

**Quarterly Report 3.2004**



**ATOSS<sup>®</sup>**



Andreas F. J. Obereder  
Chairman of the Executive Board



Christof Leiber  
Executive Director

**Economic environment:**

Business in general and the sector in particular lacking in dynamism

**ATOSS:**

Sales and results developing as expected  
Growth strategy yielding initial positive effects

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## Dear Shareholders, Ladies and Gentlemen,

Even though the pace of the economic upturn in Germany is already slackening once more, the mood in the IT and telecommunications industry has brightened in recent months. Nevertheless, we have yet to detect any increase in investment confidence in our specific sector.

ATOSS specializes in software solutions covering all aspects of intelligent staff deployment. We operate in an attractive and propitious niche market, which continues to promise considerable growth potential. To exploit this potential, however, it is essential to offer not just a selection of individual services but a consistent, end-to-end solution covering all aspects of intelligent personnel deployment.

This includes future-oriented development technologies, which in particular support open and flexible integration with existing system environments, as well as an in-depth knowledge of work time management and specifically of the growing market for need-oriented staff deployment planning.

### Growth strategy yields initial positive effects

The growth strategy employed by ATOSS took over at the point at which our strategy formulated in the year 2000 reached its conclusion last year. In 2003 ATOSS successfully completed an approximately three-year period in which the company's profitability was continuously and markedly enhanced. We have become a very lean organization, and further significant increases in profits can now only be achieved through sales growth. In order to move on to a substantially more dynamic stage, however, we considered it essential to first place ATOSS on as secure a footing as possible offering the best future prospects. We therefore resolved to implement some extensive changes within the company. These measures will be completed by the end of the current financial year, with the result that we anticipate noticeable effects in the coming year 2005.

However a closer examination of our business activities in the third quarter reveals that some initial positive results are already appearing. While sales in the reporting period at € 5.5 million

were approximately on a par with the year before (€ 5.6 million) and turnover for the year as a whole to date at € 16.3 million is still lagging some 6% behind the comparable figure for 2003, there has been a pleasing development in business with new customers.

Based on orders received as of September 30, 2004, the proportion of software licensing accounted for by new customers stood at 61%, against 52% the year before. The number of new customers in the SME segment (small and medium-sized enterprise) has risen by nearly 30% in comparison with the prior period and our total customer base has accordingly increased by around 10%.

This substantial rise in new clients is driven primarily by the expanding number of installed solutions in the SME segment. As of September 30, this segment accounted for 27% (previous year 20%) of software licensing orders received. This positive development shows that our strategy of focussing on the SME market is already bearing fruit. We are confident that we have expanded our market share in this field and we intend to pursue this element of our strategy with consistency.

In addition, it is significant that in the third quarter ATOSS achieved sales rivaling those of the second quarter without booking individual orders of notable magnitude.

Whereas the figures for April to June 2004 were positively influenced by a major software order in the traders and retailers segment from EDEKA Minden-Hannover Holding GmbH.

Against this background with consolidated sales of € 16.3 million (previous year € 17.4 million), ATOSS has once again produced positive results. However, these fell short of the very strong figures for the previous year due to the impact of our wide-ranging program of measures on business operations. We recorded profits from ordinary activities (EBIT) of € 1.0 million (previous year € 1.7 million) with an EBIT margin of 6%. Cash flow was positive at € 2.4 million, while liquidity amounted to € 28 million. Thus with a capital ratio of 81% (previous year 72%), our balance sheet continues to be extremely strong.

### Growth strategy expected to bring results in 2005 in the premium small business and major customer segments

Our success in the SME segment has confirmed that the element of our growth strategy aimed at aligning ATOSS as a full-range supplier to small and medium-sized enterprises is correct. Nevertheless, some further essential elements of our strategy aimed at the premium small business segment and major customers are still to be implemented. To this end our necessary endeavors continue undiminished.

We remain confident that all of the steps necessary for the successful implementation of our growth strategy will be completed in the current fourth quarter. All requisite preconditions will then be in place to allow ATOSS Software AG with effect from financial year 2005 to derive positive benefits in its business dealings with both new and established customers in the premium small business and major customer segments likewise.

Ladies and Gentlemen,  
The financial year 2004 and in particular the first two quarters have been hampered – even more so than we had ourselves anticipated at the start of the year – by the many and varied actions necessitated by our growth strategy. As we reported at the end of the first half-year, we will not be able to make up this shortfall before the end of the current fourth quarter. On the other hand, ATOSS continues to dispose over an extremely solid balance sheet and therefore also over a sound basis for long-term future-oriented technological advances. It is on this foundation that our growth strategy is built. In turn, this strategy will create the conditions to support significantly greater growth potential than would otherwise have been possible!

Yours truly,



Andreas F. J. Obereder  
(Chairman of the Executive Board)



Christof Leiber LL. M.  
(Executive Director)

### CONSOLIDATED OVERVIEW: Nine month comparison to September 30 in T€ (as per IFRS)

	2004		2003		Change 2004 over 2003
	from 01.01. to 30.09.	Proportion of total sales	from 01.01. to 30.09.	Proportion of total sales	
<b>Sales</b>	16,268		17,392		-6%
<b>Software</b>	9,399	58%	9,406	54%	0%
of wich software licensing	3,661	23%	3,933	23%	-7%
of wich software maintenance	5,738	35%	5,473	31%	+5%
<b>Consulting</b>	4,286	26%	5,006	29%	-14%
of wich professional services <sup>(1)</sup>	3,397	21%	3,628	21%	-6%
of wich consultancy	889	5%	1,378	8%	-35%
<b>Hardware</b>	1,994	12%	2,075	12%	-4%
<b>Miscellaneous</b>	590	4%	905	5%	-35%
<b>EBITDA</b>	1,612	10%	2,426	14%	-34%
<b>EBITCB</b> <sup>(2)</sup>	1,152	7%	1,677	10%	-31%
<b>EBIT</b>	968	6%	1,658	10%	-42%
<b>EBT</b>	1,358	8%	2,134	12%	-36%
<b>Net income</b>	682	4%	1,287	7%	-47%
<b>Cash flow</b> <sup>(3)</sup>	2,397	15%	3,579	21%	-33%
<b>Financial resource</b> <sup>(4/5)</sup>	27,911		37,999		-27%
<b>EPS (in €)</b>	0.18		0.34		-47%
<b>Employees</b> <sup>(6)</sup>	183		177		+3%

### CONSOLIDATED OVERVIEW: Quarterly comparison in T€ as per IFRS

	2004			2003			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
<b>Sales</b>	5,489	5,607	5,172	6,014	5,595	6,009	5,788
<b>Software</b>	3,134	3,381	2,884	3,409	3,009	3,321	3,076
of wich software licensing	1,187	1,444	1,030	1,562	1,166	1,471	1,296
of wich software maintenance	1,947	1,937	1,854	1,847	1,843	1,850	1,780
<b>Consulting</b>	1,388	1,530	1,368	1,667	1,512	1,748	1,747
of wich professional services <sup>(1)</sup>	1,125	1,143	1,130	1,300	1,154	1,254	1,221
of wich consultancy	263	387	238	367	358	494	526
<b>Hardware</b>	715	513	767	618	768	561	746
<b>Miscellaneous</b>	253	184	153	320	306	380	219
<b>EBITDA</b>	559	751	301	860	813	1,065	547
<b>EBITCB</b> <sup>(2)</sup>	520	515	118	629	601	804	272
<b>EBIT</b>	434	450	85	609	581	804	272
<b>EBIT margin in %</b>	8%	8%	2%	10%	10%	13%	5%
<b>EBT</b>	580	422	356	903	790	1,027	317
<b>Net income</b>	237	238	207	513	396	739	152
<b>Cash flow</b> <sup>(3)</sup>	493	-20	1,924	-75	2,454	-136	1,261
<b>Cash flow per share</b> <sup>(7)</sup>	0.13	-0.01	0.51	-0.02	0.65	-0.04	0.33
<b>Financial resource</b> <sup>(4/5)</sup>	27,911	27,669	33,574	31,855	37,999	35,320	35,408
<b>Financial resource per share</b> <sup>(7)</sup>	7.36	7.27	8.83	8.37	9.99	9.31	9.34
<b>EPS in €</b> <sup>(7)</sup>	0.06	0.06	0.05	0.13	0.10	0.19	0.04
<b>Employees</b> <sup>(6)</sup>	183	174	176	173	177	172	169

(1): Formerly IT Services; (2): EBIT before cost of employee participation program arising from convertible bonds;  
(3): Previous year's figures adjusted due to restructuring to determine cash flow (4): Cash and marketable securities, formerly liquidity;  
(5): Distributions of € 1.50 per share on 30.12.2003 and 23.04.2004; (6): at end of quarter;  
(7): Cash flow, liquidity per share and EPS: based on average number of shares in circulation

## Management report

### Positive development at the Software division

The consolidated sales recorded by ATOSS for the period from July to September 2004 amounted to € 5.5 million (previous year € 5.6 million). Total sales up to 30.09.04 now stand at € 16.3 million (previous year € 17.4 million). As a result as of September 30 the shortfall in comparison with last year was just 6%, down from 9% on June 30.

The Software division posted the top development in the third quarter with sales of € 3.1 million (previous year € 3.0 million). Software maintenance made a positive contribution, lifting sales from € 1.8 million to € 1.9 million, while software licensing sales also rose slightly to € 1.2 million. In its Consulting business, ATOSS achieved sales of € 1.4 million in Q3 (previous year € 1.5 million), bringing the total for the year to date to € 4.3 million (previous year € 5 million). Hardware sales at € 0.7 million put on a positive performance in the third quarter, and the total figure of € 2 million for the first nine months is now almost on a par with last year's comparable figure of € 2.1 million.

Orders received in the first six months on the current financial year were essentially coincident with the extent of software sales. Therefore, orders on hand at the Software division once again remain constant.

### Switch to IFRS effects net earnings, yet solid margin on operating business

At the start of this year ATOSS switched its reporting from US GAAP to IFRS, which will be obligatory for all capital markets-oriented companies from financial year 2005 onwards. The only notable effects on earnings arose in conjunction with convertible bonds for employees and board members. Since the company reported on the first quarter of 2004, these effects have been evident in the difference between the items EBITCB (EBIT before Convertible Bonds) and EBIT. The costs arising from convertible bonds is not however tax-deductible, with the result that there will be an increase this year in the tax ratio as per IFRS.

Whereas ATOSS decided at an early stage to charge the costs arising from convertible bonds to expenditure, many companies will not make the change until the coming year. Overall, reporting the expenditure for convertible bonds as personnel costs and the associated tax effects will have a negative effect on results in financial year 2004 in the amount of around 11 cents per share and in 2005 of around 15 cents. The tax ratio under IFRS appears higher than the company's actual tax ratio, which stands at 41%.

Despite this we continue to regard share price-oriented remuneration models as extremely constructive. They increase the focus on shareholder value and thus also on a management culture oriented towards the interests of shareholders. Moreover, they also make it easier to attract employees and management staff. For the future ATOSS will however be investigating whether the above goals can also be achieved via remuneration models of a different design.

As expected, the operating result (EBIT) of € 0.4 million in the third quarter did not match the strong figure of € 0.6 million achieved in the same period in 2003. Nevertheless the EBIT margin stabilized at a solid 8%. This followed on from another 8% in Q2 and just 2% in the first quarter. For the period from January to September EBIT overall amounted to € 1.0 million (previous year € 1.7 million) with an EBIT margin of 6%. Earnings before interest and taxes and before the costs of the employee convertible bond participation program (EBITCB) amounted as of 30.09.04 to € 1.2 million (previous year € 1.7 million). Earnings before taxes (EBT) reached € 1.4 million, while as a result of the higher tax ratio under IFRS, net income for the period stood at € 0.7 million (previous year € 1.3 million).

Once again in the third quarter we continued to adhere to our extremely conservative investment policy, which is aimed at the preservation of corporate assets. Investments are permitted only in the form of term deposits or in Federal government notes with a short time to maturity. The anticipated interest income for the year as a whole amounts to between € 0.5 and 0.6 million.

### Investments: R&D efficiency substantially increased

As a matter of principle, ATOSS reports investments in product development directly in the form of current expenditure. Intangible assets of our own manufacture are not capitalized. The volume of investment in research and development at € 3.1 million mirrored the high level of the previous year (also € 3.1 million). As of September 30, 2004, there were 51 software programmers (previous year 41) engaged in R&D aimed at the development of existing products and the creation of new functionalities. Personnel resources have been considerably augmented as part of our growth strategy and while costs remain constant, development efficiency has been substantially increased.

**Cash flow remains positive, liquidity still high**

In the current financial year ATOSS has generated cash flow totaling € 2.4 million from operating activities during the period from January to September 2004 (previous year € 3.6 million), equating to € 0.63 per share. Given the pattern of business development in 2004 and the typical seasonality to be expected, cash flow from business operations will decline slightly by the year-end.

Cash flow from investment activities amounted to - € 0.4 million (previous year - € 0.2 million), while cash flow from financing came in at - € 5.9 million (previous year € 0.9 million). It should here be borne in mind that during the period under review a special dividend amounting to € 5.7 million was distributed to shareholders.

Liquidity reported under the heading "Cash" encompasses cash and cash equivalents as well as marketable securities. Following the payment of special dividends of in each case € 1.50 per share on 30.12.2003 and 23.04.2004, liquidity as of September 30, 2004, stood at € 27.9 million (compared with € 38 million on 30.09.03). Based on the average number of shares in circulation, liquidity thus equates to € 7.36 per share. As of September 30, 2004, ATOSS Software AG possessed equity capital amounting to € 26.8 million, representing a capital ratio of 81% (previous year 72%).

**Number of employees further increased**

On September 30, 2004, the number of persons employed by the ATOSS Group stood at 183 (previous year 177). Specific appointments were made to the ranks of software developers and in sales. In addition, in order to support the continuous development of junior staff we have launched a Young Professionals program involving four young academics to date, and we shall continue to expand this program. On the qualifying date there were also five trainee positions in existence.

**Outlook for 2004 unchanged**

The German economy continues to present a picture of a revival devoid of vitality. The dynamics that might otherwise add credibility to the prospect of positive development in the coming year 2005 are presently lacking. On the other hand in view of the soaring price of oil, it is something of a minor miracle that the economy does not yet appear to have taken any evident backward steps.

However, contrary to the growing optimism perceived by the Bundesverband Informationswirtschaft, Telekommunikation und neue Medien e.V. (BITKOM), in our specific market environment there has been no discernible increase in investment confidence as yet.

The long expected upturn in our industry following the investment logjam of recent years has failed to materialize. It is a welcome sign that we have been able to acquire numerous new customers and thereby expand our client base, however, average orders have been of lesser magnitude than last year.

In principle we anticipate that the last three months of 2004 will bring a continuation of the developments seen in the third quarter. We expect sales to fall within a bandwidth of € 5.3 to 5.7 million, with a corresponding effect on results. Individual orders of major proportions are not anticipated, on the other hand, it is likely that among other orders we will again implement installations for numerous smaller customers.

With our strategy for growth now under way, we look forward to the next financial year with optimism. We intend both to continue the present momentum in the acquisition of new customers in the SME market, as well as to pay increased attention to our existing customer base. In particular we propose to expand our position in the small business and major customer segments.

Our new corporate strategy will play a decisive role in enabling us to exploit new prospects for growth and significantly increase our market share.

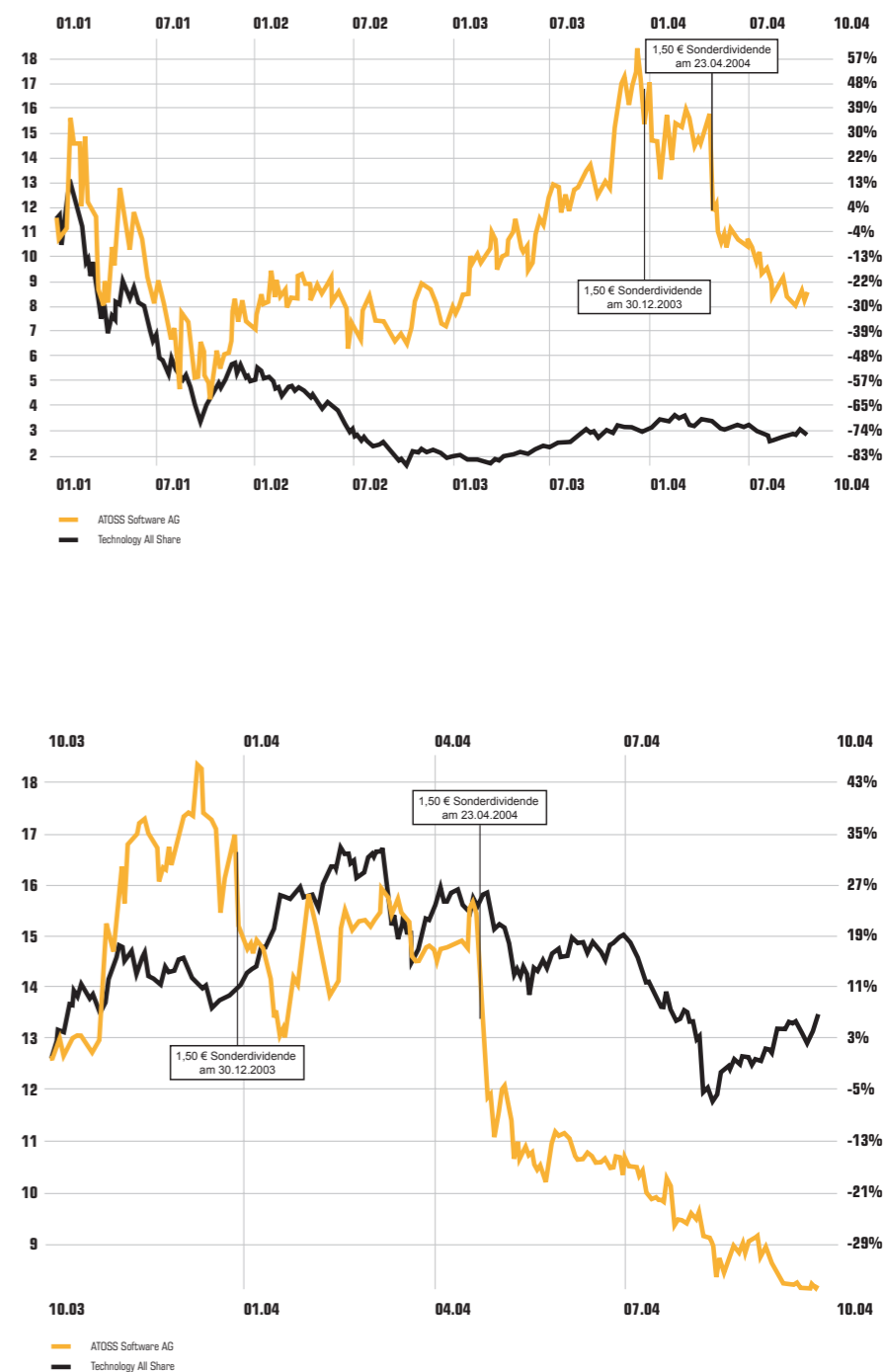
**A simple comparison shows the potential of ATOSS stock**

A long-term view confirms that since the stock was first floated, it was only in the fourth quarter of 2000 that the ATOSS share price under-performed the Technology All Share Index. Otherwise the stock has substantially exceeded both this benchmark and other indexes as well.

The following illustration consciously covers a somewhat shorter period in order to portray the share price development since the introduction of our consolidation strategy, which was adopted in response to the markedly more difficult market conditions in the year 2000. The sharp initial impact of the various necessary measures on results was accompanied by a corresponding effect on the price of ATOSS stock. Thereafter, however, the continuous increase in profitability caused the price to rise from below € 4.5 to above € 18.

The performance since the beginning of 2004 is tied in with the dividends paid of all together € 3.00 per share and – as already in 2001 – the introduction of a new company strategy.

Share price since 2001



In the third quarter our stock was priced between a high of € 10.70 and a low of € 8.10, losing some 24 % over the period. The Prime Software and the Technology All Share indices fell by 9% and 12% respectively in Q3, while the TecDAX lost 14%. However, ATOSS stock now seems to have bottomed and appears stable in very thin trading at prices just over the € 8 mark.

#### **XBRL – ATOSS is in at the beginning**

XBRL - eXtensible Business Reporting Language – is a new electronic format designed for financial reporting. With XBRL companies can efficiently circulate quarterly reports and annual financial statements in the capital markets and make information available to investors as required, for example for sector or peer-group analyses. The use of a

central database will significantly improve information processes between market participants. Deutsche Börse AG and the corporations currently taking an active part are hopeful that analysts in particular will find additional scope to increase their appraisals of small and mid-caps. ATOSS is one of six companies currently supporting this initiative, along with firms such as Fraport AG and Software AG.

#### **KEY FIGURES PER SHARE**

	2004				2003
	Q3	Q2	Q1	Q4	Q3
<b>Max. share price in €</b>	10.70	15.75	16.00	18.09	13.75
<b>Min. share price in €</b>	8.10	10.20	13.00	12.60	11.65
<b>Price at end of quarter in €</b>	8.11	10.31	14.77	15.20	12.70
<b>Number of shares held in treasury <sup>(1)</sup></b>	231,102	234,635	204,635	228,653	233,792
<b>Cash flow per share in € <sup>(2)</sup></b>	0.13	-0.01	0.51	0.00	0.63
<b>Financial resources per share in € <sup>(2)</sup></b>	7.39	7.27	8.83	8.37	9.99
<b>EPS in € <sup>(2)</sup></b>	0.06	0.06	0.05	0.13	0.10
<b>EPS (diluted) in € <sup>(2)</sup></b>	0.06	0.06	0.05	0.13	0.10

<sup>(1)</sup>: At end of quarter

<sup>(2)</sup>: Cash flow, Financial resources (liquidity) per share and EPS: based on average number of shares in circulation (3,794,044)



<b>ASSETS</b>	Sep. 30, 2004	Dec. 31, 2003
	(€)	(€)
<b>Current Assets</b>		
Cash and Cash Equivalents	7,438,419	4,664,238
Short-term Investments / Marketable Securities	20,473,062	27,190,860
Trade accounts receivable	3,165,728	3,504,975
Inventories	13,916	16,090
Prepaid expenses and other current assets	597,052	869,439
<b>Total current assets</b>	<b>31,688,177</b>	<b>36,245,601</b>
<b>Non current assets</b>		
Property, plant and equipment	445,116	552,300
Intangible assets	513,977	622,513
Deferred Taxes	566,335	710,489
<b>Total non current assets</b>	<b>1,525,429</b>	<b>1,885,302</b>
<b>Total Assets</b>	<b>33,213,606</b>	<b>38,130,903</b>

<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>	Sep. 30, 2004	Dec. 31, 2003
	(€)	(€)
<b>Current liabilities</b>		
Short term debt and current portion of long-term debt	0	639
Trade accounts payable	274,967	442,879
Accrued expenses	1,436,927	2,044,232
Deffered revenues	2,167,417	489,108
Income tax payable	262,777	960,713
Other current liabilities	625,313	667,295
<b>Total current liabilities</b>	<b>4,767,401</b>	<b>4,604,866</b>
<b>Non-current liabilities</b>		
Long-term debt, less current portion	273,367	282,777
Pension accrual	1,345,452	1,244,374
Deferred taxes	36,577	0
<b>Total non-current liabilities</b>	<b>1,655,396</b>	<b>1,527,151</b>
<b>Shareholder's equity</b>		
Share Capital	4,025,667	4,025,667
Additional paid-in capital	20,132,757	19,990,630
Treasury Stock	-2,306,204	-1,936,400
Retained Earnings	4,938,588	9,988,200
Accumulated other comprehensive income/loss	0	-69,211
<b>Total Shareholder's equity</b>	<b>26,790,809</b>	<b>31,998,886</b>
<b>Total liabilities and Shareholder's equity</b>	<b>33,213,606</b>	<b>38,130,903</b>

## CONSOLIDATED INCOME STATEMENT TO SEP. 30, 2004

	Quarterly report		9-month-statement	
	III/2004	III/2003	Jan. 01, 2004	Jan. 01, 2003
	Jun. 30, 2004	Jun. 30, 2003	Jan. 01, 2004	Jan. 01, 2003
	Sep. 30, 2004	Sep. 30, 2003	Sep. 30, 2004	Sep. 30, 2004
	€	€	€	€
<b>Revenues</b>	<b>5,489,406</b>	<b>5,595,211</b>	<b>16,268,004</b>	<b>17,392,474</b>
Cost of revenues	-1,883,767	-2,037,991	-5,802,980	-6,262,909
<b>Gross profit</b>	<b>3,605,639</b>	<b>3,557,220</b>	<b>10,465,023</b>	<b>11,129,565</b>
Selling and Marketing expenses	-1,289,448	-1,225,015	-4,295,467	-4,000,254
General and administrative expenses	-915,802	-748,846	-2,535,106	-2,431,262
Research and development	-1,030,639	-1,002,897	-3,134,537	-3,072,350
Other operation income and expenses	63,830	690	468,225	32,041
<b>Operation income / loss</b>	<b>433,580</b>	<b>581,152</b>	<b>968,138</b>	<b>1,657,739</b>
Interest income and expenditure	146,515	45,386	574,018	-220,419
Other income / expense	0	163,094	-183,975	696,919
<b>Result before income taxes</b>	<b>580,095</b>	<b>789,633</b>	<b>1,358,182</b>	<b>2,134,240</b>
Income tax	-342,729	-393,782	-676,245	-847,610
<b>Net income / loss</b>	<b>237,366</b>	<b>395,850</b>	<b>681,937</b>	<b>1,286,630</b>
Net income per share (basic)	0.06	0.10	0.18	0.34
Net income per share (diluted)	0.06	0.10	0.17	0.32
Weighted average shares outstanding (basic)	3,794,044	3,802,371	3,799,217	3,793,732
Weighted average shares outstanding (diluted)	4,069,808	4,043,690	4,029,739	4,060,008

## CONSOLIDATED CASH FLOW STATEMENT TO SEP. 30, 2004

	Jan. 01, 2004	Jan. 01, 2003
	Sep. 30, 2004	Sep. 30, 2003
	€	€
<b>Cashflow from operating activities</b>		
<b>Net profit</b>	<b>681,937</b>	<b>1,286,630</b>
Depreciation and amortisation	643,500	767,786
Costs resulting from the disposal of fixed assets	12,661	15,451
less income from the sale of marketable securities	-183,975	-712,268
Deferred taxes	180,731	323,721
Convertible bonds	184,352	48,837
<b>Change in net current assets</b>		
Trade receivables	339,247	930,434
Inventories	2,174	0
Prepaid expenses and other current assets	272,386	-80,020
Trade accounts payable	-167,912	-177,921
Short-term provisions	-669,805	-662,287
Deferred revenues	1,678,309	1,268,682
Tax accruals	-697,936	533,367
Other current liabilities	20,518	-86,709
Pension accrual	101,078	123,511
<b>Cashflow from operating activities (1)</b>	<b>2,397,265</b>	<b>3,579,215</b>
<b>Cashflow from investment activities</b>		
Fixed asset purchases	-440,442	-216,260
<b>Cashflow from investment activities (2)</b>	<b>-440,442</b>	<b>-216,260</b>
<b>Cashflow from financing activities</b>		
Income from the disposal of treasury stock	-598,456	15,349
Disbursements for the purchase of treasury stock	228,653	0
Change in capital reserves as a result of convertible bonds	-42,225	99,980
Income from the sale of marketable securities	183,975	696,919
Unrealized exchange losses on financial resources	69,211	169,250
Income from the issue of convertible bonds	88,000	-78,984
Disbursements resulting from the repurchase of convertible bonds	-97,410	0
Dividend payments	-5,731,548	0
Disbursements for the repayment of loans	-639	-1,278
<b>Cashflow from financing activities (3)</b>	<b>-5,900,440</b>	<b>901,236</b>
<b>Total (1) to (3): Net decrease in cash*</b>	<b>-3,943,617</b>	<b>4,264,192</b>
Cash* at start of period	31,855,098	33,734,552
Cash* at end of period	27,911,481	37,998,744
Cash	7,438,419	37,974,506
Marketable Securities	20,473,062	24,238

\* cash means here: cash and cash equivalents plus marketable securities

<b>CHANGE IN CONSOLIDATED EQUITY TO SEP. 30, 2004</b>						
	Subscribed capital €	less treasury stock €	Capital reserves €	Retained Earnings €	Accumulated other comprehensive loss €	Total equity €
<b>January 01, 2003</b>	<b>4,025,667</b>	<b>31,722,582</b>	<b>-1,891,330</b>	<b>2,097,426</b>	<b>-177,064</b>	<b>35,777,281</b>
Net income				1,286,630		1,286,630
Treasury Stock sold			99,980			99,980
Convertible Bonds		18,014				18,014
Capital increase	31,601,486	-31,601,486				0
Capital decrease	-31,601,486	31,601,486				0
Dividends		-6,038,500				-6,038,500
Other comprehensive income					131,856	131,856
<b>September 30, 2003</b>	<b>4,025,667</b>	<b>25,702,096</b>	<b>-1,791,350</b>	<b>3,384,057</b>	<b>-45,209</b>	<b>31,275,261</b>
<b>January 01, 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>
Net income				681,937		681,937
Dividends				-5,731,548		-5,731,548
Purchase of Treasury Stock		-54,567	-950,367			-1,004,934
Treasury Stock sold			638,331			638,331
Convertible Bonds		184,352				184,352
Other		12,341	-57,768		69,211	23,784
<b>September 30, 2004</b>	<b>4,025,667</b>	<b>20,132,757</b>	<b>-2,306,204</b>	<b>4,938,588</b>	<b>0</b>	<b>26,790,809</b>

## 1. General

The present quarterly financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), and in particular in compliance with IAS 1.11, and SIC-8. This method of reporting has been adopted since January 1, 2004. Thus the current standards and interpretations have been applied retrospectively. The comparative data for preceding periods have likewise been presented in accordance with IAS. The present financial statements have been drawn up in such manner as if the current standards had always applied.

Pursuant to IAS 34 "Interim Financial Reporting", the present statements include a consolidated balance sheet, consolidated income statement, consolidated cash flow statement, consolidated statement of changes in equity and explanatory notes to the consolidated statements. The requirements contained in German Accounting Standard (DRS) No. 6 regarding interim reporting have likewise been fulfilled.

The same financial accounting and valuation methods have been applied as in the case of the annual financial statements. In the course of the changeover to International Financial Reporting Standards (IFRS), additions have been formed to active deferred taxes. For this reason the active deferred taxes for the previous year and the retained earnings for the current year have been increased by € 52,289.

The Executive Board is satisfied that all of the information given conveys an impression of the economic situation of the company which accords with the true circumstances.

## 2. Currency

All figures are stated in euro.

## 3. Group of Consolidated Companies

In addition to ATOSS Software AG, Munich, the consolidated financial statements also include

ATOSS CSD Software GmbH, Cham  
ATOSS Software Ges.mmbH, Vienna  
ATOSS Software AG, Zurich  
ATOSS Software S.A.R.L., Paris  
ATOSS Software S.R.L., Timisoara

These companies are fully consolidated.

## 4. Changes in equity

The development in the equity situation is evident from the statement of changes in equity.

## 5. Treasury stock

On September 30, 2004, the company held 231,102 shares in treasury. Treasury stock is reported as a separate equity item at cost of acquisition.

## 6. Personnel costs

PERSONNEL COSTS	Jan. 01, 2004	Jan. 01, 2003
	Sep. 30, 2004	Sep. 30, 2003
	(€)	(€)
Wages and salaries	7,460,010	7,543,235
Social security contributions and expenditure on retirement pensions and welfare	1,558,156	1,323,530
Effects resulting from convertible bonds programs	184,352	19,381
<b>Total</b>	<b>9,202,518</b>	<b>8,886,146</b>

## 7. Segmental information

The company draws a distinction between product-related activities (development of software products and the sale of software, hardware and maintenance contracts) and services. These activities extend to Germany as well as other European countries.

SALES, RESULTS	Jan. 01, 2004	Jan. 01, 2003
	Sep. 30, 2004	Sep. 30, 2003
	(€)	(€)
<b>Products, maintenance</b>		
Sales	9,322,759	9,679,242
EBIT	328,141	772,515
Depreciation and amortization	557,226	659,101
<b>Services</b>		
Sales	6,945,245	7,713,232
EBIT	639,997	885,224
Depreciation and amortization	83,274	108,685
Domestic Sales	14,566,458	15,322,690
International Sales	1,701,546	2,069,784
<b>Total sales</b>	<b>16,268,004</b>	<b>17,392,474</b>

The geographic distribution of sales is based upon the location of customer headquarters. The company does not differentiate its assets on a segmental basis.

Sales are divided into the following categories:

Sales categories	Jan. 01, 2004	Jan. 01, 2003
	Sep. 30, 2004	Sep. 30, 2003
	(€)	(€)
Software licenses	3,660,962	3,933,061
Software maintenance	5,736,085	5,472,632
<b>Software, total</b>	<b>9,397,047</b>	<b>9,405,693</b>
Professional Services	3,395,572	3,628,099
Consulting	891,629	1,377,720
<b>Software, total</b>	<b>4,287,201</b>	<b>5,005,819</b>
Hardware	1,993,949	2,075,496
Others	589,807	905,465
<b>Total sales</b>	<b>16,268,004</b>	<b>17,392,474</b>

### 8. Net interest income

In the course of the changeover from US GAAP to IFRS, adjustments were made to the valuation of fixed-interest securities in the second quarter. Whereas previously losses resulting from lower market values were reported under equity, these are now realized in the context of the income statement.

Costs in the amount of € 183,975 resulting from securities in the first half year (previous year € 220,419) were offset by income from securities, also in the first half, in the amount of € 574,018 (previous year € 696,919), leaving a net interest income of € 390,043 (previous year € 476,500).

### 9. Employees

On September 30, 2004, the company had a workforce of 183, in comparison with 177 on September 30, 2003. Of these, 51 (41) were engaged in product development, 54 (54) in the fields of professional services and consulting and 39 (39) in sales and marketing.

### 10. Supervisory Board

On September 30, 2004, the Supervisory Board of ATOSS Software AG was composed of three members:

Peter Kirn, Chairman  
Bernhard Dorn, Deputy Chairman  
Rolf Baron Vielhauer von Hohenhau

### 11. Executive Board

The Executive Board of ATOSS Software AG on September 30, 2004, was composed of two members:

Andreas F.J. Obereder, Chairman  
Christof Leiber (since Apr. 01, 2004)  
Dr. Burkhard Scherf (until Jul. 31, 2004)

### 12. Board member shareholdings

On the reporting date of September 30, 2004, board members held the following numbers of ATOSS shares:

BOARD MEMBER SHAREHOLDINGS	Sep. 30, 2004	Jun. 30, 2004	Mar. 31, 2004	Dec. 31, 2003	Sep. 30, 2003
	Andreas F.J. Obereder	1,946,184	1,946,184	1,946,184	1,967,905
Christof Leiber	0	0	0	0	n.a.
Dr. Burkhard Scherf	n.a.	78,108	78,108	78,108	78,108
Peter Kirn	11,260	11,260	11,260	11,260	11,260
Bernhard Dorn	7,000	1,000	1,000	1,000	1,000
Rolf Baron Vielhauer von Hohenhau	0	0	0	0	0

On the reporting date of September 30, 2004, as a result of subscriptions to convertible bonds, present and former board members held the following options on ATOSS shares:

WANDELSCHULDVERSCHREIBUNGEN	Sep. 30, 2004	Jun. 30, 2004	Mar. 31, 2004	Dec. 31, 2003	Sep. 30, 2003
	Andreas F.J. Obereder	15,864	15,864	15,864	15,864
Christof Leiber	23,668	23,668	8,668	10,500	n.a.
Dr. Burkhard Scherf	15,864	15,864	15,864	15,864	15,864
Christiane Glöckler	0	12,167	12,167	12,167	12,167
Peter Kirn	24,000	12,000	12,000	12,000	12,000
Bernhard Dorn	18,000	12,000	12,000	12,000	12,000
Rolf Baron Vielhauer von Hohenhau	24,000	12,000	12,000	12,000	12,000

Details of outstanding convertible bonds held by board members, former board members and employees are summarized in the following table:

<b>EXERCISE PRICE</b>			
	Outstanding options	Contractual validity in years	Possible rights to be exercised
<b>Board members</b>			
27.00	1,728	0.3	1,728
11.68	15,000	6.6	0
9.51	36,000	6.8	0
9.02	5,000	5.8	0
6.11	1,668	1.1	1
5.21	32,000	2.4	10,666
5.09	30,000	4.8	12,000
<b>Mitarbeiter</b>			
27.00	3,039	0.3	3,039
11.68	37,000	6.6	0
9.02	43,000	5.8	0
8.06	1,334	1.2	667
6.11	31,383	1.1	11,367
5.21	41,435	2.4	11,443
2.51	2,334	1.9	1
	<b>280,921</b>		<b>50,897</b>

### 13. Convertible bonds

In the first nine months of the financial year 2004, some 75,718 convertible bonds were exercised, 88,000 new convertible bonds were issued and 14,138 returned. On September 30, 2004, there were 280,921 convertible bonds outstanding.

### 14. Details of reportable securities transactions

In the first nine months of the 2004 financial year no reportable securities transactions were conducted.

### 15. Dividends

As resolved by the General Meeting on April 22, 2004, on April 23, 2004, a dividend of € 1.50 per share was paid.



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### 16. Earnings per share

The figure for earnings per share is arrived at by dividing the result for the year by the weighted average number of shares outstanding. From January 01 to September 30, 2004, there were an average of 3,799,217 shares in circulation. Thus earnings per share for this period amounted to € 0.18, in comparison with € 0.34 in the preceding year.

In order to calculate the diluted earnings per share, the average number of outstanding shares was increased by the addition of the potential shares to be issued as a result of convertible bonds. From January 01 to September 30, 2004, there were an average of 230,522 convertible bonds in circulation. Thus the diluted earnings per share for this period amounted to € 0.17, in comparison with € 0.32 in the preceding year.

### Disclaimer

The present report contains forward looking statements that are based on the conviction of the managing board of ATOSS Software AG, and reflect current assumptions and estimations. These forward-looking statements are subject to risks and uncertainties. Many currently not foreseeable facts could result in the actual performance and earnings of ATOSS Software AG developing in a different manner. This could include the following: the non-acceptance of newly introduced products or services, changes in the general economic and business situation, the failure to achieve efficiency or cost reduction targets or changes in business strategy.

The management board is firmly convinced that the expectations of these forward-looking statements are sound and realistic. In the event that the above mentioned or other unforeseen risks arise, ATOSS Software AG cannot guarantee that the stated expectations will develop as outlined.

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