardware and consulting services pertaining to the provision of electronic support for all corporate processes involved in the efficient deployment of personnel resources at companies and public institutions. Each of the ATOSS product lines consists of integrated software modules which are employed by large numbers of customers.

II. Accounting and valuation methods

1. International Financial Reporting Standards (IFRS)

The present consolidated financial statements were prepared for both the parent company and subsidiaries in accordance with the International Financial Reporting Standards (IFRS). Due consideration was given to all requisite standards and interpretations.

Pursuant to § 315a of the German Commercial Code, consolidated accounts prepared in accordance with the provisions of the Code were dispensed with.

The same accounting and valuation methods were applied as in the preceding year.

New publications by the International Financial Reporting Interpretations Committee (IFRIC)

In 2006 the International Financial Reporting Interpretations Committee (IFRIC) published the following new interpretations which were studied by the Company effective December 31, 2006, with a view to their possible application:

IFRIC 7 Applying the restatement approach under IAS 29: Financial reporting in hyperinflationary economies

IFRIC 8 Scope of IFRS 2

IFRIC 9 Reassessment of embedded derivatives

IFRIC 10 Interim financial reporting and impairment

Interpretation IFRIC 7 "Applying the restatement approach under IAS 29: Financial reporting in hyperinflationary economies" contains guidance on how an entity would restate its financial statements in the first year in which it identifies the existence of hyperinflation in the economy of its functional currency. Since the Company does not operate in countries with hyperinflation, IFRIC 7 has no effect on its financial reporting.

The scope of IFRS 2 is further defined by interpretation IFRIC 8 which clarifies that the standard also applies to arrangements where an entity makes share-based payments for apparently nil or inadequate consideration. This is not however the case with regard to the share-based payments granted by the Company, since under the share-based payment scheme applied by the Company, convertible bonds are granted only to employees and board members in return for an adequate consideration. For this reason IFRIC 8 currently does not affect the Company's financial reporting.

Under its share-based payment scheme the Company grants convertible bonds which would in principle correspond with the financial instruments with embedded derivatives dealt with by IFRIC 9. However the Company holds no such financial instruments among its assets which would necessitate an assessment. The valuation of convertible bonds issued is performed in accordance with IFRS 2 and is described under section 0 .

Finally IFRIC 10 addresses the conflict between the requirements of IAS 34 "Interim Financial Reporting" and the rules contained in other standards on the recognition and reversal in financial statements of impairment losses on goodwill and certain financial assets. As of December 31, 2006, however the Company had neither goodwill nor other equity instruments in respect of which an impairment loss recognized in an interim report might be reversed in its annual financial statements. This interpretation is effective for annual reporting periods commencing on or after November 01, 2006.

Voluntary application of publications by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC)

IFRS 7 "Financial Instruments: Disclosures" adopted by the International Accounting Standards Board (IASB) on October 01, 2005, has already been applied by the Company for financial year 2005. This standard defines the disclosures to be made about financial instruments both by business entities and by banks and similar financial institutions. IFRS 7 supersedes IAS 30 and contains requirements which modify IAS 32. Application of this standard is obligatory for financial years commencing on or after January 01, 2007. Disclosure of the information specified in IFRS 7 which is of relevance to the Company was previously required under IAS 32.

Concurrently with IFRS 7 the IASB published amendments to IAS 1 "Presentation of Financial Statements" in accordance with which entities must disclose their objectives, policies and processes for managing capital.

One of the essential provisions of IFRS 7 is the requirement to disclose the fair values attributable to all financial instruments. The Company has since last year been reviewing its financial instruments. As a result in the case of financial assets and liabilities the amortized cost in application of the effective interest method is in principle to be equated with attributable fair value. Changes in attributable fair value are measured through profit and loss. The only exceptions

are securities classified as "available for sale" and therefore carried at market value; fluctuations in market prices are recognized directly in equity.

In addition IFRS 7 requires the reporting of risks to be extended to include the credit, liquidity and market price risks arising from financial instruments. Pursuant to §§ 289, 315 of the German Commercial Code and German Accounting Standard DRS 5, the Company publishes the relevant findings deriving from its risk management system in its Management Report under the heading "Risk report".

Implementation of International Financial Accounting Standards (IFRS) in European law by the European Commission

By a regulation dated January 11, 2006, the European Commission adopted the amendments to standards IFRS 1 "First-time Adoption of International Financial Reporting Standards", IFRS 4 "Insurance Contracts", IFRS 6 "Exploration for and Evaluation of Mineral Assets", IAS 1 "Presentation of Financial Statements", IAS 14 "Segment Reporting", IAS 17 "Leases", IAS 32 "Financial Instruments: Disclosure and Presentation", IAS 33 "Earnings Per Share", IAS 39 "Financial Instruments: Recognition and Measurement" and interpretation IFRIC 6 "Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment" into European Law. The amended version of IAS 39 contains a so-called "fair value option" which allows financial assets and liabilities subject to certain preconditions to be recognized not at amortized cost using the effective interest, but at their fair value. As of December 31, 2006, the Company has not availed itself of this option.

The present financial statements to December 31, 2006, represent the first occasion on which the amended standard IAS 39 "Financial Instruments: Recognition and Measurement" in conjunction with the amendments to IFRS 4 "Insurance Contracts" and also to IAS 21 "Effects of Changes in Foreign Exchange Rates" is applicable with binding effect. Likewise the interpretations IFRIC 4 "Determining whether an arrangement contains a lease", IFRIC 5 "Rights to interests arising from decommissioning, restoration and environmental funds" and IFRIC 6 "Liabilities arising from participation in a specific market – waste electrical and electronic equipment" must also be applied in respect of the annual statements to December 31, 2006. These amendments to standards and interpretations have been applied by the Company in previous years on a voluntary basis and have no impact on the assets, financial and earnings position of the Company. With regard to IFRIC 4, the Company constantly examines both existing and new contracts with suppliers to ascertain whether from the perspective of this interpretation these may be regarded and therefore reported as leasing contracts, even if the basis of the contract is not explicitly structured as a lease. Similarly the provisions of IFRIC 6 have no effect on the Company's financial reporting since the Company is subject to no obligations in association with the environmentally friendly disposal of waste electrical and electronic equipment belonging to private users.

On May 08, 2006, the Commission issued a publication in the Official Journal of the European Union adopting the amendments to IAS 21 "Effects of Changes in Foreign Exchange Rates" and interpretation IFRIC 7 "Application of the restatement approach under IAS 29 – Financial reporting in hyperinflationary economies" into European law. The amendments to IAS 21 require the disclosure of additional information regarding the treatment of exchange rates in connection with the assets, financial and earnings position of the Company. Whereas the amendments to IAS 21 are obligatorily effective for financial years commencing on or after January 01, 2006, IFRIC 7 is applicable with binding effect for reporting periods beginning on or after March 01, 2006. Since however the Company maintains no business relations with countries with hyperinflation, the application of this interpretation has no impact on the Company's financial reporting.

Upon publication of an EU regulation dated September 08, 2006, IFRIC 8 and IFRIC 9 were adopted into prevailing EU law. Application of these interpretations is obligatory for reporting periods commencing on or after May 01, 2006 (IFRIC 8) and June 01, 2006 (IFRIC 9).

2. Reporting period

The present consolidated financial statements were prepared to December 31, 2006, for the reporting period from January 01 to December 31, 2006. The financial year for all Group companies coincides with the calendar year.

3. Reporting currency

The present consolidated financial statements were prepared in euro. Figures are rounded up to whole euro units.

4. Group of consolidated companies

In the consolidated financial statements of ATOSS Software AG, Munich, all subsidiaries are fully consolidated in accordance with IAS 27.12. Their annual financial statements were prepared in accordance with national regulations and reconciled in accordance with IFRS.

Company	Share of subscribed capital	Equity as of Dec. 31, 2006 EUR	Result for the year EUR
ATOSS CSD Software GmbH, Cham, Deutschland	100%	414,945	72,351
ATOSS Software Gesellschaft m.b.H., Wien, Österreich	100%	-44,862	82,899
ATOSS Software AG, St. Gallen, Schweiz	100%	124,214	131,794
ATOSS Software S.R.L., Timisoara, Rumänien	100%	24,448	12,815

5. Principles of consolidation

In addition to the parent company ATOSS Software AG, Munich, the consolidated annual financial statements also include all subsidiaries.

For consolidation purposes the national financial statements of the subsidiary companies have been adjusted in line with the accounting and valuation methods applied by the parent company. All inter-company transactions as well as receivables, provisions, liabilities and deferrals have been eliminated.

Pursuant to IFRS 3.16-65 the capital consolidation of fully consolidated companies was undertaken in accordance with the acquisition method. The recognized values of assets assigned and debts accepted representing the acquisition cost of the interest in each relevant company were offset pursuant to IAS 27.22 ff. against the equity capital reported by the subsidiary at the time of acquisition. The capital consolidation of the interest in ATOSS CSD Software GmbH, Cham, acquired in the year 2000 continues to be undertaken in accordance with IFRS 1 B1 by the pooling of interests method.

6. Estimates made in preparing the consolidated financial statements

Preparing the annual financial statements in compliance with International Financial Reporting Standards (IFRS) necessitates estimates and assumptions which affect the figures shown in the consolidated balance sheet, consolidated income statement and the notes to the consolidated accounts:

Thus for example estimates are made in determining sales revenues for construction orders. The amount here is dependent upon the anticipated duration of implementation and the resulting proportionate progress of the project.

In addition when convertible bonds are issued, the likelihood of their being exercised in future is estimated on the basis of anticipated employee fluctuation. Impairments in the value of receivables are likewise calculated by estimating those factors which may influence their sustained value.

Further estimates are made when forming and assessing provisions for risks arising from processes, necessary rectifications carried out under guarantee or other future risks.

The anticipated service life of fixed assets is also subject to estimation.

Actual results may deviate from estimates made.

7. Currency conversion

Balance sheet items in foreign currency are valued at the exchange rate on the balance sheet closing date; income and expenses are valued at the exchange rate for the transaction. Corresponding foreign currency profits and losses are recognized in the consolidated income statement. Accountable events at subsidiaries are booked in the functional currency at the time of origination.

8. Current assets

In view of their short-term maturities, the carrying values of financial instruments including cash, trade accounts receivable and inventories correspond with their market values. Cash and marketable securities are valued at market value. Fixed term deposits are invested for a term of up to one year. Purchases and sales of financial instruments are accounted for on the date of settlement.

9. Marketable securities

Securities not held for trading are classified as "available for sale" and carried at market value on the date of trade or balance sheet closing date. As a matter of principle, in accordance with IAS 39.55b changes in market value are recognized as changes in equity not recognized in the income statement, which constitutes a separate component of equity capital.

Realized profits and losses on the sale of securities are recognized in the income statement. Provided that falls in the market value of securities available for sales are not of a merely temporary nature, the losses are regarded as permanent and similarly treated as an expense.

The Company considers that a decline in the market value of a marketable security ceases to be temporary if it endures for longer than six months, unless other special circumstances dictate otherwise.

Interest earnings from securities are likewise recognized in the income statement.

10. Trade accounts receivable

These receivables are the product of supplies and services performed as part of the Company's business activities and are valued on first recognition at their attributable fair value. Subsequent valuations are made at amortized cost in application of the effective interest method. Trade accounts receivable are reviewed at the balance sheet closing date to determine whether there are objective grounds to conclude that the value of a receivable is impaired.

Reductions in value are implemented in the amount of the carrying value of the receivable if the due date has been exceeded by more than 120 days and an assessment of the general payment pattern and credit-worthiness of the customer indicates that such action is appropriate. In the event of a customer becoming insolvent, the full value of the receivable is reported as a loss.

In the case of fixed price contracts and contracts for work and services which are in work, the Company realizes sales revenues by the percentage of completion method and reports these under receivables even if a final account has yet to be submitted.

As a matter of principle, trade accounts receivable are due for payment within 10 days. For works and services and fixed price projects, in exceptional cases varying terms of payment may be granted.

11. Inventories

In accordance with IAS 2.9 the Company values its inventories at cost or lower net disposal value. Inventories which are interchangeable are valued at cost using the first in first out (FIFO) method.

Reasonable reductions in value are made to take account of all recognizable risks arising from above-average storage periods or reduced usability.

12. Other current assets

Other current assets are reported at their attributable fair value. Included among these assets are expenses paid prior to the balance sheet closing date which relate to the coming financial year and receivables deriving from construction contracts which in accordance with the terms of the contract have not yet been billed prior to the closing date.

13. Non current assets

The Company each year reviews the value of its long-term assets in order to ascertain whether the values at which these are carried can actually be achieved. The yardstick applied is to compare the book value with the realizable figure, irrespective of whether objective indicators point to a value impairment. Values are reduced if the realizable figure is lower than the book value of the asset. This reduction constitutes an expense.

In the period under review there were no revaluations of non-current assets pursuant to IAS 16.29 and 16.31 ff., IAS 38.75 ff., nor were any such assets reduced in value pursuant to IAS 36.

14. Tangible fixed assets

Tangible fixed assets are valued at cost less cumulative scheduled linear depreciation. Assets are depreciated over periods of between three and six years. Leasehold fixtures are depreciated over the term of the lease or over their estimated service life if this is shorter.

Write-downs on tangible fixed assets are allocated to the relevant expense items in the income statement.

15. Intangible assets

Intangible assets are valued at cost upon acquisition and assuming a limited service life are subject to linear depreciation over an anticipated useful life of between three and five years. On the qualifying date the Company had no intangible assets with an unlimited service life.

Write-downs on intangible assets are allocated to the relevant expense items in the income statement.

16. Deferred taxes

The Company reports the effects of deferred taxes resulting from temporary differences between the book value of an asset or liability and its value for tax purposes pursuant to IAS 12. It is assumed that these temporary taxable or tax-deductible differences can be reversed and utilized in full in future periods. Deferred tax claims and tax liabilities are assessed on the basis of the tax rates and regulations in force at the time the temporary differences are reversed. Deferred tax claims also include deferred taxes on loss carry-forwards not yet utilized for tax purposes pursuant to IAS 12.34.

If a company's anticipated future results render it unlikely that a tax reduction will be realized, appropriate adjustments are made to the value of deferred taxes carried as an asset.

17. Short-term liabilities

The carrying values of trade accounts receivable as financial instruments correspond with the amortized cost in application of the effective interest method.

18. Short-term provisions

Short-term provisions take account of all recognizable risks and contingent liabilities. Pursuant to IAS 37.36 the value of these provisions represents the best estimate of the expenditure required to satisfy current commitments on the balance sheet closing date. The Company anticipates that the remaining time to maturity of short-term provisions will be less than one year.

19. Deferred revenues

Deferred revenues are carried at attributable fair value and essentially include amounts invoiced and received in advance for maintenance works and construction orders not implemented until and therefore pertaining to sales in later periods.

20. Tax provisions

Tax provisions take account of payments due to the tax authorities, calculated on the basis of currently applicable tax rates and regulations.

21. Convertible bonds

Convertible bonds are compound financial instruments which contain both equity (conversion rights) and liability (bond) components.

In the case of all convertible bonds, the bond feature as the liability component is carried at amortized cost using the effective interest method as per IAS 39. The hidden margin arising from the discounted interest payable due to the difference between the nominal value and cash value of the bond is allocated to the capital reserve.

In the case of the equity component, the conversion right, a distinction is made dependent on the date of issue: In the case of convertible bonds issued prior to the publication of the draft version of IFRS 2 on November 07, 2002, the conversion right is recognized in equity. On the other hand in the case of bonds issued after November 07, 2002, the equity component is valued in accordance with IFRS 2 at attributable fair value. The value of the conversion right is expensed over the expected period of time until the bond is converted into shares and allocated to the capital reserve.

The expense to be recognized is measured in accordance with the Black-Scholes model that was developed to assess the fair value of such options which are subject to no conditions and are fully transferable. Given that the options valuation model is based upon subjective assumptions, real deviations from these assumptions can have a sustained effect on the value of the options. Moreover the Company's convertible bonds are subject to further restrictions which are only approximately comparable with traded options, with the result that the valuation model does not necessarily provide a reliable option valuation.

In calculating the attributable fair value using the Black-Scholes model, the Company applies the following parameters:

Date	Number	Average expected term in month	Risk-free interest rate	Standard deviation	Expected fluctuation Dec. 31, 2006	Reduction due to discounted interest	Convertible bonds returned	Valuation of amount to be expensed post returns
August 2003	62,000	30	3.80%	80.30%	0%	-17,295	26,000	228,630
Mai 2004	52,000	30	3.80%	108.26%	0%	-9,193	7,500	312,508
August 2004	36,000	30	3.70%	102.80%	0%	-298	0	205,901
November 2004	5,000	30	3.40%	97.33%	0%	0	2,000	16,282

The standard deviation used in calculating the apportionable expense is determined from the daily closing price in the XETRA trading system operated by Deutsche Börse and published by the latter.

In the past fluctuation was estimated on the basis of historic staff turnover. However a review based on convertible bonds actually returned revealed that in reality this figure was exceeded among those entitled to subscribe for bonds. Therefore the amount to be expensed was recalculated on the basis of convertible bonds actually returned. In contrast to previous years, on the basis of the most recently available, reliable information the Company now estimates that in future no further convertible bonds will be returned due to fluctuation. Underlying this assumption is the fact that the number of persons holding convertible bonds is very limited.

As a result of adapting the estimate of employee fluctuation to actual staff turnover, the expense to be apportioned over the average expected term was reduced from EUR 992,614 to EUR 763,320. A total of EUR 631,116 was recognized as an expense for the years 2003 to 2005. For financial year 2006, personnel costs in the amount of EUR 89,279 were booked. In the event that contrary to the present assumption, convertible bonds should be returned in future, the future expense to be apportioned will be further reduced.

At the General Meeting on May 02, 2006, a resolution was adopted to pay a dividend of EUR 5.50 per share. In the event that an extraordinary dividend is paid, the convertible bonds program provides for an adjustment in the conversion price. The object of making this adjustment is following the associated effects on the market price of the stock to preserve the equality of the conversion price, or rather of the conversion ratio. An adjustment must not however have the effect of reducing the conversion price to a figure below the proportionate amount of the Company's capital represented by each individual Company share.

On this basis the Board of Management and Supervisory Board at the Supervisory Board meeting on May 02, 2006, resolved to reduce the exercise prices of convertible bonds by EUR 5.50; or alternatively for bonds with an existing exercise price of less than EUR 6.50, to reduce the strike price to EUR 1.00. This reduction in the exercise price constitutes a modification to the contractual conditions pertaining to the convertible bonds program. IFRS 2 B43 (a) requires that if as a result of a modification the attributable fair value of vested equity instruments calculated immediately before and after this modification exhibits an increase, the incremental amount must be included in the calculation to determine the amount recognized as the consideration in return for which the equity instruments are granted. The Company has examined the effects on the attributable fair value and established that from May 02 to May 03, 2006, in consideration of the new conditions for the exercise of the bonds, this value declined. Thus the reduction in the conversion price has no effect on the reporting of convertible bonds.

22. Pension provisions

A non-forfeitable pension commitment exists in favor of the CEO of ATOSS Software AG, Munich, which is classified as a defined benefits plan. Pursuant to this agreement, pension payments will commence when the recipient reaches the age of 65 and will be paid for life. The level of future pension rights will vary during the accrual period to an extent equal to future adjustments in the fixed salary of the CEO. To cover this pension commitment the Company has arranged pension liability insurance cover and assigned the entitlements arising therefrom with the result that since financial year 2005 in accordance with IAS 19.54d the attributable fair value of the assets of the plan deriving from the pension liability insurance policies are netted against the benefit obligation.

The pension commitment is underpinned by an actuarial report prepared on the basis of IAS 19 "Employee Benefits". The figure reported for the accrued and predicted pension obligation corresponds with the actuarially calculated cash value which since 2005 has been reduced by the fair value of the plan assets. The rules governing benefit commitments contained in IAS 19.63 ff. have been taken as a basis.

In conformity with IAS 19.64f the projected unit credit method is applied for valuation purposes. In accordance with this method, the pension units accrued in individual years are regarded as building blocks which collectively form the pension obligation. The cost of the pension is a product of the cost of interest on accrued pension rights already reported at cash value, the current service cost and the expected income from the plan assets. The defined benefit obligation is the dynamic cash value of the pro rata accrued pension units, taking into account the fact that future pension rights have already been proportionately accrued.

For the purpose of measuring actuarial profits and losses the Company applies the so-called corridor method, in accordance with which with effect from the next balance sheet qualifying date actuarial profits and losses must be apportioned over the residual period of service if and when they exceed 10 % either of the actual cash value or of the fair value of the plan assets. In financial year 2006 as in the preceding year, there was no actuarial profit or loss to apportion.

The pension provision was calculated on the basis of an assumed interest rate of 4.40 % (previous year 4.25 %), a salary trend of 2 % (previous year 2 %) and a pension trend of 2 % (previous year 2 %). The biometric tables prepared by Prof. Klaus Heubeck [Richttafeln 2005 G] were applied. It was assumed that the plan assets would in future attract interest at an annual rate of 4 % (previous year 4 %).

23. Financial strategy for capital management

The Company regards equity as an essential control parameter in covering economic, sector- and company-specific risks. Therefore the Company's financial strategy is directed towards maintaining a level of equity commensurate with such risks.

24. Treasury stock

Treasury stock is valued at cost and reported as a separate deduction item under equity.

25. Recognition of sales revenues and income

The Company generates sales revenues by licensing software products to end users and resellers, as well as from maintenance contracts, services and other receivables.

Pursuant to IAS 18.14, licensing revenues are regarded as realized when

- (a) The significant risks and rewards associated with the contractual rights to the use of licensed software have been transferred;
- (b) The Company has no further rights to dispose over the licensed material;
- (c) The level of revenues can be reliably measured;
- (d) It is sufficiently probable that the economic benefits will flow (the receivable will be received), and
- (e) The costs incurred in association with the sale can be reliably measured.

The Company has also entered into reseller agreements in accordance with which resellers are granted discounts on the list prices for license fees. The license fees retained by the Company are in principle regarded as having been realized when rights of use to the licensed software have been granted to the reseller's end customer and the significant risks and rewards have thereby been transferred either to the end user or to the reseller.

Consultancy sales are directly associated with services rendered under essentially separate contracts. Pursuant to IAS 18.20, income from the rendering of services is realized when

- (a) The level of income can be reliably measured;
- (b) It is sufficiently probable that the economic benefit of the transaction will flow to the Company (the receivable will be received);
- (c) The degree of completion on the balance sheet qualifying date can be reliably measured, and
- (d) The costs incurred in rendering the service can be reliably measured.

Maintenance sales are accrued over the period during which maintenance works are performed.

Software licenses and maintenance works are generally sold together. Pursuant

to IAS 18.13 the sales are realized by the residual value method, since a market value can be assigned to the maintenance sales.

Construction contracts are deemed to exist insofar as the contractual agreements are structured in accordance with the law on contracts for work and services or the orders cannot be fulfilled by ATOSS partners or by services rendered by the customer on own account.

If a customer commissions a construction order, the sales revenues and income are measured by the percentage of completion method, provided that the conditions required by IAS 11.23 are met. Individual sales components are in principle realized in the ratio of the progress of the project services thus far rendered to the anticipated overall volume of services. The progress of the project is in turn measured on the basis of documentation maintained by the project managers and the overall assessment of the management.

However, if through the medium of a construction contract the customer commissions part-performances which are mutually discrete and are based on separate orders, following the percentage of completion method the individual sales components are valued independently, provided that the criteria for these part-performances contained in IAS 11.23 are fulfilled, and a separate valuation appears appropriate in arriving at an overall assessment.

Pursuant to IAS 18.14, revenues deriving from other receivables are regarded as realized when

- (a) The significant risks and rewards associated with ownership of the goods or products sold have been transferred;
- (b) The Company has no further rights to dispose over the receivables;
- (c) The level of revenues can be reliably determined;
- (d) It is sufficiently probable that the economic benefits will flow (the receivable will be received) , and
- (e) The costs incurred in association with the sale can be reliably measured.

26. Expenditure on research and development

The Company recognizes the costs of researching and developing its software products as an expense in its income statement. The criteria contained in IAS 38.57 which would provide for development costs to be carried as assets are not fulfilled, since the original development of today's products to some extent took place through the medium of customer projects and it is not possible to reliably measure the income achievable in future from the development of individual functions and releases.

27. Borrowing costs

In conformity with IAS 23.7, borrowing costs are recognized directly as an expense.

III. Notes to the consolidated balance sheet

28. Cash

	Dec. 31, 2006 EUR	Dec. 31, 2005 EUR
Fixed-term deposits	8,198,876	24,807,304
Other cash sums	2,580,874	3,023,877
Total cash	10.779.750	27,831,181

Fixed-term deposits have times to maturity of up to 6 months and are invested at interest rates of between 1.39 % (Switzerland) and 3.66 % per annum. Current account credit balances attract interest at up to 2.0 %.

As a result of the dividend distribution amounting to EUR 21,466,506 cash holdings were reduced from EUR 27,831,181 to EUR 10,779,750.

Cash and marketable securities are invested with financial institutions with a sound and solvent financial background.

29. Marketable securities

Marketable securities are exclusively composed of fixed-interest securities, as follows:

Securities at Dec. 31, 2006	Cost of acquisition	Unrealized profits	Realized losses	Book value at Dec. 31, 2006
Securities	4,786	0	213	4,573
Total	4,786	0	213	4,573

Securities at Dec. 31, 2005	Cost of acquisition	Unrealized profits	Realized losses	Book value at Dec. 31, 2005
Securities	4,786	18	0	4,804
Total	4,786	18	0	4,804

Interest in the amount of EUR 215 (previous year: EUR 215) was paid on marketable securities.

30. Trade accounts receivable

The reported trade accounts receivable were composed as follows:

	Dec. 31, 2006 EUR	Dec. 31, 2005 EUR
Gross receivables	3,719,848	3,808,098
Less value impairments	-44,389	-19,955
Net receivables	3,675,459	3,788,143

As of December 31, 2006, the due dates for receivables in the amount of EUR 83,078 (previous year EUR 241,580) had subsequently been extended. During the financial year revenues resulting from the upward valuation of previously devalued receivables in the amount of EUR 87,314 (previous year: EUR 162,239) were taken to income. As in the preceding year there were no receivables with a remaining time to maturity of more than one year.

31. Concentration of credit risk

Financial assets potentially subject to a credit risk include cash, marketable securities and trade accounts receivable. As of the qualifying date, value adjustments on doubtful receivables amounted to EUR 44,389 (previous year: EUR 19,955). These were based on assessments by the Management of the feasibility of collecting the same. The Company demands no security from its customers. A description of the risk management system which also covers risks arising from financial instruments can be found in section 0 of the Group management report.

32. Inventories

The book value of inventories essentially relates to hardware components held in small quantities by the subsidiary ATOSS CSD Software GmbH, Cham. In the reporting period, as in the preceding year, there were no writedowns on the value of inventory stocks.

33. Other current assets

The other current assets in the amount of EUR 372,036 (previous year: EUR 343,994) essentially include deferred items in the amount of EUR 266,938 (previous year: EUR 174,364) and tax refund claims in the amount of EUR 17,628 (previous year: EUR 38,531).

34. Fixed assets

Fixed assets developed as follows in the financial year:

	Acquisition and manufacturing costs			
	Jan. 01, 2005	Additions	Disposals	Dec. 31, 2005
I. Tangible fixed assets				
Technical plant	366,420	5,231	0	371,651
Office and business equipment	2,651,215	211,340	49,824	2,812,731
Vehicle fleet	89,152	0	0	89,152
	3,106,787	216,571	49,824	3,273,534
II. Intangible fixed assets				
Software	2,664,646	152,821	0	2,817,467
	2,664,646	152,821	0	2,817,467
Total	5,771,433	369,392	49,824	6,091,001
	Acquisition and manufacturing costs			
	Jan, 01, 2006	Additions	Disposals	Dec, 31, 2006
I. Tangible fixed assets				
Technical plant	371,651	49,985	0	421,636
Office and business equipment	2,812,731	225,492	121,001	2,917,222
Vehicle fleet	89,152	0	19,316	69,836
	3,273,534	275.477	140.317	3.408.694
II. Intangible fixed assets				
Software	2,817,467	46,309	2,074,356	789,420
	2,817,467	46,309	2,074,356	789.420
Total	6,091,001	321,786	2,214,673	4,198,114

Cumulative depreciation				Net book values	
Jan. 01, 2005	Additions	Disposals	Dec. 31, 2005	Dec. 31, 2005	Dec. 31, 2004
326,364	14,815	0	341,178	30,473	40,057
2,285,595	269,349	46,826	2,508,119	304,612	365,620
40,700	13,843	0	54,543	34,609	48,452
2,652,659	298,008	46,826	2,903,840	369,694	454,129
2,234,595	327,835	0	2,562,430	255,036	430,050
2,234,595	327,835	0	2,562,430	255,036	430,050
4,887,254	625,842	46,826	5,466,270	624,730	884,179
Cumulative depreciation				Net book values	
Jan, 01, 2006	Additions	Disposals	Dec, 31, 2006	Dec, 31, 2006	Dec, 31, 2005
341,178	17,949	0	359,127	62,509	30,473
2,508,119	238,918	119,914	2,627,123	290,099	304,612
54,543	13,843	19,315	49,071	20,765	34,609
2,903,840	270.710	139.229	3.035.321	373.373	369,694
2,562,430	160,519	2,058,813	664,136	125,284	255,036
2,562,430	160,519	2,058,813	664,136	125.284	255,036
5,466,270	431,229	2,198,042	3,699,457	498,657	624,730

35. Taxes on earnings

The tax provisions in each case comprise the taxes on earnings for the past financial year. For an explanation of tax charges and income, please refer to note 0.

The deferred taxes reported in the accounts were composed as follows:

	Dec. 31, 2006 EUR	Dec. 31, 2005 EUR
ATOSS Software Ges.mbH, Vienna	216,199	282,547
ATOSS Software AG, St. Gallen	0	57,532
Losses carried forward at foreign companies	216,199	340,079
Deferred taxes on tax carry-forwards reported as assets	57,674	89,236
Deferred taxes on valuation differences reported as assets		
- Pension provisions	337,597	378,174
- Capitalized software	0	19,862
Sub-total	337,597	398,036
Deferred taxes on valuation differences carried as liabilities		
- Securities	0	-6
- Long-term construction contracts	-253,547	0
Sub-total	-253,547	-6
Total	141,724	487,266

	Dec. 31, 2006 EUR	Dec. 31, 2005 EUR
Tax charge resulting from deferred taxes carried as liabilities		
- On long-term construction contracts	-253,547	0
Tax charge resulting from the reversal of deferred taxes carried as assets		
- On tax carry-forwards	-31,562	-17,003
- On capitalized software	-19,862	-33,858
- On pension provisions	-40,578	-33,657
Tax income resulting from the reversal of deferred taxes carried as liabilities		
- On securities	0	-6
Total	345,549	-84,524

The tax carry-forwards at the Austrian subsidiary can be carried forward for an unlimited period.

The tax rate applicable to ATOSS Software AG, Munich, is composed as follows:

	Dec. 31, 2006	Dec. 31, .2005
Earnings before taxes	100.00%	100.00%
Trade tax	-19.68%	-19.68%
Profits liable for corporation tax	80.32%	80.32%
Whereon: Corporation tax 25.00 %	-20.08%	-20.08%
Solidarity surcharge of 5.50 % on corporation tax	-1.10%	-1.10%
Computed proportion of earnings after tax	59.14%	59.14%
Computed tax rate	40.86%	40.86%

The tax rates for subsidiary companies amounted in Austria to 25 %, in Switzerland to 23.8 % and in Romania to 16 %. The transition from the expected tax charge at the parent company to the actual tax charge as per IAS 12.81 is illustrated as follows:

	Dec. 31, 2006 EUR	Dec. 31, 2006 EUR
Pre-tax earnings as per IFRS	3,193,180	1,111,725
Expected tax charge (2006: 40.86 %, 2005: 40.86%)	-1,304,734	-454,251
Non-deductible operating expenses	-29,703	-29,688
Expenses resulting from convertible bonds	-36,479	-130,476
Tax income resulting from the closure of ATOSS SARL	0	-55,218
Tax back-payments / refunds for previous years	0	14,054
Write-down on goodwill	0	-9,077
Lower tax rates at Group companies	62,592	20,960
Correction for losses carried forward from previous years	0	-9,045
Actual Group tax charge	-1,308,324	-652,741

36. Liabilities

The remaining times to maturity are illustrated individually in the breakdown of liabilities:

	Qualifying date	Remaining time up to 1 year	Remaining time 1-5 years	Remaining time over 5 years	Total
Trade accounts payable	Dec. 31, 2006	526,526	0	0	526,526
	Dec. 31, 2005	720,294	0	0	720,294
Other short-term liabilities	Dec. 31, 2006	552,151	0	0	552,151
	Dec. 31, 2005	651,986	0	0	651,986
Convertible bonds	Dec. 31, 2006	6,342	75,079	0	81,421
	Dec. 31, 2005	0	73,376	81,874	155,250
Total	Dec. 31, 2006	1,085,019	75,079	0	1,160,098
	Dec. 31, 2005	1,372,280	73,376	81,874	1,527,530

37. Credit lines

Unsecured current account credit lines in the amount of EUR 0.6 million (previous year: EUR 0.5 million) are available with the principal banks of the integrated companies. Borrowings (on current account) in the context of this arrangement are taken up as operating capital and for other general Group purposes and attract interest at up to 7.20 % (previous year 6.45 %). As in the preceding year, the Group did not avail itself of these credit lines.

38. Short-term provisions

The short-term provisions essentially comprise the following amounts:

	Dec. 31, 2005 EUR	Draw down	Liquidity	Allocated	Dec. 31, 2006 EUR
Provisions for salaries and commissions	736,322	511,331	224,991	1,614,373	1,614,373
Warranties	20,000	0,00	20,000	100,000	100,000
Anticipated charges	178,832	98,388	76,716	185,489	189,217
Annual accounts and audit costs	152,646	111,655	40,991	180,735	180,735
Other personnel provisions	162,462	162,462	0	158,333	158,333
Other provisions	140,284	65,020	5,165	68,917	139,016
Total	1,390,546	948,856	367,863	2,307,847	2,381,674

The provisions for salaries and commissions include claims deriving from variable salary components arising in the reporting period but not disbursed until the following year. Warranty provisions are formed to cover foreseeable reworking in the course of customer projects which will have to be undertaken in subsequent periods after the balance sheet closing date. The anticipated charges relate to performances received but not yet billed prior to the qualifying date. The provision for annual accounting and auditing costs covers expenses in association with the preparation and audit of the annual financial statements. Other personnel provisions include sums to cover severance payments, lay-offs and possible litigation risks arising from labor tribunal proceedings.

39. Deferred revenues

As of December 31, 2006, the deferred revenues were composed as follows:

	Dec. 31, 2006 EUR	Dec. 31, 2005 EUR
Amounts invoiced in advance for maintenance works	228,596	241,545
Amounts invoiced in advance for production contracts	774,318	45,102
Other amounts	498,816	362,902
Total	1,501,730	649,549

The other amounts here stated include sums invoiced in advance for hotline services as well as for software, hardware and services yet to be supplied.

40. Other short-term liabilities

Other short-term liabilities essentially include turnover, wage and church tax liabilities and vacation provisions. They are due within one year.

41. Convertible bonds

On the basis of the contingent capital created for the purpose and described under section 0, the Company has issued convertible bonds under the following programs:

An employee convertible bonds program was initiated in spring 2000 (Convertible bonds program 2000/2010) with the issue of convertible bonds. At the time of the Company's flotation and during the year, employees were afforded the opportunity to subscribe for convertible bonds at a nominal cost of EUR 1.00. Conversion prices were determined at the time the bonds were granted. For this purpose the conversion price was defined as the average taken over the last five trading days prior to the bonds being granted. Employees had the option upon expiry of two, three and four years to in each case convert one third of their bond holdings into Company shares upon payment of the conversion price. Contingent capital 2000/I in the amount of EUR 280,000 was formed for this purpose.

In financial year 2002 at its General Meeting on May 22 of that year the Company approved two convertible bonds programs for Supervisory Board members (Convertible bonds program 2002/2010) and for Board of Management members and employees of the Company (Convertible bonds program 2002/2011). For this purpose Contingent capital 2002/II in the amount of EUR 50,000 and Contingent capital 2002/I in the amount of EUR 360,000 were partially drawn down.

Under the convertible bonds program for Supervisory Board members (Convertible bonds program 2002/2010) the members of the Supervisory Board were each granted the right to subscribe for 12,000 convertible bonds at a nominal EUR 1.00 per bond. Conversion prices were determined at the time the offer was made. The offer was made within two weeks following publication of the half-yearly figures for the financial year 2002 and the conversion price corresponds to the average taken over the last five trading days prior to the offer being made. Upon expiry of two and three years, Supervisory Board member had the option to in each case convert one half of their holding into Company shares upon payment of the conversion price. The convertible bonds have a term of seven years from date of offer.

Convertible bonds program 2002/2011 for Board of Management members and employees of the Company is subject to the same conditions as the program for Supervisory Board members.

In financial year 2004 the Company at its General Meeting on April 22 of that year resolved upon a further convertible bonds program for members of the Supervisory Board (Convertible bonds program 2004/2012). The same terms and

conditions apply as in the case of the Convertible bonds program 2002/2010. The Convertible bonds program for Board of Management members and employees of the Company (Convertible bonds program 2002/2011) was extended for three years and is now designated as the "Convertible bonds program 2002/2014". To provide an appropriate basis, Contingent capital 2004/I was approved by the General Meeting in the amount of EUR 50,000.

The following table shows the development in convertible bonds in circulation in financial years 2006 and 2005:

Convertible bonds	Unit Numbers	Weighted, average exercise price
Outstanding on Jan. 01, 2005	264,921	8.01
Exercised in 2005	80,544	5.42
Repaid in 2005	23,200	12.16
Outstanding on Dec. 31, 2005	161,177	8.71
Outstanding on Jan. 01, 2006	161,177	8.71
Exercised in 2006	74,004	2.37
Repaid in 2006	1,500	6.18
Outstanding on Dec. 31, 2006	85,673	4.64

Following authorization by the General Meeting on May 02, 2006, by a resolution adopted by the Board of Management and Supervisory Board on that date the exercise price for convertible bonds in circulation at the time of the dividend distribution was reduced by EUR 5.50, being the dividend paid per share, subject to the exercise price not falling below a minimum of EUR 1.00.

Details of convertible bonds outstanding on December 31, 2006, are summarized in the following table:

	Exercise price EUR	outstanding Options	Contractual validity in years	Possible rights remaining to be exercised as of Dec. 31, 2006
Board members				
	4.01	24,000	4.6	6,000
	6.18	10,000	4.5	2,500
		34,000		8,500
Employees				
	1.00	6,673	0.3	6,673
	3.52	14,500	3.7	14,500
	3.97	3,000	4.9	1,500
	6.18	27,500	4.5	13,500
		51,673		36,173
Total		85,673		44,673

The obligations existing as a result of convertible bonds are reported in the balance sheet under the heading of Convertible bonds. These liabilities have remaining times to maturity of between 0.3 and 4.9 years.

The expense recognized in accordance with IFRS 2 resulting from the valuation of the conversion rights carried by these convertible bonds amounted in financial year 2006 to EUR 89,279 (previous year: EUR 319,325).

42. Convertible bonds held by board members

On the relevant balance sheet closing date, by subscribing for convertible bonds board members held conversion rights to the following numbers of shares in ATOSS Software AG:

	Unit numbers as of Dec. 31, 2006	Unit numbers as of Dec. 31, 2006
Andreas F.J. Obereder	0	5,000
Christof Leiber	10,000	22,000
Peter Kirn	6,000	12,000
Bernhard Dorn	6,000	12,000
Rolf Baron Vielhauer von Hohenhau	12,000	12,000
Total	34,000	63,000

43. Pension provisions

Pension costs are comprised as follows:

	Dec. 31, 2006 EUR	Dec. 31, 2005 EUR
Current service cost	87,658	75,801
Cost of interest	67,898	64,972
Less anticipated earnings on plan assets	14,628	0
Pension expenses	140,928	140,773

The current service cost is reported in the income statement under administration costs, while the cost of interest is reflected in the net interest. For the year 2007 the Company expects pension expenses to stand at EUR 137,370.

The obligation translates to the balance sheet as follows:

	Dec. 31, 2006 EUR	Dec. 31, 2005 EUR	Dec. 31, 2004 EUR
Defined benefits obligation	1,637,300	1,597,600	1,299,440
Attributable fair value of plan assets	-427,656	-290,006	0
	1,209,644	1,307,594	1,299,440
Unrecognized actuarial profits and losses	9,589	-77,682	79,705
Pension provision	1,219,233	1,229,912	1,379,145

The Company has assigned its claims arising from the pension liability insurance arranged in the preceding year to cover the pension commitment.

The changes in the cash value of the defined benefits obligations are illustrated as follows:

	Dec. 31, 2006 EUR	Dec. 31, 2005 EUR
Defined benefits obligation effective Jan. 01	1,597,600	1,299,440
Cost of interest	67,898	64,972
Current service cost	87,658	75,801
Actuarial profits and losses	-115,856	157,387
Defined benefits obligation effective Dec. 31	1.637.300	1.597.600

The changes in the fair value of plan assets are illustrated as follows:

	Dec. 31, 2006 EUR	Dec. 31, 2005 EUR
Attributable fair value of plan assets effective Jan. 01	290,006	150,933
Anticipated returns	14,628	0
Employer's contributions	151,607	139,073
Actuarial profits and losses	-28,585	0
Attributable fair value of plan assets effective Dec. 31	427.656	290.006

The figures for the current and three preceding reporting periods are as follows:

	Dec. 31, 2006 EUR	Dec. 31, 2005 EUR	Dec. 31, 2004 EUR
Defined benefits obligation	1,637,300	1,597,600	1,299,440
Plan assets	-427,656	-290,006	0
Shortfall in cover	1.209.644	1.307.594	1.299.440

44. Shareholders' equity

The development in equity is evident from the statement of shareholders' equity.

45. Subscribed capital

Issued shares in circulation

The Company's capital is divided into 4,025,667 shares each with a nominal value of EUR 1.00. All shares carry full voting and dividend rights. On average during the year there were 4,025,667 shares in circulation, less the average of 108,814 own shares held in treasury, leaving a total of 3,916,853 shares (previous year 3,859,109 shares).

ATOSS Software AG shares held by board members

On the respective balance sheet closing dates, board members possessed the following holdings of ATOSS Software AG stock:

	Dec. 31, 2006	Dec. 31, 2005
Andreas F.J. Obereder	1,981,184	1,971,184
Peter Kirn	23,760	13,760
Bernhard Dorn	19,000	13,000
Total	2,023,944	1,997,944

Authorized capital

By a resolution of the General Meeting on April 22, 2004, entered in the Commercial Register at the Municipal Court of Munich on June 11, 2004, the Board of Management is authorized with the approval of the Supervisory Board to increase the share capital of the Company on one or more occasions on or before April 22, 2009 (inclusive) by a total of EUR 2,012,833 by issuing 2,012,833 new bearer shares in return for contributions in cash or kind, whereby the right of shareholders to subscribe may be excluded (Authorized capital 2004/I).

Contingent capital

By a resolution of the General Meeting on February 16, 2000, entered in the Commercial Register at the Municipal Court of Munich on March 10, 2000, the share capital was contingently increased by EUR 280,000 (Contingent capital 2000/I). This contingent capital relates to the Convertible bonds program 2000/2010.

Furthermore by resolutions adopted by the General Meetings on May 22, 2002, April 30, 2003, and April 22, 2004, for the purpose of satisfying the conversion rights held by members of the Board of Management, managers of associated companies and other high-achieving personnel (Convertible bonds program 2002/2011) the share capital of the Company was contingently increased by EUR 360,000 (Contingent capital 2002/I); also for the purpose of satisfying the conversion rights held by members of the Supervisory Board (Convertible bonds program 2002/2010) the share capital was contingently increased by EUR 50,000 (Contingent capital 2002/II).

Finally, by a resolution adopted by the General Meeting on April 22, 2004, entered in the Commercial Register at the Municipal Court of Munich on June 11, 2004, for the purpose of satisfying the conversion rights held by members of the Supervisory Board (Convertible bonds program 2004/2012) the share capital was contingently increased by EUR 50,000 (Contingent capital 2004/I).

46. Capital reserve

On December 31, 2005, the capital reserve stood at EUR 450,013. Subsequently in the course of financial year 2006, the sum of EUR 89,279 was allocated to the reserve as a result of convertible bonds issued in preceding years, while the sum of EUR 275,528 was withdrawn as a result of sales of treasury stock. On the basis of a judgement by the European Court of Justice dated May 26, 2005, regarding input tax relief on flotation costs, in financial year 2006 input tax in the amount of EUR 166,528 originally deducted in the year 2000 was refunded to the Company in respect of the costs of its flotation. Just as the costs of the flotation were netted against the capital reserve, so this refund after adjustment for associated taxes was allocated to the capital reserve in the amount of EUR 98,477. As a result on December 31, 2006, the capital reserve stood at EUR 326,241.

The development in the capital reserve is illustrated in the statement of shareholders' equity.

47. Treasury stock

In December 2000 the Company bought back 27,285 shares from a former member of the Board of Management at a price of EUR 10.00 per share. This price was slightly below the then current market price of EUR 11.00.

Following authorization by the General Meeting on May 20, 2001, in financial year 2001 some 21,715 shares were bought back at prices of between EUR 4.50 and EUR 10.00.

Own shares continued to be repurchased in financial year 2002 when 184,760 shares were acquired at a total price of EUR 1,470,244.

In 2003 a further 18,000 shares were purchased at a rate of EUR 15.34. Some 23,107 own shares held in treasury were utilized in financial year 2003 in respect of convertible bonds exercised in that year.

In financial year 2004 some 75,718 own shares were so utilized and in financial year 2005 a further 80,544 own shares held in treasury were used to meet the needs of the convertible bonds program.

In financial year 2006 some 74,004 treasury shares were utilized to service the convertible bonds program. As of December 31, 2006, the Company held 76,054 own shares in treasury (previous year 150,058) at an average price of EUR 14.49 (previous year EUR 10.71). As a result on the qualifying date there were 3,949,613 shares in circulation (previous year 3,875,609).

48. Changes in equity not recognized in the income statement

Changes in equity not recognized in the income statement are evident from the statement of shareholders' equity.

IV. Notes to the consolidated income statement

49. Sales revenues

The sales revenues were composed as follows:

	2006 EUR	2005 EUR
Software licenses	4,611,944	4,000,794
Software maintenance	8,316,738	8,143,371
Total software	12,928,682	12,144,165
Consultancy	5,558,005	4,962,551
Hardware	2,809,463	2,321,111
Others	694,820	988,024
Total sales revenues	21,990,970	20,415,851

Of these figures some EUR 73,859 (previous year: EUR 196,833) in application of the percentage of completion method is accounted for by sales not yet invoiced and therefore reported among other current assets. As of December 31, 2006, profits deriving from projects realized by the percentage of completion method and not as yet invoiced stood at EUR 17,113, compared with a loss in the preceding year of EUR 24,762.

Overall in financial year 2006 the amount of EUR 1,745,170 (previous year: EUR 556,533) deriving from production contracts was realized as sales revenues.

The Company has customers in all branches of industry as well as in the public sector. In financial years 2006 and 2005 no single customer accounted for a proportion of 10 % or more of total sales.

The geographic breakdown of sales revenues was as follows:

	2006 EUR	2005 EUR
Germany	20,239,776	18,555,546
Austria	1,266,484	1,169,003
Switzerland	362,987	503,495
German-speaking territories in total	21.869.247	20,228,044
Other countries	121,723	187,807
Total	21,990,970	20,415,851

50. Cost of sales

In addition to the material cost of goods bought for resale (hardware and other merchandise), the cost of sales also includes expenditure on external services as well as the personnel costs and overhead incurred in the provision of services by the Professional Services and Consulting departments.

	2006 EUR	2005 EUR
Material costs (goods for resale)	2,337,125	1,935,184
Material costs (external services)	280,171	190,941
Personnel costs	3,358,247	3,617,843
Scheduled depreciation	63,450	249,462
Overheads	1,134,800	1,057,512
Total	7,173,793	7,050,941

Of this figure some EUR 15,036 (previous year: EUR 103,924) is attributable to projects accounted for by the percentage of completion method and not yet invoiced as of the qualifying date. Whereas in the preceding year the costs were calculated on basis of the ratio of the overall costs of the Consulting department relative to consultancy sales, the method now applied relates the average cost per consultant per day to the actual number of days worked. Had the same valuation method been applied as in the preceding year, the sales costs for these projects would have amounted to EUR 81,987.

51. Marketing costs

The marketing costs include personnel costs and overheads attributable to marketing as well as advertising costs recognized as an immediate expense. In financial year 2006 the marketing costs were composed as follows:

	2006 EUR	2005 EUR
Marketing personnel costs	3,594,378	2,959,833
Scheduled depreciation	175,027	166,144
Marketing overheads	1,636,779	1,767,252
Advertising costs	618,477	585,048
Total marketing costs	6,024,661	5,478,277

52. General and administrative costs

The general and administrative costs were composed as follows:

	2006 EUR	2005 EUR
Personnel costs	1,767,027	2,314,536
Scheduled depreciation	100,193	113,356
Overheads	737,379	847,513
Total of general and administrative costs	1,767,027	3,275,405

53. Expenditure on research and development

The expenditure on research and development was composed as follows:

	2006 EUR	2005 EUR
Research and development personnel costs	2,863,177	3,080,678
Scheduled depreciation	92,559	96,880
Research and development overheads	980,489	878,373
Total of research and development costs	3,936,225	4,055,931

54. Personnel costs

The personnel costs in financial year 2006 were composed as follows:

	2006 EUR	2005 EUR
Wages and salaries	9,764,131	9,864,719
Social security contributions and expenditure on retirement pensions and welfare	1,729,419	1,788,846
of which pension costs EUR 154,745 (previous year EUR 172,257)		
Costs of convertible bonds	89,279	319,325
Total	11,582,829	11,972,890

55. Financial investment income and expenditure

The financial investment income essentially comprises income from fixed-term deposits. Also included within this income are interest receipts in the amount of EUR 35,866 relating to other periods and deriving from the refund of input tax on flotation costs deducted in the year 2000.

The expenditure is essentially incurred as a result of the interest charge included among the pension costs.

56. Other income

The other income essentially relates to revenues amounting to EUR 435,000 from the sale of the software product AENEIS which was disposed of effective January 01, 2006.

57. Currency conversion

Currency conversions in financial year 2006 resulted in costs in the amount of EUR 16,553 (previous year EUR 10,937) and earnings amounting to EUR 5,816 (previous year EUR 5,559).

58. Tax charge / tax income

The Company calculates the tax on its earnings by the liabilities method in accordance with IAS 12.11. The liabilities method provides for deferred taxes to be reported on balance sheet in order to take account of the tax effects of temporary differences between the carrying amounts of assets and liabilities and their tax base, and also of losses carried forward for tax purposes.

	2006 EUR	2005 EUR
Current tax	962,776	528,278
Deferred taxes	345,548	84,518
Tax refund (- back-payment for previous year)	0	-14,566
Tax charge	1.308.324	652,741

59. Earnings per share

The figure for earnings per share is arrived at in accordance with IAS 33 by dividing the result for the year by the weighted average number of shares issued. To calculate diluted earnings per share the average number of shares is increased with the inclusion of potential shares which may be issued as a result of convertible bonds, and the underlying net income for the year is increased by the net interest cost of the convertible bonds.

	2006 EUR	2005 EUR
Net income for the year	1,884,856	458,984
Weighted average number of shares outstanding	3,916,853	3,859,109
Earnings per share	0.48	0.12
Effect of the interest cost of convertible bonds on results	2,415	4,528
Net income for the year after adjustment for dilution effects	1,887,271	463,512
Dilution effect of convertible bonds	120,986	224,996
Weighted average number of shares outstanding assuming dilution	4,037,839	4,084,105
Earnings per share (diluted)	0.47	0.11

V. Segment reporting

The Company has only one uniform business segment within the meaning of IAS 14, which comprises the creation, sale and implementation of software solutions directed towards the efficient deployment of personnel. In accordance with the Company's strategy as a provider of end-to-end solutions to issues of working time management and personnel resource planning, these software solutions comprising software licenses, maintenance services, consulting services and the supply of hardware for time recording and access control purposes (merchandise for resale) are offered to customers as integrated packages and exhibit a comparable risk structure. These software solutions are employed both by small and medium-sized customers comprising the SME market and by high-end small businesses and major customers who comprise the premium market. The choice of software solution is essentially dependent on the specific technical and functional requirements of the individual customer. The Company's endeavors in addressing the SME and premium markets differ only in terms of the marketing approach.

Similarly, within the meaning of IAS 14, ATOSS operates in a geographical segment comprising the German-speaking territories (Germany, Austria, Switzerland) which also exhibits a uniform risk structure. In accordance with IAS 14.35 transactions in other countries are of subsidiary importance from the Group's perspective and are managed centrally by the senior company in the Group.

The following tables illustrate the Company's sales revenues as distributed between software solutions and the associated income from software licensing, maintenance, consulting and hardware and the relevant contributions to the end result.

The individual software solutions comprise:

- **ATOSS Staff Efficiency Suite (ASES) and ATOSS Startup Edition (ASE):** ASES and ASE are working time management and personnel resource planning solutions for customers of all sizes in all industries. Alongside these software solutions other services are generally also provided to implement the solutions at the customer's place of business and train the customer's employees. In addition consulting services are rendered with the object of making meaningful use of the available scope and developing optimum solutions for the efficient deployment of personnel under specific operating conditions and in consideration of works agreements and industry-wide pay deals. The Company also sells hardware components for time recording and access control purposes. ASES/ASE software is used in conjunction with all major standard system platforms and databases. Moreover thanks to the extensive facility to define customer-specific parameters these solutions are capable of satisfying even the most sophisticated requirements of customers of all sizes in a wide variety of industries.
- **ATOSS Time Control (ATC):** ATC offers a software solution to working time management and personnel resource planning for small and medium-sized customers as well as large but decentrally organized clients. Likewise in conjunction with ATC, ATOSS offers software implementation and training services as well as consulting services to optimize efficient personnel deployment. Merchandise including hardware and recording media is also available. ATC software is installed on the Microsoft Windows system platform in association with standard SQL databases and is particularly user-friendly and convenient for small to medium-sized customers as well as large decentralized organizations.
- **AENEIS:** This is a software solution designed for business process management. Until the third quarter of 2005, AENEIS software was integrated into the organization as a whole. However in the ensuing restructuring the sale of AENEIS was concluded by a contract dated December 21, 2005, and the subsequent transfer of this product effective January 01, 2006, to intellior AG, Stuttgart. In return other operating income was realized in the amount of EUR 435,000.

The sales revenues were composed as follows:

	2006 EUR	2005 EUR
ATOSS Staff Efficiency Suite (ASES) and ATOSS Startup Edition (ASE)	20,442,069	18,566,958
ATOSS Time Control	1,548,721	1,339,773
AENEIS	0	509,120
Total	21,990,790	20,415,851

Earnings before interest and taxes (EBIT) were composed as follows:

	2006 EUR	2005 EUR
ATOSS Staff Efficiency Suite (ASES) and ATOSS Startup Edition (ASE)	2,150,785	1,233,889
ATOSS Time Control	189,111	77,146
AENEIS	438,787	-748,341
Operating income	2,778,683	562,693

VI. Notes to the consolidated cash flow statement

60. Cash flow from business operations

The cash flow from business operations for the period from January 01 to December 31, 2006, amounted to EUR 4,312,036 (previous year: EUR 1,405,611, after adjustment for the effects of the sale of AENEIS), representing an increase of EUR 2,906,425 over the year before.

Positive factors contributing to the cash flow from operations included the profits in financial year 2006 which were well above the year before, the sharp rise in short-term provisions and tax provisions and the increase in deferred revenues. Other effects arose from non-cash depreciation, the personnel costs associated with the convertible bonds program and the reduction in trade accounts receivable. By contrast the reduction in liabilities had a negative effect.

Since the Company does not finance its investments by borrowing, interest income and expenses are allocated in full to the cash flow from business operations.

Similarly, operating taxes also impact in full on the cash flow from operations.

61. Cash flow from investment activities

The cash flow from investment activities for the period from January 01 to December 31, 2006, amounted to EUR -214,344 (previous year EUR -77,031) and was thus EUR 137,313 lower than in the year before.

Factors affecting the cash flow from investment activities for the year 2006 included plant and equipment investment expenditure amounting to EUR 321,786 (previous year: EUR 369,392) as well as receipts from the disposal of fixed assets amounting to EUR 107,439 (previous year: EUR 292,361). The latter essentially comprised monies received from the sale of the software product AENEIS. For reasons of transparency these receipts as of the qualifying date are shown separately within the cash flow from investment activities.

62. Cash flow from financing activities

The cash flow from financing activities for the period from January 01 to December 31, 2006, amounted to EUR -21,149,354 (previous year EUR -81,139) and was thus EUR 21,068,215 lower than in the year before.

The essential factor impacting on the cash flow from financing activities in the year 2006 was the dividend distribution amounting to EUR 21,466,506 (previous year: 420,127), equating to EUR 5.50 per share (previous year: EUR 0.11).

VII. Other statements

63. The Supervisory Board

The members of the Supervisory Board are:

Peter Kirn	Chairman, corporate consultant, Böblingen
Bernhard Dorn	Deputy Chairman, corporate consultant, Leonberg
Rolf Baron Vielhauer von Hohenhau	President of the Bavarian Taxpayers Association, Munich.

As of December 31, 2006, the members of the Supervisory Board held other supervisory board positions with the following companies:

Peter Kirn	NIIT Technologies AG, Mohnheim businessMart AG, Stuttgart
Bernhard Dorn	UNILOG Integrata AG, Tübingen AXA Service AG, Cologne Inverto AG, Cologne TDS AG, Neckarsulm United Internet AG, Montabaur 1&1 Internet AG, Montabaur
Rolf Baron Vielhauer von Hohenhau	ce Consumer Electronic AG, Munich Pro Cura Buchprüfungs AG, Augsburg

The remuneration paid to Supervisory Board members was composed as follows:

	2006 EUR	2005 EUR
Peter Kirn		
Remuneration pursuant to the articles of association	20,000	20,000
Attendance allowances	7,500	10,500
Total	27,500	30,500

Bernhard Dorn	2006 EUR	2005 EUR
Remuneration pursuant to the articles of association	20,000	20,000
Attendance allowances	7,500	10,500
Total	27,500	30,500

Rolf Baron Vielhauer von Hohenhau	2006 EUR	2005 EUR
Remuneration pursuant to the articles of association	10,000	10,000
Attendance allowances	3,750	5,250
Total	13,750	15,250

In financial year 2006, as in the preceding year, there were no payments made for consultancy work beyond the scope of Supervisory Board activities.

64. Member of the Board of Management

The members of the Board of Management are:

Andreas F.J. Obereder
Christof Leiber

Chief Executive Officer
Member of the Board of
Management

The remuneration paid to the Board of Management in the financial year was composed as follows:

Andreas F.J. Obereder	2006 EUR	2005 EUR
Non-performance-related remuneration		
Salary	290,000	290,000
Miscellaneous	93,642	90,653
Performance-related remuneration		
Profit-share payment	139,650	0
Total remuneration	523,292	380,653
Christof Leiber	2006 EUR	2005 EUR
Non-performance-related remuneration		
Salary	115,000	115,000
Miscellaneous	21,065	17,966
Performance-related remuneration		
Profit-share payment	89,775	0
Total remuneration	225,840	132,966

The profit-share payments shown here relate to entitlements deriving from the achievement of targets in the respective financial year. Given that these entitlements are confirmed only after the financial year has ended, actual payments may deviate. The miscellaneous amounts include insurance premiums paid by the Company and the benefit in money's worth of other ancillary items such as the provision of company cars.

As of December 31, 2006, there were liabilities to members of the Board of Management amounting to EUR 167,375 in respect of variable remuneration elements not yet paid (previous year: claims amounting to EUR 25,000 resulting from advances on variable remuneration for targets not achieved).

65. Business transactions with closely related persons

A business relationship exists with the wife of the Chief Executive Officer, from whom the Company rents business premises in Meerbusch. These premises comprise 1,176 square meters of office space, which are rented at a cost of EUR 228,879 per annum (previous year EUR 228,804) including ancillary costs. The Company is satisfied that these are standard market terms.

Moreover the wife of the Chief Executive Officer provides services to the Company. In 2006 the value of services provided amounted to EUR 9,464 (previous year EUR 19,656). These are standard market terms.

No further transactions took place with members of the Board of Management, Supervisory Board or other affiliated persons other than those specified in section VII (Supervisory Board), section 0 (convertible bonds held by board members) or section 49 (pension provisions).

66. Employees

On December 31, 2006, the Company employed 169 persons (previous year 177). The average for the year was 167 (previous year 182); excluding the Board of Management, trainees and interns, the average number of employees was 151 (previous year 166).

The quarterly average number of employees was as follows:

	2006	2005
Sales and marketing	40	39
Consulting	49	51
Development	51	54
Administration	29	38
Total	169	182
Of which trainees	6	6
Of which temporary staff and interns	10	8
Of which Board of Management members	2	2

67. Fees paid to auditors and tax consultants

The following fees were paid to Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft Stuttgart, Munich branch, and associated companies for auditing, consulting and valuation services and tax consultancy:

	2006 EUR	2005 EUR
Audit of the annual financial statements	53,500	55,510
Of which for the individual financial statements EUR 26,750 (previous year: EUR 27,755)		
Of which for the consolidated financial statements EUR 26,750 (previous year: EUR 27,755)		
Other consulting and valuation services	18,910	9,360
Total of fees	72,410	64,870

On April 24, 2006, the Company received a declaration of independence on the part of Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft Stuttgart, Munich branch.

68. Financial obligations

The financial obligations relate to rental and leasing contracts. The Company leases its vehicle fleet as well as servers from various leasing companies. The arrangements are classified as operating leases since essentially all risks and rewards associated with ownership remain with the lessor. In individual cases expiring leases may be extended. No provision is made for an option to buy at the end of the term. Pursuant to IAS 17.33 the lease payments are recognized over the relevant periods in linear fashion as expenses in the income statement.

The Company also rents various items of office and business equipment at an annual cost of EUR 23,341 with flexible notice periods for termination purposes.

The Company's office premises are rented. The lease and rental agreements include no purchase options or price adjustment clauses.

Future rents and lease payments for coming financial years are composed as follows.

	Rents EUR	Lease payments EUR
2007	619,569	303,582
2008 to 2011	222,226	241,824
post 2011	0	0

The overall costs of all rental and lease agreements in the reporting period amounted to EUR 1,157,821 (previous year 1,159,208).

69. Events after the balance sheet closing date

There have been no reportable events of particular import subsequent to the balance sheet closing date.

70. German Corporate Governance Code

The Board of Management and Supervisory Board issued a declaration of conformity with the German Corporate Governance Code as required by § 161 of the German Stock Corporation Act on November 14, 2006. The full text of the declaration is available on the Internet at http://www.atoss.com/NR/rdonlyres/EB165209-C900-4589-B9B1-F78F79CEA931/0/ATOSS_Entsprechenserklaerung_2006.pdf. The Management Board and Supervisory Board each year study and form an opinion on the recommendations of the German Corporate Governance Code and make a statement regarding their findings in the Annual Report.

71. Notifiable participating interests

Messrs. AXXION S.A., 1B, Parc d'Achvité Syrdall, Luxembourg-Munsbach, notified the Company on February 07, 2006, pursuant to § 21, Para. 1 of the German Securities Trading Act that its share in the voting stock of ATOSS Software AG had on February 02, 2006, fallen below the 5 % threshold and at the time of notification amounted to 2.7989 %.

72. Approval of the consolidated financial statements

The present annual financial statements were approved on January 29, 2007, by the Board of Management and submitted to the Supervisory Board which may make alterations to the said statements up to and including the time of the Supervisory Board meeting to adopt the accounts on February 26, 2007.

The Board of Management is satisfied that all of the information given conveys an impression of the economic situation of the company, its assets, financial and earnings position and cash flow which accords with the true circumstances.

73. Appropriation of net income

The Board of Management and Supervisory Board propose that surplus net income from the financial year 2006 in the amount of EUR 5,431,461 should be used to pay a dividend of EUR 0.24 per dividend-bearing share. On the basis of information currently available the Company anticipates that in the case of shareholders not holding a material stake in the Company this sum will be subject to withholding tax at 20 % plus a solidarity surcharge due thereon of 5.5 %. Taxes in the amount of EUR 0.05 per share would thus be withheld by the Company.

The remainder of the net income will be carried forward to new account.

VIII. Explanations of accounting, valuation and consolidation methods which differ from German commercial law

74. General

Whereas under German commercial law the accounting principle of prudence and the protection of creditors have priority, the IFRS are more strongly directed towards the provision of information relevant to the decision-making processes of present and potential investors. This perspective leads to a series of reporting and valuation differences between the requirements of the German Commercial Code (HGB) as applied in individual financial statements of ATOSS Software AG and the International Financial Reporting Standards (IFRS) applied in the consolidated financial statements. The following notes describe the accounting, valuation and consolidation methods which differ significantly from the rules contained in the German Commercial Code.

75. Deferred taxes

Under the German Commercial Code deferred taxes should be carried only if there are time discrepancies between the calculation of results for commercial law purposes and the calculation of income for tax purposes (the timing concept). IAS 12 provides for more extensive tax deferrals which must on principle be formed in respect of all time differences between the tax accounts and the annual accounts as per IFRS, including any loss carry-forwards or potential future reductions in tax charges. Pursuant to IAS 12 adjustments in the value of deferred taxes carried as assets must be made if it is likely that these amounts cannot be realized. With regard to the prospective realization of deferred tax claims, IAS 12 requires an adequate probability. Whereas in the consolidated financial statements prepared in accordance with IFRS there is a duty to report all deferred taxes carried as both assets and liabilities, in the individual accounts prepared in accordance with German commercial law, § 274 II of the Commercial Code affords the right to choose whether to capitalize deferred taxes on the assets side and in accordance with § 306 of the Code it is merely necessary to carry deferred taxes on consolidation measures as assets and liabilities. In the present consolidated financial statements as per IFRS tax deferrals are formed for all temporary differences between the carrying values of assets and liabilities and their tax base.

In deviation from the requirements of the German Commercial Code, in financial year 2006 capitalized deferred taxes on loss carry-forwards for tax purposes were carried at a net EUR 57,674 (previous year EUR 89,236).

Moreover, deferred taxes on differences in the valuation of long-term construction contracts were carried as liabilities in the amount of EUR 253,347 (previous year: EUR 0).

In financial year 2006 as a result of annual surpluses at Group companies capitalized deferred taxes on loss carry-forwards in the amount of EUR 31,562 (previous year EUR 17,003) were reversed and taken to expenses.

76. Financial instruments

Whereas the German Commercial Code on the imparity principle requires that unrealized profits should not be shown but that unrealized losses should be anticipated, in accordance with IFRS securities are valued at market value. The Commercial Code would require that they be carried at the lower of cost or market, or at some lower attributable value.

Pursuant to IAS 39 financial instruments must be assigned to one of the categories "available for sale", "held to maturity", "loans and receivables" or "held for trading".

In the case of financial assets available for sale, changes in market value are recognized directly in equity.

IFRS require that investments held to maturity and loans and receivables should be valued at amortized cost using the effective interest method.

Financial instruments held for trading should be recognized in the income statement at market value - even if this may exceed their original cost.

German commercial law foresees that assets in these categories should be reported at cost of acquisition, less any necessary adjustment as appropriate.

77. Pension obligations

In accordance with IFRS pension plans and pension commitments are accounted for by the projected unit credit method. In addition to the cash value of pension contributions and accrued rights typically required by the German Commercial Code, IFRS also require that expected future increases should be taken into consideration.

78. Capital reserve

In financial year 2000 in accordance with SIC 17 stock market flotation costs amounting to EUR 3.6 million less the associated tax charge in the amount of EUR 1.8 were recognized in equity and offset against the share premium resulting from the issue of shares as part of the flotation. The capital reserve was thus reduced, whereas in accordance with the German Commercial Code these costs would have been recognized in the income statement. On the basis of a judgement by the European Court of Justice dated May 26, 2005, regarding input tax relief on flotation costs, in financial year 2006 input tax in the amount of EUR 166,528 originally deducted in the year 2000 was refunded to the Company in respect of the costs of its flotation. Just as the costs of the flotation were netted against the capital reserve, so this refund after adjustment for associated taxes was

allocated to the capital reserve in the amount of EUR 98,477, whereas the German Commercial Code would require it to be shown as extraordinary income.


79. Treasury stock

Pursuant to IAS 32, under International Financial Reporting Standards own shares held in treasury and the costs incurred in purchasing these shares are regarded not as a financial asset but as a deduction against equity, since treasury stock held by an undertaking is not available to the capital market. For this reason in the consolidated financial statements the treasury stock acquired in the years 2000 to 2005 is openly deducted from equity, whereas in the individual accounts of ATOSS Software AG prepared in accordance with the German Commercial Code these shares are reported specifically as assets.

80. Duty to provide information

The International Financial Reporting Standards require substantially more extensive information to be included in the Notes than is called for by the German Commercial Code.

Munich, February 02, 2007



Andreas F.J. Obereder



Christof Leiber

AUDIT OPINION

We have audited the consolidated financial statements prepared by ATOSS Software AG, Munich, comprising the balance sheet, the income statement, cash flow statement, statement of changes in equity and the notes to the consolidated financial statements, together with the group management report for the fiscal year from January 1 to December 31, 2006. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB [„Handelsgesetzbuch“: „German Commercial Code“] are the responsibility of the parent company’s management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

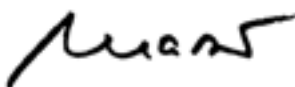
We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that 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 consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements

of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion. Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group’s position and suitably presents the opportunities and risks of future development.

Munich, February 2, 2007

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft



Marxer
Wirtschaftsprüfer



Dötsch
Wirtschaftsprüferin

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