

QUARTERLY REPORT

Beta Systems announces results for the Third Quarter of 2004

Berlin, November 8, 2004 – Beta Systems Software AG (Prime Standard: BSS, ISIN: DE 0005224406) announces its results for the third quarter and the first nine months ended September 30, 2004.

Financial Highlights for Third Quarter 2004, Beta Systems including Kleindienst

- Increase in revenue by 100.4% to Euro 27.0 million (Q3 2003: Euro 13.5 million)
- Non-recurring expenses of Euro 0.3 million associated with staff downsizing after Beta Systems takes over central administrative duties of Kleindienst Datentechnik AG
- Slight operating loss of Euro 0.5 million (Q3 2003: operating income of Euro 1.7 million)
- Pre-tax loss of Euro 0.5 million (Q3 2003: income before taxes of Euro 2.0 million)
- Slight net loss of Euro 0.5 million or Euro 0.13 per share
(Q3 2003: net income of Euro 0.9 million or Euro 0.22 per share)

Financial Highlights for First Nine Months 2004, Beta Systems including Kleindienst

- Increase in revenue by 88.6% to Euro 67.1 million (9M 2003: Euro 35.6 million)
- Exceptional items amounting to Euro 1.0 million due to non-cash expenses for stock options and issuing of employee shares in first and second quarter of 2004
- Non-recurring expenses of Euro 0.9 million attributable to integration
- Operating loss of Euro 2.1 million (9M 2003: operating income of Euro 0.6 million)
- Pre-tax loss of Euro 1.5 million (9M 2003: income before taxes of Euro 1.4 million)
- Net loss of Euro 1.5 million or Euro 0.37 per share
(9M 2003: Euro 0.5 million or Euro 0.13 per share)

Financial Highlights for Third Quarter 2004, Beta Systems excluding Kleindienst (Pro Forma)

- Decline in revenue by 14.0% to Euro 11.6 million (Q3 2003: Euro 13.5 million)
- Operating loss of Euro 1.0 million (Q3 2003: operating income of Euro 1.7 million)

Financial Highlights for First Nine Months 2004, Beta Systems excluding Kleindienst (Pro Forma)

- Revenue of Euro 35.4 million comparable to that generated in 9M 2003 (Euro 35.6 million)
- Operating loss of Euro 3.6 million (9M 2003: operating income of Euro 0.6 million)

Comments of the Management Board

“We have been experiencing stiffer competition and downward pressure on prices within our operating business. Despite this challenging situation, towards the end of the third quarter we managed to outperform well-established competitors by securing a major ECM contract from one of Germany’s leading IT service enterprises. Overall, however, the IT market remains volatile, particularly as it is still facing hesitant capital expenditure by customers. It is unlikely that we will see any fresh impetus from the economy in the coming months. Having said that, we are confident that several new projects will materialize in the near future, particularly within the area of Security Management, where demand remains buoyant. Indeed, this may lead to a number of large-scale business contracts in the fourth quarter of the year, traditionally a particularly strong period for our company,” said Karl-Joachim Veigel, CEO of Beta Systems Software AG, commenting on the results.

“Operating against this backdrop, we are standing by our forecasts and remain confident that the revenue target of Euro 100 million for the Group will be attained for the year. However, if our fourth-quarter business follows the trend of the preceding quarters, our pre-tax profit margin is likely to be around 5%, which would be at the lower end of our original forecast for the year. This is also due to the exceptional items accounted for in our bottom-line results,” added Karl-Joachim Veigel.

Integration of Kleindienst Datentechnik AG

- Supervisory Board appoints Dietmar Breyer as member of the Management Board responsible for sales, services and marketing at Beta Systems: former CEO of Kleindienst becomes Deputy Chairman of Beta Systems Management Board
- Beta Systems and Kleindienst sign service agreement covering the takeover of central administration and management duties: main focus on reducing redundant costs
- “Input meets Output”: first joint trade show with Kleindienst at DMS EXPO 2004 in Essen
- Success story: First Rand Group opts for solution put forward by Kleindienst and Waymark: scanners/sorters for automated processing of documents in South Africa

Effective from September 15, 2004, the Supervisory Board of Beta Systems Software AG appointed Mr. Dietmar Breyer as Deputy Chairman of the Management Board. Mr. Breyer, who will also be assuming responsibility for sales, services, and marketing at Beta Systems, previously held the position of CEO at Kleindienst Datentechnik AG. Prior to that, he was Managing Director of FileNet GmbH. His track record also includes management positions at Interleaf, CGI Deutschland, and IBM Deutschland. Dietmar Beyer will be focusing his efforts on creating an efficient, performance-driven sales, service, and marketing organization that channels the unique strengths of Beta Systems and Kleindienst, while at the same time delivering unparalleled customer- and market-orientation. The companies’ sales and service organizations are to be merged in the coming fiscal year. This next milestone of corporate integration is regarded as an important strategic move,

particularly in view of the fact that Beta Systems intends to leverage location-, product-, and solution-specific cross-selling potential within its existing client base and among new customers.

The service agreement concluded between Beta Systems and Kleindienst Datentechnik AG in the third quarter marked an important step towards integration, thus paving the way for the gradual merging of joint IT-related organizational and management activities. In signing the agreement, Beta Systems will assume control of a number of Kleindienst Group's central corporate functions, ranging from financial management and accounting, controlling, HR management and payroll accounting to marketing and investor relations. The main rationale behind this move is to scale back redundant costs as soon as possible. Non-recurring expenses relating to staff cutbacks at the Augsburg location amounted to Euro 0.3 million and were accounted for accordingly as part of provisioning. In aggregate, Kleindienst posted operating income of Euro 0.5 million in the third quarter, thus making a positive contribution to the operating result of the Beta Systems Group.

As announced in August 2004, First National Bank, a subsidiary of the First Rand Group South Africa, placed an order with Kleindienst for innovative scanners/sorters. This hardware will be deployed within the bank to scan checks and various other documents, extract relevant information, and automatically sort/distribute and archive the documents.

Under the heading "Input meets Output", Beta Systems and Kleindienst presented their joint product portfolio within the area of ECM at this year's DMS EXPO trade show held in September 2004. The presentation also included product innovations designed to capture, process, and distribute data from incoming mail and other documents, using various input channels (Multi-Channel Input Management), as well as solutions for the cross-enterprise distribution and archiving of printed documents in various output channels (Multi-Channel Output Management).

Other Events

- Beta Systems and Compart Systemhaus finalize OEM agreement

Beta Systems and Compart Systemhaus GmbH have concluded a cooperation agreement for OEM business. The new Beta Web Enabler component AFP-2-PDF uses technology developed by Compart for so-called "on the fly" conversion of data streams in PDF documents. The converter technology facilitates direct online access to the print output of data centers and IT service providers, using existing browsers. The new component is currently being deployed for the first time as part of a client project for a Spanish financial services provider. One of the main objectives is to provide online access to account information for more than 1,000 bank customers a day.

Financial position, performance, and cash flows of Beta Systems Group, including the Kleindienst Group

The information contained in the following sections refers solely to the consolidated results of the Beta Systems Group, including the Kleindienst Group. In specific areas, the acquisition and integration of Kleindienst Datentechnik AG is deemed to have had a substantial impact on the financial position, financial performance, and cash flows of the Beta Systems Group as well as its financial reporting. In order to maintain transparency and comparability with the applicable period of the preceding fiscal year, a pro forma overview has been included in the consolidated financial statements, effective from the second quarter of 2004. The latter outlines the results of the Beta Systems Group without the results of the Kleindienst Group.

Development of Revenue

The Company's revenues are generated through software licenses, maintenance agreements, and services. The revenues attributable to the consolidation of Kleindienst Datentechnik AG are also mainly associated with software licenses, maintenance agreements, and services; additional revenues are generated with company-produced hardware (e.g. scanner systems) and third-party hardware (e.g. PC workstations and servers). As the former reporting structure used by Kleindienst Datentechnik AG did not differentiate between the various categories of revenue, all revenues generated by Kleindienst are reported separately as an aggregate figure.

As a result of the acquisition of Kleindienst Datentechnik AG, revenues increased by 100.4% to Euro 27.0 million in the third quarter of 2004, from Euro 13.5 million in the same period a year ago. Beta Systems succeeded in securing a number of license and license upgrade agreements with major international companies, e.g. with IBM France (IT services, France), IBM UK (IT services, United Kingdom), Toyota Motor Europe (automobiles, United Kingdom), GIE AMT (IT services, France), Consorzio Operativo Gruppo MPS (IT services, Italy) in Europe and with IMS Progressive Insurance (insurance, USA) as well as The Vanguard Group (IT software, USA) in North America. In Germany, T-Systems (IT services), Bundesamt für Informatik (public sector administration), Alte Leipziger Lebensversicherung (insurance), Deutsche Genossenschafts-Hypothekenbank (financial services), as well as Stadtparkasse Munich (financial services) signed agreements with Beta Systems.

Revenues from licenses decreased by 26.7% to Euro 3.9 million in the third quarter of fiscal 2004, down from Euro 5.4 million in the third quarter of fiscal 2003. The decline is mainly attributable to lower sales from new licenses (12.5% of total revenue). Revenues from new licenses amounted to Euro 3.4 million in the third quarter of 2004, in contrast to Euro 4.1 million in the third quarter of 2003. This corresponds to a decline of 18.1%. At the same time, revenues from license upgrades (2.1% of total revenue) decreased to Euro 0.6 million in the third quarter of 2004, down from Euro 1.3 million in the third quarter of 2003. Maintenance revenues (22.7% of total revenue) declined slightly by 4.5% to Euro 6.1 million in the period under review, down from Euro 6.4 million in the third quarter of 2003. This was mainly prompted by exchange rate changes compared with the same period a year ago. Revenues generated from Services (5.6% of total revenue) decreased by 9.4%, down from Euro 1.7 million in the third quarter of 2003, to Euro 1.5 million in Q3 2004. The consolidation of Kleindienst Datentechnik AG contributed additional revenues of Euro 15.4 million (57.1% of total revenue).

Performance of Business Segments

Owing to the acquisition of Kleindienst Datentechnik AG, the management of Beta Systems has decided to perform its Segment Reporting on the basis of the business segments "Data Center Management", "Enterprise Content Management", "Security Management", and "Storage Management". All revenues and results attributable to the Beta-Systems business segment "Document/Output Management" and the "Document/Input Management" operations within Kleindienst Datentechnik AG's "Enterprise Systems" segment have been included in the newly established "Enterprise Content Management" segment. Due to its specific characteristics the business segment "Outsourcing Service" of Kleindienst Datentechnik AG will be reported separately, because within this segment the main business is providing services in the area of paper-based payment transaction processing as an outsourcing partner for major German banks.

In the third quarter of 2004, revenues generated by the business segments Data Center Management, Enterprise Content Management, Security Management, and Storage Management amounted to 13.1% (30.8%), 61.8% (30.1%), 9.6% (32.6%) and 2.8% (6.4%) of revenues respectively (Q3 2003 values in brackets). Kleindienst Datentechnik AG's Outsourcing Services business contributed 12.7% to the total revenues in Q3 2004. Compared with the third quarter of fiscal 2003, revenues generated by the Enterprise Content Management increased by 310.9%. Security Management, Data Center Management, and Storage Management registered a decline in revenues of 40.7%, 15.1%, and 12.5% respectively.

At Euro 0.2 million, operating income for the Data Center Management segment was positive in the period under review (Q3 2003: Euro 0.6 million). Operating income generated by the Enterprise Content Management segment increased to Euro 0.3 million in the third quarter of 2004, compared with a break-even result posted for the same period a year ago. As a result of more substantial investments in research and development, Security Management recorded an operating loss of Euro 1.1 million in the third quarter of 2004, after positive operating income of Euro 0.8 million in the same period a year ago. The Storage Management recorded operating loss of Euro 0.1 million in the third quarter of fiscal 2004, compared with operating income of Euro 0.3 million in the same period a year ago. The segment Outsourcing Service of Kleindienst Datentechnik AG generated an operating income of Euro 0.4 million in the third quarter 2004.

Gross Profit

Gross profit increased by 27.6% to Euro 12.6 million in the third quarter of 2004, compared with Euro 9.9 million in the third quarter of 2003. The Company's gross profit margin declined to 46.7% in the third quarter of 2004, down from 73.3% in the same period a year ago. The downward shift was attributable chiefly to the higher proportion of hardware (third-party and company-produced goods) in the cost of sales of Kleindienst Datentechnik AG, which had an adverse effect on the gross profit margin. In addition, Beta Systems recorded a negative gross-profit contribution within the area of Services.

As the former reporting structure used by Kleindienst Datentechnik AG did not differentiate between the various categories of cost of sales, all manufacturing costs and costs of goods sold attributable to Kleindienst are reported separately as an aggregate figure. The gross profit margin of Kleindienst was 34.0%.

Costs and Expenses Development

Operating expenses increased by Euro 4.9 million, or 60.3%, to Euro 13.1 million in the third quarter of 2004, compared with Euro 8.2 million in the third quarter of 2003. The substantial increase in expense items for sales, research and development, as well as general administration is mainly due to the consolidation of the corresponding expense items attributable to Kleindienst Datentechnik AG. As outlined above, non-recurring expenses associated with the integration of Kleindienst Datentechnik AG amounted to Euro 0.4 million in the third quarter of 2004.

Selling expenses increased by 40.4% year on year to Euro 6.0 million (Q3 2003: Euro 4.3 million). General and administrative expenses rose by 89.3% to Euro 3.6 million (Q3 2003: Euro 1.9 million). Research and development costs amounted to Euro 3.2 million in the third of 2004 (Q3 2003: Euro 1.9 million), an increase of 67.3%. Within this context, additional expenditure on research by Kleindienst and a recruitment drive at the development unit in Cologne prompted an increase in costs. The increase in staffing levels at the end of 2003 was aimed, in particular, at expediting development processes for the Open Systems version of the Security Administration Manager (SAM).

As a result of the increase in overall revenues, operating expenses as a percentage of revenues fell from 60.7% in Q3 2003 to 48.5% in the third quarter of 2004.

Income

In the third quarter of 2004, Beta Systems recorded a slight operating loss of Euro 0.5 million, compared with above-par operating income of Euro 1.7 million in the same period a year ago. The Company generated other income amounting to Euro 0.2 million. The loss before interest and taxes (negative EBIT) amounted to Euro 0.3 million in the third quarter of 2004, compared to earnings before interest and taxes of Euro 2.0 million in the third quarter of 2003. Interest expense totalled Euro 0.2 million (Q3 2003: approx. 0). The loss before taxes was Euro 0.5 million in the third quarter of 2004 (Q3 2004: earnings before taxes of Euro 2.0 million).

Income Tax and Net Result

Taking into account a tax credit of Euro 0.1 million in the third quarter, the net loss for the third quarter of 2004, after deduction of minority interests at Kleindienst, was Euro 0.5 million, or Euro 0.13 loss per share, in contrast to a net income of Euro 0.9 million, or Euro 0.22 income per share, in the third quarter of 2003. During the third quarter of 2004, the weighted average number of shares outstanding was 4,055,652 (Q3 2003: 3,914,626).

Financial Position

As at September 30, 2004, Beta Systems had cash and cash equivalents amounting to Euro 10.4 million, and shareholders' equity of Euro 30.2 million, compared with cash and cash equivalents of Euro 14.8 million, and shareholders' equity of Euro 31.7 million at December 31, 2003. At Group level the decline in cash and cash equivalents as a direct result of the acquisition of a majority interest in Kleindienst was counterbalanced to a certain extent by the consolidation of cash and cash equivalents of Kleindienst Datentechnik AG in the amount of Euro 10.2 million.

Overall, long-term debt attributable to the Beta Systems Group increased to Euro 21.0 million as a result of utilizing a loan for the purchase of additional Kleindienst shares and the inclusion of existing long-term borrowings of Kleindienst.

Shareholders' equity

Owing to conversion rights exercised in connection with the stock option plan for senior management of Beta Systems Software AG, 47,800 new shares were issued in the third quarter of 2004; the share capital increased by Euro 0.1 million to Euro 10.6 million.

Personnel

Within the Beta Systems Group, excluding Kleindienst, the number of staff employed increased from 381 at the end of fiscal 2003 to 393 at September 30, 2004. As of September 30, 2004, the Kleindienst Group had a staff complement of 601 (2003: 577). Thus, the combined workforce for both companies was 994 at the end of the third quarter of 2004.

Conference Call

The Management Board will comment on the financial results for the third quarter of 2004 as part of a conference call to be held on **Monday, 8 November 2004**. The conference call will take place at **14:00 CET** and can be accessed by calling +44(0)20 7984 7569 (**Access Code: "betasystems"**). A tape recording of the telephone conference will be available for twenty-four hours. This recording can be accessed by calling +44 (0)20 7984 7578 (Access Code: 877975).

The Management Board

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

At September 30, 2004	Number of shares
Management Board	
Karl-Joachim Veigel	81,720
Dr. Oskar von Dungern	15,520
Dietmar Breyer	-
Supervisory Board	
Harald J. Joos	-
William P. Schmidt	534,166
Dr. Karl Kauermann	-
Bernhard Auer	-
Stefan Hillenbach	2,144
Martina Dymala	1,170
Beta Systems Software AG	
Treasury stock	60,305

None of the Supervisory Board or Management Board members currently holds warrants or conversion rights to shares of Beta Systems Software AG. All rights previously attributable to these parties have been exercised over the course of fiscal 2004 or have lapsed.

Beta Systems Software AG, Berlin, Germany

Beta Systems Software AG (Deutsche Börse - Prime Standard: BSS) is a leading provider of intelligent, high-performance solutions for the administration of bulk data. Beta Systems supplies software which enables companies to streamline and simplify their data center, backup, and document management processes. The company specializes in the automation and optimization of its customers' high volume data processing systems, focusing on handling, storing, and distributing data and documents in the most cost effective and intelligent way. Beta Systems' customers are typically large organizations in the industrial, finance, telecommunications, energy, service, and public sectors whose previous methods of data management involved cumbersome procedures consuming a great deal of time, money, and other resources. The solutions developed by Beta Systems have an open architecture and create an information infrastructure which considerably reduces the previous complexity of the customer's information management. Beta Systems' products are distributed worldwide by its own subsidiaries as well as partner organizations. For further information, please visit the company website at www.betasystems.com.

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Except for the historical information herein, the matters discussed in the news release include forward-looking statements within the meaning of the 'safe harbor' provisions of the US Private Securities Litigation Reform Act of 1995, that may involve a number of risks and uncertainties. Actual results may vary significantly based on a number of factors, including, but not limited to, risks in product and technology development, market acceptance of new products and continuing product demand, the impact of competitive products and pricing, changing economic conditions both here and abroad, timely development and release of new products by strategic suppliers and other risk factors detailed in the Company's most recent annual report and other filings with the Securities and Exchange Commission, as well as the effect of the Company's accounting policies.

All trademarks, trade names, service marks, and logos referenced herein belong to their respective companies.

The acquisition and integration of Kleindienst Datentechnik AG is deemed to have had a substantial impact on the financial position, financial performance, and cash flows of the Beta Systems Group as well as its financial reporting. In order to maintain transparency and comparability with the applicable period of the preceding fiscal year, the consolidated financial statements will include a pro forma overview, effective from the second quarter of 2004. The latter outlines the results of the Beta Systems Group without the results of the Kleindienst Group.

Beta Systems Software AG and Subsidiaries
Consolidated Statements of Operations
(In US-GAAP; Euro in thousands, except share data)

	Three months to September 30,	Pro Forma
	2003	2004
	(unaudited)	(unaudited)
Revenues:		
Product licenses	5,369	3,936
<i>New licenses</i>	4,105	3,361
<i>License upgrades</i>	1,264	575
Maintenance	6,427	6,135
Service	1,663	1,507
Kleindienst	-	-
Total revenues	13,459	11,578
Cost of revenues:		
Product licenses	444	709
Maintenance	1,792	1,775
Service	1,356	1,742
Kleindienst	-	-
Total cost of revenues	3,592	4,226
Gross profit	9,867	7,352
Operating expenses:		
Selling	4,257	5,977
General and administrative	1,919	3,633
Research and development	1,923	3,218
Amortization of intangible assets	15	144
Severance payments	56	121
Total operating expenses	8,170	13,093
Operating income (loss)	1,697	(1,028)
Other income, net	342	225
Interest income (expense), net	(43)	(105)
Income (loss) before income taxes and minority interests	1,996	(998)
Income tax expense (benefit)	1,140	(115)
Minority interests	-	-
Net income (loss)	856	(567)
Net income (loss) per ordinary share		
Basic	0.22	(0.13)
Diluted	0.22	(0.13)
Weighted average number of shares used to compute net income (loss) per ordinary share		
Basic	3,914,626	4,055,652
Diluted	3,973,913	4,055,652

See accompanying Notes to the Consolidated Financial Statements

Beta Systems Software AG and Subsidiaries
Consolidated Statements of Operations
(In US-GAAP; Euro in thousands, except share data)

	Nine months to September 30,	Pro Forma
	2003	2004
	(unaudited)	(unaudited)
Revenues:		
Product licenses	14,400	13,351
<i>New licenses</i>	9,758	9,044
<i>License upgrades</i>	4,642	4,307
Maintenance	17,366	17,979
Service	3,822	4,088
Kleindienst	-	-
Total revenues	<u>35,588</u>	<u>35,418</u>
Cost of revenues:		
Product licenses	1,594	2,049
Maintenance	4,876	5,567
Service	3,828	5,042
Kleindienst	-	-
Total cost of revenues	<u>10,298</u>	<u>12,658</u>
Gross profit	25,290	22,760
Operating expenses:		
Selling	11,651	16,705
General and administrative	6,416	9,993
Research and development	6,498	9,460
Amortization of intangible assets	32	296
Severance payments	76	121
Total operating expenses	<u>24,673</u>	<u>26,326</u>
Operating income (loss)	<u>617</u>	<u>(2,126)</u>
Other income, net	591	838
Interest income (expense), net	175	(245)
Income (loss) before income taxes and minority interests	1,383	(1,533)
Income tax expense (benefit)	864	(533)
Minority interests	-	476
Net income (loss)	<u><u>519</u></u>	<u><u>(1,476)</u></u>
Net income (loss) per ordinary share		
Basic	0.13	(0.37)
Diluted	0.13	(0.37)
Weighted average number of shares used to compute net income (loss) per ordinary share		
Basic	3,914,626	4,022,560
Diluted	3,972,912	4,022,560

See accompanying Notes to the Consolidated Financial Statements

Beta Systems Software AG and Subsidiaries
Consolidated Balance Sheets
(In US-GAAP; Euro in thousands, except share data)

	At December 31, 2003 (audited)	At September 30, 2004 (unaudited)
Current assets:		
Cash and cash equivalents	14,775	10,424
Marketable securities available for sale, at fair value	1,018	1,002
Accounts receivable, less allowances: 2003: 637; 2004: 124	26,096	31,009
Inventories, net	-	7,712
Prepaid expenses and deferred charges	863	1,577
Deferred income taxes (current)	35	785
Other current assets	1,359	4,165
Total current assets	<u>44,146</u>	<u>56,674</u>
Property and equipment, net	3,129	9,407
Goodwill and other intangibles, net	1,554	15,346
Capitalized software development costs, net	4,190	8,035
Deferred income taxes (non-current)	3,295	9,993
Other assets	5,825	4,629
Total assets	<u><u>62,139</u></u>	<u><u>104,084</u></u>
Current liabilities:		
Current installments of obligations under capital leases	367	3,872
Accounts payable	3,558	3,460
Deferred revenues	11,028	10,464
Income taxes payable	401	2,846
Deferred income taxes (current)	1,995	2,603
Accrued expenses and other current liabilities	8,283	13,302
Total current liabilities	<u>25,632</u>	<u>36,547</u>
Long-term debt and other liabilities	67	21,017
Pension obligations	850	1,940
Deferred income taxes (non-current)	3,875	5,520
Other liabilities	5	707
Total liabilities	<u>30,429</u>	<u>65,731</u>
Minority interests	-	8,161
Shareholders' equity:		
Ordinary shares: EUR 2.56 imputed nominal value. Dec 2003: 4,020,710 shares issued and 3,960,405 outstanding; Sep 2004: 4,163,237 issued, 4,102,932 shares outstanding.	10,279	10,643
Additional paid-in capital	38,244	39,564
Accumulated deficit	(17,619)	(21,052)
Accumulated other comprehensive income	1,225	1,456
Treasury stock at cost: 60,305 shares in 2003 and 2004	(419)	(419)
Total shareholders' equity	<u>31,710</u>	<u>30,192</u>
Total liabilities and shareholders' equity	<u><u>62,139</u></u>	<u><u>104,084</u></u>

See accompanying Notes to the Consolidated Financial Statements

Beta Systems Software AG and Subsidiaries
Consolidated Statements of Cash Flows
(In US-GAAP; Euro in thousands)

	Nine months to September 30,	2004
	2003	2003
	(unaudited)	(unaudited)
Operating activities		
Net profit (loss)	519	(1,476)
Adjustments to reconcile net profit (loss) to net cash provided by operating activities:		
Depreciation and amortization	1,931	4,068
(Gain) Loss on sale of equipment	93	(24)
Compensation expenses	84	789
Deferred taxes	708	(927)
Minority interests	-	476
Changes in assets and liabilities, net of amounts acquired:		
(Increase) Decrease in accounts receivable	(4,209)	8,964
Increase (Decrease) in accounts payable	16	(2,448)
Increase (Decrease) in deferred revenues	4,132	(2,185)
Change in other assets and liabilities including current tax	(2,809)	(3,124)
Net cash provided by operating activities	<u>465</u>	<u>4,113</u>
Investing activities		
Proceeds from sale of short-term investment	2,500	-
Purchases of property and equipment	(741)	(1,827)
Proceeds from sales of property and equipment	13	283
Capitalization of software development costs	(900)	(1,098)
Cash paid for acquisition of software development	-	(497)
Cash paid for investments and asset deals, net	(2,420)	(16,882)
Net cash used in investing activities	<u>(1,548)</u>	<u>(20,021)</u>
Financing activities		
Net change in short-term borrowings and long-term debt	-	3,257
Proceeds from issuance of long-term debt	5	12,830
Repayments of long-term debt and capital leases	(286)	(3,770)
Dividends paid	-	(1,957)
Proceeds from issuance of shares, net of costs	-	365
Additional paid-in capital	-	530
Net cash provided by (used in) financing activities	<u>(281)</u>	<u>11,255</u>
Effect of exchange rate changes on cash	<u>(268)</u>	<u>302</u>
Decrease in cash and cash equivalents	(1,632)	(4,351)
Cash and cash equivalents at the beginning of the period	<u>15,740</u>	<u>14,775</u>
Cash and cash equivalents at the end of the period	<u><u>14,108</u></u>	<u><u>10,424</u></u>

See accompanying Notes to the Consolidated Financial Statements

Beta Systems Software AG and Subsidiaries - Consolidated Statements of Shareholders' Equity and Comprehensive Income (Loss)
(In US-GAAP; Euro in thousands, except share data)
Nine months to September 30, 2004 (unaudited)

	Ordinary Shares				Accumulated			Treasury Stock		
	Number of shares issued	Nominal amount	Additional paid-in capital	Unearned deferred compensation	other comprehensive income	Accumulated deficit	Comprehensive income (loss)	Number of shares	Amount, at cost	Total shareholders' equity
Balance at December 31, 2002	<u>3.974.931</u>	<u>10.162</u>	<u>38.627</u>	<u>(597)</u>	<u>1.232</u>	<u>(21.129)</u>		<u>(60.305)</u>	<u>(419)</u>	<u>27.876</u>
Issuance of ordinary shares	45.779	117	61	-	-	-	-	-	-	178
Net income	-	-	-	-	-	3.510	3.510	-	-	3.510
Other comprehensive loss, net of tax effect										
Unrealized gains on investment securities		-	-	-	-	-	176	-	-	-
Currency translation adjustments	-	-	-	-	-	-	(183)	-	-	-
Other comprehensive loss	-	-	-	-	(7)	-	(7)	-	-	(7)
Net income, incl. other comprehensive loss	-	-	-	-	-	-	3.503	-	-	-
Compensation related to stock options vesting		-	(444)	597	-	-	-	-	-	153
Balance at December 31, 2003	<u>4.020.710</u>	<u>10.279</u>	<u>38.244</u>	<u>-</u>	<u>1.225</u>	<u>(17.619)</u>	<u>6.999</u>	<u>(60.305)</u>	<u>(419)</u>	<u>31.710</u>
Issuance of ordinary shares	142.527	365	530	-	-	-	-	-	-	895
Cash dividends paid	-	-	-	-	-	(1.957)	-	-	-	(1.957)
Net loss	-	-	-	-	-	(1.476)	(1.476)	-	-	(1.476)
Other comprehensive income, net of tax effect										
Unrealized loss on investment securities		-	-	-	-	-	(15)	-	-	-
Currency translation adjustments	-	-	-	-	-	-	246	-	-	-
Other comprehensive income	-	-	-	-	231	-	231	-	-	231
Net loss, incl. other comprehensive loss	-	-	-	-	-	-	(1.245)	-	-	-
Compensation related to stock options vesting		-	789	-	-	-	-	-	-	789
Balance at September 30, 2004	<u>4.163.237</u>	<u>10.643</u>	<u>39.564</u>	<u>-</u>	<u>1.456</u>	<u>(21.052)</u>	<u>4.740</u>	<u>(60.305)</u>	<u>(419)</u>	<u>30.192</u>

See accompanying Notes to the Consolidated Financial Statements

Beta Systems Software AG and Subsidiaries - Notes to the Consolidated Financial Statements
(In US-GAAP; Euro in thousands, except share data)

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 for interim financial information generally accepted in the United States of America (US GAAP). Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. Operating results for the nine months ended September 30, 2004 are not necessarily indicative of the results that may be expected for the fiscal year 2004. For further information, refer to the Company's financial statements and footnotes thereto for the fiscal year ended December 31, 2003.

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.

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.

Beta Systems Software AG and Subsidiaries - Notes to the Consolidated Financial Statements
(In US-GAAP; Euro in thousands, except share data)

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.

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.

Inventories — Inventories are stated at the lower of cost or market principle, with cost being determined based on the average cost method. Inventory risks are accounted for by adequate reserves for slow-moving, obsolete and damaged items where appropriate. Direct and indirect material and production costs were included in the determination of the production cost.

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 assets include tax receivables and 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 to provide the pro forma disclosure provisions of SFAS No. 123.

Net Income (Loss) Per Share — Basic net income (loss) per ordinary share has been calculated by dividing net income (loss) by the weighted average number of ordinary shares outstanding during each period. Diluted net income (loss) per ordinary share has been calculated in accordance with SFAS No. 128 to reflect the effect of dilutive securities.

Beta Systems Software AG and Subsidiaries - Notes to the Consolidated Financial Statements
(In US-GAAP; Euro in thousands, except share data)

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

	Three months to Sept. 30,		Nine months to Sept. 30,	
	2003	2004	2003	2004
Net Income (Loss).....	856	(528)	519	(1,476)
Average Number of Shares Outstanding.....	3,914,626	4,055,652	3,914,626	4,022,560
Effect of Dilution: Options	59,287	0	58,286	0
	<u>3,973,913</u>	<u>4,055,652</u>	<u>3,972,912</u>	<u>4,022,560</u>
Net Income (Loss) per Share				
Basic and Diluted	0.22	(0.13)	0.13	(0.37)

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 March 18, 2004, the Company concluded three acquisition- and assignment contracts for the purchase of altogether 2,052,251 shares of Kleindienst Datentechnik AG, Augsburg, Germany, at an acquisition price of EUR 7.50 per share. This represents 51.31% of the total issued share capital of Kleindienst. Transfer of ownership became effective upon payment of the purchase price on April 1, 2004.

Between March 19, 2004 and March, 26, 2004 the Company purchased 513,428 Kleindienst shares on the stock exchange at a price not exceeding EUR 7.50 per share. This acquisition was allocated under investment activities as at March 31, 2004.

On April 6, 2004 the Company published its public offer in accordance with the German Securities and Takeover Act for the purchase of the remaining shares of Kleindienst at an offer price of EUR 7.50 per share. The acceptance period ends on May 18, 2004.

Issued share capital of Kleindienst at the time of signing the public offer on April 1, 2004 amounted to EUR 12,000, divided into 4,000,000 shares with a nominal value of EUR 3.00.

As at September 30, 2004, the Company had acquired 3,522,616 shares of Kleindienst Datentechnik AG for a total purchase price of EUR 27,350 at an average share price of EUR 7.50. This represents 88.07% of the total share capital of Kleindienst Datentechnik AG. The acquisition of the total number of 4,000,000 shares results in an estimated purchase price of EUR 30,000; additional transaction costs of EUR 1,000 are estimated to accrue. The purchase price for the acquisition of Kleindienst Datentechnik AG is available in cash and in firmly granted bank credits in an amount exceeding the purchase price. As at September 30, 2004, additional purchase costs of EUR 916 were recorded.

The Kleindienst Group was fully consolidated into the Beta Group for the first time as at April 1, 2004. Kleindienst and its subsidiaries ("Kleindienst Group") is a leading developer and provider of software-supported Document Management solutions with key areas of competence in product development, systems integration, service and support. The business activity of the Kleindienst Group is divided into the segments Enterprise Systems and Outsourcing Services. The Enterprise Systems segment develops and markets software-supported solutions for enterprise-wide document management for various sectors, in particular for payment processing in the banking sector. The Outsourcing Services segment represents Kleindienst's business as external service provider for banks on the basis of long-term contracts for the electronic processing and archiving of documents.

Beta Systems Software AG and Subsidiaries - Notes to the Consolidated Financial Statements
(In US-GAAP; Euro in thousands, except share data)

Background and aim of the offer is the achievement of a decisive strengthening of the competitive position of the Company in the growing market for software infrastructure for the capture and the management of digital contents, the steering of processes and the best possible connection to already existing systems ("Enterprise Content Management" or "ECM").

Kleindienst as document management specialist is a leading enterprise especially in the area of document input (Input Management). The expertise of Beta lies especially in the area of document distribution, processing and output (Output Management). With the takeover of Kleindienst and the bundling of the strengths of both enterprises Beta expands its capacity and its competence as provider of complex software infrastructure for all relevant platforms in the entire European market.

Results of operations of the acquired business for the six months ended September 30, 2004 are included in the Company's financial results here reported. The following supplementary information discloses the Pro Forma results for the period ended September 30 under the assumption that Kleindienst had been acquired and fully consolidated from the beginning of the financial year 2003 viz. 2004.

	Three month to Sept. 30,		Nine months to Sept. 30,	
	2003	2004	2003	2004
	Pro Forma	As reported	Pro Forma	Pro Forma
Group Revenues	<u>29,958</u>	<u>26,972</u>	<u>84,372</u>	<u>83,770</u>
Net Income (Loss)	703	(528)	(540)	(2,533)
Net Income (Loss) per Share	<u>0.18</u>	<u>(0.13)</u>	<u>(0.14)</u>	<u>(0.63)</u>

In the operating results to September 30, 2004 as here reported, accruals in the amount of EUR 304 are contained for costs resulting from the transfer of the administrative functions of KLD to Beta Systems. These costs relate exclusively to the reduction of staff.

The accruals are expected to be fully utilized by the end of the current financial year, and are shown in administrative expenses for the business segment Enterprise Content Management. No material, non-recurring items are included in the reported Pro Forma results of operations.

3. Restructuring Costs

The central administrative functions performed by Kleindienst at its location at Augsburg will be closed by the end of 2004; these activities are successively taken over by Beta's own administrative capacities located at Berlin effective from October 01, 2004 onwards.

In sum, the number of staff being reduced at the Augsburg site amounts to 14. None of the employees affected accepted transfers to the Berlin offices. The Company has recorded provisions for restructuring costs in the amount of EUR 304 in the operating results as at September 30, 2004 in respect of these measures. These costs relate exclusively to one-time termination benefits.

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

	At September 30, 2004
Selling Costs	52
General and Administrative Expenses	<u>252</u>
Total Restructuring Costs	<u>304</u>

All of the above costs relate to the reduction of staff. Further material costs are not expected to incur. The accruals are expected to be fully utilized by the end of the current financial year.

Beta Systems Software AG and Subsidiaries - Notes to the Consolidated Financial Statements
(In US-GAAP; Euro in thousands, except share data)

4. Segment Information

Restructuring of the Document / Output Management Business Segment

As a result of the acquisition of Kleindienst a renaming of the business segment Document/Output Management into Enterprise Content Management was put into effect from the interim financial statements as at September 30, 2004 onwards. This segment now comprises the previous segment Document/Output Management, as well as Kleindienst's business segment Enterprise Systems.

This presentation reflects that of Beta's Management chosen decision making approach, i.e. to combine the existing own Document/Output portfolio and the acquired Input portfolio into an integral and unique business solution within the business segment ECM, and as such also to present and to manage it.

Adoption of the Outsourcing Services Business Segment

This segment formed an independent economic and strategic key business unit within the Kleindienst Group structure, representing Kleindienst's business as external service provider. Within the Beta Group, the acquired business segment Outsourcing Services has been adopted unchanged and continues to constitute a business entity of its own.

All segments derive revenues from sales of product licenses as well as maintenance, consulting and services. As a result of the combining of business activities with Kleindienst, hardware sales are also realized. 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.

Three months to September 30, 2003	Storage Management	Security Management	Data Center Management	Ent. Content Management	Outsourcing Services	Total
Revenues from Customers	863	4.390	4.151	4.055	0	13.459
Intersegment Revenues	162	908	813	809	0	2.692
	<u>1.025</u>	<u>5.298</u>	<u>4.964</u>	<u>4.864</u>	<u>0</u>	<u>16.151</u>
Segment Income	338	759	639	32	0	1.768
Three months to September 30, 2004	Storage Management	Security Management	Data Center Management	Ent. Content Management	Outsourcing Services	Total
Revenues from Customers	755	2.602	3.525	16.662	3.428	26.972
Intersegment Revenues	71	227	341	1.964	411	3.014
	<u>826</u>	<u>2.829</u>	<u>3.866</u>	<u>18.626</u>	<u>3.839</u>	<u>29.986</u>
Segment Income (Loss)	-88	-1.056	234	261	408	-241
Nine months to September 30, 2003	Storage Management	Security Management	Data Center Management	Ent. Content Management	Outsourcing Services	Total
Revenues from Customers	2.883	9.707	12.124	10.874	0	35.588
Intersegment Revenues	650	2.189	2.735	2.453	0	8.027
	<u>3.533</u>	<u>11.896</u>	<u>14.859</u>	<u>13.327</u>	<u>0</u>	<u>43.615</u>
Segment Income (Loss)	165	651	941	-1.032	0	725
Nine months to September 30, 2004	Storage Management	Security Management	Data Center Management	Ent. Content Management	Outsourcing Services	Total
Revenues from Customers	2.559	9.816	11.555	36.117	7.080	67.127
Intersegment Revenues	359	1.376	1.619	5.061	992	9.407
	<u>2.918</u>	<u>11.192</u>	<u>13.174</u>	<u>41.178</u>	<u>8.072</u>	<u>76.534</u>
Segment Income (Loss)	-249	-3.163	734	-168	1.137	-1.709

Beta Systems Software AG and Subsidiaries - Notes to the Consolidated Financial Statements
(In US-GAAP; Euro in thousands, except share data)

A reconciliation of the income (loss) before taxes of the reportable segments to the Company's consolidated totals is as follows:

	Three months to Sept. 30,		Nine months to Sept. 30,	
	2003	2004	2003	2004
Income (Loss) before Income Taxes				
Total Operating Income (Loss) for				
Reportable Segments	1,768	(241)	725	(1,709)
Unallocated Amount of Overhead	(71)	(265)	(108)	(417)
Other Income, net	342	225	591	838
Interest Income (Expense), net	(43)	(201)	175	(245)
Consolidated Income (Loss) before Income				
Taxes and Minority Interests, as reported	<u>1,996</u>	<u>(482)</u>	<u>1,383</u>	<u>(1,533)</u>

A distribution of revenues and net operating income (loss) for the regions Germany, Europe, and America for the periods ended September 30, 2004 is as follows:

Three months to September 30, 2004	Germany	Europe	America	Total
Group Revenues, as reported	<u>21,278</u>	<u>4,080</u>	<u>1,614</u>	<u>26,972</u>
Operating Income (Loss) before Income Taxes				
and Minority Interests	<u>120</u>	<u>(216)</u>	<u>(386)</u>	<u>(482)</u>
 Nine months to September 30, 2004	 Germany	 Europe	 America	 Total
Group Revenues, as reported	<u>48,476</u>	<u>12,295</u>	<u>6,356</u>	<u>67,127</u>
Operating Income (Loss) before Income Taxes				
and Minority Interests	<u>(1,335)</u>	<u>111</u>	<u>(309)</u>	<u>(1,533)</u>

5. Comprehensive Income (Loss)

Comprehensive income (loss) consists of the following:

	Three months to Sept. 30,		Nine months to Sept. 30,	
	2003	2004	2003	2004
Net Income (Loss)	856	(528)	519	(1,476)
Other Comprehensive Income (Loss)				
Foreign Currency Translation adjustments	(22)	217	(209)	246
Unrealized Gains (Loss) on Investment				
Securities	<u>(60)</u>	<u>(22)</u>	<u>9</u>	<u>(15)</u>
Comprehensive Income (Loss)	<u>774</u>	<u>(333)</u>	<u>319</u>	<u>(1,245)</u>