

### Accounting Procedures According to International Accounting Standards – Changeover from U.S. GAAP to IFRS

In fiscal year 2005 IDS Scheer's consolidated financial statements are being prepared for the first time in accordance with the accounting guidelines of the International Accounting Standards Board (IASB) – the International Financial Reporting Standards (IFRS). Accordingly, the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) mandated for December 31, 2005, have been implemented.

The transitional calculations from U.S. GAAP to IFRS and the associated explanations are found in the consolidated financial statements and notes. The date of the transition is January 1, 2004. All quantitative figures in this document, unless otherwise explicitly noted, are based on IFRS accounting regulations.

### Business and Conditions

#### General Economic Conditions

Despite significant increases in crude-oil prices last year, worldwide economic growth slowed only minutely following the record year 2004. Once again, growth in Europe did not keep pace with growth in North America and Asia. The economic situation in the US led to a considerable increase in the prime rate to 4.25%; in Europe there was only a slight increase to 2.25% at the end of the year. International foreign-exchange markets experienced the rise of the dollar, which gained in value compared to the euro, yen and Swiss franc during 2005. During the past year international stock markets continued the upward trend they have displayed since 2003, although the markets in the US exhibited comparatively weak performance. The price of crude oil again climbed in 2005 (up 44%), which resulted, however, in less-sizeable economy-curtailing effects than feared.

The Organisation for Economic Co-operation and Development (OECD) has calculated worldwide economic growth for 2005 at 2.7%. The OECD estimates growth of 3.5% for the American gross national product (GNP), a smaller increase than was predicted in the spring. China's growth exceeded expectations considerably, not only because of continued elevated investment activity but also from sizeable and continuously growing export surplus. According to International Monetary Fund (IMF) calculations, China posted growth of 9% in 2005.

Following restrained economic development at the beginning of the year, indications of a tangible upturn multiplied in the second half of the year in Europe. This upturn was carried primarily by strong exports and increased investment demand. Consumption development remained subdued due to higher consumer prices. Europe, and Germany in particular, contributed only little to global growth according to IMF extrapolations. The European economy increased by 1.2% in 2005, although some of the newer EU-member countries posted significantly higher growth. The German GNP increased by 0.9% in 2005.

### Industry-Specific Conditions

According to a study by the marketing-research institute European Information Technology Observatory (EITO), the world market for information technology and telecommunications (ITC) posted solid growth with a growth rate of 4.2% (previous year: 3.7%). With the exception of driving force China, the US had the greatest development among the large markets with an increase of 4.0%.

By comparison, the European Union achieved an increase of 2.9% in 2005, a growth rate twice that of the overall economy in the EU. True to expectations, the new EU members rode the growth cusp.

The information-technology (IT) market grew by 3.7% in the EU in 2005, the first time in years it has outpaced the telecommunications industry. The software and IT services industries developed significantly. According to EITO revenue from IT services grew by 4.6% in 2005; growth in the software market reached 4.8%. Providers are profiting from the modernization of companies' and clients' existing IT infrastructures.

According to analysis by the German industry association BITKOM, providers in Germany experienced a positive conclusion to the ITC year in 2005, and the high expectations from the beginning of the year were largely met. According to EITO estimates the ITC market in Germany grew by 2.6% in 2005, putting it among the top five EU countries (including Spain, France, Great Britain and Italy), that make up approximately two-thirds of the European ITC market.

Positive business development had an effect on the personnel planning of many companies. According to estimates from BITKOM, the number of employees in the German ITC industry grew by 4,000 positions in 2005 to 749,000 people. Above all, mid-sized software companies and IT service providers hired new employees. As in previous years, growth in the German IT market was carried especially by software providers and IT service providers.

### Company Structure and Business Activities

The software and consulting firm IDS Scheer, headquartered in Saarbruecken, develops solutions for business process management in companies and the public sector. IDS Scheer promises its clients Business Process Excellence. In order to keep this promise of service, over 2,500 employees worldwide are committed to business process management.

With ARIS Platform for Process Excellence, the company provides its clients with a complete, integrated portfolio of tools for the strategy, design, implementation, and monitoring of business processes. As part of the ARIS Platform for Process Excellence, ARIS Toolset is the widest selling tool for process modeling worldwide. A strategic partnership with SAP will soon make the ARIS tools and methods the process-modeling standard for the NetWeaver platform, and for the first time is making possible fully coordinated standard business software and process management.

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Using the ARIS Value Engineering (AVE) approach, IDS Scheer consultants analyze their client companies as unified wholes. AVE means building bridges between corporate strategy, the processes that result from the strategy, and the IT solutions necessary to support and monitor it.

With its ARIS SmartPath IDS Scheer also provides solutions for midsized companies which ensure rapid system implementation for small and medium-sized companies. In addition to special preconfigured software products, experienced consultants who are familiar with the requirements of this market segment are available. The company's portfolio of services is rounded out by application management and outsourcing using its own computing centers.

IDS Scheer today serves over 6,000 clients with subsidiaries in 24 countries and partners in over 70 countries. The company is one of Germany's top 10 IT service providers and a market leader in Central and Eastern Europe.

### The IDS Scheer Group's New Global Orientation

IDS Scheer posted substantial growth over the course of the past years. At the same time the situation in international markets has changed significantly. Not only IDS Scheer's clients must continuously reassess their market strategies and fundamental corporate structures, IDS Scheer must also confront these challenges. Global processes must be defined to aid IDS Scheer in offering consistently innovative solutions to international organizations through optimized knowledge management and effective knowledge transfer. IDS Scheer management has therefore developed necessary strategic and organizational changes, which were introduced at the end of 2005.

The fundamental goal of the new, resolved organization is to set the course for the sustained globalization of the company and to undertake an even clearer position in the product area. An international committee for worldwide supervision of the product area has been created in the form of a new Business Process Management (BPM) Board. Additionally, international central monitoring of distribution and product development has been established for the entire IDS Scheer Group. Discussion with the regions is guaranteed by corresponding regional structures. Clients around the world have access to the entire product and service portfolio via central worldwide distribution support structures (Field Enabling team). This unit will not only make new expertise available to internal corporate units worldwide, but also to IDS Scheer partners. This measure supports the strategic goal of dynamically expanding overall partner revenue in the coming years. Furthermore, central services and their purchasing and finance processes have been reorganized with an eye toward central monitoring in order to take advantage of group-wide synergy potential. The group-wide optimization of consultant travel is also an important part of the reorganization.

### The Internal Monitoring System of the IDS Scheer Group

The internal, operative control figure as an indicator of performance for the profitability of the IDS Scheer Group is EBITA. EBITA is defined as earnings before interest, taxes and amortization of customer bases and other intangible assets. This monitoring figure is reported monthly by the international subsidiaries to corporate headquarters in Saarbruecken, where it is presented to the Executive Board in internal reporting. Additional financial indicators include revenue from consulting business, new license business and cash flow from business activities. The IDS Scheer Group views the development of its client base and order backlog as central, non-financial performance indicators.

### Business Development

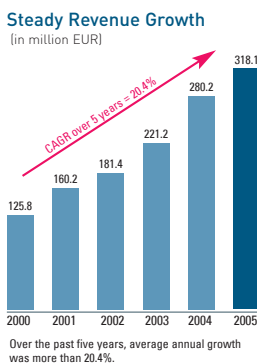
In its stated prognosis for 2005 IDS Scheer anticipated double-digit growth in revenue of 10% to 11% and a double-digit EBITA margin in the range of 10% to 11%. In the recently ended fiscal year, the company significantly surpassed its revenue forecast and exactly met its results prognosis. As planned, IDS Scheer made considerable investments in the expansion of its international sales and consulting network, in the continued development of the ARIS software solution, and in the close cooperation with SAP for the joint marketing and development of SAP NetWeaver.

In fiscal year 2005 IDS Scheer increased its revenue by more than 13% to 318.1 million EUR (previous year: 280.2 million EUR), thereby exceeding its projections. A substantial portion of this growth came from the above-average growth of 17% from ARIS licenses. In the fourth quarter of 2005 IDS Scheer generated revenue of approximately 87.4 million EUR (previous year: 81.2 million EUR), posting the strongest quarterly revenue in the history of the company. This represents an increase of 8% in comparison with the fourth quarter of 2004 and growth of 14% compared to the third quarter of 2005 (Q3/2005: 76.7 million EUR).

The Executive Board had proclaimed fiscal year 2005 as the Year of Investment, announcing plans to hire more than 200 new employees. Increased investment activity is necessary to harness the future growth potential resulting from the growing orientation of international companies in all industries toward business process management in general, and from the SAP NetWeaver strategic partnership in particular.

Because the company had significantly increased its investment in new employees in 2005 as planned, earnings before interest, taxes and amortization of intangible assets (EBITA)-the central control figure of IDS Scheer AG – reached 33.6 million EUR (previous year: 35.4 million EUR). As a result, the EBITA margin was 10.6% (previous year: 12.6%), lying in the top half of the forecast range.

In the final quarter of 2005 EBITA was 9.5 million EUR, representing a decrease of 10% compared to the previous year and an increase of nearly 14% in comparison to the preceding quarter's revenue of 8.3 million EUR. During the course of the quarter, therefore, the operating profit improved.



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IDS Scheer used fiscal year 2005 as it intended: to further invest in the expansion of consulting services, product development and worldwide distribution, and to strengthen its leading position in the business process management market. These investments are primarily reflected in the targeted hiring of qualified employees. The number of employees in the IDS Scheer Group as of December 31, 2005, was 2,514, an increase of 18% over the end of 2004 (previous year: 2,132 employees).

In 2005 positive currency effects of 2.1 million EUR resulted for revenue, mainly because of Eastern European currencies gains over the euro. This observation is based on constant exchange rates. The IDS Scheer Group's revenue growth adjusted for currency effects is 13%.

### Development of Group Structure

In order to facilitate efficient monitoring of company development, IDS Scheer AG has divided its companies into five segments: Germany, Western Europe, Eastern Europe, Americas and Asia. All of the companies in the IDS Scheer Group are assigned to one of these five segments in the reporting system and use the same business model: they provide international clients with consulting, implementation and development services and are responsible for the distribution and support of ARIS Process Platform in their region. The central functions of corporate monitoring are assigned to the Germany segment.

International business continues to grow somewhat faster than the German volume. In fiscal year 2005 the proportion of revenue of the international segments (after segment consolidations) climbed to 53.2% (previous year: 52.6%), while the IDS Scheer Germany proportion fell to 46.8% (previous year: 47.5%).

### Acquisition of Distribution Partner Business Logic

Effective January 1, 2005, IDS Scheer acquired a 75% share in the Russian consulting firm Business Logic. The firm, headquartered in Moscow, was a long-time distribution partner of IDS Scheer and is considered to be among the top business process management (BPM) and management consulting firms in Russia. The 96 new employees with manifest marketing and consulting expertise were integrated into the network of IDS Scheer CEE (Central and Eastern Europe).

The Russian consulting firm serves more than 100 large and mid-sized firms, largely in the chemical/pharmaceutical, energy, financial-services, capital-goods and telecommunications industries. Among its clients are Alfa Bank, Avon Cosmetics, DaimlerChrysler, Kasachtelekom, Power Machines, the government of Kyrgyzstan and the Russian Telecommunications Ministry.

This acquisition expands IDS Scheer's presence in the Russian growth market in order to take advantage of the potential of the rapidly expanding SAP market in Russia. On August 10, 2005, the Russian consulting firm began operating under the name IDS Scheer.

## Development of Business Segments

The following segment figures are shown before segment consolidation. Because of increasing internationalization revenues between segments in the IDS Scheer Group increased more than in other areas. They reached 37.1 million EUR in the reporting year, 49% higher than in the previous year.

### Germany Segment

The German companies and holdings comprise the Germany segment. The primary company in the Germany segment is IDS Scheer AG, which operates in the German market as well as performing the central functions of corporate monitoring and product development for the Group.

Revenue (before segment consolidation) of 155.2 million EUR, representing an increase of 14% over the previous year, was posted in Germany. The segment achieved an EBITA of 22.5 million EUR (previous year: 25.5 million EUR), representing a decrease of 12% and an EBITA margin of 14,5% (previous year: 18,8%).

The functional German domestic companies achieved revenue of 146.6 million EUR (previous year: 129.8 million EUR) in the consulting and product areas. This growth of 13% continued the turnaround that began in 2004. An EBITA of 24.7 million EUR was posted, compared to 27.7 million EUR in the previous year (without corporate-monitoring expenses), resulting in an EBITA margin of 16.8% (previous year: 21.3%) for the German companies.

This reduction in the domestic margin is primarily due to the planned increased investment in product development and distribution and in the increase in experienced consultants for marketing and handling projects. Additionally, persistent strong pressure on daily rates is noticeable in Germany in the area of implementation projects.

IDS Scheer won numerous new client projects in Germany in fiscal year 2005. In June 2005 the German Army signed a contract extending its ARIS general license to 2008 and expanding its products to include ARIS for SAP NetWeaver and ARIS PPM, the tool for continuous monitoring of business processes. IDS Scheer is also working on the design and implementation of the Army's logistics business processes based on SAP standard software. New clients in Germany include Alcan Engineered Products (paper/textiles/metals), Bayerische Versorgungskammer (insurance), Bristol-Myers Squibb (chemical/pharmaceutical), Dataport (public sector), Körber (capital goods), LII Europe (chemical/pharmaceutical), Porsche (automotive) and Sixt Autovermietung (logistics/ transportation).

Initial indications of the German economy picking up were manifested in a particularly large backlog of orders in the Germany segment. The order backlog for consulting increased to 45 million EUR, representing 4.2 months' revenue, compared to 3.0 months on the reporting date the previous year.

**Continued Internationalization**

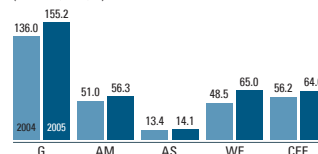
Revenue (before segment consolidation) from the international subsidiaries amounted to 200.0 million EUR (previous year: 169.0 million EUR, representing an 18% increase. The three large international regions of Western Europe, Central and Eastern Europe and the Americas achieved double-digit growth rates.

EBITA for the international companies in fiscal year 2005 grew by 17% to 11.3 million EUR, reaching a margin for non-German companies of 5.7% (previous year: 5.7%). In the fourth quarter of 2005, EBITA outside Germany improved significantly, achieving an increase of 83% to 4.1 million EUR (previous year: 2.3 million EUR). Similarly, the EBITA margin grew from 4.4% in the fourth quarter of 2004 to 7.2% in the final quarter of 2005.

The worldwide customer base was expanded by numerous firms in various countries in fiscal year 2005, particularly in the fourth quarter. New clients include Allianz (insurance, Hungary), Arcelor (paper/textiles/metals, France), Burda (media, Russia), Eastern Sugar (consumer goods, Slovakia), Eurotel (telecommunications, Czech Republic), Galliker Dairy (consumer goods, USA), L&T (IT services, India), Metso Minerals Oy (capital goods, Finland), Novartis Sandoz (chemical/pharmaceutical, Switzerland), Pepsi (consumer goods, China), Stora Enso Timber (capital goods, Austria), Swiss Herbal (chemical/pharmaceutical, Canada), TransTelecom (telecommunications, Russia) and Uzel Holding (automotive, Turkey).

In April, Enterprise Integration Incorporated (Eii) and IDS Scheer were awarded a contract from the US Army for a large enterprise integration support services project. Both partners support the management and monitoring of Single Army Logistics Enterprise (SALE). The contract is worth approximately US\$ 40 million, split between IDS Scheer and Eii (US\$ 20 million each), over the next five years.

**Revenue by regions**  
(in million EUR)



Year 2005 in KEUR	Germany (G) (incl. Corporate)	Americas (AM)	Asia (AS)	Western Europe (WE)	Central and Eastern Europe (CEE)	Consoli- dation	Total
Revenue	155,181	56,255	14,123	65,033	64,627	-37,095	318,123
Revenue growth	14%	10%	6%	34%	15%	49%	13%
EBITA	22,483	3,303	968	2,772	4,256	-163	33,619
EBITA margin	14%	5.9%	6.8%	4.3%	6.6%	0.4%	10.6%
EBIT	21,900	2,364	932	2,443	3,482	-163	30,958
Employees	1,188	257	124	331	614	0	2,514

Year 2004 in KEUR	Germany (G) (incl. Corporate)	Americas (AM)	Asia (AS)	Western Europe (WE)	Central and Eastern Europe (CEE)	Consoli- dation	Total
Revenue	136,044	51,002	13,357	48,461	56,207	-24,841	280,230
EBITA	25,530	3,227	658	3,065	2,745	129	35,354
EBITA margin	18.8%	6.3%	4.9%	6.3%	4.9%	-0.5%	12.6%
EBIT	24,681	2,299	620	2,860	2,103	129	32,692
Employees	1,055	229	79	292	477	0	2,132

### Growth by Business Area

The IDS Scheer Group's services are divided into Products and ARIS Services business area and the Consulting business area. They are applied comprehensively in customer business in the framework of the business process lifecycle – from strategy and design to implementation and monitoring of business processes.

### Consulting Business Area

IDS Scheer's largest business area, consulting services, posted growth of 12% to 231 million EUR in 2005, representing a 73% share of Group revenue. Because of the planned heavy increase in the employee base, EBITA in the Consulting business area fell to 10.8 million EUR (previous year: 13.5 million EUR). The EBITA margin fell to 4.7% in fiscal year 2005 compared to 6.6% in the previous year. The decrease in the margin was caused by pressure on daily rate and the stepped-up expansion of distribution units in the consulting area. In addition to consulting services, revenue from the sale of third-party licenses for SAP and Microsoft software solutions for medium-sized companies in the amount of 17.5 million EUR (previous year: 18.7 million EUR) are allocated to the Consulting business area.

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A growing number of consulting projects at German and non-German companies were completed in fiscal year 2005. The Italian automotive company Fiat, for instance, purchased ARIS in order to optimize its processes for a rapid and efficient SAP R/3 implementation. IDS Scheer won a large contract in Austria worth over 6.0 million EUR. The international paper manufacturer Mondi Business Paper contracted with IDS Scheer to perform a process-oriented implementation of the mySAP Business Suite. The decisive factors in the company's decision were IDS Scheer's comprehensive industry expertise and the ARIS Value Engineering (AVE) methodology. For BRP Rotax, the international market leader in the development and manufacture of innovative high-performance engines for sport recreational vehicles, the focus was on high return on investment in a new purchasing solution. With an ROI of 28%, the vendor portal created by IDS Scheer – which received the 2005 Austrian e-Procurement Award – paid for itself after only nine months.

Other international consulting clients include Alstom (capital goods, Great Britain), Bauer (media, Poland), Continental (automotive, France), Hamburg Port Authority (public sector, Germany), Informsvyaz (telecommunications, Russia), International Paper (paper/textiles/metals, USA), Miele (consumer goods, Germany), Mol (oil/gas, Hungary), Profilarbed (paper/textiles/metals, Luxembourg), SMS Demag (capital goods, Germany), Syngenta Seeds (chemical/pharmaceutical, Switzerland), Ulkar Holding (chemical/pharmaceutical, Turkey), Wilkinson Sword (consumer goods, Germany and China) and Zentis (consumer goods, Germany).

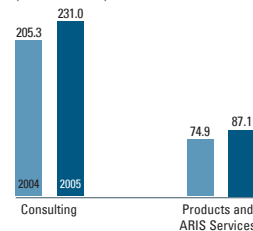
IDS Scheer has acquired far-reaching industry expertise from numerous client projects. In the manufacturing sector, IDS Scheer's main focus is on the chemical/pharmaceutical, consumer-goods, paper and steel, terotechnology and automotive industries. In the services sector, the emphasis is on the public sector, financial services, telecommunications and transportation companies, and utilities. The greatest growth rates were in the transportation, tourism and telecommunications, consumer-goods, banking and insurance industries.

### Order backlog

The international indications of an economic upturn are reflected in an increase in the order backlog in the consulting area. At 92 million EUR (previous year: 78 million EUR), an increase of more than 14 million EUR, order backlog in the IDS Scheer Group reached its highest point in the history of the firm. Comparing consecutive quarters also shows an increase in order backlog. In the third quarter of 2005, the order backlog was 82 million EUR. The order backlog reflects only consulting business. The order backlog as of December 31, 2005, corresponded to 4.1 months (previous year: 3.7 months), based on average group consulting sales. IDS Scheer AG (Germany) contributed the bulk of this increase.

Revenue by business area

(in million EUR)



### Products and ARIS Services Business Area

As in recent years, the Products and ARIS Services business area posted strong internal growth in fiscal year 2005. Including licenses, maintenance and ARIS Services, the product area brought in 87.1 million EUR (previous year: 74.9 million EUR), representing an increase of 16% compared to the previous year. The product area's share of total volume rose to 27.4% (previous year: 26.7%).

Growth impulses came above all from the internationally leading market position of ARIS Process Platform, innovative and customer-oriented development of the product line, and from the new strategic partnership with SAP to develop and market ARIS for SAP NetWeaver.

Despite investments, the product area demonstrated great earning capacity. EBITA grew by 5% over the previous year to 22.9 million EUR (previous year: 21.9 million EUR). This increase represents an EBITA margin of 26.2% (previous year: 29.2%)

Revenue in the product area is divided into license revenue, maintenance revenue and revenue from product-related services such as training and consulting services for ARIS implementations. Revenue from licenses grew by 17% to 32.6 million EUR (previous year: 27.9 million EUR) in 2005, representing a 37% share of revenue from the product area. At 12.1 million EUR, revenue from maintenance was 15% over the previous year's figure of 10.6 million EUR, making up 14% of revenue in the area. ARIS Services increased by 16% to 42.4 million EUR (previous year: 36.4 million EUR), contributing 49% of revenue from the product area. The shares of revenue within the product area remained stable compared to the previous year.

During the reporting period, many German and international clients purchased IDS Scheer products. These clients include ABN Amro (banking, Netherlands), Alte Leipziger Lebensversicherung (insurance, Germany), British Telecom (telecommunications, Great Britain), Burrows (paper/textiles/metals, USA), Calian (IT services, Canada), Credit Suisse (banking, Switzerland) and DaimlerChrysler (automotive, Russia). IDS Scheer's solutions cover a variety of customer interests.

In Germany, Deutsche Post, T-Systems and T-Com began using ARIS Process Performance Manager (ARIS PPM) in the past year. All three companies use the product for the process-based oversight of their data-handling processes and service agreements, and measure cross-location key performance indicators such as process quality, quantities and times. IDS Scheer received additional product orders from Del (capital goods, Czech Republic), Humana Milchunion (customer goods, Germany), Inline (consumer goods, Poland), Mitsui & Co. (consumer goods, Japan), Railion Deutschland (logistics/transportation, Germany), Sinopec Int. Exploration and Production (oil/gas, China) and Veolia (utilities, France).

The first large clients for the newest solution in the ARIS product line, ARIS Audit Manager, were won in 2005. This software supports the implementation of the growing requirements of compliance management. As one of the first German DAX-listed companies to be included on a US stock exchange, Siemens AG complies with the requirements of the Sarbanes-Oxley Act in its monitoring system. To support the auditing process, Siemens is using ARIS Audit Manager and IDS Scheer process consulting. At over 120 Siemens units in approximately 40 countries, monitoring was recorded in ARIS Audit Manager.

### Employee Development

Already before the beginning of the year, the Executive Board had announced the company's intention to hire more than 200 new employees in 2005 in order to take advantage of international growth potential. Product marketing and international consulting were selectively strengthened. IDS Scheer hired both experienced experts with industry expertise and recent college graduates, who are being trained internally in specific topics for practical work.

By the end of 2005 the number of employees worldwide had grown by 18% to 2,514 people (previous year: 2,132 employees). All told, the company employed 382 more people at the end of fiscal year 2005 than at the end of fiscal 2004. Of those, 96 people were integrated into the IDS Scheer Group as part of the acquisition of the Russian consulting firm Business Logic. The average number of employees for 2005 was 2,297, which also represents an increase of 18% (previous year: 1,945 employees). The turnover rate at IDS Scheer was 5.6% (previous year: 4.6%) and remains at the lower end of the industry average.

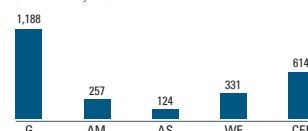
As of December 31, 2005, IDS Scheer employed 1,188 people (previous year: 1,055 people), a growth of 133 employees or 13%. The international subsidiaries increased their employee base by 23%, employing 1,326 people (previous year: 1,077 people) at the end of the year. The greatest growth in employee numbers was in Asia, where 124 people (previous year: 79 people) were active on behalf of IDS Scheer clients. This development reflects the progressing internationalization of the IDS Scheer Group.

### Personnel Development and Qualification

In addition to recruiting new employees, constant employee development is a central task in human-resources work. In fiscal year 2005 the focus was on the expansion of demand-oriented continuing-education offerings. Because highly qualified employees are the most valuable capital of an innovative high-tech and consulting company such as IDS Scheer AG.

One important pillar is classroom training in strategic topics such as business process management, ARIS Value Engineering for SAP, or SAP NetWeaver. No less important are the topics of personal development such as communication or management topics.

**Employees by regions 2005**  
(End of the year)



**Employees according to activities 2005**  
(Annual average)



In addition to classroom training, the electronic learning platform CLIX (Corporate Learning & Information eXchange) was installed for the first time in 2005 in a pilot project. A partner in this training project was imc AG, Saarbruecken, that developed CLIX. In this pilot project the AVE for SAP classroom training was divided into small units and made available as a web-based training to 400 users in the IDS Scheer Group. In addition to cutting costs by cutting back classroom training, the goal of this innovation is above all to quickly increase product and topic expertise in all companies. Following the pilot phase, the learning platform will be made available to all employees worldwide in 2006, and the offering will be supplemented with additional strategic topics.

At IDS Scheer key positions are not filled with new employees. Rather, the guideline is to give IDS Scheer's own employees the opportunity to earn a qualification for demanding roles and management tasks. To this end, measurement of potential and the subsequent personnel development are employed as important instruments in human-resources work-from the development of 'young professionals' to account managers and upper management. The results of the potential-analysis procedures were already being used at the end of 2005 in the newly drafted IDS Scheer Group form of organization.

## Explanatory Notes on Earnings

### Revenue and Profitability Development

In fiscal year 2005 the IDS Scheer Group achieved revenue of 318.1 million EUR (previous year: 280.2 million EUR) and gross profit of 101.0 million EUR (previous year: 92.8 million EUR).

Earnings before interest, taxes and amortization of customer bases and other intangible assets (EBITA) – the operating control figure in the IDS Scheer Group-decreased by 5% to 33.6 million EUR (previous year: 35.4 million EUR). Due to the increased investment activity, the IDS Scheer Group's EBITA margin fell to 10.6% (previous year: 12.6%), remaining in the projected range of 10% to 11% for fiscal year 2005.

In accord with the company's plans to grow primarily internally in 2005, amortization of intangible assets of 2.7 million EUR remained nearly the same as in the previous year. Earnings before interest and taxes (EBIT) fell similarly to EBITA, reaching 31.0 million EUR at the end of the year (previous year: 32.7 million EUR). In light of the increased sales revenue in fiscal year 2005 the IDS Scheer Group's EBIT margin as a relation of EBIT to revenue fell to 9.7% (previous year: 11.7%).

During fiscal year 2005 the IDS Scheer Group's net profit after taxes and minority interests decreased by 10% to 18.8 million EUR (previous year: 21.0 million EUR).

Based on the average number of 31.95 million EUR issued shares, the earnings per share for fiscal year 2005 are EUR 0.589 compared to EUR 0.658 in 2004.

### Use of Profits and Dividend Proposal

Of IDS Scheer AG net profit of 15.0 million EUR according to HGB, by resolution of the Executive and Supervisory Boards 7.5 million EUR were added to earnings reserves.

Bearing in mind dividend continuity, the Executive and Supervisory Boards have decided to propose to the annual shareholders' meeting a 12.5% increase in the dividend to EUR 0.18 per share (previous year: EUR 0.16) for fiscal year 2005. IDS Scheer AG therefore belongs to the few companies on the TecDAX and in the IT industry that have shared their business success with their shareholders from the time they went public.

Measured against the year-end stock price in the Xetra system on December 30, 2005, in the amount of EUR 15.25, this signifies a dividend yield of 1.2%. The dividend payment is 5.8 million EUR (previous year: 5.1 million EUR). Compared to Group earnings this corresponds to a payout quota of 31% (previous year: 24%). Currently, 31.99 million shares of IDS Scheer AG stock are entitled to the dividend. The payout date is May 15, 2006.

### Development of Essential Line Items in the Profit and Loss Statement

#### Manufacturing Costs

Manufacturing costs, which comprise the expenditures of the consulting area and revenue generated from product-related services, were 217.1 million EUR in fiscal year 2005 (previous year: 187.5 million EUR). Manufacturing costs' share of Group revenue therefore grew to 68% compared to 67% in the previous year. The reasons for this slight increase were the expansion of the employee base and the necessary workstation infrastructure.

#### Sales and Marketing Costs

Sales and marketing costs of 35.2 million EUR (previous year: 29.8 million EUR) were expended for the marketing of ARIS Process Platform and product-related services, representing an increase of 18%. The sales share of Group revenue therefore approached the figure for the previous year of approximately 11%.

Significant influences on sales costs include large customer events such as CeBIT and ProcessWorld and roadshows to present ARIS Process Platform in several countries and cities. Particularly intensified were sales and training activities to demonstrate the potential of the SAP NetWeaver partnership.

#### General Administration Costs

Costs for general administration increased in fiscal year 2005 to 26.7 million EUR (previous year: 22.8 million EUR). The absolute increase is largely due to the acquisition and integration of the newly acquired or founded companies. Following a 2% reduction in 2004, the share of general administrative costs of total revenue was held at 8% in 2005. General administrative costs include expenses for finance and controlling, personnel, investor relations, legal and corporate development, as well as expenses for the management of the corporation and the subsidiaries.

### Research and Development

During fiscal year 2005 IDS Scheer increased its expenditures for research and development (R&D) of the ARIS product line according to plan in order to take advantage of the future potential of the BPM market. R&D expenditures, which primarily comprise personnel expenses such as the cost of the internationalization (localization) of products, therefore increased in fiscal year 2005 by nearly 21% to 9.8 million EUR (previous year: 8.1 million EUR). The R&D share of total revenue was 3.1% (previous year: 2.9%); R&D expenditures amounted to 11.3% of revenue from the product area (previous year: 10.8%). Research and development expenditures are posted in full in the consolidated income statement. There are now 153 employees (previous year: 136 employees) in research and development at IDS Scheer, representing an increase of 13% over the previous year.

### Interest Result

The interest result includes earnings from fixed-term deposits, expenditures from loans taken by the parent company to finance the existing headquarters building in Saarbruecken and for the currency-matched financing of the international subsidiaries, as well as from completed cross-currency swaps.

The interest result fell by 0.8 million EUR to -0.2 million EUR (previous year: 0.7 million EUR). This includes interest income of 1.1 million EUR (previous year: 1.4 million EUR). In the recently completed fiscal year, interest expenses were 1.3 million EUR and were characterized by the expanded financing of the international subsidiaries in local currency in the amount of 0.4 million EUR (previous year: 0.2 million EUR). Furthermore, in accordance with IFRS, the interest portion of a long-term call option in the amount of 0.1 million EUR related to the acquisition of a minority holding was for the first time reported as an interest expense.

### Tax Payments

IDS Scheer's tax rate increased in fiscal year 2005 to 38.1% (previous year: 36.7%). This increase is mainly due to the regional distribution of earnings in the IDS Scheer Group.

### Notes on the Financial Status

Total assets as of December 31, 2005, increased to 308.0 million EUR (previous year: 289.6 million EUR). Long-term assets amounted to 39% of the total assets of IDS Scheer, compared to 41% in the previous year. Essential line items in long-term assets are intangible assets and property, plant and equipment.

Intangible assets totaling 88.5 million EUR (previous year: 85.3 million EUR) include primarily goodwill (80.5 million EUR) and activated customer bases (6.5 million EUR) created by the acquisition of minority holdings of consolidated companies. The increase in intangible assets of 3.2 million EUR over the previous year's value is essentially a result of the acquisition of Business Logic in Russia and the acquisition of the client relationships of the company's distribution partner in Turkey.

Property, plant and equipment in the amount of 26.1 million EUR (previous year: 27.5 million EUR) as of December 31, 2005, comprises buildings (19.2 million EUR) as well as office and plant equipment (4.8 million EUR). The reduction in property, plant and equipment is above all due to planned amortization, opposite fewer capitalized expenditures.

Short-term assets represented a 61% share of total assets of IDS Scheer in 2005, up from 59% in the previous year. The main components of short-term assets are trade receivables including improved performance of client projects (fixed-price projects) evaluated according to IAS 11, other short-term assets, and cash and cash equivalents.

Trade receivables as of the reporting date had increased as anticipated to 104.8 million EUR (previous year: 87.4 million EUR) due to the consistently increasing business volume in the fourth quarter. Payments corresponding to this fourth-quarter increase will not be posted until the following quarters in 2006.

The remaining short-term assets comprise prepaid expenditures of 5.8 million EUR, balances in trust accounts in the amount of 3.4 million EUR, and other taxes due in the amount of 0.4 million EUR.

Cash and cash equivalents came to 70.3 million EUR at the end of the year (previous year: 67.6 million EUR), representing, as at the reporting date of the previous year, approximately a 23% share of total assets. IDS Scheer keeps this level of cash ready to support business operations and as a ready asset for future acquisitions. The investment of cash and cash equivalents is managed centrally at IDS Scheer AG. Investment is fundamentally in securities of very good creditworthiness while maintaining ready access to funds.

## Notes on the Financial Situation

Shareholders' equity in IDS Scheer increased by 9% to 185.8 million EUR (previous year: 170.4 million EUR). Shareholders' equity increased to 60.3% as of December 31, 2005, compared to 58.9% on December 31, 2004. As in the previous year, the majority of IDS Scheer's assets are financed by shareholders' equity. The slight increase in subscribed capital and capital reserves results from exercising convertible bonds that were issued from 1999 to 2002 as part of the employee participation program.

Long-term liabilities represent a significantly reduced share of 9% of IDS Scheer total assets as of December 31, 2005, compared to 11% in 2004. The change is primarily due to the planned repayment of long-term financial liabilities as well as the restructuring of purchase price liabilities. Long-term financial liabilities arise principally from the financing of the building at IDS Scheer AG headquarters in Saarbruecken. This form of financing occurs because of the strategic decision not to tie up liquid assets in buildings. This strategy will remain in force in the future.

IDS Scheer's short-term liabilities as of the reporting date correspond to a 31% share of total assets, approximately the previous year's value. The increase of 7.0 million EUR is due to the expansion of the financing of the international subsidiaries in local currency owing to the increased international business volume. Furthermore, analogously to tax payments, higher liabilities from income taxes were set and reallocation long-term liabilities was undertaken.

In 2005, IDS Scheer was approved for a 10.0 million EUR line of credit to safeguard liquidity and finance investments and acquisitions. This credit line may be accessed on short notice and without further credit checks for the long-term financing of an investment or acquisition.

IDS Scheer already holds the highest rating of banks with which it maintains business relations. This positive internal bank rating is reflected in financing costs. The company's current developments and strategy are explained in regular and open conversations with the major banks. Additionally, various capital measures approved by the general assembly in 2005 are available to finance larger acquisitions

**Cash flow Development**

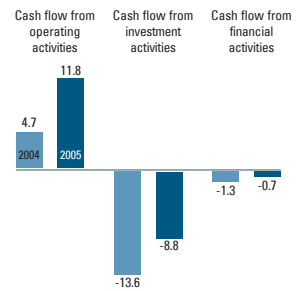
The cash flow statement shows the source and use of cash flows in fiscal year 2005 compared with 2004. Cash flow from business activities serves as the indicator of the internal financing strength of the company. In the recently completed fiscal year it was 11.8 million EUR (previous year: 4.7 million EUR). Intensified receivables management realized a positive contribution to the increase in cash flow from business activities in 2005. An increase in cash flow from business activities that significantly outpaces revenue growth is also planned for fiscal years 2006 and 2007.

Cash flow from current business activities amounted to -8.8 million EUR (previous year: -13.6 million EUR) was due in large part to payments for the acquisitions and investments in fixed assets. The company was thus in a position to finance all its investments from cash flow from business activities.

Cash flow from financing activities in the amount of -0.7 million EUR fell from the previous year's level of -1.3 million EUR. It includes, on the one hand, the dividend payment in 2005, and on the other hand, the capital increase from the exercising of the conversion right in the framework of the employee participation program, as well as the increase in cross currency financing.

**Cash flow development**

(in million EUR)



**Research and Development**

**Increasing Investments in Research and Development**

Thanks to great innovative strength, particularly in product development, and based on the ARIS software platform, IDS Scheer has for years held the position of world leader in the business process analysis market. The company plans to hold onto this leading position and solidify its competitive advantage on the international market. Continuous research and development is therefore of strategic importance for the entire company. The focus of R&D at IDS Scheer is the development of new and the continued development of existing software solutions in the ARIS Platform for Process Excellence. This includes honoring maintenance and development responsibilities to clients for already-installed ARIS products. The strategic co-development with SAP AG is another essential area of activity. As in the previous year, IDS Scheer contributed to product development at SAP AG with specific expertise around ARIS Platform and business process modeling. In 2005 IDS Scheer experts collaborated continuously on SAP development projects, largely on the customization and integration of ARIS into SAP NetWeaver and so on the new business process platform from SAP. These services have been allocated to the product area under ARIS related services.

**Investments in research and development**

(in million EUR/compared to the previous year)



### Milestones in the Product Roadmap

A series of central, successfully completed development projects, which number among the greatest milestones in the company's history, formed the highpoints of 2005. At mid-year, in consistent continuation of its web strategy, IDS Scheer released the first products in the development offensive for ARIS Process Platform. Important goals are that all completely web-based products be highly integrated and have a unified, intuitive user interface. Additional features of the new generation of products are broad acceptance, rapid learning curves and low total operating costs for the client. Among the central new products are ARIS Business Architect and ARIS Business Optimizer, which will strengthen the market-leader position of ARIS in the area of business process management. Already before their general market release they have put their power to the test in numerous international pilot installations. At nearly the same time ARIS Process Performance Manager (PPM), the tool for measuring business processes in ongoing operations, was released in Version 4.0. ARIS PPM rounds out its scope of functions with new components such as Organization Analyzer and Performance Cockpit.

At the end of 2005 IDS Scheer delivered the new version of its compliance management solutions, ARIS Audit Manager 3.0. Because of the increasing legal demands on companies' monitoring requirements, a growing international customer demand for compliance solutions is beginning to emerge. A study performed by IDS Scheer determined that 60% of the over 100 companies surveyed have a special interest in a compliance management solution, and half the companies have seen potential for savings and improving efficiency with the implementation of integrated, process-based compliance solutions. ARIS Audit Manager aids companies with the efficient implementation of compliance requirements set forth by Sarbanes Oxley, Basel II and Solvency II in the insurance industry, or the US Food and Drug Association in chemical/pharmaceutical industry. The software product provides for workflow-based performance, controlling and documentation of compliance measures and internal monitoring procedures. A series of new customer agreements and related customer demands have already made their way into the continued development of ARIS Audit Manager. As one of the first German companies listed on both the DAX exchange and a US stock exchange, Siemens fulfills all the requirements of the Sarbanes-Oxley Act. To support the auditing process, Siemens is using ARIS Audit Manager and IDS Scheer process consulting.

### Continued development of a cross-platform solution

IDS Scheer particularly focuses its pursuit of its SAP NetWeaver strategic partnership. The goal is the development of a comprehensive, integrated solution for business process modeling on the SAP business process platform. The SAP partnership and related joint development of the integration of ARIS into SAP NetWeaver are on schedule. In light of its great market potential, before its marketing release it is already generating growing attention among international clients. ARIS for SAP NetWeaver, which was released to the market in mid-2004 and provides standard interfaces between ARIS and SAP NetWeaver, is being increasingly used in client projects. One important success of ARIS Platform for Process Excellence is its neutral, multi-industry, cross-platform orientation for company business processes. IDS Scheer has thus developed interfaces for software products of other leading IT providers. IDS Scheer has technological partnerships with IBM, Microsoft, Fujitsu, Software AG and Tibco. Additional partnerships, including one with BMC, are being established.

### Value-Oriented Monitoring

IDS Scheer's management and control system has as its focal point the continuous and sustained increase in the market share of IDS Scheer companies in their focus regions. IDS Scheer continuously examines the development of its investment portfolio. Additionally, the value of the portfolio is periodically analyzed in accordance with IAS 36, 'Depreciation of Assets.' The evaluation of the investment portfolio is carried out using the discounted cash flow (DCF) method. The future cash flows of the cash generating units (CGUs) to be discounted according to the DCF method are calculated over the medium-term planning of IDS Scheer for assets, finances and profitability for the years 2006 to 2008 and verified using past values. IDS Scheer's primary segments (five regions) are the value-producing CGUs and therefore the level of the impairment test.

As in 2004, a weighted average capital cost (WACC) of 10% was used to determine the cash value of the future cash flow. For the impairment test according to IAS 36, the values of minority holdings determined using the DCF method is posted opposite their book values as of September 30. The 2005 impairment test resulted in no required valuation adjustment in the IDS Scheer AG investment portfolio.

### Risk Management

IDS Scheer utilizes a systematic risk-management system that supports the early detection and reduction of risks as well as the identification of opportunities. Because of their similar range of products and services, IDS Scheer Group companies have a similar risk structure and are incorporated into the group-wide risk-management system. Market and product risks, financial risks, operating risks and legal risks are the essential risk categories regularly used in risk reporting. Furthermore, the controlling systems in all of the companies are designed to detect risks through improved continuous monitoring of financial development, and can initiate countermeasures at an early stage. The newly acquired company Business Logic has also been integrated into the controlling and risk-management system.

Independent auditors have audited the risk-detection system as part of the year-end audit. Their insights have been used to further improve the early detection and management of risks.

The company analyzes and oversees the following risks:

- In the consulting area, risks in the calculation and handling of major projects are reduced both by concentrating on controllable products and services in the case of service contracts with fixed-price agreements, and by intensive project management and controlling.
- IDS Scheer's commercial success depends upon the ARIS product line and its underlying ARIS methodology, which is complemented by a proactive partner strategy, user conferences and customer surveys.
- In the consulting area, IDS Scheer continues to rely upon acquiring, integrating, and retaining qualified employees in the future. With its broad range of development and training measures, IDS Scheer attempts to maintain and further enhance its attractiveness as an employer. IDS Scheer offers a comprehensive training program to bring employees up to date on the changing needs of the market.
- Risks of high turnover rates among acquired personnel result from the acquisition of new companies. To ensure long-term loyalty from management and performance managers, IDS Scheer designs appropriate acquisition agreements and provides comprehensive integration seminars for the new employees.
- The expertise and enthusiasm of executive managers and employees in key positions are also a critical factor in the company's successful growth. IDS Scheer's consistent management development strategy includes, among other things, attractive incentive programs, identification and promotion of promising employees, the creation of career prospects, and group-specific support.
- Because of the company's international scope, currency risks exist particularly in the currencies of USD, CAD, CHF, and JPY. Currency forwards and combined interest/currency swaps are used to limit or avoid the risk of currency fluctuations. External funds continue to be borrowed with matching currencies and maturities and forwarded for internal company financing. The partners in these hedging transactions are first-class German banks, whose creditworthiness is continuously verified by leading rating agencies.
- Because of the high level of cash and cash equivalents and the company's short-term investment horizon, it has a low interest and reinvestment risk. The maximum investment for each partner is restricted to the hedging limit established by the deposit insurance fund.
- Currently no litigation or claims for damages exist which are of material importance or which could endanger the continuity of the company.

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No guarantee can be given, however, that listing the risks will identify and counter all risks. This is because portions of these risks lie outside the company's sphere of influence. There are currently no circumstances at IDS Scheer that could endanger the continuity of the company or impair its development.

**Essentials of the Compensation System at IDS Scheer AG**

A detailed depiction of the compensation system in fixed and variable incentive components can be found in the appendix to the annual financial statement.

**Special Events after Close of the Fiscal Year**

In January 2006 IDS Scheer AG received a dividend in the amount of KEUR 186 from FACT Unternehmensberatung GmbH, Frankfurt.

Furthermore there are no significant events which might have substantial effects on business development have occurred since the end of the reporting year.

## Forecast and Outlook

### General Economic Development

According to estimates of the International Monetary Fund (IMF), the global economy remains in good shape. Significant differences in growth among the various regions can nevertheless be seen, and considerable risks have diminished the overall positive economic forecast. The greatest dangers come from high and fluctuation-prone price of oil; a perceptible acceleration of inflation, which could cause a sharp increase in long-term investment rates; and the considerable differences in trade balances among significant economic powers. In light of soaring real estate prices in America and other countries, a sharp increase in interest rates could bring with it the risk of suppressing private consumption and thereby growth in general. An unregulated correction of global imbalances could result in sizeable shifts in currency structures and turbulence in financial markets.

The Organisation for Economic Co-operation and Development (OECD) anticipates an increase in global economic growth of 2.9% for both 2006 and 2007. Important driving forces in the global economic machine remain the United States and China. In the coming two years, although growth in the US is expected to diminish somewhat, the OECD continues to forecast growth rates of 3.3% and 3.5%, respectively. The IMF projects growth of 8.2% for the People's Republic of China – which has advanced to the head of the pack – and growth of 2% for Japan.

For the first time a slight acceleration in growth is expected for Europe. After 1.4% growth in 2005, the OECD anticipates growth of 2.1% for 2006 and 2.2% for 2007. The indications of an economic upturn in Germany are increasing; growth, however, remains at a low level. The German GNP will grow by 1.8% in 2006 and 1.7% in 2007 according to OECD estimates. In mid-February the Association of German Chambers of Industry and Commerce (DIHK) raised its growth prognosis for 2006 from 1.5% to 2.0%. According to the IMF, the requirements for growth are resolute economic reforms with the goal of increasing weak domestic demand and creating corporate incentives for the demand of additional workers.

### Industry Development

According to analyst estimates, growth in the IT industry will again be significantly over economic growth as a whole in the respective countries, and the IT sector will continue to be a driving force for economic growth in general. The marketing-research institute Gartner Group expects growth of 3.0% in the Western European IT market in 2006. Although this figure is slightly above the 2005 figure, the development of the large Western European market will continue to lag behind the North American market, where 6.0% growth is anticipated. In Germany, 6% growth is predicted, one of the highest rates. IT expenditures, specifically for software and services, are expected to increase by 5.5% in 2006. This represents an increase of 5.0% in Europe and 4.5% in Germany. Continuing pressure on prices is anticipated in the German market where companies can make use of competitive advantages through favorable cost structures based on near- and offshore resources. According to the German industry association BITKOM, IT companies can look optimistically toward 2006. BITKOM confirms its forecast of 2.4% growth in Germany for the current year. As in 2005, software providers and IT-service providers will lead the way in the German IT industry in the coming year. According to analysts, the thematic focus will be on outsourcing and mobility solutions and particularly on business process management and software integration. A principal goal of international companies is to increase the flexibility of their IT systems by implementing service-oriented architecture (SOA) concepts. An additional boost is expected from the new requirements for accounting and monitoring in companies.

### Outlook-Projected Development at IDS Scheer

The success factors for lasting growth within the IDS Scheer Group include ARIS, the world's leading business process management software solution with the SAP NetWeaver strategic partnership, and consulting business with its focus on the core competencies of business process design and implementation. The decisive factors for successful business are the balance of consulting competence in various topics and industries with a strong international market presence with offices in 24 countries around the world. These successes will also make themselves known in the development of lasting international customer relations. IDS Scheer views itself as excellently positioned for the future in the growth topics set by analysts for the coming years: In the business process management market the company provides a leading software tool in ARIS Platform for Process Excellence. With ARIS Audit Manager, IDS Scheer is a pioneer in supporting companies in the implementation of new compliance requirements. With the SAP strategic partnership to integrate ARIS in the new service-based process platform from SAP, IDS Scheer is able to participate early on in companies' SOA orientation. IDS Scheer has extraordinary opportunities in light of the considerable customer groups in the BPM, compliance and SAP markets.

IDS Scheer continues to anticipate growth rates in revenue and results that outpace the market average in the coming years. IDS Scheer sees particular economic opportunities in:

- the high growth rates in the business process management market in general,
- the exceptional market potential resulting from the SAP strategic partnership,
- the continued technological development of its product platform in the direction of the growth topic business intelligence,
- the increased expansion of its partner network and the business volume generated by distribution partners, and
- the additional support of the company's concentrated internal growth through targeted acquisitions that will strengthen the product area.

In the coming years IDS Scheer will keep its focus on these measures and follow its goal of expanding the volume of the highly profitable product area.

Following a year of investment, beginning in 2006 IDS Scheer will again concentrate on increasing its profit margin while maintaining strong revenue growth. At the same time, targeted investments are necessary to harness the future growth potential resulting from the lasting orientation of international companies toward business process management and from the SAP NetWeaver strategic partnership. With the resulting increased expansion of product business with ARIS, the company anticipates continuous, above-average increases in revenue and results in the coming years.

For fiscal year 2006 IDS Scheer anticipates growth in revenue of 9% to 10% and an increase of 0.5 to 1.0 percentage points in the EBITA margin. Similar development is projected for 2007. Based on the significant expansion of the product area, the company anticipates a continual increase in the margin in the years to come. ■