net@G
total eBusiness

Annual Report 1999

net AG infrastructure,
software and solutions
Cologne

As-if consolidated statements of income (HGB)

for business years 1998/99, 1997/98 und 1996/97

		1996/97 (non-reviewed) TDM	1997/98 (non-reviewed) TDM	1998/99 (non-reviewed) TDM
	Statement of income			
1.	Sales	66.638	75.737	79.576
2.	Inventory increases/decreases	70	-12	0
3.	**Total income**	**66.708**	**75.725**	**79.576**
4.	Other operating income	1.721	1.460	1.433
5.	Cost of materials	40.139	45.114	51.909
6.	**Gross income**	**28.290**	**32.071**	**29.100**
7.	Personnel expenses	16.059	16.489	16.725
8.	Depreciation and amortisation costs and other write-offs			
	- on software and goodwill from capital cosolidation	6.507	6.507	6.507
	- on other assets	707	647	603
9.	Other operating expenses	8.367	9.992	7.747
10.	**Financial result**	**-3.350**	**-1.564**	**-2.482**
11.	Other interest and similar income	117	120	2
12.	Interest and similar expenses	1.166	1.280	1.205
13.	**Financial result**	**-1.049**	**-1.160**	**-1.203**
14.	**Profit/loss from ordinary operations**	**-4.399**	**-2.724**	**-3.685**
15.	Taxes on income	-122	1.007	217
16.	Proceeds from dissolving latent taxes from capital consolidation	1.494	1.494	1.494
17.	Other taxes	19	15	9
18.	**Net income/net loss**	**-2.802**	**-2.252**	**-2.417**
19.	Shares of other companies in the net income/net loss	460	239	264
20.	Net income/net loss split up among other companies	-3.262	-2.491	-2.681

Annual Report '99

net AG infrastructure, software and solutions

Contents

Dr. Stefan Immes
Chairman of the Board

Foreword of the Board of Management

Dear Shareholders,

Today we have the pleasure of presenting the first annual report of **net AG** since the foundation of our company nearly two years ago. This report not only documents the high growth with which the company has developed to date, but also proves that our business management model is tuned to future requirements.

In the previous business year we were once again able to convince numerous key companies of our business efficiency and win them over as customers, meaning that we are now in an excellent initial position in the attractive Internet market for e-business software and services. Our task is to consistently extend this favourable position.

Our strategic target is to offer our customers fully integrated e-business solutions from one hand. The high demand for our services shows that we have adopted the right approach. In the previous business year we were able to achieve a turnover of approx. DM 80 million – and the development shows a tendency to rise.

The very positive sales development was boosted by the high demand for so-called business-to-business solutions in all sectors of the economy. Focus in this sector is on reproducing process and value-added chains with the help of ultra-modern Internet technologies. The target is to guarantee a smooth flow of information within and between companies as well as to reduce process costs.

With our e-business software family **netC4** we offer a solution that optimally supports these goals. In co-operation with our e-business services **netC4** enables our customers to strengthen customer relationships, optimise value-added partnerships and the decentral data management in an Internet-based application environment. This is what we mean when we refer to **"total eBusiness"**.

With our highly integrated total e-business solutions we offer our customers access to consistent e-business management including all IT resources - from the mainframe computer to the cellular phone. With this we create the prerequisites for contemporary and efficient business process management. In cooperation with our customers we configure e-business solutions which are tuned to future requirements paired with a quick return on investment and embed these in the existing IT world. By adopting this approach we significantly contribute to improving the international competitiveness of our customers.

We are on our way into the Internet economy. The World Wide Web will establish new rules in large sectors of the economy and pave the way to new business opportunities. Here at **net AG** we have set on the issue of actively supporting this development – in the interest of our customers as well as our shareholders.

Thank you very much for the trust you have invested in us.

Dr. Stefan Immes
Chairman of the Board

Market Chances and Market Strategies

Large sections of our economy are currently experiencing deep structural changes. The distribution of information technology (IT) and the internationalisation of competition are primarily the reasons for this development. As a result of the increasing cost-cutting and innovation pressure companies are increasingly focusing on their strengths and on the processes with a particularly high added valuation. On the other hand business processes of minor strategic significance are systematically being outsourced. The consequences for process management are: In the past focus was on improving internal processes but now companies devote their resources to optimising trans-company processes.

The Internet opens completely new horizons in this respect. The illustration and continuous improvement of business processes with the help of the World Wide Web, the so-called “Internet Business Processing”, extends the scope of processes far beyond the company itself. At the same time databases are made available to business partners. Thus, for example, customers are granted direct access to the databases of the merchandise information system (MISL) to check back on goods in stock and periods of delivery or the status of their orders.

To date only few companies optimally combined customer- and process-orientated processes. As far as virtual department stores, the so-called Web Stores are concerned, these are often only a pure front-end installation which is not linked to other existing corporate processes. The order information which is sent to the company via Internet is nevertheless still entered manually in many cases. The main cost-cutting potential – for example in the logistics sector – is therefore not fully exhausted.

This example shows: The way information is handled determines a company’s future market chances and its ability to develop and successfully market products and services as well as to control the basic workflow.

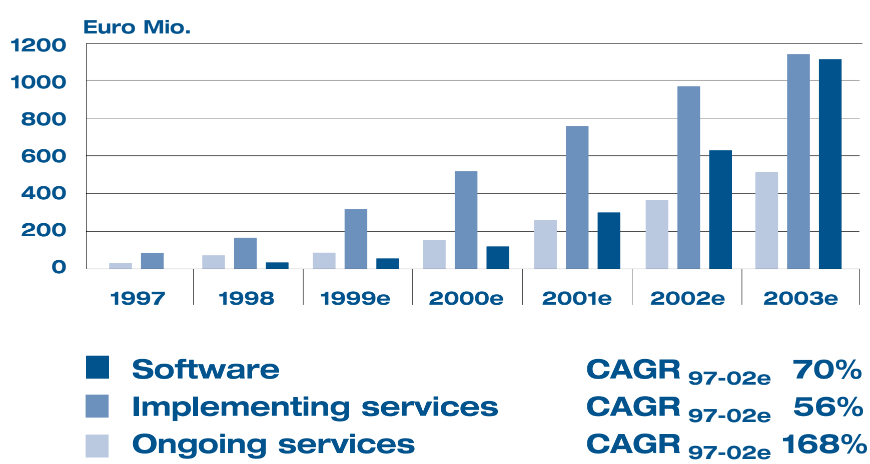
By opening of the “Corporate Network” to value-added partners it is possible to reflect and optimise the material, data and cash flow in the total value-added chain ranging from basic suppliers via several processing and logistics steps to the end user. As a result the cost of process adjustment can be reduced decisively. The configuration of business processes and their reproduction in Internet will therefore become the key issue for entrepreneurial success. And this is exactly where our strength lies.

net AG develops and markets world-wide software for the digital reproduction and optimisation of trans-company business processes and provides the accompanying consultation and services. We see ourselves as a supplier of total solutions, working not only as developer of innovative e-business software, but also as an architect of e-business solutions tuned to individual customer requirements as well as an Internet technology consultant. We show our customers how to integrate modern Internet technologies into existing IT worlds and use them successfully, in order to optimise business processes and build up loyalty by maximum customer orientation.

The majority of our customers are small to medium-sized companies which are exposed to fierce international competition. Apart from companies working in fashion industry these are mainly trading firms and service businesses, as well as companies operating in the field of the chemicals and electronics industry. Due to the fierce competition prevailing in these sectors we have excellent development perspectives in these branches.

Our clientele also includes telecommunication and media companies. In these sectors the integration of conventional network technologies and mobile telecommunication networks (converged networking) also represents a lucrative market for our company. In concrete terms we also worked for Jil Sander, Joop!, Nike, Gabor, Pro Sieben, DSF, Jelmodi, Honda, DASA, Bosch and BASF in the previous business year.

Sales Development
Software & Services



Internet-based B2B assumptions in Europe

Source: Business-To-Business Electronic Commerce Datamonitor, 1999

The Business Segment Software Solutions

In the business segment software solutions we focus on the continuous development and international marketing of our e-business software family **netC4.** With **netC4** companies are given the opportunity to control all business processes throughout the whole value-added chain on Internet basis. Furthermore **netC4** enables companies to set up enterprise business portals and Internet portals as well as to install Internet gateways to handle transaction-orientated business activities. As **netC4** is based on the current IT infrastructure our customers are able to maintain their existing IT resources and IT know-how in full scope.

netC4 not only comprises universal, but also industrialised modules. The trans-branch modules (Universal Solutions) enable a complete reproduction of all typical business processes – from purchase via merchandise information system to the end customer.

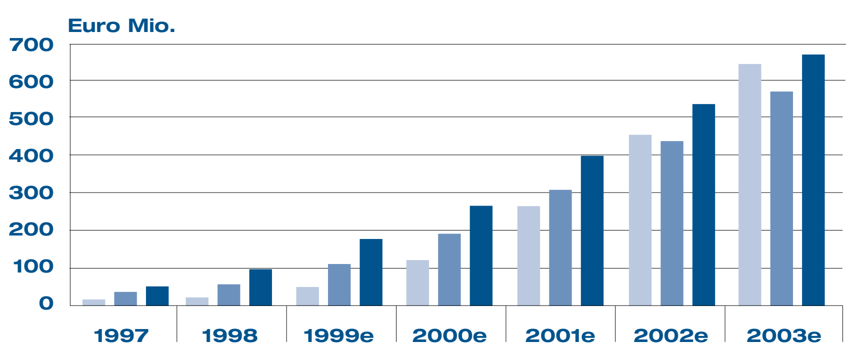
In this context software modules of the **netC4** Family are used:

- To provide in-depth in customer relationships (customer relationships management / CRM)
- To improve the value-added chain (Supply Chain Management / SCM) and
- To serve the administration of product data and information (Product Lifecycle Management)

In addition to that **netC4** also includes branch-specific modules (industry solutions) enabling the fulfilment of specific branch requirements, as, for example, specific development and manufacturing processes as well as sales forecasts and regional analyses.

As supplier of integrated e-business solutions **net AG** operates on the sector of the Internet market in which there is a high demand for consulting services among customers searching for an overall solution. We take these requirements into account because we not only focus on developing software, but also on providing extensive consulting services with regard to all issues arising in conjunction with the e-business. Here we offer solutions for all issues ranging from process analysis via the development of individual overall e-business solutions and their integration into the merchandise information system (MIS) to the implementation of Web payment systems as well as high-security and high-availability solutions – in the very sense of a solution from one hand.

Sales Development Software



Internet-based B2B software, worldwide

Revenue according to e-business processes

Source: Business-To-Business Electronic Commerce Datamonitor, 1999

Supply Chain	CAGR $_{97\text{-}03e}$	124%
Procurement	CAGR $_{97\text{-}02e}$	70%
Distribution Channel	CAGR $_{97\text{-}02e}$	53%

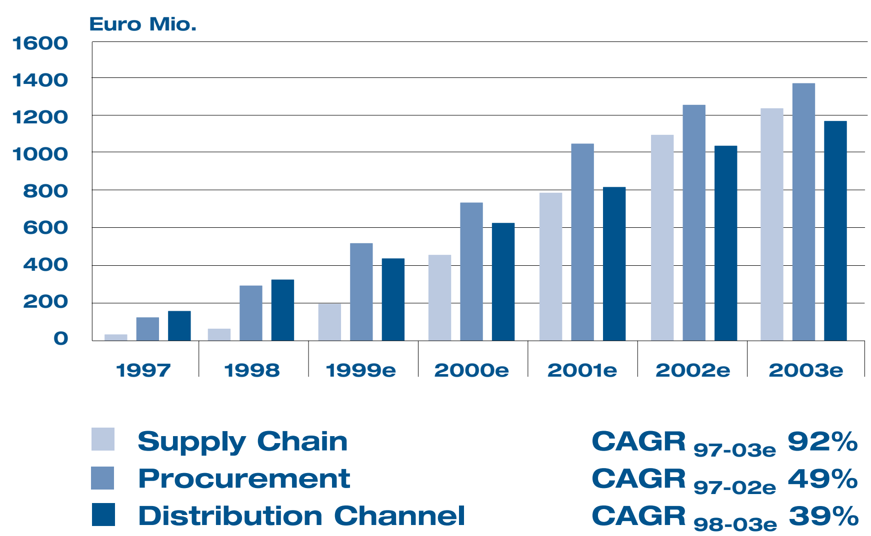
The Business Segment Services

In the business segment services we offer our customers extensive consultation and services in conjunction with the use of ultramodern Internet technologies. The business segment can be divided into two sectors, both being run as independent business units: network services and infrastructure services. Both units have been decentralised and are located in Stuttgart, Munich, Ludwigshafen and Bonn.

In the service sector we develop individual solutions based on the existing IT infrastructure in close co-operation with our customers, and port to Internet. In this respect we are able to look back on many years of experience in implementing and managing highly complex and heterogeneous network structures. The ISO 9002 Certification and numerous partnerships with well-known IT producers document the high quality of our services. Thus **net AG** is one of the top business partners of 3COM after Siemens and Nokia in Germany.

Our services, however, also comprise issues resulting from the integration of e-business solutions into the customer's existing network environment, for example database management and the integration of different database systems. Additional focus is also on the implementation of Intranet, Extranet and Internet systems. This includes developing and planning network topologies, transferring existing systems into the Internet, developing and implementing high-security solutions as well as extensive pre-sales and after-sales services as well as controlling day-to-day business and system management. One of our strengths lies in the combination of conventional network infrastructures with mobile telecommunication networks (converged networking), for example to optimise field-service-supported marketing systems in connection with "mobile e-commerce". In particular in the field of converged networking we expect exceptionally high growth within the following years.

Sales Development Services



Internet-based B2B services, worldwide - Implementation -

Revenue according to e-business processes

Source: Business-To-Business Electronic Commerce Datamonitor, 1999

Our Market: e-Business Software and Services

As supplier of e-business software and services we operate in the very fast-growing Internet market e-business-to-business (B2B). For 1998 Datamonitor estimates the world market volume to be approx. US-$ 4.5 billion or US-$ 12.4 billion for 2003. The average growth rate between 1998 and 2003 is assessed as 22 percent. In this context the largest share in this Internet market is allotted to the United States of America with 57 percent in 1998 or 55 percent in 2003. Datamonitor estimates the growth for the US-American as well as for the European market for e-business software and services as 21 percent. The rest of the world market grows at an average rate of 31 percent per annum, whereby in the higher growth dimension there is a considerable scope for manoeuvre.

We aim at surpassing this high market growth in future, too. Our strategic target is to further extend our technological lead with regard to highly integrated e-business solutions and achieve a world-wide leading position in the attractive B2B-Internet market.

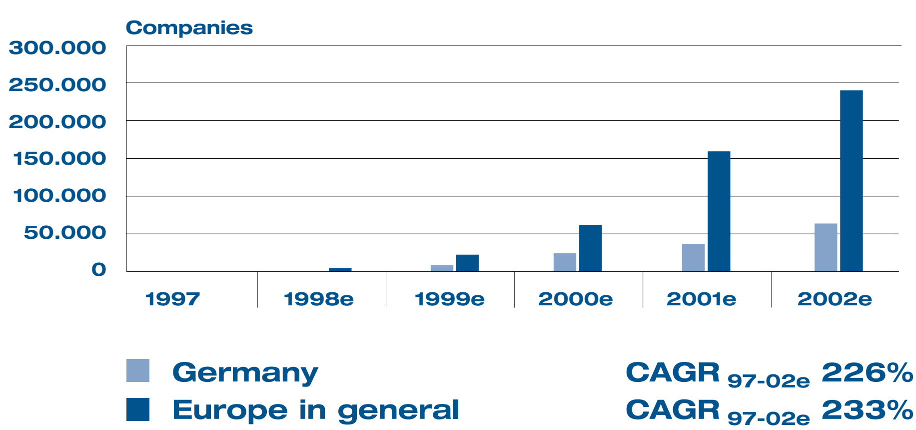
Our Strategy: Growing with our Customers

Our strategy is just as simple as convincing: In the long term we can only reach our ambitious growth targets by constantly making our customers even more powerful, innovative and efficient. For this reason we increasingly invest in the further development of our e-business software, e-business and consulting services. Our aim is to achieve both goals: we not only want to extend our existing customer partnerships, but also to convince new companies of our total e-business solution competence.

In case of our aggressive growth policy we focus on four strategic forces:

1. Extending our technological competence throughout the consistent further development of the **netC4** Product Family and utilising this software in different applications and industries
2. Consistent focusing on know-how and solution-orientated software and services
3. Strengthening national and international representation through own locations and establishing a very strong partner network
4. Applying our know-how and software to new and very fast-growing markets, in particular the telecommunications and media industry, because we assume that the Internet, telecommunications and media will converge increasingly.

Sales Development nach Regionen



Companies intending to realise B2B, e-Commerce based on Internet

Source: Business-To-Business Electronic Commerce Datamonitor, 1999

Report of Supervisory Board

In the 1999 stub period the Supervisory Board performed the tasks and obligations it is committed to perform in compliance with the stock corporation law and the articles of association of **net AG**. In the period under review four supervisory board meetings took place. In addition the Supervisory Board also regularly advised the Executive Board in superior personnel, organisational and strategic issues. The Supervisory Board was informed at all times of all key procedures in the company.

The following key decisions were made:

- Assessment of the annual financial statements 1998,
- Resolution on the increase in capital stock from DM 13.1 million by DM 3.9 million to DM 17 million,
- Resolution on acquisition of shares in the following companies:
  1. 100% CIP Eckel GmbH,
  2. 100% TIA Unternehmensberatung GmbH, 100% LUW GmbH, Dortmund as subsidiary of W & P GmbH & Co. KG,
  3. 80% HD-Plan Bauplanungssysteme GmbH by Basal GmbH, Empfingen
- Change of company name,
- Restructuring of business year

The annual financial statements as per 30.09.1999 prepared by the Executive Board as well as the management report were reviewed by the chartered accountants, Oppenhoff & Rädler GmbH Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft (chartered public accountants, tax consultants), Hannover, appointed by the general meeting. The auditor confirmed their compliance with the pertinent legal regulations and the articles of association and awarded his unlimited auditor's certificate.

The Supervisory Board also reviewed the annual financial statements as per 30.09.1999 in addition to the management report and detected no reason for complaints. The Supervisory Board approved the annual financial statements of **net AG** prepared by the Executive Board. The Supervisory Board agreed with the suggestion brought forward by the Executive Board with regard to the appropriation of funds. The Supervisory Board hereby thanks the Executive Board for its engagement in business year 1999.

Cologne, in January 2000

Supervisory Board
Dirk Niebergall

Consolida

Consolidated Financial Statements and Management Report of net AG infrastructure, software and solutions as per 30th September 1999 (HGB)

Consolidated financial Statements as per 30th September 1999

ASSETS	Exhibit	TDM	30.09.1999 TDM	31.12.1998 TDM
A. Fixed assets	(1)			
I. Intangible assets				
1. Franchises, trademarks, patents, licences and similar rights		1.013		241
2. Software from capital consolidation		18.708		0
3. Goodwill		327		0
4. Goodwill from capital consolidation		23.538	43.586	34.053
II. Property, plant and equipment				
1. Land, leasehold rights and buildings, including buildings on non-owned land		45		0
2. Other equipment, fixtures, fittings and equipment		2.082	2.127	637
III. Financial assets				
1. Shares in affiliated companies		176		226
2. Loans		0		5.375
3. Investments		44		0
4. Security investments		59	279	0
			45.992	**40.532**
B. Current assets				
I. Inventories				
1. Raw materials and supplies		343		0
2. Finished goods		3.560	3.903	2.201
II. Accounts receivable and other assets	(2)			
1. Accounts receivable from trading		10.560		6.778
2. Accouts due from affiliated companies		2.547		1.396
3. Other assets		4.632	17.739	3.721
III. Marketable securities	(3)			
Shares in affiliated companies			8.816	0
IV. Liquid funds	(4)		4.412	3.402
			34.870	**17.498**
C. Deferred charges and prepaid expenses			**421**	**65**
Total of assets			**81.283**	**58.095**

LIABILITIES AND SHARE	Exhibit	TDM	30.09.1999 TDM	31.12.1998 TDM
A. Shareholder´s equity				
I. Capital subscribed	(5)		17.024	3.400
II. Capital surplus	(6)		7.800	0
III. Earnings reserves	(7)			
1. Legal reserve		50		50
2. Other earnings reserves		3		0
3. Consolidated difference from capital consolidation		2.569	2.622	0
IV. Net income, net loss	(8)		-1.657	1.897
V. Shares of other partners	(9)		731	224
			26.520	**5.571**
B. Investments made to implement an already resolved capital increase			**0**	**9.990**
C. Provisions and accrued liabilities	(10)			
1. Provisions for pensions and similar obligation			1.185	530
2. Accrued taxes			2.272	2.618
3. Reserves for latent taxes			10.115	0
4. Other reserves			2.815	1.359
			16.387	**4.507**
D. Liabilities	(11)			
1. Liabilities due to banks			23.203	17.607
2. Advance payments received on account of orders			64	157
3. Trade accounts payable			5.889	4.799
4. Accounts due to affiliated companies			120	0
5. Accounts due to other group companies			7	0
6. Other liabilities			8.164	15.428
			37.447	**37.991**
E. Deferred charges			**929**	**36**
Total of liabilities and shareholders´ equity			**81.283**	**58.095**

Consolidated Income Statement 1999

		Exhibit	01.01.- 30.09. 1999 TDM	1998 TDM
1.	Sales	(12)	45.490	11.453
2.	Stock movement		-17	0
3.	Own work capitalised		0	8
4.	**Total performance**		**45.473**	**11.461**
5.	Other operating income	(13)	536	138
6.	Cost of materials	(14)	-29.335	-8.275
7.	**Gross profit**		**16.674**	**3.324**
8.	Personnel expenses	(15)	-10.333	-1.186
9.	Depreciation and amortisation costs and other write-offs			
	- on goodwill from capital consolidation		-2.360	-254
	- on assets from capital consolidation		-938	0
	- on other assets		-497	-37
10.	Income from other long-term securities and loans		-4.494	-987
11.	Income from investments		0	2.457
12.	Other interest and similar income		137	49
13	Interest and similar expenses		-820	-79
14.	**Profit/loss from ordinary operations**		**-2.631**	**3.287**
15.	Taxes on income	(16)	175	-1.250
16.	Other taxes		-9	-8
17.	**Consolidated net income/net loss**		**-2.465**	**2.029**
18.	Shares of other partners in the net profit/net loss		145	10
19.	**Consolidated net income/net loss after shares by other partners**		**-2.610**	**2.019**
20.	Amount carried forward from previous year		1.897	-72
21.	Dividend		-917	0
22.	Transfer to legal reserves		0	-50
23.	Transfer to other earnings reserves		-27	0
24.	**Retained earnings/accumulated deficit**		**-1.657**	**1.897**

Development of consolidated fixed assets of net AG infrastructure, software and solutions as per 30th September 1999

	Acquisition/ manufacturing costs			
	Date 01.01.1999 TDM	Change consol. firms TDM	Additions TDM	Deductions TDM
I. Intangible assets				
1. Franchises, trademarks, patents, licences and similar rights	408	936	199	1
2 Software from capital consolidation	0	14.646	0	0
3. Goodwill	0	0	385	0
4. Goodwill from capital consolidation	34.307	0	-2.960	195
	34.715	**15.582**	**-2.376**	**196**
II. Property, plant and equipment				
1. Land, leasehold rights and buildings, including buildings on non-owned land	0	0	47	0
2. Other equipment, fixtures, fitting and equipment	2.248	1.695	837	199
	2.248	**1.695**	**884**	**199**
III. Financial assets				
1. Shares in affiliated companies	226	-50	0	0
2. Loans	5.375	0	0	5.375
3. Investments	0	44	0	0
4. Security investments	0	59	0	0
	5.601	53	0	5.375
	42.564	**17.330**	**-1.492**	**5.770**

[1] this amount includes write-offs of cap-premiums totalling TDM 19 which are reflected in the ineterest and similar expenses

		Depreciation					Net book value	
Transfers	Date 30.09.1999	Date 01.01.1999	Change consol. firms	Additions [1]	Deductions	Date 30.09.1999	30.09.1999	31.12.1998
TDM	TDM	TDM	TDM	TDM	TDM	TDM	TDM	TDM
0	1.542	167	277	86	1	529	1.013	241
5.000	19.646	0	0	938	0	938	18.708	0
0	385	0	0	58	0	58	327	0
-5.000	26.152	254	0	2.360	0	2.614	23.538	34.053
0	**47.725**	**421**	**277**	**3.442**	**1**	**4.139**	**43.586**	**34.294**
0	47	0	0	2	0	2	45	0
0	4.581	1.611	701	370	183	2.499	2.082	637
0	**4.628**	**1.611**	**701**	**372**	**183**	**2.501**	**2.127**	**637**
0	176	0	0	0	0	0	176	226
0	0	0	0	0	0	0	0	5.375
0	44	0	0	0	0	0	44	0
0	59	0	0	0	0	0	59	0
0	279	0	0	0	0	0	279	5.601
0	**52.632**	**2.032**	**978**	**3.814**	**184**	**6.640**	**45.992**	**40.532**

Notes to consolidated financial statements 1999

for net AG infrastructure, software and solutions, Cologne

General Principals

The consolidated financial statements for **net AG** infrastructure, software and solutions (also referred to in the abbreviated form as: **net AG**) have been be prepared in compliance with the regulations stipulated in the German Uniform Commercial Code (HGB) and the Companies Act (AktG). For reasons of clarity individual items in the balance sheet as well as in the profit and loss account were combined and split up and explained in the exhibit.

At the General Meeting held on 13th July 1999 the resolution to change the company name from ZTB Zukunfts-Technologie Beteiligungs Aktiengesellschaft into **net AG** infrastructure, software and solutions was passed.

On the grounds of the conversion in the business year, a stub period was entered for the period from 01st January to 30th September 1999.

Consolidated Companies

Besides **net AG** infrastructure, software and solutions the following 8 national companies are included in the consolidated financial statements of **net AG** infrastructure, software and solutions:

Company	Office adress	Share in capital %	Investment held by
Basal GmbH Hard- und Softwaresysteme	Empfingen	100,00	**net AG**
Stemmer Elektronik GmbH & Co. KG	Puchheim	100,00	**net AG**
Walter und Partner GmbH & Co. KG	Filderstadt	51,00	**net AG**
CIP Eckel GmbH	Freudenberg	100,00	**net AG**
TIA Unternehmens-beratungs-GmbH	Heubach	100,00	Walter und Partner GmbH & Co. KG
Basal Prodia GmbH	Pforzheim	70,00	Basal GmbH Hard- und Softwaresysteme
HD-Plan Bauplanungs-systeme GmbH & Co. KG	Rottenburg	80,80	Basal GmbH Hard- und Softwaresysteme
2. Richmod Verwaltung GmbH	Cologne	100,00	**net AG**

Principally the date of establishment resp. purchase date of the shares in the respective company was selected as initial consolidation date:

Company	**Deadline**
2. Richmod Verwaltung GmbH	01st January 1999
Basal Prodia GmbH	24th February 1999
HD-Plan Bauplanungs-systeme GmbH & Co. KG	30th September 1999
CIP Eckel GmbH	30th September 1999
TIA Unternehmens-beratung GmbH	30th September 1999

The key items of the consolidated balance sheet and the consolidated profit and loss account of the stub period 1999 were influenced as follows on the grounds of the changes in the consolidated companies (additions 1999):

	TDM
Fixed assets	+1.757
Current assets	+29.181
Reserves	+5.452
Liabilities	+21.984
Sales	+172
Material expenses	+126
Personnel expenses	+277
Other company expenses	+132

On the grounds of the low business volume the following subsidiaries were not included in the consolidated financial statement in compliance with §§ 296 par. 2, 311 par. 2 HGB (German Uniform Commercial Code), as they are of minor significance for the impression of the asset, financial and proceed situation of the group:

Company	Office adress	Share in capital %	Investment held by
1. Richmod Verwaltung GmbH	Cologne	100,00	**net AG**
3. Richmod Verwaltung GmbH	Cologne	100,00	**net AG**
Stemmer Elektronik GmbH	Munich	100,00	**net AG**
Hartmut Georg Walter Verwaltungsgesellschaft mbH	Filderstadt	51,00	**net AG**
CIP Software Marketing GmbH	Hungen	44,00	CIP Eckel GmbH
Reusch GmbH Büro- und Datentechnik	Siegen	100,00	CIP Eckel GmbH

The complete list of investments is deposited at the Register of Companies at the District Court of Cologne under the registration number HRB 29981. GVA Gesellschaft für Verfahren der Abwassertechnik mbH & Co. KG, Wülfrath is to be sold at the beginning of 2000 (§ 296 par. 1 No. 3 HGB). GVA Sangerhausen Gesellschaft für Verfahren der Abwassertechnik mbH was merged into the afore-mentioned company.

Consolidation Principles

The capital consolidation was performed according to the so-called book value method by offsetting the acquisition costs with the pro rata shareholders equity of the subsidiaries at the point of time of their acquisition resp. at the time of their first inclusion in the group of consolidated companies. The capitalised differences resulting are initially allocated to the respective items on the consolidated balance sheet, in so far as an allocation to depreciable assets is possible, and written off with effect to the profit or loss via their period of use.
Any then resulting capitalised differences are listed as goodwill under the item of intangible assets and written off. Passive differences were listed under the earnings reserves.

Additions made within the business year 1999 are listed in the analysis of fixed assets enclosed.

The accounts due and the accounts payable between the consolidated companies are mutually offset.

Proceeds from intracompany sales as well as other intergroup proceeds are offset with the appropriate expenses.

Interim results were not eliminated, as deliveries and services were effected at normal market conditions and the calculation of the value would have incurred disproportionately high expenses (§ 304 par. 2 HGB).

Currency Conversion

In the individual company financial statements foreign currency obligations and liabilities were valued with their acquisition costs resp. with the lower monetary resp. higher offer price on the balance sheet date.

Accounting and Valuation Principles

The financial statements included in the consolidation are principally prepared according to the standard accounting and valuation methods applied to **net AG** infrastructure, software and solutions.

The intangible assets acquired for value are assessed with their acquisition cost and written off as scheduled. The acquisition cost of the goodwill is principally distributed over a period of 5 or 7 years of use according to the straight line method. That corresponds to the periods of use on which the US-GAAP consolidated financial statements are based.

Property, plant and equipment were valued as acquisition or manufacturing costs resp. with the lower value to be applied on the balance sheet date. They are written off as scheduled according to the probable economic period of use as well as in compliance with the straight-line method. The depreciation methods and depreciation rates comply with the tax regulations.

The financial assets were valued with the acquisition cost plus incidental acquisition expenses resp. with the lower value to be applied. Reductions in acquisition costs were taken into consideration.

The inventories are activated at acquisition costs or at manufacturing costs subject to taxable activation resp. at lower current replacement costs. For lacking marketability deletions were made.

The accounts receivable and other assets are principally applied at their nominal values. Identifiable individual risks and the general credit risk is taken into account by an appropriate valuation reserve in an amount which is acknowledged by taxation rules.

The individual provisions for pensions were applied with their partial value within the sense of the regulations stipulated in § 6 a EStG (German income tax laws). Basis of the actuarial appraisals were the „Richttafeln" (guiding tables) prepared by Dr. Klaus Heubeck (date 1998) with an accounting interest rate of 6 %.

The other provisions and accrued liabilities take all identifiable risks and uncertain liabilities into account. They are appropriated in the amount of their probable utilisation. For latent taxes a tax rate of 51% is applied.

The liabilities are valued at the repayment amount.

The contingent liabilities correspond to the liability coverage prevailing on the balance sheet date.

Explanations of the consolidated balance sheet

(1) Fixed assets

The development of the individual items in the fixed assets in 1999 is listed separately and detailed. Additions of initially consolidated companies are presented separately under the acquisition costs and under the write-offs. The transfers refer to the restructuring of amounts of goodwill to software within the scope of capital consolidation. In the goodwill from capital consolidation a reduction in the acquisition costs of TDM 8,000 had to be taken into account. This refers to a minimisation of the purchase price according to the specifications of the purchase agreement.

(2) Accounts receivable and other assets

	30.09.1999 TDM	31.12.1998 TDM
Accounts receivable from trading	10.560	6.778
- thereof with a remaining term of over 1 year	0	0
Accounts due from affiliated companies	2.547	1.396
- thereof with a remaining term of over 1 year	0	0
Other assets	4.632	3.721
- thereof with a remaining term of over 1 year	947	463
	17.739	**11.895**

Accounts due from affiliated companies exist against GVA Gesellschaft für Verfahren der Abwassertechnik mbH & Co.KG.

The item other assets with a remaining term of over one year refers to staff loans (TDM 379), claims from reinsurance policies (TDM 545) as well as key monies (TDM 23).

(3) Securities

This item includes the holding in GVA Gesellschaft für Verfahren der Abwassertechnik mbH & Co. KG.

(4) Cheques, cash on hand and cash in banks

The item cheques, cash on hand and cash in banks includes cash on hand and cash in banks. All liquid funds are freely available.

(5) Drawn Capital

The item drawn capital has been converted to Euro and into unit shares and now totals Euro 8,704,000.00. It has been split into 8,704,000 registered shares. Within the scope of converting a capital increase to Euro 12,038.04 (DM 23,544.36) was effected by restructuring one partial amount of the earnings reserves.

According to the resolution by the executive board and supervisory board in February 1999 a capital increase by TDM 3,900 (780,000 shares of DM 5.00 each) took place from the capital stock authorised for issue to TDM 17,000.

The capital stock increase from 1998 was entered in the Register of Companies in 1999.

The executive board is authorised to increase the capital stock by 31st December 2003 with approval of the supervisory board in one step or in partial amounts by a total of up to Euro 4,350,000.00 by issuing new shares against cash or contributions in kind. The executive board shall be authorised to exclude the statutory subscription right with approval by the supervisory board if the new shares are issued to sellers of a company desiring to purchase the company or if these are issued within the scope of the company's quotation on the stock exchange.

The executive board is hereby authorised to purchase own shares on behalf of the company by 31.12.2000 at a minimum price of Euro 2.50 and at a maximum price of Euro 50.00 for one single share with an arithmetical nominal value of Euro 1.00 up to a maximum of 850,000 shares. The purpose of acquiring own shares can in particular be to purchase companies of the firm's participation as well as to control the company's liquidity situation. The purchase shall moreover only be permissible, if the company is able to create the reserves prescribed in compliance with § 272 par. 4 HGB without minimising the capital stock or the reserves to be created by law or by statute which must not be used for payments to the shareholders.

(6) Capital reserves

In conjunction with the capital increase by TDM 3,900 an agio of TDM 7,800 was agreed.

(7) Other reserves

In accordance with the resolution passed on 13th July 1999 TDM 26 from the retained earnings were allocated to the other reserves. Within the scope of converting to the Euro an amount of TDM 23 was also withdrawn for this purpose.

The shares in (8) 2. Richmod Verwaltung GmbH belong to net AG since the date of establishment. The originally planned sale of the shares did not take place. Within the scope of initial consolidation as per 01.01.1999 the earnings retained in 1998 (TDM 2,569) were allocated to the earnings reserves.

(8) The balance sheet profit/loss results from:

	30.09.1999 TDM
Net income/net loss	-2.610
Retained earnings brought forward from the previous year	1.897
Dividends	-917
Earnings appropriated to statutory reserves	0
Earnings appropriated to other reserves	-27
	-1.657

(9) Shares in third-party possession

The shares of non-consolidated third parties in the capital stock of the subsidiaries included in the financial statements (shares in third-party possession) are allocated with TDM 731 to Basal Prodia GmbH, Walter und Partner GmbH & Co. KG, TIA Unternehmensberatung GmbH and HD-Plan Bauplanungssysteme GmbH & Co.KG.

(10) Reserves

The remaining reserves comprise primarily the provisions for personnel expenses, for warranties and for risks.

The tax reserves comprise TDM 10,115 for latent taxes. They result from the demarcation of tax effects on the grounds of disclosing hidden reserves within the scope of capital consolidation (TDM 7,469) and the difference between tax and trade law valuation of the shares in GVA Gesellschaft für Verfahren der Abwassertechnik mbH & Co. KG. Active latent taxes totalling TDM 329 were offset.

(11) Liabilities

	30.09.1999 TDM	31.12.1998 TDM
Liabilities due to banks	23.203	17.607
- thereof with a remaining term of up to 1 year	9.300	6.232
- thereof with a remaining term of over 5 years	1.515	2.950
Advance payments received on account of orders	64	157
- thereof with a remaining term of up to 1 year	64	157
Trade accounts payable	5.889	4.799
- thereof with a remaining term of up to 1 year	5.889	4.799
Accounts due to affiliated companies	120	0
- thereof with a remaining term of up to 1 year	120	0
Accounts due to other affiliated companies	7	0
- thereof with a remaining term of up to 1 year	7	0
Other liabilities	8.164	15.428
- thereof with a remaining term of up to 1 year	8.164	4.046
- thereof from taxes	1.103	812
- thereof for social security	392	206
Total liabilities	**37.447**	**37.991**
- thereof with a remaining term of up to 1 year	23.544	15.234
- thereof with a remaining term of over 5 years	1.515	2.950

To protect the liabilities due to banks totalling TDM 16,085 shares of Walter und Partner GmbH & Co. KG, of Hartmut Walter Verwaltungsgesellschaft mbH, of Stemmer Elektronik GmbH & Co. KG, of Stemmer Elektronik GmbH, of Basal GmbH Hard- und Softwaresysteme and of GVA Gesellschaft für Verfahren der Abwassertechnik mbH & Co. KG were hypothecated.

Liens and similar rights as well as chattel mortgages served as securities corresponding to TDM 21,448 (pre-year: TDM 305).

The item other liabilities contains residual purchase prices totalling TDM 2,000 from company acquisitions.

In the case of the item trade accounts payable securities are available in the form of a normal retention of title.

Contingent liabilities

Take-over of maximum guarantees corresponding to the amount of TDM 150 (pre-year: TDM 7,785).

Other financial commitments	30.09.1999 TDM	31.12.1998 TDM
commitments from rental and leasing agreements p.a.	1.528	116
Remaining purchase prices and additional payments	20.212	0

In the company acquisitions the remaining acquisition prices depend on the future results of the companies acquired. The possibly incurred maximum purchase prices were listed.

(12) Sales

The percentage of sales with foreign countries totalled about 2.8% of the overall turnover in 1999.

(13) Other company income

The item other company income comprises primarily proceeds from dissolving reserves, proceeds from investment deletions, remuneration in kind of employees and insurance payments.

(14) Material expenses

	01-09/1999 TDM	01-12/1998 TDM
Cost of raw materials and supplies, and for purchased goods	28.941	8.234
Cost of purchased services	394	41
	29.335	**8.275**

(15) Personnel costs/employees

	01-09/1999 TDM	01-12/1998 TDM
Wages and salaries	8.530	1.061
Social security contributions and expenses for pensions	1.803	125
- thereof for pensions	103	7
	10.333	**1.186**

Total avarage	**1999**	**1998**
Employees	163	85
Workers	1	2
Apprentices	0	2
	164	**85**

Avarage pro rata	**1999**	**1998**
Employees	94	10
Workers	0	0
Apprentices	0	2
	94	**12**

(16) Taxes from income and proceeds

The taxes comprise a latent tax yield of TDM 329.

Other details - organs

Executive Board:
Herr Dr. Stefan Immes, Koblenz

Supervisory Board:
Mr. Dirk Niebergall, Bachelor of Commerce chairman, Munich, entrepreneur supervisory board fortknox.venture AG

Mr. Jörg Fischer, Master's Degree in chemistry Aachen,
General manager Spirit GmbH

Mr. Theo E. Reichert, Bachelor of Commerce Berlin,
Executive board, Analyticon AG

The total remuneration of the supervisory board was 1999 TDM 18 (pre-year remuneration TDM 3). In compliance with § 286, par. 4 HGB the generation remuneration of the supervisory board has not been stated.

Cologne, in December 1999
net AG infrastructure, software and solutions

Dr. Stefan Immes   Theodor Niehues

Group Management Report

Business Year 1999

The Company

net AG infrastructure, software and solutions was established by re-naming Zukunfts-Technologie Beteiligungs AG on September 9, 1999. **net AG** has continued the successful start of ZTB AG and has since focused on the highly innvoative e-business software and services sector, enabling business models to be mapped, ported and optimised in the Internet.

net AG integrates Customer and Sales Management, Supply Chain Management and Product Life Cycle Management processes with its own proprietary software, **netC4** It therefore operates within the so-called e-business-to-business field, a sector in which dramatic growth rates have been forecasted in the coming years.

netC4 is one of **net AG´s** most powerful tools to optimise business processes and is the product of many years of experience in innovative Internet technologies and **net AG** strives to make its customers more successful with **netC4**. The software family is equipped with the competence to set up highly complex multi-service Internet infrastructures. **net AG** is divided into the central corporate sectors for strategy and finances, marketing and sales management and into the operative sectors software, solutions and services.

net AG offers a full range of products for the entire supply-chain of web-oriented process optimisation and communications design. **net AG** expects high growth rates in this market in the years to come.

Market and Strategy of net AG

net AG´s business comprises the full scope of internet business processing. Despite how simple this initially seems sounds, it consists of much more than only digital transactions; real business transactions require more than only an office with the appropriate equipment. Profitable and useful e-business requires moreover an integrated approach in which the proprietary technology of **net AG** is paired with top calibre network and communications systems to provide clients with profitable and useful solutions. The field in which **net AG** operates is also classified as Internet-Business processing.

The problem in this market is that it has as yet not been possible to smoothly combine so-called front-office solutions with back-office processes. Moreover, customers and suppliers have to be integrated into the processes for total business process optimisation. In order to be globally, a company's processes must be optimised, despite all associated difficulties.

In practical operations, many companies have unable to harmonise existing IT software or even Internet software (island solutions) with databases or classic merchandise management systems. Many of the orders mailed to the company via Internet must still be entered manually into traditional ERP programs. As a result, high costs arise at the interface between Internet and traditional IT.

The strategy pursued by **net AG** is to assist the customer in coping with this challenge by offering products (**netC4**) and services (consulting and network) which directly address these issues. The customer is provided with payable and manageable solutions from a single integrated source.

Market and Competition

In this section the market of **net AG** and the conditions of this market are detailed from the viewpoint of the company.

net AG is a highly innovative company in the development and sale of e-business-to-business software and solutions. **net AG** focuses on mapping, porting and optimising business models on the basis of web-based technologies.

One particular problem customers are now facing the challenges in conjunction with the Y2K conversion of earlier this year. The conventional information and communications systems currently used in the companies are generally not able to support future trends, these being Internet visualising companies and customer-oriented, depending on the size of the company.

In attempting to meet these challenges, companies often attempt an incremental approach to further developing their existing IT systems. It is, however, soon noticed that this approach does not lead to a satisfactory general solution in the sense of **"total eBusiness"**.

The conflict is clear: a company's desire for a truly integrated e-business orientation compared with the need to maintain existing IT solutions as much as possible. **net AG** offers decisive solutions for this dilemma. It integrates existing IT systems and offers the decisive solutions to set up a highly integrated e-business enterprise by combining the mega processes Customer & Sales Management, Supply Chain Management and Product Lifecycle Management.
Optimising the process flows and the aiming at higher customer commitment are given top priority in this process.

The success of a company will in future depend heavily on the extent it is able to reach this goal within a short amount of time, despite the fact that the complexity of solutions and networks rise disproportionately for the user. The market therefore demands manageable tools and simple instruments in order to achieve efficient planning, design and optimising of virtual companies and process taking into account existing IT investments.

net AG demands precisely this demand. **net AG** offers manageable tools and easy instruments to be applied for efficient planning, designing and for optimising Internet-based companies and process flows.

With the help of **net AG**, business processes are distributed over the whole network, planned, observed and optimised. The products offered by **net AG** are comprehensive and allow an optimisation of the interrelations between Supply Chain Management, Product Design and Life Cycle Management as well as Customer and Sales Management. The new and superior aspect in this approach is that the companies in a virtual compound of enterprises are able to invest their capacities to mutual and optimised benefit for the company itself and for the partners. This not only optimises the supply chain, but also dramatically strengthens the company's position against its competitors. Global e-business-to-business transactions will increase dramatically in the years to come and by 2003 the worldwide e-business-to-Consumer turnover will have at least quadrupled.

The conclusion drawn from this development is that the effect of e-business should not be limited to the turnovers of some known companies (Amazon.com, Yahoo, etc.) operating in the consumer sector. Moreover, it is important to redefine a variety of the commercial rules on the grounds of Internet and e-business. An Internet economy is being created. **net AG** plays a role in this new definition of the rules and their implementation.

Turnover and Earnings Situation

In viewing the consolidated figures, the fact that the acquired companies in 1999 were not all included in the income statements must be taken into account. In addition, 1999 was a stub period, as a conversion to the business year took place as per September 30.

It makes more sense to therefore prepare an "As If Evaluation" which also enables an analysis of the development in comparison with the past.

In such a review **net AG** booked sales totalling TDM 79,576 in the 1998-1999 business year. This reflects our customers' confidence in **net AG**. The rise in sales in previous years results not only from the strengthened business activities with existing customers, but also from winning over new regular customers. In the last two years it has been possible to establish new customer relations, for example with Océ, Puma and Otto Versand.

net AG achieved its income in 1996-1997 and 1997-1998 business years mainly from system engineering, consulting and software licenses in the field of business processes optimisation. With the new product family **netC4**, immense market potential for business-to-business solutions has been created.

Balance Sheet Structure and Investments

The company investments primarily refers to the acquisition of companies in 1999.

In particular, CIP Eckel GmbH as well as HD-Plan Bauplanungs GmbH and TIA Unternehmensberatung GmbH were acquired.

As in the past, 30% of company acquisitions were financed from company funds; third-party financing is with a 5-7 year term, whereby the favourable interest rates are secured in the longterm with appropriate derivatives.

net AG still retains a large shareholders' stake in the individual companies and therefore supports the growth of individual corporate units. The issues arising from Y2K were addressed according to schedule and the conversion to Euro organised and prepared in joint cooperation.

Risk Assessments

Bearing the laws on control and transparency in the corporate sector (KonTraG) in mind, the company is currently restructuring its reporting and monitoring system to ensure that the legal specifications are not only met, but to also allow an exploitation of the associated opportunities.

Regulations to identify and assess risks at an early point of time as well as a control system to ensure that if risks arise certain measures will be performed are now demanded. At present we are ensuring by extensive preparations that it will be possible to formally introduce this Risk Management System within the course of the business year in order to categorise and assess risks and also to lay down competencies.

Bad or incorrectly calculated projects to introduce software represent a risk. We avoid this risk largely by controlling the projects to ensure that we will identify income risks in due time to allow us to take the appropriate measures. A further risk is that customers may face economic difficulties within the course of a project and may not be able to financially maintain a project. We attempt to reduce this risk by operating with frequent partial payments in the case of key projects and by questioning and investigating the financial soundness of our customers in detail.

A company like **net AG** depends decisively on highly qualified staff. At all times there is the risk of high-quality personnel being lured away from competitors with offers of better pay or of it being impossible to win over new personnel to support the company's growth plans. **net AG** reacts to these risks by offering its executives attractive salaries and by involving the staff in important decisions and by enhancing their identification with the company. **net AG** also plans to introduce a staff incentive program for 2000.

A high technological risk is principally seen in sectors similar to that in which **net AG** operates. We meet this risk by modularising our products and by basing our income on various company models/income types. In addition to the license business, this is project business as well as the service sector in the infrastructure field. The risk of all sectors failing to function is highly unlikely. Meetings between the Executive Board and executives nevertheless take place in which topical market issues, development issues and competition issues are discussed and in which risks are made more transparent.

We encounter risks in connection with a deterioration of interest rates by long-term financing agreements with maximum interest rates secured via derivatives.

Y2K problems could be left out by EDP and other program-controlled systems. To guarantee a smooth transition, all systems in use have already been controlled and modified, if applicable. According to the assessment by the management boards of the company the introduction of the Euro will not pose any problems. For market risk and cost viewpoints, we have planned a relatively late conversion of the information systems from DM to Euro. We proceed on the assumption that we will convert our company currency to Euro in 2001.

The Forecast

net AG´s turnover and profit plans for the next few years are tuned to drastic increases. These plans are based on market surveys in the e-business sector, and focus on the assessment of the executives positioned in the individual corporate units as well as the Executive Board.

After the end of the business year the company acquired a further 44% share in Walter + Partner GmbH & Co. KG, in addition to 100% in Novacom AG, Zurich. With these acquisitions the company expanded its strong position and purchased, with Novacom AG, a company offering ultramodern Internet technology.

At the beginning of 2000 the company aims to go public. For this purpose, a syndicate agreement was signed with HSBC Trinkaus and Burkhard, Düsseldorf in November 1999. The bank and the company proceed on the assumption that with a stable market situation on the capital market a listing should be possible within the first half of the year. In the running business year the company aims at achieving a turnover of more than DM 100 million (as-if outlook). The positive effect of additional company acquisitions has not been taken into account here.

In order to keep pace with this development in staff terms, the executive board of net AG was reinforced by a Marketing and Sales Manager at the end of the year. Theodor Niehues took over this new position. The company was also able to employ a financial manager – Frank Hartmann – who will take over this new function at the latest by July 1, 2000.

In view of the current situation of **net AG** and the general economic situation, the goals which **net AG** have set seem to be within reach.

Cologne, December 1999

Dr. Stefan Immes Theodor Niehues

Auditors´ opinion

We reviewed the consolidated financial statements and the group management report of **net AG**, infrastructure, software and solutions for the business year from 1st January to 30th September 1999. The consolidated financial statements and the group management report prepared in compliance with the German commercial laws and the supplementary regulations embedded in the articles of association lie within the responsibility of the company's legal representatives. It is our task to surrender an assessment of the consolidated financial statements and the group management report on the basis of the review performed by our company.

We performed our audit of the consolidated financial statements in compliance with § 317 HGB observing the principles of regular auditing laid down by the Institut der Wirtschaftsprüfer (IDW) (German institute of chartered accountants). According to these principles, the inspection shall be planned and performed in such a way to ensure that any inaccuracies and violations having a decisive effect on the presentation of the asset, financial and proceed situation conveyed by the consolidated financial statements observing the principles of proper accounting and by the group management report will be identified with sufficient certainty. In laying down the inspection operations knowledge of the business activity, as well as of the economic and legal environment of the group in addition to the expectation of the possible errors are taken into account. Within the scope of the audit the efficiency of the internal control system as well as proof of the information given in the consolidated financial statements and group management report is assessed primarily on the basis of random samples. The audit comprises an assessment of the annual balance sheets of the companies included in the consolidated financial statements, the definition of the consolidation group, the accounting and consolidation principles applied and the decisive assessments of the legal representatives, as well as a consideration of the overall presentation of the consolidated financial statements and the group management report. We believe that our audit forms a sufficiently reliable basis for our assessment.

Our audit did not give rise to any objections.

According to our conviction the consolidated financial statements observing the principles of proper accounting convey an impression of the asset, financial and earnings situation of the group reflecting the actual situation. The group management report renders an appropriate presentation of the group situation and refers to the risks of future development.

Munich, 10th January 2000

O & R OPPENHOFF & RÄDLER GmbH
Chartered accountants
Tax consultants

Steinke	Schön
Chartered accountant	Chartered accountant

Consolidated statement of cash flows (non-audited)

	01-09/1999 TDM	1998 TDM
Consolidated annual surplus/deficit	-2.610	2.019
Non-company share in profit/loss	145	10
Depreciation of goodwill from capital consolidation	2.360	254
Depreciation of fixed assets from capital consolidation	938	0
Depreciation of other fixed assets[1)]	516	42
Profit from disposition of property, plant and equipment	-32	-16
Cash Flow	1.317	2.309
Change in accounts due from affiliated companies	-1.290	338
Change in inventories	-816	245
Change in active deferred charges and other assets	14.068	-2.387
Change in trade accounts payable	-327	326
Change in trade accounts payable	52	0
Change in other reserves and liabilities	-6.057	586
Inflow of funds from running business activities	**6.947**	**1.417**
Acquisition of property, plant and equipment	-1.468	-5.740
Proceeds from selling property, plant and equipment	293	43
Aquisition of subsidaries, minus tender aquired	-12.759	-21.652
Outflow of funds from running investment activities	**-13.934**	**-27.349**
Change in financial liabilities	-3.031	15.944
Inflow from capital increase	11.700	12.615
Payment of pre-year dividend	-917	0
Capital increase of other partners	245	0
Inflow of funds from running financing activities	**7.997**	**28.559**
Change in liquidity	1.010	2.627
Financial funds at the beginning of the year	**3.402**	**775**
Financial funds at the end of the year	**4.412**	**3.402**

1) according to analysis of fixed assets

Transitional statement

Explanations about HGB and US-GAAP

Explanations and summary of the key differences between the German accounting principles (HGB) (Uniform German Commercial Code) and the US Generally Accepted Accounting Principles (US-GAAP)

for business year 1998, for the stub period ending on 30.09.1999 as well as for the interim financial statements as per 31.12.1999 (non-reviewed)

The consolidated financial statements of **net AG** for the stub period ending on 30th September 1999, as well as the year 1998 were prepared in compliance with the pertinent trade regulations stipulated in the German Uniform Commercial Code (HGB). In conjunction with officially listing the stocks for trading on the New Market **net AG** identified the key differences between HGB and US-GAAP and transferred the consolidated net loss and the shareholders equity in the group to US-GAAP. For information purposes the non-reviewed figures for the quarter-year financial statements as per 01.10. to 31.12.1999 are also enclosed.

Contents and presentation of the consolidated financial statements

The consolidated balance sheet in compliance with HGB is structured according to § 266 HGB. This presentation is prescribed by the German legislator. Nevertheless no separation of assets and debts takes place on the grounds of the commitment period resp. maturity.

According to US-GAAP a distinction is made between assets and debts and long-term issues according to the period in which they are tied, resp. with regard to maturity as short-term tied assets.

The consolidated statement of income corresponds to the other so-called total-cost procedures and are structured in compliance with § 275 par. 2 HGB (Uniform German Commercial Code). In this presentation the costs incurred in the individual periods of review are reported according to the respective cost category.

In line with US-GAAP costs are to be reported according to the company function by which these costs were incurred. A structuring of the statement of income complying with US-GAAP regulations also delimits the operational functions from the other costs.

Transition from the net result and shareholders equity of the consolidated financial statements of HGB (German Uniform Commercial Code) in compliance with US-GAAP for the business year 1998, for the stub period ending as per 30.09.1999, as well as for the interim balance sheet as per 31.12.1999

		01.01.-31.12. 1998	01.01.-30.09. 1999	Quarter-year financial statement 01.10.-31.12.1999 non-reviewed
Consolidated net income (net loss) in compliance with HGB		2.029	(2.465)	(2.145)
Interest of other partners	(a)	(10)	(145)	(17)
		2.019	**(2.610)**	**(2.162)**
Share of net loss of non-consolidated subsidiaries	(b) (c)	(1.177)	0	422
Depreciation of goodwill	(c)	(407)	256	0
Income tax	(d)	(40)	186	65
Others	(e)	(99)	(14)	0
Costs for quotation	(f)	0	0	180
Consolidated net surplus (annual net loss) in compliance with US-GAAP		**296**	**(2.182)**	**(1.495)**

		31th December 1998	30th September 1999	Quarter-year financial statement 31th December 1999 non-reviewed
Consolidated shareholders in compliance with HGB		15.561	26.520	23.903
Share of other partners	(a)	(224)	(731)	(276)
		15.337	**25.789**	**23.627**
Evaluation of non-consolidated subsidaries	(b) (c)	(1.177)	(3.745)	(3.323)
Goodwill	(c)	(407)	(151)	(151)
Income tax	(d)	-	186	251
Others	(e)	(389)	(113)	(113)
Costs for quotation on the stock exchange	(f)	0	0	180
Consolidated shareholders equity in compliance with US-GAAP		**13.364**	**21.966**	**20.471**

(a) Shares of other partners in the shareholders equity or annual profit/loss of consolidated subsidiaries represent a part of the shareholders equity resp. of the consolidated annual profit/loss in compliance with HGB (German Uniform Commercial Code). According to US-GAAP the minimum shares in the shareholders equity of subsidiaries are no integral part of the shareholders equity; shares of other partners in the profit/loss of other partners in the profit/loss of a subsidiary represent expenses or income.

(b) According to HGB it is not essential to include a subsidiary the shares of which are held for the purpose of resale in the consolidated financial statements. The shares are assessed at acquisition costs if they are not included, any profits distributed as dividends are received as income from dividends. According to US GAAP a subsidiary acquired with resale intention and the resale of which is expected within a period of one year in consideration of all circumstances is not included in the consolidated financial statements. If, however, if the possibility to exercise decisive influence on the non-consolidated subsidiary is given, the investment shall be assessed to the extent of the shareholders equity after a successful reassessment of the assets and debts acquired. Dividend distributions of the non-consolidated subsidiary therefore do not represent any income in the group, but reduce the level of investment, whereas income of the subsidiary is booked as income of the parent company. Income-tax effects of the varying assessments have been included in this item.

(c) According to HGB agreements on future purchase price adaptations based on fulfilment of a condition in the period after the acquisition point, can be considered as additional purchase price depending on the probability of onset of the condition at the point of time of the purchase. According to US GAAP suspensive conditional purchase price parts must be principally examined to determine whether they are to be regarded as remuneration for the vendorís function in the company according to the effected sale. If this is not a remuneration component suspensive conditional purchase price instalments shall be considered if the condition has arisen resp. whether fulfilment of the condition can be expected with utmost probability. Due to the differences between HGB and US GAAP in this sector there are timely shifts in the depreciation of goodwill and minimisation in the net profit/net loss on the grounds of compensation components. Moreover different periods of use had to be taken into consideration in 1998.

(d) The differences were based on accounting active latent taxes from tax losses carried forward and from adapting the afore-mentioned contents stipulated under "c".

(e) The remaining differences refer among others to the effects due to different consolidation companies. In compliance with HGB, companies of minor significance are not included, whereas according to US-GAAP all companies with a controlling vote have to be considered.

(f) The costs for going public are offset with the shareholders equity which flows within the scope of going public. The tax relief achieved on the grounds of the costs is deducted.

(g) According to HGB, pension liabilities are assessed on the basis of the part value method subject to a discount interest rate of 6%.
US GAAP demands the application of the so-called projected unit credit method taking the distribution regulations for the pension expenses in accordance with the Statement of Accounting Standards No. 87, Employers´ Accounting for Pensions into account. On the grounds of the insignificant amount of pension liabilities a reassessment was omitted.

(h) **net AG** achieved revenue from selling goods and products as well as licensing and implementing software. According to HGB revenue is received after complete fulfilment, whereby income deducts, such as discounts, premiums or expected warranty obligations are principally taken into account as income deducts. According to US-GAAP the turnover is principally effected correspondingly. However in the case of contracts for work and service the processing of which requires a certain period of complete fulfilment, revenue and project profit are realised corresponding to fulfilment, if sufficiently reliable assumptions on the project progress can be made, the order value and the order costs can be submitted. The orders on hand, which would have been the subject matter of a turnover realisation after project progress for US-GAAP were so insignificant at the end of the two periods under review that it was possible to omit a reassessment.

(i) According to HGB costs for developing the software products are registered as expenses. Development costs for software with which revenue is to be achieved are activated in compliance with US-GAAP if these arise after assessing the technical functionality of the software, but before the general marketing of the software. As the period between assessing the technical functionality and the beginning of marketing standard software is low and therefore only insignificant development costs would be activated in compliance with US-GAAP, an activation of research and development costs was omitted.

Supplementary annex specifications

According to US-GAAP additional information is requested on the individual items of the balance sheet and the statement of income. These are more extensive than the annex specifications according to German accounting principles.

Turnover realisation

The company makes revenue from software license fees and agreements with regard to the key modification and customer-specific adaptation of software (solutions). Moreover **net AG** generates revenue in the sectors customer service and consulting services, as well as by selling computer infrastructure.

The company realises revenue in agreement with the AICPA Statement of Position (SOP) 97-2, Software Revenue Recognition. In general revenue is received from product license fees, if the following criteria are fulfilled: the irrevocable proof of a concluded agreement is submitted, the delivery is effected, the license fee has been laid down resp. is specifiable; a collection is possible and if no decisive obligations of the service provider are prevailing. The down payments effected exceeding the realised amounts are registered as deferred result.

The revenue from the software solutions is received if it is made on the basis of performance qualifications of the respective agreement. The agreements generally feature a one-year term. The company has the opinion that such payments comply with the contractual costs arising in connection with those agreements.

The revenue from licenses is received pro rata during the license agreement period. The revenue from license fees is received on the basis of the appropriate product sales.

The revenue from customer service and maintenance services is received pro rata during the customer service period which as a rule totals twelve months. The revenue from consulting services and training is received at the point of time of rendering such services.

The revenue from selling third-party hardware and software is received at the point of time of sending the products to the customers. The revenue from the installation of computer infrastructure is recorded according to the Percentage-of-Completion method after reaching contractually agreed milestones, whereby such milestones shall adequately reflect the progress.

Equivalent instruments of payment and additional information on capital flow calculations

All short-term capital investments with a remaining term of maximally three months at the point of time of their acquisition shall be regarded as equivalent instruments of payment.

The net cash flow from operational business activities is composed of the payments for interest and taxes from income and revenue – minus tax refunds – as follows:

	as per 31.12.1998	as per 30.09.1999
Interest	77	522
Taxes from income and revenue	0	88

Traffic value of financial instruments

The book value of instruments of payment and equivalent instruments of payments, accounts receivable from trading and notes payable corresponds approximately to the traffic value due to the short-term maturity of the afore-mentioned financial instruments. The book value of long-term loans corresponds approximately to its traffic value, as it is calculated on the basis of discounted future flows of payment which are in turn based on the currently additional credit interest for loan agreements of the company with similar conditions and liabilities. The traffic value of Interest-Cap agreements corresponding to DM 183 correspond to the amount which net AG would obtain from the contracting party in the case of a cancellation of the agreement. The book value of the Interest-Cap agreements is TDM 153.

Deferred revenue

Deferred revenue refers above all to service and maintenance fees which will be achieved in future within the scope of service and maintenance agreements existing on the balance-sheet date.

Research and development costs

Expenses in connection with developing new products and methods, including decisive improvements and refining already existing products, as well as in conjunction with product development are booked as expenses depending on their accrual, in so far as no activation is required. An activation of the costs for software development is required, if proof for the technical feasibility of the product has been submitted – beginning with concluding an extensive product design or operating model of the product to its general launch on the market. To date documentation of the technical feasibility and general market introduction has coincided to a large extent. As a result the software development costs incurred between technical feasibility and general product introduction are not substantial.

Moreover the company assesses the parts of the purchase price of each individual acquisition at the point of time of acquiring companies in order to lay down the costs to be allocated to the software products and the running research and development.

Invoicing taxes from income and from revenue

Taxes from income and from revenue are calculated according to the "Asset and Liability Method" Active and passive latent taxes are created for estimated future tax implications. These are assigned to the differences between the consolidated trade and tax balance sheet amounts. Taxation is according to the tax rates for taxable income which will be in force in the years in concern for taxable income to which the adjustment and settlement rates are assigned. The effects of any change in the tax rates on passive and active latent taxes are booked with effect on the operating result in the period in which the date of enforcement of the modified tax rates lies.

Derivatives

The company bears the risk of any change in the interest rate, as all loans have been concluded with variable interest rates. To reduce this risk of change in the interest rate, **net AG** signed several Interest-Cap agreements as a result of which the maximum interest payments for the running credits were effectively reduced to 5% per year during the credit period.

The company does not hold any position in derivatives for trading or speculation purposes.

Use of assessments

Preparation of the consolidated financial statements in compliance with US-GAAP requires management to surrender assessments and assumptions having an influence on the amounts of asset and debt amounts, as well as on revenue and expenses in the period under review in the consolidated financial statements. The actual amounts may deviate from these estimated values.

Concentration of risks

net AG is highly leveraged – above all towards the lending banks. The respective loans are secured by liens in the shares of the companyís subsidiaries.

The financial instruments effecting a potential concentration of the companys credit risk comprise equivalent instruments of payment, as well as accounts receivable from trading. The company does not show any decisive write-offs in connection with the accounts receivable from trading.

Latest announcements referring to the accounting principles

In March 1998 the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants (AICPA) published its Statement of Position 98-1, Accounting for the Cost of Computer Software Developed or Obtained for Internal Use (SOP 98-1). According to SOP 98-1 the activation of certain internal costs in connection with the implementation of computer software which was purchased for intercompany use, is necessary. The initial application of SOP 98-1 at the beginning of business year 1999 had no influences on the companyís operating result.

In April 1998 AcSEC a Statement of Position 98-5, Reporting Costs of Start-Up Activities (“SOP 98-5“) was also published. According to SOP 98-5 the costs for start-up activities can be booked according to requirements. The category start-up activities normally comprises the following unique activities: opening a new plant, introducing a new product or a new service, starting business activities in a new region, effecting business transactions with a new customer group, initialising a new plant or organisation of a new unit. SOP 98-5 is applied to the financial statements of the company for the business year 1999. The first application of SOP 98-1 at the beginning of business year 1999 had no influences on the operating result of the company.

In June 1998 the Financial Accounting Standards Board published SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133). In SFAS 133 the accounting and valuation standards were specified for derivatives including certain derivatives these being the subject matter of other agreements (together the “derivatives”) as well as for secured transactions. According to SFAS 133 all derivatives have to be shown in the assets or in the liabilities and shareholders´ equity in their traffic value. In June 1999 the Financial Accounting Standards Board published SFAS No. 137, Accounting for Derivative Instruments and Hedging Activities – Deferral of the Effective Date of FASB Statement No. 133, an Amendment of FASB Statement No. 133. With this Statement of Position the date of enforcement of SFAS 133 was shifted. SFAS 133 in its respectively valid version is now applicable for all calendar quarters beginning with effect of 15th June 2000. The company is currently evaluating the effects of applying SFAS 133 on its financial statements.

Corporate mergers

On 5th August the company acquired Basal Hard- und Softwaresysteme GmbH ("Basal"), a wholesaler for various software and hardware products. The estimated acquisition price totalling TDM 13,000 is composed of a fixed component corresponding to TM 10,200 and a variable component corresponding to maximally TDM 2,800 which is linked to certain directives. The fixed part was paid in full at the point of time of acquisition, whereas the maximum variable remaining price was paid in business year 1999. The vendors remained with Basal and took over the function of management. In addition to the purchase price corresponding to TDM 13.000 direct acquisition costs amounting to TDM 599 arose. These were also part of the purchase price. The purchase price surplus in comparison with the net assets acquired have been assigned to the goodwill and will be written off via a period of seven years.

On 23th December 1998 the company acquired a 51% share in Walter + Partner GmbH & Co. KG ("Walter"), a company specialised in software development and implementation for the textile and shoe industry. The maximum purchase price of TDM 14,975 is composed of a fixed component corresponding to TDM 6,975 and a variable component corresponding to maximum TDM 8,000; to which direct acquisition costs corresponding to TDM 365 are added. The variable purchase price will be calculated on the basis of the future profits by Walter in the business years 1999 as well as 2000. At the end of business year 1999 the purchase price had not risen additionally. The purchase price was assigned to various intangible assets and will be written off via a period of four to five years. The vendor who still held the remaining share of 49% as per 30th September 1999 remained active for the company. Following the end of business year the Vendor sold an additional share corresponding to 44%, meaning that his share in **net AG** dropped to 5% .

On 23rd December 1998 the company acquired Stemmer Elektronik GmbH & Co. KG ("Stemmer"), a company specialised in computer network solutions. The maximum purchase price corresponding to DM 7,950 consists of a fixed component totalling TDM 5,950 and a variable component totalling a maximum of TDM 2,000 which was linked to certain directives. The fixed part was paid at the point of acquisition. The variable part shall be due when the net income plus trade tax to be paid by Stemmer in calendar year 1999 reaches certain limits. An additional instalment will be due when the net income plus trade tax for calendar year 2000 to be paid by Stemmer exceeds TDM 2,500. The instalment is limited to TDM 2,000. Direct ancillary acquisition costs totalling TDM 268 were incurred.

On 21st September 1999 net AG acquired all shares in CIP Eckel GmbH ("CIP") for a present value totalling TDM 8,450 plus extra costs corresponding to TDM 626. The additional purchase price of up to TDM 9,000 is based on the revenue of CIP in the business years 2001 to 2003.

Moreover three smaller acquisitions were performed by subsidiaries in 1999.

The acquisitions in 1998 and in business year 1999 were consolidated using the acquisition method. The acquisition prices were assigned to the assets acquired and liabilities received on the basis of their market values to the respective period of acquisition. The share assigned to the goodwill will have been written off according to the linear depreciation method. The companies purchased have been included in the company´s consolidated financial statements from the point of time of their acquisition.

Investment in GVA GmbH & Co. KG (abbreviation: GVA)

In October 1998 **net AG** acquired all shares in GVA by a one-hundred percent subsidiary. GVA operates in the field of environmental engineering. This is a field in which the company does not do any business. At the point of time of the acquisition the company intended to sell off GVA within the shortest possible space of time.

The purchase price is composed of a fixed component totalling TDM 13,250 which was paid at the point of handling the acquisition, as well as a variable component of TDM 3,300 based on the profit of the company taken over which is achieved in the twelve months up to 31st December 1999. Incidental acquisition expenses were added to the amount. On the basis of the facts and circumstances in connection with the agreement the variable purchase price was treated as compensation expense in business year 1999. In connection with the acquisition GVA changed its legal form from a joint-stock company to a partnership. By changing the legal form a tax refund of DM 8.4 million was realised.

Moreover a dividend totalling DM 8 million was resolved, of which to date DM 5.5 million have been paid.

Assets and liabilities and shareholders´ equity for GVA are composed as follows:

	as per 31.12.1998 TDM	as per 30.09.1999 TDM
Liquid funds	11.843	6.327
Accounts receivable from trading	1.052	2.835
- (hereof to affiliated companies)	0	58
Inventories	539	103
Property, plant and equipment	916	761
Other assets	1.337	1.008
Total assets	**15.687**	**11.079**
Trade accounts Payable	582	723
- (hereof to affiliated companies)	171	44
Dividends	8.000	0
Deferred and other short term Liabilities	4.239	4.710
- (hereof to affiliated companies)	0	2.500
Overall liabilities	**12.821**	**5.433**
Net assets	**2.866**	**5.646**

The business activities of GVA for the nine months as per 30th September 1999 are structured as follows:

	Business year 1999 TDM
Revenue	5.635
Operating result	3.141

The sale of GVA was effected with agreement of 28th January 2000. The agreement contains the normal guarantees.

Liabilities towards credit institutes

The average interest rate of the loans was 4.3% as per 31st December 1998 resp. 4.1% as 30th September 1999. As per 30th September 1999 an unused credit limit totalling about DM 2 million within the scope of various agreements was available to **net AG** and its subsidiaries.

Taxes from income and revenue

The latent and passive taxes were classified in the consolidated balance sheet enclosed in compliance with the type if item, by which the timely differences were caused.

The components of active latent and passive latent taxes are composed as follows:

	as per 31.12.1998 TDM	as per 30.09.1999 TDM
Active latent taxes:		
Intangible assets	-	215
Compensation expenses		1.170
Loss carried forward		150
Active latent taxes in total		1.535
Passive latent taxes:		
Intangible assets	-	7.470
Others	-	-
Passive latent taxes in total	-	7.470
Passive latent taxes, net		**5.935**

In German corporate laws the tax credit system with splitting rate is applied in taxing corporations and shareholders. In distributions of dividends taxable shareholders in Germany principally obtain a tax credit to their income tax corresponding to the corporate tax previously paid by the company for the distributed income. Moreover tax is refunded to the company, in excess of the additional amount resulting from the initial taxation of distributed profits with a distribution rte of over 30%. The tax refund must also be distributed among the shareholders. The profits of a German company are initially taxed with a corporate tax rate of 40 % (45 % in 1998) plus solidarity surcharge of 5.5 % on the corporate tax debt. That leads to an effective corporate tax rate of 42.2% (47.475% in 1998). The distribution tax rate is 31.65% in both periods under review. Taking the trade tax into account the general tax burden is 56% (1998) resp. 51.4% (1999).

The following table offers a transition of the "expected" tax expenses for the profit/loss before taxes of **net AG** – minority shares in the profit/loss have not been taken into account – on the basis of the profits (corporate tax) distributed in including solidarity surcharge for the companyís running tax expenses.

	as per 31.12.1998 TDM	**as per 30.09.1999 TDM**
"Expected" tax expenses (revenue)	602	(1.306)
Non-deductible depreciation on Goodwill	370	641
Tax credit on dividend distribution	(197)	-
Effects on the grounds of trade tax additions Additions	-	80
Others	4	225
Effective tax expense (revenue)	**779**	**(360)**

Result per share

To determine the profit/loss per share the average number of shares in circulation in a period is decisive. In 1999 shares were converted to unit shares each with a value of 1 Euro per share. To simplify comparability the conversion has been taken into account with retroactive effect as from 1998.

A watered result per share is not taken into account, as no external option or conversion rights are given.

	1998	1999
Net income/loss (DM)	296.000,00	(2.182.000,00)
Avarage number of shares to calculate the profit per share	1.738.392	5.702.409
Profit/loss per share (DM)	**0,17**	**(0,38)**

Certification on the review of transitory calculation from HGB to US-GAAP

(business years 01.01.-31.12.1998 and 01.01.-30.09.1999)

We have reviewed the consolidated financial statements as well as the management reports in compliance with HGB (German Uniform Commercial Code) for business years 1998 and 1999 and have awarded unlimited auditors' opinions. The consolidated statements of the cash flows for 1998 and 1999 were prepared by our company.

We have subjected the transition of the consolidated net loss and the consolidated equity capital of **net AG** infrastructure, software and solutions from a presentation according to German accounting and assessment principles in compliance with German commercial law to the presentation according to US-American accounting and assessment principles (US-GAAP) for the business years 1998 and 1999, as well as the explanation of key differences prepared by the company to a critical review.

A critical review does not correspond to a consolidated audit according to the principles of a proper execution of audits, the aim of which would be to award an auditors' opinion for the consolidated financial statements as a whole document. According to this information we have therefore not awarded an auditors' opinion, but rather a certification.

We have performed the review of the transitional accounting and its presentation in the explanations in addition to supplementing the information in the exhibits on the grounds of the information procured in inquiries, in staff interviews and using the information we gathered within the scope of our audits on behalf of the individual companies.

On the grounds of our critical inspection, we believe that the transitional accounting enclosed as well as the explanation of the key differences both comply with US-GAAP. Taking the audited consolidated financial statements and management reports in compliance with HGB (German Uniform Commercial Code) and the capital flow calculations for the business years 1998 and 1999, as well as the supplementary information in the exhibits prepared by us into account, an impression of the asset, financial and earnings situation of the group corresponding to the actual circumstances is reflected in all key aspects.

Munich, 31st January 2000

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