



ATOSS®



**Annual Report 2005**

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

	2005				2004				Change 2005/2004
	until December	until September	until June	until March	until December	until September	until June	until March	
<b>Software</b>	<b>12,144</b>	<b>8,785</b>	<b>5,887</b>	<b>3,117</b>	<b>12,624</b>	<b>9,399</b>	<b>6,265</b>	<b>2,884</b>	<b>-4%</b>
Software licence	4,001	2,718	1,847	1,063	4,927	3,661	2,474	1,030	-19%
Software maintenance	8,143	6,067	4,040	2,055	7,697	5,738	3,791	1,854	6%
Consulting	4,963	3,627	2,462	1,215	5,798	4,286	2,898	1,368	-14%
Hardware	2,321	1,485	866	522	2,594	1,994	1,279	767	-11%
Other	988	670	351	175	810	590	337	153	22%
<b>Total Sales</b>	<b>20,416</b>	<b>14,566</b>	<b>9,566</b>	<b>5,030</b>	<b>21,826</b>	<b>16,268</b>	<b>10,779</b>	<b>5,172</b>	<b>-6%</b>
EBITDA	1,189	244	228	172	2,116	1,612	1,053	301	-44%
EBITCB	882	-28	-15	37	1,487	1,152	633	118	-41%
<b>EBIT</b>	<b>563</b>	<b>-267</b>	<b>-175</b>	<b>-43</b>	<b>1,230</b>	<b>968</b>	<b>535</b>	<b>85</b>	<b>-54%</b>
EBT	1,112	132	87	84	1,745	1,358	778	356	-36%
Net Income	459	-51	-32	9	877	682	445	207	-48%
Cash Flow	1,698	2,875	355	1,348	1,640	2,397	1,905	1,924	4%
Liquidity*	27,836	28,823	26,393	27,916	26,589	27,911	27,669	33,574	5%
EPS	0.12	-0.01	-0.01	0.00	0.23	0.18	0.12	0.05	-49%
Employees**	177	181	188	180	179	183	174	176	-1%

**CORPORATE OVERVIEW ACCORDING TO IFRS: QUARTERLY COMPARISON IN T€**

	2005				2004			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
<b>Software</b>	<b>3,359</b>	<b>2,898</b>	<b>2,770</b>	<b>3,117</b>	<b>3,225</b>	<b>3,134</b>	<b>3,381</b>	<b>2,884</b>
Software licence	1,283	871	784	1,063	1,266	1,187	1,444	1,030
Software maintenance	2,076	2,027	1,986	2,055	1,959	1,947	1,937	1,854
Consulting	1,336	1,165	1,247	1,215	1,512	1,388	1,530	1,368
Hardware	836	619	344	522	600	715	513	767
Other	318	319	176	175	221	253	184	153
<b>Total Sales</b>	<b>5,849</b>	<b>5,001</b>	<b>4,536</b>	<b>5,030</b>	<b>5,558</b>	<b>5,489</b>	<b>5,607</b>	<b>5,172</b>
EBITDA	944	17	55	172	504	559	751	301
EBITCB	910	-13	-52	37	335	520	515	118
<b>EBIT</b>	<b>830</b>	<b>-93</b>	<b>-132</b>	<b>-43</b>	<b>262</b>	<b>434</b>	<b>450</b>	<b>85</b>
EBT	980	45	3	84	387	580	422	356
Net Income	510	-19	-40	9	195	237	238	207
Cash Flow	-1,177	2,520	-993	1,348	-758	493	-20	1,924
Liquidity*	27,836	28,823	26,393	27,916	26,589	27,911	27,669	33,574
EPS	0.13	-0.01	-0.01	0.00	0.05	0.06	0.06	0.05
Employees**	177	181	188	180	179	183	174	176

\* Liquidity: Cash and marketable securities

\*\* Employees: end of quarter

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## Ladies and Gentlemen,

The 2005 business year was a difficult year for ATOSS Software AG.

Following the favorable development in orders in the first three months, there was a dip in the second quarter, while in the rest of the year, particularly in the fourth quarter, the position improved considerably. Against the backdrop of the change in business environment, spurred along by the good economic climate in the fourth quarter, we recorded a very positive operating profit, although it was not possible to match the previous year's figures.

The second quarter, with sales of just € 4.5 million (previous year, € 5.6 million), was below expectations, but we since managed to increase sales in each quarter. After a figure of € 5 million (previous year, € 5.5 million) in the third quarter, at € 5.8 million (previous year, € 5.6 million) in the fourth quarter, we were even able to exceed the previous year's figures. In parallel, we also saw a rise in earnings in the fourth quarter, with a highly satisfactory margin of 14% in terms of the operating result (EBIT).

Earnings in the year under review on the whole were, not least, influenced by business developments in a peripheral area (software solutions for business process management). We tackled the related challenges in this area and have decided not to pursue this peripheral area and to sell the software solution. This created a strain on earnings during the year under review, but as a result of the disposal of the AENEIS software solution, there will be considerable cost savings and extraordinary revenues in 2006.

### **Focusing on the core areas of working time management and personnel resource planning**

ATOSS Software AG focuses on the core activities of working time management and personnel deployment planning and thereby on the key concerns of our customers. In these areas we have a unique customer base of more than 3,200 customers who consider that our ATOSS Staff Efficiency Suite (ASES), ATOSS Start Up Edition (ASE) as well as ATOSS Time Control (ATC) meet their specific requirements. Our software solutions guarantee the most modern technology and outstanding depth of technical solution competence, combined with full investment protection thanks to our high equity ratio, the positive operating cash flow and a high level of research and development expenditure.

We see sizeable growth opportunities in our key areas of working time management and personnel resource planning, both in the premium customer market, comprising larger medium-sized companies and large customers, and in the market for small and medium-sized enterprises (SME market).

### **High level of expenditure on research and development**

We have consciously placed emphasis on new developments and the redevelopment of our solutions and therefore on the future potential of the business.

As a best of breed provider, we now face considerable challenges because our customers are increasingly demanding the lowest level of complexity in their IT solutions. Our response to this challenge has been the considerable levels of further technological development in recent years, which we intend to continue.

This entails combining in-depth solution competence in a totally transparent manner with regard to the existing system landscape and thereby minimizing the complexity for our customers whilst maximizing their flexibility. We have therefore continued to maintain our expenditure on research and development at a high level. In addition, we will be stepping up our investments in order to win new customers.

**Attractive return on equity after special outpayment**

At the Annual General Meeting on April 29, 2005, we stated that we would investigate the medium-term liquidity requirements of the Company when the annual financial statements were drawn up. After the steps were completed, the Supervisory Board and Board of Management decided to make a proposal at the Ordinary Annual General Meeting on May 2 2006 to distribute the liquidity not needed for operations. An amount of € 5.50 is therefore to be paid to each share

entitled to dividend. The shares held in treasury by ATOSS are not entitled to dividend in this case.

After the distribution, if the shareholders approve our proposal, ATOSS will still have an extremely comfortable balance sheet structure, an equity ratio of around 60% and a stable cash flow.

We therefore merely plan to release the equity capital not required for organic growth. If a promising opportunity should arise to acquire a stake or acquire a company in the future, ATOSS still has access to the capital market and the opportunity, through the utilization of the authorized unissued capital, to use treasury stock as currency for acquisition.

On the whole, we anticipate that in the future the capital market will attach greater value to operating business and its potential. On the basis of this altered equity capital base, our shareholders are afforded the opportunity to achieve an attractive capital yield.

**Considerable rise in earnings anticipated in 2006**

The Board of Management will continue to pursue a strategy of organic growth. The expansion of the customer base by the successful acquisition of new customers in the SME market in recent years and the associated gain in market share will continue to be pursued, while we also aim to win orders

in the premium market. Initial positive signs of these activities were the gratifying growth in software license sales in the fourth quarter and also in the first weeks of fiscal 2006.

In spite of this, we are, for the time being, maintaining our cautious outlook for 2006. We expect, however, even if sales do not rise, a considerable rise in earnings as a result of the cost measures already implemented and are aiming for a sales/EBIT margin of 5%. A continuing upturn of business in the premium market could, however, generate further improvement.

Yours sincerely,



**Andreas F.J. Obereder**  
Chief Executive Officer



**Christof Leiber**  
Board Member

A handwritten signature in black ink, appearing to read 'A. Obereder'.

Andreas F.J. Obereder

A handwritten signature in black ink, appearing to read 'C. Leiber'.

Christof Leiber

## Our Corporate Identity


### The ATOSS Vision

"We are shaping and designing far reaching changes in the employment world for the benefit of companies, employees and society. We are enabling more creative, intelligent and employee oriented ways of working and are thereby revolutionizing the interaction between the economy, society and working individuals."

### The ATOSS Mission

Every day we improve our customer's efficiency, support their ability to innovate and increase the motivation and satisfaction of their employees. Our service spectrum convinces increasingly more professionals of the benefits of Staff Efficiency Management.

Our employees excel in competence, personal accountability, team spirit and the satisfaction they experience in their expediently meaningful work performance. We cooperate openly with our customers and business associates. We cultivate intensive and partnership-based business relations and seize every growth opportunity that arises. We work hard at fulfilling our vision while generating profit and securing the future of our customers, employees and investors.



The ATOSS reception in Munich



## Investor Relations

### THE ATOSS STOCK

	In fiscal 2005	Previous year 2004
ISIN/SIN	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	44.55%	39.68%
Founder family	55.45%	54.83%
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	
Fiscal year	December 30	
First listing	March 21, 2000	
Stock market code	AOF	
Distribution	€ 0.11 (May 2, 2005)	€ 1.50 (April 23, 2004)
Dividend (proposed at AGM)	€ 5.50	
Earnings per Share	€ 0.12	€ 0.23
Annual high/low	€ 10.60 / 7.85	€ 15.75 / 8.11
Average price	€ 8.80	€ 11.38
P/E ratio high/low	82/60	69/35
Average for the year	68	49
Opening price January 2	€ 9.95	€ 14.72
Closing price December 31	€ 8.95	€ 9.80
Index ranking DBAG (TexDax)		
Rank MarketCap December 30	112	91
Rank Turnover December 30	134	67
Market capitalization at December 30	€ 36.03 million	€ 39.45 million

### ATOSS SOFTWARE AG SHAREHOLDER STRUCTURE



Founder family	55.45%
Free float	44.55%

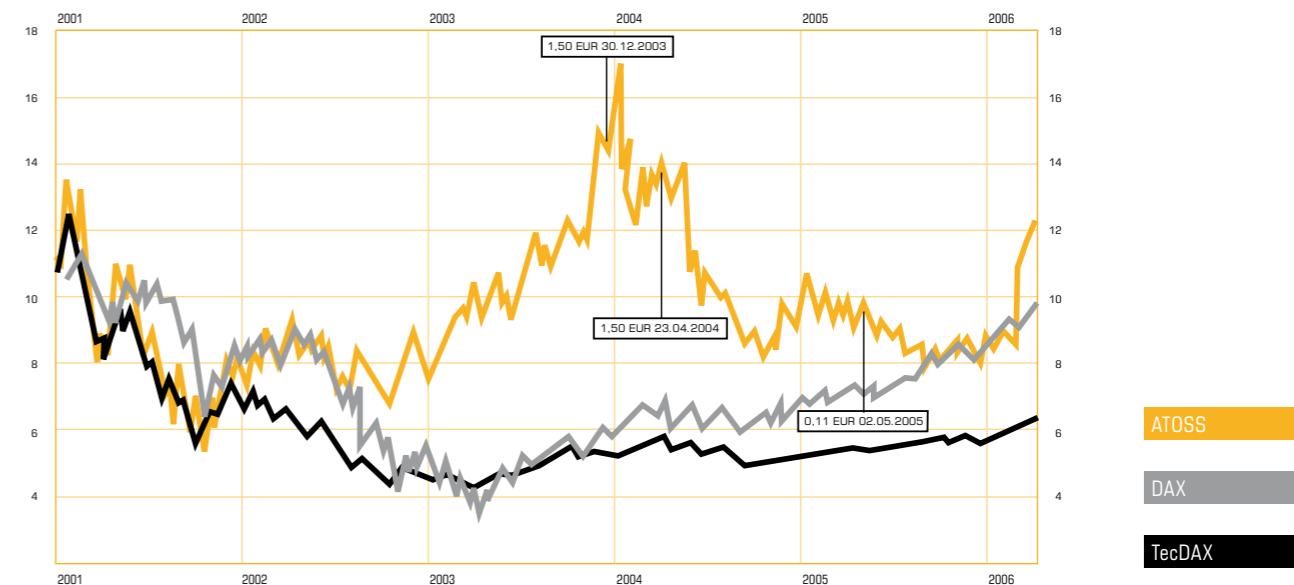
**Record results on European equity markets**

Share prices on European stock markets generally showed a very positive development during 2005. The German DAX index rose 27% and the TecDAX 15%, while even stronger growth was recorded in the Oslo All Share Index +52%, the Vienna ATX +51% and the Prague PHX +43%.

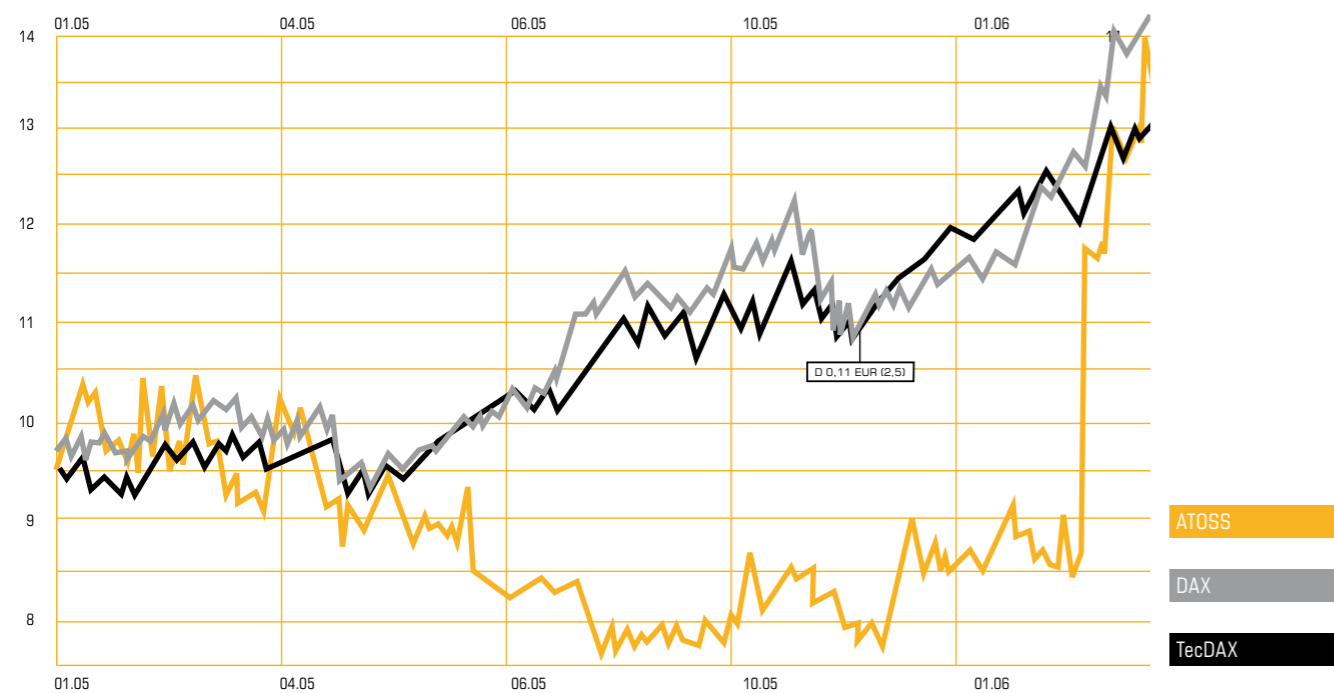
Conversely, in the USA investors were disappointed by comparatively small increases. The Dow Jones did not show any change compared with the previous year, while the most important index, the S&P 500 rose by just 3%.

**ATOSS stock shows positive trend in the last quarter**

Against the market background, the ATOSS stock was not involved in the generally satisfactory environment on the stock market over the past year. In the fourth quarter of 2005, however, prices did climb, rising considerably after the special distribution of € 5.50 per share and the 2005 figures were announced.



Kursentwicklung



**Charting process distorted by special dividend outpayments**

Unfortunately the special outpayments that we made in recent years are not reflected in the German charting process. Therefore the unadjusted chart for the ATOSS share is regularly compared with a benchmark with an adjusted index. For this reason, we indicated within the chart the distributions as well.

**Most researchers positive**

During the year, the ATOSS share was monitored and assessed on a regular basis by analysts. In addition to SES Research GmbH, ATOSS was covered by GBC German Business Concepts GmbH, as well as specialists from Betafaktor, the share trader, and MWB Wertpapierhandelshaus AG.

Since August, the assessments given have been predominantly positive. In a comprehensive analysis of ATOSS' opportunities and risks, analysts from SES upgraded the rank of our stock from market performer to outperformer. The core opinion expressed in their analysis was that at its prevailing price level, the share could be considered to be substantially undervalued and that it could be anticipated that

ATOSS will return to a two-figure margin. Against this background, SES valued the Company in the fall as an investment opportunity. After the rise in ATOSS' share price at the beginning of 2006, SES's analysts put the fair value at € 12.40 per share and stock adjusted their recommendation to "hold".

The number of shares held in treasury during the year fell to 150,058 compared with December 31, 2004, with a particularly notable drop in the fourth quarter as a result of the conversion rights arising from the employee convertible bonds participation scheme. In 2005 a total of 81,044 shares were transferred or sold from the ATOSS

Software AG fund to the employee deposit. As of December 31, 2005, we held 150,058 shares, acquired at an average cost of € 10.71 equal to 3.73% of the total capital stock.

**Only slight changes in shareholder structure**

At the start of the fourth quarter, we received notification from AXXION S.A., Luxembourg, that its voting rights in ATOSS Software AG had exceeded the 5% threshold on October 7,

and now amount to just over 6%. At the end of October, the number of shares held in treasury at ATOSS Software AG as a result of the exercise of convertible bonds fell slightly to 3.73%.

**KEY PER SHARE FIGURES**

	Q4/05	Q3/05	Q2/05	Q1/05	Q4/04	Q3/04	Q2/04	Q1/04	
in €									in €
High	9.21	8.78	10.10	10.60	11.55	10.70	15.75	16.00	High
Low	7.90	7.85	8.35	9.12	8.10	8.10	10.20	13.00	Low
Price at end of quarter	8.95	8.55	8.49	9.90	9.80	8.11	10.31	14.77	Price at end of the quarter
Number of treasury stock <sup>1)</sup>	150,058	203,566	206,101	206,334	231,102	231,102	234,635	204,653	Number of treasury stock <sup>1)</sup>
Dividend per share	0.00	0.00	0.11	0.00	0.00	0.00	1.50	0.00	Dividend per share
Cash Flow per share <sup>2)</sup>	-0.30	0.66	-0.26	-0.35	-0.26	0.13	-0.01	0.51	Cash Flow per share <sup>2)</sup>
EPS <sup>2)</sup>	0.13	-0.01	-0.01	0.00	0.05	0.06	0.06	0.05	EPS <sup>2)</sup>
Diluted EPS <sup>2)</sup>	0.12	0.00	-0.01	0.00	0.05	0.06	0.06	0.05	Diluted EPS <sup>2)</sup>
Liquidity per share <sup>2)</sup>	7.21	7.55	6.92	7.33	7.00	7.39	7.27	8.83	Liquidity per share <sup>2)</sup>

<sup>1)</sup> At the end of the quarter

<sup>2)</sup> Cash flow, financial resources (liquidity) and EPS: on average undiluted number of share in circulation

**Standort Deutschland 2006:  
Zukunftssicherung  
durch intelligentes  
Personalmanagement**



Eine Gemeinschaftsstudie  
von ATOSS Software AG,  
Frankfurter Allgemeine Zeitung und  
SRH Fachhochschule Heidelberg

Durchgeführt von Malsberger Whiteoaks

The issue of working time is in the focus of the political and economical occurrences. Which measures are applied by German companies in order to secure their location? Which working time models are preferred? How is the workforce deployment effectively scheduled and how satisfied are companies with the systems in use? Which support do they expect from the government? 258 Personnel Officers and Business Line Managers from the top 1000 Enterprises in Germany provide detailed information.

The results of the joint project of ATOSS, Frankfurter Allgemeine Zeitung and SRH Fachhochschule (University) Heidelberg will be published for the first time in March 2006.



## Supervisory Board Report on fiscal 2005

### Dear Shareholder,

The year 2005 did not see the hoped-for upturn in the economy. In spite of a robust export performance, Germany failed to experience notable growth due to the weak domestic demand throughout the year. In our Company's own sector of activity forecasts had to be downgraded. In addition, it was apparent that only international software companies achieved growth in other countries, while in Germany no growth was recorded. The Board of Management reacted to the changed environment primarily by introducing restructuring measures in one part of the business, which was fully supported by the Supervisory Board. A further decisive factor for the long-term success of the business was also the targeted and very high levels of investment in research and development, which have created tremendous technological advancements for ATOSS. Now we need to strengthen the Company's market access.

We are convinced that when these measures and further internal changes have been completed ATOSS Software AG will once again have a good basis to achieve future sales and earnings growth.

### Seven meetings of the Supervisory Board in 2005

During fiscal 2005, the Supervisory Board complied with its responsibilities under the Articles of Association and by law to advise the Board of Ma-

agement. The requirements to comply with the German Corporate Control and Transparency Act (KonTraG), the Transparency and Disclosure Act (TransPug), as well as the recommendations and proposals of the German Corporate Governance Code are taken into consideration during the course of our work.

In 2005, we held a total of seven meetings, which were attended by all members. Prior to the discussions with the Board of Management, internal meetings were held and the agenda also included the verification of the efficiency of our activity on a regular basis. The verification of the efficiency of the activity of our Supervisory Board also takes the form of self-assessment. In this case, our written recommendations are recorded and verified in our committee on an ongoing basis.

We were kept promptly and comprehensively informed by the Board of Management throughout the year both by means of written and verbal reports. The points on the agenda at our joint meetings included the current course of business, in particular, sales levels and the position of the Company, the further business strategy, product development, employees, investment and finance, risk management as well as other business events of particular importance. The members of the Supervisory Board were sent all the essential documents in timely fashion in order to prepare prior to the meetings.

In addition to these collective meetings, there were several teleconferences and various personal and telephone discussions. The chairman of the Supervisory Board in particu-

lar was in constant contact with the Board of Management and was directly involved in all decisions of prime importance. Decisions made outside the meetings of the Supervisory Board were adopted through a circular procedure.

The Supervisory Board gave verbal and written reports to the managers of individual departments on the information provided to it for verification as well as on the course of business and strategy primarily at the April and September meetings. In particular in these cases, the marketing strategy was examined and the acquired information was compared with existing reports. In addition the Board of Management also kept the Supervisory Board fully informed on a monthly basis in written form outside the general meetings. These reports always include an income statement, the cash flow analysis, the expenses of the individual departments, types of sales as well as advances made in the development of new products and current projects. In all cases, these documents are checked in detail on receipt by the Supervisory Board for plausibility, accuracy in terms of the comparative time and sector and completeness.

Due to the size of the Company and the fact that the Supervisory Board, in the interest of efficiency, has been intentionally restricted to comprise only three members, we once again refrained from forming any committees in fiscal 2005.

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

### At the meeting of March 9, 2005

The meeting of the Supervisory Board to approve the accounts for fiscal 2004 was also held on this date. Along with the Board of Management and the auditors, Ernst & Young AG Wirtschaftsprüfungsgesellschaft, Munich, the annual financial statements, the consolidated financial statements and the management report produced by the Board of Management were discussed in detail. The verifications carried out by the Supervisory Board did not give any rise to any reservations. The annual financial statements and the consolidated financial statements, which both received an unqualified report for fiscal 2004, were approved and the annual financial statements adopted. The Supervisory Board endorsed the proposal of the Board of Management regarding the appropriation of the balance sheet profit.

Furthermore the proposals for the agenda of the forthcoming ordinary general meeting of shareholders on April 29, 2005 were discussed and adopted.

In addition the Board of Management reported on the profitability of the Company, in particular the return on equity, business policy and other fundamental issues regarding business planning.

### At the meeting of April 6, 2005

The emphasis of this meeting was to extensively analyze the business position in the current fiscal year

2005. This meeting was also attended by all managers from the individual operating business units who gave explanations of the course of business and future prospects from their own perspectives.

### At the meeting of April 29, 2005

The meeting took place in conjunction with the ordinary general meeting of shareholders conducted beforehand, and whose proceedings formed a central part of the discussions. Discussions at these meetings also covered the expectations of the shareholder protection association representatives to allocate the Company's liquid resources to profitable investments or equally to make special distributions.

### At the meeting of June 27, 2005

The Supervisory Board analyzed the business development subsequent to the adjustment of the predictions made by the Board of Management on June 7, 2005.

### At the meeting of July 18, 2005

Following the report of the Board of Management and course of business in the first half of 2005, the agenda of this meeting included a report from Mr. Obereder regarding the structure of the marketing activities, investments and financial simulations up to the year 2007.

### At the meeting of September 28, 2005

Building on the presentation of the Board of Management at the meeting of July 18, the current position on development was presented to the Supervisory Board. Jointly with the Board of Management and the project managers invited for this purpose, market opportunities for the new developments were discussed.

### At the meeting of December 8, 2005

In the foreground of this meeting, which was mainly concerned with the presentation of the plans for 2006, the Supervisory Board was provided with the main planning documents for detailed verification.

At the meeting, the Board of Management firstly reported on the course of business in the first three quarters as well as the prospects for the whole of fiscal 2005. On this basis, the Board of Management gave the further clarifications regarding the planning for 2006. Financial planning and the forthcoming marketing activities, product management initiatives and marketing support were discussed in detail.

A further important point on the agenda was the adoption of the declaration of compliance pursuant to Article 161 of the Stock Corporation Act regarding the Corporate Governance Code in its version dated June 2, 2005.

### At the meeting of January 24, 2006

By way of preparation for the meeting to adopt the financial statements on February 22, 2006, the Supervisory

Board discussed the matter of a special distribution at an extraordinary meeting on January 24, 2006. After a detailed examination of the Company's capital requirements and presentation of the Company's equity capital structure, and the examination of the Company's asset, financial and earnings position, it was decided to propose a special distribution of €5.5 for each share ranking for dividend and to draw up the annual financial statements in a corresponding manner.

### Appointment of Ernst & Young AG as auditors

At the ordinary general meeting of shareholders held on April 29, 2005 in Munich, the shareholders appointed Ernst & Young AG, Wirtschaftsprüfungsgesellschaft, Stuttgart, Munich office, as the auditors for fiscal 2005. The auditing contract was issued with particular consideration to the regulations contained in ATOSS Software AG's corporate governance principles as regards the Supervisory Board's cooperation with the auditors.

The scope of the auditors' brief also included early risk detection and the declaration of compliance provided by the Board of Management and the Supervisory Board in accordance with Article 16 of the Stock Corporation Act.

### Meeting of the Supervisory Board of February 22, 2006 to adopt the financial statements

Within the correct period before the meeting to approve the financial statements, the members of the Supervisory Board were provided, for verification purposes, with the annual financial statements and annual consolidated financial statements drawn up by the Board of Management and which received unqualified certification by the auditors, as well as the management report on fiscal 2005. Prior to the meeting with the Board of Management and the auditors, the members of the Supervisory Board had an opportunity to examine and verify the annual financial statements.

The financial statements were discussed in detail with the Board of Management and the auditors at the meeting of the Supervisory Board to adopt the financial statements. The Supervisory Board agreed to the auditors' report in addition to the annual financial statements, consolidated financial statements and the report of the Board of Management. The 2005 financial statements and the consolidated financial statements of ATOSS Software AG were approved without reservation by the Supervisory Board and the financial statements were thus adopted. The Supervisory Board endorsed the proposal of the Board of Management regarding the appropriation of the balance sheet profit.

We would like to take this opportunity to sincerely thank the members of the Board of Management for their services and their reliable cooperation in fiscal 2005. We would also like to extend this thanks to all employees.

Munich, February 2006



Peter Kirn  
Supervisory Board Chairman



“Contrary to the common trend, there is a great demand for our four nursing homes – even outside our fraternity. The decisive reason is, that we value very highly the standard of the nursing quality, service, the medical equipment and interior furnishings. We are able to guarantee these high standards because we provide qualified nursing teams around the clock in the wards and because we keep well within our financial budget. In this aspect, our software for working time management is of great help to us.”

Schwester M. Vinzentia Moll, Managing Director and Head of the old people's and nursing home St. Michael in Munich

## Supervisory Board members and other Supervisory Board positions held

### Peter Kirn, Chief Executive of Kirn-Executive-Consulting GmbH, Böblingen

Mr. Kirn is also a member of the Supervisory Board of the following companies:

- Chairman of the Supervisory Board of NIIT Technologies AG, Mohnheim
- Chairman of the Supervisory Board of Wapme AG, Dusseldorf
- Vice Chairman of the Supervisory Board of businessMart AG, Stuttgart
- Member of the Supervisory Board of Unilog Integrata AG, Tübingen

### Bernhard Dorn, Management consultant, Leonberg

Mr. Dorn is also a member of the Supervisory Board of the following companies:

- Vice Chairman of the Supervisory Board of TDS AG, Neckarsulm
- Vice 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 Twenty 4 Help AG, Dortmund
- Member of the Supervisory Board of Inverto AG, Cologne

### Rolf Baron Vielhauer von Hohenhau, President of the Bavarian Taxpayers Association, Munich

Baron Vielhauer von Hohenhau is also a member of the Supervisory Board of the following companies:

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

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



ATOSS active – the team at the company marathon B2RUN 2005 in the Olympic Centre in Munich

## Group management report for 2005

### 1. Business and economic background

#### Economic climate

Since the summer of 2005, German industry has benefited from lively foreign demand, and since October, also from a slight improvement in orders from domestic businesses. During the year under review, exports once again proved to be the driving force for the German economy while private consumption did not create any positive momentum. According to the IfW (Kiel Institute for World Economy), German exports grew by 6% in 2005. On the whole, despite a revival from the end of the year onwards, economic growth was again disappointing, however, and research institutes predict a 0.9% rise in the gross domestic product (GDP). Meanwhile in the previous year, there was a 1.6% rise in the GDP.

#### Segmental environment and market background

In ATOSS's segment, according to the latest BITKOM (Bundesverband Informationswirtschaft, Telekommunikation und neuen Medien, Federal Association IT, Telecommunications and New Media) publications, there is supposed to have been a positive development in fiscal 2005. BITKOM estimates that sales grew by 2.6% in the ITC market while it expects sales in the software segment to rise by as much as 4.5%.

However, we were unable to confirm these positive signals for businesses with a focus on the domestic market either in reports or in the course of conversations with other software

companies. Throughout the year there were considerable fluctuations in the software license business. After a positive development in the first three months, a clear decline was noted in the second quarter, while the situation improved over the rest of the year. We assume that software sales in our market environment were at best unchanged on the previous year. The continuing reluctance to invest on the domestic market led once again to sharp competition among software companies that were not able to achieve the scale effects of an internationally active company, while software groups operating on international markets achieved growth from abroad.

It is therefore more meaningful to take a differentiated view of the national software markets rather than comparing export-intensive businesses with companies whose main markets are located in Germany. ATOSS Software AG is one of the software companies that mainly sell its products in Germany. The export sales share amounts to a mere 9% (previous year, 10%) and this share is mainly derived from German-speaking countries, with emphasis on Austria. This also corresponds to the Company strategy of firstly expanding the German market. However, ATOSS does have products in eight different languages, which are in use in nine different countries, as we naturally follow our international customers by providing them with services in their foreign locations.

#### ATOSS Software AG positioning

Since ATOSS was formed in 1987, it has set itself the target of improving the efficiency of personnel resources, which are particularly valuable in high-wage countries, through the use

of its products and solutions. Since then, ATOSS has concerned itself with customer problems in the fields of personnel demand measurement, working time modeling, working time management (time management, time studies and access control) and personnel deployment planning. Customers are offered valuable productivity enhancement in areas such as personnel deployment in addition to the spheres of "efficient materials flows" or "efficient product planning".

Since 1987 ATOSS has developed into a provider of integrated time management and personnel deployment planning solutions for customers in every sector and of every size. We consider ourselves to be a best of breed provider, which means the Company, which combines the highest standard of consultancy with a convincing solution depth in our areas, while at the same time remaining totally open to solutions provided by complementary providers.

We offer our customers the chance, in addition to the conventional efficiency enhancement approaches that have, to some extent, already been fully exploited, to further raise the momentum of productivity through flexible personnel deployment and therefore improve related cost factors.

Studies, such as the one conducted by Proudfoot Consulting in autumn 2005, on employment productivity as well as our own market surveys confirm

repeatedly that our market environment is gaining in maturity and that ATOSS has therefore positioned itself in a very future-oriented software niche market.

A considerable number of companies in all sectors of activity and all countries still lag far behind their actual potential. Businesses are currently only achieving 62% of their optimum production level, but could in fact raise this to 85%.

In this area, ATOSS, as a provider of complete solutions, has proven expertise, leading edge technologies and a strongly installed base. Against a background of our high equity ratio, the positive operating cash flow and the further technological development as a result of the continuously high level of investment, customers benefit from a high degree of protection of their investments.

Within our market we differentiate both in terms of the size of the customer's business and also as regards the individual sub-sectors of the market.

We make a distinction between the market consisting of small and medium-sized enterprises (SMEs) employing up to 500 employees, which is very large in terms of volume, and the premium market consisting of the larger and more sophisticated medium-sized companies and large scale customers. For the past two years we have

successfully covered the SME market through marketing partners. We do not envisage any market saturation in our areas of activity but individual orders are, however, comparatively small in size. ATOSS has grown considerably in the SME market in terms of the number of customers and the installed base and thereby in terms of market share. Despite existing challenges we do, however, see considerable opportunity for growth in the premium market for ATOSS as a specialist provider, as in this area there is definitely a strong demand for solutions to meet our customers' decisions.

The relevant sub-segments of the market for ATOSS are working time management (time management, time studies and access controls) and personnel deployment planning. Here we see a positive trend in access controls against a background of an increasing need for security amongst businesses. On the other hand, in the time management market among medium-sized and large businesses there is already a high degree of saturation. In this case, orders and new customers are mainly to be gained in the replacement business, while in the SME market, due to a considerably higher proportion of new purchasing, still holds growth opportunities.

ATOSS's major potential lies in the area of personnel resource planning. From a customer point of view, it is possible to significantly increase value-added through flexible personnel deployment, and through our personnel resource planning products we offer companies in high-wage countries mature solutions in this attractive and exciting area.

We estimate that only 20% of all businesses are operating in a fully flexible manner. Accordingly there is still a very large market for flexible personnel resource deployment, where there is very low degree of saturation and considerable need for an in-depth coverage.

#### **Business development**

In 2005, ATOSS Software AG generated revenues of EUR 20.4 million (previous year, EUR 21.8 million). As predicted, the previous year's figures were not matched. ATOSS adjusted its own predictions in June 2005 as no further revival in the software license market was anticipated.

While we were able to maintain the previous year's high level of new customers in the SME market during the year under review – ATOSS therefore not winning any new customers here – we did record one in the premium market. Existing customer business in the premium market did, on the other hand, show satisfactory growth and order intake rose considerably.

Accordingly, in fiscal 2005, it was not possible to implement an important aspect of the target growth strategy – to successfully address new premium customers and to win large orders. This is still, however, the central theme of our strategy.

#### **Growth in sales of software licenses and maintenance**

Software sales in 2005 produced revenues of EUR 12.1 million compared with EUR 12.6 million in the previous year. Software maintenance activities further increased revenues from EUR 7.7 million to EUR 8.1 million, while software licenses declined from EUR 4.9 million to EUR 4.0 million. The proportion of software sales in group sales rose from 58% to 59%. Software licenses individually accounted for 20% compared with 23% in the previous year and software maintenance for 40% of sales compared with 35%.

During 2005, software maintenance business accordingly once again showed a very satisfactory trend, while software licenses put in a very varied performance throughout the year. A considerable rise in software license orders at the end of the first quarter suggested an upturn, but this did not continue in the second quarter. It was only in the fourth quarter that a further upturn was noted.

#### **Consultancy revenues**

In 2005, ATOSS generated sales of EUR 5.0 million (compared with EUR 5.8 million) in the consulting area. Consultancy therefore accounted for 24% (previous year, 27%) of total sales. As stated in the quarterly report, following the organizational changes, ATOSS no longer shows individual sales from professional Services and consulting, as these are included under the heading of consultancy.

#### **Hardware and other revenues**

Hardware sales at EUR 2.3 million (EUR 2.6 million) were below the previous year. Hardware business therefore accounted for 11% of revenues compared with 12% in the previous year. Other revenues amounted to EUR 1.0 million compared with EUR 0.8 million in the previous year. These included notably identification media for time measurement and customer-specific programmer services.

#### **Business strategy**

The strategy of ATOSS Software AG is aimed at further extending marked growth rates through organic growth in time management and personnel deployment planning. Also from this viewpoint, in the third quarter the Board of Management decided to restructure its activities in the area of business process management on December 31, 2005. The restructuring will generate noticeable cost savings but will only show slightly negative effects on sales. In the fourth quarter of 2005, the Board of Management finally decided to dispose of the business process management software solution (AENEIS).

The foundation for the return to stronger growth rates is formed by high investments in research and development during 2004 and also in 2005, based on the growth strategy devised at the end of 2003. Overall, research and development expenditure has more than doubled since 2000.

New and further developments were considerably stepped up during the fiscal year. The purpose of the investments is the simple integration of ATOSS solutions into the most diverse system environments and therefore to

make them profitable for providers and customers, as well as ensuring their openness in terms of future platforms and architectures. In addition, this approach thereby secures absolute upward compatibility, and thereby protects data stock and business processes, also in the event of a leap into new technology worlds.

Based on leading edge technologies, ATOSS has therefore created the foundation to meet the requirements of any type of customer and sector by offering the most varied products and solutions within the entire area of efficient personnel deployment. In this way, the whole market potential can be reaped.

In addition to maintaining investment levels in time management and personnel deployment products and solutions, ATOSS will now commit more resources to expanding market access, and in order to continue to secure growth, also in the organizational structure. In future this will also include extension of the marketing team, including the implementation of various programs for young professionals and training programs, as well as the extension of the segmental expertise and inclusion of consulting into marketing activities.

#### **Research and Development**

In the context of the growth strategy, investments in research and development were maintained at a very high level in 2005. ATOSS considers it critical to be able to offer customers innovative solutions that deliver

measurable and clear benefits for their business processes. For this reason, targeted further development of existing and new solutions took on a central role in the investments of ATOSS. At December 31, 2005 ATOSS employed 52 (previous year, 54) software developers in the product development division.

In principle, ATOSS charges investments in further product development directly to current expenditure. Intangible assets produced in-house are therefore still not capitalized.

Particular emphasis was placed during the year under review on investing in ensuring the simple embedding of our solutions in various system environments. ATOSS succeeded in accomplishing this through the new Java versions of ASES (ATOSS Staff Efficiency Suite) and ASE (ATOSS Start Up Edition) in an impressive manner.

Our ATOSS Staff Efficiency Suite, a high-end solution, provides a complete software-protected concept for time management, which can be equipped with additional applications for various activity segments. ATOSS Start up Edition (ASE) and ATOSS Time Control (ATC) are notable for their particularly simple menu prompts. In this way, the ATOSS Startup Edition addresses customers using a wide range of platforms while ATOSS Time Control focuses on Microsoft system platforms. Important further developments were also made to ATOSS Time Control in connection with a new framework technology.

Since it was largely possible to complete the further development of existing products and to develop new products and solutions during the year

under review, the emphasis of investment will be now placed on market access (sales and marketing) as well as long-term investment in the organizational structure.

#### Subsidiaries and foreign business

All subsidiaries reported positive growth in fiscal 2005 and all companies generated a small profit.

The excess debt levels of foreign companies in previous years were again averted by means of letters of subordination from the parent company.

ATOSS Software S.R.L., Timisoara, Romania formed in the previous year, met its expectations in full. We successfully achieved the target set at the time of formation to sharply increase development capacities for ATOSS. The Company is particularly active in software maintenance and in customer-specific programming



Manual Staff Efficiency Suite 3

activities. The choice of this location as a result of its proximity to the Polytechnic University and the West University of Timisoara, has proved to be particularly appropriate. We have been successful in attracting promising young talent.

The subsidiary company in Paris, which has not performed any operating activities for a considerable period of time, was closed down.

ATOSS Software AG's foreign activities continue to be concentrated on the German-speaking core markets. The foreign revenues quota amounted to 9% after 10% in the previous year. ATOSS will wait at least until 2006 to tap into other markets as part of its growth strategy.

#### Officers, Employees, Personnel Trend

In 2005, the number of employees rose during the year, while the year-end figure of 177 compared with 179 as at December 31, 2004 showed a slight drop.

Some 52 (previous year, 54) of these members of staff were employed in product development, 50 (50) in consultancy and 38 (36) in sales and marketing. Personnel costs during the year amounted to EUR 12.0 million, and were therefore slightly lower than the previous year's figure of EUR 12.4 million. At December 31, 2005, there were 7 (5) trainee positions for aspiring office administrators and IT sales specialists.

During the year under review the Supervisory Board of ATOSS Software AG continued to consist of the following members - Peter Kirn (President), Bernhard Dorn (Vice President) and Rolf Baron Vielhauer von Hohenhau. There were no changes to the Board of Management in 2005 either, and Andreas F.J. Obereder remains as its President and Christof Leiber as Finance Director.

#### Corporate Governance

Since 2001, ATOSS Software AG has been reporting on its own measures in the area of Corporate Governance. The Board of Management and Supervisory Board take a critical look on a regular basis at the changes or renewals to the Corporate Governance Code. In 2002, the Company established and adopted corporate governance principles which in some cases are more extensive. In addition, in 2004 our own very comprehensive regulations on insider trading were adjusted to reflect the legal changes pursuant to the Anlegerschutzverbesserungsgesetz [Investor Protection Improvement Act]. In addition, insider registers are kept on a continuous basis and constantly updated while directors' dealings are notified immediately.

During the year, the Board of Management and Supervisory Board worked intensively on the changes in the Corporate Governance Code and legal requirements, and compared them with ATOSS's own principles to determine any differences compared with the code of conduct recommended under the German Corporate Governance Code.

The nature of the Code is such that it does not contain any extensive binding effects that would in principle exclude deviations or that would forbid the Company, as a result of specific

requirements during the course of its business, to deviate from the recommended code of conduct. Against this background, the Board of Management and Supervisory Board established that the recommendations of the Government Commission on the German Corporate Governance Code were not complied with only in minor areas considered to be insignificant to the Company

A new declaration of compliance was adopted with the Board of Management and published on the Company's website on December 9, 2004. In accordance with the declaration of compliance adopted and signed by the Board of Management and the Supervisory Board pursuant to Article 161 of the AktG [Stock Corporation Act] on December 8, 2005, all members of both boards declared that the code of conduct recommended by the Commission on Company management and supervision, appointed by the Federal Government, were complied with and will continue to be complied with, with the exception of the points described in the declaration.

The main points are as follows:

Existing insurance contracts pertaining to D&O insurance with no deductible are still in place. The members of the Board of Management and the Supervisory Board are of the opinion that the commitment and responsibility with which they conduct their duties cannot be improved through the inclusion of the deductible and therefore do not provide for such a measure.

Furthermore, the Supervisory Board, in accordance with the margin of discretion granted by the recommendations of the Commission, has refrained from setting up separate committees, particularly an audit committee, on the grounds of the specific circumstances and especially the size of the Company.

The Company has also decided not to adopt the recommendation of the German Corporate Governance Code to disclose the earnings program of the Board of Management. ATOSS Software AG is once again of the opinion that the earnings program is suitably disclosed in the notes to the consolidated accounts divided into the fixed and variable components and the individual presentation of participation in the Company's convertible bond programs. This information is also shown on the website. ATOSS does not consider a separate presentation of the earnings system as well as an individual presentation of the earnings of the Board of Management under the notes to the consolidated financial statements to be necessary.

Equally, an individual presentation of the earnings of the Supervisory Board members under the notes to the consolidated financial statements, as well as a record of the performance-related earnings components in the earnings system of the Supervisory Board has not been shown. The Shareholders' Meeting decided on the remuneration payable to the Supervisory Board

and the individual earnings can be derived from these decisions that are published on the Company's website such that it is possible to refrain from publishing these separately in the notes to the consolidated financial statements. In addition the Annual General Meeting granted convertible bonds with a term of 7 years to the members of the Supervisory Board in 2002 and 2004. Other performance-related earnings are not provided for and the Company has, in accordance the legal provisions, shown the earnings of all Supervisory Board members for their advisory activities in the notes to the consolidated financial statements as a total figure.

The recommendation of the Corporate Governance Code to link stock options and comparable programs to ambitious and relevant comparison parameters and of granting Board of Management members assurance of capping is not followed. In accordance with the legal standards for convertible bonds, the convertible bonds that have already been issued to the Supervisory Board and Board of Management members are not linked to any special performance criteria that must be fulfilled for the conversion rights to be

exercised and are not subject to any capping. Convertible bonds, however, also have other linkage effects as a result of the capital commitment for the term of the convertible bond inherent in this instrument. In the view of the Company, these effects are equally significant.

In addition, the German Corporate Governance Code recommends showing all notified directors dealings as well as the shares owned by the members of the boards in a Corporate Governance Report. The Company reports on the share ownership of each board member over a number of years in the notes to the consolidated financial statements. In addition, throughout the year directors' dealings are also published on the Company's homepage as well as in the "annual document" which also appears on the Company's homepage under the title of Corporate Governance. The Company does not therefore consider it necessary to repeat this information.

## 2. Earnings

In fiscal 2005, sales figures, which were below the previous year's level, and expenditure in connection with the restructuring measures in the second-half, had a negative effect on earnings. In fiscal 2006, these measures will, however, lead to noticeable savings and therefore to strengthening our profitability.

The lower earnings as a result of a decline in sales stem in particular from a reduction in the software licensing and consultancy business. The negative

impact on earnings as a result of the restructuring of business process management will, however, produce cost savings of approximately EUR 0.6 million in fiscal 2006. These resources will therefore be available to the working time management and personnel deployment planning core activities.

Earnings before interest, tax and the cost of the employee convertible bonds participation scheme amounted to EUR 0.9 million compared with EUR 1.5 million in the previous year. Earnings before interest and tax (EBIT) amounted to EUR 0.6 million compared with EUR 1.2 million in the previous year. Earnings before tax (EBT) amounted to EUR 1.1 million compared with EUR 1.7 million in the previous year. Earnings before tax (EBT)/revenues margin amounted to 5% (previous year, 8%). Net income reached EUR 0.5 million compared with EUR 0.9 million in the previous year.

Earnings per share also fell during the year to EUR 0.12 (previous year, EUR 0.23) - or a diluted figure of EUR 0.11 (previous year, EUR 0.22) - after the conversion of the outstanding convertible bonds.

In a difficult business climate, in particular due to strong activity at the beginning and the end of the year, ATOSS was able to record a profit for the full year. It should, however, be noted that it would have been possible

at any time to exert a positive influence on earnings by reducing the high level of expenditure on research and development. Against the background of the Company's longer-term business strategy, ATOSS consciously refrained from this option to maximize profits on a short-term basis.

Order intake for software licenses and software products during the year under review reached a total of EUR 4.3 million compared with EUR 4.8 million in the previous year. There were considerable fluctuations during the course of the year.

Software license orders stood at EUR 0.7 million at December 31, 2005 compared with EUR 0.3 million in the previous year.

## 3. Financial and asset position

Operating cash flow showed a very positive growth during the year rising from EUR 1.7 million (previous year, EUR 1.6 million) and contributed to a further increase in liquid funds (cash flow). This satisfactory development was, however, less to do with operating business than with the build-up of provisions compared with the previous year, which was characterized by a reduction of short-term provisions and comparatively high tax charges. Cash flow from investment activity amounted to EUR -0.4 million compared with EUR -0.6 million in the previous year. Cash flow from finance activities, after the payment of a considerably lower dividend compared with the previous year, was EUR -0.4 million after EUR -6.1 million in the previous year.

The balance sheet total amounted to EUR 33.1 million at December 31, 2005 compared with EUR 31.9 million at December 31, 2004.

Bank balances and securities rose as a result of the considerable decrease in distribution compared with the previous year from EUR 26.6 million to EUR 27.8 million. The investment policy for liquid resources remains extremely conservative. Accordingly, resources are still invested in gilt-edged, short-term fixed deposits. Liquid funds accounted for 84% of total assets compared with 83% in the previous year. Based on an average of 3,859,109 outstanding shares, liquidity per share amounted to EUR 7.21 as at December 31, 2005 compared with EUR 7.00 per share in the previous year.

Trade accounts receivable rose from EUR 3.4 million to EUR 3.8 million.

Short-term liabilities as at December 31, 2005 amounted to EUR 3.9 million compared with EUR 3.3 million in the previous year. They rose mainly as a result of the increase in other short-term liabilities and prepayments from EUR 0.4 million to EUR 0.7 million as well as higher tax provisions from EUR 0.1 million to EUR 0.4 million at December 31, 2005.

Short-term provisions arise mainly from obligations to personnel in respect of variable earnings and compensation which are paid in the following year. Appropriate provisions were also made for the cost of the financial statements and auditing expenses and anticipated charges. These are shown under Point 0 in the notes.

ATOSS Software AG's equity capital amounted to EUR 27.8 million at December 31, 2005 compared with EUR 27.0 million in the previous year representing a capital ratio of 84% compared with 85% as at December 31, 2004.

Research and development expenditure fell during the year from EUR 4.3 million to EUR 4.1 million. Of this

amount the major share of EUR 3.1 million (previous year, EUR 3.3) million was spent on personnel costs for the 52 (previous year, 54) software developers. Research and development spending continued to account for 20% of total sales.

In principle, ATOSS charges investments in further product development directly to current expenditure. Intangible assets produced in-house are therefore still not capitalized.

Investment in fixed assets fell again during the year from EUR 0.8 million to EUR 0.6 million.

#### 4. Supplementary report

Pursuant to an agreement dated December 21, 2005 and with effect from January 1, 2006, the Company sold all its rights in the AENIS software product to intellior AG. With effect from January 1, 2006, the buyer of the licensing rights takes on the existing obligations under the licensing and maintenance agreements.

#### 5. Risk report

In accordance with the business objectives of ATOSS Software AG, we endeavor, in our efforts to achieve ongoing organic growth, not to expose ourselves to unreasonable risk. In connection with our business activities, the Company is, however, exposed to various risks that can or do arise from changes in our environment.

In order to manage these risks, while at the same time utilizing the opportunities that arise for the Company, ATOSS Software AG has developed

a comprehensive risk management system. This is intended to minimize or avoid any risks and to only take those risks which are unavoidable in order to create value. The risk management system should ensure that possible risks are identified and continuously monitored.

This risk management system for the early recognition of risks that could endanger the further existence of the Company was further put to the test and gradually adjusted based on new factors and changes in operating business. ATOSS Software AG's Board of Management firmly believes that the risk management system is a fully comprehensible system which encompasses all the Company's activities which, based on a defined risk strategy, provides and ensures a systematic and permanent process.



"The Bene AG keeps to their promise: 5 weeks delivery time. This is exactly why we depend on the flexibility of our employees in the logistics and manufacturing industry. These complex working times on the basis of annual working time accounts, can only be managed economically with the support of a software. Our IT-solution provides us with precisely as much flexibility, as we expect from it. In future, we will be able to make adjustments to the systems 100% of the time by ourselves."

Prok. Felix Teuretzbacher, Chief Controller of the BENE AG, Waidhofen/Ybbs

The comprehensive risk reports of the Risk Management Committee were discussed in detail on many occasions during the year at meetings of the Board of Management. The Board of Management made several decisions during 2005 regarding the dealings with the possible risks listed in it and regarding the necessary or meaningful extensions of future reports. Amongst the possible or existing risks which the Board of Management dealt with during the year, including the risks regarding the marketability of new developments and further development of software as well as the possible risks regarding marketing, which may stem from changes in the competitive environment. In addition, the risk potential in areas such as the development of our own employees or cooperation with other businesses, are monitored and discussed in detail.

Further possible risks may arise inter alia as a result of technological changes in our own or external products or services in ATOSS Software AG's area of activity, changes in demand with the occurrence of new key points of interest, the loss of key personnel, IT security problems, increasing consolidation within our own

sector or target sectors or inappropriate investment decisions along with economic developments in general. ATOSS has therefore reduced its dependency on key personnel as previously identified through organizational measures. For the primary areas of activity we therefore ensured that in all cases several people had the necessary expertise in order to continue independently.

In addition, risks may also arise in the competitive environment, for instance as a result of technological innovations or further consolidation in the software sector. ATOSS meets these potential market and environmental risks by positioning the Company accordingly as a provider of total solutions and intensively monitors the competitive picture. The consistent procedures, in this background of extensive investment, have ensured that ATOSS has been able to distinguish itself sufficiently despite theme-based overlaps in certain areas of activity. The procedures employed up until this point do not, however, eliminate the risk that, for example, a larger consultancy business or a larger software provider will penetrate into ATOSS's core activities. However, we did not observe any intensive activities amongst the competition during the fiscal year.

The financial risk of a lasting reduction of financial assets is mainly addressed by ATOSS by establishing an extremely conservative investment strategy:

For the purpose of risks due to interest-rate changes and credit risk, a fixed-term deposit is invested with well-known banks on a short-term basis within the liability limits of the deposit guarantee fund. The market price risk of financial assets is therefore negligible.

Only the Austrian Company invests in an equity fund in accordance with legal requirements. Duties subject to the usual market price risks inherent to equity markets.

The quantification of the risk categories of financial instruments, as well as the corresponding sensitivity analyses as stated in IFRS 7.36-42, were omitted in line with the materiality principle as stated under IAS 1.31.

Trade accounts receivable are continuously assessed in terms of their realizability, and value adjustments are made if they lapse. Since the Company does not have one single customer which accounts for more than 10% of its sales, credit risk does not present a risk that could endanger the continued existence of the Company.

As a result of the very high level of short-term resources available, the Company is not subject to any form of liquidity risk.

The risks from existing or future customer contracts are also monitored on a permanent basis and evaluated. When expanding activities, we also invest to a large extent in expanding the expertise to implement and manage the relevant contracts.

In the area of legal risks or changes to regulatory requirements, damage to business may occur. As a stock market-listed public company, we are exposed increasingly to the risks that may arise from the fact that we may no longer be in a position to meet the numerous provisions and increasing amount of legal changes. ATOSS meets this risk by creating strict and formal processes and gives careful consideration to new or amended conditions in its own organizational structure.

The business, financial structure and profit growth may be reduced by the above-mentioned or other risks. In addition to these risks there are other risks, which are unrecognized or unknown at present, which also have a negative influence on our business. ATOSS will therefore continue to monitor risks and the effectiveness of

individual countermeasures. Despite constant adjustments to the risk management system, the identified risks can never be quantified completely with regard to the probability of their occurrence and their financial impact.

#### 6. Dividend

As already announced at the last Annual General Meeting, the Company examined its medium and long-term capital requirements for current business purposes and decided to distribute an amount of EUR 5.50 per share from the capital sums not required.

Accordingly, current investment in research, development and market access, which up until this point have been financed out of current cash flow, can be continued or even strengthened without restriction. Also after the distribution, the equity capital will offer a very high degree of security for customers, suppliers, investors and employees. The equity ratio will be at a comfortable level of approximately 60% at the year end.

#### 7. Outlook

##### Future economic and sector climate, future position of the Company

The prospects for an economic upturn in the German economy have improved since the beginning of December 2005. Early indicators such as the ifo-Index, as well as the growth projections of the research institutions, are rising. The German Ministry of the Economy is expecting the upward trend to continue in the coming year. In addition surveys conducted by industrial associations such as the Bundesverbandes der

deutschen Industrie (BDI) point to a distinctly better investment climate for German medium-sized companies. It is questionable whether this anticipated upturn in industry will also include the job market and private consumption.

For 2006, the latest predictions speak of economic growth of 1.4% to 1.6%. This provides a very positive contribution to domestic demand in particular for investments in equipment such as machinery as well as once again stronger exports. Exports, in the opinion of many experts, could even increase and the IfW reckons on growth of around 9%.

The IT sector, according to its professional association BITKOM, is anticipating a 2.4% growth in sales in 2006, while software companies should even achieve sales growth of 5%. In the latest December 2005 publications, approximately 70% of the companies questioned by BITKOM in the software sector expected sales and profits to rise.

We think it is still questionable whether the actual rise in investments from the market will lead to higher demand. We anticipate that compa-

nies such as ATOSS Software AG will generate growth themselves and must create their own market themselves. This method once again only achieves the desired result via new technologies, of successfully responding to large customers in particular and the winning of new market shares.

ATOSS Software AG will continue to consistently follow the organic growth strategy. The main challenge here is to win large orders in the premium market and to consolidate the basically satisfactory developments made in the SME market of recent years. We are confident of achieving growth here.

We are continuing to set ourselves the challenge of achieving a higher success rate in winning bigger orders from the premium sector.

Following the very high level of investment in recent years equal to of 20% of sales p.a., we now command the most modern Java-based technologies. As

a result of restructuring measures in the second half of the year, several cutbacks in our cost structure and changes in the organization structure, we have also released the necessary resources for investing in market access. In addition to continuing our high degree of commitment to research and development, we are planning to increase our marketing costs. Improving market access is a vital pre-requisite in order to be able to achieve considerable organic growth in the coming years.

For fiscal 2006, despite the first positive signs of an upturn in new orders for software licenses in January 2006, we continue to have a cautious outlook for the time being and anticipate a considerable rise in earnings even if sales do not rise. Our target is to achieve an EBIT/sales margin of 5% which we intend to achieve through the cost effects already in place. We also consider that this objective is further secured as a result of the successful disposal of the AENEIS product on 01.01.2006. Against this background we also expect operating cash flow to be positive once again. Furthermore, an upturn in business with the premium market could produce a rise in sales as early as 2006.

In 2007 we expect stronger business growth and a further improvement in the EBIT margin to 10%.

Munich, February 7, 2006

Andreas F.J. Obereder

Christof Leiber



"The decision for biometrical time recording has proved to be the most efficient and – this is especially important in the groceries industry – the most hygienic solution. With this we have taken a vitally important step towards the future. Since in future increasingly more companies will be convinced by the advantages of such systems."

Maximilian Schlicht, Head of Organisation at Vinzenz Murr

**CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 2005**
**ASSETS**

	Note	Dec, 31, 2005 in €	Dec, 31, 2004 in €
<b>Current Assets</b>	8		
Cash	27	27,831,181	26,583,788
Marketable securities	9, 28	4,804	4,756
Trade accounts receivable (net)	10, 29	3,788,143	3,381,824
Inventories	11, 31	12,660	14,143
Other current assets and deferred items	12, 32	343,994	470,278
<b>Total current assets</b>		<b>31,980,782</b>	<b>30,454,789</b>
<b>Long Term Assets</b>	13		
Fixed assets (net)	14, 33	369,694	454,129
Intangible assets (net)	15, 33	255,036	430,050
Deferred taxes	16, 34	487,272	571,790
<b>Total long-term assets</b>		<b>1,112,002</b>	<b>1,455,969</b>
<b>Total assets</b>		<b>33,092,784</b>	<b>31,910,758</b>

**CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 2005**
**LIABILITIES**

	Note	Dec, 31, 2005 in €	Dec, 31, 2004 in €
<b>Short-term liabilities</b>	17, 35		
Trade accounts payable	35	720,294	424,521
Short-term provisions	18, 37	1,390,546	1,416,383
Revenue adjustment items	19	694,549	610,575
Provisions for taxation	20	431,736	103,715
Other short-term liabilities	35, 38	651,986	699,834
<b>Total short-term liabilities</b>		<b>3,889,111</b>	<b>3,255,028</b>
<b>Long-term liabilities</b>			
Convertible bonds	21, 35, 39, 40	155,250	257,321
Pension provisions	22, 41	1,229,912	1,379,145
Deferred taxes	16	6	0
<b>Total long-term liabilities</b>		<b>1,385,168</b>	<b>1,636,466</b>
<b>Shareholders' equity</b>			
Share capital	43	4,025,667	4,025,667
Capital reserve	43	450,013	20,166,012
Treasury stock	23, 45	-1,670,304	-2,306,204
Profit	69	25,013,111	5,133,789
Changes in equity not impacting earnings	46	18	0
<b>Total shareholders' equity</b>		<b>27,818,505</b>	<b>27,019,264</b>
<b>Total liabilities</b>		<b>33,092,784</b>	<b>31,910,758</b>

**CONSOLIDATED INCOME STATEMENT FOR 2005**

	Note	Jan, 1, 2005 Dec, 31, 2005 in €	Jan, 1, 2004 Dec, 31, 2004 in €
<b>Revenues</b>	<b>24, 47</b>	<b>20,415,851</b>	<b>21,826,143</b>
Cost of sales	48	-7,050,941	-7,505,390
<b>Gross profit</b>		<b>13,364,910</b>	<b>14,320,753</b>
Marketing costs	49	-5,478,277	-5,854,794
Administration costs	50	-3,275,405	-3,379,100
Research & development costs	25, 51	-4,055,931	-4,272,030
Other operating income		7,396	415,337
<b>Operating income</b>		<b>562,693</b>	<b>1,230,166</b>
Interest and similar income	26, 53	549,032	608,636
Other expenditure	54	0	-93,675
<b>Income before taxes</b>		<b>1,111,725</b>	<b>1,745,127</b>
Income Taxes	65	-652,741	-867,990
<b>Net income for year</b>		<b>458,984</b>	<b>877,137</b>
Earnings per share (undiluted)	57	0,12	0,23
Earnings per share (diluted)	57	0,11	0,22
Average undiluted number of shares in circulation		3,859,109	3,798,047
Average diluted number of shares in circulation		4,084,105	4,065,300

**CONSOLIDATED CASH FLOW STATEMENT FOR 2005**

	Note	Jan, 1, 2005 Dec, 31, 2005 in €	Jan, 1, 2004 Dec, 31, 2004 in €
<b>Net income for year</b>	<b>57</b>	<b>458,984</b>	<b>877,137</b>
Depreciation on fixed assets	33	625,842	885,473
Loss on disposal of fixed assets	33	2,998	8,994
Profit from the sale of marketable securities	28	0	162,886
Change in deferred tax	34	84,524	138,699
Personnel costs arising from convertible bond program	39	319,325	257,253
Pension provision	41	-149,234	134,771
<b>Change in net current assets</b>			
Trade accounts receivable	29	-406,318	123,151
Other assets and deferred items	12	127,768	401,106
Trade accounts payable	35	295,773	-18,358
Short-term provisions	37	-25,837	-489,745
Revenue adjustment items	19	83,974	121,467
Provisions for taxation	34	328,021	-856,991
Other short-term liabilities	38	-47,848	-106,210
<b>Net cash generated from operating activities (1)</b>		<b>1,697,972</b>	<b>1,639,632</b>
<b>Cash flow from investment activities</b>			
Fixed assets acquired	33	-369,392	-603,834
<b>Net cash generated from investment activities (2)</b>		<b>-369,392</b>	<b>-603,834</b>
<b>Cash flow from financial activities</b>			
Cost of loan redemptions		0	-639
Dividends	69	-420,127	-5,731,548
Repayment capital reduction	44	0	195
Unrealized losses on financial resources	28	19	0
Revenues from the issue of convertible bonds	39	0	93,000
Cost of convertible bond redemptions	39	-23,200	-35,138
Revenues from the sale of treasury stock	23, 45	362,169	473,586
Cost of purchase of treasury stock	23, 45	0	-1,008,135
<b>Cash generated from financing activities (3)</b>		<b>-81,139</b>	<b>-6,208,678</b>
<b>Change in cash flow – Sum of (1) to (3)</b>		<b>1,247,441</b>	<b>-5,172,880</b>
Cash at beginning of year		26,588,544	31,855,097
Realized losses from the sale of marketable securities		0	-93,673
Cash flow at end of year		27,835,985	26,588,544
of which cash		27,831,181	26,583,788
of which marketable securities		4,804	4,756
Income tax paid		158,133	1,194,702
Interest paid		4,644	10,730
Interest received		612,718	1,172,552

**CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY AT DECEMBER 31, 2005**

	Share capital in €	Capital reserve in €	Treasury stock in €	Profit in €	Changes in equity not impacting earnings in €	Total in €	
Note number	43	44	23, 45	69	46		Note number
<b>As at January, 1, 2004</b>	<b>4,025,667</b>	<b>19,990,630</b>	<b>-1,936,400</b>	<b>9,988,200</b>	<b>-69,211</b>	<b>31,998,886</b>	<b>As at January, 1, 2004</b>
Net income for year 2004	0	0	0	877,137	0	877,137	Net income for year 2004
Dividends	0	0	0	-5,731,548	0	-5,731,548	Dividends
Purchase of treasury stock	0	0	-1,008,135	0	0	-1,008,135	Purchase of treasury stock
Sale of treasury stock	0	-90,436	638,331	0	0	547,895	Sale of treasury stock
Transfer to capital reserve from convertible bonds	0	257,253	0	0	0	257,253	Transfer to capital reserve from convertible bonds
Realized losses on securities	0	0	0	0	59,200	59,200	Realized losses on securities
Underpayment on convertible bonds	0	8,370	0	0	0	8,370	Underpayment on convertible bonds
Repayment capital reduction	0	195	0	0	0	195	Repayment capital reduction
Other changes in equity not impacting earnings	0	0	0	0	10,011	10,011	Other changes in equity not impacting earnings
<b>As at December, 31, 2004 / January, 1, 2005</b>	<b>4,025,667</b>	<b>20,166,012</b>	<b>-2,306,204</b>	<b>5,133,789</b>	<b>0</b>	<b>27,019,264</b>	<b>As at December, 31, 2004 / January, 1, 2005</b>
Net income for year 2005	0	0	0	458,984	0	458,984	Net income for year 2005
Dividends	0	0	0	-420,127	0	-420,127	Dividends
Sale of treasury stock	0	-194,859	635,900	0	0	441,041	Sale of treasury stock
Transfer to capital reserve from convertible bonds	0	319,325	0	0	0	319,325	Transfer to capital reserve from convertible bonds
Transferred from capital reserves	0	-19,840,465	0	19,840,465	0	0	Transferred from capital reserves
Other changes in equity not impacting earnings	0	0	0	0	18	18	Other changes in equity not impacting earnings
<b>As at December, 31, 2005</b>	<b>4,025,667</b>	<b>450,013</b>	<b>-1,670,304</b>	<b>25,013,111</b>	<b>18</b>	<b>27,818,505</b>	<b>As at December, 31, 2005</b>

As at December 31, 2005, one share corresponds to an arithmetical proportion of the subscribed capital of EUR 1.



ATOSS at the CeBIT 2005

## Notes to the accounts at December 31, 2005

### I. Headquarters and activity

ATOSS Software AG, headquartered in Munich, Germany, hereafter referred to also as "ATOSS" or the "Company" as a leading provider, develops and sells software licenses, software support, hardware and consulting services for the electronic support of all corporate processes involving the efficient deployment of personnel in companies and public institutions. Each of the ATOSS product lines consists of software modules that are used on the premises of large numbers of customers.

### II. Accounting and valuation methods

#### 1. International Financial Reporting Standards (IFRS)

These financial statements for the parent company and the subsidiaries were drawn up in accordance with International Financial Reporting Standards (IFRS). All the required standards and interpretations were taken into account.

Pursuant to Section 315a of the German Commercial Code (Handelsgesetzbuch), no consolidated accounts were drawn up in accordance with the German Commercial Code.

The accounting policies and valuation methods used in the previous year were retained. The new or amended standards pursuant to the International Accounting Standards Board's (IASB) Improvements Project were already applied on a voluntary basis in the previous year or did not have any effect on the asset, financial and earnings position of the Company.

#### New International Accounting Standards Boards (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) publications

In 2005, the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) published the following new standards, changes to existing standards and new interpretations, which were adopted by the Company on December 31, 2005:

- IFRIC 2 Shares in cooperative entities
- IFRIC 4 Determining Whether an Arrangement Contains a Lease
- IFRIC 5 Rights to Interests arising from Funds
- IFRIC 6 Electrical waste
- IFRS 4 Insurance policies
- IFRS 6 Exploration for and Evaluation of Mineral Resources
- IFRS 7 Disclosures Relating to Financial Instruments
- IAS 1 Presentation of Financial Statements
- IAS 39 Financial Instruments: Recognition and measurement

The European Commission published IFRIC 2 "Shares in cooperative entities" in the European Union Official Journal on July 8, 2005 thus transposing it into European law. The interpretation is to be applied for fiscal years beginning on or after January 1, 2005. IFRIC 2 does not have any effect on the Company's asset, financial and earnings position.

The European Financial Reporting Advisory Group (EFRAG) plans to recommend the adoption of IFRS 6 "Exploration for and Evaluation of Mineral Resources" into European law. IFRS 6 does not have any effect on the Company's accounts.

IFRIC 4 "Determining Whether an Arrangement Contains a Lease" published in December 2004 is aimed at companies which contractually set transactions or a series of transactions in a form, which in legal terms, cannot be considered to be leasing agreements, but do, however, confer the right to use assets exclusively and in return for consideration and therefore under certain circumstances may be required to be included in the accounts. The Company has examined its contracts accordingly and has come to the conclusion that its contracts were not explicitly entered into as leasing contracts and that no accounting transactions pertaining to leasing pursuant to IFRIC 4 are required.

Also in December 2004, IFRIC 5: "Rights to Interests arising from Funds" was published. As the Company did not make any issues, IFRIC 5 does not have any effect on the accounts.

The amended version of IAS 39 "Financial instruments: Recognition and Measurement" which was published in June 2005 and adopted by the EU Commission

on November 30, 2005 includes the Fair Value Option. This makes it possible under certain circumstances to report financial assets and liabilities at the fair value rather than at continued cost using the effective interest method. As at December 31, 2005 the Company had not made use of this option.

On August 18, 2005, the IASB published the new IFRS 7 "Disclosure of financial instruments". This standard governs disclosure requirements of financial instruments both for industrial companies and for banks and equivalent financial institutions. IFRS 7 replaces IAS 30 and its provisions amend IAS 32. The standard is mandatory for fiscal years beginning after January 1, 2007. The information in IFRS 7 relevant to the Company was already required to be published under IAS 32.

Along with IFRS 7, the IASB published changes to IAS 1 "Disclosure of accounting policies". Pursuant to this standard, companies must disclose the purpose and methods and processes used to manage the Company's capital.

A major provision of IFRS 7 is the disclosure of the fair value of all financial instruments. The Company has examined its financial instruments and established that the continued acquisition costs of the financial assets and liabilities at December 31, 2005 using the effective interest method are basically the same as the fair values. Changes in the fair values are recorded under expenditure and income. This excludes only securities classified as "available for sale" which are therefore shown under their market value. Fluctuations in market prices are shown directly under equity capital.

"We have decided to use ASP. That way, we have significant savings on the costs and time investment, which would normally result from the implementation and maintenance of the software and the internal data management. Furthermore, a substantial amount of time remains for focussing on the core business and we are able to check in cold print every month, precisely how much our system costs."

Claus Ruckenbrod, Director Human Resources, Lech-Stahlwerke GmbH



In addition IFRS 7 requires extension of risk reporting to the credit, liquidity and market price risk of financial instruments. Under Articles 289 and 315 of the German Commercial Code and DRS 5, the Company publishes its relevant findings from the risk management system in the Management Report under the title of Risk Report. A split between the categories of risk and the quantification of the risk categories of financial instruments, as well as the corresponding sensitivity analyses as stated in IFRS 7.36-42 were omitted in line with the materiality principle as stated under IAS 1.31.

Also in August 2005, the IASB published regulations on accounting for financial guarantees and credit insurance, which amended both IAS 39 „Financial instruments: Recognition and Measurement“ and IFRS 4 “Insurance Policies“. As a result of these changes, companies may choose whether to account for financial guarantees either under IFRS 4 or under IAS 39. These changes come into force for fiscal years beginning on or after January 1, 2006. The enforcement of these regulations does not affect the current annual financial statements of the Company as it does not use either financial guarantees or credit insurance.

IFRIC 6, which was passed at the end of August 2005, contains regulations on how the manufacturers of electrical and electronic equipment must account for their obligations arising from EU Guideline 2002/96/EG of Jan 27, 2003 (ElektroG) to dispose of old equipment. IFRIC 6 comes into force for fiscal years beginning on or after December 1, 2005. IFRIC 6 does not have any influence on the asset, financial or earnings position of ATOSS as it does not produce electronic equipment and does therefore not have any obligations to recover or recycle used equipment.

## 2. Reporting period

The accounts were drawn up on December 31, 2005 in respect of the fiscal year commencing on January 1, 2005 and ending on December 31, 2005. The fiscal year of all consolidated companies is the calendar year.

## 3. Reporting currency

The accounts are shown in euros. Amounts are rounded up to a whole euro.

## 4. Consolidated companies

In accordance with IAS 27.12, the companies are incorporated into the consolidated financial statements of ATOSS Software AG, Munich, by means of full consolidation. The financial statements were drawn up in accordance with national regulations and reconciled with IFRS stipulations.

Company name	Share of subscribed capital	Equity capital Dec. 31, 2005 in €	Annual income in €
ATOSS CSD Software GmbH, Cham	100%	342,594	27,420
ATOSS Software Gesellschaft mbH, Vienna	100%	-127,761	37,884
ATOSS Software AG, Zurich	100%	-7,580	8,596
ATOSS Software S.R.L., Timisoara	100%	11,633	10,882

Following the entry in the Trade Registry on October 7, 2005, ATOSS Software S.A.R.L., Paris, was wound up and the remaining assets transferred to ATOSS Software AG, Munich.

## 5. Consolidation principles

The consolidated financial statements include the parent company, ATOSS Software AG, Munich and all its subsidiary companies.

For the purpose of the consolidated accounts the national financial statements of subsidiary companies were correspondingly adjusted to the accounting and valuation methods used by the parent company. All transactions in addition to accounts receivable, provisions, liabilities and deferred items between the companies were eliminated.

In principle, the acquisition method was applied to the capital consolidation of the fully-consolidated companies in accordance with IFRS 3.16-65. In addition the applicable fair values of the assets given and the liabilities incurred or assumed on the exchange date as the cost values of the investments were offset against the equity capital shown by the subsidiary companies at the time of acquisition in accordance with IAS 27.22. The shares acquired in 2000 in ATOSS CSD Software GmbH, Cham were once again consolidated using the pooling of interests method in accordance with IFRS 1 B1.

## 6. Estimates made in preparing the consolidated financial statements

The preparation of the financial statements in accordance with International Financial Reporting Standards (IFRS) necessitates estimates and assumptions that influence the amounts shown in the assets and liabilities, the income statement and the information in the Notes to the accounts. The actual results may differ from the estimates.

## 7. Foreign exchange conversion

Balance sheet items in foreign currencies are valued at the exchange rate on the balance sheet date and expenses and income on the respective transaction rate. The corresponding foreign exchange gains and losses are recorded in the consolidated income statement.

The currency used by all consolidated companies is the euro.

## 8. Current assets

Due to their short maturities, the book values of the financial instruments such as cash, trade receivables and inventories roughly correspond to their market values. Marketable securities are valued at their market price. Cash sums are shown at market value. Time deposits are invested for a period of up to one year. Purchases and sales of financial instruments are accounted for on the settlement date.

## 9. Marketable securities

Marketable securities were classified as available for sale and shown at market value as in the previous year. In accordance with IAS 39.55b, the unrealized profits and losses were reported as changes in equity not impacting earnings which are shown as a separate component of Shareholders' equity. Realized profits and losses from the sales of securities are charged to the income statement account. If the market value of securities that are available for sale falls for anything other than a temporary period, the losses are treated as permanent and also charged as an expense.

The Company considers a fall in the market value of marketable securities which lasts longer than six months as other than temporary except where special circumstances indicate otherwise.

Interest income on securities is accounted for as comprehensive income in the income statement.

## 10. Trade accounts receivable

The receivables are trade receivables and are stated at their nominal value. Individual valuation adjustments are applied to receivables where there are recognizable risks.

Individual valuation adjustments are created to the value of the book value of the trade accounts receivable if the due date is exceeded by 120 days, and if this seems advisable after assessing the position of the customer in terms of its general payment pattern and creditworthiness. In the event of the insolvency of a customer, a trade account receivable in the amount of the book value is shown as a bad debt.

In the case of ongoing fixed-price and job contracts, the Company realizes the revenues using the percentage of completion method and shows these under receivables even in cases where a final bill has not yet been issued.

In principle trade accounts receivable are payable within 10 days. In the case of job contracts and fixed-price contracts, by way of exception, different payment dates may be granted which normally provide for payment flows linked to the achievement of specific milestones.

## 11. Inventories

In accordance with IAS 2.9, the Company values inventories at the lower of cost or the net realizable value. Inventories which are interchangeable are reported at cost using the First In First Out (FIFO) method.

Reasonable valuation adjustments are applied to all recognizable risks resulting from above-average storage periods or reduced usability.

## 12. Other current assets and deferred items

Other current assets and deferred items are shown at their nominal value. The prepaid and deferred items refer to expenditure before the balance sheet date that represent expenses pertaining to the subsequent financial year.

## 13. Non-Current Assets

The Company examines the carrying value of long-term assets on an annual basis in order to check whether the book value of these assets can still be achieved. A yardstick used in this case is to compare the book value and the recoverable amount regardless of whether anything points to an impairment. There is an impairment recorded if the recoverable amount is lower than the book value of the asset. The impairment expense is considered to be the amount by which the book value exceeds the market value of the asset.

No revaluations of long-term assets pursuant to IAS 16.29 and 16.31 et seq., IAS 38.75 et seq. or impairment losses pursuant to IAS 36 were applied during the year.

## 14. Fixed assets

Fixed assets are valued at acquisition cost minus scheduled straight-line depreciation. The depreciation period is between three and six years. Leasehold improvements are depreciated over the term of the tenancy, or over the estimated useful life if this is shorter.

The depreciation on tangible fixed assets is shown under the respective expenditure items in the income statement.

Low-value items with an acquisition cost of less than EUR 410 are written off in full in the year of acquisition, in line with the anticipated outcome of the consumption of the future economic benefit of the asset.

## 15. Intangible Assets

Intangible assets such as software are depreciated over the probable useful life of three to five years on a straight-line basis.

The depreciation on intangible assets is shown under the respective expenditure items in the income statement.

## 16. Deferred taxes

The Company reports the impact of deferred taxes that result from temporary differences between the book value of an asset and a debt in the financial statements prepared under IFRS and those under tax law in accordance with IAS 12.

Here it is assumed that the temporary differences will reverse and it will be possible to make use of them in full. Deferred tax claims and debts are, in view of the prevailing tax rates and tax laws, assessed as per the date when the temporary differences were reversed. The deferred tax claims also include deferred taxes on taxable loss carry-forwards in accordance with IAS 12.34. If the expected future results of a Company render the tax reduction improbable, appropriate valuation allowances are made for deferred tax assets.

The Company is subject to trade tax, corporate income tax and the solidarity surcharge.

#### 17. Short-term liabilities

The book values of financial instruments such as short-term loans and trade accounts payable are shown at their continued acquisition cost using the effective interest method which are to be equated with the fair value.

#### 18. Short-term provisions

Short-term provisions include all recognizable risks and uncertain liabilities. The amount applied as a provision represents, in accordance with IAS 37.36, the best-possible estimate of the expenses that would be required to meet the future obligation at the balance sheet date. The Company anticipates that the remaining term of the short-term provisions will be less than one year.

#### 19. Revenue adjustment items

The revenue adjustment items mainly include amounts billed and received in advance for maintenance services which are not provided until later periods and then become effective in revenue terms.

#### 20. Provisions for taxation

Tax provisions refer to the anticipated payment obligations to the tax authorities based on the current tax rates and tax regulations in force.

#### 21. Convertible bonds

Convertible bonds are considered to be compound financial instruments, which contain an equity component (the conversion right) and a liability component (the bond).

In addition the bond, as a liability component of all issued convertible bonds, is valued at the continuing cost using the effective interest method pursuant to IAS 39. The underlying additional charge resulting from the underpayment, being the difference between the nominal value and the cash value of the loan, is shown in the capital reserve.

The equity capital component, the conversion right, is decided after the date of issue: In the case of convertible bonds issued before the publication of the draft version of IFRS 2 on November 11, 2002, the conversion right is not treated as comprehensive income. Conversely, the equity capital components of convertible bonds issued after November 11, 2002 were valued at the cash value pursuant

to IFRS 2. The value of the conversion right is recorded as an expense over the expected period until the bonds are converted and shown under the capital reserves.

The Black Scholes model, developed to value the temporary value of this type of option which is not subject to any terms and is fully transferable, is used to measure the expenditure to be recorded. Since valuation models for options are based on subjective assumptions, real divergences from these assumptions can have lasting influence on the value of the options. In addition, the Company's convertible bonds are subject to further restrictions that can be compared only approximately with traded options, with the result that the valuation model does not necessarily produce a reliable value for the options.

Date	Number	Expected average terms in month	Risk-free interest rate	Standard deviation	Fluctuation	Value of expense over the full term
August 2003	62,000	60	3.80%	80.30%	10.00%	393,934
May 2004	52,000	60	3.80%	108.26%	18.00%	365,461
August 2004	36,000	60	3.70%	102.80%	18.00%	206,082
November 2004	5,000	60	3.40%	97.33%	18.00%	27,137

#### 22. Pension provisions

A non-forfeitable pension commitment exists for the benefit of the Chief Executive Officer of ATOSS Software AG, Munich, which is also classified as a performance-related feature. Under this plan, pension payments commence after 65 years of age. The benefits are granted for life. The employer's pension commitment changes during the pension claim period in the same measure as future adjustments to the Chief Executive Officer's fixed salary. In order to cover the pension commitment, the Company has taken out a private pension plan and the claims arising from this are transferred in the current fiscal year such that as that December 31, 2005 the plan assets from the private pension plan were to be offset in the amount of the fair value for the first time in accordance with IAS 19.54d within the scope of the defined benefit obligation.

The pension obligation is based on an expert actuarial report, which was drawn up on the basis of IAS 19 "Employee Benefits". The amount shown for the accrued and predicted pension obligations corresponds to the actuarial cash value which since 2005 has been reduced by the fair value of the plan assets. The rules of IAS 19.63 et seq. on benefit commitments were used as a basis.

In accordance with IAS 19 64f, the accrued benefit valuation method is applied. Under this method, the amount of the benefits earned in the individual units is considered as components which collectively give rise to the pension obligation. The pension cost results from the interest expense from the accrued pension rights and the period of service cost already accounted for at the cash value. The defined benefit obligation results from the dynamic cash value of the proportionate amounts of pension earned with consideration to the fact that the future accrued pension rights have already been proportionately earned.

The pension provision was calculated using an underlying interest rate of 4.25% (previous year, 5%), a salary trend of 2% (previous year, 2%) and a pension trend of 2% (previous year, 2%). Professor Klaus Heubeck's biometric tables from 2005 („Richttafeln 2005“) were used. The future interest rate on the plan assets was assumed to be an annual figure of 4%.

### **23. Treasury stock**

Company-held shares are reported at cost as a separate equity item.

### **24. Revenues**

The Company generates sales revenues by issuing licenses for software products to end users and retailers, from maintenance contracts as well as from services.

The income from the issue of licenses, in accordance with IAS 18.14, is considered to have been realized if:

- (a) the significant risks and rewards of ownership of the goods and products sold have been transferred and the usage right has passed over;
- (b) the Company does not retain any further right of control to the goods or services;
- (c) the amount of revenue can be measured reliably;
- (d) it is probable that the economic benefits associated with the transaction will flow to the seller, and
- (d) the costs incurred or to be incurred from the sale can be measured reliably.

The Company has also signed reseller agreements whereby resellers are granted discounts on the list prices. The license fees are always deemed to be realized when the product has been sold and delivered to the customer by the retailer.

Consulting revenues have a direct connection with services that are rendered under separate contracts. Under IAS 18.20, income from services is realized if:

- (a) the amount of the proceeds can be measured reliably;
- (b) it is probable that the economic benefits from the transaction will flow to the Company;
- (c) the degree of completion can be reliably determined at the balance sheet date, and
- (d) the costs arising from the provision of the service can be measured reliably.

Maintenance revenues are accrued over the term the maintenance service is provided.

Software licenses and maintenance revenues are generally sold together. The revenues are realized, in accordance with IAS 18.13, using the residual-value method since a market value can be assigned to the maintenance revenue.

In individual cases, job contracts and fixed-price contracts are agreed. In these cases, revenues and income are reported using the percentage of completion method if the conditions of IAS 11.23 are in place. The individual revenue components are realized to the extent of the portion of the project advancement of the services to be provided corresponds to the anticipated total volume of the services to be provided.

### **25. Research and development expenditure**

The Company charges the research and development costs of its software products to the income statement. The criteria of IAS 38.57, which provides for capitalization of development costs, were not met as the current products were originally developed partly in customer projects and it is not possible to reliably measure the future income derived from the development of individual functions and releases.

### **26. Borrowing Costs**

The borrowing costs for convertible bonds are recorded directly as an expense in accordance with IAS 23.7.

### III. Notes to the consolidated balance sheet

#### 27. Cash

	Dec, 31, 2005	Dec, 31, 2004
	in €	in €
Fixed-term deposits	24,807,304	25,185,212
Other cash sums	3,023,877	1,398,576
<b>Total cash</b>	<b>27,831,181</b>	<b>26,583,788</b>

Fixed-term deposits have a term of up to 6 months and bear interest rates of 2.05-2.47% p.a. Credit balances in current accounts carry interest at a rate of 2%.

#### 28. Marketable securities

Marketable securities are made up exclusively of fixed-income securities, as follows:

<b>SECURITIES AT DECEMBER 31, 2005</b>				
	Costs	Unrealized profits	Realized losses	Book value at Dec, 31, 2005
Securities Austria	4,786	18	0	4,804
<b>Total</b>	<b>4,786</b>	<b>19</b>	<b>0</b>	<b>4,804</b>

<b>SECURITIES AT DECEMBER 31, 2004</b>				
	Costs	Unrealized profits	Realized losses	Book value at Dec, 31, 2004
Securities Austria	4,785	0	30	4,756
<b>Total</b>	<b>4,785</b>	<b>0</b>	<b>30</b>	<b>4,756</b>

#### 29. Trade accounts receivable

Trade accounts receivable as at December 31, 2005 were subdivided as follows:

	Dec, 31, 2005	Dec, 31, 2004
	in €	in €
Gross receivables	3,808,098	3,491,276
Minus valuation allowances	-19,955	-109,452
<b>Net receivables</b>	<b>3,788,143</b>	<b>3,381,824</b>

At December 31, 2005 trade accounts receivable amounted to EUR 241,580 (previous year, EUR 81,798) and their credit terms were subsequently extended.

#### 30. Concentration of credit risk

The financial assets which are possibly exposed to a credit risk consist of cash, marketable securities as well as trade receivables. Liquid assets and marketable securities are invested at financial institutions with a solvent and solid financial background. The value adjustments for doubtful trade receivables at the year end date amounted to EUR 19,956 (previous year, EUR 109,451) based on the Management's assessment of recoverability. The Company does not require any form of collateral from its customers. The risk management system, which also covers risks arising from financial instruments, is described under Point 5 of the notes to the consolidated financial statements.

#### 31. Inventories

The book value of the inventories mainly relates to hardware components held by a subsidiary company, ATOSS CSD Software GmbH, Cham, which are stored in low volumes. As in the previous year, inventories were not written down in the current year.

#### 32. Other short-term assets

Other short-term assets consist mainly of tax refund claims.

### 33. Fixed assets

Changes in fixed assets in the financial year were as follows:

	Costs				Cumulative depreciation				Net book value	
	Jan, 1, 2004	Additions	Disposals	Dec, 31, 2004	Jan, 1, 2004	Additions	Disposals	Dec, 31, 2004	Dec, 31, 2004	Dec, 31, 2003
<b>I. Fixed assets</b>										
Technical equipment	354,721	16,090	4,391	366,420	277,409	51,695	2,740	326,364	40,057	77,312
Office equipment	2,385,818	305,912	40,514	2,651,215	1,978,715	340,356	33,476	2,285,595	365,620	407,103
Vehicle fleet	110,280	-5,587	15,541	89,152	42,395	13,845	15,540	40,700	48,452	67,885
	<b>2,850,819</b>	<b>316,415</b>	<b>60,446</b>	<b>3,106,787</b>	<b>2,298,519</b>	<b>405,896</b>	<b>51,756</b>	<b>2,652,659</b>	<b>454,129</b>	<b>552,300</b>
<b>II. Intangible fixed assets</b>										
Software	2,380,654	287,419	3,427	2,664,646	1,758,142	479,577	3,124	2,234,595	430,050	622,513
	<b>2,380,654</b>	<b>287,419</b>	<b>3,427</b>	<b>2,664,646</b>	<b>1,758,142</b>	<b>479,577</b>	<b>3,124</b>	<b>2,234,595</b>	<b>430,050</b>	<b>622,513</b>
<b>Total</b>	<b>5,231,473</b>	<b>603,834</b>	<b>63,873</b>	<b>5,771,433</b>	<b>4,056,661</b>	<b>885,473</b>	<b>54,880</b>	<b>4,887,254</b>	<b>884,179</b>	<b>1,174,813</b>

	Costs				Cumulative depreciation				Net book value	
	Jan, 1, 2005	Additions	Disposals	Dec, 31, 2005	Jan, 1, 2005	Additions	Disposals	Dec, 31, 2005	Dec, 31, 2005	Dec, 31, 2004
<b>I. Fixed assets</b>										
Technical equipment	366,420	5,231	0	371,651	326,364	14,815	0	341,178	30,473	40,057
Office equipment	2,651,215	211,340	49,824	2,812,731	2,285,595	269,349	46,826	2,508,119	304,612	365,620
Vehicle fleet	89,152	0	0	89,152	40,700	13,843	0	54,543	34,609	48,452
	<b>3,106,787</b>	<b>216,571</b>	<b>49,824</b>	<b>3,273,534</b>	<b>2,652,659</b>	<b>298,008</b>	<b>46,826</b>	<b>2,903,840</b>	<b>369,694</b>	<b>454,129</b>
<b>II. Intangible fixed assets</b>										
Software	2,664,646	152,821	0	2,817,467	2,234,595	327,835	0	2,562,430	255,036	430,050
	<b>2,664,646</b>	<b>152,821</b>	<b>0</b>	<b>2,817,467</b>	<b>2,234,595</b>	<b>327,835</b>	<b>0</b>	<b>2,562,430</b>	<b>255,036</b>	<b>430,050</b>
<b>Total</b>	<b>5,771,433</b>	<b>369,392</b>	<b>49,824</b>	<b>6,091,001</b>	<b>4,887,254</b>	<b>625,842</b>	<b>46,826</b>	<b>5,466,270</b>	<b>624,730</b>	<b>884,179</b>

### 34. Taxes on income

Tax provisions cover taxes on income for the past fiscal year. An explanation of the tax charges and income is shown under Note 56.

The deferred tax shown in the accounts is divided as follows:

	Dec, 31, 2005	Dec, 31, 2004
	in €	in €
ATOSS Software Ges.mbH, Vienna	282,547	317,899
ATOSS Software AG, Zurich	57,532	88,898
ATOSS Software S.A.R.L., Paris	0	138,544
<b>Loss carry-forwards of foreign companies</b>	<b>340,079</b>	<b>545,341</b>
Deferred tax assets on tax loss carry-forwards	89,236	157,043
Valuation allowances on deferred tax assets	0	-50,804
<b>Subtotal</b>	<b>89,236</b>	<b>106,239</b>
<b>Deferred tax assets an valuation differences</b>		
Pension provisions	378,174	411,832
Capitalized software	19,862	53,719
<b>Subtotal</b>	<b>398,036</b>	<b>465,551</b>
<b>Deferred tax charges and valuation differences</b>		
Securities	-6	0
<b>Subtotal</b>	<b>-6</b>	<b>0</b>
<b>Total</b>	<b>487,266</b>	<b>571,790</b>
	Dec, 31, 2005	Dec, 31, 2004
	in €	in €
<b>Tax income from deferred tax assets</b>		
from tax loss carry-forwards	0	4,276
<b>Tax charge from the reversal of deferred tax assets</b>		
from tax loss carry-forwards	-17,003	-23,752
on provision for building obligations	0	-67,689
on capitalized software	-33,858	-39,554
on pension provisions	-33,657	-11,979
<b>Tax income from the reversal of deferred tax liability</b>		
on securities	-6	0
<b>Total</b>	<b>-84,524</b>	<b>-138,699</b>

The loss recorded by ATOSS Software SARL, Paris, has been eliminated as a result of the winding up of the Company.

The Austrian Company's tax loss carry-forwards may be utilized indefinitely.

The Swiss Company's losses can be utilized for seven years. EUR 57,532 will lapse after 2007 if the sum has not been utilized by that date.

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

	Dec, 31, 2005	Dec, 31, 2004
Pre-tax income	100.00%	100.00%
Trade tax	-19.68%	-19.68%
<b>Profit subject to income tax</b>	<b>80.32%</b>	<b>80.32%</b>
of which: corporation tax 25.00%	-20.08%	-20.08%
5.5% solidarity surcharge on corporate income tax	-1.10%	-1.10%
Arithmetical portion of taxed earnings	59.14%	59.14%
<b>Arithmetical tax rate</b>	<b>40.86%</b>	<b>40.86%</b>

The conversion of the projected parent company tax charge to the actual tax charge under IAS 12.81 is shown as follows:

	Dec, 31, 2005	Dec, 31, 2004
	in €	in €
<b>Pre-tax income under IFRS</b>	<b>1,111,725</b>	<b>1,745,127</b>
Projected tax charge (2005: 40.86%, 2004: 40.86%)	-454,251	-713,059
Non-deductible operating expenses	-29,688	-29,450
Convertible bond expenses	-130,476	-105,113
Tax income as a result of the winding up of ATOSS SARL	-55,218	0
Taxes in respect of prior years	14,054	-6,385
Depreciation of goodwill	-9,077	0
Change in Austrian tax rate (re: deferred tax on tax loss carry-forwards)	0	-28,897
Change in valuation allowances on deferred tax assets	0	2,283
Lower tax rates for group companies	20,960	12,631
Correction of loss carry-forwards in previous years	-9,045	0
<b>Actual group tax charge</b>	<b>-652,741</b>	<b>-867,990</b>

### 35. Liabilities

The residual terms are shown separately in the liabilities table:

	Date	Due within 1 year	Due within 1-5 years	Due after 5 years	Total in €
Trade accounts payable	Dec, 31, 2005	720,294	0	0	720,294
	Dec, 31, 2004	424,521	0	0	424,521
Other short-term liabilities	Dec, 31, 2005	651,986	0	0	651,986
	Dec, 31, 2004	699,834	0	0	699,834
Convertible bonds	Dec, 31, 2005	0	73,376	81,874	155,250
	Dec, 31, 2004	0	252,464	4,857	257,321
<b>Total</b>	<b>Dec, 31, 2005</b>	<b>1,372,280</b>	<b>73,376</b>	<b>81,874</b>	<b>1,527,530</b>
	<b>Dec, 31, 2004</b>	<b>1,124,355</b>	<b>252,464</b>	<b>4,857</b>	<b>1,381,676</b>

### 36. Credit lines

There are unsecured credit lines for current account credits amounting to EUR 0.5 million (previous year, EUR 0.6 million) with the main banks of the companies incorporated into the financial statements. Borrowings (current account credits) within the scope of this arrangement are used as operating capital and for other general group purposes and carry interest at a rate of 6.45% (previous year, 7.75%). As in the previous year, credit lines were not used.

### 37. Short-term provisions

Short-term provisions basically consist of the following sums:

	Dec, 31, 2004 in €	Utilized in €	Released in €	Allocated in €	Dec, 31, 2005 in €
Provisions for salaries and commissions	842,827	842,827	0	736,322	736,322
Warranties	22,000	0	22,000	20,000	20,000
Projected deductions	192,351	170,884	21,467	178,832	178,832
Financial statements and auditing costs	146,050	111,589	34,461	152,646	152,646
Other personnel provisions	68,000	68,000	0	162,462	162,462
Other provisions	145,155	67,017	9,138	71,284	140,284
<b>Total</b>	<b>1,416,383</b>	<b>1,184,973</b>	<b>87,066</b>	<b>1,246,202</b>	<b>1,390,546</b>

The other personnel provisions include amounts for compensation, indemnities and potential legal costs from employment tribunals. In contrast to the figures published in the previous year, provisions for vacations in an amount of EUR 103,077 (previous year, EUR 138,104) are published under other short-term liabilities rather than in short-term provisions.

### 38. Other short-term liabilities

Short-term liabilities mainly consist of sales, salary and church tax charges as well as duties payable to the social security authority and vacation provisions. They are due within one year.

### 39. Convertible bonds

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

An employee convertible bond program (convertible bond program 2000/2010) was introduced in early 2000 with the issue of convertible bonds. On the occasion of the IPO and during the year, the employees were given the opportunity to subscribe to convertible bonds with a nominal value of EUR 1.00. A conversion price was set when the bonds were issued. The conversion price for the convertible bonds issued was set as the average from the last five trading days before issuance. After two, three and four years, employees may convert one third of their bonds into shares in the Company if they make up the difference from the conversion price. The 2000/I contingent capital of EUR 280,000 is for this purpose.

In fiscal 2002, at the Shareholders' General Meeting on May 22, 2002, the Company approved two convertible bond programs: convertible bond program 2002/2010 for the Supervisory Board members and convertible bond program 2002/2011 for the Board of Management members and Company employees. The 2002/II contingent capital amounting to EUR 50,000 and the 2002/I contingent capital of EUR 360,000 were partly used for this purpose.

In the convertible bond program for Supervisory Board members (convertible bond program 2002/2010), the Supervisory Board members were each granted the right to subscribe to 12,000 convertible bonds at a nominal value of EUR 1.00 each. A conversion price was fixed at the time the offer was made. The offer was made within two weeks of the publication of the half-year figures for fiscal 2002, and the conversion price corresponds to the average from the last five trading days before the offer was made. After two and three years, Supervisory Board members can on each occasion convert half their bonds into shares in the Company if they make up the difference from the conversion price. The term of the convertible bonds is seven years from the date of the offer.

The terms of the 2002/2011 convertible bond program for the members of the Board of Management and for the employees of the Company are the same as for the Supervisory Board program.

In 2004, at the Shareholders' General Meeting on April 22, 2004, the Company adopted a further convertible bond program for Supervisory Board members (convertible bond program 2004/2012). The terms are the same as those of the convertible bond program 2002/2010. The convertible bond program for Board of Management and Supervisory Board members of the Company (convertible bond program 2002/2011) was extended by three years and is now called the convertible bond program 2002/2014. The Shareholders' General Meeting approved the 2004/I contingent capital of EUR 50,000 for this purpose.

The following table shows the movements in the convertible bonds in circulation in 2005 and 2004 fiscal years:

<b>CONVERTIBLE BONDS</b>		
	Number of bonds	Weighted average exercise price in €
<b>Outstanding as per January, 1, 2004</b>	<b>282,777</b>	<b>8.12</b>
Issued in 2004	93,000	10.72
Exercised in 2004	75,718	6.13
Redeemed in 2004	35,138	8.05
<b>Outstanding as per December, 31, 2004</b>	<b>264,921</b>	<b>8.01</b>
<b>Outstanding as per January, 1, 2005</b>	<b>264,921</b>	<b>8.01</b>
Exercised in 2005	80,544	5.42
Redeemed in 2005	23,200	12.16
<b>Outstanding as per December, 31, 2005</b>	<b>161,177</b>	<b>8.71</b>

Following the authorization of the Shareholders' General Meeting on April 22, 2004, the exercise price for the convertible bonds outstanding at the time of the distribution was reduced, following approval by the Board of Management on June 18, 2004 and of the Supervisory Board on June 24, 2004, by the amount of the distribution of EUR 1.50 per share.

The following table summarizes the information on outstanding convertible bonds as per December 31, 2005:

Exercise price in €	Outstanding options	Contractual validity in years	potential exercise rights
<b>Current and former Board members</b>			
5.21	17,000	1.3	6,333
9.02	5,000	4.7	2,500
9.51	36,000	5.6	0
11.68	15,000	5.5	0
	<b>73,000</b>		<b>8,833</b>
<b>Employees</b>			
5.21	33,177	1.3	20,071
9.02	21,000	4.7	10,500
9.47	3,000	5.9	0
11.68	31,000	5.5	0
	<b>88,177</b>		<b>30,571</b>
<b>Total</b>	<b>161,177</b>		<b>39,404</b>

The obligations arising from the issue of convertible bonds are shown in the balance sheet under convertible bonds. These liabilities have a residual term of between one and six years.

The expense recorded from the valuation of the conversion right of the convertible bonds, calculated under IFRS 2, was EUR 319,325 (previous year, EUR 257,253).

#### 40. Convertible bonds held by current and former Board members

On the respective balance sheet dates, the ATOSS Software AG option rights held by Board members as a result of convertible bond subscriptions were as follows:

	Dec, 31, 2005 Number	Dec, 31, 2004 Number
Andreas F.J. Obereder	5,000	15,864
Christof Leiber	22,000	23,668
Dr. Burkhard Scherf	10,000	15,864
Peter Kirn	12,000	24,000
Bernhard Dorn	12,000	18,000
Rolf Baron Vielhauer von Hohenhau	12,000	24,000
<b>Total</b>	<b>73,000</b>	<b>121,396</b>

#### 41. Pension provisions

The pension expense results from the costs for the period of service and the interest expense.

	Dec, 31, 2005	Dec, 31, 2004
	in €	in €
Continuous period of service	75,801	74,479
Interest expense	64,972	60,292
<b>Pension expense</b>	<b>140,773</b>	<b>134,771</b>

The current service period is shown in the income statement under administrative expenses while interest expense is included under net interest. In 2006, the Company expects pension costs to amount to EUR 140,928.

The pension provision shown in the accounts is converted to the defined benefit obligation as follows:

	Dec, 31, 2005	Dec, 31, 2004
	in €	in €
Pension provision at as Jan. 01	1,379,145	1,244,374
Pension expense	140,773	134,771
<b>Subtotal</b>	<b>1,519,918</b>	<b>1,379,145</b>
less fair value of the plan assets	-290,006	0
<b>Pension provision as at Dec. 31</b>	<b>1,229,912</b>	<b>1,379,145</b>

The Company has transferred the claims from the private pension plan to cover pension commitments such that as at December 31, 2005, the plan assets from the private pension plan were to be offset in the amount of the fair value for the first time in accordance with IAS 19.54d within the scope of the defined benefit obligation.

The scope of the obligations is reflected in the balance sheet values as follows:

	Dec, 31, 2005	Dec, 31, 2004
	in €	in €
Defined benefit obligation as at Dec. 31	1,597,600	1,299,440
fair value of the plan assets	290,006	0
<b>Fund assets</b>	<b>1,307,594</b>	<b>1,299,440</b>
Unrealized gains and losses	-77,682	79,705
<b>Pension provision as at Dec. 31</b>	<b>1,229,912</b>	<b>1,379,145</b>

The movements in the fair value of the plan assets were as follows:

	Dec, 31, 2005	Dec, 31, 2004
	in €	in €
As at January 1	0	0
Contributions from previous periods	150,933	0
Contributions in current year	139,073	0
<b>As at December 31</b>	<b>290,006</b>	<b>0</b>

#### 42. Shareholders' equity

The movements in Shareholders' equity are shown in the statement of changes in Shareholders' equity.

#### 43. Share capital

Number of outstanding shares

The Company's capital stock is represented by 4,025,667 shares with a nominal value of EUR 1.00 each. All shares rank for full voting and dividend rights. The outstanding average number of shares during the year was 4,025,667 - less the 166,558 average number of shares held in treasury - therefore 3,859,109 shares (previous year, 3,798,047 shares).

ATOSS Software AG shares owned by current and former Board members  
Current and former Board members held the following amounts of ATOSS Software AG shares on the respective balance sheet dates:

	Dec, 31, 2005	Dec, 31, 2004
Andreas F.J. Obereder	1,971,184	1,946,184
Peter Kirn	13,760	11,260
Bernhard Dorn	13,000	7,000
<b>Total</b>	<b>1,997,944</b>	<b>1,964,444</b>

#### Authorized Capital

The Board of Management, as a result of a decision by the Shareholders' General Meeting on April 4, 2004, entered in the Commercial Register of the Munich Municipal Court on June 6, 2004, is authorized to increase the capital stock of the Company with the approval of the Supervisory Board on one or more occasions up to April 22, 2009 by EUR 2,012,833 through the issue of 2,012,833 new bearer shares in return for contributions in cash or kind, with the possibility of excluding the pre-emptive right of the stockholders (authorized capital 2004/I).

#### Contingent Capital

As a result of a decision by the Shareholders' General Meeting on February 16, 2000, entered in the Commercial Register of the Munich Municipal Court on March 10, 2000, the capital stock of the Company was increased conditionally by EUR 280,000 (Contingent Capital 2000/I). This contingent capital relates to the convertible bond program 2000/2010.

Furthermore, as the result of resolutions of the Shareholders' General Meetings on May 22, 2002, April 30 2003 and April 22, 2004, the capital stock of the Company was conditionally increased by EUR 360,000 (Contingent Capital 2002/I) to service conversion rights of members of the Board of Management of the Company, the managements of affiliated companies and other key individuals (convertible bond program 2002/2011), and was conditionally increased by EUR 50,000 (Contingent Capital 2002/II) to service conversion rights of members of the Supervisory Board (convertible bond program 2002/2010).

Finally, as a result of a decision by the Shareholders' General Meeting on April 22, 2004, entered in the Commercial Register of the Munich Municipal Court on June 11, 2004, the capital stock of the Company was increased conditionally by EUR 50,000 (Contingent Capital 2004/I) to service the conversion rights of the members of the Supervisory Board (convertible bond program 2004/2012).

#### 44. Capital reserve

In fiscal 2005, a sum of EUR 319,325 as a result of the convertible bonds issued in previous years and a sum of EUR 194,859 as a result of the sale of treasury stock was transferred to the capital reserves amounting to EUR 20,166,112 as at December 31, 2004. At the decision of the Board of Management, EUR 19,840,465 was transferred from the capital reserves to the balance sheet income. Capital reserves as at December 31, 2005 amounted to EUR 450,013.

The movements in the capital reserve are shown in the consolidated statement of shareholders' equity.

#### 45. Treasury stock

In December 2000, the Company repurchased 27,285 shares from a former Board of Management member at a price of EUR 10.00 per share. This price was slightly lower than the prevailing market price of EUR 11.00.

Following authorization given by the Shareholders' General Meeting on May 20, 2001, 21,715 shares in the Company were repurchased at prices between EUR 4.50 and EUR 10.00.

The Company continued to repurchase treasury shares in fiscal 2002 and 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 price of EUR 15.34. Some 23,107 own shares were used for the exercise of convertible bonds in 2003.

A further 75,718 treasury shares were used to service the convertible bond program in 2004.

A further 80,544 treasury shares were used to service the convertible bond program in 2005. At December 31, 2005 the Company held 150,058 of its own shares (previous year, 231,102) in treasury at an average price of EUR 10.71 compared with EUR 9.66 in the previous year. At the year-end date, there were therefore 3,875,609 shares in circulation (previous year, 3,794,565).

#### 46. Changes in equity not impacting earnings

The changes in equity not impacting earnings can be seen in the consolidated statement of shareholders' equity.

### IV. Notes to the consolidated income statement

#### 47. Cost of sales

2005 revenues were broken down as follows:

	2005	2004
	in €	in €
Software licenses	4,000,794	4,926,629
Software maintenance	8,143,371	7,697,010
<b>Total software</b>	<b>12,144,165</b>	<b>12,623,640</b>
Consulting	4,962,551	5,797,961
Hardware	2,321,111	2,594,186
Other	988,024	810,355
<b>Total revenues</b>	<b>20,415,851</b>	<b>21,826,143</b>

This includes EUR 196,833 (previous year, EUR 142,923) from applying the percentage of completion method in respect of sales not yet billed.

The Company has customers in all branches of industry and in the public sector. In fiscal years 2005 and 2004, no customer accounted for more than 10% of aggregate sales.

Revenues are distributed geographically as follow:

	2005	2004
	in €	in €
Germany	18,555,546	19,689,364
Austria	1,169,003	1,398,043
Switzerland	503,495	616,396
<b>Total German speaking countries</b>	<b>20,228,044</b>	<b>21,703,803</b>
Other countries	187,807	122,340
<b>Total</b>	<b>20,415,851</b>	<b>21,826,143</b>

#### 48. Cost of Sales

In addition to the cost of materials (hardware and other goods), the cost of sales includes the cost of purchased services and personnel and overheads for professional services arising from the provision of services.

	2005	2004
	in €	in €
Cost of materials (goods of resale)	1,935,184	2,185,298
Cost of materials (services)	190,941	273,952
Personnel expenses	3,617,843	3,717,580
Planned depreciation	249,462	467,399
Overheads	1,057,512	861,161
<b>Total</b>	<b>7,050,941</b>	<b>7,505,390</b>

This includes EUR 103,924 (previous year, EUR 97,969) arising from projects to which the percentage of completion method is applied.

#### 49. Marketing costs

Marketing costs comprise advertising costs, which are recorded with immediate effect under expenses, in addition to personnel expenses and overheads attributable to marketing activities. In 2005, marketing costs were broken down as follows:

	2005	2004
	in €	in €
Marketing personnel cost	2,959,833	3,348,845
Planned depreciation	166,144	137,020
Marketing overheads	1,767,252	1,652,632
Advertising expenses	585,048	716,297
<b>Total marketing costs</b>	<b>5,478,277</b>	<b>5,854,794</b>

#### 50. General and administrative costs

General and administrative expenses are broken down as follows:

	2005	2004
	in €	in €
Personnel expenses	2,314,536	2,077,544
Planned depreciation	113,356	143,858
Overheads	847,513	1,157,698
<b>Total general and administrative costs</b>	<b>3,275,405</b>	<b>3,379,100</b>

#### 51. Research and development expenditure

Research and development expenditure is broken down as follows:

	2005	2004
	in €	in €
Research and development personnel costs	3,080,678	3,280,057
Planned depreciation	96,880	137,198
Research and development overheads	878,373	854,775
<b>Total research and development expenses</b>	<b>4,055,931</b>	<b>4,272,030</b>

## 52. Personnel costs

Personnel costs in 2005 were broken down as follows:

	2005	2004
	in €	in €
Wages and salaries	9,864,719	10,096,675
Social security, pension and other benefits of which pensions EUR 311,331 (previous year, EUR 134,771)	1,788,846	2,070,098
Convertible bond expenses	319,325	257,253
<b>Total</b>	<b>11,972,890</b>	<b>12,424,026</b>

## 53. Interest income and expenditure

Interest income mainly relates to current interest income from fixed-term deposits while last year also included interest coupons on fixed-income securities.

## 54. Other income

Other income consists of income from realized gains on fixed-income marketable securities.

## 55. Foreign exchange conversion

Foreign exchange conversion costs amounted to EUR 10,937 in fiscal 2005 compared with EUR 8,183 in the previous year and expenses to EUR 5,559 (previous year, EUR 7,887).

## 56. Tax charge/income

The Company calculates its income tax based on the liability method in accordance with IAS 12.11. The liability method allows accounting for deferred taxes to reflect the tax effects of time-limited divergences between book values in the IFRS and the tax balance sheets and those of tax loss carry-forwards.

	2005	2004
	in €	in €
Current tax expenses	528,278	722,906
Deferred taxes	84,518	138,699
Tax refund (previous year, payment)	-14,566	6,385
<b>Tax charge</b>	<b>652,741</b>	<b>867,990</b>

## 57. Earnings per share

Earnings per share in accordance with IAS 33 are calculated by dividing the income for the year by the weighted average number of issued shares. In order to calculate the diluted earnings per share, the average number of shares was increased by adding the potential number of shares from bond conversions while the underlying net income used as a basis was increased by the net interest charge for the convertible bonds.

	2005	2004
	in €	in €
Net income for year	458,984	877,137
Weighted average number of outstanding shares	3,859,109	3,798,047
<b>Earnings per share</b>	<b>0.12</b>	<b>0.23</b>
Earnings effect from interest costs on convertible bonds	4,528	5,424
Net income adjusted for diluting effects	463,512	882,562
Dilution effects of convertible bonds	224,996	257,253
Weighted average number of outstanding shares after dilution	4,084,105	4,055,300
<b>Earnings per share (diluted)</b>	<b>0.11</b>	<b>0.22</b>

## V. Segment reporting

The Company only has one activity segment as defined in IAS 14 that consists of the provision, marketing and implementation of software solutions for efficient employee resource deployment. In line with the Company strategy, as a provider offer of complete solutions for time management and personnel deployment planning, software solutions consisting of software licenses, maintenance services, consulting services and delivery of hardware for time management and access control (resale goods) are offered in integrated form to customers and are comparable in their risk structure. The software solutions are used by smaller and medium-sized businesses in the SME market as well as by customers at larger medium-sized and big customers (premium market). The choice of the software solution depends mainly on the exact technical and specialist requirements of the respective customers. Only in terms of the marketing approach is a distinction made between the way the SME market and the premium market are addressed.

In geographical terms also, ATOSS only operates in one uniform segment in terms of risk structure, as defined under IAS 14, the German-speaking market - comprising Germany, Austria and Switzerland. In accordance with the provisions of IAS 14.35, from a group perspective, business in other countries is of minimal importance and is managed centrally by the ultimate parent company.

In the following tables, the Company shows sales revenues split between software solutions and the related software license, maintenance, consulting and hardware revenues as well as the respective contributions to earnings.

The individual software solutions consist of:

**ATOSS Staff Efficiency Suite (ASES) and ATOSS Startup Edition (ASE):** ASES and ASE software solutions for time management as well as personnel resource planning for customers in all segments of activity and of all sizes. These software solutions are normally provided with services to implement the software solutions within the customer's business and to train the customer's employees. Furthermore, consulting services are also provided, within the operational environment as well as with consideration to corporate or collective agreements to develop optimum solutions for the efficient deployment of personnel resources and to make meaningful use of the existing scope. The Company also markets hardware components for time measurement as well as recording media as resale goods. The ASES/ASE software solution is used on all the major market-accessible system platforms and databases and as a result of its extensive customization functions fulfills the very high demands of customers regardless of the size of the Company and the sector of activity.

**ATOSS Time Control (ATC):** ATC offers time management and personnel deployment planning for smaller and medium-sized customer groups as well as for large decentralized organizations. ATOSS also offers the corresponding services for ATC for implementation and training in the software solutions as well as consulting services for the efficient deployment of personnel resources. The Company also sells hardware and recording media. The ATC software solution runs on Microsoft Windows system platforms using the market accessible SQL databases and is notable for its particularly high degree of user friendliness and comfort amongst smaller and medium-sized customers as well as large decentralized organizations.

**AENEIS:** This is a software solution for business process management aimed at customers in all activity sectors and of all sizes, which is sold normally with implementation, training and consulting services for business process optimization. Until the third quarter of 2005 the AENEIS software solution was in principle covered from construction to marketing via implementation consultancy into the whole organizational structure. The final restructuring was completed with the disposal of the AENIS software solution under an agreement dated December 21, 2005 and its transfer with effect from January 1, 2006 to intellior AG.

Sales revenues consist of:

	2005	2004
	in €	in €
ATOSS Staff Efficiency Suite (ASES) and ATOSS Startup Edition (ASE)	18,566,958	19,329,749
ATOSS Time Control	1,339,773	1,630,509
AENEIS	509,120	865,885
<b>Total</b>	<b>20,415,851</b>	<b>21,826,143</b>

Earnings before Interest and Taxes (EBIT) were split as follows:

	2005	2004
	in €	in €
ATOSS Staff Efficiency Suite (ASES) and ATOSS Startup Edition (ASE)	1,233,889	1,427,028
ATOSS Time Control	77,146	131,654
AENEIS	-748,341	-328,516
<b>Total</b>	<b>562,693</b>	<b>1,230,166</b>

## VI. Notes to the consolidated cash flow statement

### 58. Cash flow from operating activities

Cash flow from operating activities for the period between January 1, 2005 to December 31, 2005 amounted to EUR 1,697,972 (previous year, EUR 1,639,632) and was therefore EUR 58,340 higher than in the previous year.

The fall in earnings, the higher trade accounts receivable as well as the rise in other current assets and deferred items in comparison with the previous year had a negative effect on the cash flow from operating activities in fiscal 2005. The positive influences included the non-cash effects of depreciation, the formation of provisions and the personnel costs of the convertible bond program.

### 59. Cash flow from investment activities

Cash flow from investment activities for the period between January 1, 2005 until December 31, 2005 amounted to EUR 369,392 (previous year, EUR 603,834) and was therefore EUR 234,442 lower than in the previous year.

The factors which influenced the cash flow from investment activity in fiscal 2005 were investments in fixed assets amounting to the sum of EUR 369,392.

### 60. Cash flow from financial activities

Cash flow from financing activities for the period between January 1, 2005 and December 31, 2005 amounted to a negative figure of EUR 81,139 (previous year, EUR -6,208,678) thereby EUR 6,127,539 lower than in the previous year.

The main factors which influenced cash flow from financial activities in fiscal 2005 were the cost of dividend as well as revenues from the sale of shares held in Treasury.

## VII. Other information

### 61. Supervisory Board

The members of the Supervisory Board are:

<b>Peter Kirn</b>	Chairman, Chief Executive of Kirn-Executive-Consulting GmbH, Böblingen
<b>Bernhard Dorn</b>	Deputy Chairman, management consultant, Leonberg
<b>Rolf Baron Vielhauer von Hohenhau</b>	President of the Bavarian Taxpayers Association, Munich

The members of the Supervisory Board held further Supervisory Board mandates at the following companies as per December 31, 2005:

<b>Peter Kirn</b>	businessMart AG, Stuttgart
	NIIT Technologies AG, Mohnheim
	UNILOG Integrata AG, Tübingen
	Wapme AG, Dusseldorf
<b>Bernhard Dorn</b>	AXA Service AG, Cologne
	Inverto AG, Cologne
	TDS AG, Neckarsulm
	Twenty4help AG, Dortmund
	United Internet AG, Montabaur
<b>Rolf Baron Vielhauer von Hohenhau</b>	ce Consumer Electronic AG, Munich
	Pro Cura Buchprüfungs AG, Augsburg

The fees of the Supervisory Board amounted to EUR 76,250 compared with EUR 72,500 in the previous year. In the previous year, EUR 16,000 was paid in respect of additional expenses claims in connection with the committee activities of the members of the Supervisory Board. No payments were made for advisory activities which were outside the activities of the Supervisory Board in 2005.

### 62. Management Board

The members of the Board of Management are:

<b>Andreas F.J. Obereder</b>	Chief Executive Officer
<b>Christof Leiber</b>	Board Member

The emoluments of the Board of Management for the fiscal year were broken down as follows:

	2005 in €	2004 in €
Fixed emoluments	513,619	543,832
Performance-related earnings during year	0	82,365
Compensation	0	103,255
Income from convertible bond redemptions	32,907	0
<b>Total fees</b>	<b>546,526</b>	<b>729,451</b>

As at December 31, 2005, amounts receivable from Board of Management members totaled EUR 25,000 as a result of advances of variable earnings not achieved. The amounts attributable to the fiscal year are shown contrary to the presentation used in previous years.

### 63. Business transactions with closely-related persons

Business transactions took place with the wife of the Chief Executive from whom the Company rents business premises in Meerbusch. These consist of 1,176 square meters of office space rented at a cost of EUR 228,804 (previous year, EUR 228,804), including incidental expenses. The Company is confident that this reflects market conditions.

Furthermore the wife of the Board of Management Chairman provides services to the Company. In 2005, the value of these services amounted to EUR 19,656 (previous year, EUR 25,428). These services were provided under normal market conditions.

There were no further transactions in fiscal 2005 with members of the Board of Management, the Supervisory Board or their relatives other than the processes stated in Point 61 (Supervisory Board) and Point 40 (convertible bonds held by current and former Board members) as well as Point 41 (pension provisions).

### 64. Employees

At December 31, 2005 there were 177 employees compared with 179 in the previous year, while the average figure for the year was 182 compared with 179. Excluding the Board of Management, trainees and interns, the average number of employees was 166 compared with 161 in the previous year.

The quarterly average number of employees was as follows:

	2005	2004
Sales and Marketing	39	39
Consulting	51	52
Development	54	48
Administration	38	40
<b>Total</b>	<b>182</b>	<b>179</b>
including trainees	6	6
including temporary workers and interns	8	10
including Board of Management	2	2

### 65. Financial Commitments

Financial commitments exist in respect of rental and leasing agreements. The Company leases its vehicle fleet and servers from various leasing companies. The leasing arrangements are treated as operating leases as all the risks and opportunities which are connected with the ownership remain the responsibility of the lessor. In some cases, leases are extended when they expire. There is no purchase option at the end of the term. In accordance with IAS 17.33, the leasing payments are recorded as an expense in the income statement on a straight-line basis throughout the periods.

The Company leases various office and business equipment for an annual sum of EUR 12,029 with flexible termination options.

Office space is rented at the Company's locations. The leasing and rental agreements do not include any purchase options or price adjustment clauses.

The future rental and lease payments for subsequent financial years consist of the following:

	Rental payments in €	Lease payments in €
2005	691,786	491,130
2006	675,777	364,491
2007	267,237	176,883
2008	161,360	53,815
2009	0	2,610
after 2009	0	0

Total expenses under rental and lease agreements amounted to EUR 1,159,208 (previous year, EUR 1,192,008).

### 66. Post balance sheet events

Pursuant to an agreement dated December 21, 2005, the Company sold all its rights to the AENEIS software product to intellior AG for a price of EUR 435,000 with effect from January 1, 2006. With effect from January 1, 2006, the buyer of the licensing rights takes on the existing obligations under the licensing and maintenance agreements.

### 67. German Corporate Governance Code

In accordance with Section 161 of the German Stock Corporation Act, the declaration of compliance with the Corporate Governance Code was issued on December 8, 2005. The full wording of the declaration is available on the Internet under [www.ATOSS.com/ATOSS/de/Company/Investor\\_Relations/Corporate\\_Governance/default.htm](http://www.ATOSS.com/ATOSS/de/Company/Investor_Relations/Corporate_Governance/default.htm). The Board of Management and Supervisory Board issue an annual statement on the recommendations of the Corporate Governance Commission and report on it in the Annual Report.

#### **68. Release of the consolidated financial statements**

This report was released by the Board of Management on February 2, 2006 and then presented to the Supervisory Board, which may make changes to the report up to and including at the meeting of the Supervisory Board held to approve the accounts on February 22, 2006.

The Board of Management is satisfied that all of the statements and figures provide a true picture of the commercial position of the Company, the assets, the financial and earnings position as well as the cash flow.

#### **69. Distribution of income**

The Supervisory Board and Board of Management propose to use the balance sheet profit for fiscal 2005 of EUR 25,013,111 to distribute a dividend of EUR 5.50 to all shares that qualify for dividend. The remaining balance sheet profit will be carried forward. Based on the information currently available, the Company assumes that any shareholders not holding a substantial proportion of the Company's shares, shall be liable in respect of EUR 0.24 per share to capital gains tax and shall receive an amount of EUR 5.26 per share tax free.

### **VIII. Explanatory notes on the accounting, valuation and consolidation methods that diverge from German commercial law**

#### **70. General**

While German Commercial Law places emphasis on the conservatism principle and creditor protection, IFRS places more focus on providing information that assists present and potential investors with decision-making. This produces a whole series of recognition and valuation differences between the principles applied in the individual accounts of ATOSS Software AG under the provisions of German Commercial Law and the International Financial Reporting Standards (IFRS) applied to the consolidated accounts. In accordance with the requirements of Article 292a II number 4 of the German Commercial Code, the accounting, valuation and consolidation methods that differ significantly from the German Commercial Code regulations are shown below.

#### **71. Deferred taxes**

Under the German Commercial Code, deferred taxes only need to be applied if there are timing differences in the calculation of results under German Commercial Law and income tax calculation. Under IAS 12 there is a much more detailed distinction of deferred tax. In principle, the figure is to be formed from all timing differences between the tax accounts and the IFRS statements, including any existing loss carry-forwards or possible future tax reductions. Under IAS 12, value adjustments should be made on deferred tax assets if it is anticipated that the amounts will not be realized. As regards the prospects of the realizability of the deferred tax claims, IAS 12 requires reasonable probability. While in the IFRS consolidated financial statements there is an obligation to recognize all deferred

tax assets and liabilities, in the individual financial statements under German Commercial Law pursuant to Article 274 II of the German Commercial Code, there is an option to capitalize the deferred tax assets, while under Article 306 of the German Commercial Code, in addition, only deferred tax assets and deferred tax liabilities are recognized in consolidation procedures. In these IFRS consolidated statements, deferred taxes were formed for all timing differences between the IFRS balance sheet and the tax balance sheet.

In contrast to the provisions of the German Commercial Code, in fiscal 2005 deferred tax assets were recognized on tax loss carry-forwards in a net amount of EUR 86,955 (previous year, EUR 106,239).

In fiscal 2005, as a result of the group companies' annual surpluses, deferred tax assets on loss carry-forwards were reversed and charged in an amount of EUR 19,284 (previous year, EUR 23,752).

#### **72. Marketable securities**

Under the German Commercial Code, in accordance with the imperative principle, unrealized profits are not shown but unrealized losses are anticipated, while under IFRS securities are shown at market values. The provisions of the German Commercial Code they are recognized at acquisition cost or the lowest of the stock market or market price or at their attributable value if lower.

Under IAS 39, financial instruments, according to the categories they belong to "available for sale", "held to maturity" or "trading", are either reported at the market value (also via the original cost figure) or the market change is reported directly in the equity capital.

#### **73. Pension obligations**

Under IFRS benefit plans and pension commitments are accounted for using the projected unit credit method. IFRS also takes account of anticipated future rises in addition to the normal cash values of the pension contributions and the benefits.

#### **74. Capital reserve**

In fiscal 2000, under SIC 70, the stockmarket flotation costs of EUR 3.6 million, less the related tax costs of EUR 1.8 million, were not expensed and were offset against the premium from the shares issued at the time of the IPO. Accordingly the capital reserves fell whereas under the provisions of the German Commercial Code it would have been treated as a comprehensive item.

#### **75. Treasury stock**

IAS 32 does not regard treasury stock and the costs of purchasing these shares as a financial asset but as a deduction from shareholders' equity as the treasury shares owed by the Company are not available on the capital market. For this reason, the treasury stock acquired between 2000 and 2004 is shown separately from the shareholders' equity in the consolidated financial statements while in ATOSS Software AG's individual accounts under the German Commercial Code they are shown separately as an asset.

**76. Disclosure obligations**

Considerably more detailed information is required to be disclosed in the notes to the accounts under IFRS in comparison with the provisions of the German Commercial Code.

Munich, February 7, 2006

Andreas F.J. Obereder

Christof Leiber

## ATOSS at B2RUN 2005

Despite the smouldering heat, around 30 ATOSS employees headed for the start at the Munich Olympic Stadium together with more than 700 other teams of participating companies. The route lead through the Olympic Park for more than 6,75 km and ended with a final sprint to the finishing line in the Stadium.

ATOSS offered optimum support in the form of drinks and fruit for their athletes. Immediately after the contest, a little party reception was held to celebrate the athletic successes. The sun set over the Olympic Stadium and the party was still going on...



Coubertinplatz

## Audit opinion

We have issued the following opinion on the consolidated financial statements and the group management report:

We have audited the consolidated financial statements prepared by the ATOSS Software AG, München, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1, 2005 to December 31, 2005. 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 § 315a Abs. [paragraph] 1 HGB are the responsibilities 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 § 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.

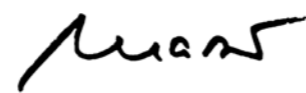
Our audit has not led to any reservations.

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 § 315a Abs. 1 HGB and full IFRS 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 7, 2006

Ernst & Young AG  
Wirtschaftsprüfungsgesellschaft



Marxer  
German Public Auditor



Dötsch  
German Public Auditor

## Impressum

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