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Mission

AISoft@re SpA is a software house developing knowledge processing systems to be used through traditional hardware architectures and via Internet/Intranets. Its main mission is to add value to data, in order to extract information and knowledge to be turned into a competitive advantage for organisations.

AISoft@re has always developed and experimented the most advanced software technologies available, anticipating international technology trends and offering to its clients and business partners solutions well before their general availability on the market.

Moreover AISoft@re designs and develops high performance software architectures, using both proprietary technologies and the most advanced tool available on the market, in order to offer innovative applications to its clients in specific vertical markets.

The three main vertical markets the Company operates are:

- Decision support systems in Banking and Finance Medical imaging
- Medical Image processing systems
- Internet/Intranet-based knowledge management for large organisations

In the above areas the Company on the overall has supplied services and products to almost 300 national and international organisations.

AISoft@re aims at being a domestic and European reference in the above vertical markets, both through organic growth and aggregation with acquisition of similar complementary companies.

AISoft@re strong belief that knowledge processing, applied to its reference vertical markets, represents the leveraging key element for increasing the quality of the services organisations deliver to their customers and for the internal processes within themselves.

AISoft@re mission is to become the leading company in knowledge processing applications in Italy and in Europe, and to help partners and customers to turn their knowledge into a real competitive advantage.

Dear Investor,

1999 was a year of great significance to the company, and of key strategic developments. Principal amongst these were the listing of the company on EASDAQ, the development of the company's acquisition strategy, and the strengthening of internal management resources and external partnerships.

The company performed well during the year, given the difficult conditions in some of its core markets (see table above). The banking and financial sectors, which, in Italy, suffered distractions during the year due to Y2K fears, saw growth nonetheless of 28% to € 2.7 million, slightly ahead of our expectations. This growth was due to an increase in the sales of licences for credit products, including important new contracts established with BCI and Cedacrinord. Also important was a new contract signed with Italia-iNvest for the development of financial services applications for the Internet.

In the industrial sector the acquisition of Telecom Italia by Olivetti Group led to delays in its investment programme, which affected key contracts involving AISoftw@re. In addition, the company suffered from the postponement of two government contracts due to administrative delays at the year end (this delay also affected the grant revenues).

These factors created a shortfall in the company's revenues in the industrial project area, which fell by 6% to € 4.7 million in the year. We are pleased to report however that the two postponed contracts have since been signed.

The medical sector, on the other hand, performed well ahead of our expectations, with sales growth of 152% to € 2.3 million. Important developments in this area included the appointment of an additional distributor for the small to medium sized hospital sector, and the gaining of five important new hospital contracts. Given our continued market leadership in this area we remain very optimistic about future growth within the sector.

Revenues received from grants fell from € 496,000 to € 247,000, partly as a result of the delay in government project funding mentioned above, which postponed grant revenues of € 150,000 from 1999 into 2000. However, since the company now has sufficient financing to support its product development programme independently, in future we will be moving away from grants as a form of R&D financing.

Costs rose from 90% of production value in 1998 to 94% in 1999, due to a number of specific issues. Firstly, the cost of technical consultants rose by € 421,000, as a result of an increase in the number of consultants working with the company to deliver own licence sales and industrial projects. This increase was due, in part, to the involvement of the management team in the IPO, which led to lower than usual levels of recruitment during the year, and the need for additional consultants at the year end. This situation has however been corrected in the current year, with the recruitment of seven new staff during the first quarter. The company is currently undertaking a major recruitment programme, to ensure sufficient internal staff resources for future growth.

The second area of significant cost increase was in marketing costs, and in particular in the medical sector where the appointment of an additional distributor for the Italian market led to higher commercial costs in the start up phase (an increase of € 146,000). These costs were of a one-off nature, and will not affect performance in the current year.

Finally, the company incurred costs of € 3.5 million relating to its listing on EASDAQ during the year. In the interests of prudence and transparency these costs have been fully expensed in the year.

The above trends in revenues and costs led to a reduction in profit before interest from € 1.0 million in 1998 (12.4% of revenues) to € 0.7 million in 1999 (6.7% of revenues), and a net loss, after exceptional transaction costs and tax, of € 2.8 million. Although this result was below our expectations, the reduction in profitability was primarily related to the non-recurring items detailed above, and we are therefore confident that our profitability will improve in the current year.

Successive Events

The company has seen a good start to the year, with revenues well ahead of Q1 1999. In addition, we have made rapid progress in our acquisition programme, completing the two acquisitions that were announced at the time of the IPO, namely Itaca Srl and SE Informatica Srl. These companies have brought important synergies in products, technological expertise, and distribution channels, and will add significantly to our revenues in the current year: on a pro forma basis, consolidated group revenues in 1999, including these companies, would have been € 16.3 million, and we are expecting attractive growth from these subsidiaries during 2000.

In addition, AISoftw@re has taken a 23% stake in ACS, an important software development company based in Rome, and this investment will form the basis of an important partnership between our two companies. Other acquisition negotiations are also progressing rapidly, and we expect to be able to make further announcement during the year.

Also in this year the company has undertaken a strategic reorganisation of its business units, appointing a manager for international sales and investing in a new R&D laboratory. This laboratory will focus in particular on the development of new applications in the Internet sector.

In terms of strategic developments, the company is continuing to emphasise its own licence sales, while also expanding its international distribution channels. These now include a distribution contract signed with Much-Net AG, a software house based in Zurich and specialised in banking solutions, for the distribution of AISoftw@re DAISY (treasury management) products within Switzerland. Investments will continue in product development, as well as in strengthening the technical and commercial infrastructure of the group.

In addition, the company has recently announced a stock option plan, to assist in the recruitment and retention of key technical and management staff, and it is our intention to seek a second listing on the Nuovo Mercato stock exchange (Milan) during 2000. This listing will assist the company to expand its acquisition strategy, while also providing an opportunity for Italian retail investors to participate in the growth of the company.

Product Development

The company has made good progress during the year in its R&D programmes, both in the launch of new products and in the research and development of new technologies. These developments included the continuing development of the Daisy product range, upgrading of the credit products for Internet hosting, investments in DicomWare (medical imaging), the launch a new version of the 3Desk software, research and development of K@Work (knowledge management solutions).

In the current year the company expects to complete developing the following products:

Per*Fido, Internet version. The Internet-ready version of the company's core credit analysis product, Per*Fido, has been completed during the first quarter, and is now ready for release during Q2 to key clients. K@Work. This is now in the Beta test phase, and will be released for commercial distribution during the first half of 2000.

Daisy, new modules. Currently in development, these modules are expected for launch in the second half of the year.

Internet datamining. The company is currently testing an Internet datamining tool for banking applications, which are expected to be released during the second half of the year.

Medical sector, technical modules. The company is now developing the underlying technical modules needed to launch its successful DicomWare product on the international market. Beta test version is expected by the final quarter of the year.

New Partnerships

The company is currently negotiating with a number of OEM's and consultancy companies in the medical and banking sectors, with a view to strengthening the company's product distribution in the Italian market. Other international distribution agreements are also under negotiations, and we are confident of announcing progress in these areas within the second quarter of this year.

Executive Recruitment

During 1999 the company recruited two non-executive directors, Mr Jacques Raiman and Mr Alberto Agosta, to its board, and recruited Mr Giorgio Rolando as Chief Financial Officer. Mr Raiman was the founder and President of GSI, one of the largest software services businesses in France, and Mr Agosta was previously responsible for software company investments and acquisitions for IBM Italia. Mr Rolando is a certified accountant and has previously been CFO or COO for the Italian subsidiaries of a number of multi-national companies, including Philip Morris, Pioneer, Landis & Gyr, and Superga.

The company is delighted to have recruited executives of this calibre to its management team, and looks forward to benefitting from their valuable contribution to the company's development.

Prof. Francesco Gardin

President & CEO AISoft@re



AISoftw@re SpA Reports Final Results for 1999

The board of AISoftw@re S.p.A. announces the company's results for the financial year to 31st December 1999.

Financial Highlights:

- Total production value up 17.2% to € 11.9 million
- Sales up by 21% to € 9.7 million
- Operating margin falls to 6.7%, after one-off increases in technical staff costs, marketing costs and contingency charges
- Exceptional costs of € 3.5 million relating to transaction charges for the company's listing on EASDAQ.
- Net loss after tax of € 2.8 million

Business Highlights in 1999:

- Medical imaging sector sales up by 152%
- Banking and financial sector sales up by 28%
- Continued development of products and technologies, including new Internet versions of key products
- Development of K@Work, an important new knowledge management technology
- International distribution agreements under negotiation
- Partnership established with Global-iNvest, through a 20% stake in Italia.iNvest.com S.p.A.
- Two important acquisitions agreed during 1999, and completed post year-end
- Board strengthened by two non-executives, Mr Jacques Raiman and Mr Alberto Agosta
- Listing of the company on EASDAQ

Breakdown of sales: (€ /000)

Revenues	1999	1998	1997
Banking and financial sectors	2,719	2,127	2,999
Medical imaging sector	2,315	918	739
Industrial sector	4,646	4,956	2,883
Total revenues	9,680	8,001	6,621

CONSOLIDATED BALANCE SHEETS

	Notes	31 December, 1999	31 December, 1998	31 December, 1997
Assets				(ITL. Millions)
Receivables from shareholders for due payments				
Fixed assets:		0	0	223
Intangible, net:	1			
- Start-up costs		23	19	12
- Research and development costs		5,637	6,426	5,323
- Licences and other similar rights		240	641	1,022
- Goodwill		398	521	645
- Assets under development		3,062	1,145	1,190
- Other		109	123	111
Total intangible, net		9,468	8,875	8,303
Tangible, net:	2			
- Other		251	296	277
Investments				
- Shareholdings in subsidiaries		0	0	20
- Shareholdings in associated companies	3	3,375	0	0
- Shareholdings in other enterprises		12	42	42
- Receivables from other		73	72	23
Total fixed assets		13,179	9,285	8,665
Current assets:				
Inventories, net:	4			
- Work – in – progress		0	178	763
- Finished products and goods		711	985	444
- Payments on account		718	539	5
Total inventories, net		1,429	1,702	1,212
Receivables, net:				
- Trade receivables	5	15,872	12,775	9,112
- Trade receivables from subsidiaries				996
- Trade receivables from associated companies		792	0	0
- Other receivables due within one year	6	5,469	933	563
- Other receivables due after one year		1,416	41	11
Cash and bank current accounts:	7			
- Bank accounts		28,568	40	156
- Cash-in-hand		18	1	13
Total current asset		53,554	15,492	12,063
Prepayments and accrued income	8	211	88	120
Total assets		66,944	24,865	21,071

	Notes	31 December, 1999	31 December, 1998	31 December, 1997
				<i>(ITL. Millions)</i>
Shareholders' equity:	9			
-Share capital		5,770	2,550	2,550
-Reserves		46,206	17	13
-Profit (loss) brought forward		(48)	(118)	(189)
-Net profit (loss) for the year		(5,357)	74	75
		46,571	2,523	2,449
Liabilities				
Employees' leaving entitlement	10	841	696	572
Payables	11			
-Payables to banks due within one year		4,047	10,164	7,786
-Payables to banks due after one year		4,256	2,700	3,892
-Other financial liabilities		0	982	1,457
-Payments on account		0	0	2
-Trade payables		8,781	4,120	2,911
-Tax payables	12	1,034	1,963	716
-Payable to social security institutions	13	332	473	362
-Other payables		603	1,108	671
Accruals expense and deferral income		478	136	253
Total liabilities		20,373	22,342	18,622
Total liabilities and shareholders' equity		66,944	24,865	21,071
Memorandum accounts	14	3,588	3,818	627

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

	Notes	31 December, 1999	Year ended 31 December, 1998	31 December, 1997 <i>(ITL. Millions)</i>
Revenues:				
- Revenues from sales and services	15	18,743	15,494	12,819
- Changes in work in progress		(179)	(584)	97
- Capitalised software costs	16	3,780	3,612	3,133
- Other revenues		184	144	92
- Grants	17	479	961	975
		23,007	19,627	17,116
Operating costs:				
- Cost of goods	18	(3,945)	(2,981)	(2,682)
- Service costs	19	(5,821)	(4,662)	(3,677)
- Leases and rental expenses		(900)	(830)	(826)
- Personnel costs	20	(6,626)	(5,986)	(5,429)
- Depreciation, amortisation and write-downs		(3,567)	(3,507)	(2,790)
- Changes in inventory	18	(258)	541	113
- Other provisions		(16)	0	0
- Other operating costs		(581)	(169)	(206)
		(21,714)	(17,594)	(15,497)
Operating result		1,293	2,033	1,619
Financial income and charges:				
- Financial income:				
- From other		171	76	23
- Interest charges and other financial charges:				
- From banks	21	(1,244)	(1,236)	(1,457)
		(1,073)	(1,160)	(1,434)
Extraordinary income and expense:				
Other		2	1	1
Extraordinary income and expense	22	(6,822)	0	0
Profit/(loss) before taxes		(6,600)	874	186
Income tax for the year				
Income tax for the year	23	(130)	(800)	(111)
Deferred taxes		1,373	0	0
Net profit/(loss) for the year		(5,357)	74	75

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

	31 December, 1999	Year ended 31 December, 1998	31 December, 1997 <i>(ITL Millions)</i>
Cash flows from operating activities			
- Net income (loss)	(5,357)	74	75
Adjustments to reconcile net profit for the year to net cash provided by operating activities:			
- Depreciation and amortisation	3,362	3,242	2,743
- Employees' leaving entitlement	275	235	212
- Employees' leaving entitlement matured during the period	(130)	(111)	(150)
Changes in operating assets and liabilities:			
- Inventory	273	(491)	(190)
- Trade receivables	(3,889)	(2,667)	(2,520)
- Other receivables	(5,911)	(400)	(159)
- Trade payables	4,661	1,209	(149)
- Other payables	(1,575)	1,794	393
- Accruals and deferrals	218	(85)	(342)
- Provision for contingencies and other charges	0	0	(14)
Net cash provided by (used in) operating activities	(8,072)	2,800	(101)
 Cash flows from investing activities:			
- Tangible fixed assets	(52)	(119)	(66)
- Intangible assets	(3,857)	(3,722)	(3,291)
- Increase of financial assets	(3,346)	(29)	(39)
- Net book value of tangible assets sold	<u>0</u>	<u>8</u>	<u>61</u>
Net cash provided by (used in) investing activities	(7,255)	(3,860)	(3,334)
 Cash flows from financial activities:			
- Payables to banks	(7,099)	1,902	1,596
- Increase in payables due after 12 months	1,556	(1,192)	1,681
- Capital increase	<u>49,405</u>	<u>223</u>	<u>327</u>
Net cash provided by (used in) financing activities	43,862	933	3,604
 Increase (decrease) in cash	28,535	(128)	169
 Cash and bank at the beginning of the year	41	169	0
 Cash and bank at the end of the year	28,576	41	169
 Increase (decrease) in cash	28,535	(128)	169

The accompanying notes form an integral part of those consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 1999

1 Structure and content of the consolidated financial statements

The consolidated interim financial statements consist of the balance sheet, income statement, cash flow statement and notes to the consolidated financial statements.

The consolidated financial statements, expressed in Italian lire, have been prepared in conformity with the accounting principles and valuation criteria promulgated by the *Consigli Nazionali dei Dottori Commercialisti e Ragionieri*.

All amounts in the notes are expressed in millions of Italian lire, unless otherwise indicated.

2 Consolidation area

The sole consolidated company is that in which AISoftw@re S.p.A. has control as defined by article 2359 of the Italian Civil Code as follows:

	Registered		Quotaholders'		Current %
Company	office	Share capital <i>ITL million</i>	equity <i>ITL million</i>	Net result <i>ITL million</i>	ownership
ODS S.r.l.	Milan	181	149	(32)	100

The financial statements of ODS S.r.l. refer to the period 1 January to 31 December 1999 and are consolidated using the line by line method.

3 Accounting and consolidation principles

The accounting principles and evaluation criteria adopted by the group are described below and are consistent with those applied in the annual financial statements of previous years.

All significant intercompany transactions and balances are eliminated.

Intangible assets

Intangible assets are stated at cost, net of amortisation calculated on a straight line basis in relation to the residual income generating potential of the assets.

The costs of computer software internally developed and produced to be sold, leased or otherwise marketed are capitalised only if the related product is technologically feasible.

The following amortisation rates are applied:

- Start-up costs at 20 per cent per year
- Research and development costs: development costs, which consist mainly of salaries for technical staff, consulting fees for technical consultants and technical facility costs related directly to specific software products to be sold, are capitalised and amortised over the expected service life (four to five years) of the product. General research and development costs are expensed as incurred.
- Licences and trade marks and similar rights: these relate to acquisition costs for licences and are amortised over three to five years.

- Goodwill: from 1 January 1998, under a new plan of utilising the related activities, this asset is amortised at 10 per cent per annum, as compared to 20 per cent in the previous years. Goodwill consists of the excess of the price paid for acquisitions over the fair value of net assets at the time of such acquisitions.
- Assets under development: these relate to development costs which consist mainly of salaries for technical staff, consulting fees for technical consultants and technical facility costs related directly to specific software products to be sold that are still being developed. Amortisation commences in the year of completion.
- Other deferred charges: these relate to charges incurred for leasehold improvements and are depreciated over three to six years in relation to the residual life of the lease.

Tangible assets

Tangible assets are stated at purchase or internal construction cost and are shown net of the respective depreciation.

The purchase cost includes all directly attributable additional charges.

Depreciation is applied on a straight line basis using rates considered representative of the estimated technical-economic life of the assets. The rates applied are in line with those allowed by fiscal law, reduced by 50 per cent for assets purchased during the year.

Ordinary maintenance and repair costs related to assets are charged against income when incurred. Extraordinary maintenance costs which extend the life of the asset or increase its productivity capacity are capitalised and depreciated over the remaining life of the asset to which they refer.

Leased assets are recorded by charging the lease payments for the year to the income statement on an accrual basis. The effect of applying the finance lease method would not be significant.

The rates applied are as follows:	
	%
Plant and machinery	15
Special systems for internal communication	25
Video system	30
Motor vehicles	25
General furniture	15
Electronic machines	20
Office furniture	12
Equipment	15

Investments

Shareholdings up to 20% are stated at purchase cost, adjusted, where necessary, for permanent impairment of value.

Inventories

Finished products and goods (software packages) are stated at the lower of purchase cost, inclusive of related charges, calculated under the LIFO method, and the corresponding market value.

Work in progress related to customers' specific orders, is valued using the percentage of completion method ("cost-to-cost" method) on the basis of agreed contractual fees.

Receivables and payables

Receivables are stated at their expected realisable value, which corresponds to their nominal value less the provision for bad debts.

Payables are stated at their nominal value.

Foreign currency transactions are initially accounted for on the basis of the exchange rate ruling at the date of the transaction. The differences resulting from the valuation of balances at the exchange rates ruling at the end of the year are allocated to the specific provision, if said differences are negative.

Accruals and deferrals

Accruals and deferrals are recorded on the basis of accruals principle and refer to costs and income which relate to two or more years.

Employees' leaving entitlement

This entitlement represents the liability for each single employee at the balance sheet date net of advances paid, calculated in accordance with existing laws and labour contracts.

Revenue and costs

These are recorded in accordance with the concept of prudence and on an accruals basis by stating the related prepayments and accruals in the financial statements in accordance with current contractual agreements.

License revenues are recognised on consignment of the related software. Revenues from services of customisation are recognised at the completion of the service and acceptance by the customers.

Income taxes

Taxation is determined on the basis of a realistic estimate of the taxation charges to be settled, in compliance with the current tax regulations.

Grants

Grants are recorded when the right to their receipt is considered certain on the basis of objective evaluations. Grants are initially credited to income. The costs to which they relate, net of these grants, are subsequently capitalised as intangible assets.

Deferred taxation

Deferred taxation is accounted for under the liability method.

4 Notes to the consolidated financial statements

Balance sheet

Assets

1 - Intangible assets

Movements are shown in schedule 1.

Intangible fixed assets net:	31 December 1999	31 December 1998	31 December 1997
Start-up costs	23	19	12
Research and development costs	5,637	6,426	5,323
Licences and other rights	240	641	1,022
Goodwill	398	521	645
Assets under development	3,062	1,145	1,190
Other	109	123	111
Total intangible assets, net	9,468	8,875	8,303

Research and development costs relate to specific projects (see attached Schedule 2), and have been capitalised with the approval of the statutory auditors. The allocation of these costs to intangible assets is possible as they satisfy the following criteria:

- the product or process is clearly defined and the costs attributable to the product or process can be separately identified and measured reliably;
- the costs capitalised will give rise to future economic benefits and there is reasonable assurance that future benefits will be realised;
- adequate resources exist to complete the project.

Licences and other similar rights relate mainly to the acquisition costs of tools for application software development.

Assets under development relates to certain projects of research and development which will be completed in the following period and consequently no amortisation is calculated.

2 - Tangible assets

Movements during the periods are shown schedule 3. The caption relates mainly to office equipment. No revaluations have been made.

3 - Investments

Shareholdings

Shareholdings in enterprises may be analysed as follows:

Shareholdings	% of holdings	31 December 1999	31 December 1998	31 December 1997
Italia iNvest.com S.p.A.	20	3,375	0	0

Italia iNvest.com S.p.A. was acquired on December 1999 and is a "Leading Financial News provider in Italy".

4- Inventory

Payments on account relate to advance payments to Object Design Inc. (U.S.A.) in connection with the contract in respect of object oriented technology products.

5- Trade receivables

Receivables may be analysed as follows:

Trade receivable	31 December 1999	31 December 1998	31 December 1997
Receivables from associated companies	792	0	0
Receivables from Italian customers	16,289	12,024	6,901
Receivables from foreign customers	320	1,282	2,477
Provision for bad debts	(737)	(531)	(266)
Total trade receivable	16,664	12,775	9,112

The net balance of trade accounts receivable is collectible within one year.

The figure includes receivables from:

A.C.S. S.r.l. in liquidation: approximately ITL.16 million ;

A.R.S. S.r.l. in liquidation: approximately ITL.27 million;

S.I.A. S.r.l. in liquidation: approximately ITL.24 million;

S.I.C.I. S.a.s. : approximately ITL.232 million;

Included in trade receivables from Italian customers is a balance of ITL.1,032 with ITACA S.r.l. (note 27)

6- Other receivables

Other receivables may be detailed as follows:

Other receivables	31 December 1999	31 December 1998	31 December 1997
Grants received from the European Union	484	389	327
Advance payments for ILOR	0	0	32
Advance payments for IRPEG	410	77	74
Advance payments for IRAP	384	392	0
Other receivables due within one year	4,191	75	130
Other receivables due after one year	1,416	41	11
Total other receivables	6,885	974	574

Grants received from the European Union consist of receivables related to costs booked during the year for software projects financed by the European Union paid in the following year.

In "other receivables due within one year" the most significant amount (ITL.4,099 million) represents the commissions paid in advance to Flemings Aros and Market Capital relating to the quotation of the company on the EASDAQ in Brussels.

Advance payments for taxes relate to Italian fiscal laws and are deductible from income taxes calculated at the end of the fiscal year.

In “other receivables due after one year” the most significant amount of ITL.1,373 million is related to deferred taxes, the difference of ITL.43 million is related to caution money.

7- Cash and bank current accounts

Cash and bank represents deposits with banks, as well as cash-in-hand, the increase during this fiscal year of deposits is due to the quotation of the company on the Stock Exchange of Brussels (23 November 1999).

8- Prepayments and accrued income

Prepayments and accrued income may be detailed as follows:

Prepayments and accrued income	31 December 1999	31 December 1998	31 December 1997
Prepaid leasing	13	34	34
Prepaid insurance	8	8	14
Prepaid software maintenance	103	19	58
Other accruals	87	27	14
Total Prepayments and accrued income	211	88	120

9- Shareholders' equity

The changes in consolidated shareholders' equity are as follows:

	Share capital reserve	Share premium	Legal reserve	Extraordinary reserve	Retained earnings for the period equity	Profit (loss)	Shareholders' equity
31 December 1996	2,000		5	7	(223)	35	1,824
Destination of net result as approved by shareholders' meeting			1	0	34	(35)	
Increase in share capital	550						550
Net result for 1997						75	75
31 December 1997	2,550	0	6	7	(189)	75	2,449
Destination of net result as approved by shareholders' meeting			4		71	(75)	
Net result for 1998						74	74
31 December 1998	2,550	0	10	7	(118)	74	2,523
Destination of net result as approved by shareholders' meeting			4		70	(74)	
EASDAQ quotation	3,220	46,182		2			49,404
Net result for 1999						(5,357)	(5,357)
31 December 1999	5,770	46,182	14	9	(48)	(5,357)	46,571

The share capital is fully paid-up and at 31 December, 1999 amounted to Euro 2,979,900, consisting of 1,155,000 ordinary shares with a par value of Euro 2.58 each.

Under paragraph 5 of article 2426 of the Italian Civil Code, dividends may only be distributed to the extent that the company has sufficient reserves to cover the unamortised intangible assets.

10 - Employees' leaving entitlement

The movements are as follows:

Employees' leaving entitlement	31 December 1999	31 December 1998	31 December 1997
Balance at the beginning of the year	696	572	510
Utilisation for termination of employment	(101)	(49)	(150)
Utilisation for advance payment	(28)	(62)	0
Accrual	274	235	212
Total employees' leaving entitlement	841	696	572

The closing balance of the employees' leaving entitlement is sufficient to cover the liability arising in respect of contractual obligations and laws in force.

11 - Payables to banks

Payables to banks may be detailed as follows:

Payable to bank	31 December 1999	31 December 1998	31 December 1997
Payable due within one year	4,128	10,164	7,786
Payable due after one year	4,248	2,700	3,892
Other financial liabilities	0	982	1,457
Total payable to bank	8,303	13,846	13,135

The decrease during the fiscal year is due to the quotation of the company on the EASDAQ in Brussels and the consequent reduction of loans.

Trade payables

The increase from 1998 to 1999 of ITL.4,661 million is due to an invoice to be received from Flemings Aros and Market Capital relating to the quotation on the EASDAQ in Brussels.

12 - Tax payables

Tax payables have been determined by reference to existing tax legislation.

Tax payables may be detailed as follows:

Tax payables	31 December 1999	31 December 1998	31 December 1997
IRPEG	17	415	77
ILOR	0	0	34
IRAP	113	384	0
IRPEF payroll taxes for employees	396	330	299
VAT payable	504	797	292
Other accrued taxes	4	37	14
Total tax payables	1,034	1,963	716

13 - Payable to social security institutions

	31 December 1999	31 December 1998	31 December 1997
Social security institutions	332	473	362

The figure at 31 December 1999 represents the social contributions to be paid in January 2000.

14 - Memorandum accounts

Memorandum accounts may be detailed as follows:

Memorandum accounts	31 December 1999	31 December 1998	31 December 1997
Leasing instalments to be paid	257	487	602
Commitments for the purchase of software products	3,306	3,306	0
Third party goods in stock	25	25	25
Total memorandum accounts	3,588	3,818	627

Commitments for the purchase of software products relate to the agreement with Object Design Inc. to acquire certain minimum purchase quantities, in order to maintain exclusive representation in Italy.

Income statement

15 - Revenues from sales and services

The caption may be detailed as follows:

Revenues	1999	1998	1997
Banking and financial sectors	5,266	4,119	5,806
Medical imaging sector	4,482	1,778	1,430
Industrial sector	8,995	9,597	5,583
Total revenues	18,743	15,494	12,819

16 - Capitalisation of software costs

The caption is related to research and development costs capitalised for software products. The growth is due to the group's strategy based on the development of advanced software products.

The figures show an increase from ITL.3,612 million in 1998 to ITL.3,780 million in 1999.

17 - Grants

Grants show a decrease from ITL.961 million in 1998 to ITL.479 million in 1999. Changes are due to the different involvement of the company in these projects, and the related costs.

The company intends to continue applying for European Union grants to finance part of its research and development plans.

18 - Cost of goods

The most important difference between 1998 and 1999 is due to the increase of turnover of ODS S.r.l. relating to utilisation of object oriented technology products.

19 - Service costs

The caption shows an increase in technical consulting and commissions to IMS, a business firm that operates mainly with KODAK, relating to the sale of medical products for ITL.1,159 million from 1998 to 1999.

The executive compensation to the board of directors of AISoftw@re S.p.A. and ODS S.r.l. amounts to ITL.325 million in 1999 (ITL.168 million in 1998) including ITL.120 million as President's special assignment.

20 - Personnel

The variation in costs is mainly due to the increase in staff as follows:

	1999	1998	1997
Managers	9	7	5
Employees	65	62	55
Total	74	69	60

21 - Interest charges and other financial charges

The caption shows a small increase from 1998 to 1999 respectively from ITL.1,236 million to ITL.1,244 million and is mainly related to interest charged by banks.

22 - IPO services and costs

The extraordinary costs shown, represent the cost of ITL.6,822 million due as commissions paid to the lead manager, to the auditors, to the financial consultants and all the costs related to the quotation on the Stock Exchange.

23 - Income taxes for the year

Italian companies are subject to two income taxes: IRPEG, at 37% and IRAP at 4,25%, giving an overall effective tax rate of 41,25%. The IRAP taxable base differs from the IRPEG taxable base. In particular labour costs, net interest costs, extraordinary costs and the provision for bad debts are not deductible for IRAP purposes. Tax losses may only be offset against IRPEG income.

The caption shows a decrease from ITL.800 million in 1998 to ITL.130 million in 1999 due to the decrease of profit for the substantial amount of quotation expenses.

24 - Related parties

The related parties with whom the company deals are the following:

- SICI S.a.s. which is principally owned by the chairman of AISoftw@re S.p.A.
- IMMICRA, the property subsidiary of ICCREA Holding S.p.A., a shareholder in the company.

Transactions with related parties refer to the supply of services, rent and third party products to AISoftw@re and are based on market price.

25 - Information concerning the nature and extent of the trading market

In the quarter 1 October – 31 December 1999 the minimum price of the EASDAQ quotation was 55.00 Euro and the maximum Euro 73.50.

26 - Exchange rate

At 31 December 1999 the exchange rate between the Euro and the Italian Lira was 1,936.27 and between the US Dollars and the Italian Lira was 1,927.40

27 - Subsequent Events

The company acquired during the first quarter of 2000 three significant investment in software Italian companies as described below:

Name	Address	% of shares	Cost of acquisition
SE Informatica S.r.l.	Rome	60%	ITL.2,7 billion
ITACA S.r.l.	Rome	60%	ITL.1,5 billion
ACS S.p.A.	Frascati	23%	ITL.3,0 billion

- SE Informatica S.r.l., a software house specialising in planning and completion of Oracle and Sybase database integrated information systems.

- Itaca S.r.l., a software house specialising in Internet/Intranet solutions. Itaca also owns 100% of SQ Italconsulenze, a consulting company for ISO 9000 certifications.

- ACS S.p.A., a leading software house in the fields of: reception and processing of Space surveyed images, digital cartography and ground information systems (GIS), extensive multimedia archives and digital radiophonic production (RAI), Virtual Reality for Defence, Space and cultural entertainment applications.

At the end of February 2000 Market Capital subscribed 11,550 shares (1% of share capital) in order to apply its “green shoes option”.

During the end of the first quarter the company started with a procedure of stock option plans reserved to the board of directors, consultants, managers and employees amounting to Euro 129,000.

28 - Summary of significant differences between accounting principles generally accepted in Italy (Italian GAAP) and International Accounting Standards (IAS)

These financial statements are prepared in accordance with generally accepted accounting principles in Italy (Italian GAAP), which differ in certain respects from International Accounting Standards (IAS).

The effects of the application of IAS on the group's net equity and results are negligible and not material.

The following is a brief summary of the principal differences between Italian GAAP and IAS:

Research and development costs

Under Italian GAAP, research and development costs can be recognised as an asset if they have future benefits, while under IAS development costs should be recognised as an asset if they satisfy the following criteria:

- 1.** The product or process is clearly defined and the costs attributable to the product or process can be separately identified and measured reliably;
- 2.** The technical feasibility of the product or process can be demonstrated;
- 3.** The enterprise intends to produce and market, or use, the product or process;
- 4.** The existence of a market for the product or process or, if it is to be used internally rather than sold, its usefulness to the enterprise, can be demonstrated;
- 5.** Adequate resources exist, or their availability can be demonstrated, to complete the project and market or use the product or process.

Finance leases

Under Italian GAAP, a lease that transfers substantially all the risks and rewards pertinent to ownership of an asset is treated as an operating lease: therefore it cannot be capitalised by the lessee as per IAS 17. Rather lease instalments must be recognised in the income statement as paid.

Schedule 1 Intangible Assets

	31/12/96 <i>(ITL Millions)</i>	Increase <i>(ITL Millions)</i>	Amortisation <i>(ITL millions)</i>	31/12/97 <i>(ITL millions)</i>	Increase <i>(ITL Millions)</i>	Amortisation <i>(ITL millions)</i>	31/12/98 <i>(ITL millions)</i>	Increase <i>(ITL millions)</i>	Amortisation <i>(ITL Millions)</i>	31/12/99 <i>(ITL millions)</i>
Start-up costs	8	8	4	12	14	7	19	13	9	23
Licences and other Similar rights	1,390	90	458	1,022	32	417	637	7	411	233
- Software internal use	0	0	0	0	6	2	4	8	5	7
- Trademark, right	1,390	90	458	1,022	38	419	641	15	416	240
Goodwill	893	0	248	645	0	124	521	0	123	398
Other:										
- Deferred costs	108	27	48	87	67	47	107	33	55	85
- Loan expenses	6	26	8	24	0	8	16	16	8	24
	114	53	56	111	67	55	123	49	63	109
Software products (Sk. 2)	5,254	3,140	1,881	6,512	3,603	2,543	7,572	3,780	2,653	8,699
Total	7,659	3,291	2,647	8,303	3,722	3,148	8,876	3,857	3,264	9,469

Schedule 2 Capitalised research and development costs

	Capitalised Costs at 31/12/96	Capitalised Costs During Financial Year ending 31/12/97	Amortisation At 31/12/97	Capitalised Costs at 31/12/97	Capitalised Costs During Financial Year ending 31/12/98	Amortisation at 31/12/98	Capitalised Costs at 31/12/98	Capitalised Costs During Financial Year ending 31/12/99	Amortisation At 31/12/99	Capitalised costs at 31/12/99
Projects										
Banking										
Flora	112	0	28	84	85	45	124	0	45	79
Daisy	3,708	1,126	1,111	3,723	1,025	1,364	3,384	1,206	1,365	3,225
Per Fido	153	465	193	425	611	315	721	538	346	913
SEAC	167	196	83	280	235	170	345	244	135	454
*MarketMine	0	29	0	29	172	0	201	7	0	208
Medical Imaging										
DicomWare	182	444	111	515	727	270	972	1,082	487	1,567
RIS WEB	0	0	0	0	0	0	0	110	0	110
Industry										
*3Desk (VIP)	272	205	0	477	306	0	783	430	0	1,213
*SpaceZoom (WIRE)	99	68	0	167	46	42	171	0	43	128
*AntiFraud (COLBA)	169	80	50	199	0	50	149	0	50	99
*VisualMine (AMODES)	117	36	31	122	0	30	92	0	31	61
K@Work	0	356	71	285	234	119	400	91	118	373
Libraries	0	128	32	96	162	32	226	72	32	266
Others	275	7	172	110	0	106	4	0	1	3
Total project	5,254	3,140	1,882	6,512	3,603	2,543	7,572	3,780	2,653	8,699

(*) The intangible assets signed by ⁽⁶⁸⁾ started net of the amount received from the European Community as grants.

Schedule 3 Tangible fixed assets

	31/12/96	Increase	Decrease	31/12/97	Increase	Decrease	31/12/98	Increase	Decrease	31/12/99
(ITL. Millions)										
Motor vehicles	81	1	(6)	76	0	(31)	45	2	(15)	32
Furniture	90	3	0	93	15	(9)	99	34	0	133
Electronic machines	457	25	(161)	321	31	(17)	335	5	(5)	335
Equipment	1	3	0	4	4	0	8	0	0	8
Plant and machinery	87	0	(60)	27	52	(27)	52	0	0	52
Office furniture	77	26	0	103	9	(28)	84	4	0	88
Video system	13	0	0	13	0	0	13	0	0	13
Special systems for Internal communication	67	11	0	78	7	0	85	7	0	92
Total tangible fixed assets	873	69	(227)	715	118	(112)	721	52	(20)	753

Depreciation

(ITL. Millions)	31/12/96	Increase	Decrease	31/12/97	Increase	Decrease	31/12/98	Increase	Decrease	31/12/99
Motor vehicles	45	11	(5)	51	7	(25)	33	8	(15)	26
Furniture	39	11	0	50	11	(9)	52	15	0	67
Electronic machines	286	52	(161)	177	49	(15)	211	51	(5)	257
Equipment	1	0	0	1	1	0	2	1	0	3
Plant and machinery	27	0	0	27	4	(27)	4	8	0	12
Office furniture	56	7	0	63	6	(28)	41	7	0	48
Video system	8	3	0	11	2	0	13	0	0	13
Special systems for Internal communication	45	13	0	58	11	0	69	8	0	77
Total depreciation tangible Fixed assets	507	97	(166)	438	91	(104)	425	98	(20)	503
Net book value	366	(28)	(61)	277	27	(8)	296	(46)	0	250

