[value]

ANNUAL REPORT

2003

_betasystems

[At A Glance]

Beta Systems Software AG and Subsidiaries – Group Financial Data in US GAAP

Euro in thousands	**1999**	**2000**	**2001**	**2002**	**2003**	**2003 vs. 2002**
Total revenues	45,835	41,226	44,980	45,112	55,794	23.7%
Operating income	(3,692)	(2,723)	(7,327)	126	3,819	2931.0%
Income before income taxes	(2,447)	(1,423)	(7,221)	2,297	4,801	109.0%
Net income	(1,475)	(1,620)	(10,505)	316	3,510	1010.8%
Cash and cash equivalents	19,724	9,399	13,658	15,740	14,775	(6.1)%
Total shareholders' equity	39,474	38,541	28,503	27,876	31,710	13.8%
Total assets	59,607	57,182	50,816	54,679	62,139	13.6%
Equity ratio in %	66.2	67.4	56.1	51.0	51.0	
Number of employees	357	311	334	293	381	30.0%

German Security Code Number:	522 440
ISIN:	DE0005224406
SE Code:	BSS
IPO:	June 30, 1997
Market Segment & Market Place:	Prime Standard on the Deutsche Boerse, Frankfurt, Stock Exchanges Berlin, Dusseldorf, Hamburg, Hanover, Stuttgart.
Indexes:	Prime All Share, Prime Software, CDAX, CDAX Software, Technology All Share.
Designated Sponsor:	Equinet Securities AG.
IPO Lead Managers:	Deutsche Morgan Grenfell, Goldman Sachs, Sal. Oppenheim jr & Cie.

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LETTER TO OUR SHAREHOLDERS

Dear Shareholders,

In presenting our Annual Report for 2003, we would like to inform you about what we believe to be the key highlights and accomplishments of the fiscal year just ended. Our annual report for the preceding fiscal year came under the heading of "up", and we are pleased to announce that we have succeeded in following this corporate motto in many areas of our business. The staff and Management Board of Beta Systems can be proud of what has been achieved. With an increase in revenues of over 24%, taking this figure to Euro 55.8 million, and pre-tax profits of Euro 4.8 million, the year in which we celebrated our 20th anniversary was also one in which we recorded our best performance since Beta Systems' inception. This track record is all the more impressive when one considers that it was achieved against the backdrop of continued economic malaise.

Like other players in this arena, our company was unable to extricate itself completely from the clutches of economic uncertainty. At the beginning of the year, in particular, we felt the general effects of economic weakness in the form of sluggish capital expenditure and downward pressure on prices in the IT sector. However, in the second half of fiscal 2003 the investment bottleneck that had previously developed within our customer base showed signs of gradual improvement. Inspired by more favorable business toward the end of the year, we were able to increase our license revenues by more than 35% to Euro 26.3 million. For the first time, all business units managed to contribute positive results, which provided a foundation for an increased income of approx. 4 million Euro, mainly attributable to operating activities.

Based on this performance, it gives us great pleasure to announce that, for the first time since our IPO in 1997, we are in the position to pay a dividend. At this year's General Meeting of Shareholders, we will recommend a 25 cent dividend and a 25 cent anniversary bonus per share for shareholders. This marks the beginning of a long-term dividend policy. It also represents a clear signal to the capital markets that we remain fully committed to combining value, profitability, and growth, while at the same time allowing shareholders to participate directly in Company profits.

Our share price developed favorably in the period under review, particularly in the second half of 2003. Indeed, our shares managed to achieve and sustain record levels. Registering an increase of over 60%, Beta Systems' shares were among the most successful in Germany during 2003. This success confirms that the path originally chosen was particularly opportune. It also provides us with fresh impetus when it comes to fulfilling your expectations and repaying you for the trust you have put in us.

One of the main driving forces behind this development was the successful start of our "Go Ahead Beta" program, as highlighted by the acquisition of the operating activities of Systor Security Solutions GmbH in Cologne/Germany. Our integration efforts with regard to staff, customers, and the SAM Jupiter product were executed in an extremely short period of time, in accordance with corporate planning. As a result, we were able to secure a number of large-scale orders for the deployment of SAM Jupiter at major financial enterprises in Germany and Europe. Overall, the newly introduced business unit contributed more than Euro 10 million in revenues and achieved a break-even result in fiscal 2003. We are expecting to generate above-average revenue and earnings growth in the area of Security Management in particular, and therefore this investment will continue to bear fruit in the near future.

Recent mergers and acquisitions witnessed in the European software sector suggest that the next wave of consolidation in our industry is imminent. Beta Systems intends to play an active role in this process, committed to achieving an increase in value by combining organic growth with targeted acquisitions. One of the prime objectives is to pool resources, integrate effective business models, reduce development times, and achieve cost advantages. As part of our "Go Ahead Beta" program for the coming three to five years, we have communicated to management, staff, and partners the importance of our overriding goal – to become a strategic supplier to existing customers and to emerge in the long term as the leading European systems management enterprise. In the year under review, we also took another major step forward in terms of making the transition from a supplier of products for the automation of data centers to a provider of solutions for software infrastructure and the efficient management of business-critical applications.

[Leading Ways]

Our research and development activities were and continue to be targeted at completing our portfolio by penetrating adjacent infrastructure software segments for Linux/Unix products and by interfacing our infrastructure-related products with our customers' enterprise-critical business processes. Here, too, we made considerable progress and recorded a number of accomplishments in the area of sales. In particular, we succeeded in negotiating strategic document/output management projects with all of Germany's major Sparkasse IT enterprises (i.e. those providing services for German savings banks) as well as with a number of European financial institutions. In some cases, these projects have already been implemented. Committed to delivering a high-end service, we presented customers with innovative solutions and provide them with fresh impetus in terms of creating a corporate IT infrastructure that is faster, safer, and more efficient – a system that is designed to enhance their business processes. The joint development of new standard software modules in close cooperation with our customers has presented us with considerable revenue potential, which is to be translated into tangible results by marketing the newly developed solutions to our Company's client base.

We are aware of the fact that our team of employees remains the most important key to our success. The innovatory prowess and close customer rapport enjoyed by Beta Systems are a tribute to our team's creative energy, unique expertise, and unrivalled dedication. Indeed, these values are the lifeblood of Beta Systems. And it is this which will allow us to maintain a strong culture of excellence, geared to the continuous improvement of our business processes and performance. In addition, they are the prime source of our corporate agility and flexibility when it comes to gearing our business to ever-changing requirements.

We would like to take this opportunity to outline the goals and targets we have set ourselves for the Company. In the short term, and excluding acquisitions, we forecast revenue growth of 5% to 10% for fiscal 2004, which would take this figure to over Euro 60 million, as well as an additional increase in pre-tax profits constitute a realistic forecast. Our target for the medium term to the period spanning the next three years is to achieve revenues of over Euro 150 million and a pre-tax profit margin of 10% to 15% (including acquisitions). In addition to organic growth, this will involve pursuing an approach of strategic acquisitions. Our ambitious goal also includes raising company value to TecDax standard, with the express purpose of making our shares more attractive to a broader range of investors – through increased liquidity, better positioning among German IT enterprises, and greater market awareness.

We would like to express our gratitude to the shareholders of Beta Systems Software AG, not only for your ongoing support but also for the trust you have placed in us. We would be honored if you were to support us in our efforts to execute our long-term strategy by retaining your investment in our pioneering Company. At the same time, we promise that we shall do everything in our power to ensure that your investment generates a suitable return.

Dr. Oskar von Dungern

Karl-Joachim Veigel

Ralf Männlein

CORPORATE GOVERNANCE

Introduction

In 2001 the German federal government appointed a commission to develop a German Corporate Governance Code, i.e. German standards for value-oriented and transparent corporate management and monitoring. This Code, which was introduced at the beginning of 2002, incorporates three different kinds of standards:

- Prevailing German legal provisions
- Recommendations
- Suggestions

The legal provisions are binding on German businesses. Regarding the recommendations, § 161 of the German Stock Corporation Act (Aktiengesetz, AktG) requires an annual declaration by exchange-listed companies in which each individual company states the extent to which it complies with the Corporate Governance Standard and where there are departures from it. Companies may deviate from the suggestions without declaring the fact.

The German Corporate Governance Code lays down principles applying to the following areas:

- The Supervisory Board
- The Management Board (also referred to as the "Executive Board")
- The working relationship between the Management Board and the Supervisory Board
- The relationship with shareholders and the General Meeting of Shareholders
- Rendering of accounts and annual financial statements
- Transparency

Through the binding formulation of its own corporate governance principles Beta Systems underscores its adherence to a corporate philosophy of promoting and extending cooperation and trust between itself and its customers, employees, shareholders, partners, and the public at large in the Company's national and international markets.

Beta Systems Software AG's Declaration of Conformity in accordance with §161 AktG

In the last Declaration of Conformity published on the Internet and in the Annual Report of Beta Systems Software AG for the fiscal year 2002, the Management Board and the Supervisory Board of Beta Systems Software AG declared that the Company conformed with the principles of conduct recommended in the German Corporate Governance Code, except for some minor departures from it, and would continue to do so in future. The Company did not and does not conform with the Code's recommendations in the following areas:

- Excess in D&O insurance policies: Contrary to the recommendation that liability insurance taken out by the Company for its Management Board and Supervisory Board members (so-called Directors' and Officers' (D&O) insurance) should include a reasonable excess, Beta Systems does not consider that this measure will lead to any significant improvement in the motivation or sense of responsibility of its directors and officers. The insurance policies currently taken out by Beta Systems do not include any excess, and no change in this policy is planned in future.

- Setting up an Audit Committee: In view of the current size and composition of the Supervisory Board (six persons) and also Beta Systems' corporate size, the Supervisory Board does not currently intend to set up a separate audit committee. Essentially the entire Supervisory Board deals with all questions regarding the rendering and auditing of accounts.

- Age limits for Management Board and Supervisory Board members: Beta Systems regards the stipulation of age limits for Supervisory Board members as imposing a limitation on shareholders' rights to elect Supervisory Board members of their own choice. Accordingly, the Company does not lay down any age limits in this respect. A similar departure from the Code's recommendation is that no age limit has been set for Management Board members either, as this would restrict the Supervisory Board in its selection of suitable candidates.

The German Corporate Governance Code was amended on May 21, 2003, and published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette on July 4, 2003. In the 2003 fiscal year, Beta Systems Software AG deviated from the latest version of the German Corporate Governance Code in the following points:

- Compensation of Supervisory Board: The Supervisory Board members of Beta Systems Software AG only receive compensation in the form of fixed remuneration. Membership and chairmanship of the Personnel Committee is not subject to specific compensation. Proposals aimed at amending the corporate articles in this area failed to achieve the required majority at the Annual General Meeting of Shareholders held on May 19, 2003. The Supervisory Board remains committed to introducing an appropriate variable component in the future.

- Compensation of Management Board: At present, no authorization by the General Meeting of Shareholders exists for a Management Board remuneration program that includes components with a long-term incentive effect and risk elements in the form of shares, stock options, or comparable instruments. Such instruments were last issued in 2001 as part of programs previously implemented within this area. Existing compensation models do not include limitations (cap) with regard to the variable remuneration components with a long-term incentive effect. The performance targets are based solely on the attainment of challenging absolute increases in the share price as an applicable threshold and are therefore not related to pertinent parameters of comparison. Proposals aimed at issuing stock options to the Management Board in the future, taking into account the recommendations of the German Corporate Governance Code in the version of November 7, 2002, failed to achieve the required majority at the Annual General Meeting of Shareholders held on May 19, 2003. The Supervisory Board remains committed to implementing such components with regard to the compensation of Management Board members, in accordance with the recommendations put forward as part of the German Corporate Governance Code.

- Information about the system of compensation for the Management Board on the Internet and at the Annual General Meeting of Shareholders: The Management Board and Supervisory Board of Beta Systems Software AG do not intend to publish information regarding the salient points of the compensation system for the Management Board on the Internet, as all information relating to individual compensation and components of compensation, including all stock options issued, is included and explained in the Annual Report. The Annual Report can be accessed via the Company's website and is also made available at the Annual General Meeting of Shareholders. It also contains calculations regarding the value of stock options already issued to senior managers. Therefore, the Supervisory Board of Beta Systems Software AG does not intend to furnish specific information at the Annual General Meeting of Shareholders via the Chairman of the Supervisory Board, as shareholders are entitled to put forward questions and receive pertinent answers with regard to the compensation system at the Annual General Meeting.

With the exception of the above-mentioned deviations, in the 2003 fiscal year Beta Systems Software AG conformed entirely with the recommendations of the German Corporate Governance in the version of May 21, 2003.

Berlin, November 12, 2003

Harald J. Joos
Chairman of the Supervisory Board

Karl-Joachim Veigel
CEO

INVESTOR RELATIONS

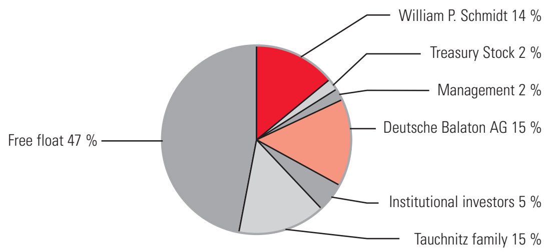
As in the past Beta Systems continued also in the fiscal year 2003 to communicate in an open, prompt and transparent way with institutional as well as private shareholders, financial analysts and the financial media. Based on the continuous dialog with potential and existing investors we aligned ourselves with the changing information requirements of the financial community and aimed our investor relations activities mainly at direct communication with these target groups. Within our communication efforts we placed emphasis on explaining the "Go Ahead Beta" program in numerous roadshow presentations and one-on-one-meetings and interviews with decision makers at the main European financial centers in Germany, Switzerland and the United Kingdom. In this process we aimed at positioning Beta Systems' share as an attractive long-term investment opportunity, as the management of the Company is oriented towards long-term ambitious goals and visions. In all our contacts and meetings we have consistently pointed out Beta Sytems' high quality stable customer relationships to the major "blue chip" companies in the world. Particularly in the second half of 2003 the development of the Beta Systems share was significantly positive. Compared with the most important sector- and stock market indices the share reached new long-term peak levels.

Beta Systems' Investor Calendar 2004

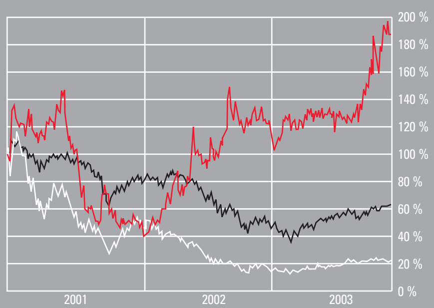
March 19, 2004
Announcement of annual results 2003
Analyst and investor conference call
Press conference in Berlin
May/June 2004
Analyst/Investor's conference and investor roadshow Germany, Switzerland, UK
May 7, 2004
Publication of the report on the first quarter 2004
Analyst and investor conference call
May 13, 2004
Annual General Meeting of shareholders
at the Ludwig-Erhard-Haus, Fasanenstraße 85, D-10623 Berlin, Germany
August 6, 2004
Publication of the report on the second quarter 2004
Analyst and investor conference call
November 8, 2004
Publication of the report on the third quarter 2004
Analyst and investor conference call
Oktober/November 2004
Analyst/Investor's conference and investor roadshow Germany, Switzerland, UK
March 21, 2005
Announcement of annual results 2004
Press conference in Berlin
Analyst and investor conference call

Key figures on Beta Systems Stock

In Euro	2003
Earnings per share	0.89
Highest price	10.50
Lowest price	5.35
Share price on Dec. 30, 2003	10.50
Number of shares	4,020,710
Share capital	10,278,782
Market cap. on Dec. 30, 2003	42,217,455



Contact
Arne Bassler, Investor Relations
Tel. ++49 (0)30 726 118 170
Fax. ++49 (0)30 726 118 881
Email. ir@betasystems.com



Long Term Chart
Beta Systems Stock Price over 3 years

Indexed Performance
of Beta Systems' shares (red)
2001 to 2003 in comparison to
TecDax Performance Index (white)
and German All Share Index DAX (black)

CORPORATE PROFILE

As one of the market leaders in the Infrastructure Software sector, we offer an extensive range of intelligent solutions for integrated systems management. Encompassing more than twenty high-performance software applications for z/OS, Unix, Linux, and Windows environments, our cutting-edge product offering ensures optimized processes throughout the business-critical IT infrastructures used by large corporations, IT service providers, and SMEs.

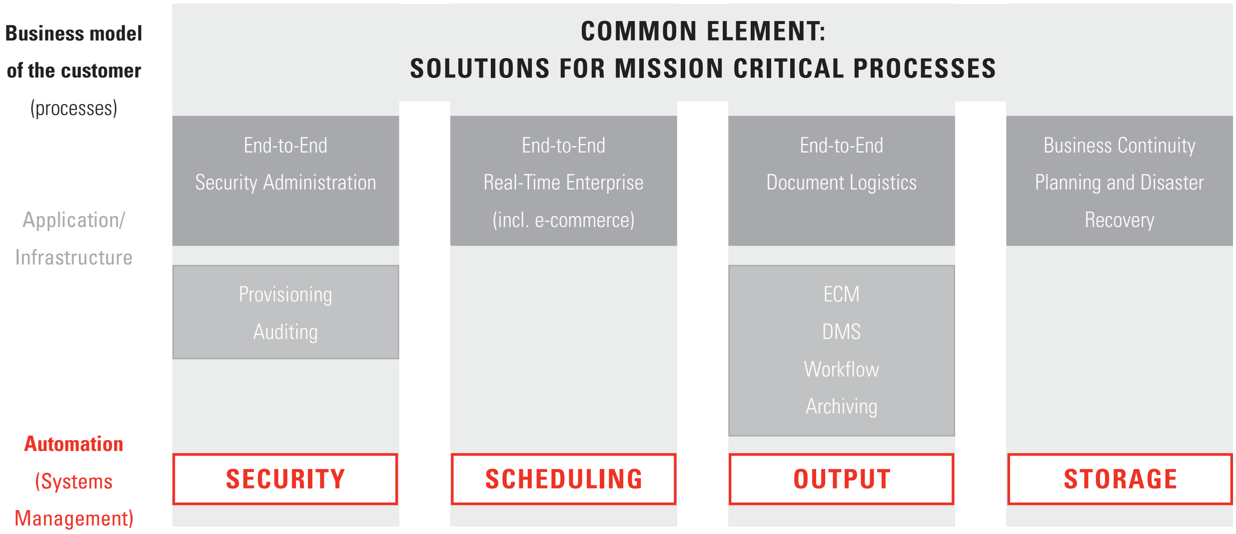
Over the past twenty years, our clients have become accustomed to the high-end performance and reliability of our software products. Having established a strong commercial presence in over 41 countries, we are committed to developing optimized business processes for more than 1,000 customers worldwide.

Our infrastructure software is deployed primarily in the area of output, security, document, and storage management, as well as in job scheduling. The common goal pursued by all products in the Beta Systems portfolio is to optimize business-critical IT processes. Our company has become synonymous with high-quality software solutions, complemented by out-and-out service- and customer-orientation. Committed to excellence, our service offering includes consulting, product implementation, customizing, migration, conversion, and product-related training. Our products and solutions are developed and marketed by three independent, highly flexible “companies within a company” – the Data Center, Document, and Storage Management business units.

Deploying state-of-the-art standard components, we deliver sector-specific, future-proof solutions tailored to the individual requirements and technological resources of our customers. Our prime objective is to achieve superior connectivity throughout the full range of systems and platforms. In pursuing this strategy, we are able to ensure enterprise-wide availability of business information, flexible administration of access rights, permanent accessibility of data, and transparent management of computer processes.

Drawing on many years of experience, complemented by outstanding technological prowess and a pioneering spirit, we are recognized as a powerful player in the IT management arena – committed to shaping the future in our field of expertise. Our solutions are designed to streamline information processing, creating a solid foundation for effective knowledge management and collaborative business.

By focusing on our core competence as a results-oriented powerhouse, we are in a position to implement comprehensive end-to-end solutions. As a result, we have emerged as an important strategic partner and supplier to our customers. Equipped with a highly efficient value chain, we are also committed to developing our products in a future-oriented manner and expanding our solutions-based portfolio in line with customer requirements. Supported by this incisive game plan, we shall further enhance Beta Systems’ position in the global arena and maintain the Company’s forward momentum in a fast-track environment.



Our Target Portfolio: Connecting the Systems Level with Customers’ Business Critical Processes

current portfolio | focus of development/acquisitions | future portfolio

[Channeling Energies]

HIGHLIGHT: BETA SYSTEMS' COMPETITIVE EDGE IN SECURITY MANAGEMENT

Go Ahead Beta with Security Management

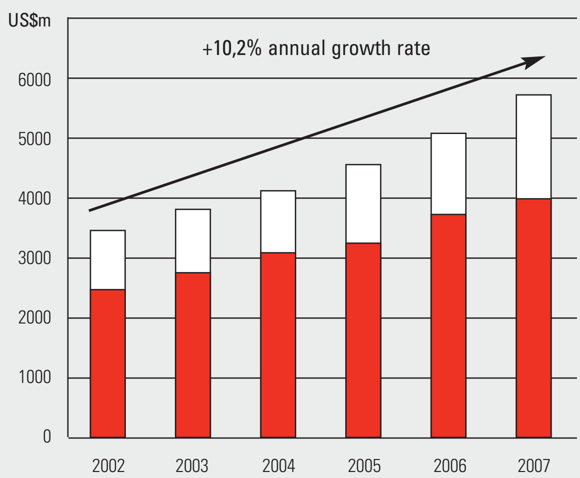
Having acquired SAM Jupiter, Beta Systems significantly extended its product portfolio in the field of security management in the fiscal year 2003. This incisive move marked the introduction of the "Go Ahead Beta" program, which is designed to enhance Beta Systems' overall position by means of targeted acquisitions, creating added value for customers, staff, and shareholders alike.

Further strengthened by SAM Jupiter, Beta Systems has evolved from a highly specialized niche player in the field of RACF/Security Auditing for a mainframe environment into a major supplier of comprehensive solutions in the high-growth sector of security management. In addition, the Company's position as a supplier of cutting-edge infrastructure software was further extended in the year under review.

Market Environment

Identity management is one of the key issues in the area of security management. It covers the full range of technology deployed to support administration, authentication, and access right management for users of digital systems. Nowadays, corporate IT is generally seen as a "service provider", while budgets for information technology are having to contend with substantial cutbacks. Against this backdrop, identity management solutions deployed in the area of automated user administration are rapidly becoming a high-growth business.

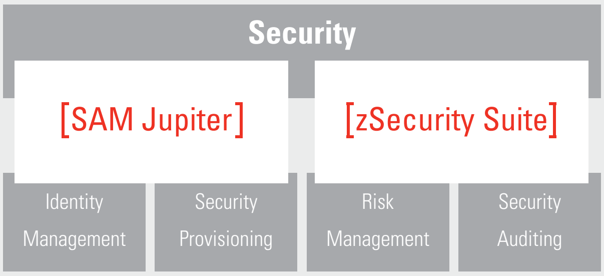
Market Forecast for Security Software

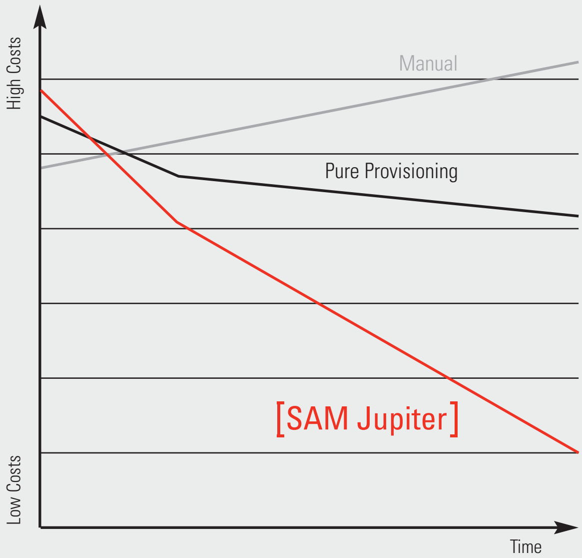


Source: Gartner Dataquest 2003

Security Infrastructure Software   Security Administration Software

[Providing Security]





According to leading market analysts, the identity management market is considered to be extremely buoyant, with annual growth rates of between 10 and 15 percent. It is generally believed that market structures and product standards will become more evident over the coming years. At present, there are no all-embracing solutions capable of offering the full range of functionalities. One of the major disadvantages of the stand-alone solutions currently provided, is that they require extremely complex and time-consuming integration work. Therefore, customers are currently focusing on the core areas of identity management and selecting a leading supplier in the respective fields. By adopting this approach, they are able to take advantage of the best possible functionality, while at the same time avoiding issues relating to integration.

As a core area of identity management, user provisioning has registered an upward trend in terms of capital expenditure. It is designed to ensure the automated allocation of user accounts and access privileges for all relevant IT systems. It includes password management, a feature which allows users to administer their passwords more efficiently and thus reduces the workload of helpdesk staff. User provisioning and password management constitute a source of significant potential when it comes to streamlining companies' security administration activities. Initial investments in this area are recouped over an extremely short period of time, particularly due to the fact that cost reductions can usually be achieved at an early stage.

Beta Systems is thus presented with solid revenue potential despite budget cutbacks on the part of customers. Supported by the modular structure of SAM Jupiter, Beta Systems is able to address not only the issue of user provisioning but also that of password management. As a result, the Company has advanced to become one of the premier players in this segment.

Identity Management with SAM Jupiter

SAM Jupiter is a highly innovative system featuring the automated administration of user accounts and access privileges. Over 90 percent of security administration tasks can be automated thanks to the system's cutting-edge functionality in the area of provisioning, workflow, and role-based access right management. This ensures that users are always allocated their respective access rights in line with specified tasks and functions. This fully scalable and highly flexible solution even delivers high-end performance when more than 100,000 user accounts are administered simultaneously. It supports RACF, Windows and Unix security systems as well as solutions deployed by ERP systems and databases.

Case Study: On average, each member of staff within a major German banking group comprising 40,000 employees uses four systems. Team Member A is responsible for performing the duties of Team Member B when the latter is on a three-week vacation. Team Member B's access rights have to be compiled, and access privileges for Team Member A have to be installed accordingly; they have to be deleted again after the vacation period.

Until recently, this procedure required approx. 200 minutes of input from administrators and specialist staff. In addition, Team Member A had to wait for three days before he/she received the relevant access rights, and subsequent to the vacation there were potential security loopholes due to non-deletion of access privileges.

Thanks to SAM Jupiter, all tasks are performed automatically via user provisioning. Annual administration costs can be reduced substantially – by several million dollars – in a very short period of time.

Conclusion

Beta Systems integrated a sophisticated high-end product with a proven track record and outstanding customer value into its own portfolio of leading-edge solutions – at an attractive purchase price and with manageable risk. SAM was well established within the industry: at the time of purchase, more than 40 large-scale enterprises from a diverse range of sectors in Germany, Europe, and the US were already using this solution.

By utilizing the broad customer base of Beta Systems, an approach first introduced in 2003, and by marketing the product offering via a global distribution network, the Company has created a substantial revenue potential for the future. With the support of a highly motivated and qualified development team at the newly integrated location in Cologne/Germany, Beta Systems has succeeded in establishing an additional unit committed to innovation and excellence. As a direct result, development times for proprietary solutions will be reduced by a substantial margin.

The acquisition of SAM Jupiter was of immense strategic importance to Beta Systems and represents a milestone in its corporate history. Beta Systems has the opportunity of emerging as one of the leading suppliers of security management solutions for large-scale.

GROUP MANAGEMENT REPORT FOR THE FISCAL YEAR 2003

1. STRATEGIC PRINCIPLES

In the medium to long term, Beta Systems Software AG (Beta Systems) is committed to becoming a leading European enterprise for End-to-End solutions in the area of systems management for major corporations and IT service providers, drawing on its twenty years of experience gained in the high-performance management of large data volumes in a mainframe environment. The Company's product portfolio is geared toward creating software infrastructure that is fully aligned with customers' business processes, the main focus being on Data Center Management/Scheduling, Document/Output Management, Security Management, and Storage Management. As a Full-Service enterprise, Beta Systems offers solutions that include products, consulting, professional services, support, and maintenance. The Company's main objective is to operate profitably in a sustainable manner, while at the same time increasing value for investors, customers and employees alike.

2. ECONOMIC ENVIRONMENT

The year under review was dominated by receding economic growth in Germany, which was compounded by significant political volatility associated with the Iraq conflict. The general downturn in investment spending experienced during 2002 was carried forward into the first two quarters of the fiscal year 2003. The Euro/Dollar exchange rate also played a prominent role in this year. Despite the positive development of sales in the US, the strengthening of the Euro had an adverse effect on consolidated revenue performance in North America. Without this effect, revenue growth in this sales region would have been considerably higher.

On a more positive note, Beta Systems' business activities benefited from the trend toward outsourcing entire IT-segments as well as consolidation efforts within the external services sector (e.g. in the German financial sector). In parallel, there was a noticeable trend among customers to reduce the number of service providers per data center. Supported by its in-depth knowledge of customer processes and individual system environments, the Company was able to react to changing market requirements by deploying its comprehensive range of project-related packages. A number of projects were secured on the basis of superior problem-solving skills, complemented by rapid amortization of initial client investments and Beta Systems' targeted support provided as part of the implementation of new statutory or enterprise-specific standards. In the year under review, the Company was exposed to persistent pressure in its immediate competitive environment, prompting considerable price-related pressures in all negotiations with clients.

Simultaneously, demand for Systems-Management-Solutions grew as a direct result of rapid technological advance, increased information and data volumes, and higher transaction speeds. Management's assumptions that Unix and Linux would achieve a more prominent position as a platform for data centers – alongside the mainframe, but also as an operating system on the mainframe – were confirmed during the year.

Based on a thorough analysis of the Company's sales markets, the management of Beta Systems forecasts market growth of between 5% and 10% per annum in the coming years. In particular, the Security and Storage Management segments are expected to experience significant growth, while market volumes for Data Center Management/Scheduling and Document/Output Management are likely to increase only moderately. Revenues from the mainframe market are attributable chiefly to maintenance, expansion and replacement investments, as well as substitution of third-party installations. This segment of the market is considered to be stagnant. Growth in the Unix/Linux environment is estimated to be up to 15% per annum, with Europe and the US expected to be take the lead in this respect.

3. BUSINESS REVIEW

3.1. Business Units and Products

With revenues of Euro 55.8 million (2002: Euro 45.1 million) and income before tax of Euro 4.8 million (2002: Euro 2.3 million), Beta Systems achieved the best performance in its corporate history in 2003. From the fourth quarter of the year onward, a total of four business units are reported on in the Company's business review. This decision was adopted in order to enhance corporate transparency, following the successful integration of the Security Administration Manager (SAM) product line acquired in early 2003. In addition it underlines the significance accorded to this unit within the organizational structure. The new business segment comprises the Beta 88 z/Security Suite and the entire SAM product line.

Following the acquisition of SAM and the extension of the segment reporting to include the business unit Security Management, several changes were implemented to the cost center and cost allocation structure of Beta Systems' business units during the year. As a result, there was a non-recurring effect relating to the allocation of selling and administration overhead not directly attributable to the business units. The decline in income recorded by Data Center Management and Document/Output Management mainly resulted

[Guiding Powers]

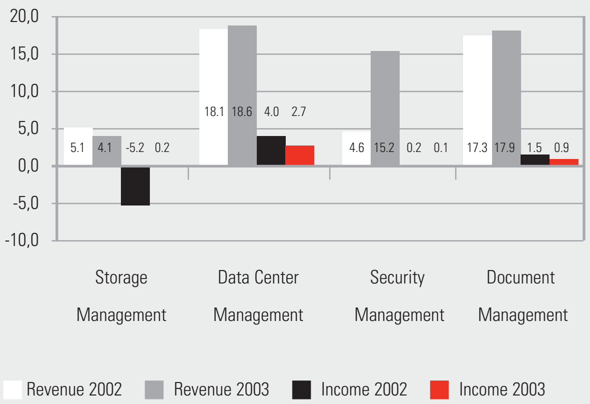
from increased cost allocations to these units due to the circumstance that an allocation to the new Security Management unit was not possible or appropriately justified until later in the year, after the completion of the integration of SAM. Before allocation of this overhead all business units recorded increased contribution margins. For the first time, all segments performed profitably.

Storage Management

The Storage Management segment achieved revenues of Euro 4.1 million (2002: Euro 5.1 million) in the fiscal year 2003. As a large proportion of this revenue was generated in North America, this segment was particularly vulnerable to the effects of the stronger Euro/Dollar exchange rate. This factor contributed to a decline in revenues in this segment. Benefiting however from restructuring measures introduced towards the end of 2002 and an overall leaner organizational structure in the USA, the segment was able to record its first profitable fiscal year with net segment income of Euro 0.2 million (2002: a loss of Euro 5.2 million), confirming the incisive approach taken by management. A substantial proportion of resources invested in the area of

In million Euro Geschäftseinheit	Revenue 2002	2003	2003 vs. 2002	Income of Business Units Income 2002	Income 2003	2003 vs. 2002
Storage Management	5.1	4.1	-19.1%	-5.2	0.2	102.9%
Data Center Management	18.1	18.6	2.9%	4.0	2.7	-32.8%
Security Management	4.6	15.2	230.9%	0.2	0.1	-22.2%
Document Management	17.3	17.9	3.0 %	1.5	0.9	-42.1%
Total	**45.1**	**55.8**	**23.7 %**	**0.5**	**3.9**	**721.5%**

Revenue development and income of business units (in million Euro)



Storage Management was directed at the extension and optimization of existing customer installations. In line with this approach, next-generation versions of Network Storage Manager (NSM) and Highspeed File Transfer (HFT) were developed during the year, with the main focus on hardware encryption and SSL support, as well as the supply of updated Clients.

Numerous license upgrades for NSM and HFT on the basis of existing customer installations were the key milestone of the sales activities. In particular, noticeable system upgrade revenue was recorded in connection with new Clients and customized solutions deployed for existing customers in North America.

Data Center Management

The Data Center Management segment, with its focus on the area of Scheduling, generated revenues of Euro 18.6 million (2002: Euro 18.1 million) and segment income of Euro 2.7 million (2002: Euro 4.0 million) in the fiscal year under review.

The key accomplishments in the area of Data Center Management/ Scheduling included license- and license upgrade agreements with VW, as well as a number of significant license upgrade sales to major Sparkasse IT-organizations for Beta 48 and Beta 92.

In 2003, software development activities in this segment were focused on the release of new Beta 48 and Beta 92 versions viz. modules, and included a number of extended versions or modules with enhanced functionality tailored to the requirements of specific customers. Improved connectivity and job monitoring of SAP- and Business-Warehouse-Systems as well as Windows- and Unix-systems formed an essential part of this segment's software engineering work. Another key issue centered around the development of a state-of-the-art JAVA-based user interface featuring uniform design and group-wide accessibility.

Security Management

The Security Management segment recorded revenues of Euro 15.2 million (2002: Euro 4.6 million) and segment income of Euro 0.1 million (2002: Euro 0.2 million). The increase in revenues was attributable chiefly to the acquisition of the SAM product line in February 2003.

Activities in the newly established Security Management segment were mainly focused on integrating the range of SAM products into the existing Beta Systems portfolio. This included targeted marketing activities designed to enhance brand awareness of SAM, particularly in Europe, as well as the transfer of SAM-related sales expertise and knowledge across all existing Beta Systems operating units. Development work in the Security Management segment centered around completing, adapting, and extending new SAM Jupiter versions to include new customer requirements and enhanced functionality. This was complemented by the development of an Open Systems version of SAM Jupiter. Investments in the Security Management segment included the recruitment of about ten additional employees in the software development area and the purchase of a high-performance z/OS mainframe computer aimed at significantly enhancing development activities and reducing Time-to-Market-periods.

Sales activities included agreements signed with several large German and European Financial Services enterprises, including Commerzbank and Hypovereinsbank as well as a major Swiss financial institution, all opting in favor of the next-generation Identity-Management and Provisioning-Software solution developed by Beta Systems, rather than for applications marketed by other competitors, by migrating from SAM 2.4 to SAM Jupiter. Implementation of these SAM Jupiter migration projects will result in the providing of state-of-the-art Security Management in the core applications and systems deployed throughout these institutions.

In the USA the Company succeeded in negotiating its first SAM Jupiter agreement with the Federal Deposit Insurance Corporation (FDIC) in partnership with Maximus, Inc., a renowned provider of a wide range of services to the US government. As part of an outsourcing agreement, the FDIC – in association with Maximus – will employ SAM Jupiter as the basis of its Security Management. The contract can be seen as a solid foundation for additional orders from the US government and its financial services sectors. By merging the full range of sales activities for SAM with the existing local Beta Systems sales organization in the USA, the Company was able to strengthen its position in the North American software market and create additional market potential. This was achieved against the continued economic difficulties.

Beta 88 z/Security Suite enjoyed particular success in the year, having been purchased by a major French-based insurance group and the Swiss IT-Service-Provider Abraxas. Outstanding functionality and superior user-friendliness gave Beta Systems' solutions the competitive edge over the rival products.

Document/Output Management

The Document/Output Management segment recorded revenues of Euro 17.9 million (2002: Euro 17.3 million) and segment income of Euro 0.9 million (2002: Euro 1.5 million) in 2003.

Sales efforts in this segment proved particularly successful in the German financial sector. In the year under review, the Document/Output Management unit managed to secure the most extensive Open Systems project to date. Having negotiated an agreement with a Sparkasse IT-Service enterprise located in the South of Germany. It also succeeded in concluding "GDPdU" projects (Grundsätze zum Datenzugriff und zur Prüfbarkeit digitaler Unterlagen, i.e. legal requirements pertaining to data access and the auditing of digitally stored data) with two other major Sparkasse IT-Service providers. These projects are aimed at implementing the requirements of recently adopted German legislation governing tax audits within IT systems deployed by enterprises.

The Document/Output Management unit developed a number of new functions and modules during the year. Beta Web Enabler, for example, is the first standard user interface introduced for the full range of modules in the VIDiDOC Suite. This solution facilitates integration into users' Intranet and Internet environments. With the help of Beta 99 Web Application Builder, included in the VIDiDOC Suite, all job processes in a Web-based environment can now also be captured electronically. Beta 93 Document represents another new development in this segment. This solution provides users with targeted access to specific data contained in archived list documents. This data is then "recycled" and made available in an electronic format to downstream business processes. This specific product was applied, in particular, as part of the GDPdU projects. Unix/Linux development activities were also contiuously ongoing. Here, the Beta 93 UX module was equipped with an additional archive component.

In partnership with the Software Enterprise Group1, Beta Systems extended its Output Management portfolio by including formatting software and a standardized interface to support the long-term archives developed by IBM and EMC.

3.2. Acquisitions

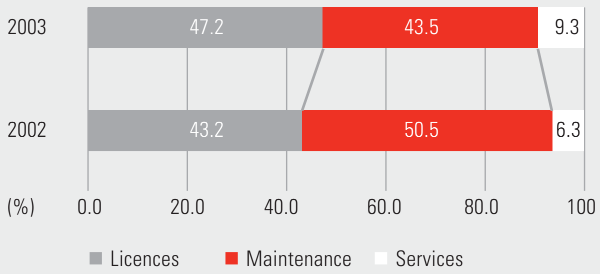
Effective from February 10, 2003, Beta Systems acquired the operating business of Cologne-based Systor Security Solutions GmbH (SSSG), a subsidiary of the insolvent Swiss company Systor AG, Zürich. The transaction was executed in the form of an Asset Deal. The agreement covers the transfer of all product rights associated with the SAM product range, as well as the complete customer and service agreements. In addition, a team of about 80 employees working in development, service and sales was taken over by the Company. SAM is deployed by a number of large corporations in Germany, Europe and North America.

Alongside its existing Beta 88 z/Security product portfolio used in mainframe environments, Beta Systems now has access to a Security-Management-System for company-wide deployment across various platforms. The aim behind the acquisition was to enhance the Company's competitive position as a major European supplier of Infrastructure-Software within Europe's high-growth Security- Management sector.

In the fiscal year 2003, the new SAM product line contributed sales revenues of Euro 10.3 million. This amount included license revenues of Euro 4.6 million. In total, operating expenses in this area were covered by the sales revenues realized. In addition, non-recurring integration costs accounted for a resulting income in the amount of Euro 0.3 million.

Payments effected in terms of the acquisition amounted to Euro 2.2 million. This comprised Euro 1.5 million in respect of the purchase price allocation and Euro 0.2 million for additional costs associated with the acquisition. The purchase agreement also included severance payments of Euro 0.5 million for employees not taken over as part of the acquisition.

Revenue structure according to revenue type



Revenue in million Euro	2002	2003	2003 vs. 2002	2003 vs. 2002
Licences	19.5	26.3	6.8	35.2%
Maintenance	22.8	24.3	1.5	6.5%
Services	2.8	5.2	2.4	83.1%
Total	**45.1**	**55.8**	**10.7**	**23.7%**

In accounting for the acquired assets of SSSG, Euro 1.4 million were allocated to capitalized software development costs for SAM while goodwill amounting to Euro 1.4 million was capitalized. The SSSG assets acquired also included a 100% shareholding in Systor Security Solutions Inc., Washington D.C. (SSSI).

3.3. Partnerships

The sales-, technology-, and development partnerships established in the past by Beta Systems with leading hardware and software vendors (e.g. IBM, SAP, HP, Hitachi) were maintained and further extended.

3.4. Changes to the Group Structure

Effective from November 1, 2003, Tantia Technologies Inc., Boulder, Colorado, USA (Tantia USA) and Systor Security Solutions Inc., Washington D.C., USA (SSSI) were merged with Beta Systems Software of North America Inc., Peachtree City, Georgia, USA (Beta USA).

Simultaneously, Tantia Technologies Canada Inc., Calgary, Canada was renamed Beta Systems Software of Canada Inc. (Beta Canada). In consequence of the above merger, Beta Canada is now as a subsidiary of Beta USA.

Beta Systems Software Pty Ltd., Sydney, Australia was closed on November 21, 2003, and liquidated.

4. FINANCIAL PERFORMANCE, FINANCIAL POSITION, AND CASH FLOWS

4.1. Financial Performance

The Group recorded a net income of Euro 3.5 million in the fiscal year 2003 (2002: Euro 0.3 million). Operating income increased by Euro 3.7 million to Euro 3.8 million in the year. Earnings performance resulted mainly from revenue growth of Beta products resulting from continued consolidation among IT-Enterprises in the banking and insurance sectors, and the successful restructuring of the Storage Management segment in the previous year.

Development of Revenue

Beta Systems recorded total revenues of Euro 55.8 million in fiscal 2003. This corresponds to a year-on-year increase of Euro 10.7 million or 23.7%.

Revenues generated by the Group comprise license, maintenance, and professional services revenue. In turn, Group license revenues comprise income from new license sales and license upgrades (CPU upgrades and Version upgrades).

The increase in license revenues of Euro 6.8 million was attributable principally to significant growth in new license sales of 85.8% to Euro 17.8 million (2002: Euro 9.6 million). Accounting for Euro 8.5 million, the second component of license revenue – license upgrades – recorded a slight year-on-year decline (2002: Euro 9.9 million).

Revenue increases achieved in the area of maintenance were due to the takeover of maintenance agreements for the SAM product line, and steady growth of Beta Systems' installation base. Additionally, this area benefited from a low number of contract terminations of existing maintenance and service agreements, as well as from the conclusion of new maintenance agreements, which also covered the 7/24 service for remote-access administration of customer installations by Beta Systems. These positive factors were partially offset by the adverse effects of maintenance invoicing in Dollars, a direct result of the unfavorable Euro/Dollar exchange rate during 2003.

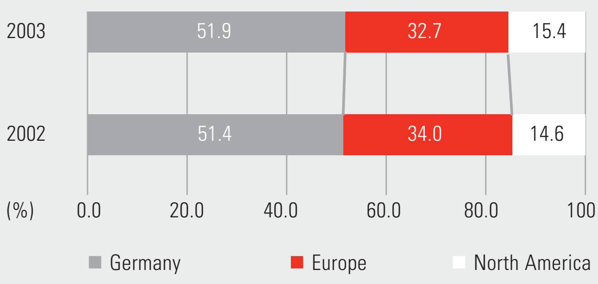
At Euro 5.2 million, revenues from professional services (i.e. training and consulting) increased by 83.1% compared with the previous year (2002: Euro 2.8 million). Growth in this area was mainly attributable to solutions-oriented business operations acquired together with the SAM product line.

All sales regions contributed to the positive development of revenues in the year under review.

The relatively high level of revenues achieved in Germany was mainly the result of new license revenues generated as part of several large-scale contracts with IT-Service Enterprises and data centers operating in the financial sector. Beta Systems succeeded in negotiating a number of license and license upgrade agreements toward the end of the year, which is traditionally considered to be a particularly buoyant period in terms of sales.

Revenue in million Euro	2002	2003	2003 vs. 2002	2003 vs. 2002
Germany	23.2	28.9	5.7	24.9%
Europe	15.3	18.3	3.0	19.0%
North America	6.6	8.6	2.0	30.4%
Total	**45.1**	**55.8**	**10.7**	**23.7%**

Revenue structure according to regions



In North America, Beta Systems recorded a revenue increase of 30.4%. On the one hand, growth was the direct result of increased sales activities in Atlanta; revenues from the Storage Management product line developed by Tantia Technologies exceeded the Company's initial targets. On the other hand, the acquisition of SSSI provided substantial forward momentum in North America. Without the negative effects of foreign exchange rates already decribed, revenue growth in North America would have been considerably higher.

On the whole, revenues developed in line with management expectations. Given the general economic climate, this performance was considered to be satisfactory. Whereas the German direct sales organization developed in accordance with specified targets, the subsidiaries in Spain and the United Kingdom fell short of expectations. In contrast, the sales units in France, Italy and the Benelux countries succeeded in meeting and even exceeding their revenue-, and in particular, their earnings targets.

Cost of Goods Sold and Gross Profit

In the case of licenses, the cost of goods sold mainly include amortization of capitalized software development costs and royalties paid relating to third-party products. In 2003 the cost of goods sold in respect of licenses increased by Euro 0.6 million to Euro 2.5 million, compared with Euro 1.9 million in 2002. This year-on-year increase is attributable to royalties due for third-party licenses associated with SAM solutions-specific business.

The cost of goods sold relating to maintenance mainly comprises personnel expenses for hotline and support activities, as well as the maintenance-specific proportion of development costs. The cost of goods sold relating to maintenance increased from Euro 5.5 million in fiscal 2002 to Euro 7.1 million in the fiscal year 2003. The increase is mainly due to higher maintenance-related costs for the SAM product hotline.

The cost of goods sold relating to services includes the complete range of personnel expenses associated with consulting and training, as well as expenses for freelance staff deployed in this area. The cost of goods sold relating to service increased by Euro 3.1 million to Euro 5.7 million compared with the previous year. The increase was attributable to the takeover of SSSG service personnel, whose main area of responsibility is to provide consulting services for solutions-related business activities.

Based on higher license revenues, the gross margin on sales increased by 15.3% to Euro 40.6 million in fiscal 2003, compared with Euro 35.2 million in the previous fiscal year. The Company's gross profit margin declined to 72.7% in fiscal 2003, from 78.0% in fiscal 2002. This was attributable chiefly to an increase in the cost of sales for licenses and maintenance. Royalties paid to third-party manufacturers of software integrated into SAM product solutions contributed to the above-mentioned increase.

The Services unit posted a negative contribution to gross profit of minus Euro 0.5 million. This was due to low capacity utilization of service staff for SAM project business, a situation which improved over the course of the year. Capacity utilization had been adversely affected by previous insolvency proceedings and the lack of customer orders resulting from this situation.

Selling Expenses

Selling expenses primarily consisted of personnel expenses, including commissions and marketing costs in support of the sales activities of products marketed by Beta Systems.

Selling expenses increased by Euro 1.2 million, from Euro 17.2 million in fiscal 2002 to Euro 18.4 million in fiscal 2003. This represents a year-on-year increase of 6.8%. The increase is due to the takeover of SSSG sales staff. As a percentage of total revenues, selling expenses decreased from 38.1% in fiscal 2002 to 32.9% in fiscal 2003.

General and Administrative Expenses

General and administrative expenses were mainly made up of personnel expense attributable to Group management, as well as expenses relating to financial activities, administration, investor relations, and consulting services. Resources were utilized to further develop an efficient information infrastructure throughout the Group, in particular with regard to the integrated deployment of an efficient SAP infrastructure.

General and administrative expenses decreased by Euro 0.4 million, from Euro 9.6 million in fiscal 2002 to Euro 9.2 million in the year under review. As a percentage of revenues, general and administrative expenses declined to 16.5% in fiscal 2003, following a ratio of 21.3% in fiscal 2002 that was attributable to a substantial proportion of fixed costs.

Research and Development Costs

Research and development costs primarily consisted of staff-related expenses associated with the development of new products and product modules, the upgrade of existing products in accordance with customer and market requirements, as well as improvements in line with technological progress, quality assurance, and the creation of technical documentation.

Research and development costs increased by 17.2%, from Euro 7.7 million in fiscal 2002 to Euro 9.1 million in 2003. The increase resulted from the integration of SAM development activities in Cologne.

Research and development costs accounted for 16.2% of revenues in fiscal 2003 (2002: 17.1%).

Operating Income

In the period under review, operating expenses including cost of goods sold, increased by Euro 7.0 million or 15.5%, compared with the previous year. Operating expenses amounted to Euro 52.0 million in fiscal 2003 (2002: Euro 45.0 million). Beta Systems recorded operating income of Euro 3.8 million in fiscal 2003, compared with operating income of Euro 0.1 million in 2002. This increase is the result of successful restructuring measures in the Storage Management unit and strict cost management directly aligned with revenue performance.

Interest Income and Other Income

Interest income generated by the Group amounted to Euro 0.3 million in the fiscal year 2003. This performance was due to lower interest rates, in conjunction with a slight decrease in the average level of cash and cash equivalents compared with the preceding fiscal year. Other income generated by the Group in the fiscal year 2003 was Euro 0.7 million, compared with a figure of Euro 1.5 million posted in 2002. Other income primarily consisted of income from the sale of the Workload product line to Allen Systems Group in the fiscal year 2000. Other expenses mainly included losses on foreign currency translations.

Income before Tax and Income Tax

Earnings before tax (EBT) increased by Euro 2.5 million to Euro 4.8 million in the fiscal year 2003, compared with earnings before tax of Euro 2.3 million in the preceding fiscal year. The pre-tax return increased from 5.1% in the fiscal year 2002 to 8.6% in fiscal 2003.

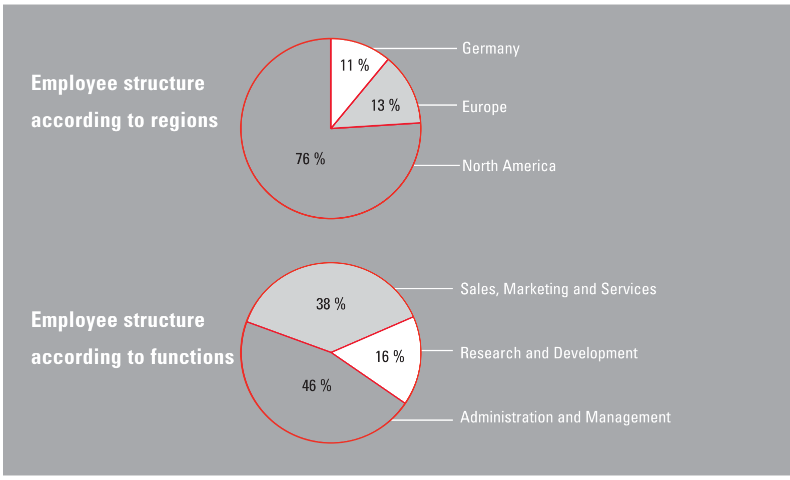
In the fiscal year 2003, Beta Systems recorded tax expenses of Euro 1.3 million (2002: Euro 2.0 million). A reversal of deferred tax liabilities led to a reduction of the Group's total tax expenses. Based on Euro 4.8 million in income before tax, the resulting tax rate is 26.9%.

Net Income

The Group recorded a net income of Euro 3.5 million in fiscal 2003, compared with Euro 0.3 million in the preceding fiscal year. This corresponds to earnings per share of Euro 0.89 (2002: Euro 0.08 per share).

Human Resources

Due to the takeover of the development and sales activities for the SAM product line, the number of employees within the Group increased from 293 in 2002 to 381 in the year under review. In total, 289 were located in Germany, 51 in the European sales units, and 41 in North America. Around 38% of staff are employed in sales, marketing, and services; 46% work in research, development, and quality control; 16% are employed in management and administration.



4.2. Financial Position and Cash Flows

Total assets increased from Euro 54.7 million to Euro 62.1 million in 2003. Shareholders' equity remained unchanged at 51.0% of the balance sheet total (2002: 51.0%). The increase in total assets was mainly attributable to the takeover of the operative business of SSSG.

At December 31, 2003, the Company held cash and cash equivalents of Euro 14.8 million (2002: Euro 15.7 million).The decrease in cash and cash equivalents is attributable mainly to the acquisition executed at the beginning of the year. As part of the integration of the SAM product line, alongside purchase-related cash expenses amounting to Euro 2.2 million, the Company required additional working capital of Euro 2.5 million to bridge the gap created by fewer orders – connected with insolvency proceedings – in the first three quarters of 2003. The Company recorded significant orders for SAM during 2003, however, there will be a certain time-lag before positive cash flow can be generated. This is due to the fact that customer payments for the range of services negotiated in connection with consulting, customizing, integration, and implementation will be received over the course of the contractual period, particularly those related to Service activities. Cash flow from operating activities amounted to Euro 1.0 million in fiscal 2003, compared with Euro 6.3 million in 2002.

Due to the high level of revenues, particularly toward the end of the year, accounts receivable increased to Euro 26.1 million as of December 31, 2003 (2002: Euro 11.8 million) is due to invoicing in 2003 for maintenance services to be carried out in 2004.

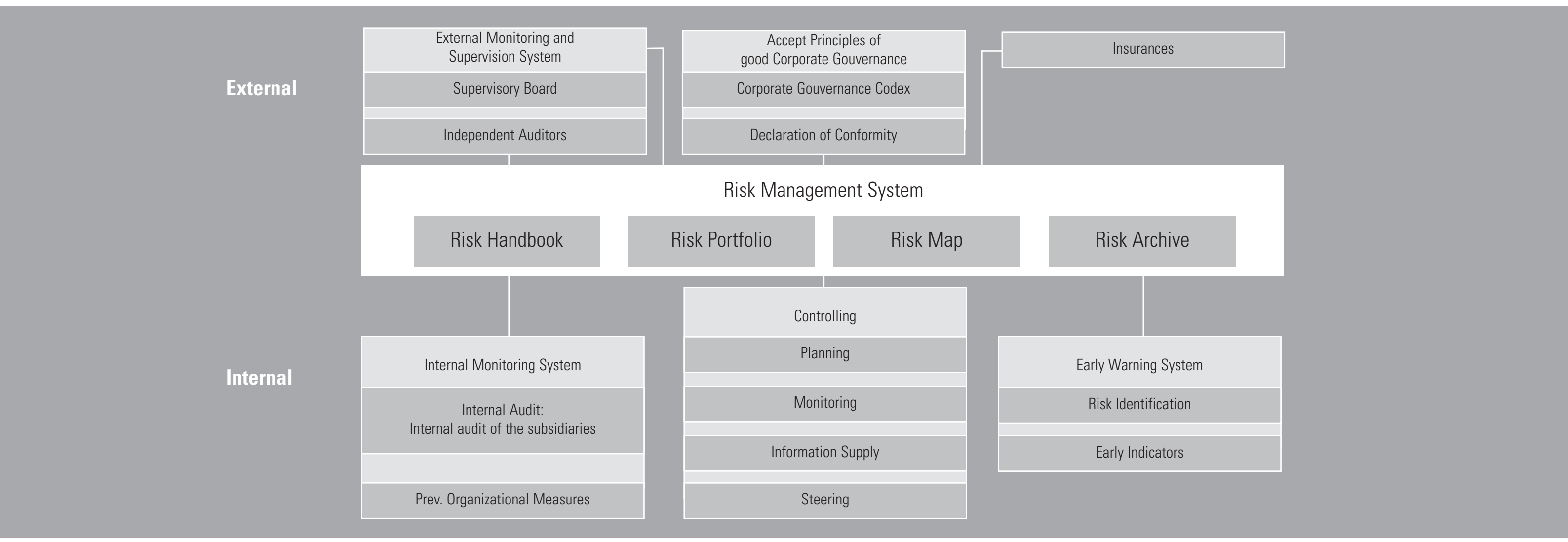
The increase in accounts payable results from the end-of-period adjustment process and is attributable to an increase in purchased services for third-party licenses and liabilities connected with capital expenditure. The increase in other current liabilities was due to higher accrued liabilities associated with personnel expenses at the balance sheet date, with increased staffing levels compared to the fiscal year 2002.

4.3. Dividend Payment by Beta Systems Software AG

The Group paid no dividend to shareholders in 2003 for fiscal 2002. A dividend payment of Euro 0.25 per share has been planned for 2003, in addition to a special bonus of Euro 0.25 to mark the 20th anniversary of Beta Systems.

5. RISK REPORT

Operating globally in the area of software development and software distribution, Beta Systems is exposed to a number of risks that are inextricably linked to the commercial activities of the Company.
The risk management system deployed by Beta Systems is designed to exploit opportunities in the most effective manner and to enter into concomitant risks only if a corresponding added value can be derived from the opportunities presented. Risk management is an integral part of the business processes and corporate decision-making at Beta Systems. The Management Board defines fundamental risk guidelines, which are subsequently implemented by the management. The subsidiaries and business units are responsible for local risk management in accordance with the fundamental risk guidelines established for the Group.



Elements of the Risk Management System at Beta Systems

Based on a company-wide early-warning system, Beta Systems is able to identify existing risks at an early stage, analyze and assess these risks, and initiate appropriate steps to counteract them. The aforementioned measures include the assessment, monitoring, and control of company processes by means of internal reporting, the management and control system, as well as a planning process that is applied consistently throughout the Company. In addition, this system is aided by an internal auditing, as introduced in 2002, as well as a comprehensive reporting and information mechanism for the benefit of the Supervisory Board, which is responsible for monitoring and controlling the Management Board. Following the acquisition of SSSG's operational business, the management of Beta Systems decided to suspend activities relating to internal auditing for 2003. This decision was prompted by the substantial resources deployed as part of integration. Subsequent to the completion of all integration activities, a targeted restructuring program was implemented and internal auditing was established as a staff unit affiliated with the Management Board. As a result, this area of activity is unlikely to be impaired in the event of future acquisitions. In addition, an action plan and schedule were defined for 2004.
Finally, the risk management system currently in place is complemented by Beta Systems' Corporate Governance Principles, which were updated by the Supervisory Board of Beta Systems at the end of the fiscal year 2003. They constitute a system of governance for the activities and collaboration of the Management Board and the Supervisory Board, as well as the Company's public and investor relations activities. These Principles are in line with national and international standards of corporate governance.

Beta Systems has insurance policies for potential claims and liability risks, and these are designed to ensure that the financial consequences of potential risk-related damages are minimized or completely averted. The scope of the aforementioned insurance policies is reviewed on a regular basis and adjusted if necessary. This approach is aimed at ensuring that the financial burden of risks that actually arise can be eliminated to a large extent or at least be minimized.

Despite the preventive measures in place, it is impossible to rule out completely a negative impact on the earnings performance of Beta Systems as a result of damages or claims by third parties.

SIGNIFICANT RISKS MONITORED BY THE RISK MANAGEMENT SYSTEM OF BETA SYSTEMS

Market Risks

Global product markets are characterized by intense competition. This applies to prices, the quality of products and services, development and time-to-market cycles, as well as customer service. Market risk is particularly high in the case of newly developed products for open systems server environments in the area of Storage and Document Management under Unix and Windows, an area in which the Company is exposed to an increased level of income risk induced by the general vagaries of sales, in conjunction with considerable initial expenditure requirements, including market development, rollout, and penetration costs. Beta Systems is also faced with considerable price competition and pricing pressures in its respective business segments. In particular, there is a growing trend in the software sector toward pricing methods based on usage models, as opposed to the more traditional capacity-based pricing. Furthermore, there is the danger of market collapse or a decline in growth rates due to unforeseeable developments.

Fluctuations, Seasonality of License Revenue

In the fiscal year 2003, 45% (2002: 41%) of license revenue was recorded in the fourth quarter. The maturity, volume, and form of customer-specific license agreements are crucial to Beta Systems' performance. Many of the agreements cover high sales volumes, and the sales cycles of Beta Systems' products are often extremely long and, at times, difficult to predict. Due to the high ratio of license business to total revenue (which bears testimony to Beta Systems' success in this area), amounting to 47% in 2003 (2002: 43%), these risks continue to be monitored closely, with the express purpose of implementing rapid and effective measures in the event of any deviations. In the fiscal year 2003, 36% (2002: 32%) of total revenue was recorded in the fourth quarter. Recognizing this trend, the Company is committed to accelerating project activities and improving sales incentive systems to achieve more evenly distributed operations across the individual quarters.

Product Rights

Beta Systems has initiated a number of measures aimed at protecting product rights. These include copyright protection, brand names and trademarks, licenses, confidentiality agreements, as well as various technical measures. However, no guarantee exists that the above-mentioned preventive measures are sufficient. Despite all the preventive steps taken by Beta Systems, third parties may succeed in copying Beta Systems' products or altering them, or obtaining from other sources information deemed to be the intellectual property of Beta Systems. Furthermore, other countries' legal systems may fail to protect the proprietary rights of Beta Systems in the same manner as protection is provided in Germany.

Product Development

Beta Systems conducts thorough tests of its new products or product versions prior to market rollout. Despite these measures, products may contain errors of which the Company is unaware. The process of rectifying these errors may require substantial resources. Furthermore, it cannot be ruled out that customers may initiate a claim for damages, request an exchange of the software, or demand other concessions from Beta Systems. In addition, Beta Systems has established numerous instruments to ensure that its products are rolled out on time, i.e. in accordance with deadlines. Nonetheless, the supply or delivery of new products may be subject to delays. Such delays may adversely affect the market acceptance of Beta Systems' products and the commercial development of the Company.

Employee Risks

Beta Systems operates in an extremely competitive environment in which companies constantly endeavor to attract highly qualified staff. In particular, this applies to personnel with scientific, technical, or sector-specific qualifications that may be of value when it comes to developing innovative technologies and products. The success of the Company partially depends on the successful recruitment, integration, and retention of qualified staff in the future. Beta Systems is committed to maintaining close links with universities in order to attract and retain new members of staff. In addition, the Company offers a number of internal staff development schemes, attractive remuneration packages, and thorough induction and integration programs for newly recruited employees.

Product Concentration

Excluding the SAM product line, 79% (2002: 77%) of revenue was generated from four products in fiscal 2003 (Beta 88, Beta 91, Beta 92, and Beta 93). Any influencing factor that has an adverse effect on the pricing or the demand for these products may impact negatively on the financial performance, financial position, and cash flows of the Company. The future demand for these products, which are closely linked to IBM's OS/390 environment, largely depends on the innovative prowess and the business strategy of IBM and other major hardware and software manufacturers. Taking into account the newly acquired SAM product line, the Company has already been able to reduce its dependence on these four products. SAM represents an additional revenue driver of considerable proportions.

International Business Activities

Beta Systems serves customers through local subsidiaries in Europe and in North America. Consequently, the Beta Systems Group, together with its subsidiaries, is subject to the risks generally associated with international transactions, including currency risks. Beta Systems monitors these risks and will deploy appropriate measures if this is deemed necessary. The current euro/dollar exchange rate prompted Beta Systems to introduce, from 2004 onward, a foreign currency hedge for cash values denominated in US Dollars.

Acquisitions

Beta Systems' strategy of non-organic growth contains high risks associated with the future acquisition/integration of additional companies/corporate units. The successful acquisition and integration of SSSG's operating activities into Beta Systems has set the standard for future projects of this nature. The comprehensive due diligence analyses conducted prior to an acquisition and the strong focus on integration as soon as the takeover has been concluded are designed to keep the risks associated with growth-by-acquisition manageable.

6. RESEARCH AND DEVELOPMENT

The main focus of strategic research and development in the year under review was on the market rollout of several new product versions and modules within the existing portfolio, as well as extensions prompted by new customer requirements. In parallel, the "Enterprise Solution" strategy was implemented in all business units. A general requirement of this strategy is that the high complexity of IT systems should be concealed from users and system administrators. In order to meet this requirement, developers facilitated the integration of all user interfaces featured in Beta Systems' products into existing customer portals. In addition, new systems technology such as Sysplex (parallel data processing and flexible distribution of the workload in mainframe environments) and 64-bit addressing (higher data processing speed) can now be supported and accessed. Research and development activities also focused on further enhancing product quality as part of the Company's quality assurance efforts. As a result, the number of problems associated with customer installations and the attendant error frequency declined yet again over the course of fiscal 2003.

7. OUTLOOK FOR FISCAL YEAR 2004

The strategy implemented as part of the "Go Ahead Beta" program, which is aimed at generating growth and increasing profitability, has already borne fruit and will continue to be pursued rigorously in the future. Building on this solid foundation, Beta Systems has defined a new set of targets. The prime objective of this action plan is to achieve organic growth by mobilizing internal resources, complemented by targeted investments aimed at enhancing the Company's technological expertise and strengthening its product portfolio and customer base. All investment-related decisions will be based on clearly defined internal and external performance criteria. Drawing on the Company's commercial experience, Beta Systems will only seek business development within the current business segments and on the basis of established core competencies. Rapid returns and manageable integration processes are key prerequisites when it comes to pursuing sustainable profitability and shareholder value for the Company.

The takeover of the operational business of SSSG in 2003 represents the initial step in this program. Beta Systems has forecast sales growth of 5% to 10% for the fiscal year 2004, taking total revenue to over Euro 60 million. This performance is expected to be complemented by further sustainable increases in income before taxes. The economic climate is expected to stabilize in the coming years. There is evidence to suggest that the investment bottleneck in the Company's customer base is gradually dispersing. Irrespective of this trend, the management of Beta Systems will closely control business expenditure in line with the level of incoming orders during the year, with the express purpose of further improving the Company's earnings performance.

Berlin, March 2004

The Management Board

This Report contains forward-looking statements based on underlying assumptions and estimates by the management of Beta Systems Software AG. Although management is of the opinion that these forward-looking statements are realistic, there can be no assurance that the expectations, beliefs or projections are correct, will materialize or be achieved or accomplished. The forward-looking statements and assumptions contained herein may be subject to risks or uncertainties which could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements. Factors that could cause actual results to differ materially from those discussed in forward-looking statements are, among others, changes in economic conditions and the business-related environment, changes in exchange rates and interest rates, introduction of competing products, lack of demand for or interest in new products or services, as well as changes with regard to the Company's strategy. Beta Systems disclaims any obligation to update any forward-looking statements to reflect subsequent events or circumstances. All trade names, trademarks, and service marks or logos used in this document are the property of the respective companies.

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REPORT BY THE SUPERVISORY BOARD

Dear Shareholders,

The Supervisory Board of Beta Systems Software AG discharged its duties under legal regulations and the Company's corporate articles. The Management Board provided detailed information regarding the position and business development of Beta Systems Software AG as part of six joint Supervisory Board meetings held during the year. The Supervisory Board advised the Management Board and monitored its management activities. It was involved in decisions of material importance and was furnished with information by the Management Board regularly, comprehensively, and in a timely manner. Within this context, the Supervisory Board gave its consent to significant transactions requiring prior authorization.

Focus of advisory activities

At the beginning of the fiscal year, the Supervisory Board's main focus was on the acquisition of the operational business of Systor Security Solutions GmbH, Cologne, and measures related thereto. Over the course of the fiscal year 2003, the Supervisory Board's activities primarily consisted of monitoring and advising on the commercial, technical, cultural, and administrative integration of the new employees at the Cologne office and the new SAM product line. The Management Board reported extensively on all measures implemented.

The Management Board presented and explained its corporate plans and budgets for the fiscal years 2004 to 2008, as well as product and market strategies. In addition, the Supervisory Board received detailed reports on the progress and results of the "Go Ahead Beta" program aimed at creating value and growth at Beta Systems Software AG. Furthermore, the Management Board furnished the Supervisory Board with thorough written and verbal reports on key issues relating to the Company's management policies. These reports and consultations focused on the restructuring of sales activities in order to provide greater sales support for the Company's solutions business. They also included issues regarding the monitoring of revenue and liquidity performance in the Company.

Corporate Governance

Based on the amendment of the German Corporate Governance Code in 2003 and in accordance with legal requirements, the Management Board and the Supervisory Board adapted the Corporate Governance Principles previously established for Beta Systems AG. The Management Board was assigned the task of implementing these revised Principles. The statutory Declarations of Conformity were issued in 2003, have been included this Annual Report, and have been made available to Shareholders on the Company's website in a manner which allows permanent access. Subsequent to several joint meetings, the Supervisory Board convened without the Management Board. These meetings also included a critical review of the Supervisory Board's efficiency.

Meetings held by the Personnel Committee

The Personnel Committee, which convened on three occasions during the period under review, mainly addressed issues relating to the reappointment of Management Board members as well as the level and structure of Management Board remuneration and the specification of variable components of remuneration. On the recommendation of the Personnel Committee, the Supervisory Board decided that the contracts of Dr. Oskar von Dungern (Management Board member responsible for Research and Development) and Karl-Joachim Veigel (Chairman of the Management Board), which were set to expire at the end of 2003, shall be extended by a further three years. The overall aim is to safeguard continuity in terms of governance and to ensure that the successful program of repositioning the company continues as planned.

Changes to the Supervisory Board

Alfred H. Tauchnitz, Deputy Chairman of the Supervisory Board, founder, and long-standing member of the Management Board, passed away on April 6, 2003. Beta Systems Software AG lost a personality who was revered throughout the Company and the entire IT industry. Alfred H. Tauchnitz shaped Beta Systems and established it as a powerful player in Germany, Europe, and North America. He will live on in our memories.

Upon request of the Supervisory Board, Management Board, and Works Council, the District Court of Charlottenburg/Germany appointed William P. Schmidt, Berlin, as a member of the Supervisory Board of Beta Systems Software AG, effective from July 6, 2003. The appointment ceases with the election of a new member of the Supervisory Board at the General Meeting of Shareholders in 2004. Dr. Karl Kauermann was appointed as the new Deputy Chairman of the Supervisory Board.

Adoption of the Financial Statements

The accounting records, financial statements, and management report of Beta Systems Software AG for the fiscal year 2003 were audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Berlin, and were granted an unqualified audit opinion. In its meeting of March 17, 2004, the Supervisory Board, in the presence of the auditor, confirmed the results of the audit. Having concluded its own final examination, the Supervisory Board raises no objections to the financial statements and management report. The Supervisory Board approves the financial statements prepared by the Management Board. The financial statements are thereby adopted. The consolidated financial statements were prepared by the Management Board in accordance with United States Generally Accepted Accounting Principles (US GAAP) and were audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Berlin. The assessment of the existing risk management system represented a central element of the audit of the annual financial statements. The report pertaining thereto, the remaining audit reports, as well as the financial statements, which were explained in detail, were forwarded to all Supervisory Board members in a timely manner and were thereby made available to them. Having concluded its own final examination, the Supervisory Board raises no objections to the consolidated financial statements and Group management report. The Supervisory Board approves the consolidated financial statements prepared by the Management Board. The Supervisory Board agrees with the proposal for the distribution of the unappropriated surplus (also referred to as net retained earnings), as put forward by the Management Board.

The Supervisory Board would like to express its thanks to the Management Board and to all employees of the Beta Systems Group for their commitment over the course of the fiscal year 2003.

Berlin, March 2004

On behalf of the Supervisory Board

Harald J. Joos
Chairman of the Supervisory Board)

[Creating Values]

INDEPENDENT AUDITOR'S REPORT (TRANSLATION)

We have audited the consolidated financial statements, comprising the consolidated balance sheets, the related consolidated statements of operations, shareholders' equity, and cash flows as well as the notes to the consolidated financial statements prepared by Beta Systems Software Aktiengesellschaft, Berlin for the business year from January 1, 2003 to December 31, 2003. The preparation and the content of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (US GAAP) are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit of the consolidated financial statements in accordance with German auditing regulations and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that it can be assessed with reasonable assurance whether the consolidated financial statements are free of material misstatements. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the amounts and disclosures in the consolidated financial statements are examined on a test basis within the framework of the audit.

The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the Group for the business year 2003 in accordance with accounting principles generally accepted in the United States of America.

Our audit, which also extends to the group management report prepared by the Company's management for the business year from January 1, 2003 to December 31, 2003, has not led to any reservations. In our opinion the group management report in sum provides a suitable understanding of the Group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the group management report for the business year from January 1, 2003 to December 31, 2003 satisfy the conditions required for the Company's exemption from its duty to prepare consolidated financial statements and the group management report in accordance with German law.

Berlin, March 5, 2004

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr Schindler	Geisler
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

CONSOLIDATED STATEMENTS OF INCOME

Year ended December 31, (Euro in thousands, except share data)	2002	2003
Revenues:		
• Product licenses	19,496	26,353
• Maintenance	22,790	24,266
• Service	2,826	5,175
Total revenues	**45,112**	**55,794**
Cost of revenues:		
• Product licenses	1,911	2,477
• Maintenance	5,460	7,066
• Service	2,544	5,676
Total cost of revenues	**9,915**	**15,219**
Gross profit	**35,197**	**40,575**
Operating expenses:		
• Selling	17,187	18,351
• General and administrative	9,609	9,224
• Research and development	7,726	9,057
• Amortization of intangible assets	302	47
• Severance payments and other restructuring costs	247	77
Total Operating expenses	**35,071**	**36,756**
Operating income	**126**	**3,819**
Other income, net	1,544	727
Interest income, net	627	255
Income before income taxes	**2,297**	**4,801**
Income tax expense	1,981	1,291
Net income	**316**	**3,510**
Net income per ordinary share		
• Basic	**0.08**	**0.89**
• Diluted	**0.08**	**0.88**
Weighted average number of shares used to compute net income per ordinary share		
• Basic	**3,914,626**	**3,922,005**
• Diluted	**3,959,415**	**3,986,408**

See accompanying Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF SHAREHOLDERS´ EQUITY AND COMPREHENSIVE INCOME (LOSS) YEARS ENDED DECEMBER 31, 2002 AND 2003

(Euro in thousands, except share data)	Ordinary Shares Number of Shares Issued	Ordinary Shares Nominal Amount	Capital in Excess of Par Value	Unearned Deferred Compensation
Balance at December 31, 2001	**3,974,931**	**10,162**	**38,716**	**(871)**
Issuance of ordinary shares	-	-	(89)	-
Net income	-	-	-	-
Other comprehensive loss, net of tax effect				
• Unrealized loss on investment securities	-	-	-	-
• Currency translation adjustments		-	-	-
Other comprehensive loss	-	-	-	-
Comprehensive loss	-	-	-	-
Compensation related to stock options vesting	-	-	-	274
Balance at December at 31, 2002	**3,974,931**	**10,162**	**38,627**	**(597)**
Issuance of ordinary shares	45,779	117	61	-
Net income	-	-	-	-
Other comprehensive loss, net of tax effect				
• Unrealized gain on investment securities	-	-	-	-
• Currency translation adjustments	-	-	-	-
Other comprehensive loss	-	-	-	-
Comprehensive income	-	-	-	-
Compensation related to stock options vesting	-	-	(444)	597
Balance at December 31, 2003	**4,020,710**	**10,279**	**38,244**	**0**

See accompanying Notes to the Consolidated Financial Statements

	Accumulated Other Compre-hensive Income	Accumulated Deficit	Comprehensive Income (Loss)	Treasury Stock Number of Shares	Treasury Stock Amount, at Cost	Total Shareholders´ Equity
	2,360	**(21,445)**		**(60,305)**	**(419)**	**28,503**
	-	-		-	-	(89)
	-	316	316	-	-	316
	-	-	(201)	-	-	-
	-	-	(927)	-	-	-
	(1,128)	-	(1,128)	-	-	(1,128)
	-	-	(812)	-	-	-
	-	-		-	-	274
	1,232	**(21,129)**		**(60,305)**	**(419)**	**27,876**
	-	-		-	-	178
	-	3,510	3,510	-	-	3,510
	-	-	176	-	-	-
	-	-	(183)	-	-	-
	(7)	-	(7)	-	-	(7)
	-	-	3,503	-	-	-
	-	-		-	-	153
	1,225	**(17,619)**		**(60,305)**	**(419)**	**31,710**

CONSOLIDATED BALANCE SHEETS

At December 31, (Euro in thousands, except share data)	2002	2003
Current assets:		
• Cash and cash equivalents	15,740	14,775
• Short-term bank deposits	2,500	0
• Marketable securities available for sale, at fair value	842	1,018
• Accounts receivable, less allowances:		
- 2002 Euro 650; 2003 Euro 628	20,384	26,096
• Prepaid expenses and deferred charges	590	863
• Deferred income taxes (current)	676	35
• Other current assets	1,237	1,359
Total current assets	**41,969**	**44,146**
• Property and equipment, net	3,252	3,129
• Goodwill and other intangibles, net	0	1,554
• Capitalized software development costs, net	2,888	4,190
• Deferred income taxes (non-current)	2,673	3,295
• Other assets	3,897	5,825
Total assets	**54,679**	**62,139**
Current liabilities:		
• Current installments of obligations under capital leases	384	367
• Accounts payable	1,052	3,558
• Deferred revenue	11,766	11,028
• Income taxes payable	279	401
• Deferred income taxes (current)	1,452	1,995
• Accrued expenses and other current liabilities	7,049	8,283
Total current liabilities	**21,982**	**25,632**
Long-term debt and other liabilities	54	72
Obligations under capital leases, excluding current installments	376	0
Pension obligations	821	850
Deferred income taxes (non-current)	3,570	3,875
Total liabilities	**26,803**	**30,429**
Shareholders` equity		
• Ordinary shares, Euro 2.56 imputed nominal value; 2002: 3,974,931 shares issued and 3,914,626 shares outstanding; 2003: 4,020,710 shares issued and 3,960,405 shares outstanding	10,162	10,279
• Capital in excess of par value	38,627	38,244
• Unearned deferred compensation	(597)	0
• Accumulated deficit	(21,129)	(17,619)
• Accumulated other comprehensive income	1,232	1,225
• Treasury stock at cost: 60,305 shares in 2002 and 2003	(419)	(419)
Total shareholders` equity	**27,876**	**31,710**
Total liabilities and shareholders` equity	**54,679**	**62,139**

See accompanying Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31, (Euro in thousands)	**2002**	**2003**
Operating activities		
• Net income	316	3,510
Adjustments to reconcile net income to net cash provided by operating activities:		
• Depreciation and amortization	3,161	2,746
• (Gain) Loss on sale of equipment	(640)	19
• Loss on investment securities	299	0
• Deferred compensation	274	309
• Deferred taxes	1,513	867
• Foreign currency losses	(745)	(505)
• Changes in assets and liabilities, net of amounts acquired:		
- (Increase) Decrease in accounts receivable	1,479	(5,248)
- Increase (Decrease) in accounts payable	(90)	2,506
- Increase (Decrease) in deferred revenue	1,068	(1,305)
- Change in other assets and liabilities including current tax	(384)	(1,865)
Net cash provided by operating activities	**6,251**	**1,034**
Investing activities		
• Investment in short-term bank deposit	(2,500)	0
• Proceeds from sale of short-term investment	0	2,500
• Purchases of property and equipment	(1,095)	(1,608)
• Proceeds from sales of property and equipment	658	122
• Capitalization of software development costs	(1,119)	(1,074)
• Cash paid for acquisition of software development	0	(205)
• Cash paid for business acquisitions, net	0	(1,321)
Net cash used in investing activities	**(4,056)**	**(1,586)**
Financing activities		
• Payment of long-term debt and capital leases	0	(383)
• Issuance of shares	0	178
• Repurchase of shares in subsidiaries	(20)	0
• Proceeds from issuance of long-term debt	(9)	5
Net cash used in financing activities	**(29)**	**(200)**
Effect of exchange rate changes on cash	**(84)**	**(213)**
Increase (Decrease) in cash and cash equivalents	**2,082**	**(965)**
Cash and cash equivalents at beginning of year	13,658	15,740
Cash and cash equivalents at end of year	**15,740**	**14,775**
Supplementary cash flow disclosures:		
• Cash paid for taxes	1,824	515
• Cash paid for interest	21	2
• Acquisition of equipment through capital lease obligation	1,119	0

See accompanying Notes to the Consolidated financial Statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Beta Systems Software Aktiengesellschaft and subsidiaries ("Beta Systems" or the "Company") develops, markets and supports enterprise automation software solutions for mainframe computers and other hardware managed by information systems departments of large corporations, government agencies and other organizations. The Company's products are designed to increase the productivity of data centers by automating manual tasks and optimizing the use of hardware resources. The Company's products feature a common comprehensive architecture which facilitates the development and integration of the Company's products across applications. The Company's principal offices are located in Berlin, Germany, and subsidiaries are located throughout Europe and North America.

Basis of Presentation

The consolidated financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America (US GAAP).

Principles of Consolidation

All companies in which Beta Systems has legal control are fully consolidated. The effects of intercompany transactions have been eliminated.

Foreign Currencies

The balance sheets of foreign subsidiaries have been translated to Euro on the basis of period-end exchange rates, while the income statements have been translated using average exchange rates during the period. Cumulative translation adjustments are reported as a separate component of other comprehensive income. Foreign currency transaction gains (losses) included in the statements of operations amount to Euro 529 and Euro (505) in 2002 and 2003, respectively.

Revenue Recognition

Product license revenue, consisting of new product licenses, version upgrades and CPU upgrades, is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectibility is probable. If a licensing agreement includes multiple elements, revenues are allocated to those elements based on vendor specific objective evidence of fair value. Maintenance revenue is recognized ratably over the maintenance period. Service revenue consists principally of installation and training and is recognized as the services are performed. In addition to the existing standard software product range, the Company also offers products to meet the demand for individually customized software solutions. Revenues from these construction contracts are recognized according to the efforts expended-method, a percentage-of-completion method requiring the following criteria be satisfied for revenue recognition: rights and responsibilities must be clearly defined in the contract, pre-project calculation of costs and revenues must be possible, the final profitability of the project must be able to be determined reliably and objectively, i.e. further projected costs and revenues must equally be able to be estimated accurately, risks may not hinder the ability to deliver the contract (e.g. credit risks, legal considerations), and payment by the customer must be probable.

Research and Development and Capitalized Software Development Costs

Research and development costs are charged to expense as incurred. Costs for the development of new software products and substantial enhancements to existing software products are expensed as incurred until technological feasibility has been established, at which time further development costs are capitalized. Capitalization of costs ceases when the product is available for general release to customers.

Capitalized software development costs are amortized each reporting period by the greater of (i) the straight-line method over the estimated useful life of the software (normally five years) or (ii) the ratio of current gross revenues from sales of the software to the total of current and anticipated future gross revenues from sales of that software.

At each balance sheet date, unamortized capitalized software development costs are compared to net realizable values of those products to determine whether an impairment exists. If an impairment has occurred, the amount by which the unamortized capitalized software development costs exceed the net realizable value (the present value of future estimated sales of the products less costs to sell) of that asset is written off.

Advertising Costs

Advertising costs are charged to expense as incurred. The Company incurred advertising costs of Euro 578 and Euro 449 in 2002 and 2003, respectively.

Cash and Cash Equivalents

Cash and cash equivalents represent cash and highly liquid certificates of deposit and investments with original maturities of three months or less.

Property and Equipment

Property and equipment is valued at acquisition cost and subsequently depreciated using the straight-line method over the assets' useful lives as follows: building improvements - 5 to 10 years; computer equipment - 3 to 5 years; facilities and office equipment - 3 to 10 years.

Goodwill and Other Intangible Assets

Intangible assets including goodwill are valued at acquisition cost. At each reporting date the Company assesses the recoverability in accordance with FAS 142.

Other Non-Current Assets

Other non-current assets include an investment intended to fund a portion of the Company's pension obligations. The Company accounts for such investment at cash surrender value. In addition, other non-current assets include receivables from unbilled invoices.

Marketable Equity Securities

In accordance with SFAS No. 115 the Company has classified these securities as "available-for-sale" and reports them at fair value based on market quotations. Unrealized holding gains and losses are accounted for as other comprehensive income and accumulated as a separate component of shareholders' equity until realized. A decline below cost in the market value of any available-for-sale security that is deemed to be other than temporary results in a reduction in carrying amount to fair value. The impairment is charged to earnings, and a new cost basis is established.

Fair Value of Financial Instruments

Financial instruments of the Company consist primarily of cash and cash equivalents, marketable securities, accounts receivable, accounts payable, accrued liabilities and long-term debt. The fair value of long-term debt does not vary materially from its carrying value. The carrying value of other financial instruments approximates their fair value because of the short maturity of such instruments.

Stock Option Plans

The Company accounts for its stock incentive plans in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. As such, compensation expense would be recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. Statement of Financial Accounting Standards ("SFAS") No. 123, Accounting for Stock-Based Compensation permits entities to recognize as expense over the vesting period the fair value of all stock-based awards on the date of grant.

Alternatively, SFAS No. 123 also allows entities to apply the provisions of APB Opinion No. 25 and provide pro forma net income and pro forma earnings per share disclosures for employee stock based compensation, as if the fair-value-based method defined in SFAS No. 123 had been applied. The Company has elected to apply the provisions of APB Opinion No. 25 and provide the pro forma disclosure provisions of SFAS No. 123.

Net Income Per Share

Basic net income per ordinary share has been calculated by dividing net income by the weighted average number of ordinary shares outstanding during each period. Diluted net income per ordinary share has been calculated in accordance with SFAS No. 128 to reflect the effect of dilutive securities.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent amounts at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. BUSINESS ACQUISITIONS

On February 10, 2003, the Company assumed legal control over the operative business of SYSTOR Security Solutions GmbH, Cologne (Germany). The acquisition agreement provided for the transfer of all product rights of the Security Administration Manager (SAM) product line to the Company, the acquisition of the current customer base and all rights and obligations emanating from the existing customer and service contracts, and the commitment to continue in employment approximately 80 employees currently employed in development, sales, and services at SYSTOR's present locations in Cologne and Washington D.C.

SAM is an integrative and integrated software for quick and comprehensive control of enterprise-wide security management. SAM is used by many large-scale enterprises in Germany, Europe, and North America for central and cross-system administration of user rights, and is therefore extremely well suited to enhance and add value to the Company's security suite of products.

The purchase became effective on February 01, 2003. The allocation of the purchase price of Euro 2,215 for the acquired enterprise comprises the following:

Acquisition Costs: Operative business of Systor Security Solutions GmbH	2003
Cash	894
Accounts Receivable	613
Software Development Costs: SAM	1,369
Goodwill	1,360
Fixed Assets	132
Other Assets	59
Accrued Liabilities	(225)
Accounts Payable	(1,419)
Deferred Revenues	(568)
Purchase Price	**2,215**
Acquired Cash	(894)
Cash Paid for Business Acquisition, net	**1,321**

The purchase price has been paid in full. Software Development Costs are amortized over five years. Of the Euro 1,360 assigned to Goodwill, Euro 734 are deductible for tax purposes.

Results of operations of the acquired business for the eleven months ended December 31, 2003 are included in the Company's consolidated financial results for 2003.

The following supplementary information discloses the pro forma results for the period ended December 31, 2003:

	Twelve months ended 31 December, 2003	
	As Reported	Pro Forma
Group Revenues	55,794	45,488
Net Income	3,510	3,764
Net Income per Share	0.89	0.96

No material, nonrecurring items are included in the reported pro forma results of operations. Pro Forma disclosures for the comparative period are impractical.

In connection with the acquisition of the SAM product software, the Company assumed further contractual obligations pertaining to various embedded, supporting third-party product components in the form of Original Equipment Manufacturer ("OEM") agreements. OEM costs range between 6% and 50% of gross revenues. In the reporting period of 2003, the Company incurred OEM costs of Euro 1,060.

(Euro in thousands, except share data)

3. MARKETABLE SECURITIES AVAILABLE FOR SALE

At December 31,	2002	2003
Deutsche Telekom AG Shares, at Cost	971	971
SAP AG Shares, at Cost	1	1
	972	**972**
Unrealized Gains (Losses), exceeding one Year	(130)	46
Fair Value	**842**	**1,018**

The shares of Deutsche Telekom AG are valued at Euro 14.57; the Fair Value at December 31, 2003 amounts to Euro 14.54. Due to the high volatility of the share markets during the last two quarters of the year, and the development of the share prices during the final quarter of 2003, the Company assumes that the difference between the share acquisition costs and the Fair Value is temporary. The shares of SAP AG, Walldorf were acquired at Euro 3.18; the Fair Value at December 31, 2003 amounts to Euro 133.80.

4. ROLL-FORWARD OF ALLOWANCE FOR DOUBTFUL ACCOUNTS

At December 31,	2002	2003
Beginning Balance	841	650
• Provision	177	137
• Charge-off	(368)	(159)
Ending Balance	**650**	**62.8**

5. OTHER CURRENT ASSETS

At December 31,	2002	2003
Tax Receivables	947	1,055
Work in Process	119	293
Other	171	11
	1,237	**1,359**

Tax Receivables

An amount of Euro 520 was recognized for taxes withheld on income from investments. Additionally the Company is subject to withholding tax in various South American countries, Euro 244 expended being an allowable deduction from income taxes. Based on a lower income tax, prepayments of Euro 291 were recognized as receivables due from the tax authorities.

Work in Process

Work in process on long-term construction contracts is stated at production cost, including administration, selling and interest expenses. Sales and contract revenue are recognized according to the percentage-of-completion method.

(Euro in thousands, except share data)

6. PROPERTY AND EQUIPMENT

At December 31,	2002	2003
Acquisition Costs		
• Leasehold Improvements	1,033	1,409
• Computer Equipment	6,869	8,368
• Facilities and Office Equipment	1,360	1,001
	9,262	**10,778**
Accumulated Depreciation	(6,010)	(7,649)
Property and Equipment, net	**3,252**	**3,129**

Depreciation expenses charged to the statements of operations amounted to Euro 1,639 and Euro 1,629 in 2002 and 2003, respectively.

7. GOODWILL AND OTHER INTANGIBLE ASSETS

At December 31,	2002	2003
Capitalized Amounts		
• License Rights	435	681
• Goodwill	6,689	8,049
	7,124	**8,730**
Accumulated Amortization	(7,124)	(7,176)
Goodwill and other Intangible Assets, net	**0**	**1,554**

The increase results from the acquisition of the business of Systor Security Solutions GmbH.

8. CAPITALIZED SOFTWARE DEVELOPMENT COSTS

Pursuant to FAS 86, the Company evaluated the recoverability of the capitalized software costs, which resulted in a write down of Euro 286 in 2002. In 2003, total software costs of Euro 979 were capitalized.

Amortization expenses related to capitalized software costs amounted to Euro 1,220 and Euro 1,070 in 2002 and 2003, respectively.

9. OTHER NON-CURRENT ASSETS

At December 31,	2002	2003
Long-term Receivables from unbilled Invoices	2,599	4,784
Receivables due from ASG	777	469
Cash Surrender Value of Insurance Polices	521	572
	3,897	**5,825**

(Euro in thousands, except share data)

The Company has long-term receivables from unbilled invoices. Invoices for Euro 3,542, Euro 1,035 and Euro 207 will be issued in 2005, 2006 and 2007, respectively.

Effective January 17, 2000, pursuant to an Asset Purchase Agreement dated December 3, 1999 by and between the Company and Allen Systems Group, Inc. ("ASG"), the Company sold to ASG all of the assets comprising the Workload Products Business, and all products, rights or modules associated with these products, representing substantially all of the Company's operations in the United States at the time.

The purchase price is paid to the Company in the form of a 30% contingent royalty on all revenues associated with the Company's products until such time as the purchase price is paid in full. Sales proceeds relating to the agreement are recognized under the installment method of accounting. To date Euro 4,101 has been recognized.

The net assets sold are being deferred and expensed as royalty payments become due. The remaining balance at December 31, 2002 and 2003 amounts to Euro 777 and Euro 469, respectively.

10. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

At December 31,	2002	2003
Other Taxes and Social Security Payables	2,682	2,126
Accured Payroll and Travel Expenses	3,382	5,264
Other Accrued Expenses and Current Liabilities	985	893
	7,049	8,283

11. INCOME TAXES

Income before income taxes is attributable to the following geographic locations:

At December 31,	2002	2003
Germany	3,992	4,419
Non-German	(1,695)	382
	2,297	4,801

The provision for income taxes is attributable as follows:

At December 31,	2002	2003
Current tax		
• Germany	79	15
• Non-German	717	308
	796	323
Deferred tax		
• Germany	1,536	1,757
• Non-German	(351)	(789)
	1,185	968
	1,981	1,291

With effect from 2001 the corporate tax in Germany was reduced from 40% on undistributed earnings and 30% on distributed earnings to a uniform rate of 25% plus a surcharge of 5.5%. For the year 2003, the corporate tax rate has been increased to 26,5%.

(Euro in thousands, except share data)

A reconciliation of income taxes determined using the German federal statutory rate of 26.38% plus the post federal tax benefit rate for trade taxes of 17.01% for a combined statutory rate of 38.90% is as follows:

At December 31,	2002	2003
Expected Provision for Income Taxes	914	1,868
Foreign Tax Rate Differential	3	(146)
Non-deductible Expenses, including Goodwill	1,384	674
Change in Valuation Allowance	142	1,453
Reversal of Deferred Tax Liability	0	(2,552)
Effect of Change in Income Tax Rate	359	(26)
Other	(821)	20
Actual Provision for Income Taxes	**1,981**	**1,291**
Effective Rate	**86.3%**	**26.9%**

Deferred income tax assets and liabilities are summarized as follows:

At December 31,	2002	2003
Deferred Tax Assets relating to:		
• Deferred Revenue	332	0
• Capitalilzed Software Costs	821	1,070
• Net Operating Loss Carry-Forward	6,408	8,158
• Accounts Receivable	122	26
• Pension Liabilities	110	110
• Unrealized Foreign Currency Losses	218	75
• Other Assets	3	9
	8,014	**9,448**
Valuation Allowance	(4,665)	(6,118)
	3,349	**3,330**
Deferred Tax Liabilities relating to:		
• Goodwill	0	(154)
• Capitalized Software Development Costs	(624)	(792)
• Deferred Revenue	(584)	(1,603)
• Current Liabilities	(732)	(152)
• Accounts Receivable, Valuation Allowances	0	(241)
• Other Liabilities	(3,082)	(2,928)
	(5,022)	**(5,870)**
Net Deferred Tax Liability as per Balance Sheet	**(1,673)**	**(2,540)**

Deferred tax assets and liabilities are reflected in the consolidated balance sheets as follows:

At December 31,	2002	2003
Deferred Tax Assets		
• Current	676	35
• Non-Current	2,673	3,295
	3,349	**3,330**
Deferred Tax Liabilities		
• Current	(1,452)	(1,995)
• Non-Current	(3,570)	(3,875)
	(5,022)	**(5,870)**
Net Deferred Tax Liability as per Balance Sheet	**(1,673)**	**(2,540)**

(Euro in thousands, except share data)

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent on the generation of future taxable income during the periods in which those temporary differences become deductible.

A deferred tax valuation allowance was established at December 31, 2000 for the Canadian NOLs, and in 2001 for the NOL's of Tantia USA, both in order to adjust the valuations to net carrying amounts that the Company believes are more likely than not to be recovered in the future. At December 31, 2003 the Company had net operating loss carry-forwards of Euro 19,385 in the German and the American entities. While the German NOL's do not expire, the American carry-forwards expire in 2021. Further NOLs of Euro 1,586 exist in the subsidiaries in Spain, UK and Sweden; a valuation allowance was established for this in 2003.

Based upon the level of historical taxable income and projections for future taxable income, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of existing valuation allowances at December 31, 2003. Deferred tax liabilities have not been recognized on unremitted earnings of non-German subsidiaries intended to be indefinitely reinvested. Such earnings may become taxable under certain circumstances, such as dissolution or sale of such subsidiary. Determination of the amount of unrecognized deferred tax liabilities is not practicable.

At December 31, 2001 the Company recorded a valuation allowance for its intercompany loans issued to the subsidiaries in Boulder and Calgary. At that date, the loans were assessed as short-term, and accordingly, a total tax liability of Euro 5,083 was recorded at December 31, 2001 (2002: Euro 5,937). At the end of 2003 management assessed the Canadian loans as uncollectible. As a result, a deferred tax liability of Euro 2,552 was reversed in the books of the Company at December 31, 2003.

12. EMPLOYEE BENEFIT PLANS

The Company provides limited defined benefit pension benefits to certain of its former employees. The benefits are based upon years of service and salary earned. Although the Company is not required under German law to maintain separate plan assets, the Company maintains two life insurance policies to cover its pension obligations. The cash surrender value of these policies, Euro 572 (2002: Euro 521), is included in other assets. The Company anticipates increasing its contributions by Euro 35 in 2004 to fund the future plan obligations.

Assumed discount rates and rates of increase in remuneration used in calculating the projected benefit obligations follows:

At December, 31	**2002**	**2003**
Discount Rate	5.75%	5.00%
Long-term Rate of Increase in Remuneration	4.50%	2.50%

A reconciliation of the beginning and ending balances of the benefit obligation and a summary of the net periodic pension cost included in the statement of operations follows:

At December, 31	**2002**	**2003**
Benefit Obligation at the Beginning of the Year	794	821
Periodic Pension Cost		
• Service Cost: Present Value of Benefits earned during the Year	0	0
• Interest Cost on Projected Benefit Obligation	34	34
• Amortization of Transition Obligation and Prior Service Cost	(7)	(5)
• Total Net Periodic Pension Cost	**27**	**29**
Pension Obligation at the End of the Year	**821**	**850**

(Euro in thousands, except share data)

The valuation of the obligations as at December 31, 2003 was determined by actuarial method.No benefits become payable in any of the next five years; the aggregate benefits expected to be paid in the five years from 2009 - 2013 are Euro 220.

The Company also maintains a defined contribution plan at its subsidiary in United Kingdom, to which the Company made discretionary contributions of Euro 54 in 2003.

13. LONG-TERM DEBT

Long-term debt includes convertible bonds of Euro 53 (Euro 54 in 2002). The bonds which are convertible into 206,000 ordinary shares (291,440 in 2002), bear interest at 4.5% and are due in 2006. The applicable exercising conditions are described under point 14. Stock Option Plans, below. In addition, long term debt includes a guarantee deposit of Euro 12 and other long-term liabilities of Euro 5.

14. STOCK OPTION PLANS

On February 10, 1997, the Company adopted a stock incentive plan ("Plan 1997") for its employees and members of its Management Board. A grant under the Plan consists of a convertible bond and, for non-management employees, a corresponding non-recourse loan secured solely by the bond with respect to which it was made. Bonds convertible into a total of 400,000 ordinary shares were authorized for issuance under the Plan. The grant recipients and the terms of the awards under the Plan were determined by the Management Board of the Company and, for awards to members of the Management Board, by the Supervisory Board of the Company.

In February 1997, the Supervisory Board of the Company authorized the grant of bonds under the Plan which if converted would result in the issuance of 196,640 ordinary shares at a weighted average exercise price of Euro 21.73 per share (first tranche). The Bonds were granted in June 1997. In June 1998, a second tranche of bonds were granted which if converted would result in the issuance of further 196,640 ordinary shares at a weighted average exercise price of Euro 27.61 per share. Bonds granted to date were exercisable over a five-year period beginning in 1998 (first tranche) and 1999 (second tranche) during the two-week period following the annual Shareholders' meeting. In July 2002, the first tranche expired without exercise; in July 2003, the second tranche expired without exercise. Accordingly, the bonds and related non-recourse loans were redeemed.

The Company adopted two further stock incentive plans ("Plan 2000" and "Plan 2001") for its employees and members of its Management Board in the third quarters of 2000 and 2001. Grants under the Plans consist of a convertible bond and, for employees, a corresponding non-recourse loan secured solely by the bond with respect to which it was made. Bonds convertible into a total of 230,600 ordinary shares (Plan 2000: 121,200 shares; Plan 2001: 109,400 shares) were authorized for issuance under the Plans. The bond recipients and the terms of the awards under the Plans were determined by the Management Board of the Company and, for awards to members of the Management Board, by the Supervisory Board of the Company. Under the Plans, options vest after three years and may thereafter be exercised if the Company's stock price has increased by 50% from the date of grant and by 10% over the most recent year up to the date of the exercise. To date 534 options for the 2000 plan (2002: 534 options), convertible into 200 ordinary shares per option, have been granted at an exercise price of Euro 8.22, and for the 2001 plan, 532 options (2002: 532 options), convertible into 200 ordinary shares per option, have been granted at an exercise price of Euro 2.98.

On July 14, 2000, the Company adopted an Employee Share Acquisition Plan for its employees in Germany and Europe, excluding employees from country manager level upwards. Aggregate share volume consists of 200,000 ordinary shares from authorized capital, to be offered to employees in a series of annual tranches over the next five years, subject to applicable terms and taxation conditions. For the first tranche, eligible employees could purchase, in September 2000, shares vesting for six years at a purchase price of Euro 4.23 per share, or, shares vesting for three years at a purchase price of Euro 5.92 per share. These represent respective price discounts of 50% and 30%, awarded on the basis of the market price of Euro 8.46 per close of business on September 21, 2000. 2,760 shares and 4,373 shares were purchased, respectively. For the second tranche, eligible employees could purchase, in September 2001, shares vesting for three years at a purchase price of Euro 2.70, representing a price discount of 30% on the market price of Euro 3.85 per close of business on 7 September, 2001. 4,371 shares were purchased. No share acquisition offer was made in 2002. For the fourth tranche, eligible employees could purchase, in September 2003, shares vesting for three years at a purchase price of Euro 3.90, representing a price discount of 40% on the market price of Euro 6.50 per close of business on 12 September, 2003. 45,779 shares were purchased.

(Euro in thousands, except share data)

A summary of the status of the Company's stock options (except the stock options of Tantia) as of December 31, 2002 and 2003, and changes during the years ended on those dates is presented below:

At December, 31	**2002**		**2003**	
	Shares	**Weighted Average Exercise Price in Euro**	**Shares**	**Weighted Average Exercise Price in Euro**
Options Outstanding at the Beginning of the Year	359,436	12.87	291,440	11.51
• Cancelled	(67,996)	18.70	(85,440)	25.98
• Exercised	0	-	0	-
Options Outstanding at the end of the Year	**291,440**	**11.51**	**206,000**	**5.51**
Options Exercisable at the End of the Year	0		0	

At December 31, 2003 the exercise price ranged between Euro 2.98 and Euro 8.22, with an average remaining contractual life of three years.

Following the launch of Tantia Technologies, Inc. at the beginning of the second quarter of 2000, the Company adopted the Tantia Technologies, Inc. 2000 Stock Option Plan ("Tantia Plan") for its employees and members of the Management Boards of Beta entities worldwide on 11 May, 2000. 2,500,000 options to purchase common stock were authorized to be awarded under the Plan, 985,000 thereof to recipients in Europe. The awards of the options were allocated by the Management Board of the Company and, for awards to members of the Management Board, by the Supervisory Board of the Company.

As of December 31, 2003 a total of 324,350 and 783,436 options (2002: 855,850 and 890,974 options) were issued to recipients in America and Europe respectively, at an exercise price of USD 1.00 per option. The options vest after three years, and expire upon termination of employment with the Company or any Beta-subsidiary during the vesting period.

As of December 31, 2002, 48,750 options granted under this plan were exercised and subsequently repurchased by the Company.

A summary of Tantia's stock options as at December 31, 2003 follows:

At December, 31	**2002**		**2003**	
	Shares	**Weighted Average Exercise Price in USD**	**Shares**	**Weighted Average Exercise Price in USD**
Options Outstanding at the Beginning of the Year	2,250,288	1.00	1,746,824	1.00
• Granted	119,000	1.00	0	-
• Cancelled	(622,464)	0.99	(639,038)	1.00
• Exercised	0	-	0	-
Options Outstanding at the End of the Year	**1,746,824**	**1.00**	**1,107,786**	**1.00**
Options Exercisable at the End of the Year	582,275		1,107,786	
Weighted Average Fair Value per Option Granted during the Year	USD 0.36		-	

(Euro in thousands, except share data)

In respect of the Tantia stock options plan, compensation expenses of Euro 106 were booked in 2002. In 2003 a gain of Euro 356 was realized from cancelled options in respect of terminated employees.

The Company has no unearned deferred compensation expenses in accordance with APB No. 25 as at December 31, 2003.

In respect of the stock options awarded under "Plan 1997" Euro 170 and Euro 84 were amortized for the years ended December 31, 2002 and 2003, respectively. In respect of the stock options awarded under the “Plan 2001”, compensation expenses of Euro 581 were recorded in 2003.

Had the Company determined compensation cost based on the fair value at the grant date for its stock options under SFAS No. 123, the Company's net income would have been as follows:

At December, 31	**2002**	**2003**
Net Income		
• As Reported	316	3,510
• Pro Forma	229	3,533
• Tax Effect	34	9
	263	**3,524**
Net Income per Share		
• As Reported	0.08	0.89
• Pro Forma	0.08	0.90

The Pro Forma result was established by applying the Black Scholes options pricing model with the following assumptions: Plan 1997: expected volatility 24%, expected dividend yield 0%, risk-free interest rate 3.0%, expected life 5 years; Plan 2000: expected volatility 21%, expected dividend yield 0%, risk-free interest rate 3.5%, expected life 5 years; Plan 2001: expected volatility 35%, expected dividend yield 0%, risk-free interest rate 3.5%, expected life 5 years. The Company estimates the fair value of the awards at the grant dates based on an expected forfeiture rate of 18% per year.

15. INCOME PER SHARE

Basic income per share is calculated by dividing the net income by the average number of common shares outstanding during the year. Diluted income per share is calculated by dividing the net income by the average number of common shares outstanding, assuming that all stock options are exercised at the beginning of the period and the proceeds used to purchase shares at the average market price for the period.

The following is a reconciliation from basic income per share to diluted income per share from continuing operations:

At December, 31	**2002**	**2003**
Net Operating Income	**316**	**3,510**
Average Number of Shares Outstanding	3,914,626	3,922,005
Effect of Dilution: Options	44,789	64,403
	3,959,415	**3,986,408**
Net Income per Share		
• Basic	0.08	0.89
• Diluted	0.08	0.88

(Euro in thousands, except share data)

16. MINORITY INTERESTS IN SUBSIDIARIES

No minority interests are held in any subsidiary at December 31, 2003.

At December 31,	2002	2003
Beginning Balance	(112)	0
Investment in Shares of Subsidiary	0	0
Minority Interest in Net Loss	(17)	0
Repurchase of Shares	129	0
Minority Interests in Subsidiaries	**0**	**0**

17. SHAREHOLDERS' EQUITY

On June 7, 1998, the Company's share capital was increased from Euro 4,602 to Euro 9,203 by means of conversion. After this conversion the share capital is increased by 1.800.000 Ordinary Shares (two-for-one stock split).

In 1998, of the first tranche of the 1997 plan, stock options have been converted into 38,492 shares and accordingly, the number of Ordinary Shares outstanding was increased from 3,600,000 to 3,638,492 shares.

As a result of the conversion of the convertible bonds in connection with the Harbor acquisition, on May 5, 1999 the Company's share capital was increased from Euro 9,301 to Euro 10,132 by entry in the German Commercial Register. Due to restrictions in the United States on the resale of shares not registered with the SEC, the Company bought back 12,477 ordinary shares originally issued in respect of the acquisition in 1999 at a price of Euro 20.45 per share, as stipulated in the purchase and sale agreement.

On May 31, 1999 the Company's shareholders approved to increase the authorized capital (Genehmigtes Kapital) to Euro 1,432. In total Euro 1,691 were reserved at December 31, 2003 for issuance of further stock options (Conditional Capital 1997 and 1999, Bedingtes Kapital 1997 und 1999). As a result of the employee share acquisition plan, authorized capital was increased on December 5, 2000 by Euro 19, on December 15, 2001 by Euro 11, and on November 13, 2003 by Euro 117.

The company is authorized according to § 71 paragraph 1 no. 8 of German Stock Corporation Act (AktG) to purchase its own shares to a total value of 10% of the nominal amount of ordinary shares. The authorization to purchase own shares expired on November 23, 2002. In 2001, 47,828 shares were repurchased at an average value of Euro 3.43 per share. The shares are allocated as treasury stock in equity.

Under German commercial law (Handelsgesetzbuch), the amount of dividends of Beta Systems Software AG available for distribution to its shareholders is based upon the retained earnings of Beta Systems Software AG (the German parent company) as reported in its balance sheet determined in accordance with the German commercial code. At December 31, 2003 Beta Systems Software AG had retained earnings (Bilanzgewinn und andere Gewinnrücklagen) of Euro 2,000 available for dividend distribution.

18. DISTRIBUTION AGREEMENTS

In August 1998, Beta Systems acquired the exclusive rights to the source code of an automated tape library manager ("Beta 54") from Diacom Software LLC ("Diacom"), Ashland, Oregon, a United-States based developer of data center automation software. The purchase price - US$ 2,250 (Euro 1,989) - was capitalized as software development costs at the date of acquisition. As of December 31, 2001, the purchase price was paid in full. In 2001, the Company recorded an impairment charge in the amount of Euro 509.

The Company is committed to paying Diacom royalty fees in the amount of 25% of all related licensing and maintenance revenues, up to a maximum royalty amount of US$ 7,750. Royalty fees are being expensed by the Company as incurred.

In March 2002, the Company sold its product range Beta 55 to GFS Software Europa Corporativo, S.L., Madrid (Spain). A net gain of Euro 639 was realized

(Euro in thousands, except share data)

and recorded in other income. In September 2003, the Company further disposed its product Beta 54 to GFS.

In February 2001 the Company entered into a software distributor licensing agreement with AK-Industrieinformatik GmbH, Würzburg (Germany). The Company acquired non-exclusive distribution rights of AKI's UNISPOOL product exclusively for the territories Germany, Austria and Switzerland. The income from royalties are contingent on revenues and may be increased from currently 30% up to a maximum of 40%. In March 2001, the Company acquired non-exclusive distribution rights for UNISPOOL for Europe excluding Germany, Austria and Switzerland through a software distributor licensing agreement with Holland House B.V., Brakel (The Netherlands). Royalty payments will amount to 50% of revenues. UNISPOOL is a solution for management and control of complex print infrastructures within heterogeneous and distributed environments. The main functionalities are print management, print file handling, print file transfer, distributing and printing. In 2002 and 2003, Euro 13 and Euro 3 were expensed as royalties with the UNISPOOL product.

Pursuant to a Distribution Agreement dated January 2002, the Company and SBB Software GmbH, Wolfsgraben (Austria) established mutual non-exclusive distribution rights for the Company's products: Beta 93 Unix, 93 EDF, 93 EMF and 93 ADF, and SBB's product: UC4. UC4 is a job scheduling and event automation application for enterprise-wide scheduling, controlling and monitoring processes and events. It is designed for heterogeneous IT systems and can be deployed across all platforms. SBB offers Beta 93 Unix and UC4 in Austria, Switzerland, Germany, UK, North America, South Africa and Japan, and the Company distributes the products in Europe, except in Austria. Royalty payments are set at 50% and 70% of licence and maintenance sales, respectively. The revenue recognized in 2002 and 2003 amounted to Euro 231 and Euro 129, respectively.

Furthermore, the Company acquired non-exclusive distribution rights for Beta 55 GFS/AFM Advanced File Manager, GFS/Stack Dynamic Stack and Beta 54 Storage Monitoring Manager from GFS Software Europa Corporativo, S.L., Madrid (Spain). GFS/Stack offers a dynamic way of applying multi-file/multi-volume to OS/390 generated files, as well as significant tape mount reduction. GFS/AFM ensures protection of magnetic tape / cartridge data. The distribution rights extend worldwide, except for Brazil. Revenues of Euro 981 (without Beta 54) were realized in 2002, and of Euro 454 in 2003.

The Company entered in a distribution agreement with Group 1 Software Europe Limited for the product DOC1 in June 2003. DOC1 enables businesses worldwide to create and manage personalized customer communications and messaging campaigns for multi-channel delivery. Royalty payments are set at 50% of licence sales. Maintenance royalties range between 50% and 100%, depending on the service provided. In 2003 the Company realized revenues in the amount of Euro 200.

19. OPERATING LEASE AND CAPITAL LEASE COMMITMENTS

The total rentals under operating leases, principally for office facilities, data processing and other equipment, expensed in the statements of operations amounted to Euro 2,936 and Euro 3,392 in the years ended December 31, 2002 and 2003, respectively.

In January 2002, the Company acquired a data center through a 3-year lease obligation arrangement. Pursuant to FAS 13, the Company has capitalized the net present value of the leasing payments, and recorded the same amount as long-term debt. The lease arrangement is subject to interest at an average rate of 6%. As at December 31, 2002, Euro 760 were allocated as long-term debt, including a current portion of Euro 384. As at December 31, 2003, only a current portion of Euro 367 remains. Amortization in respect of the capitalized assets, as included in depreciation costs, amounted to Euro 371 in both 2002 and 2003.

Future minimum lease payments under operating and capital leases at December 31, 2003 are as follows:

At December, 31, 2003	Operating Leases	Capital Leases
Years ending December, 31,		
• 2004	4,325	386
• 2005	4,533	0
• 2006	4,684	0
• 2007	4,972	0
• 2008	5,121	0
• Thereafter	4,645	0
Total Minimum Operating and Capital Lease Payments	**28,280**	**386**
Less Amount representing Interest		(19)
Present Value of Capital Lease Payments		**367**
Current Portion		(367)
Long-Term Portion		**0**

20. SEGMENT INFORMATION

Restructuring of the Storage Management Business Segment

Continued weak performance in the storage management business area gave rise to the decision by the management board in July 2002 to scale down the American and Canadian storage business activities from full sales and product development activities to customer maintenance mode and development in respect of the existing product portfolio only, with the aim of reaching profitability in this segment in the future. The adopted measures were implemented during the second half of 2002.

The Tantia Technologies, Inc. sales location in Boulder was closed at the end of December 2002, the activities of this unit have since been administered by Beta Systems Software of North America, Inc. in Atlanta. Four employees transferred to the Atlanta subsidiary as a result. In addition, staff levels were reduced at the development location in Calgary, Canada. The Company recorded provisions for restructuring costs in the amount of Euro 638 under operating expenses in respect of these measures during 2002; of these Euro 252 remained payable as at 31 December, 2002.

Restructuring costs included in operating expenses for the business segment Storage Management:

At December, 31,	2002
Selling Costs	34
General and Administrative Expenses	53
Research and Development Expenses	197
Maintenance Costs	107
Other Restructuring Costs	247
Total Expenses	**638**

Staff levels were decreased in the Storage Management business segment from 67 employees to 23 employees by year-end 2002. 23 employees were discharged from Research and Development, 3 from Marketing, 8 from Customer Support, 5 from Documentation and Training and 5 from Administration. In addition, 8 employee contracts were terminated in 2003.

Euro 606 of the above costs related to the reduction of staff, while Euro 32 was spent for cancellation of the Boulder office lease commitments. Further material costs were not incurred.

(Euro in thousands, except share data)

Development of the accrued liabilities for staff restructuring costs during 2002:

At December, 31,	2002
Development of the Accrual	
Total Accrual established during the Year	997
Use of Accrual	(386)
Reversal	(359)
Balance of the Accrual	**252**

The restructuring measures were completed in the first quarter of 2003.

Development of the accrual in 2003:

At December, 31,	2003
Development of the Accrual	
Balance at December 31, 2002	252
Use of Accrual	(174)
Reversal	(78)
Balance of the Accrual	**0**

Effective November 1, 2003, Tantia Technologies, Inc. (Boulder) was merged with Beta Systems Software of North America, Inc. (Atlanta).

Formation of the Security Management Business Segment

Following the acquisition of the SAM product line, the Company formed the Security Management business segment, incorporating the SAM Security suite together with various already embedded specialized OEM components and features, and the Beta 88 and Beta 89 z/Security products (formerly part of the Data Center business segment). This new segment now forms an independent economic and strategic key business unit within the Company structure, geared to serve the increasingly growing global demands in the Security Management sector.

A total of 72 employees were taken over by the Company in February 2003, namely 68 employees at SSSG Cologne, and 4 employees at SSSI, Washington D.C. 35 employees were taken over into Research and Development, 26 into Marketing and Sales, 7 into Customer Support, 1 into Documentation and Training, and 3 into Administration. At December 31, 2003, 68 employees of these continue in employment, thereof 2 at Beta

Systems Software of North America, Inc. (Atlanta). During the year, 10 more employees were engaged in Research and Development.

Effective as of November 1, 2003, Systor Security Solutions, Inc. (Washington, D.C.) was merged with Beta Systems Software of North America, Inc. (Atlanta).

All segments derive revenues from sales of product licenses, maintenance and consulting or services. The accounting policies of the operating segments are the same as those described in Summary of Significant Accounting Policies. Segment amounts disclosed are prior to any elimination entries made in consolidation.

Additionally, entities in Germany and Canada engage in research and development activities.

(Euro in thousands, except share data)

At December 31, 2002	Storage Management	Security Management	Data Center Management	Document Management	Total
Revenues from Customers	5,117	4,599	18,069	17,327	45,112
Intersegment Revenues	1,005	903	3,550	3,404	8,862
	6,122	**5,502**	**21,619**	**20,731**	**53,974**
Interest Income	71	64	251	241	627
Amortization and Depreciation	832	268	1,052	1,009	3,161
Segment Income (Loss)	(5,245)	155	4,031	1,530	471
Capital Expenditures	226	213	836	802	2,077
Segment Assets	7,648	7,198	28,284	27,122	70,252

At December 31, 2003	Storage Management	Security Management	Data Center Management	Document Management	Total
Revenues from Customers	4,138	15,218	18,587	17,851	55,794
Intersegment Revenues	944	3,472	4,250	4,073	12,739
	5,082	**18,690**	**22,837**	**21,924**	**68,533**
Interest Income	19	69	85	82	255
Amortization and Depreciation	345	707	865	829	2,746
Segment Income	229	120	2,709	885	3,943
Capital Expenditures	129	474	581	556	1,740
Segment Assets	1,662	23,328	28,557	27,364	80,911

A reconciliation of the revenues, income before taxes, and assets of the reportable segments to the Company's consolidated totals is as follows:

January 1 to December 31,	2002	2003
Revenues		
• Total Revenues for Reportable Segments	53,974	68,533
• Elimination of Intersegment Revenues	(8,862)	(12,739)
• Grand Revenues, as reported	**45,112**	**55,794**
Income before Taxes		
• Total Operating Income for Reportable Segments	471	3,943
• Unallocated Amount of Overhead	(345)	(124)
• Other Income, net	1,544	727
• Interest Income	627	255
• Consolidated Income before Taxes, as reported	**2,297**	**4,801**
Assets		
• Total Assets for Reportable Segments	70,252	80,911
• Unallocated Assets of Overhead	(2,234)	328
• Elimination of Intersegment Assets	(13,339)	(19,100)
• Total Group Assets, as reported	**54,679**	**62,139**

(Euro in thousands, except share data)

A distribution of revenues and net operating income for the regions Germany, Europe, and America in 2003 is as follows :

At December 31, 2003	Germany	Europe	America	Total
Group Revenues, as reported	28,934	18,278	8,582	55,794
Operating Income before Taxes	1,720	1,587	636	3,943

21. RISKS AND UNCERTAINTIES

The Company is engaged in the development and sale of a diversified range of products in four business segments: Document Management, Data Center Management, Security Management and Storage Management. Data Center Management, Security Management and Document Management contribute to the Company's revenues with approximately 30% each. The Company expects significant revenues from the new product SAM Jupiter. The new security solution offers secure access privileges for employees, business partners and customers but also Premium Security Management based on Security Provisioning and Automated Identity Management. A severe impact on the Company's earnings could result if the expected revenues from the new product can not be realized.

47% of the Company's revenue arises from sales of the two products Beta 92 and Beta 93. Price reductions or similar adverse impacts on these products could have a negative effect on the Company's planned results of operations. The Company is not dependent on any single customer. The Company estimates an allowance for doubtful accounts based on the creditworthiness of its customers as well as general economic conditions. Consequently, an adverse change in those factors could affect the Company's estimate of its bad debts.

The Company is exposed to foreign currency exchange risk related to its transactions, assets and liabilities denominated in foreign currencies. Assets held outside European borders amount to Euro 11,745.

22. RELATED PARTY TRANSACTIONS

Options issued to the Company's employees under the second tranche of the Plan 1997 (see note 14) were financed by a loan through the Company which, in 2002, amounted to Euro 98. In 2003, the options expired without exercise, and the loan was fully redeemed.

In connection with the stock incentive plan, convertible bonds held by members of the Supervisory Board and the Management Board of the Company as at 31 December, 2003 amounted to 25,000 and 78,800 options respectively (2002: 31,436 and 78,800 options respectively).

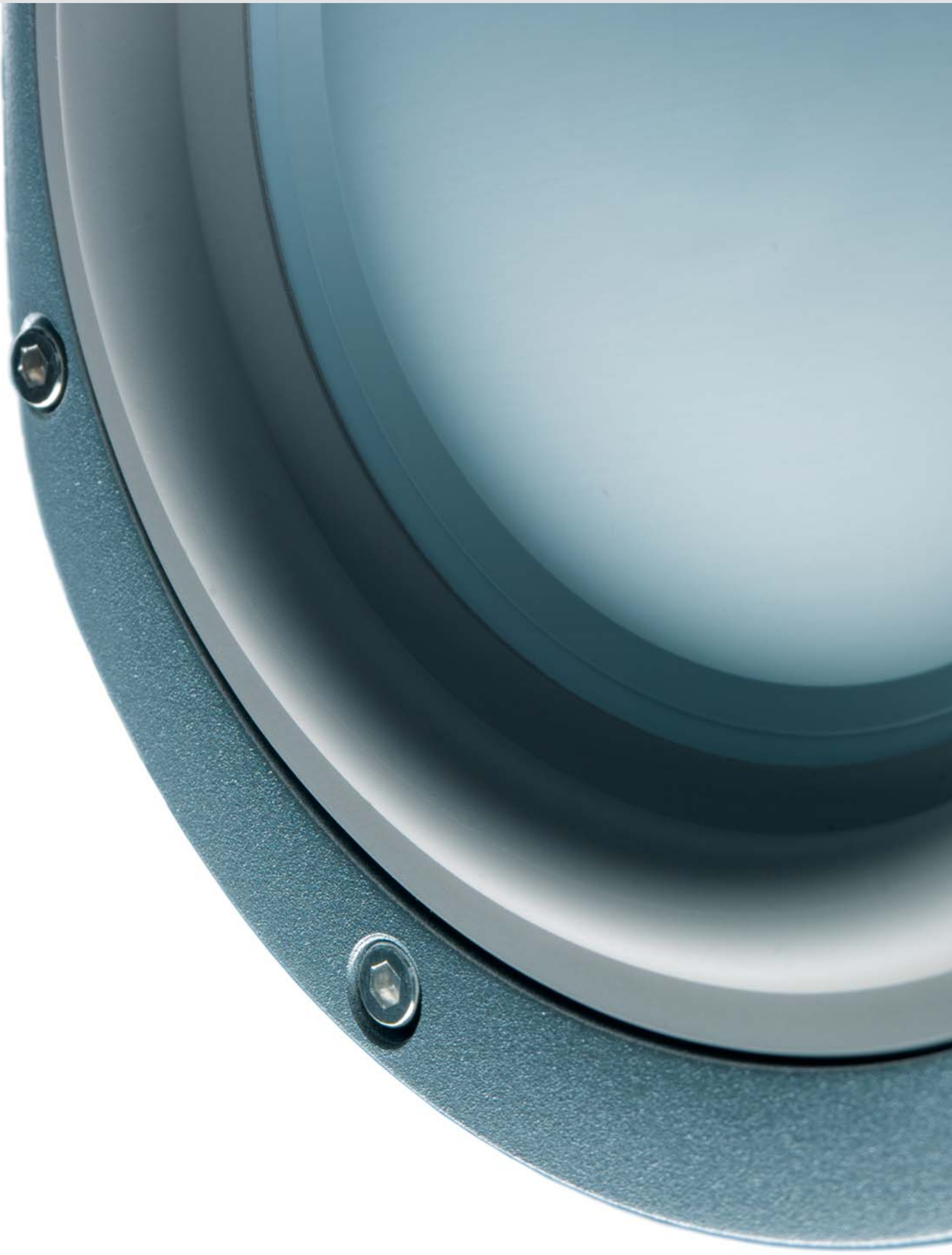
The Company maintains an agreement for consulting services with Mr. Harald J. Joos, member of the Company's Supervisory Board. In 2003, no payments were made to Mr. Joos in respect of the agreement.

23. NEW PRONOUNCEMENTS

FASB Statement No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, was issued in May 2003. This Statement establishes standards for the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. The Statement also includes required disclosures for financial instruments within its scope. The Statement is generally effective for financial instruments entered into or modified after May 31, 2003, and otherwise at the beginning of the first interim period beginning after June 15, 2003. FAS 150-3 has deferred certain provisions of Statement 150 for certain mandatory redeemable non-controlling interests. The Company currently does not have any financial instruments that are within the scope of this Statement.

In December 2003, FASB Statement No. 132 (revised), Employers' Disclosures about Pensions and Other Postretirement Benefits, was issued. Statement 132 (revised) prescribes employers' disclosures about pension plans and other postretirement benefit plans; it does not change the measurement or recognition of those plans. The Statement retains and revises the disclosure requirements contained in the original Statement 132. It also requires additional disclosures about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other postretirement

(Euro in thousands, except share data)



[Giving Impetus]

benefit plans. The Statement generally is effective for fiscal years ending after December 15, 2003. The Company's disclosures in note 12 incorporate the requirements of Statement 132 (revised).

In December 2003, the FASB issued FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities, which addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity. FIN 46R replaces FASB Interpretation No. 46, Consolidation of Variable Interest Entities, which was issued in January 2003. The Company would be required to apply FIN 46R to variable interests in VIEs created after December 31, 2003. For variable interests in VIEs created before January 1, 2004, the Interpretation would be applied beginning on January 1, 2005. For any VIEs that must be consolidated under FIN 46R that were created before January 1, 2004, the assets, liabilities and non-controlling interests of the VIE initially would be measured at their carrying amounts with any difference between the net amount added to the balance sheet and any previously recognized interest being recognized as the cumulative effect of an accounting change. If the carrying amounts can not be determind, fair value at the date FIN 46R first applies may be used to measure the assets, liabilities and non-controlling interest of the VIE. The application of this Interpretation is not expected to have an effect on the Company's Consolidated Balance Sheet.

SUPPLEMENTS

DEVELOPMENT OF THE GROUP´S ASSETS

			Acquisition Costs		
Euro0 in thousands	**Balance 01.01.2003**	**Additions**	**Exchange Rate Differences (+/-)**	**Disposals**	**Balance 31.12.2003**
Intangible Assets					
• Capitalized Software Development Costs	16,704	2,348	23	1,989	17,086
• Goodwill, Licenses	7,124	1,661	(55)	0	8,730
	23,828	**4,009**	**(32)**	**1,989**	**25,816**
Fixed Assets					
• Computer Equipment	6,869	1,659	12	172	8,368
• Leasehold Improvements	1,033	288	220	132	1,409
• Facilities and Office Equipment	1,360	(207)	(60)	92	1,001
	9,262	**1,740**	**172**	**396**	**10,778**
Financial Assets					
• Bonds and Securities	49	0	0	0	49
• Other Long-Term Loans	175	9	0	0	184
• Pension Insurance	521	51	0	0	572
	745	**60**	**0**	**0**	**805**
	33,835	**5,809**	**140**	**2,385**	**37,399**

(Euro in thousands, except share data)

	Accumulated Depreciation					Net Book Value	
	Balance 01.01.2003	Depreciation Current Year	Exchange Rate Differences (+/-)	Disposals	Balance 31.12.2003	31.12.2002	31.12.2003
	13,816	1,070	(1)	1,989	12,896	2,888	4,190
	7,124	47	5	0	7,176	0	1,554
	20,940	**1,117**	**4**	**1,989**	**20,072**	**2,888**	**5,744**
	5,012	1,744	(181)	107	6,468	1,857	1,900
	125	62	301	13	475	908	934
	873	(177)	145	135	706	487	295
	6,010	**1,629**	**265**	**255**	**7,649**	**3,252**	**3,129**
	22	0	0	0	22	27	27
	173	0	0	0	173	2	11
	0	0	0	0	0	521	572
	195	**0**	**0**	**0**	**195**	**550**	**610**
	27,145	**2,746**	**269**	**2,244**	**27,916**	**6,690**	**9,483**

(Euro in thousands, except share data)

SUPPLEMENTS TO THE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FISCAL YEAR 2003

Consolidation of Capital / First Consolidation

The Company consolidates its capital in accordance with the purchase method. The date of first consolidation coincides with the subscription date. On this date, the value of the goodwill is calculated.

Contingent Capital / Authorized Capital

The share capital at December 31, 2003 amounts to Euro 10,278,781.88, divided into 4,020,710 shares (2002: Euro 10,161,749.73, divided into 3,974,931 shares). The contingent capital in accordance with § 4 para. 8 of the articles of association, amounts to Euro 924,180.53, divided into 361,508 shares, and the "contingent capital 1999" in accordance with § 4 para. 9 of the articles of association amounts to Euro 766,937.82, divided into up to 300,000 shares.

With effect from the Annual Shareholders' Meeting on May 16, 2000, the following changes to the articles of association were agreed: with the approval of the Supervisory Board, the Management Executive Board is entitled to increase the share capital of the Company, until May 31, 2004 in one or more stages by up to Euro 920,325.39 by issuing new shares against cash contributions or payment in kind (authorized capital I).

A subscription right is to be awarded to the shareholders. With the approval of the Supervisory Board, the Management Executive Board is entitled to exempt contributions in kind from the subscription right of the shareholders. With the approval of the Supervisory Board, the Management Executive Board is also entitled to exclude the subscription right of shareholders, if deemed necessary, in order to grant the bearers of convertible bonds a subscription right to the number of new shares to which they would be entitled after exercising their conversion rights.

Moreover, with the approval of the Supervisory Board, the Management Executive Board is further entitled to exclude the subscription right of shareholders providing that the capital increase through non-cash contributions is effected for the purpose of the acquisition of companies or participation in companies.

With the approval of the Supervisory Board, the Management Executive Board is entitled to increase the share capital, until May 31, 2004 in one or more stages by up to a total of Euro 364,850.23 by issuing new shares against cash contributions to grant shares to employees of the Company and affiliated domestic and foreign Companies (authorized capital II). The legal subscription right of the shareholders is excluded.

The balance of the unused contigent capital of Euro 924,180.53 at December 31, 2003 comprises 361,508 shares based on conversion rights of 206,000 options.

Personnel Expenses (without expenses for stock options granted)

Personnel expenses for the fiscal years 2002 and 2003 were as follows:

		2002		2003
Wages and Salaries	TEUR	22,678	TEUR	26,804
Social Contributions	TEUR	3,033	TEUR	4,243
Total	**TEUR**	**25,711**	**TEUR**	**31,047**

Performance unrelated to Reporting Period

Of other operating income and expenses, TEUR 0.6 and TEUR 0.3 are to be allocated to other financial years, respectively.

Average Number of Employees

The average number of employees of 368 in the fiscal year 2003 (327 in 2002) was allocated as follows:

	2002	2003
Administration	55 Employees	52 Employees
Sales	118 Employees	140 Employees
Development	154 Employees	176 Employees

Declaration of Conformity with German Corporate Governance Code

In 2003 the Boards of the Company signed the declaration of conformity in accordance with § 161 of the German Stock Corporation Act (AktG) and published this on its corporate Internet website at www.betasystems.com.

Boards of the Company

Management Executive Board

Management Executive Board members of the company in the fiscal year 2003 were:

- Mr. Dipl.-Kfm. Karl-Joachim Veigel as Chief Executive Officer,
- Mr. Dipl.-Ing. Dr. Oskar von Dungern,
- Mr. Dipl.-Wirt.-Ing. (FH) Ralf Männlein.

Payments to the Management Executive Board in the fiscal year 2003:

Jan 1, 2003 to Dec 31, 2003, in Euro	Fixed Salary	Variable Salary	Total Salary	Stock Options Granted
Karl-Joachim Veigel	206,050.63	132,565.15	338,615.78	None
Dr. Oskar v. Dungern	158,790.00	34,435.51	193,255.51	None
Ralf Männlein	173,901.55	59,667.76	233,569.31	None
Total	**538,742.18**	**226,668.42**	**765,410.60**	**None**

In respect of future pension obligations due to previous members of the Management Executive Board, benefit accruals were increased in 2003 by TEUR 27 (2002: TEUR 25).

Supervisory Board

Member of the Supervisory Board of the Company in the fiscal year 2003 were:

- Mr. Dipl.-Ing. Harald J. Joos, CEO of Demag & Components GmbH, Chairman of the Supervsiory Board, Berlin,
- Mr. Dipl.-Ing. Alfred H. Tauchnitz, Supervsiory Board, as Vice Chairman, Berlin (until April 23, 2003),
- Dr. Karl Kauermann, CEO of Berliner Volksbank eG, Vice Chairman of the Supervisory Board, Berlin (from May 19, 2003),
- Mr. Bernhard Auer, Executive Consultant, Munich,
- Mr. William P. Schmidt, Supervisory Board Member, Berlin (from July 07, 2003),
- Ms. Martina Dymala, Product Quality Engineer, as Employee Representative, Berlin,
- Mr. Stefan Hillenbach, Business Development Manager Services, as Employee Representative, Berlin.

Mr. Harald J. Joos is member of the Supervisory Boards of:

- the Berliner Volksbank eG, Berlin,
- Schindler Deutschland Holding GmbH, Berlin,
- Gemeinnützige Siedlungs- und Wohnungsbaugesellschaft mbH, Berlin.

Dr. Karl Kauermann holds the following memberships in other Supervisory Boards:

- DEGEWO Deutsche Gesellschaft zur Förderung des Wohnungsbaues gemeinnützige Aktiengesellschaft, Berlin, as Chairman,
- GASAG Berliner Gaswerke AG, Berlin, as Chairman,
- VIVANTES Netzwerk für Gesundheit GmbH, Berlin,
- TLG Treuhand Liegenschaftsgesellschaft mbH, Berlin,
- Specker Bauen AG.

Mr. Auer is member of the following Supervisory Boards:

- Carnot AG, Frankfurt,
- Serenata AG, Munich.

Mr. Schmidt acts as Vice Chairman on the Supervisory Board of Emprise Management Consulting AG, Hamburg.

The Supervisory Board members Tauchnitz, Hillenbach and Dymala hold no other mandates.

Payments to the Supervisory Board in the fiscal year 2003:

Jan 1, 2003 to Dec 31, 2003, in Euro	Fixed Salary	Variable Salary	Total Salary	Stock Options Granted
Harald J. Joos	15,400.00	-	15,400.00	None
Alfred H. Tauchnitz	3,037.81	-	3,037.81	None
Dr. Karl Kauermann	10,083.84	-	10,083.84	None
Bernhard Auer	7,700.00	-	7,700.00	None
William P. Schmidt	3,670.68	-	3,670.68	None
Martina Dymala	7,700.00	-	7,700.00	None
Stefan Hillenbach	7,700.00	-	7,700.00	None
Total	**55,292.33**	**-**	**55,292.33**	**None**

In addition, 25,000 stock options are held by members of the Supervisory Board. These can be exercised under certain conditions until 2006.

Disclosure of Directors' Holdings of Beta Systems Software AG (unaudited)

At December 31, 2003	Shares	Stock Options
Management Board		
Karl-Joachim Veigel	61,720	29,600
Ralf Männlein	4,100	24,600
Dr. Oskar von Dungern	2,020	24,600
Supervisory Board		
Harald J. Joos	1,000	5,000
Dr. Karl Kauermann	-	5,000
Bernhard Auer	-	5,000
William P. Schmidt	534,034	-
Martina Dymala	170	5,000
Stefan Hillenbach	2,644	5,000
Beta Systems Software AG		
Treasury Stock	60,305	-

Explanation of the general principles of accounting, valuation and consolidation applied to the consolidated financial statements, where different from German GAAP

Fundamental Differences

There are fundamentally different lines of thinking behind German GAAP and US GAAP. Whereas accounting according to the German GAAP focuses on the principles of conservatism and creditor protection, the providing of information relevant to the decision-making process for shareholders is the prior aim of US GAAP.

Therefore both the comparability of annual financial statements over a number of years as well as those of different companies, and the calculation of profits on an accrual basis according to US GAAP is given a higher importance than that according to German GAAP.

Accrued Expenses

In US accounting practice, provisions are usually not separately disclosed but included under the "accrued expenses and other current liabilities". In order to fulfill the conditions of EU directives, we provide a breakdown of this item in the Notes.

The possibilities for accruing provisions are far more restrictively regulated under US GAAP than under German GAAP. Provisions are required to be accrued when a liability to a third party exists, if this is likely to be exercised and if the anticipated amount of the necessary provision can be accurately estimated. Provisions for operating expenses are not permitted according to US GAAP.

Contrary to German GAAP, pension accruals are calculated taking into consideration expected wage and salary increases. The discounting rate of 6% applicable under German tax law is not used as a basis for this calculation, as the real interest rate has greater effect on the US value.

Goodwill

According to US regulations goodwill has to be reported and depreciated over its anticipated useful life. The estimated life depends on the nature of the acquired business. Although possible according to the German Commercial Code, the offsetting of goodwill against equity is not permitted.

According to the revised regulations of SFAS 142, Goodwill and Other Intangible Assets, effective for financial years beginning after December 15, 2001, goodwill is no longer amortized but instead tested annually for impairment under certain circumstances.

Proprietary Software

Principally, research and development costs cannot be capitalized according to either German GAAP or US GAAP (§ 248 para. 2, German Commercial Code / Statement of Financial Accounting Standards,"FAS", No. 2). However, in contrast to German GAAP, US GAAP stipulates that research and development costs in connection with the development and fundamental improvement of software products must be capitalized. It is necessary to specify whether the software is intended for sale to a third party (FAS 86) or for the Company's own use (Statement of Position 98-1). In both cases, the costs incurred until technical feasibility is ascertained, are to be expensed. Once technical feasibility is ascertained, the development costs for software (subsequently only in the case of sale to a third party) are to be capitalized from the date of technical feasibility up to general availability. This usually applies to costs in connection with programming and testing. The costs for material, the developers' labour costs attributable to the project, and overhead costs attributable to the project must also be capitalized.

Revenue Recognition of Multiple-Element Arrangements

In most cases Beta Systems provides licenses inclusive of service and maintenance (partly free of charge in the first year) as well as an entitlement to free version upgrades (multiple-element arrangement). In comparison with German GAAP revenue is recognized according to US GAAP if:

- persuasive evidence of an arrangement exits,
- delivery has occured,
- the fee is fixed or determinable,
- collectibility is probable.

If the delivery has not occurred yet or the service has not been performed, respective revenue is realized successively. While according to German GAAP the recognition of revenues is determined in accordance with the revenues allocated to the various elements of the sales contract, revenue allocation according to US GAAP is based on the fair values of the various elements. Within the scope of revenue recognition, the revenue allocation between delivered licenses and elements not yet delivered may vary if different discounts are offered on the various elements of the contract. Under US GAAP, an overall discount is allocated to all elements equally. As a result, revenues agreed in a contract may differ from revenues recognized.

Leasing arrangements for licenses are recognized over the term of leasing period under the German Commercial Code. US GAAP makes no distinction between ongoing and limited licenses, so that the license portion contained in leasing agreements can be realised immediately for all accounting periods.

Unrealized Gains and Losses

According to German GAAP and the imparity principle, only unrealized losses are recognized, whereas according to US GAAP certain unrealized gains must also be reported. This is particularly the case in respect of unrealized foreign currency gains resulting from the conversion at period-end exchange rates of foreign currency denominated balances and of derivative financial instruments.

Deferred Taxes

According to US GAAP there is an obligation to recognize deferred tax assets and liabilities resulting from temporary differences between the tax valuation and the commercial balance sheets. Tax losses carried forward have commercial use due to the future reduction of tax payments due. At the time of the accrual of the loss, the future (deferred) tax advantage is to be shown as an asset on the balance sheet according to its feasibility.

Stock based Compensation

According to US GAAP, stock based compensation must be reported as expenses in the operating income statement. Under US GAAP the expenses may be accounted for according to FAS 123 or according to APB 25 (with additional disclosures according to FAS 123). The Company has adopted the method according to APB 25. In the financial statements relating to commercial law, no expenses would be recorded.

SUMMARY OF HOLDINGS AT DECEMBER 31, 2003 (UNCONSOLIDATED DATA)

Company	Local Currency	Share Capital in Local Currency	Equity at 31.12.2003 in Local Currency	Income (Loss) in 2003 in Local Currency	Holdings in %	Share Capital in TEUR	Equity at 31.12.2003 in TEUR	Income (Loss) in 2003 in TEUR
• Beta Systems Software France SARL Saint Thibault des Vignes, France					100	763	1,368	261
• Beta Systems EDV-Software Ges. mbH Vienna, Austria					100	36	238	106
• Beta Systems Software Ltd. Reading, Great Britain	TGBP	400	(191)	(327)	100	565	(270)	(473)
• Beta Systems Software SRL Mailand, Italy					100	52	1,629	492
• Betann Systems AB Sundbyberg, Sweden	TSEK	3,200	6,916	(1,862))	100	353	762	(205)
• Beta Systems Software BV Nieuwegein, The Netherlands					100	23	410	(51)
• Beta Systems Software AG Zürich, Switzerland	TCHF	100	967	802	100	64	620	543
• Beta Systems Software SPRL Waterloo, Belgium					100	50	115	14
• Beta Systems Software Espana SL Madrid, Spain					100	180	(311)	(233)
• Beta Systems Marketing GmbH Berlin, Germany (Profit Distribution)					100	26	26	5
• Beta Systems Software of North America, Inc., Peachtree City, GA, USA	TUSD	400	9,342	(19,891)	100	317	7,409	(16,960)

The result of Beta Systems Software of North America, Inc. includes a non-cash loss on the merger of USD 19,948 (Euro 17,022).

Beta Systems Software of North America, Inc. wholly owns Beta Systems Software of Canada Inc. (formerly Tantia Technologies Canada Inc.), which therefore belongs to the indirect holdings:

• Beta Systems Software of Canada Inc. Calgary, Canada	TCAD	31,356	(14,149)	(690)	100	21,468	(8,686)	(450)

Beta Systems Software Pty Ltd., Sydney, Australia was deregistered and liquidated on November 21, 2003.

Tantia Technologies, Inc., Boulder, USA was merged with Beta Systems Software of North America, Inc., Peachtree City, GA, USA.

The balances of the equity and the 2003 financial net income (loss) amounts result from the financial statements of the entities established in accordance with US GAAP (unconsolidated). The balance sheets of foreign subsidiaries were translated to TEUR on the basis of period-end exchange rates, while the income statements were translated using average exchange rates during the period.

(Euro in thousands, except share data)

BETA SYSTEMS WORLDWIDE

Austria
Beta Systems EDV-Software GmbH
Hauptstraße 3c
A-3012 Wolfsgraben
(43) (2233) 55866

Belgium
BVBA Beta Systems Software SPRL
Avenue des Chasseurs 1
B-1410 Waterloo
(32) (2) 3520 480

Canada
Beta Systems Software of Canada Inc.
Suite 1900
840 - 7th Avenue SW
Calgary, Alberta
T2P 3G2
(1) (403) 2319 800

France
Beta Systems Software France SARL
2, Rue Paul Henry Spaak
Saint Thibault des Vignes
F-77462 Lagny sur Marne Cedex
(33) (1) 6412 7980

Germany
Beta Systems Software AG
Alt-Moabit 90d
D-10559 Berlin
(49) (30) 726 1180

Great Britain
Beta Systems Software Ltd.
Highlands House
Basingstroke Road, Spencers Wood
GB-Reading RG7 1NT
(44) (1189) 885 175

Italy
Beta Systems Software SRL
Via Stephenson No 43/A
I-20157 Milan
(39) (2) 3320 2251

Netherlands
Beta Systems Software BV
Weverstede 5a
NL-3431 JS Nieuwegein
(31) (30) 602 2140

Sweden
Betann Systems AB
Kavallerivägen 30
Rissne Centrum
Box 2099
S-17402 Sundbyberg
(46) (8) 733 0045

Switzerland
Beta Systems Software AG
Bettlistraße 28
CH-8600 Dübendorf
(41) (43) 35524

Spain
Beta Systems Software Espana SL
Avda. de la Victoria N. 42
E-28023 El Plantio, Madrid
(34) (91) 307 76 75

USA
Beta Systems Software of North America, Inc.
PMB 209
156 Peachtree East
Peachtree City
Atlanta, GA 30269
(1) (678) 364 9906

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WWW.ART-KON-TOR.DE