



# Annual Report 1999



novasoft

# Key figures

€ million	1996	1997	1998	1999
Sales	8.5	16.8	26	36.1
Germany	6.3	11.9	17.5	25.4
Other countries	2.2	4.9	8.5	10.7
EBIT	0.7	2.7	5.7	7.4
Net income for the year	0.4	1.2	2.7	3.4
Result by the DVFA/SG method	0.4	1.2	2.7	4.3
Earnings per share by the DVFA/SG method	0.08	0.24	0.55	0.84
Cash flow	-	1.9	3.7	4.8
Year-end share price	-	-	-	54.9
Number of employees (31.12.)	72	102	148	207

**Novasoft** is one of the small, select group of SAP consulting partners and is one of the leading consulting companies in Germany. It provides an extensive range of services, including all the activities involved in implementing SAP software. The company concentrates on large customers in the retail and service sectors and the chemical and automobile industries. This focussed approach secures the company a competitive edge.

In the course of what is now Novasoft's more than 10-year history, we have set new standards for quality, creativity and efficiency in the IT consulting field by applying our extensive experience with projects in all areas of SAP standard software. We intend to continue this success story. By going public we have created the necessary financial scope to strengthen our position on the German SAP market even more, to intensify the process of internationalisation and to open up new markets.

we  
know  
how!

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# Dear shareholders and friends of



**Dr Kurt-Georg Konrad (43) and Dr Ladislaus Gotthard (44)** founded Novasoft Consulting GmbH together in 1989. Both of them were managing partners until the GmbH was converted into an AG in 1999. Now they are the two sole members of the management board.

**Dr Gotthard** studied physics at RWTH Technical University in Aachen / Germany. After he graduated, he worked there as a member of the theoretical physics staff. Dr Gotthard is a physics graduate and subsequently completed a doctorate. He familiarised himself with the SAP product range as a member of the SAP AG development and consulting staff in the production planning field. He has been working with the SAP R/2 and R/3 systems for 14 years now.

Before he started Novasoft, **Dr Konrad** graduated from RWTH Technical University, Aachen / Germany, in mechanical engineering and was a member of the scientific staff at the planning and logistics department of the Research Institute for Rationalisation (fir) in Aachen, where he completed a doctorate in engineering. After he joined SAP AG, he was a member of the development and consulting staff in the production planning field. Dr Konrad has had 14 years of experience with all aspects of the SAP R/2 and R/3 systems.

# the company,

The past business year proved to be as exciting as it was successful. Going public on the »Neuer Markt« at the Frankfurt stock exchange in November 1999 was on the one hand the latest highlight in the success story of our company, which has been continuing for ten years now. On the other hand, we succeeded in maintaining Novasoft's dynamic growth pattern in spite of the intensive preparations that had to be made for the public offering.

New record figures were recorded in the year under review. We increased sales by 39 per cent to EUR 36.1 million and improved the result 29 per cent to EUR 7.4 million in what was generally a very difficult environment - in spite of costs of EUR 1.8 million incurred in connection with the public offering. The gross profit-sales ratio (excluding the costs of the IPO) went up from 22.1 per cent to 25.6 per cent.

We are proud to be able to report this excellent set of figures and an extremely positive response to our IPO on the capital markets. Our corporate philosophy, our strategy and our objectives are evidently plausible and attractive enough to convince prospective shareholders that Novasoft is an investment with impressive future potential. The development in the share price confirms this view. The price of the Novasoft share has in the meantime quintupled since trading first began.

## Foreword

The pride that we as the founders of the company feel at what has been achieved so far extends to our staff as well. The tremendous success of our company would not have been possible without a team of consultants who combine comprehensive expertise in all areas of IT consultancy with team spirit, motivation and commitment. Our staff have made a major contribution to the realisation of our objectives by the high degree of personal involvement they have displayed in completing projects all round the world. We would therefore like to express our thanks to everyone whose hard work, determination and solidarity have helped us to develop our prominent position.

Ten years after the establishment of Novasoft, we intend to start a new chapter in the history of the company right at the beginning of the new century. The proceeds of the IPO put us in a position to do this. The key elements in our strategy are, however, remaining unchanged. We specialise in markets with growth potential and concentrate on large customers. We make sure that our staff operate in an attractive environment in order to create long-term loyalty between our highly qualified personnel and our company. We provide good value for money, which is a crucial basis for close co-operation with existing and new customers. And, finally, we are firmly committed to our partner SAP and will be continuing to intensify this relationship.

The funds generated by the share issue are being used primarily to finance further expansion. We have two strategic emphases here. The first of them is to continue expanding Novasoft's international platform. An acquisition that has already been made in Spain is an important element in this strategy. We have acquired 75 per cent of Offilog S.L., Barcelona, one of the biggest and most respected SAP logo partners in Spain. This acquisition is helping to strengthen our presence in this region considerably. We are working on further acquisitions and hope to be able to report to you about them soon.

We will, secondly, be investing in the development of new areas of business. We intend to make the sectors of e-commerce and service industries such as banks, insurance companies and other service providers core capabilities of Novasoft. The marketing of new consultancy services and the continued process of internationalisation will be the sources of growth in the next few years.

We consider that Novasoft is in a first-rate position. We have every chance to continue highly profitable growth and to maintain our company's independence. The IT services market will be growing fast in future too. We will be participating in this growth to a disproportionately large extent, because we have on the one hand oriented our service portfolio towards the market leader SAP. This facilitates entry into new markets and the obtainment of new customers. On the other hand, we have developed a reputation as a capable specialist in such markets as the retail and services sectors, which are only starting to develop as far as their use of standard software is concerned.

If we succeed in taking systematic advantage of these conditions and continue to follow the path we have taken efficiently, then Novasoft will become one of the most important players in the SAP services field.

We are certain that we can reach our ambitious targets. Our biggest assets are motivated staff, satisfied customers and shareholders who have the necessary trust in us. Their loyalty forms the basis for our work.

Dr László Gotthard



Dr Georg Konrad



# Supervisory Board

# Management Board

## Management Board

**Dr-Ing. Kurt-Georg Konrad**

Finance, EDP/organisation, investor relations, contacts to business partners

**Dr rer.nat. Ladislaus Gotthard**

Sales, contacts to business partners, equity interests, personnel

## Supervisory Board

**Prof. Dr Helmut Merkel, Flomborn**

Chairman of the Supervisory Board

Businessman, professor at Mannheim University

Member of the advisory board of the Deichmann Group (until 30.6.2000)

Member of the management board of the KARSTADT QUELLE AG holding company (from 1.4.2000 onwards)

**Günter Thormann, Pöcking**

Deputy Chairman

Business studies graduate, member of the management board of Massa AG, Saarbrücken

Director of companies in the Kriegbaum Group, Böblingen

**Dr Hans Christoph Ihrig, Heidelberg**

(until 28.1.2000)

Lawyer, partner in the law firm Schilling, Zutt and Anschütz, Mannheim

**Prof. Dr Ivan Egry, Aachen**

(from 28.1.2000 onwards)

Physicist, professor at Aachen Technical University

Member of the scientific staff at the German Aerospace Centre e.V., Cologne

## Report by the Supervisory Board

Novasoft AG was established by changing the legal form of Novasoft GmbH and was entered in the commercial register at Heidelberg Court on 23. August 1999.

1999 was dominated by the company's IPO. The constituent meeting of the Supervisory Board took place on 23. July 1999, when the Chairman and Deputy Chairman were elected and the fundamental principles of co-operation between the Novasoft AG Supervisory Board and Management Board were defined.

At two further meetings during the 1999 business year, the Management Board informed the Supervisory Board about the future orientation of the Novasoft Group and the ongoing development of the main areas of importance. The Supervisory Board was also available to the Management Board in an advisory capacity whenever required outside the official meetings.

The Supervisory Board approved the measures that required its agreement following in-depth discussion and consideration of them.

The financial statements of Novasoft AG for the 1999 business year as well as the consolidated accounts (IAS) and the combined management report were audited by Falk & Co. GmbH, Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft, Heidelberg, which issued an unqualified certificate. At the meeting of the Supervisory Board held on 16. March 2000 to discuss the financial statements for the year, the auditors informed the Supervisory Board about the main results of their audit. The accounts and the audit were then discussed in detail. The Supervisory Board raised no objections to the annual accounts and the combined management report compiled by the Management Board before approving them; the annual accounts of the AG have therefore been adopted.

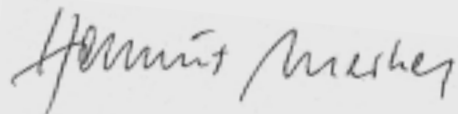
The Supervisory Board proposes that the Management Board is given formal approval for its activities during the 1999 business year.

A change was made in the Supervisory Board as planned at the end of January 2000. Professor Dr Egry took over the position of Dr Ihrig, who had kindly agreed to act as a member of the Supervisory Board for a transitional period.

The Supervisory Board would like to express its thanks to all the employees of the Novasoft Group for their unusually high level of personal involvement during the year that the company went public. A success story like Novasoft would not be possible without their commitment.

Mannheim, March 2000

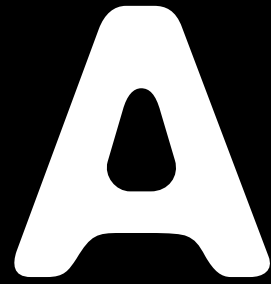
The Supervisory Board



Prof. Dr Helmut Merkel

(Chairman)

Novasoft AG is one of the major SAP AG consulting partners and specialises in the implementation of SAP software and all the services associated with this. We provide consultancy services for a large proportion of the SAP range. We have obtained extensive know-how and in-depth experience in SAP implementation in the course of our lengthy co-operation with SAP. The Novasoft staff put our claim to be a full-service provider into practice. They are highly qualified, capable, constructive, decisive and communicative.



**for**  
**comprehensive**

# specialist

**A specialist for comprehensive solutions** Implementation of SAP applications is the focal point of our activities. Our services are designed to guarantee efficient operation of comprehensive solutions. We start by compiling feasibility studies that inform the customer about the time needed to introduce the SAP application, the costs that will be incurred and the extent to which the functional requirements will be satisfied. We then liaise with the customer to develop the concept for integrated overall introduction and provide advice about specific issues relating to individual applications. Project teams at the companies assume responsibility for the planning, implementation and monitoring assignments. They assist our customers in configuring and customising the SAP software. Implementation of SAP applications accounts for about 60 per cent of our sales.

Technical support and system administration are another important emphasis of our operations. These services include comprehensive assistance with all the technical issues involved in SAP introduction projects. Our staff program interfaces in order to link the SAP modules to existing software solutions. They integrate and co-ordinate existing operating systems, databases and hardware. Our technical support and system administration staff give the customer the guarantee that the process optimisation goals planned as a result of the implementation project will in actual fact be reached. This area of business contributes about a quarter of our sales.

Training rounds off our service range. We organise initial training, refresher and advanced training courses in the form of workshops held directly on the customer's premises. Our consultants also hold numerous training courses for SAP AG in particular. We focus here not only on Germany but also on Scandinavia.

# solutions

# from planning. planning

**Sound customer structure** We have committed ourselves to specialisation in certain markets and concentration on large customers in our strategic corporate principles. Our attention is focussed on the retail and service sectors and the chemical and automobile industries. Our customers include such blue chips as Metro, Lidl & Schwarz, Deichmann, General Motors, Bayer and BASF.

We enjoy an excellent reputation as a specialist in the SAP retail market – we were, for example, the first consulting company to complete an IS retail launch at the productive level. We will be continuing to develop this market, which we think has further major potential. Concentration on the retail sector also provides us access to new application areas such as SAP software for the Internet and e-commerce, because these »new dimension« products will be used in the retail trade in particular.

As far as standard software is concerned, the service sector is still in its infancy at the present time. In this field too we will be concentrating on large companies (primarily banks). We are monitoring developments here very closely and are building up our know-how; we are already holding initial workshops with customers as well.

We think that the more traditionally inclined automobile and chemical industries continue to have great potential too. It is still the case that very few of the staff of our existing customers here are SAP users and the ongoing development of the applications is creating a need for further consulting services.

In the following section we would like to present to you in greater detail what full service means to us.

# to implementation

**From strategic planning to implementation** Implementation of any project is preceded by feasibility studies involving recommendations about capacities, budgets and the timing of the individual projects. Introduction of SAP starts with a joint process of consideration and analysis. We develop specific concepts in liaison with the customer. We give priority here to the rapid development of a viable prototype that allows the theoretical concepts to be tried out in practice. The compilation of an overall strategic project plan for SAP introduction is a complex assignment that requires a wide range of different process analyses. One of the tasks our staff carry out is development work on the compilation of customer-specific add-ons to the standard SAP system and on the establishment of all the interfaces. Overall process integration involves an analysis of existing non-SAP systems, such as warehouse control, distribution or checkout software. Specially trained specialists take over responsibility for the performance analyses and optimisation assignments that are important in the retail environment in particular and provide assistance with the analysis and optimisation of complex batch job procedures.

The close ties we have to our customers are attributable among other things to the exact productive implementation of the projects within a very tightly scheduled timetable as well as – in the past – to the punctual and safe replacement of systems with potential Y2K problems by SAP software.

In view of wide range of software applications, there is considerable potential for follow-up orders from large customers. The possibilities range from the planning and implementation of changes to new releases to assistance with further stages in the process of internationalisation and systematic training of customers' staff. Obvious subsequent measures are in addition specific planning for replacing any non-SAP systems or for tackling the increasingly important issue of e-commerce and mySAP.com.



# International

**We are expanding our international platform** Novasoft has already had a global presence for a number of years now, with locations in Europe, the USA and Singapore. We will be using the funds obtained as a result of the IPO to expand this platform. We are following a two-pronged strategy for the internationalisation of the consulting business. On the one hand we are expanding the existing units, while we are on the other hand developing a foothold in regions and markets that are important to us by making acquisitions.

# nalisation

Our aim with our locations outside Germany is always to present ourselves as a strong, local consulting partner. This is helping us to cover and penetrate the market systematically. Our businesses in Scandinavia (Helsinki), London and Singapore are proving to be very successful at implementing this strategy.

Our base in Boston/USA has been in existence for a year. The situation on the ERP/SAP market was very difficult all over the world in 1999. We are continuing to work on developing the business in the USA. This involves us covering the US market in an attempt to gain a foothold there. We are on the one hand benefitting in this from the fact that we are working for European customers there. A local partner would on the other hand be very helpful, so exploratory talks about taking over a regional partner on the West Coast of the USA are being continued. We are hoping to bring them to a conclusion within the next few months.

# Focus on European market

The interest we have already acquired in the Spanish company OFFILOG is of major strategic importance to us and gives an insight into a key element of our expansion strategy. We are following our global customers by establishing new companies or taking over existing ones in order to support these customers in their local markets abroad. Offilog is one of the biggest SAP logo partners in Spain and has an excellent reputation on the market. We can use this 75 per cent interest to accompany our existing customers to Spain and to offer them local capabilities and know-how about the situation in Spain in addition to our own expertise. The huge South American market is becoming a higher priority as a result of our presence in Spain as well.

Preparations are being made for the establishment of a company in Prague to service our customers in the Czech Republic. We plan to use this company to obtain new business in the Czech Republic and to monitor the entire Eastern European market and Austria as well. Further attractive locations, for example in Poland and Hungary, are conceivable in the retail sector in particular. The orientation of Eastern Europe towards the European Union is opening up considerable potential for the big Western retail companies.

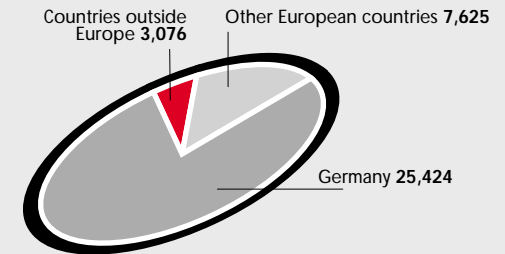
We will, finally, be strengthening our involvement abroad in Scandinavia. From our location in Helsinki we are at the same time working concertedly on development of the business in Sweden. The plans for another location are well-advanced. We consider the network in Germany to be extensive enough. In addition to our headquarters in Heidelberg, we have bases in Böblingen, Hamburg, Cologne, Rüsselsheim and Walldorf/Baden. We are considering setting up an office in Berlin in the medium term in order to strengthen our position in Eastern Germany.

# leadership

Greater international orientation

Our more international orientation will be leading in the next few years to substantial changes in the proportions of our sales accounted for by different regions. In the medium term we expect that Novasoft will be generating more than half of its sales outside Germany. In 1999, the German market accounted for 70 per cent, other European countries for 21 per cent and the rest of the world for 9 per cent. It is likely that Germany will already be contributing only a good half of Group sales in the current year.

Sales by regions (in EUR '000)



# Europe

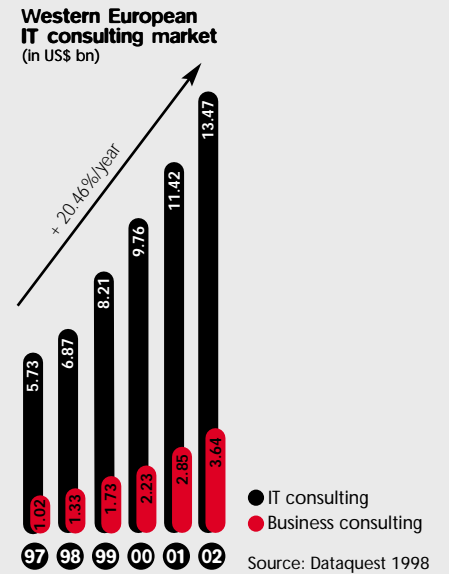
**The worldwide market  
for ERP software will  
(enterprise resource planning)  
be continuing to record  
high double-digit growth  
in the next few years.**

The many projects that had to be shelved last year because of the transition to the year 2000 and the euro are likely to be implemented gradually in the course of this year. New products such as CRM (customer relationship management) and SCM (supply chain management) or the integration of inter-company processes will generate additional growth. The ERP market will be expanding at a disproportionately fast rate in the retail and financial services sectors in particular. ERP software has not yet penetrated these sectors to the same extent that it has in industry.

**Market trends promise further growth** As by far the largest supplier of standard business software in the world (with just under 17 per cent of the market), SAP AG is well-equipped for this development. Banks have been using SAP products for quite a long time already. With SAP Banking, SAP is now providing a comprehensive solution for the business transactions of a bank, that is based on long-term partnerships between SAP and banks and leading consulting companies. SAP Banking combines functions that increase operating and strategic flexibility and thus safeguard a competitive edge.

**Products for a new dimension** The market trends are being supported by SAP's development of »new dimension« products. These are solution packages that can be used either in connection with the R/3 software or alternatively as separate software products. Release 2.0 of new dimension products such as BW (business information warehouse) and APO (advanced planner optimiser) will be coming on the market with all functions in the course of this year. Rapid growth is forecast for the product BW, primarily in the retail sector. SAP has therefore developed a retail template for BW. This year SAP will also be introducing a large number of new CRM components and will as a result be opening up a completely new segment of a large and promising market.

The Internet is becoming the focal point in SAP development work. The company is convinced that there will no longer be any company-oriented software without Internet capabilities in only two years' time. The breakthrough on the market for Internet applications and thus the exploitation of huge market potential is to be achieved with the project mySAP.com.



Gigantic strides are being made into a new dimension. With the mySAP.com core areas marketplace, workplace, corporate scenarios and application hosting, it will be possible in future to integrate a large number of different systems – including non-SAP systems – in one user interface. The result is a complete business environment for electronic trading.

# Trends on the SAP market

**We implement these trends** As one of the most established consulting partners of the market leader SAP, Novasoft will be benefitting from these market trends to a disproportionately large extent. Our strict commitment to SAP and the special know-how this involves generate us a competitive edge that we intend to exploit.

The core elements of our strategy remain unchanged: we are a full-service supplier for SAP applications, we specialise in the retail and service sectors as well as the chemical and automobile industries and we concentrate on well-known large customers. We are putting special emphasis on the development of business with banks. Our aim here is to become an SAP partner for banking as well by successfully implementing projects with the new solution for this sector.

For years now we have been following the corporate policy to exchange information about planned new developments and strategies with SAP at an early stage and

to open up new areas of business together. In this way we plan to start further SAP partnership arrangements in the mySAP.com project environment in the near future. The same applies, for example, to the new CRM software, which will be another focal point of our future consulting activities.

**Novasoft is and will remain an SAP partner** We will be remaining totally committed to SAP as the market leader for standard business software in future as well. This partnership has grown over the years and is a deliberate policy. It is based on the SAP strategy, which is to extend consulting resources with selected consulting companies as logo partners. SAP considers its core business to be product research and development.

SAP intends to maintain this proven strategy. In order to satisfy market requirements more effectively, SAP has expanded its strategies as a solution provider. Novasoft does not feel that this re-orientation by SAP represents additional competition. On the contrary, we are convinced that these measures will lead to an intensification of the partnership and customer relationships as well as to a strengthening of the company's position as market leader.

# Products for

The criteria established by SAP for a national logo partnership are demanding. There are about 40 partnerships of this kind in Germany at the present time. Novasoft has been one of this select group since 1994. In addition to further consulting partnerships in Great Britain and Finland, the company also has partnerships for several individual markets. Since 1997 we have, for example, in addition been retail partner for Germany and Great Britain as well as oil & gas partner for Asia.

A company can only become an SAP logo partner if it can prove that it has been operating successfully as an SAP partner for at least three years and employs at least 100 staff in consulting, implementation and service provision. Logo partners also have to submit references of well-known companies and provide evidence of expertise in different markets. They are, finally, incorporated in the SAP infrastructure in the planning, training and development fields.

The partnership is reviewed on an annual basis. SAP decides whether it is to be extended partly on the basis of:

- Customer satisfaction with the projects carried out by the partner, with particular reference to the duration of the project, achievement of the goals and the quality of the staff deployed in each case
- Number and scope of the SAP projects that have been carried out

We have asked SAP to comment briefly here to you, about the quality of the company's co-operation with Novasoft:

»Novasoft has proved to be a reliable partner with a high level of quality awareness ever since the beginning of the partnership.

The systematic obtainment of SAP know-how and the development of skills in specific individual markets have convinced not only our customers but also SAP of the effectiveness of the partnership with Novasoft. With the introduction of mySAP.com, SAP has changed itself into an Internet company. We will only be able to continue SAP's success so far in the Internet age as well in close liaison with our partners.

We are convinced that Novasoft will remain one of our successful partner companies in future too.«

**Norbert Erthal**  
Alliance Manager

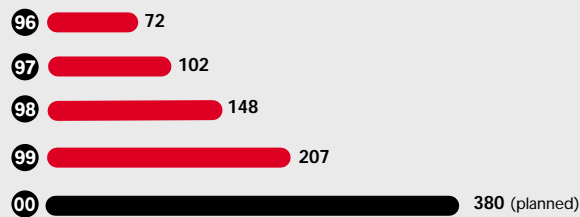
SAP Aktiengesellschaft

new dimensions

Novasoft's staff are the company's biggest assets.  
They play a crucial role in making sure our ideas are implemented successfully.

# Starting point for careers

**Employees** (on 31.12.)



As members of a motivated and ambitious team of consultants, our staff are dedicated to the objectives of our personnel policy: commitment to excellence and personal initiative as well as willingness to assume responsibility. Many of them have taken advantage of Novasoft's dynamic development to make careers for themselves. Our employee Bodo Liesenhoff's career is just one example of many:

»Bodo Liesenhoff (31) studied computer science for business. He joined Novasoft in 1994 as soon as he graduated from university. Following a course of training in our internal development centre, Mr Liesenhoff started to work on his first projects, carried out SAP training courses and familiarised himself with the tough conditions of the international business world by spending time in Helsinki, Paris and China (among other places).

At the end of 1996, we integrated Mr Liesenhoff in our first project activities in Finland. He was already responsible for the major Ray project (slot machines) that started in April 1997. As director, he worked at the same time on establishing a Novasoft office in Helsinki, with considerable support still being provided by the Group management. The Group management continued to provide him with assistance for another year after Novasoft Nordic Oy was set up at the end of 1997 as well. It only took Bodo Liesenhoff two years to take over full responsibility on his own. Since the beginning of 1999, he has been the sole, independent director of the Finnish location. It now has 17 employees and generates turnover of about EUR 2.1 million.«

## Starting point for careers

# The company's

### **Personal development determined by performance**

Our personnel development department faces two challenges in view of the high qualifications that are vital in our consulting business. It is essential first of all that we take systematic and attentive care of existing employees. We have created a corporate atmosphere at Novasoft that encourages personal relationships between staff and strengthens their loyalty to the company on a sustained basis. Unless the team spirit between colleagues is well-developed, it will not be possible for staff to pull together effectively in their cooperation with customers.

Our approach to personnel management is based on the principle: personal development is determined by performance. We promote creativity, individual solutions and concepts as well as lean organisation. Formalised sets of rules are unwelcome, while status symbols and rigid hierarchies are not allowed. The professional challenge is the source of our motivation. We make sure our team maintains a consistently high quality level by carrying out internal basic and further training programmes.

We provide appropriate rewards for commitment and performance. We pay above-average salaries and take the personal achievements of individual members of staff into account. There is also an extensive range of company fringe benefits. Most of the staff have company cars at their disposal and they are equipped with notebook computers, mobile phones and home offices.

We make sure, finally, that our employees participate appropriately in our success by involving them in a share option programme that the company board approved in 1999. Every employee has received a specific number of options that entitle him or her to buy Novasoft shares. The number of options which each employee was allocated was specified individually by the company board.

# biggest assets

**High standards for new recruits** The second challenge for our personnel development department is to select new staff carefully. We set high standards and check whether the applicants fit in with our corporate culture. Most of our new recruits have reached us via advertisements in the past few years. Recruitment via job advertisements proved to be difficult in the year under review because of the extremely tight manpower situation in the areas of importance to us. We therefore made greater efforts to establish direct contact to universities and took part in more recruitment events. The results are promising.

We are confident that we will be able to find enough staff who meet our exacting requirements in future as well. We will be helped in this not only by our good reputation on the market but also by the increase in publicity now that our company has a stock market listing as well as by the stock option programme.

At the end of the 1999 business year we had 207 employees, 173 of them consultants. This represents an increase in personnel of 40 per cent by comparison with the previous year. Our company's growth will be leading to an increase in staff this year too.

The profile of the Novasoft team is determined by university graduates. About 96 per cent of all our employees have university degrees and 8 per cent have doctorates. 87 per cent of our new recruits are university graduates with at least two years' professional experience. About half of our staff have studied business administration. We also employ mathematicians, mechanical engineers, physicists, computer scientists, economists/engineers and economists.

We obtained a listing in the »Neuer Markt« sector of the Frankfurt stock exchange on 15. November 1999, in the year when our company celebrated the tenth anniversary of its foundation. The Neuer Markt is the ideal environment for our company. It has been created specially for innovative young companies that are growing fast. This is exactly what Novasoft is.

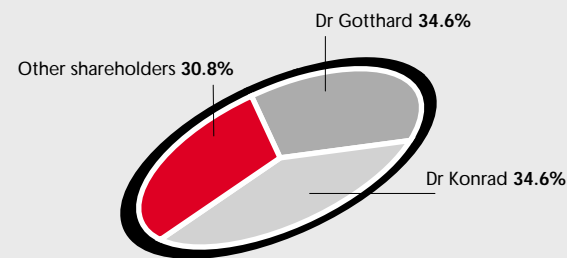
# Public offering a great success

The IPO was a success. The price of the Novasoft share has developed better than the Nemax and has already quintupled by comparison with the price on the first day of trading. Our strategy and our objectives have convinced potential investors.

In the course of going public, we gradually increased our capital to a final level of EUR 6 million. The original shareholders and board members Dr László Gotthard and Dr Georg Konrad have each retained an interest of 34.6 per cent in the company. 30.8 per cent are spread among many other shareholders.

The capital increase brought Novasoft liquid funds amounting to EUR 21 million. They have created the financial basis for further expansion within and outside Germany as well as for future growth. The Annual Report you have before you provides information about what activities we have already initiated and what still remains to be done. Going public has also improved our competitive position considerably, particularly because it has made us more well-known.

#### Shareholder structure



#### Key figures

	15.11.99	31.12.99	29.02.00
Number of shares	6,000,000	6,072,300	6,072,300
Share price	21.00	54.90	113.00 €
Market capitalisation	126	333	686 € million
Price/earnings ratio (basis: 2001)	13	33	69

#### Key figures per share

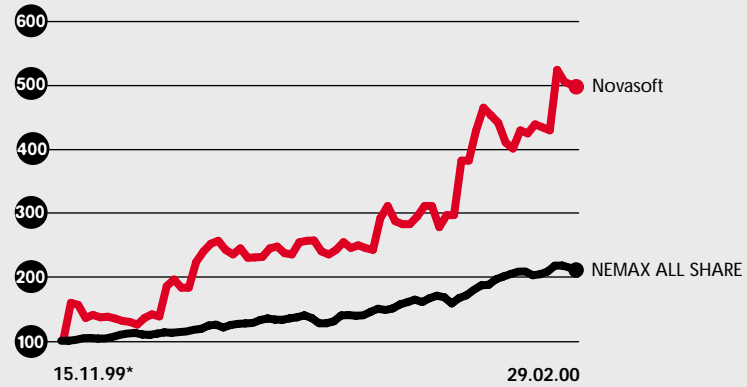
	1999
Net income for the year	0.66 €
Result by the DVFA/SG method	0.84 €
Cash flow by the DVFA/SG method	0.94 €
Balance sheet equity	6.32 €

# Fast growing company Success

We consider our shareholders to be a major commitment. We will be continuing to justify the confidence they have placed in us by maintaining close communication with them. We will be using the modern investor relations instruments to satisfy the growing demand for information from the financial world, the press and the general public. An e-mail distribution system has been installed at our Heidelberg office and a contact from the company board or the investor relations department is available at all times. In the Internet, our home page information can be accessed and opportunities to establish contact can be taken. Detailed quarterly reports will be keeping shareholders informed in detail about further development of our company.

We have already started to establish good contacts with our shareholders by holding roadshows and meetings with big investors last year in Frankfurt, London, Amsterdam and Zurich (among other places). These events will be continued this year. We participated in the DVFA forum at Cebit in Hanover at the beginning of March. We will be taking part in the SAPPHIRE Investor Days in Berlin in May.

Performance comparison (in per cent)



\* In relation to the issue price of € 21

## Important dates for shareholders

1999 financial statements and press conference:	31.03.2000
Analysts' meeting:	03.04.2000
Results / 1st quarter:	03.05.2000
Annual Shareholders' Meeting:	29.06.2000
Results / 2nd quarter:	02.08.2000
Results / 3rd quarter:	02.11.2000
2000 financial statements and press conference:	Calendar week 13/2001
<b>Service</b>	
Security identification number	677890
Reuters code	NOVG
Bloomberg code	NS8GR

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1999 was a successful fiscal year for Novasoft in many different respects. Our share has been quoted on the Neuer Markt at the Frankfurt stock exchange since 15. November. Its price has more than quintupled from the issue price of EUR 21 within a short time.

Although going public demanded a great deal of our attention and the general market environment was difficult in view of the Y2K problems, we succeeded in increasing both sales and results more than planned.

The good order situation and growth in business with new customers make us extremely optimistic about the future too.

# Management Report

**of Novasoft AG and Group**

### **Light and shade in the world economy**

There was a strong recovery in the world economy in 1999. Developments did, however, vary from region to region. The American economy continued to be buoyant; expansion of it is attributable primarily to high domestic consumption and lively investment. The economy recovered considerably in Europe and the region covered by the euro too. The same is true of Germany as well. Whereas the economy was stimulated almost exclusively by exports in the first half of the year, domestic demand strengthened towards the end of the year. Total production increased 3 per cent, while the Gross Domestic Product went up 1.5 per cent. This put Germany in the bottom third of the EU.

The prospects for this year are thoroughly positive. Growth in Germany is likely to reach 2.5 to 3 per cent; just over 3 per cent is anticipated in Western Europe and the USA.

**The ERP market** Following disproportionately high growth rates of up to 40% in some cases over the past few years, the world market for ERP software only increased by 17% in 1999. SAP AG remains the clear mar-

ket leader with a share of 17%. The next-largest supplier (Peoplesoft) holds less than 6% of the world market. SAP has an even more dominant position in Europe, where the growth rates are higher than the figures for the world as a whole.

**SAP – Breakthrough in the Internet** SAP AG started the business year on a subdued note. The general mood in the SAP environment did not improve appreciably until mySAP.com was presented, which led to excellent results in the 4th quarter.

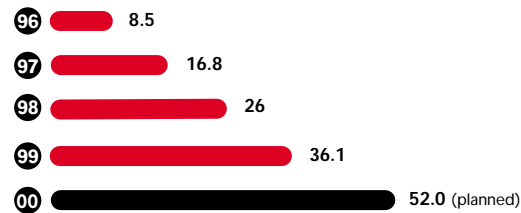
SAP's consolidated sales amounted to EUR 5.11 billion in 1999; this corresponds to growth of 18 per cent. The profit before tax of EUR 1.12 billion was an improvement of 18 per cent.

Both experts and analysts have in the meantime come to the conclusion that mySAP.com is a convincing Internet platform. The response to it not only in Europe but also on the important US market is extremely positive. This Internet product already accounted for 16 per cent of SAP's software sales in the 4th quarter.

**Novasoft firmly committed to SAP** Following the IPO, Novasoft AG is continuing to follow its strategy of concentrating exclusively on SAP products. The fact that the company is as a result dependent on SAP's further development is frequently considered by analysts to be a risk. It cannot be denied that SAP was under pressure for a limited period of time in the 1999 business year, because the company in many experts' opinion was too late in responding to the development in e-business and in the Internet field. This situation changed by the end of the year. In the meantime SAP AG has succeeded not only in closing the gap but also in developing the recognised Internet platform mySAP.com. We are convinced that SAP's growth is guaranteed as a result in the licence sales field as well and that the consulting companies which have specialised in SAP products will continue to have excellent opportunities on the market.

## Management Report

### Sales (in € m)

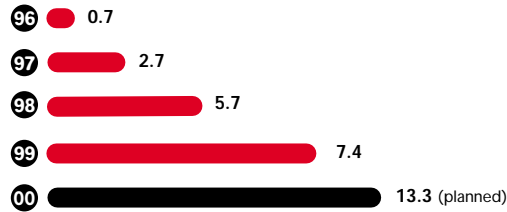


**Novasoft reaches targets** Our targets for 1999 were ambitious. The focus was on the IPO, which we completed with great success. The current development in the share price confirms our conviction that Novasoft is superbly equipped for further growth.

Business operations did not suffer in spite of the extensive preparations required to plan and implement the IPO. The sales and result targets were reached, the number of employees increased again considerably and progress was made in expansion of the Group.

In addition to the strengthening of our position on the retail market, we gave priority to our activities in the service sector – primarily banks. We are in the process of developing know-how in this area and are establishing initial contact to potential customers. We are already working on our first smaller projects with the new SAP product mySAP.com.

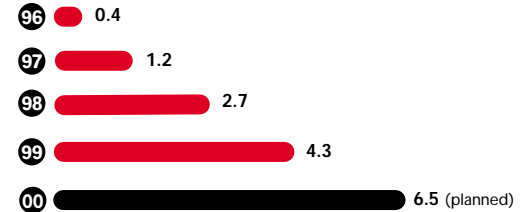
### EBIT (in € m)



**Dynamic development in sales** Novasoft AG's sales continued to develop dynamically. The increase of 39 per cent in Group sales to EUR 36.1 million shows that we raised our output substantially in spite of customers' reluctance to invest in some cases due to the transition to the year 2000.

Decisions by companies to bide their time due to the transition to the new millennium have had the effect that major orders have only been received again in the course of the first quarter. At the moment we are as a result holding talks with many well-known companies about the implementation of projects. The very positive development in the first few weeks of the year makes us confident that we will be able to continue our fast growth and reach the sales of about EUR 52 million planned for the 2000 business year.

### Result by the DVFA/SG method (in € m)



**Profitability strengthened** The Novasoft Group continues to be highly profitable. Disregarding the costs of EUR 1.8 million incurred in the obtainment of a stock market listing, the EBIT margin reached a high level (25.6 per cent). The net income for the year (after deduction of the costs of the IPO) amounted to about EUR 3.4 million. The challenge that has to be met in 2000 is to maintain high Group profitability in the face of continued fast growth. Exploitation of all possible synergy benefits should enable us to keep the EBIT margin up to the current level.

The Group result by the DVFA/SG method amounted to EUR 4.3 million in 1999. This corresponds to an increase of 57% over 1998. The earnings per share by the DVFA/SG method amounted to EUR 0.84 compared with EUR 0.55 in 1998.

**Capital markets convinced** 1999 was dominated by the initial public offering. In preparation for this, Novasoft Consulting GmbH was converted into Novasoft AG with share capital of EUR 5 million in several stages. Going public involved a further capital increase of EUR 1 million. These 1 million shares with a nominal value of EUR 1 as well as 800,000 shares owned by the company's original shareholders were placed on the Neuer Markt at the Frankfurt stock exchange on 15. November 1999. The company received EUR 21 million as a result of this share issue.

The share capital was increased by another 72,300 shares with a nominal value of EUR 1 in connection with the acquisition of further shares in Novasoft (UK) Ltd., London, by taking advantage of the authorised capital. This means that the share capital of the company amounted to EUR 6,072,300 at the end of the year.

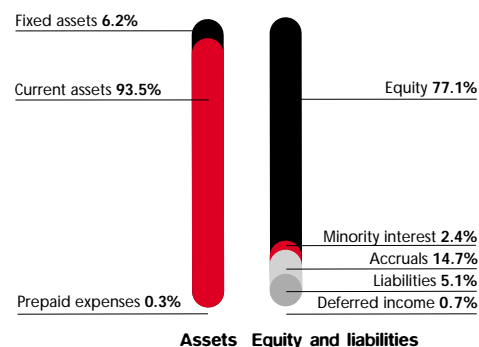
The share price developed exceptionally well. From an issue price of EUR 21, it climbed to EUR 54.90 by the end of the year. On the basis of this price, the company has a stock market capitalisation of EUR 333 million.

The price continued to increase up to the end of February 2000, when it was EUR 113. This corresponds to much more than 400% by comparison with the issue price, while the market capitalisation amounts to EUR 686 million.

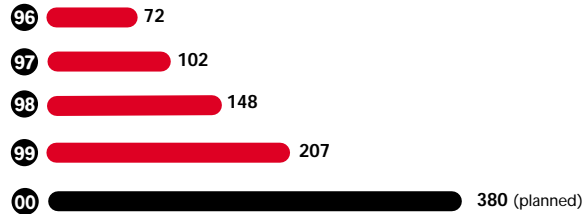
**Sound asset structure** The Group already had substantial capital resources before the company went public; the capital position has been improved many times over as a result of the IPO. Cash and cash equivalents including securities increased to EUR 33 million by the end of the year. This means that the acquisition made in Spain and further stages in expansion that are planned can be financed smoothly using the company's own funds.

**Strategic investments** Group investments in tangible assets in the year under review amounted to EUR 0.7 million and focussed on office and EDP equipment. The main emphasis in the investments was on an increase in the interest held in Novasoft (UK) Ltd. in connection with the IPO by means of a share swap.

**Consolidated balance sheet structure (in %)**



## Employees



**Further increase in personnel** Group growth led to a further increase in staff. The Novasoft Group had 207 employees at the end of the year compared with 148 at the end of the previous year.

Novasoft's future development will depend to a very large extent on how successful we are in finding suitable, motivated staff in the areas of the job market of importance to us. The additional attraction of a company with a stock market listing and the possibility of issuing stock options to new employees will help us in our efforts here. A programme about this was introduced in the year under review. Every Novasoft employee received a specific number of options – free of charge – at the end of 1999, which entitle him or her to buy Novasoft shares.

It has been extremely difficult to find suitable staff in the SAP consulting field for years now. The approach adopted by Novasoft differs from standard procedures. We recruit university graduates with professional experience in different areas of business and give them SAP con-

sulting training at our in-house training centre. This form of recruitment proved to be successful in 1999 too. We took on a total of about 60 new consultants in the year under review.

**Changes in the corporate structure** The number of companies that belong to the Novasoft Group was increased in 1999. We set up a subsidiary in Cologne which has succeeded in establishing itself effectively within a very short time. It is mainly responsible for servicing one major customer from the chemical industry. The interest held in Novasoft (UK) Ltd. was increased as well. The five existing operating companies in Germany and the four companies in other countries were supplemented at the beginning of 2000 by a majority interest in Offilog S.L. in Barcelona. Novasoft AG will be establishing a new subsidiary in Prague too. We are holding negotiations about the acquisition of a consulting company on the West Coast of the USA and are working on the establishment of an office in Sweden. Achievement of our goal of fast

growth while maintaining high profitability depends to a decisive extent on rapid integration of the new companies in the Group. We have already reached a very advanced stage in Cologne. In view of our experience with the establishment of new companies we are not anticipating any problems in Prague either. The Spanish company Offilog fits in with our company, so it will be possible to integrate it smoothly.

**Developments after the end of the business year** On 14. January 2000, the Supervisory Board agreed to the acquisition of a 75 per cent majority interest in the Spanish company **Offilog S.L.** with effect from 1. January 2000. Since a post-formation acquisition is involved here, the shareholders' meeting has to approve this contract. An extraordinary shareholders' meeting is scheduled for 16. March 2000. Offilog is one of the largest and most profitable SAP logo partners in Spain. We are using this interest to accompany our customers to Spain and to offer them local capabilities, know-how about the situation in Spain and a command of the

Spanish language in addition to our own expertise. It also represents an initial basis for us to gain a foothold in the South American market. The founder of the company is retaining a 25 per cent interest and is remaining company director.

The situation on the US market makes it difficult to develop business there on our own. We therefore intend to buy a consulting company on the West Coast of the USA, in order to take advantage of established consultants with appropriate references and relationships to customers. We are expecting the negotiations to be completed within the next few months.

The Eastern European markets are developing fast. The efforts that the former Eastern Bloc countries are making to join the EU are creating a positive investment climate. Our large retail customers in particular are developing their presence on these markets to an increased extent. There is as a result tremendous potential for us to provide consulting services. We have already been

carrying out projects in this region for some time now and will be establishing a subsidiary in Prague with two directors who are to focus in particular on developing the business in Eastern Europe in addition to their activities as consultants.

**Prospects** Novasoft AG is in an excellent position at the beginning of the new millennium. Continuation of the dynamic development of the Group is on the one hand guaranteed by the new companies. The coverage of new sectors and the activities with mySAP.com on the other hand promise considerable additional business. We will be exploiting the opportunities for growth with the new Internet applications by systematically expanding our know-how lead and will at the same time be developing an even broader basis for maintaining our leading position in the IS retail field.

For the year 2000 we are expecting Group sales of EUR 52 million and EBIT of EUR 13 million.

The fast growth of the company will not be tempting us to abandon proven strategies. The focal point of all our activities remains the customer with his demands for comprehensive solutions tailor-made to meet his specific requirements. Customer satisfaction is and remains the basis for success in the consulting business. The performance-based principles of our personnel policy are not being changed either. All our staff are to have the opportunity to enjoy their work and to continue their own personal development while accompanying us as we enter new dimensions.

Consolidated profit and loss statement for the period 1. January 1999 to 31. December 1999

	Notes	€ 1999	€ 1998
1. Sales	7	36,125,008.12	25,982,680.09
2. Other operating income		413,719.03	192,528.24
		<b>36,538,727.15</b>	<b>26,175,208.33</b>
3. Cost of materials			
Cost of purchased services		-4,665,128.37	-3,527,895.00
4. Personnel expenses	8		
a) Wages and salaries		-13,801,783.48	-10,083,622.16
b) Social security and other pension costs		-1,936,201.60	-1,453,319.08
5. Depreciation and amortisation	12	-550,528.59	-271,047.05
6. Other operating expenses	9	-8,193,282.31	-5,097,728.33
		<b>-29,146,924.35</b>	<b>-20,433,611.62</b>
<b>Operating result</b>		<b>7,391,802.80</b>	<b>5,741,596.71</b>
7. Other interest and similar income		217,542.79	91,361.92
8. Interest and similar expenses		-34,161.24	-28,211.33
<b>Financial result</b>		<b>183,381.55</b>	<b>63,150.59</b>
<b>Results from ordinary activities</b>		<b>7,575,184.35</b>	<b>5,804,747.30</b>
9. Taxes on income	10	-3,324,383.08	-2,497,534.04
10. Other taxes		-11,576.03	-12,510.29
		<b>-3,335,959.11</b>	<b>-2,510,044.33</b>
<b>11. Net income before minority interests</b>		<b>4,239,225.24</b>	<b>3,294,702.97</b>
12. Minority interests		-826,918.49	-563,335.77
<b>13. Net income of the Group</b>		<b>3,412,306.75</b>	<b>2,731,367.20</b>
<b>Earnings per share (DVFA/SG)</b>	30	<b>0.84</b>	<b>0.55</b>

## Cash flow statement for the period 1. January 1999 to 31. December 1999

	1999 € '000	1998 € '000
1. Net income/loss for the year	4,239	3,295
2. +/- Depreciation/write-ups of fixed assets	551	271
3. +/- Changes in provisions for pensions and other long-term provisions and accruals	54	135
4. = Cash earnings according to the DVFA/SG method	4,844	3,701
5. +/- Changes in medium- and short-term accruals	2,534	1,965
6. -/+ Profit/loss from sales of fixed assets	-9	0
7. -/+ Changes in inventories, receivables and other assets	1,692	-4,386
8. +/- Change in trade payables and other liabilities	-3,860	3,829
<b>9. = Cash flow from operating activities</b>	<b>5,201</b>	<b>5,109</b>
10. + Proceeds (e.g. sales revenue, repayment amounts) from the disposal of fixed assets (net book values of the disposals plus profits and minus losses incurred on disposal)	51	79
11. - Investments in fixed assets	-709	-533
<b>12. = Cash flow from investing activities</b>	<b>-658</b>	<b>-454</b>
13. Capital increases and shareholders' contributions	26,000	0
14. - Payments to shareholders (dividends, capital repayments, other payments) To shareholders of Novasoft AG	-1,107	-1,468
To other shareholders	-454	-359
15. + Payments from the obtainment of loans	0	91
16. - Repayment of loans	-46	0
<b>17. = Cash flow from financing activities</b>	<b>24,393</b>	<b>-1,736</b>
18. Changes in cash and cash equivalents (total of lines 9, 12 and 17)	28,936	2,919
19. + Cash and cash equivalents on 1. January 1999	4,242	1,323
<b>20. = Cash and cash equivalents on 31. December 1999 *</b>	<b>33,178</b>	<b>4,242</b>

\* See the explanatory notes in section 11 of the Notes

Consolidated balance sheet as of 31. December 1999

	Notes	31.12.1999 €	31.12.1998 €
<b>A. Fixed assets</b>	12		
<b>I. Intangible assets</b>			
1. Software licences		38,498.23	35,887.07
2. Goodwill		1,647,453.56	0.00
		<u>1,685,951.79</u>	<u>35,887.07</u>
<b>II. Tangible assets</b>			
1. Land rights		10,646.63	2,121.86
2. Other equipment, factory and office equipment		679,696.45	408,810.35
		<u>690,343.08</u>	<u>410,932.21</u>
<b>III. Financial assets</b>			
Financial investments		233,276.06	209,784.83
		<u>2,609,570.93</u>	<u>656,604.11</u>
<b>B. Current assets</b>			
<b>I. Receivables and other assets</b>	13		
1. Future trade receivables for work in process		68,046.56	3,348,376.67
2. Trade receivables		5,397,614.12	4,286,284.12
3. Receivables from shareholders		0.00	7,129.06
4. Other assets		688,157.82	259,413.67
		<u>6,153,818.50</u>	<u>7,901,203.52</u>
<b>II. Securities</b>			
Other securities	14	3,433,552.38	1,358,187.32
<b>III. Cash-in-hand and bank balances</b>	14	29,744,041.42	2,884,001.84
		<u>39,331,412.30</u>	<u>12,143,392.68</u>
<b>C. Prepaid expenses</b>		113,752.27	59,013.82
		<u>42,054,735.50</u>	<u>12,859,010.61</u>

	Notes	31.12.1999 €	31.12.1998 €
<b>A. Equity</b>			
I. Subscribed capital	15	6,072,300.00	25,564.59
II. Unpaid contributions to the subscribed capital		0.00	-12,526.65
III. Capital reserves	18	21,820,282.30	0.00
IV. Other revenue reserves	19	1,600,000.00	0.00
V. Accumulated differences from exchange rates		35,894.99	-42,579.62
VI. Net retained profit		2,913,751.19	2,211,384.48
		<u>32,442,228.48</u>	<u>2,181,842.80</u>
<b>B. Minority interests</b>			
		998,757.67	649,127.93
<b>C. Accruals</b>			
	20		
1. Accruals for pensions and similar obligations	21	284,982.85	230,727.85
2. Tax accruals	22	3,335,722.09	2,220,759.69
3. Other accruals	23	2,576,886.80	1,158,586.72
		<u>6,197,591.74</u>	<u>3,610,074.26</u>
<b>D. Liabilities</b>			
	24		
1. Bank loans		94,733.86	140,832.35
2. Advance payments from customers		0.00	4,564,943.28
3. Trade payables		877,282.02	432,313.71
4. Liabilities to shareholders		29,634.31	0.00
5. Other liabilities		1,138,523.42	1,096,294.36
		<u>2,140,173.61</u>	<u>6,234,383.70</u>
<b>E. Deferred income</b>			
	25	275,984.00	183,581.92
		<u>42,054,735.50</u>	<u>12,859,010.61</u>

Consolidated company equity developed as follows in the 1999 fiscal year:

# Statement of changes in equity in the 1999 fiscal year

	€ '000	€ '000
	<b>Subscribed capital</b>	<b>Unpaid contributions</b>
1.1.1999	26	-13
- Net effect on equity of changes in consolidated companies		
- Various capital increases before the IPO	4,974	
- Allocation to capital reserves		
- Payment of unpaid contributions		13
- Capital increase / IPO	1,000	
- Capital increase / authorised capital (increase in Novasoft (UK) Ltd. interest)	72	
- Net income for 1999		
- Dividend payments for previous years		
- Allocation to other revenue reserves		
- Currency translation adjustment		
<b>31.12.1999</b>	<b>6,072</b>	<b>0</b>

€ '000	€ '000	€ '000	€ '000	€ '000
Capital reserves	Other revenue reserves	Accumulated differences from exchange rates	Net retained profit	Total
0	0	-42	2,211	2,182
			-2	-2
				4,974
13				13
				13
20,000				21,000
1,807				1,879
			3,412	3,412
			-1,107	-1,107
	1,600		-1,600	0
		78		78
21,820	1,600	36	2,914	32,442

## Principles applied in the preparation of the consolidated financial statements

The consolidated financial statements of Novasoft AG were prepared according to the guidelines of the International Accounting Standards Committee (IASC), London. Financial statements compiled in accordance with IASC standards release group companies from presenting individual financial statements in Germany according to § 292a of the German Commercial Code (HGB), as they comply with the EC Directive 83/349 (on the basis of the interpretation made by the European Commission contact committee for accounting directives).

The consolidated financial accounts were compiled in euros.

The financial statements of the companies included in the consolidated Novasoft financial statements were prepared by the application of uniform accounting and valuation principles. The annual financial statements of all the companies included were prepared with the same qualifying date as the consolidated financial statements.

## Consolidated companies

Apart from the parent company Novasoft AG, Heidelberg, the following companies were included in the consolidation:

	Registered office (country)	Share of subscribed capital in %	Equity € '000
1. Novasoft Regional Center GmbH, Hamburg	Germany	100.00	34
2. Novatec Software Engineering GmbH, Heidelberg	Germany	100.00	50
3. Novasoft Human Resources Consulting GmbH, Walldorf	Germany	74.92	262
4. Novasoft Regional Center GmbH, Calw	Germany	74.90	501
5. Novasoft Consulting Regional Center GmbH, Cologne	Germany	95.00	250
6. Novasoft Consulting Regional Center GmbH, Rüsselsheim	Germany	74.92	793
7. Novasoft (UK) Ltd., Middlesex	Great Britain	67.11	1,084
8. Novasoft Nordic Oy	Finland	90.00	245
9. Novasoft (Asia), Pte. Ltd.	Singapore	66.67	649
10. Heidelberg Consulting Inc., Boston	USA	100.00	-99

The consolidated group increased by 2 newly established companies compared to the previous year.

### Consolidation principles

Capital consolidation was carried out by setting the book values of the equity interests off against the equity of the subsidiaries revalued on a pro rata basis. Debit differences were capitalised as goodwill and are being depreciated over the probable economic useful life of 10 years.

The participations of minority interests were included at book value. The share of the Group in the capital reserves earned by the outside shareholders leads to a credit difference. This credit difference is presented as deferred income as setting off against non-monetary assets was not possible.

Expenses and income as well as receivables and liabilities between companies involved were offset. Intercompany profits did not have to be eliminated.

The share of the net income accounted for by third parties was included in the profit and loss statement as expenses. Consequently the net income is to be allocated to the Group completely.

### Foreign currency translation

According to the concept of functional currency, the annual financial statements of the foreign Group companies are converted into the reporting currency (IAS 21). For all companies this is the respective domestic currency, as foreign companies are independent with respect to financial, economic and organizational matters. The balance sheet items are therefore converted at the exchange rate on the reporting date, while the items in the profit and loss statement are translated at the average annual rates. The exchange differences resulting herefrom were entered in the equity of the Group (accumulated differences from exchange rates). The same is true of exchange rate differences concerning the equity of consolidated foreign companies resulting from an exchange rate difference between the beginning and the end of the fiscal year.

Exchange rate differences affecting the operating result were not significant amounts.

The following exchange rates were applied:

	Currency	1999 €		1998 €		
		Rates on the reporting date	Average annual rates	1999 €	1998 €	
Great Britain	GBP	£ 1	1.61	1.43	1.53	1.49
Finland	FIM	FIM 100	16.82	16.82	16.82	16.82
Singapore	SGD	SGD 100	59.88	51.80	55.70	53.65
USA	USD	USD 1-\$	1.00		0.94	

### Accounting and valuation methods

Intangible assets, including goodwill, are capitalised at acquisition costs and are depreciated over their probable economic useful life on a linear basis.

Tangible assets are valued at acquisition costs minus scheduled depreciation.

Scheduled depreciation is determined on the basis of the following useful lives:

	years
Software licences	3 to 4
Goodwill	10
Land rights	8
Other equipment, factory and office equipment	3 to 10

The financial assets are valued at acquisition costs, unless they need to be included at their lower replacement value on the balance sheet date.

Future trade receivables for work in process are valued according to the degree of project completion.

All the apparent individual risks involved in the receivables and other assets are taken into account by making value adjustments.

The securities are included at acquisition costs or their market values, whichever is lower.

The accruals for pensions and similar obligations involve performance-based pension commitments. Since the commitments relate to a fixed amount irrespective of the salary level on the retirement date, future salary trends do not need to be taken into consideration. As in the previous year, valuation is based on a discount factor of 6% and the method that is prescribed for tax purposes in Germany. The prescribed method of actuarial present value would not lead to a significantly different result. These pension commitments are not covered by external funds.

In the case of contribution-based old-age pension schemes (e.g. direct insurance), the contributions are charged directly as expenses. Since there are no further commitments above and beyond the contribution payments, no accruals have to be made in this context.

The tax accruals and other accruals include all the apparent commitments when there is any uncertainty about the size or timing of these commitments. They are valued on the basis of the probable amount that will be required.

The liabilities are valued at the amounts to be repaid.

## Regional breakdown

Group activities can be broken down into the following regions:

	Germany € '000	Other European countries € '000	Countries outside Europe € '000	Total € '000
<b>Sales</b>				
1999	25,424	7,625	3,076	36,125
1998	17,467	5,744	2,772	25,983
<b>Operating result</b>				
1999	5,385	1,534	473	7,392
1998	4,206	1,145	391	5,742
<b>Depreciation</b>				
1999	274	231	46	551
1998	182	60	29	271
<b>Investments (excluding financial assets)</b>				
1999	479	1,946	90	2,515
1998	244	80	39	363
<b>Book value of fixed assets (excluding financial assets)</b>				
1999	505	1,783	89	2,377
1998	300	99	48	447

Wherever services are provided between individual regions within the Group, these services are charged at market prices.

## Explanatory notes about the profit and loss statement

### Sales

The Group operates in the consulting field within the framework of SAP implementation. The regional sales breakdown can be found in section 6.

### Personnel expenses

The average number of employees in the Group has developed as follows:

	1999	1998
Full-time employees	182	129
Part-time employees	6	9
<b>Total</b>	<b>188</b>	<b>138</b>

The old-age pension costs can be broken down as follows:

	1999 € '000	1998 € '000
Additions to pension accruals	54	90
Contributions to insurance companies and payments to funds	165	105
<b>Total</b>	<b>219</b>	<b>195</b>

### Other operating expenses

The other operating expenses in the 1999 fiscal year include costs of about EUR 1,840,000 incurred in connection with the public offering.

### Taxes on income

The actual and deferred taxes on income can be broken down as follows:

	1999 € '000	1998 € '000
Actual taxes		
Germany	3,682	1,232
Other countries	596	368
	<u>4,278</u>	<u>1,600</u>
Deferred taxes		
Germany	-954	948
Other countries	0	-50
	<u>-954</u>	<u>898</u>
	<u>3,324</u>	<u>2,498</u>

The dividend proposed for the year under review was taken into consideration in calculation of the tax expenditure. No deferred tax income was included for tax losses of EUR 120,000 carried forward outside Germany in view of the uncertainty whether they will materialise.

### Explanatory notes about the cash flow statement

The cash flow statement shows how the cash position changed during the fiscal year due to the inflow and outflow of funds.

The total cash and cash equivalents increased in the 1999 fiscal year, particularly as a result of capital increases in connection with the public offering.

The cash and cash equivalents can be broken down as follows:

	31.12.1999 € '000	31.12.1998 € '000	Change € '000
Cash and cash equivalents	29,744	2,884	26,860
Assets held as a liquidity reserve	3,434	1,358	2,076
<b>Total cash and cash equivalents</b>	<b>33,178</b>	<b>4,242</b>	<b>28,936</b>

### Explanatory notes about the balance sheet

#### Fixed assets

The development of the fixed assets is outlined in the appendix to the Notes.

The goodwill relates to the difference attributable to the capital consolidation exercise following the increase in the interest held in Novasoft (UK) Ltd. when new shares were issued. The amount is indicated in the reporting currency, so there are no exchange rate differences.

The market value of the financial investments is not significantly different from the book value.

#### Receivables and other assets

The amounts shown have maturity dates of less than 1 year.

#### Securities and liquid funds

The amounts shown consist of credit balances at banks and securities issued by well-known international companies that can be sold at short notice and do not involve any significant price risks. They only involve short-term commitments, so the interest risks can be disregarded. The market value of the securities is not significantly different from the book value.

### Subscribed capital

The share capital of EUR 6,072,300.00 is divided up into 6,072,300 shares with no par value in the name of the holder, each of which accounts for EUR 1.00 of the share capital.

The capital increases to a total of EUR 6,072,300.00 made in 1999 were entered in the commercial register by 27. December 1999.

The subscribed capital developed as follows in 1999:

	Number	€
<b>Share capital of the GmbH</b>		
On 1. January 1999	25,564.59	
Capital increase	24,435.41	
	<b>50,000</b>	<b>50,000.00</b>
<b>Share capital of the AG</b>		
Capital increases		
Cash	100,000	100,000.00
Cash	4,850,000	4,850,000.00
Cash	1,000,000	1,000,000.00
Physical assets, making use of authorised capital	72,300	72,300.00
	<b>6,072,300</b>	<b>6,072,300.00</b>

### Authorised capital

The shareholders' meeting on 22. July 1999 authorised the Management Board of the company to increase the share capital by up to EUR 75,000.00 by 31. December 1999 with the approval of the Supervisory Board by issuing new shares in the name of the holder in return for the injection of physical assets (authorised capital I), in order to acquire shares in Novasoft (UK) Ltd., England, in exchange for shares in the company. The shareholders' legal subscription right was suspended. The Management Board was authorised to specify the further details about implementation of the capital increase on the basis of the authorised capital with the approval of the Supervisory Board.

The Management Board took advantage of this authorisation to some extent by deciding on 15. November 1999 with the approval of the Supervisory Board to increase the share capital of the company by EUR 72,300.00 to EUR 6,072,300.00 by issuing 72,300 new shares in the name of the holder – each of which accounts for EUR 1.00 of the share capital – in return for the injection of physical assets.

The new shares are entitled to share in profits from 1. January 1999 onwards. The shareholders' legal subscription right was suspended.

This means that the increase in the share capital from the authorised capital I was made to the amount of EUR 72,300.00. There has been no more authorised capital I since 31. December 1999.

The Management Board has also been authorised to increase the share capital of the company on one or more occasions by a maximum total of EUR 2,425,000.00 by 20. August 2004 with the approval of the Supervisory Board by issuing new shares in return for the injection of cash or physical assets (authorised capital II). Under certain conditions, the Management Board is allowed – with the approval of the Supervisory Board – to suspend the shareholders' legal subscription right.

### Conditional capital

In accordance with a resolution passed at a shareholders' meeting that involved an amendment to the articles of association, the share capital has been increased conditionally by EUR 500,000.00 by issuing up to 500,000 shares with no par value in the name of the holder (conditional capital I). The conditional capital increase will only be made to the extent that holders of option rights which have been issued by Novasoft AG in accordance with a resolution passed at the shareholders' meeting held on 23. September 1999 exercise their option right by 31. December 2004. The new shares in the company that are issued as a result of the exercising of these option rights are entitled to share in company profits from the beginning of the fiscal year in which the option right is exercised.

On 9. December 1999, the Management Board decided – with the approval of the Supervisory Board – to issue option rights to members of the Management Board, directors of subsidiaries and employees of the Group. There was a total of 158,176 option rights on the balance sheet date. There is an embargo period that varies between 2 and 4 years for the subscription rights. When the relevant

embargo period has expired, the option rights can be exercised up to the end of 5 years after the date of issue in each case. The option rights can be exercised if the stock exchange price has increased by more than 25% and the stock exchange price has developed better than the NEMAX ALL SHARE-PERFORMANCE-INDEX.

The option rights may be exercised on the 4th and subsequent 14 bank working days after the ordinary shareholders' meeting of Novasoft AG and/or after the presentation of the quarterly accounts for the 2nd and 3rd quarter of a fiscal year, but at the latest by the last bank working day before the end of a fiscal year. They can also be exercised during the period between 15th and 5th bank working day before the expiry date of the option rights.

The subscription rights can only be exercised in return for payment of the subscription price. The subscription price for one share of Novasoft AG corresponds to the mathematical average of the final prices of the Novasoft share as recorded in XETRA trading on the Frankfurt stock exchange during the period between the 15th and 5th stock

exchange day (up to and including in both cases) before the date of option rights issue. This corresponds to an amount of EUR 48.65 for the options issued on 30. December 1999. The option rights cannot be assigned. They can only be exercised if the employee has an unterminated employment contract with a company in the Novasoft Group when the option rights are exercised.

### Capital reserves

The capital reserves developed as follows in 1999:

	ψ
On 1. January 1999	0.00
Transfer by existing shareholders	12,782.30
Premium from the issue of 1,000,000 shares on the occasion of the public offering	20,000,000.00
Premium from the Novasoft (UK) Ltd. asset injection	1,807,500.00
	21,820,282.30

### Other revenue reserves

An amount of EUR 1,600,000.00 from the net income for 1999 is being allocated to the other revenue reserves.

### Accruals

	1.1.1999 € '000	Required € '000	Released € '000	Added € '000	31.12.1999 € '000
Accruals for pensions and similar obligations	231			54	285
Tax accruals	2,221	1,817	17	2,949	3,336
Other accruals					
Personnel field	586	284	59	1,767	2,010
Miscellaneous	572	494	17	506	567
	1,158	778	76	2,273	2,577
	<b>3,610</b>	<b>2,595</b>	<b>93</b>	<b>5,276</b>	<b>6,198</b>

The accruals for pensions and similar obligations reported in the previous year have been reduced by EUR 56,000 due to a correction in allocation, while the other accruals have been increased accordingly.

### Pension accruals

The pension accruals relate to commitments made to the members of the parent company's Management Board and to directors of subsidiaries. Rights to future pension payments are what are involved here in all cases. Regular pension payments will not have to be made during the coming 5 years.

### Tax accruals

The tax accruals relate in particular to subsequent payments for the 1999 fiscal year.

### Other accruals

The other accruals in the personnel field mainly include holiday rights, tantièmes and special payments. Outstanding invoices, costs incurred in connection with the annual financial statements and guarantee commitments are the main items included in the miscellaneous accruals. EUR 299,000 of the accruals in the personnel field are due after one year, while all the miscellaneous accruals mature within less than one year.

### Liabilities

As in the previous year, practically all of the liabilities are due within one year. To a small extent, the bank loans and the trade payables are secured by chattel mortgages and/or reservations of title.

## Deferred income

These items from other accounting periods shown in the liabilities consist almost exclusively of negative balances resulting from capital consolidation. These amounts are released affecting the company results on a linear basis over a period of 5 years.

Name	Position	Member of the Supervisory Board of
Dr László Gotthard, Heidelberg	Director	Institut für Management & Consulting Internationale Unternehmensberatung AG
Dr Georg Konrad, Heidelberg	Director	

## Members of the Supervisory Board

The members of the Supervisory Board are/were as follows

Chairman of the Supervisory Board: Prof. Dr Helmut Merkel, Flomborn (since 23. July 1999)	Member of the management board of the KARSTADT QUELLE AG holding company (from 1.4.2000 onwards); professor at Mannheim University	Member of the advisory board of the Deichmann Group, Essen (until 30.6.2000)
Deputy Chairman of the Supervisory Board: Günter Thormann, Pöcking (since 23. July 1999)	Member of the management board of Massa AG, Saarbrücken; director of companies in the Kriegbaum Group, Böblingen	
Dr Hans Christoph Ihrig, Heidelberg (from 23.7.1999 to 28.1.2000)	Lawyer; partner in the law firm Schilling, Zutt und Anschütz, Mannheim. Left the board when Professor Dr Egrý joined.	
Prof. Dr Ivan Egrý (since 28.1.2000)	Physicist, member of the scientific staff at the German Aerospace Centre e.V., Cologne, professor at Aachen Technical University (appointed by the Register Court / Heidelberg on 28. January 2000)	

## Other information

### Members of the Management Board

The members of the Management Board – who are entitled to represent the company alone – are:

The total remuneration paid to the members of the Supervisory Board in the 1999 fiscal year amounted to EUR 28,000.

### Contingent liabilities and other financial commitments

There were no contingent liabilities of any significance on the balance sheet date.

The other financial commitments from rental contracts for office accommodation as well as factory and office equipment amount to EUR 923,000 for 2000 and to a total of EUR 697,000 for the years 2001 to 2004. On the balance sheet date there were no significant financial commitments for the time after this.

### Relationships to close associates

The remuneration paid to the two directors of the parent company, who together are also the majority shareholders, amounted to EUR 768,000 (previous year: EUR 768,000).

The pension accruals for members of the Management Board amounted to EUR 124,000 on the balance sheet date.

There are short-term liabilities towards the two members of the Management Board amounting to about EUR 30,000.

Novasoft AG has concluded 2 rental contracts about office accommodation with total annual rent of EUR 61,000 with the members of the Management Board and persons closely associated with them. The period of notice is 1 year in each case.

### Earnings per share

The earnings per share by the DVFA/SG method is determined as follows:

The consolidated net income for the year 1998 included income of EUR 1,697,000 before tax and EUR 743,000 after tax representing the share of projects transacted at fixed prices that had been completed. Since these profits were highly probable on 31. December 1998, they are not eliminated in the calculation of the DVFA result.

	1999	1998
Consolidated net income for the year in EUR '000	3,412	2,731
Adjustment for the costs of the IPO in EUR '000	1,840	0
Taxes on this amount in EUR '000 (52%)	-957	0
Adjusted consolidated net income for the year in EUR '000	4,295	2,731
Number of shares	5,134,038	5,000,000
Earnings per share according to the DVFA/SG method in EUR	0.84	0.55

According to IAS 33 - and in contrast to DVFA/SG - the number of shares available directly before the IPO may not be used as the basis for the period up to the IPO and the previous year. The actual number of shares has to be weighted chronologically instead. The IPO costs may not be eliminated either.

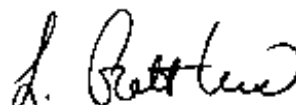
This means that the earnings per share by the IAS 33 method is as follows:

	1999	1998
Consolidated net income for the year in EUR '000	3,412	2,731
Number of shares	1,983,015	25,565
Earnings per share according to the IAS 33 method in EUR	1.72	106,83

Heidelberg, 6 March 2000



Dr Georg Konrad



Dr László Gotthard

	1.1.1999 € '000	€ '000	€ '000	€ '000
	Acquisition / production costs	Additions	Disposals	Balances caused by exchange rate variations
I. Intangible assets				
1. Software licences	93	25		
2. Goodwill		1,830		
	93	1,855	0	0
II. Tangible assets				
1. Land, land rights and buildings, including buildings on third-party land	4	11		
2. Other equipment, factory and office equipment	939	649	173	27
	943	660	173	27
III. Financial assets				
Other financial investments	209	24	0	0
	1,245	2,539	173	27

	31.12.1999 € '000	€ '000	31.12.1999 € '000	31.12.1998 € '000	€ '000
Acquisition / production costs	Accumulated depreciation	Book value	Book value	Depreciation for the fiscal year	
118	80	38	36	22	
1,830	182	1,648		183	
1,948	262	1,686	36	205	
15	4	11	2	3	
1,442	762	680	409	343	
1,457	766	691	411	346	
233	0	233	210	0	
3,638	1,028	2,610	657	551	

Development of the fixed assets

# Auditors' Report

We render the following Auditors' report to the consolidated financial statements and to the combined management report of Novasoft AG and the Group.

»We have audited the consolidated financial statements, comprising the income statement, the cash flows, the balance sheet, the statement of changes in shareholders' equity as well as the notes to the financial statements, prepared by Novasoft AG as of 31 December 1999. The preparation and the content of the consolidated financial statements are the responsibility of the company's executive board. Our responsibility is to express an opinion whether the consolidated financial statements are in accordance with International Accounting Standards (IAS) based on our audit.

We conducted our audit of the consolidated financial statements in accordance with German auditing regulations and generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland (IDW) as well as in accordance with the International Standards on Auditing (ISA).

Those standards require that we plan and perform the audit such that it can be assessed with reasonable assurance whether the consolidated financial statements are free of material misstatements. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the amounts and disclosures in the consolidated financial statements are examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the Group for the business year in accordance with IAS.

Our audit, which also extends to the combined management report of Novasoft AG and the Group

prepared by the executive board for the business year from 1 January to 31 December 1999, has not led to any reservations. In our opinion, the combined management report provides a suitable understanding of the Group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the management report for the business year from 1 January to 31 December 1999 satisfy the conditions required for the company's exemption from its obligation to prepare consolidated financial statements and the group management report in accordance with German law.«

Heidelberg, 8 March 2000

Falk & Co  
Gesellschaft mbH  
Wirtschaftsprüfungsgesellschaft  
Steuerberatungsgesellschaft

(Adler)  
Wirtschaftsprüfer

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