[integration]

ANNUAL REPORT

2004

_betasystems

[At A Glance]

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

Euro in thousands	2000	2001	2002	2003	2004	2004 vs. 2003
Total revenues	41,226	44,980	45,112	55,794	100,819	80.7%
Operating income	-2,723	-7,327	126	3,819	2,849	(25.4)%
Income before income taxes	-1,423	-7,221	2,292	4,801	3,009	(37.3)%
Net income (loss)	-1,620	-10,505	316	3,510	(17)	(100.5)%
Cash and cash equivalents	9,399	13,658	15,740	14,775	10,836	(26.7)%
Total shareholders' equity	38,541	28,503	27,876	31,710	31,762	0.2%
Total assets	57,182	50,816	54,679	62,139	103,472	66.1%
Equity ratio in %	67.4	56.1	51.0	50.9	30.7	-
Number of employees	311	334	293	381	1,022	168.2%

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

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LETTER TO OUR SHAREHOLDERS

Dear Shareholders,

After a phase of restructuring in 2001 and 2002, the main focus of the "Go Ahead Beta" program initiated in 2003 was to invest in selected growth markets, reengineer the Beta Systems Group, and target our activities toward new business segments. As members of the Management Board, we were aware of the fact that a great deal of effort and a number of complex entrepreneurial decisions would be required to position the company as a successful player with a sustainable future. In 2004, we consistently followed the route charted for the company. We remain confident that the chosen path of enhancing our portfolio by means of viable acquisitions and advancing our cutting-edge proprietary software solutions for infrastructure applications is the key to success.

We would like to take this opportunity to present our accomplishments over the course of fiscal 2004. In addition, we shall discuss the extent to which the targets we had set ourselves – as outlined in our last annual report, our ongoing investor communications, as well as presentations, conferences, and shareholder meetings – have been met.

After the successful acquisition and integration of Systor Security Solutions in 2003, fiscal 2004 produced one of the most important milestones in the recent history of our company: the acquisition of Kleindienst Datentechnik AG at the beginning of the year. Thus, one of the main areas focussed on in the period under review was corporate integration. For the first time, our financial data for fiscal 2004 includes the consolidated results of the majority-held Kleindienst Group, Augsburg.

We have increased the size of our company substantially, the prime objective being to become a strategic supplier to our customers and extend our market position as the leading European provider of IT infrastructure solutions. In acquiring Kleindienst, we have taken a major step forward in terms of achieving these goals. In detail, we have:

- extended our portfolio in the growth segment of Enterprise Content Management (ECM) by incorporating high-caliber solutions for Input Management,
- breached the 100 million Euro mark in sales for the first time in our company's history, thus establishing ourselves as one of Germany's largest independent software enterprises,
- bolstered our customer base, particularly in the German and European financial sector.

Against the backdrop of continued economic difficulty and subdued IT markets, the forward momentum generated by our operating activities in growth segments was not sufficient to offset weak demand within the traditional fields of business, despite a number of impressive achievements in client projects. Within this context, we had to contend with reserved investment spending on the part of our customers and the postponement of major IT projects as a direct result of the challenging economic situation.

The market environment has been in a state of constant change in recent years. This trend is clearly being driven by more pronounced networking activities, continuous data exchange, and a growing volume of information. Our clients have been building cross-company networks. They have opened themselves to their customers and are gradually becoming more accessible and more transparent to other key stakeholders such as business associates, investors, and public authorities. As a result, the demands on IT infrastructure have also changed considerably. Today, IT infrastructure has to be fast, scalable, transparent, and accessible from any place, at any time. Moreover, it has to be protected against unauthorized access – proven security around the clock. The main trends identified by our company within this sphere are as follows:

- Identity Management is growing at high speed, and security solutions are being given top priority in IT budgets,
- Enterprise Content Management is growing together: separate solutions such as Document Management, Input and Output Management, as well as Archiving are increasingly being combined to provide a solution that is all-embracing,
- Data centers are undergoing further consolidation, are becoming independent, or are being outsourced to external IT service providers, becoming more service-oriented and professional,
- Web-based company portals are being created with the express purpose of ensuring flexible processes and minimizing the level of complexity for users,
- Hardware is becoming less expensive, IT systems are becoming more integrated and complex, the volume of data is increasing; as a result, there is a call for simple, turn-key software solutions offering user-friendly and low-cost maintenance.

The integration of business processes and applications has thus advanced to become a business-critical aspect for companies and institutions; information technology has to serve specific business objectives and generate benefits

[The Shareholder]

that are quantifiable. At the same time, the buyer behavior of customers has changed: purchase-related decisions are being made or influenced not only by IT managers but increasingly also by finance directors and other senior executives. The main focus of our activities in on developing solutions aimed at creating the requisite IT infrastructure. With this in mind, we defined the following core areas in fiscal 2004, the central aim being to make our customers' IT infrastructures faster, safer, more efficient, and more performance-driven:

- Optimization of document-based business processes,
- Management of digital identities and implementation of cross-company security guidelines.

These activities are complemented by solutions to control and monitor application processes and to back up and restore large quantities of data.

Optimization of document-based business processes with VIDiDOC and FrontCollect

In this section, we would like to focus on several key accomplishments realized in terms of market positioning and technology. The agreement signed with T-Systems serves as evidence of the substantial level of customer demand we are generally experiencing in connection with our new VIDiDOC component, Beta Web Enabler. With Web Enabler, we have also been able to meet our customers' requirements relating to cost reduction. Web Enabler includes online research functionality, which allows customers to scale back their print volumes and thus reduce associated costs.

Our business potential within the area of ECM solutions is underscored by deals concluded with VR Kreditwerk, a major Beta-93-UNIX project, UK-based Next Group with Beta 93 Fast Retrieval, as well as the French tax authority DGCP for Beta 93 and Beta Web Enabler.

The agreement with Dresdner Sparkassenservice GmbH, which features the Kleindienst solution FrontCollect to capture documents for the central archive system deployed by one of Germany's largest Sparkasse (savings bank) IT organizations, is a clear sign of the trust placed in us by our joint customer base. At our annual user conference, this customer revealed that our solution, which includes e-mail and fax processing, had allowed him to attract several new clients and savings banks.
With FrontCollect Payment, Kleindienst combined free-format multipage document processing with a tailor-made solution for cross-border payments as part of a major project for Germany's Postbank. This application allows efficient processing of all input from fax systems, e-mail, and scanners. In fact, it was due to this solution that Postbank's IT unit was able to ensure the high-performance processing of payment transactions of Deutsche Bank and Dresdner Bank as part of its outsourcing agreement. In future, the application is to be deployed for the full range of document input, including payment transactions, at our customer's existing and future processing centers in Germany and abroad. Alongside the company's sales units, partners are to be given the opportunity to market and use this application worldwide.

Management of digital identities with SAM Jupiter

We also achieved excellent results with our Identity Management Software SAM Jupiter over the course of fiscal 2004. Working in cooperation with the IT specialist IBM Business Services, we implemented a new business model for IBM's customer Deutsche Bank. In the European arena, we succeeded in finalizing deals for SAM Jupiter with key players such as Italy's Banca Intesa and Norway's DnB Nor. It is also particularly encouraging that all our US customers will migrate their installations to the new version of SAM. Our US customers' commitment to migration, a process which requires considerable resources, reflects the trust placed in Beta as a dependable supplier of Identity Management solutions.

The SAM Jupiter agreement signed with Slovakian-based VUB Banka is also to be seen as a launch pad for future business in this region. This first SAM Jupiter contract in Eastern Europe was realized in close cooperation with Accenture, a global IT consultant. The next product generation of SAM Jupiter is to be completed in 2005, which means that we will be in an even better position to leverage additional business through partners operating in this particular field. The new version is designed to allow cross-platform deployment of SAM Jupiter, qualifying it as the standard product for flexible partner-based sales channels.

The achievements outlined above bear testimony to the success of our strategic plan. At the same time, we would like to emphasize that we had actually set our sights much higher. Having failed to meet our target, we were unable to equal or better our solid earnings performance of the preceding year. We had initially targeted higher growth rates and set ourselves the objective of increased earnings, irrespective of the financial expense associated with the

Kleindienst acquisition. However, the measures implemented within this area proved to be more time-consuming and more complex than previously anticipated.

Having said this, we would also like to point out that we are currently channeling our efforts into this project; the Management Board will do its utmost to accelerate the process of change within the Group. At the same time, we remain as committed as ever to enhancing the value of our company through profitable growth. Despite the exceptional cost items associated with the acquisition, Beta Systems operated profitably in fiscal 2004. Our dividend payment will remain unchanged at 25 cents per share for the fiscal year just ended. Moreover, our share price rose by approximately 20% year on year. These are positive performance figures, and yet as discussed earlier they are not in line with our expectations. Prompted by these developments, we have taken decisive action and are currently conducting a thorough analysis of the new Beta Systems Group as part of our restructuring program, with the express purpose of identifying further potential for cost reduction and revenue growth.
We believe that integration is always inextricably linked with challenges and change. Therefore, we have defined four focal points for corporate change in the coming fiscal year:

- Promote integration-oriented teamwork within a single organization,
- Market Beta Systems' new expertise,
- Demand and foster professionalism of all employees,
- Achieve profitability through active cost management.

Promote integration-oriented teamwork within a single organization
We have already done a lot to integrate the employees, customers, and products of Kleindienst – but here, too, there is more work ahead of us. In order to speed up this process, we plan to fully merge Kleindienst Datentechnik AG into our company. The intent behind this move is to achieve a closer form of cooperation with regard to organizational, sales and financial structures. The main focus of future integration measures is on optimizing processes, leveraging economies of scale, and achieving consistent operations throughout the Group.

Market Beta Systems' new expertise
The acquisition of Kleindienst raised awareness levels among customers and investors, and it is exactly here that we must seize the opportunities presented to us. We were not expecting to see significant revenue effects in 2004 as a result of the collaboration between Beta Systems and Kleindienst, mainly due to the minimal overlap between our respective product portfolios.

However, in view of the measures planned in this area, we are confident that our combined Input and Output Management activities within the ECM unit and in the area of Identity/Security Management will generate above-average revenue and earnings growth in the years to come. Therefore, investments made in the past will continue to bear fruit in the future. The integration of Kleindienst has given our organization fresh impetus in our quest to transform Beta Systems from a product supplier to a solutions specialist.

We have identified the need to accelerate this process: the only avenue open to us in terms of differentiating ourselves from larger and smaller competitors and unlocking new customer segments is to extend our solutions-based business and offer cross-platform solutions tailored to market requirements. Committed to addressing these important issues, we have strengthened our executive team by appointing Dietmar Breyer, a management professional with specialist expertise in ECM, as the new board member responsible for Marketing, Service, and Sales.

Demand and foster professionalism of all employees
We are aware of the fact that our success hinges to a large extent on our employees – their creativity, energy, knowledge, and dedication. Indeed, it is this team of professionals that is responsible for developing cutting-edge innovations on a daily basis, thus further enhancing the close rapport we have established with our customers. The onus is on all of us to promote and foster these professional qualities, aiming being to maintain a strong culture of excellence that is geared to the continuous improvement of our business processes and performance. In addition, we recognize that these qualities are the prime source of our corporate agility and flexibility when it comes to aligning our business to ever-changing requirements. In parallel, we are faced with the challenge of scaling back personnel-related costs or making them more flexible, while also raising the level of job satisfaction and creating performance incentives linked to our corporate targets. Furthermore, we will be faced with the task of merging the different corporate cultures of Beta Systems and Kleindienst, creating an environment that is conducive to knowledge transfer, and shaping an organization that is perceived both internally and externally as a united entity.

Achieve profitability through active cost management

In the fiscal year 2005, we shall make a concerted effort to integrate Kleindienst Datentechnik AG and expand our existing business. We shall continue to channel the majority of our investments into research and development in the growth areas of ECM and Security Management. Investment spending within this area accounts for well over Euro 10 million of our annual operating expenditure. In parallel, we intend to streamline our joint product and solutions portfolio, the prime objective being to channel – in a more targeted manner – our financial resources and capacities into business segments with better medium- to long-term growth and earnings prospects.

Given the full consolidation of Kleindienst Datentechnik AG's results, the absence of non-recurring expenses associated with the acquisition in 2004, and the introduction of initial cost reductions by eliminating redundant processes in administration, we are expecting to see a substantial increase in earnings for fiscal 2005 and the subsequent years.

At the same time, the package of measures planned for 2005 in connection with our Group restructuring program "Growth and Profit 2005 – GaP'05" are likely to have a certain counterbalancing effect in 2005. However, these measures are considered to be essential in terms of making our company fit for future challenges; the first positive effects are expected to materialize in fiscal 2006 at the earliest. We believe wholeheartedly in the long-term prospects of this company. We remain firmly committed to raising the value of the company to TecDax level. Driven by the ambition to increase liquidity and enhance our positioning within the capital market, we intend to leverage more value for our existing shareholders and present our company as a viable alternative for potential investors.

We would like to take this opportunity to thank all employees, customers and business associates of the new Beta Systems Group for their assistance and dedication. We also wish to express our gratitude to you, as shareholders of Beta Systems Software AG, for your support and the trust you have placed in us. We hope you will continue to accompany and support us as we pursue our strategic aspirations – and help us shape the future with your financial backing.

The Management Board of Beta Systems Software AG

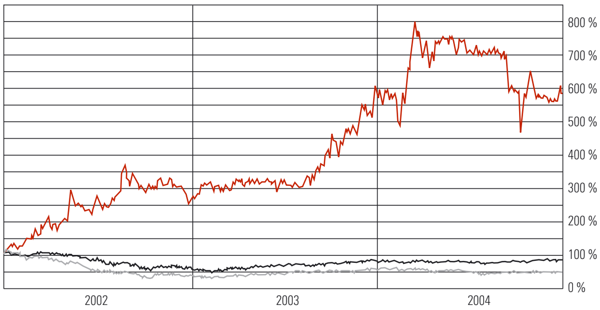
Karl-Joachim Veigel
Chairman of the Board
Responsible for
Finance, Controlling and Human Resources

Dietmar Breyer
Deputy Chairman of the Board
Responsible for
Marketing, Service and Sales

Dr. Oskar von Dungern
Member of the Board
Responsible for
Research and Development

INVESTOR RELATIONS

Particularly in the first half of 2004 the development of the Beta Systems share was significantly positive. Compared to the most important sector- and stock market indices the share reached new long-term peak levels during that period. After a weaker tendency in the second half of 2004 the Beta Systems share price closed the fiscal year with an increase of nearly 20%. 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 aimed our investor relations activities mainly on the direct communication with these target groups. Within our communication efforts we placed emphasis on explaining the acquisition and planned integration of Kleindienst Datentechnik AG as part of our „Go Ahead Beta" program in numerous roadshow presentations, 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 the Beta Systems share as an attractive long-term investment opportunity as the management of our company also orients towards long-term and ambitious goals and visions. In all our contacts and meetings we could consistently point out the high potential and challenges connected to the Kleindienst acquisition.



Long Term Chart

Beta Systems Stock Price over 3 years

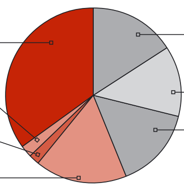
Indexed Performance of Beta Systems' shares (red) 2002 to 2004 in comparison to TecDax Performance Index (silver) and German All Share Index DAX (black)

Key figures on the Beta Systems Stock

	2004
Earnings per share	0.00
Highest price	17.19 €
Lowest price	9.95 €
Share price on Dec. 30, 2004	12.50 €
Dividend per share	0.50 €*
Number of shares	4,171,095 shares
Share capital	€ 10.7 million
Market cap. on Dec. 30, 2004	€ 52.1 million

*including 0.25 € one-time bonus

Current Shareholder Structure



BETA SYSTEMS' INVESTOR CALENDAR 2005

March 21, 2005
Announcement of the annual results 2004
Analyst and investor conference call
Press conference in Berlin

April/May 2005
Analyst/Investor's conference and investor roadshow Germany, Switzerland, UK

May 10, 2005
Publication of the first quarter 2005 report
Analyst and investor conference call

June 14, 2005
Annual meeting of shareholders
at the Ludwig-Erhard-Haus, Fasanenstraße 85, D-10623 Berlin, Germany

August 10, 2005
Publication of the second quarter 2005 report
Analyst and investor conference call

November 10, 2005
Publication of the third quarter 2005 report
Analyst and investor conference call

Oktober/November 2005
Analyst/Investor's conference and investor roadshow Germany, Switzerland, UK

March 20, 2006
Announcement of the annual results 2005
Press conference in Berlin

Contact

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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. As regards 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 conforms to 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,
- 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 audit,
- 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 ourselves and our 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 fiscal 2003, 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. In fiscal 2004 Beta Systems Software AG did not and does not conform with the Code's recommendations in its version of 21st May 2003 in the following areas:

Excess in D&O insurance policies

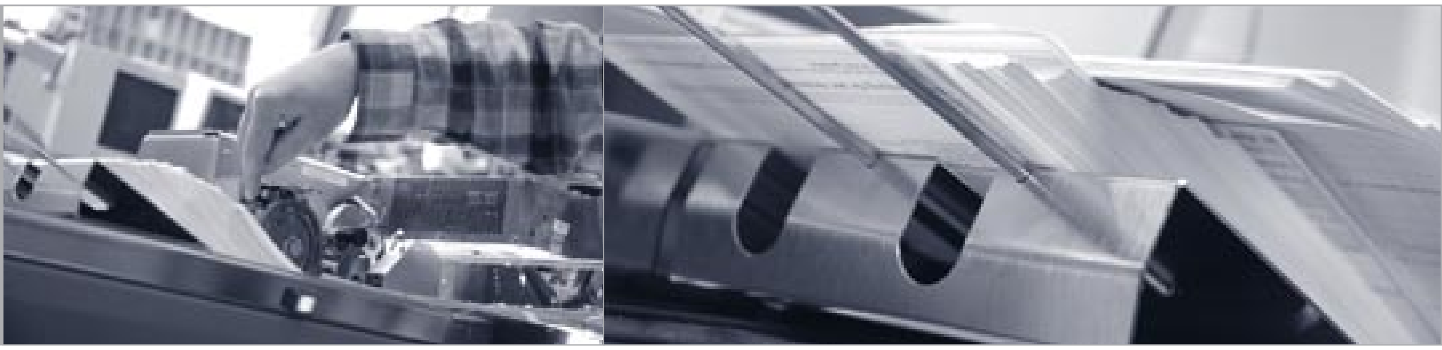
Contrary to the recommendation that liability insurance taken out by the Company for its Management Board and Supervisory Board members (so-called Directors' and Officers' (D&O) insurance) should include a reasonable excess portion, Beta Systems does not consider that this measure will lead to any significant 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 the 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.



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 bylaws within this area failed to achieve the required majority at the last Annual General Meetings of Shareholders. The Supervisory Board remains committed to introducing an appropriate variable component in the future.

Compensation of Management Board

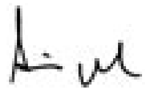
At present, no authorization by the General Meeting of Shareholders exists for a Management Board remuneration program that includes components with a long-term incentive effect and risk elements in the form of shares, stock options, or comparable instruments. Such instruments were last issued in 2001 as part of programs previously implemented within this area. Rights resulting from these programs were last exercised or have expired in 2004. 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, failed to achieve the required majority at previous Annual General Meetings of Shareholders. 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 General Meeting of Shareholders

The Management Board and Supervisory Board of Beta Systems Software AG do not intend to publish information regarding the fundamental 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 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 also not intends to furnish specific information at the General Meeting of Shareholders by the Chairman of the Supervisory Board, as shareholders are entitled to put forward questions and receive answers with regard to the compensation system at the General Meeting.

With the exception of the above-mentioned deviations, in the 2004 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 24, 2004



Harald J. Joos	Karl-Joachim Veigel
Chairman of the Supervisory Board	CEO

CORPORATE PROFILE

As a market leader in the infrastructure software arena, we provide comprehensive and intelligent solutions for Integrated System Management. With more than twenty high-performance software products for z/OS, Unix, Linux and Windows environments, our business is the process optimization of entire IT infrastructures for large corporations, IT service providers and medium-sized companies.

We offer individual support for the IT infrastructure of our customers. Our powerful standard components are the solid foundation for the future-oriented, industry-specific solutions that we create to meet the needs and match the technological resources of our customers exactly. Using our solutions for the optimal connection of platforms and system environments, our customers can ensure the enterprise-wide availability of information, the flexible administration of access rights, the safe long-term storage of data, and clear and consistent data processing procedures.

Identity/Security Management, Enterprise Content Management, Storage Management, and Scheduling are the main domains of our infrastructure software. We take great pride in our value-driven software solutions, and in our excellent customer focus and premium services. Our scope of service is wide, encompassing the implementation of solutions, migration, conversion, consulting and training. With our many years of experience and innovative technological expertise, we stand out as one of the leading companies actively shaping the future of IT Management. Our solutions assure the smooth running of our customers' IT infrastructure and ensure the best return on investment.

Our customers have been consistently satisfied with the performance and reliability of our software solutions for more than 20 years. We are active in 40countries around the globe, ensuring the optimization of business processes for more than 1,000 customers.

Connecting Worlds

In a modern enterprise, no one asks about systems and platforms any more. The rapid pace of market development and the pressure of competition demand complete and total concentration on the business at hand.

Our customers' employees, clients and partners need prompt access to information and processes. They don't have time to worry about which server to use for access, which authorizations they need, which transfer protocols are used, or which filters and search routines are activated.

We deliver the infrastructure software that gives the information availability and data security that is needed to run the customers' business. Our end-to-end solutions enable our customers to get more out of their IT landscape. We can help our customers to optimize business processes, to boost the productivity and satisfaction of their own staff, to improve service levels for their own customers and partners, and to save time and costs on the administration of their own systems.

End-to-End Solutions

Our solutions focus on the common goal of optimizing business-critical IT processes, including:

- Provisioning of identity information including user accounts and user access rights,
- Providing a reliable audit trail for identity administration,
- Enforcement of security policies for access rights and password management,
- Capturing/scanning, analysis and classification for a range of different paper documents,
- Integration of printed documents into electronic processing,
- Post-processing, distribution, archiving and searching of extensive lists,
- Planning, coordination and monitoring of data processing throughout the IT infrastructure,
- Backup and recovery of large quantities of data.

[The Journalist]

FOCUS ISSUE: BETA SYSTEMS AND THE ECM MARKET

"GO AHEAD BETA" WITH ENTERPRISE CONTENT MANAGEMENT (ECM)

With the acquisition of Kleindienst Datentechnik AG in fiscal 2004, the "Go Ahead Beta" program has gathered pace. The aim of this program is to transform Beta Systems into a strategic supplier to existing customers and ultimately into Europe's leading systems management provider.

The acquisition will enable Beta Systems to consolidate its position within the growth market of Enterprise Content Management (ECM). The scope of ECM is vast, with products ranging from customized solutions to complex IT projects. By pooling their strengths, Beta Systems and Kleindienst Datentechnik AG will together become a major player within the ECM market:

- With the addition of Kleindienst products to its portfolio, Beta Systems can now deliver seamless document and information logistics based on a unified software infrastructure, supporting integrated digital business processes for its customers,

- With Kleindienst Datentechnik on board, Beta Systems is one of the few providers of solutions for all relevant platforms such as Windows, Unix and mainframe, as well as the open source (Linux) environment,

- The teaming of Beta Systems and Kleindienst Datentechnik means that all key European markets are now covered. While Beta Systems has sales subsidiaries in virtually the whole of western Europe, Kleindienst's focus is on the growth markets in central and eastern Europe, in addition to Germany.

Highlight of the Acquisition of Kleindienst Datentechnik AG

- Beta Systems Group now has 1,022 employees

- Group sales of € 100.8 million in 2004

- Majority holding of around 90%

- Initial integration activities successfully completed: cooperation and service agreement concluded, amalgamation of IT planning and management tasks

- "Growth and Profitability 2005" program launched to realize further cost savings and tap new sales potential

- Additional measures in 2005 associated with company law: Merger of Kleindienst Datentechnik AG into Beta Systems Software AG

MARKET ENVIRONMENT

Enterprise Content Management enables businesses to manage document-based business processes electronically. Its aims are to eliminate data and document redundancy, provide a single point of access to all documents, assemble information regardless of source or use, and make it available to all applications in a standard format.
The recent wave of mergers indicates a market environment in need of consolidation, and one that offers high growth potential. Leading market analysts predict an average annual growth rate of 8% for the ECM market in the coming years – a development brought about principally by the increasing importance of ECM to businesses.

The trend among providers is to focus on vertical industries and specific business processes. In the long term, their solution portfolios will overlap yet further, as they strive to cover the entire lifecycle of a document and its content. For customers, ECM is clearly growing in importance, particularly in the banking and insurance sector, which is displaying one of the highest take-up rates for ECM technologies.

While content management systems had previously been deployed as standalone applications, many companies are now favoring the use of ECM as an infrastructural solution. A key factor here is the relentless pressure on IT budgets; investment is modest and aimed solely at reducing costs and improving efficiency. This is where ECM proves its worth: by automating and digitalizing all document-based business processes throughout the value chain, companies can realize considerable cost savings and enhance process efficiency.

With the acquisition of Kleindienst Datentechnik AG, Beta Systems has invested in a growing market segment and significantly enhanced its position within the ECM market.

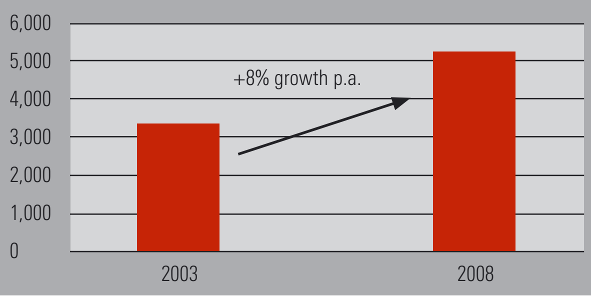
ECM WITH VIDIDOC AND FRONTCOLLECT

Kleindienst Datentechnik is a leading document management provider, specializing in the field of input management. This includes the scanning, automatic interpretation and archiving of documents. Beta Systems' strengths lie in output management as well as information retrieval and forwarding. Through the acquisition, Beta Systems has added key input management products to its portfolio and increased its expertise across the spectrum, from providing solutions to realizing complex projects as prime contractor.

Application scenario I: Input Management with FrontCollect
A private health insurance company processes large volumes of claims. On a daily basis, up to 20,000 of these transactions (involving as many as 60,000 documents) are sorted, captured, indexed and made available for processing. With the FrontCollect input solutions, incoming claims can be automatically classified, logically indexed and archived according to predefined criteria (e.g. policy number, insured person, type of cost and invoice amount). The system automatically assembles electronic transaction files and assigns them to the relevant member of staff. Automating the incoming mail processes and supporting the subsequent processing steps reduces manual intervention, minimizes errors, increases processing efficiency and improves the quality of customer service.

Application scenario II: Output Management with VIDiDOC
In the VIDiDOC output management system, all policy-relevant documents that were generated and printed as the output of various applications are stored and retained for future reference. Employees can search these documents online and use the policy data to check that the claims are correct. They can then forward the data to business applications such as CRM, which generate results (output) that are in turn transferred to the VIDiDOC output management system. From here, this new document is sent to the appropriate output

USD (millions) **Forecast of ECM Market Development (Source: IDC 2004)**

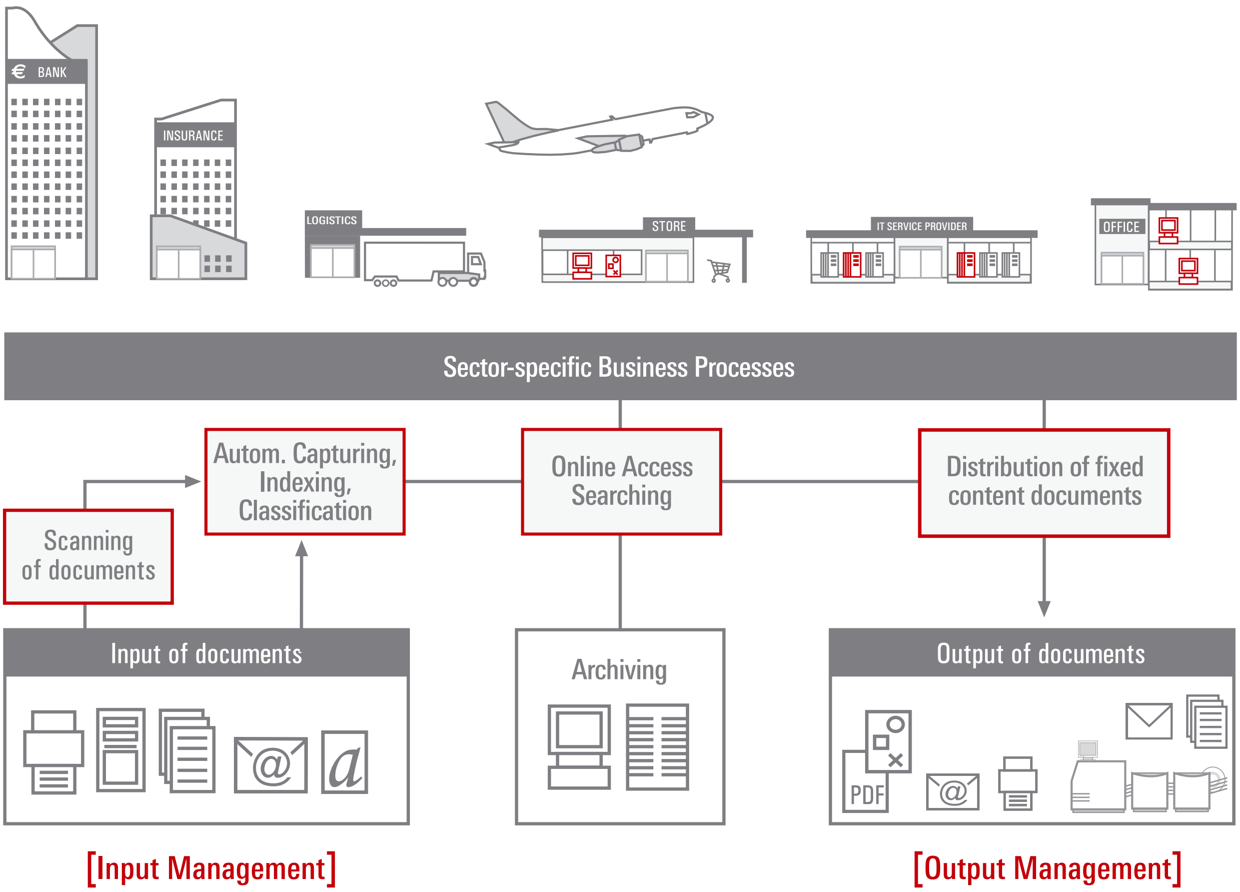


channel (letter, fax, e-mail) and prepared and stored for future reference. Thanks to the flexible choice of output channel and the online search capability, the time and effort for printing and distribution is minimized. At the same time, process speed is significantly increased.

Application scenario III: End-to-End solution

By linking FrontCollect and VIDiDOC, all incoming documents (such as claims) can be processed electronically, from the initial capturing and checking through to the reply. Thus all correspondence can be managed digitally throughout the company's value chain, resulting in clear cost reductions and efficiency gains: the automation of incoming mail reduces the effort for manual data entry by app. 20%, while an automatic recognition rate/allocation of the document to the correct transaction type slashes it by over 80%. By searching both incoming and outgoing documents, the system shortens processing times and reduces processing errors.

Beta Systems thus offers an End-to-End solution that maps all document-based business processes, enabling businesses to significantly improve the quality and speed of processing and service, while saving time and money.



[The Customer]

BETA SYSTEMS SOFTWARE AKTIENGESELLSCHAFT, BERLIN

COMBINED GROUP AND COMPANY MANAGEMENT REPORT FOR THE FISCAL YEAR 2004

PRELIMINARY NOTE

The combined Management and Group Management report (hereinafter referred to as "Management report") shall be read in conjunction with the Audited Financial Statements and Notes for the Group, which have been included in a separate section of this annual report. The Audited Financial Statements for the Group are based on a number of assumptions, which have been presented in more detail as part of the Notes to the Consolidated Financial Statements – Summary of Significant Accounting Policies. In view of the fact that Beta Systems Software AG operates as part of a Group-wide development, sales, service, and marketing network, the development of the business operations of both the Company and the Group are closely connected. Therefore, the Management report pertaining to Beta Systems Software AG has been combined with that of the Beta Systems Group (hereinafter referred to as "Beta Systems"). All information presented shall apply to the Group, unless clearly otherwise specified as being attributable solely to the Company. The Group applies United States Generally Accepted Accounting Principles (US GAAP), whereas the financial statements of the AG (Aktiengesellschaft – stock corporation governed by Germany law, i.e. the parent company) have been prepared pursuant to the German Commercial Code (Handelsgesetzbuch – HGB). All charts, diagrams and similar elements, including remarks related thereto, have been included for illustrative purposes only and are not deemed to be an integral part of the management report.

The following information applies exclusively to the consolidated business results of Beta Systems, including the business results of the Kleindienst Group (hereinafter referred to as "Kleindienst") from April 1, 2004, onward (date on which the acquisition of the majority interest came into legal force). In specific areas, the acquisition and integration of Kleindienst Datentechnik AG (holding company of the Kleindienst Group) is deemed to have had a substantial impact on the financial position, financial performance, and cash flows of Beta Systems as well as its associated financial reporting. In order to maintain transparency and comparability with the applicable period of the preceding fiscal year, a Pro Forma presentation regarding the results of Beta Systems has been included in the consolidated financial statements. The presentation has been calculated assuming that Kleindienst would have been acquired at the beginning of the fiscal year 2003.

1. STRATEGIC PRINCIPLES AND GENERAL BASIS OF BUSINESS

For the past 20 years, Beta Systems Software AG has been operating as a supplier of high-performance enterprise solutions aimed at achieving efficient business processes. The core competency of Beta Systems is centered around the cost-reducing automation and qualitative optimization of large-volume data processing activities in Mainframe, Unix, Linux, and Windows environments. The Group's objective is to operate profitably in a sustainable manner, while at the same time increasing value for investors, customers, and employees alike.

Beta Systems' operating business is targeted chiefly at delivering solutions and systems within the area of information technology (IT). Owing to the acquisition of Kleindienst, Beta Systems' operating activities are currently divided into a total of six business segments.

These segments are Data Center Management, Identity/Security Management, and Storage Management, as well as the new segment Enterprise Content Management (ECM), which comprises the areas Input Management (Kleindienst's business unit Enterprise Systems) and Output Management (Beta Systems' business unit Document/Output Management). These areas develop and market solutions encompassing both hardware and software components, as well as services relating to the installation, operation, and maintenance of such solutions. Kleindienst's Outsourcing Service business unit focuses mainly on providing services within the area of document processing for payment transactions in the banking sector. Each area corresponds to a reportable segment within the meaning of US GAAP provisions. Based on the segment results, the management of Beta Systems determines the success of these areas of business without including items recorded centrally, such as income taxes, financing costs and central expense items, in its assessment. For further information, please refer to the Notes to the Consolidated Financial Statements.

2. ECONOMIC ENVIRONMENT

Beta Systems operates in highly competitive markets, both domestically and internationally, and has established business relations with major global groups and companies in over 40 countries worldwide. It is for this reason that the Group's commercial success is also dependent on global economic conditions and the general performance of the economy as a whole. Based on analyses conducted by the Kiel-based Institut für Weltwirtschaft (IfW), a German economic research institute, the world economy grew by around 5% in 2004. In contrast, economic performance in the industrialized countries was less dynamic: growth rates became increasingly flat in the course of the year under review. The economy showed signs of faltering as early as the first quarter of 2004, as economic policy failed to provide the necessary impetus and surging raw material prices had a decelerating effect. The US economy rallied slightly in the third quarter, only to be counterbalanced by sluggish production within the Euro-zone. Moreover, early indicators suggested that overall production levels would remain relatively sluggish in 2005, to the disadvantage of growth forecasts for 2005.

The German economy, which is of particular importance to Beta Systems due to the high proportion of sales generated domestically, lost momentum after a short-lived surge in growth rates toward the end of the last fiscal year. In the third quarter of 2004, real GDP grew by only 0.4% calculated on a running annual basis. In contrast, the first six months of the year had produced growth of 1.7%. The main factors contributing to economic lethargy were a pronounced decline in overseas demand following the strengthening of the Euro, receding domestic demand, and sluggish consumer spending. The state of Germany's job market, which yet again took a turn for the worse, also contributed to the generally negative economic performance. The pronounced strengthening of the Euro against the US-Dollar had a detrimental effect on revenue generated in the North American sales regions.

Competition in the IT market continued unabated over the course of 2004. Increased pressure on prices, depleted IT budgets, longer product life cycles, and protracted decision-making processes within the area of IT procurement were the principal reasons for subdued demand. According to figures pulished by the industry association BITKOM, the German IT market recorded a moderate increase in demand of 1.9% in 2004, having previously been faced with a decline of 2.1% in 2003. Owing to uncertain growth forecasts, many companies scaled back their IT investments and postponed projects to a later date.

In contrast, corporate decision-making within the area of IT-related expenditure was positively influenced by commercial aspects such as rapid and verifiable return on investment (ROI) of IT solutions deployed by enterprises. Within this context, Beta Systems recorded highly selective demand mainly for IT solutions aimed at implementing new statutory or corporate access, security and transparency standards, achieving cost reductions via automated business processes, as well as protecting previous IT investments by incorporating new systems with existing solutions.

Drawing on in-house analyses conducted on the basis of data published by the market research institute IDC, the management has forecast market growth of 5% to 14% p.a. over the coming years with regard to segments currently served by Beta Systems. The segments Identity/Security Management as well as ECM reveal significant growth potential of 14% and 8% respectively, while market volumes within the field of Data Center Management and Storage Management are expected to increase at a more moderate rate of 5% p.a. at the most. The largest proportion of growth within the segments is likely to be attributable to Europe and the USA, most visibly within the Unix/Linux environment.

3. BUSINESS REVIEW

3.1 Acquisitions

In the last two fiscal years, the ECM sector was characterized by highly concentrated structures, as enterprises focused more heavily on all-embracing ECM solutions aimed at achieving consistent access, management, and storage of their business documents, prompted mainly by statutory or organizational requirements.

In acquiring Kleindienst Datentechnik AG, Beta Systems has considerably strengthened its competitive position in this segment, given that size, financial stability, and a comprehensive product range are key competitive advantages for suppliers operating in this field.

Specializing in ECM, Kleindienst has successfully positioned itself as a market leader in the field of input management. This encompasses capture/scanning, interpretation, and archiving of documents. As a result of this acquisition, Beta Systems has been able to extend its product and service portfolio within the area of ECM and strengthen its expertise as a solutions supplier. In combining Beta Systems and Kleindienst, the Group has consolidated the strengths of both enterprises, offering customers the prospect of greater consistency in business processes with the help of efficient document and information logistics.

As of December 31, 2004, Beta Systems had acquired approx. 3.5 million Kleindienst shares by means of block purchases, a public mandatory offer, and stock-exchange purchases. The total purchase consideration, including transaction costs, amounted to approx. Euro 28.3 million (average purchase consideration of Euro 7.50 per share). This corresponds to around 90% of the capital stock and voting rights of Kleindienst. Representatives of Beta Systems were appointed to the Supervisory Board of Kleindienst to safeguard the interests of the Group. Effective from April 1, 2004, Kleindienst was included in the scope of consolidation of Beta Systems as a result of the majority interest acquired in the enterprise. Therefore, the results of Kleindienst Datentechnik AG have been included in the financial data of Beta Systems on a pro rata basis for a period of 9 months (i.e. excluding the first quarter of fiscal 2004).

Silmultaneously a number of integration measures were implemented, with the express purpose of leveraging synergy potential as part of cooperation and service agreements within the area of administration, sales, service, and technology. A technological cooperation agreement was concluded between the two enterprises. This agreement is to be seen as the basis of initial research and development projects aimed at establishing a joint ECM portfolio.

In the third quarter, a service agreement was concluded between Beta Systems and Kleindienst as part of the gradual amalgamation of joint administrative activities. This agreement encompasses the transfer to Beta Systems of central corporate functions relating to enterprises operating within the Kleindienst Group. The intent behind the agreement is to reduce redundant costs as quickly as possible. The non-recurring costs of the associated reduction in staff at the Augsburg location amounted to Euro 0.3 million. In order to reduce costs yet further, Kleindienst has withdrawn its listing in Deutsche Börse's Prime Standard and applied for inclusion in the General Standard. The two enterprises plan to combine their IT infrastructures in fiscal 2005.

As a next step, management endeavors to merge Kleindienst Datentechnik AG into Beta Systems Software AG. The merger is considered to be an important basis, in terms of company law, for the continued integration of both entities. It will result in the exchange of Kleindienst's outstanding shares for shares in Beta Systems. The merger is to be executed on January 1, 2005. The share-exchange ratio will subsequently be determined and assessed on the basis of an independent valuation of the two entities. Beta Systems anticipates that the merger will come into effect in the second half of 2005, once the necessary shareholder authorization has been granted. The stock-exchange listing of Kleindienst Datentechnik AG will cease as soon as the merger comes into effect.

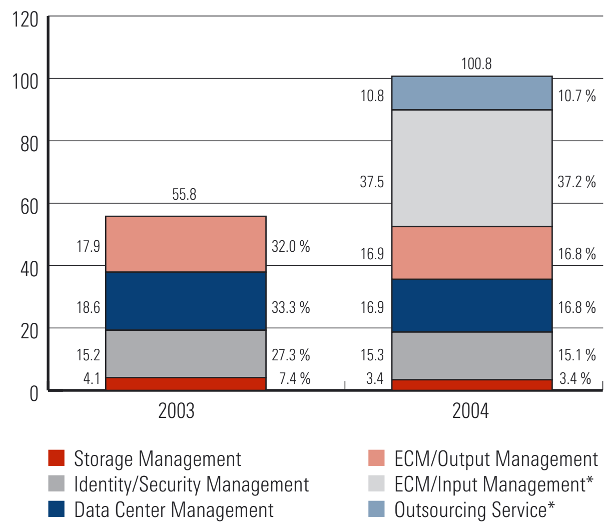
The integration of Kleindienst and Beta Systems provides the best-possible basis for a consistent and effective marketing approach as a strategic supplier to joint customers, while at the same time facilitating the provision of combined solutions from a single source. Kleindienst's operations within the area of Outsourcing Service will be continued as an independent unit with its own management and profit-and-loss responsibility.

3.2 Changes to Group Structure

Owing to the majority interest acquired in Kleindienst Datentechnik AG effective from April 1, 2004, the scope of consolidation of the Beta Systems Group was extended to include the enterprises operating within the Kleindienst Group. For further details on the changes to the Group's structure, please refer to the Notes to the Consolidated Financial Statements.

3.3 Business Units and Products

Revenue structure according to segments in million €



* pro rata for 9 months
Rounding differences are possible

[The Employee]

Data Center Management

In the period under review, the Data Center Management segment (focus on Job Scheduling) recorded a decline in revenues of 8.9% to Euro 16.9 million (2003: Euro 18.6 million) and a segment result of Euro 2.2 million (2003: Euro 2.7 million). Although this area is characterized by stable revenue and earnings potential from maintenance, expansion, and replacement investments, it nevertheless has to contend with a stagnating market environment, as segment revenue is generated predominantly within the Mainframe environment. Overall, this area recorded a limited number of new license agreements and substitutions of third-party installations used by customers, the majority of which were associated with complex solutions-related business. In addition, a larger volume of partner products was sold within the Unix environment. As a result, the segment result was adversely affected by an outflow of license royalties to partners in connection with third-party software.

Important milestones in terms of sales activities within the area of Data Center Management were license and license upgrade agreements concluded with major companies throughout Europe, including agreements with Toyota Motor Europe (automobiles, United Kingdom), IBM UK and IBM France (IT services, United Kingdom, France), GIE AMT (IT services), RCI Banque (financial services, both in France), and Zürich Versicherungen (insurance, Switzerland). In the US, license agreements were negotiated or upgraded for IMS Health (insurance) as well as T. Rowe Price (financial services), and in Germany the Bundesamt für Informatik and the Bundesamt für Wehrtechnik (both public-sector organizations), ZDF (media), Alte Leipziger Lebensversicherung, LVM, and Signal Iduna (all insurance companies), as well as LBS and BHW (both financial services companies) signed contracts with Beta Systems covering Beta 48 and Beta 92, and partner products.

Identity/Security Management

The Identity/Security Management segment recorded nearly constant revenues of Euro 15.3 million (2003: Euro 15.2 million) in fiscal 2004 and a segment loss of Euro 2.6 million (2003: income of Euro 0.1 million). Performance fell short of expectations as a result of postponements to certain large-scale customer projects. The segment also registered a year-on-year increase in expenditure, as budgeted, particularly due to new resources introduced at the development center in Cologne. 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). In addition, marketing and sales activities were stepped up in order to raise market awareness for SAM, particularly in the European Identity Management sector. These measures are expected to unlock additional revenue potential in future months.

The Group succeeded in securing several major contracts for SAM Jupiter within the Identity/Security Management segment, thus outperforming a number of well-known competitors. These included agreements negotiated with Itellium (IT services) and DEVK in Germany, as well as contacts with the European financial services enterprises DnB Nor (Norway), Banca Intesa (Italy), and VUB Banka (Slovakia).

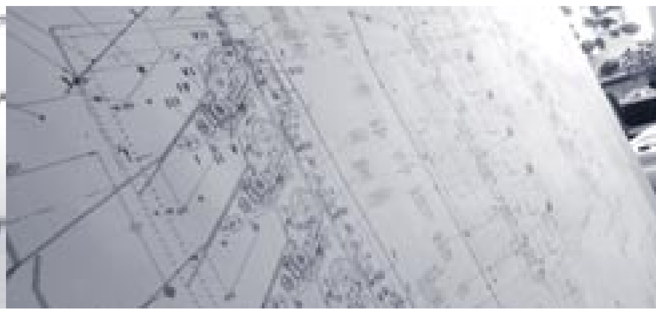
ECM/Output Management

The Output Management segment recorded a 5.2% decline in revenue, from Euro 17.9 million to Euro 16.9 million, and a reduction in earnings from Euro 0.9 million to Euro 0.6 million in fiscal 2004. Here, too, business associated with the new modules of the VIDiDOC Suite (e.g. Beta Web Enabler, Beta 93 UX) proved insufficient to compensate fully for sluggish demand relating to classic Output Management solutions deployed in the Mainframe environment.

Sales efforts in this segment proved particularly successful in the financial sector. The Group negotiated major contracts with IT organizations associated with Germany's Sparkasse savings banks, as well as signing new deals for the deployment of the modules Beta Web Enabler and/or Beta 93 UX on a European scale, including T-Systems (IT services) and Deutsche Genossenschafts-Hypothekenbank, HypoVereinsbank as well as VR Kreditwerk (all financial services companies) in Germany and Skoda (automobiles, Czech Republic), DGCP (public-sector administration, France) and the Next Group (retail, United Kingdom) in the rest of Europe.

ECM/Input Management

In fiscal 2004, the Input Management unit operated by Kleindienst contributed revenues of Euro 37.4 million and a segment result of Euro 1.6 million to Beta Systems' business results. Although the level of revenue was kept stable in Germany as a result of a large-scale contract, business performance abroad fell well short of the management's expectations. In the European countries other than Germany, the overall volume of partner-based contracts was lower than originally planned, and the launch of new scanner models in the US also proved less successful than previously anticipated. Against the background of



continued consolidation in the North American banking sector, US customers postponed their investment projects to a later date. Business associated with FrontCollect solutions, e.g. for the automation of incoming mail, was favorable in the period under review, albeit less dynamic than expected. As a result, this area was not in a position to compensate fully for the decline in revenues generated with traditional solutions for payment transactions. Owing to cost-related adjustments, the segment result was above par. However, it nevertheless remained below the figure originally targeted and fell short of the result for the previous fiscal year.

Within this area, Kleindienst secured a major contract from Postbank Systems AG in the fiscal year under review. The IT service company of Postbank placed an order for EBS 2000 systems to be deployed in two processing centers; each of these two centers is equipped to handle 400,000 payment transaction documents a day (transfers, direct debits, checks, etc.). In addition, significant project agreements were signed in the financial and insurance sector in Germany with Allianz Leben, AMB Generali, Bayern LB, NordLB and Volkswagen Bank and in Austria with Bawag P.S.K. The key contract negotiated abroad was with First National Bank (financial services, South Africa), encompassing the supply of scanners used to process, sort, and archive checks and documents.

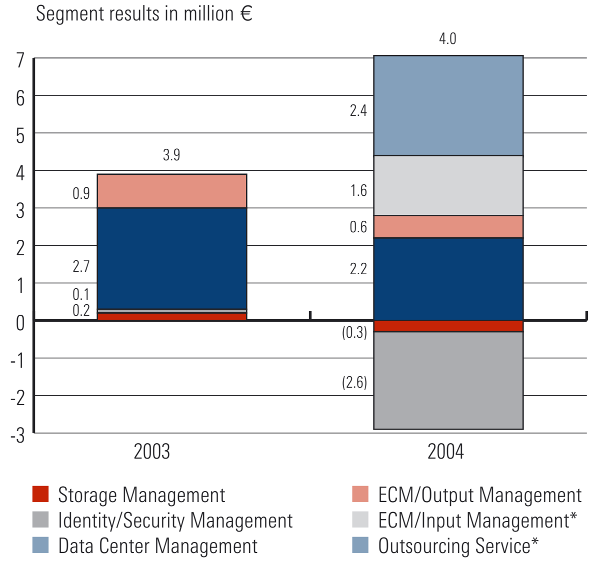
Storage Management

The Storage Management segment generated revenues of Euro 3.4 million (2003: Euro 4.1 million) in fiscal 2004, thus recording a year-on-year decline of 16.8%. As a large proportion of this revenue was generated in North America, this segment was particularly affected by the higher Euro-Dollar exchange rate. These circumstances contributed to the decline in revenue. Recording a loss of Euro 0.3 million, the segment result fell short of the management's forecast and last year's performance (income of Euro 0.2 million).

Sales activities within this area were mainly centered around license upgrades for Network Storage Manager (NSM) and Highspeed File Transfer (HFT), based on existing customer installations in the USA and Canada. Within this context, a number of agreements were negotiated with enterprises such as United Airlines (transport/logistics), Progressive Insurance (insurance), and World Savings & Loan Association (financial services, all based in the USA), the main emphasis being on additional workstation licenses and customized solution

Outsourcing Service

In this business segment, pro rata consolidated revenues amounted to Euro 10.8 million in fiscal 2004. Overall, this area developed in line with the original targets and recorded a segment result of Euro 2.4 million. Within this context, segment results benefited significantly from cost streamlining achieved following the introduction in 2003 of new systems for transaction-related document processing. As a result of these innovative solutions, overall processing costs were scaled back despite the decline in the volume of documents handled.



* pro rata for 9 months
Rounding differences are possible.

3.4 Partnerships

The sales, technology, and development partnerships established by Beta Systems with leading hardware and software vendors (e.g. IBM, SAP, HP, Hitachi) were maintained and further extended over the course of 2004. In addition, Beta Systems and Compart Systemhaus GmbH (Compart) concluded a technology partnership on an OEM basis in the period under review. Beta Systems uses Compart technology for the purpose of "on the fly" conversion of data streams in PDF documents. As a result, output associated with data centers can be accessed online with the help of a Web browser. This solution was implemented for the first time as part of a customer project for a Spanish-based financial services company. One of the key accomplishments was online access to archived account data for more than 1,000 bank customers per day.

4. FINANCIAL PERFORMANCE, FINANCIAL POSITION, AND CASH FLOWS

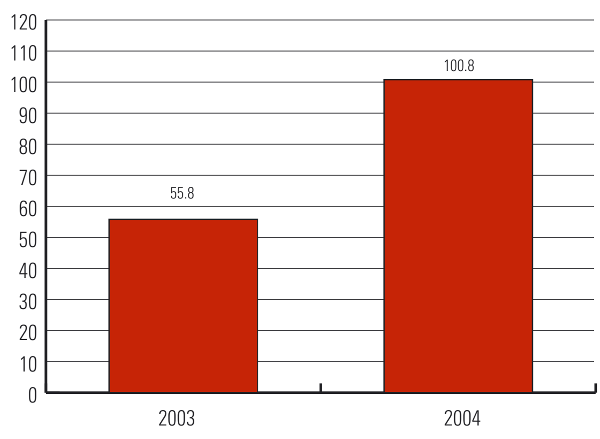
4.1 Financial Performance

The Group's financial performance in 2004 was affected by lower than expected revenues and circumstances associated with the acquisition of Kleindienst. Operating income declined by Euro 1.0 million to Euro 2.8 million, while earnings before taxes (EBT) receded by Euro 1.8 million to Euro 3.0 million (2003: Euro 4.8 million). Beta Systems recorded a break-even net result in fiscal 2004 (2003: net income of Euro 3.5 million).

Revenue and Gross Profit

Beta Systems generated total revenues of Euro 100.8 million (2003: Euro 55.8 million) in fiscal 2004.This corresponds to a year-on-year increase of Euro 45.0 million or 80.7%, which is the result of the consolidation of pro rata revenue attributable to Kleindienst.

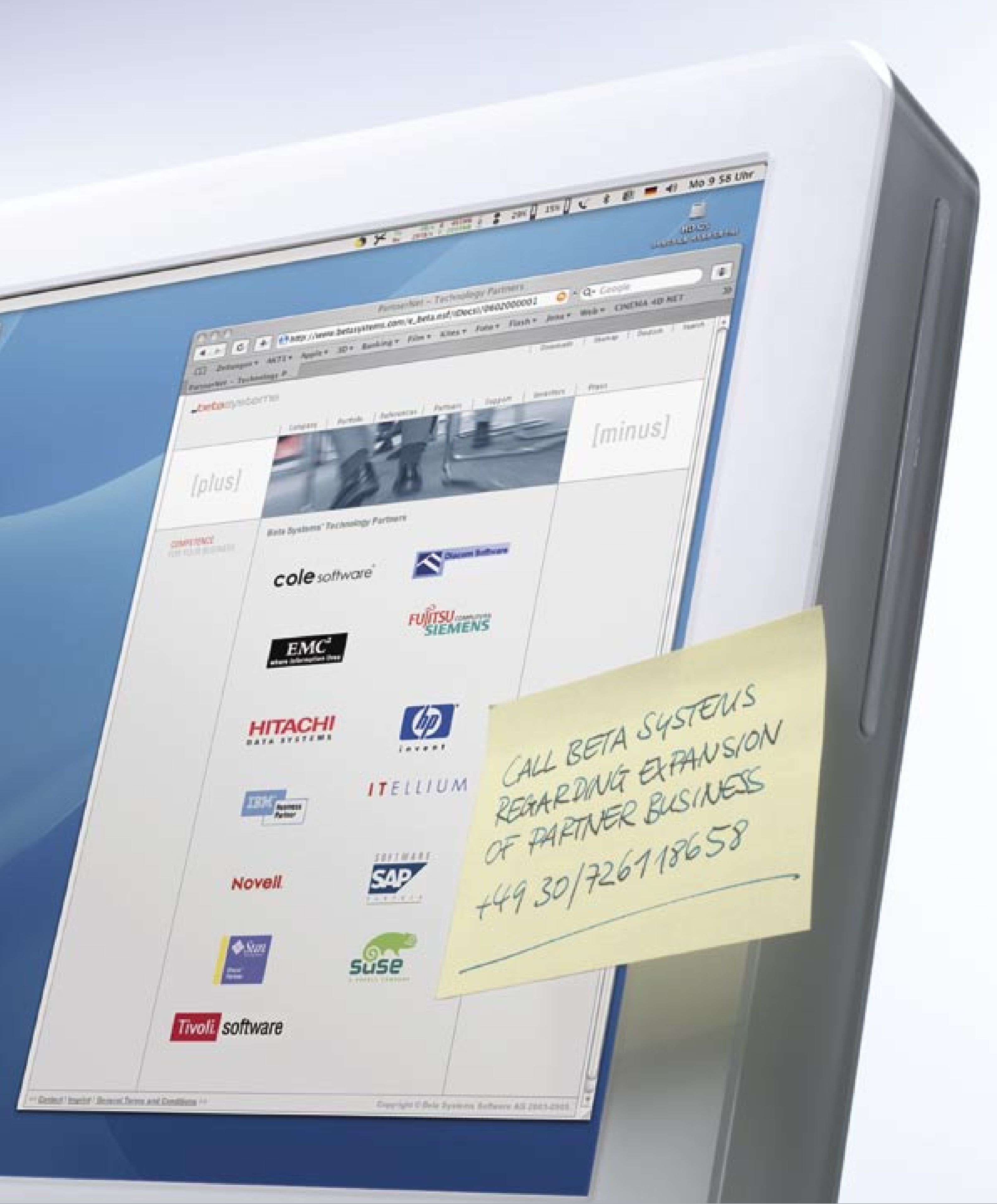
Total revenue in million €



As a supplier of complex enterprise solutions, Beta Systems generates revenues from business activities relating to software licenses, maintenance, and services. In addition, revenues within the area of ECM/Input Management are derived from company-produced hardware (e.g. scanner systems) and hardware reselling (e.g. PC workstations and servers). As the former reporting structure used by Kleindienst Datentechnik AG did not differentiate between the categories of revenue mentioned above, revenues generated by Kleindienst as well as manufacturing costs and costs of goods sold will be reported in accordance with a new system of classification from fiscal 2005 onward, at the earliest. Therefore, all data relating to the revenue categories of Kleindienst in 2004 shall be presented separately, divided into revenue from project business within the area of ECM/Input Management (i.e. solutions from hardware, software licenses, maintenance, and services) and revenue from services business within the area of Outsourcing Service.

Revenues from software licenses declined by 16.3% to Euro 22.1 million in fiscal 2004, compared with Euro 26.4 million in the previous fiscal year. To a large extent, the decline is attributable to lower revenues both from new licenses and upgrades. As anticipated, revenues generated through CPU upgrades receded within the Mainframe environment. At Euro 24.4 million, maintenance revenues generated in the period under review were comparable to the figure achieved in the preceding fiscal year (2003: Euro 24.3 million). Revenues from services increased by 18.0%, up from Euro 5.2 million in 2003 to Euro 6.1 million in 2004. Growth within this area is attributable chiefly to more pronounced project business associated with SAM, as major orders secured in the preceding year were executed in the period under review. Additionally, the consolidation of Kleindienst produced revenue contributions amounting to Euro 37.4 million from project business with ECM/Input Management solutions as well as Euro 10.8 million from services business within the area of Outsourcing Service.

Beta Systems recorded a significant decline in license revenues both in North America and the Benelux countries. To a large extent, this was offset by the positive effect in all sales regions resulting from the consolidation of the respective regional revenues of Kleindienst. However, the performance of these subsidiaries fell short of management's expectations in the year under review, necessitating cost adjustments and staff-related measures to be implemented in 2005. Having to contend with challenging economic conditions, other regions also performed below expectations. In particular, the domestic sales unit but also the European foreign sales organizations in Spain and the UK, as well as the subsidiary in Nigeria, were less successful than anticipated. In contrast, the sales and distribution units in France, Italy, Eastern Europe, and Scandinavia met or exceeded their targets in terms of revenues and earnings.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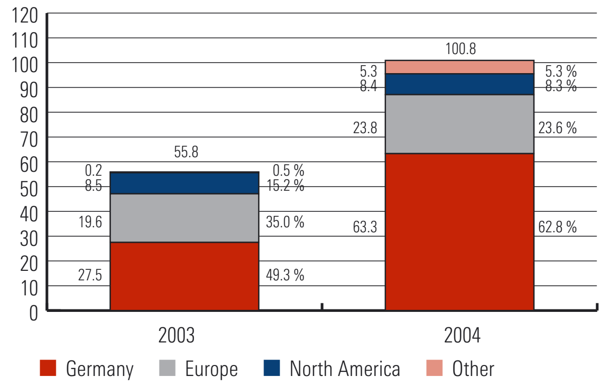
Revenue structure according to regions in million €



Gross profit increased by 31.7% to Euro 53.5 million in the period under review (2003: Euro 40.6 million). The gross profit margin stood at 53.0% in 2004 (2003: 72.7%). The year-on-year decline in the gross profit margin is the result of changes within the cost structure of Beta Systems, which in turn are attributable to the proportion of hardware (third-party and company-developed goods) accounted for in the consolidated revenues and manufacturing costs of Kleindienst. Another factor was the year-on-year increase in the cost of goods sold relating to software licenses due to the higher proportion of partner products distributed by the Group and the associated royalty payments to manufacturers of third-party software.

Costs and Expenses Development

Operating expenses increased by Euro 13.8 million, i.e. 37.7%, to Euro 50.6 million in fiscal 2004, compared with Euro 36.8 million in 2003. The increase in the expense items connected with Marketing and Sales, Research and Development, as well as Administration was mainly the result of consolidated expenses associated with the development, marketing, and sale of Kleindienst solutions, as well as additional costs for Group management and administration, accounting, and Investor Relations attributable to Kleindienst. Owing to the stock-exchange listing of Kleindienst, expense items within this area were largely the same as those attributable to Beta Systems in 2004.

In addition, there were a number of exceptional expense items connected with the acquisition and integration of Kleindienst. These mainly included costs associated with legal advice, M&A consulting services, as well as restructuring costs due to HR downsizing implemented in 2004 within the administrative units of Kleindienst. In total, these exceptional expense items amounted to Euro 1.1 million. Additionally, Beta Systems recorded one-off non-cash expenses of Euro 1.0 million for stock options and employee shares.

As a result of the increase in revenues in connection with an overall lower level of operating expenses and a different cost structure at Kleindienst, operating expenses as a percentage of revenues fell from 65.9% in fiscal 2003 to 50.2% in fiscal 2004.

Operating Income

In the period under review, operating expenses – including cost of goods sold – increased by Euro 46.0 million in total, i.e. 88.5%, compared with the previous year. In total, operating expenses amounted to Euro 98.0 million in fiscal 2004 (2003: Euro 52.0 million). Beta Systems recorded operating income of Euro 2.8 million in fiscal 2004, compared with Euro 3.8 million in fiscal 2003. The year-on-year decline was due to expense items associated with acquisition and integration in addition to the shortfall in revenues.

Interest Income and Other Income

Owing to the decline in cash and cash equivalents, as well as the financial liabilities incurred as part of the acquisition of Kleindienst, Beta Systems recorded interest expense of Euro 1.0 million in fiscal 2004 (2003: interest income of Euro 0.3 million). This item also included consolidated interest expense associated with obligations entered into by Kleindienst for short- and long-term loans. At 1.1 million, other income generated by the Group in fiscal 2004 was positive (2003: Euro 0.7 million). Other income included income from the sale of Workload products to the Allen Systems Group in 2000; income from this transaction will cease with the final payment in 2005. Other expenses mainly included losses on foreign currency translations.

Income before Tax and Income Tax

Earnings before tax (EBT) declined by Euro 1.8 million to Euro 3.0 million in fiscal 2004, compared with earnings before tax of Euro 4.8 million in the previous fiscal year. The pre-tax return declined from 8.6% in fiscal 2003 to 3.0% in fiscal 2004.

Beta Systems recorded increased tax expenses of Euro 2.3 million (2003: Euro 1.3 million). Thus, the tax rate for the Group was 77.3%. This includes exceptional tax-related effects, such as valuation allowances associated with deferred tax assets recognized in previous fiscal years for loss carryforwards at foreign subsidiaries and at Kleindienst amounting to Euro 0.9 million. This resulted in the recognition of tax expense, without leading to an outflow of cash. At the same time, no new deferred tax assets were recognized, for the purpose of reducing taxable income. In addition, there were tax charges of various proportions attributable to those subsidiaries that are working profitably.

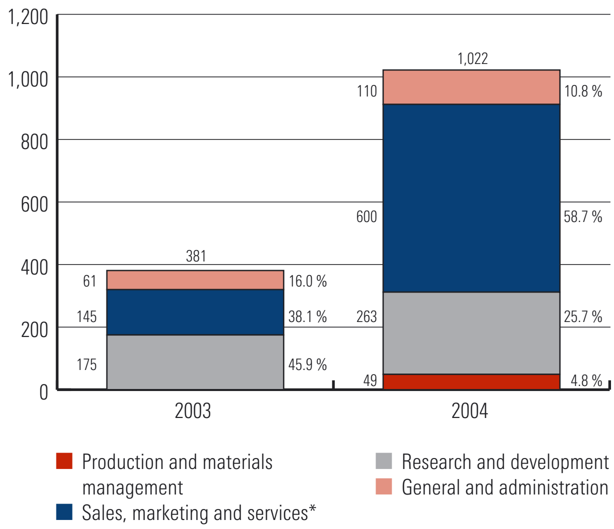
Net Income

After deduction of minority interests associated with Kleindienst and due to the tax effects at Group level, the Group recorded a break-even net income in fiscal 2004, compared with Euro 3.5 million in the previous fiscal year. The corresponds to an income per share of Euro 0.00 (2003: Euro 0.89 per share).

Human Resources

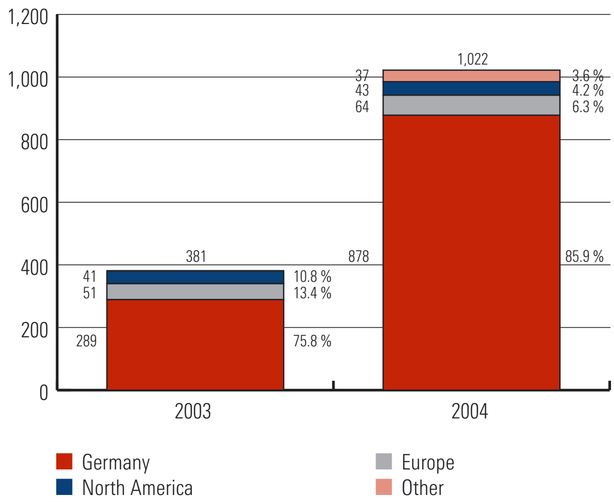
Including staff employed within the Kleindienst Group, the global staff complement at Beta Systems increased from 381 in 2003 to 1,022 as of December 31, 2004. In total, 878 members of staff were employed in Germany, 64 in Europe (excluding Germany), 43 in North America, and 37 in other regions. Approx. 4.8% of staff (49 employees) are employed in Production and Materials Management, 58.7% in Sales, Marketing and Services (600 employees, of whom 21.9% (224 employees) in Outsourcing Service), 25.7% in Research and Development (263 employees), and 10.8% in Management and Administration (110 employees).

Employee structure according to functions



* including Outsourcing Service

Employee structure according to regions



4.2 Financial Position and Cash Flows

Total assets increased from Euro 62.1 million to Euro 103.5 million in fiscal 2004. This increase is mainly attributable to the acquisition of Kleindienst and the distribution of the pro rata purchase consideration to the individual items on the consolidated balance sheet. Within this context, additional assets included inventories and property and equipment in the amount of Euro 7.2 million and Euro 5.4 million respectively, as well as accounts receivable of Euro 5.4 million associated with service project contracts in progress. Furthermore, the acquisition resulted in additional goodwill and other intangible assets of Euro 12.2 million.

As of December 31, 2004, Beta Systems had cash and cash equivalents of Euro 11.5 million and shareholders' equity of Euro 31.8 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 result of the majority-interest acquisition of Kleindienst amounting to Euro 15.0 million was counterbalanced by an increase attributable to the consolidation of cash and cash equivalents of Kleindienst in the amount of Euro 9.2 million.

Long-term debt attributable to the Beta Systems Group increased to Euro 16.5 million as a result of entering into a loan agreement for the purchase of additional Kleindienst shares and the inclusion of existing long-term borrowings of Kleindienst.

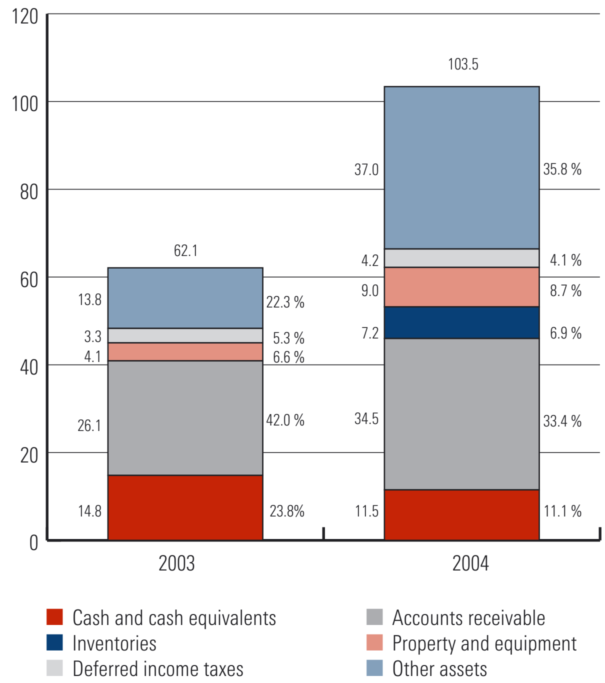
As of December 31, 2004, accounts receivable increased to Euro 29.2 million (2003: Euro 26.1 million). This was attributable mainly to the inclusion of receivables accounted for by Kleindienst. As a result of enhanced cash and liquidity management introduced in 2004, the average period specified for payment was scaled back to the benefit of accounts receivable.

The minority interests of Euro 8.4 million connected with the acquisition are comprised of two components: first, minority shareholders held approx. 10% of the shares in Kleindienst Datentechnik AG at the balance sheet date; secondly, a 49.6% interest in Kleindienst's Outsourcing Service unit is held by financial services enterprises.

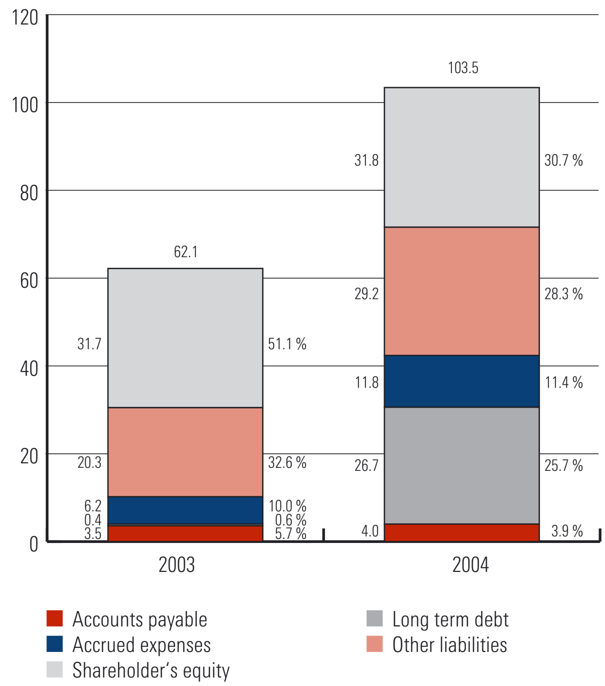
Due to the issuance of employee shares in connection with the staff equity compensation program as well as conversion rights exercised as part of the stock option plan for senior management of Beta Systems Software AG, 150,385 new shares were created in fiscal 2004; the share capital increased by Euro 0.4 million to Euro 10.7 million. Mainly as a result of the increased level of long-term debt related to external financing activities in addition to the accrued minority interests, the equity ratio declined to 30.7% of the balance sheet total (2003: 51.0%).

Cash flow from operating activities amounted to approx. Euro 5.8 million in fiscal 2004 (2003: Euro 1.0 million) and covered both ongoing investments (excluding acquisitions) and the dividend payment executed in 2004.

Structure of assets in million €*



Structure of liabilities and shareholder's equity in million €*



* rounding differences are possible

4.3 Beta Systems Software AG

Beta Systems Software AG is the management company of the Beta Systems Group and performs certain governancing and centralized functions for the Group (Group-wide financial management and accounting, human resources, strategic research and development activities, process management, global corporate and marketing communication, as well as sales management). In addition, the Company performs own operating business activities (sales and service) for the German market. Beta Systems Software AG prepares its annual financial statements in accordance with the German Commercial Code (Handelsgesetzbuch – HGB) and publishes them separately.

Owing to the operations-specific accounting structure within the Beta Systems Group, with Beta Systems Software AG acting as an intra-company accounting center for services rendered by sales subsidiaries, the parent company recorded lower revenues than the Group. The revenues and net income of Beta Systems Software AG were affected by the same demand-side circumstances as those outlined earlier and the same exceptional expenses regarding the acquisition and integration of Kleindienst attributable to the Group as a whole. As a result, both revenues and net income declined in the period under review. Personnel expenses remained nearly constant year-on-year, because higher personnel expenses due to a higher number of employees were offset by lower sales commissions due to the lower revenues in Germany. Other operating expenses increased as a result of higher expenses for marketing, office rent and increased distributor and freelancer expenses. The financial result decreased due to lower interest income because of the decline in cash and cash equivalents led to an increase in interest expenses. Both effects resulted from external financing of the Kleindienst acquisition.

In connection with the assets, the financial position and cash flows of Beta Systems Software AG were dominated by the increase in financial assets and the decline in cash and cash equivalents as well as securities, mainly due to the acquisition of the majority interest in Kleindienst Datentechnik AG. As a result of enhanced cash and liquidity management and due to the decline in revenues, accounts receivable and intercompany receivables both declined. Financial liabilities increased by the acquisition-related amount financed by external funds. Shareholders' equity increased as a result of the issuance of employee shares and the exercise of stock options. Due to a change in the internal accounting practice based on changed intercompany distribution contracts with the international subsidiaries the deferred revenues decreased year-on-year.

4.4 Appropriation of Earnings and Dividend

For the first time, Beta Systems Software AG paid a dividend of Euro 0.50 per share in 2004 (Euro 0.25 plus Euro 0.25 as a special bonus to mark the 20th anniversary of Beta Systems). A dividend of Euro 0.25 per share has been planned for fiscal 2004, to be paid in 2005. In fiscal 2004, the Bilanzgewinn (unappropriated surplus) of Beta Systems Software AG, which represents the earnings available for distribution, amounted to Euro 1.3 million (2003: Euro 2.0 million).

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 Group.

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 management. The subsidiaries and business units are also responsible for risk management, in accordance with the fundamental risk guidelines established for the entire Group. Kleindienst has a separate risk management system, which has been integrated within the Group's risk management system.

5.1 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 enterprise. In addition, this system is supported by an internal audit unit, 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. The internal audit unit, which has been established as a staff unit reporting to the Management Board in 2004, performed all tasks assigned to it in the fiscal year under review.

This mechanism is complemented by the Corporate Governance Principles of Beta Systems. They constitute a system of governance for the activities and collaboration of the Management Board and the Supervisory Board, as well as the Group's public and investor relations activities. These Principles are in line with national standards of corporate governance.

Beta Systems has insurance policies for potential claims and liability risks; 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.

5.2 Significant Risks Monitored by the Risk Management System

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 associated with new products for ECM (Input and Output Management) as well as Identity/Security Management within the area of Open Systems, i.e. under Unix and Windows, is considered to be particularly pronounced. Within this area, the Group is exposed to an increased level of income risk induced by the general vagaries of sales, in conjunction with considerable initial expenditure for market development, rollout, and penetration. In particular, the attainment of revenue targets is dependent on the general development of this market and the level of customer acceptance of the Group's products. The risk associated with these activities is that the market will not develop in line with initial forecasts or that the respective products will fail to capture market share to the extent originally planned. The Group endeavors to counteract this risk by adjusting and enhancing its products in accordance with market requirements. Beta Systems is also faced with considerable price competition 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.

In addition, the acquisition of Kleindienst has resulted in exposure to a number of market risks relating to Input Management and Outsourcing Service, specifically within the area of payment transaction processing for the financial sector. Not only are these segments having to contend with ongoing consolidation in the banking sector, they are also faced with a steady decline in the volume of transaction documents to be processed. Consolidation within the domestic market, coupled with a growing number of large-scale projects abroad, has led to increased competition. The improvement in efficiency levels associated with large systems may result in a further decline in investment volumes as well as a reduced level of services associated with such systems. There is the risk that these trends will develop more rapidly than currently anticipated. Overall, this issue is addressed by focusing on cost efficiency within the segments associated with payment transactions and by concentrating on the implementation of large-scale solutions.

Fluctuations, Seasonality of Revenue, Large-Scale Projects

A large proportion of revenues was generated in the fourth quarter, with software licenses. The maturity, volume, and type of customer-specific licenses and service agreements are crucial to Beta Systems' performance. Many of the agreements encompass substantial 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 and service business to total revenue, these risks are subject to close monitoring, the objective being to act swiftly and efficiently in the event of any deviations. Beta Systems is committed to accelerating product business (as implemented with the acquisition of Kleindienst) and improving sales incentive systems, with the express purpose of achieving more evenly distributed operations across the individual quarters. At the same time, however, it should be noted that there is a certain dependency on large-scale projects. Due to their significant contribution to revenues and earnings, large-scale contracts are of particular importance to the attainment of corporate targets. If such contracts should fail to materialize or become subject to delays, these circumstances could have a significant impact on earnings performance.

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 that is deemed to be the intellectual property of Beta Systems. Furthermore, judicial systems installed in other countries may fail to protect the proprietary rights of Beta Systems in the same manner as protection is provided in Germany or the European Union.

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 Beta Systems 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, 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 Group.

Qualified Staff

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, marketing and selling innovative technologies, products and solutions. The success of the enterprise 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 enterprise offers a number of internal staff development schemes, attractive remuneration packages, and thorough induction and integration programs for newly recruited employees.

Product Portfolio

In fiscal 2004, a large proportion of revenues was generated with five products (SAM, Beta 91, Beta 92, Beta 93, and EBS 2000). 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 Beta Systems. The appeal of the Mainframe environment with which the products SAM, Beta 91, Beta 92, and Beta 93 are associated depends largely on the innovative prowess and business strategy of IBM and other major hardware and software manufacturers.

Given the product and service portfolio of Kleindienst (EBS 2000, FrontCollect, FrontOffice, etc.) and Beta Systems' own research and development, the Group has clearly been able to reduce the level of dependency on specific products by integrating new revenue drivers. Nevertheless, it should be noted that these products and services are subject to the above-mentioned market risks,

which in the case of Kleindienst are monitored and assessed in a separate risk management system. This risk management system has been integrated within the Group and represents an integral part of the Group-wide risk management activities of Beta Systems.

Foreign and Partner Business

The attainment of growth targets for foreign operations and within the area of partner business is dependent on the successful alignment of Beta Systems' activities with these specific markets. One of the main risks is that market entry into new regions, the penetration of these markets, as well as the expansion of existing and the establishment of new sales channels may be more time-consuming than originally planned. Beta Systems' management has counterbalanced this risk by strengthening foreign sales activities and its foreign subsidiaries, incorporating additional local sales partners, and implementing targeted organizational measures.

International Business Activities

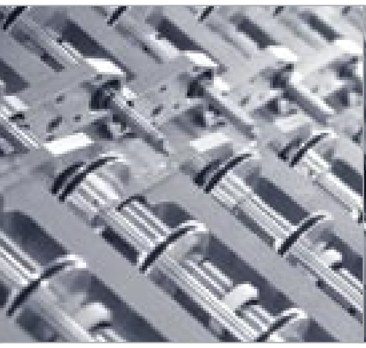
Beta Systems serves customers through local subsidiaries in Europe and in North America. Consequently, the Beta Systems Group, together with its subsidiaries, is subject to the risks generally associated with international transactions, including currency risks. Beta Systems monitors these risks and will deploy appropriate measures if this is deemed necessary. The current Euro-Dollar exchange rate prompted Beta Systems to introduce a foreign currency hedge for cash flows denominated in US Dollars by conducting forward foreign currency transactions.

Acquisitions

Beta Systems' strategy of non-organic growth contains substantial risks associated with the future acquisition and integration of additional companies or corporate units. 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 these risks manageable. The acquisition and integration process may prompt qualified members of staff to leave the enterprise; it may also create uncertainty among customers and business partners. As a result, Beta Systems may lose essential expertise and suffer a decline in revenues in the areas of business affected. If the process of integrating the joint product portfolio in terms of technology and marketing and sales proves to be more difficult than anticipated, the Group may incur additional costs or suffer a further decline in revenue. Integration may also be subject to delays relating to organizational structures and company law. These may also result in additional expenses. A dedicated risk management system has been implemented as part of project management activities associated with the integration of Kleindienst, the objective being to make these risks more controllable.

Financing

Due to the fact that nearly 45% of the Kleindienst acquisition has been financed externally, the level of risk associated with financing became more pronounced in fiscal 2004. To safeguard the financing of this acquisition, a large proportion of borrowed capital was made available on a medium- and long-term basis. In addition, agreements were negotiated with several banks for the provision of credit lines amounting to Euro 24.5 million in total. These debt instruments are subject to floating rate interest payments, negotiated on the basis of favorable interest rates applicable at the time. Higher interest rates carry the risk of increased interest payments. Interest rates are monitored closely by Beta Systems, and measures aimed at interest rate hedging may be implemented if this is considered necessary. In the fiscal year just ended, Beta Systems also implemented measures to optimize cash management, thus addressing issues relating to the new risks outlined above. Based on the level of cash and cash equivalents as well as the considerable proportion of ongoing cash inflow from operating activities, particularly within the area of maintenance and services, the Beta Systems Group is well positioned both in terms of short-term and long-term risks associated with financing.



6. RESEARCH AND DEVELOPMENT

Research and development activities encompass the development of new products and modules, the improvement of existing solutions in accordance with customer and market requirements, as well as quality assurance.

The main focus of strategic development activities performed by the "Innovation Cells" in Augsburg, Berlin, Calgary, and Cologne in fiscal 2004 was centered around the Group's "Enterprise Solutions Strategy", particularly with regard to the newly integrated ECM solutions of Kleindienst. This strategy is aimed at developing a software architecture that is tailored to cross-enterprise deployment with highly distributed customer installations. One of the core principles of this strategic approach is platform independence, i.e. the development of Unix- and Windows-based solutions on the basis of a successful Mainframe portfolio. The second focus was on implementing a component-based architecture. This involves a consistent modular approach for each product, covering a basic component, the product component itself, as well as the customized component.

Research and Development expenditure was mainly targeted at achieving a more inexpensive solutions design, as well as increased flexibility, efficiency and reusability of customer solutions. The majority of the Group's Research and Development activities was centered around the development of an Open Systems version of SAM within the area of Identity/Security Management, the development of new FrontCollect modules for ECM/Input Management, as well as the upgrade of Beta Systems' portfolio in the area of Data Center Management (e.g. Beta 92 Enterprise) in line with the Enterprise Solutions Strategy.

7. SUMMARY AND OUTLOOK FOR FISCAL YEAR 2005

For several years now, Beta Systems has been investing a larger proportion of its Research and Development resources in new products with substantial growth and earnings performance. Although revenue generated with these products and solutions has shown steady growth, the overall percentage attributable to this area has not reached the desired target. Future activities will be aimed at aligning the enterprise more closely and swiftly with these growth segments, in addition to enhancing marketing efforts in order to promote Beta Systems' expertise in these areas.

Prompted by unsatisfactory revenue performance at Beta Systems and Kleindienst, the Management Board initiated a targeted program in the first quarter of fiscal 2005, with the express purpose of implementing more substantial cost reductions throughout the Beta Systems Group than originally planned as part of ongoing integration. In addition to implementing a number of measures aimed at reducing costs with immediate effect, Beta Systems intends to reduce staffing levels throughout the Group in order to safeguard its targeted EBT margin of 10% in the medium term.

The strategy implemented as part of the "Go Ahead Beta" program, which is aimed at generating growth and increasing profitability, will continue to be pursued rigorously throughout the Group and adjusted in line with economic conditions where appropriate. The main focus is on integrating Kleindienst and implementing all-embracing restructuring measures that are tailored precisely to the current market environment. Beta Systems' management is committed to accelerating this process of change.

Given the full consolidation of the Kleindienst results, the Management Board of Beta Systems expects increasing revenues for the fiscal year 2005. In the absence of non-recurring costs associated with the acquisition in 2004 in addition to the introduction of initial cost reductions in administration Management is expecting to see an increase in earnings for fiscal 2005 despite further restructuring and integration costs.

Berlin, March 2005
The Management Board


The acquisition will enable
Beta to take its place
among the big international
ECM players in the medium-term.
This scenario may also involve
a high share valuation potential.
Nonetheless a merger always
holds typical risks.

[The Analyst]

REPORT OF THE SUPERVISORY BOARD

Dear Shareholders,

The Supervisory Board of Beta Systems Software AG discharged its duties under legal regulations and the Company's bylaws. The Management Board provided detailed information regarding the position and business development of Beta Systems Software AG as part of six Supervisory Board meetings held in the year under review. The Supervisory Board advised the Management Board and monitored its management activities. The Supervisory Board was included in all material decision-making processes and was kept informed by the Management Board in a timely and comprehensive manner, on the basis of both verbal and written reports, as regards all pertinent issues relating to corporate planning and strategic development, the course of business, the Group's state of affairs, which included risk reports, and risk management. Deviations of ongoing business performance from forecasts and targets were elucidated on a case-by-case basis. The Management Board consulted with us on the strategic alignment of the Company. All business activities deemed to be of particular significance for the Company were discussed in depth on the basis of Management Board reports, as part of plenary meetings convened by the Supervisory Board. As Chairman of the Supervisory Board, I maintained regular contact with the Management Board and obtained information on the current progression of business and material business-related events. The Supervisory Board gave its approval for major transactions requiring prior authorization; in urgent cases, this approval was granted in a written form.

Focus of advisory activities

At the beginning of the year, the main focus of Supervisory Board activity was on the majority-interest acquisition and the public mandatory offer for the takeover of Kleindienst Datentechnik AG, Augsburg, as well as measures associated with the aforementioned transaction. In the further course of 2004, the Supervisory Board discussed and monitored plans relating to the commercial, technical, cultural, and administrative integration of the new areas of business. Furthermore, the Management Board provided comprehensive reports pertaining to the milestones achieved within this area and risk management associated with the so-called "Think BiK!" project for step-by-step integration of the Kleindienst Group into the Beta Systems Group. Towards the end of the year, the Supervisory Board deliberated the proposed merging of Kleindienst Datentechnik AG into Beta Systems Software AG and gave its consent to the plan.

The Management Board presented and explained its corporate plans and budgets for the fiscal years 2005 to 2009, as well as product and market strategies. Within this context, the main focus of Supervisory Board meetings held at the end of 2004 was on analyzing deviations of business performance from the forecasts and targets of the Management Board and discussing the range of measures aimed at unlocking additional potential in terms of revenue growth and cost streamlining. Against the backdrop of the Company's annual results for 2004, these deliberations with the Management Board are to be continued over the course of fiscal 2005.

Corporate Governance and Declaration of Conformity

The information provided by the Management Board in the section of this annual report relating to Corporate Governance also applies to the Supervisory Board. On November 24, 2004, the Management Board and Supervisory Board issued an updated Declaration of Conformity in accordance with Section 161 of the Stock Corporation Act (Aktiengesetz – AktG). The Declaration has been included in this annual report and was made permanently available to shareholders by means of publication on the corporate website. Prior to several joint meetings, the Supervisory Board convened without the Management Board being present. These meetings also included a critical review of the Supervisory Board's efficiency. Apart from minor exceptions, Beta Systems is compliant with all recommendations put forward by the Commission of the German Corporate Governance Code in the applicable version of May 21, 2003.

Meetings held by the Personnel Committee

The Personnel Committee, which convened on two occasions during the period under review, mainly addressed issues relating to the appointment of Management Board members as well as the level and structure of Management Board compensation and the specification of variable components of remuneration.

In April of fiscal 2004, Ralf Männlein, Management Board member responsible for Marketing, Service, and Sales, requested the Supervisory Board not to extend his contract ending on June 1, 2004, citing personal reasons. The Supervisory Board and Personnel Committee agreed to this request. Mr. Männlein's duties as a Management Board member were transferred to the Chairman of the Management Board Karl-Joachim Veigel for a transitional period.

In September, the Supervisory Board appointed Mr. Dietmar Breyer as Deputy Chairman of the Management Board of Beta Systems Software AG, based on the recommendation of the Personnel Committee, and transferred the duties of Marketing, Service, and Sales to him.

Prior to his appointment, Mr. Breyer held the position of Chairman of the Management Board of Kleindienst Datentechnik AG, in which Beta Systems Software AG acquired a majority interest. The appointment of Mr. Breyer was implemented, in particular, due to the immense strategic importance accorded to the future merging of the companies, chiefly within the area of sales and distribution. With a wealth of experience in the area of Enterprise Content Management, as well as outstanding sector-specific expertise and a proven track record in senior management, Mr. Breyer displays the qualities required to further enhance the executive team of Beta Systems.

Changes to the Supervisory Board

There were no changes to the Supervisory Board of Beta Systems Software AG in fiscal 2004.

Adoption of the Financial Statements

The accounting records, financial statements, and combined and company management report (group management report) of Beta Systems Software AG for fiscal 2004 were audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Berlin, and were granted an unqualified audit opinion. In its meeting of March 18, 2005, the Supervisory Board, in the presence of the auditor, took cognizance of the results of the audit and confirmed them accordingly. Having concluded its own final examination, the Supervisory Board raises no objections to the financial statements and group 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. Against the backdrop of the acquisition of Kleindienst, the main focal points of this year's audit were connected with the changes to the balance sheet structure as a result of initial consolidation as well as the assessment of the existing liquidity management system deployed throughout the Group. 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 for examination. 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 Bilanzgewinn (unappropriated surplus, also referred to as net retained earnings), as put forward by the Management Board.

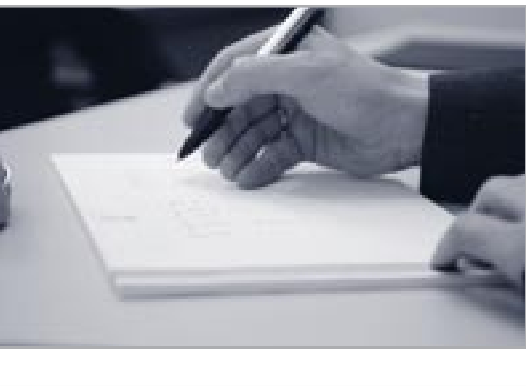
The Supervisory Board would like to express its thanks to the Management Board and to all employees of Beta Systems AG for their commitment over the course of the fiscal year 2004.

Berlin, March 2005

On behalf of the Supervisory Board

Harald J. Joos

(Chairman of the Supervisory Board)



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, 2004 to December 31, 2004. 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 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, 2004 to December 31, 2004, has not led to any reservations. In our opinion the combined group and company management report (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, 2004 to December 31, 2004 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 11, 2005

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr Schindler
Wirtschaftsprüfer
(German Public Auditor)

Geisler
Wirtschaftsprüfer
(German Public Auditor)

CONSOLIDATED STATEMENTS OF OPERATIONS

Year ended December 31, (EUR in thousands, except share and per share data)	2003	2004
Revenues:		
• Product licences	26,353	22,061
• Maintenance	24,266	24,381
• Service	5,175	6,106
• Project business ECM Input Management	-	37,445
• Outsourcing Service	-	10,826
Total revenues	**55,794**	**100,819**
Cost of revenues:		
• Product licences	2,477	3,650
• Maintenance	7,066	7,719
• Service	5,676	6,460
• Project business ECM Input Management	-	21,868
• Outsourcing Service	-	7,668
Total cost of revenues	**15,219**	**47,365**
Gross profit	**40,575**	**53,454**
Operating expenses:		
• Selling	18,351	23,774
• General and administrative	9,224	13,669
• Research and development	9,057	12,008
• Amortization of intangible assets	47	1,013
• Severance payments and other restructuring costs	77	141
Total operating expenses	**36,756**	**50,605**
Operating income	**3,819**	**2,849**
Other income, net	727	1,132
Interest income (expense), net	255	(972)
Income before income taxes and minority interests	**4,801**	**3,009**
Income tax expense	1,291	2,327
Minority interests	-	699
Net income (loss)	**3,510**	**(17)**
Net income per ordinary share		
• Basic	**0.89**	**0.00**
• Diluted	**0.88**	**0.00**
Weighted average number of shares used to compute net income (loss) per ordinary share		
• Basic	**3,922,005**	**4,048,345**
• Diluted	**3,986,408**	**4,048,345**

See accompanying Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2004

(EUR in thousands, except share data)	Ordinary Shares Number of Shares Issued	Ordinary Shares Nominal Amount	Additional Paid-In Capital	Compensation costs for options
Balance at December 31, 2002	**3,974,931**	**10,162**	**18,627**	**(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 costs for options	-	-	(444)	597
Balance at December at 31, 2003	**4,020,710**	**10,279**	**18,244**	**-**
Issuance of ordinary shares	150,385	384	586	-
Net loss	-	-	-	-
Other comprehensive income, net of tax effect				
• Unrealized loss on investment securities	-	-	-	-
• Currency translation adjustments	-	-	-	-
Other comprehensive income	-	-	-	-
Comprehensive income	-	-	-	-
Compensation costs for options	-	-	790	-
Dividends paid	-	-	-	-
Balance at December 31, 2004	**4,171,095**	**10,663**	**19,620**	**-**

See accompanying Notes to the Consolidated Financial Statements

	Accumulated Other Comprehensive Income	Accumulated Income (Deficit)	Net Income incl. Comprehensive Income (Loss)	Treasury Stock Number of Shares	Treasury Stock Amount, at Cost	Total Shareholders' Equity
	1,232	**(1,129)**		**(60,305)**	**(419)**	**27,876**
	-	-		-	-	178
	-	3,510	3,510	-	-	3,510
	- -	- -	176 (183)	- -	- -	- -
	(7)	-	(7)	-	-	(7)
	-	-	3,503	-	-	-
	-	-		-	-	153
	1,225	**2,381**		**(60,305)**	**(419)**	**31,710**
	-	-		-	-	970
	-	(17)	(17)	-	-	(17)
	- -	- -	(31) 297	- -	- -	- -
	266	-	266	-	-	266
	-	-	249	-	-	-
	-	-		-	-	790
	-	(1,957)		-	-	(1,957)
	1,491	**407**		**(60,305)**	**(419)**	**31,762**

CONSOLIDATED BALANCE SHEETS

At December 31, (EUR in thousands, except share and per share data)	2003	2004
Current assets:		
• Cash and cash equivalents	14,775	10,836
• Restricted cash	-	705
• Marketable securities available for sale, at fair value	1,018	-
• Accounts receivable, less allowances:		
2003 EUR 628; 2004 EUR 656	26,096	29,178
• Work in Process (POC), net	293	5,805
• Inventories, net	-	7,193
• Prepaid expenses and deferred charges	863	1,987
• Deferred income taxes (current)	35	-
• Other current assets	1,066	3,211
Total current assets	**44,146**	**58,915**
• Property and equipment, net	3,129	8,893
• Goodwill, net	1,355	13,445
• Other intangible assets, net	199	2,596
• Capitalized software development costs, net	4,190	8,546
• Deferred income taxes (non-current)	3,295	4,229
• Other assets	5,825	6,848
Total assets	**62,139**	**103,472**
Current liabilities:		
• Short-term finance and current installments of long-term debt and capital leases	367	10,108
• Accounts payable	3,558	4,034
• Deferred revenues	11,028	9,246
• Income taxes payable	401	3,388
• Deferred income taxes (current)	1,995	3,415
• Accrued expenses and other current liabilities	8,283	13,883
Total current liabilities	**25,632**	**44,074**
Long-term debt and capital leases	67	16,528
Pension obligations	850	1,954
Deferred income taxes (non-current)	3,875	-
Other liabilities	5	774
Total liabilities	**30,429**	**63,330**
Minority interests	-	8,380
Shareholders' equity		
• Ordinary shares, EUR 2.56 imputed nominal value;		
Dec 2003 : 4,020,710 shares issued and 3,960,405 shares outstanding;		
Dec 2004 : 4,171,095 shares issued and 4,110,790 shares outstanding.	10,279	10,663
• Additional paid-in capital	18,244	19,620
• Accumulated income	2,381	407
• Accumulated other comprehensive income	1,225	1,491
• Treasury stock at cost: 60,305 shares in 2003 and 2004	(419)	(419)
Total shareholders' equity	**31,710**	**31,762**
Total liabilities and shareholders' equity	**62,139**	**103,472**

See accompanying Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOW

Year ended December 31, (EUR in thousands)	2003	2004
Operating activities		
• Net income (loss)	3,510	(17)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
• Depreciation and amortization	2,746	6,206
• (Gain) Loss on sale of equipment	19	(22)
• Deferred compensation	309	790
• Deferred taxes	867	914
• Foreign currency gains (losses)	(505)	122
• Minority interests	-	699
• Changes in assets and liabilities, net:		
- (Increase) Decrease in accounts receivable	(5,248)	5,444
- Increase (Decrease) in accounts payable	2,506	(1,873)
- Decrease in deferred revenue	(1,305)	(3,403)
- Change in other assets and liabilities including current tax liabilites	(1,865)	(3,089)
Net cash provided by operating activities	**1,034**	**5,771**
Investing activities		
• Proceeds from repayment of short-term investments	2,500	(705)
• Purchases of property and equipment	(1,608)	(2,033)
• Proceeds from sales of property and equipment	122	590
• Capitalization of software development costs	(1,074)	(2,427)
• Cash paid for acquisition of software development costs	(205)	(650)
• Cash paid for acquisition of other intangible assets	-	(618)
• Cash paid for investments and asset deals, net	(1,321)	(16,882)
Net cash used in investing activities	**(1,586)**	**(22,725)**
Financing activities		
• Proceeds from grant of short-term borrowings	-	9,426
• Repayment of short-term borrowings	-	(406)
• Proceeds from grant of of long-term debt	5	12,320
• Repayment of long-term debt and capital leases	(383)	(7,675)
• Dividends paid	-	(1,957)
• Issuance of shares, net	178	970
Net cash provided by (used in) financing activities	**(200)**	**12,678**
Effect of exchange rate changes on cash	(213)	337
Decrease in cash and cash equivalents	(752)	(4,276)
Cash and cash equivalents at the beginning of the year	15,740	14,775
Cash and cash equivalents at the end of the year	**14,775**	**10,836**
Supplementary cash flow disclosures:		
• Cash paid for taxes	515	1,030
• Cash paid for interest	2	1,180
• Acquisition of equipment through capital lease obligation	-	918

See accompanying Notes to the Consolidated Financial Statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2004

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 ECM/Input Management business segment develops and sells Document-Management-Solutions for various sectors and especially for the payment processing in the banking sector. The business segment Outsourcing Service acts as external service provider for banks and, on the basis of long-term contracts, takes over the electronic processing and archiving of payment processing documents.

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. Minority interests represent the share by outside companies in the earnings of the Kleindienst Group.

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 EUR (505) and EUR 122 in 2003 and 2004, 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, that 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 (SOP 97-2). Maintenance revenue is recognized ratably over the maintenance period. Service revenue consists principally of installation, training and scanning services 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 percentage-of-completion method, a 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. The Company uses the cost-to-cost - viz. the efforts-expended method to determine the percentage of completion.

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 exceeds the net realizable value (the present value of future estimated sales of the products less costs to sell) of that asset is written off.

Software development costs at Kleindienst Datentechnik AG are not activated due to the short time span between technical feasibility and general availability.

(all EUR amounts in thousands exept share and per share data)

Advertising Costs

Advertising costs are charged to expense as incurred. The Company incurred advertising costs of EUR 449 and EUR 1,299 in 2003 and 2004, 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. An advance payment was delivered on a construction project. The amount is utilized according to progress on the project.

Restricted Cash

As at December 31, 2004 an amount of EUR 705 is restricted in connection with a liability towards a customer. An advance payment was delivered on a construction project. The amount is utilized according to progress of the project.

Inventories

Inventories are stated at the lower of cost or market principle, with cost being determined based on the average cost mehtod. 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 - five to ten years; computer equipment - three to five years; facilities and office equipment - three to ten 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 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 of cash and cash equivalents, marketable securities, accounts receivable, accounts payable and accrued liabilities. 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. 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. The pro forma disclosures are included under point 19.

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.

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.

Reclassifications

Certain reclassifications were made in the consolidated financial statements to ensure that the presentation for the prior year information conforms with the presentation for fiscal year 2004. These reclassifications have no impact on the net income or shareholders' equity reported for the prior year.

(all EUR amounts in thousands exept share and per share data)

2. BUSINESS ACQUISITIONS

SYSTOR Security Solutions GmbH

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 EUR 2,215 for the acquired enterprise comprised the following:

Acquisition Costs: Operative business of SYSTOR Security Solutions GmbH	2003
Cash	894
Accounts Receivable	613
Software Development Costs: SAM	1,369
Goodwill and Licence Rights	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. Of the EUR 1,360 assigned to Goodwill, EUR 734 are tax deductible. The acquired Software Development Costs and the Licence Rights are amortized over five years.

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

The following supplementary information discloses the Pro Forma results for the complete 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 prior 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 EUR 1,060, in 2004 these amounted to EUR 1,283.

(all EUR amounts in thousands exept share and per share data)

Kleindienst Datentechnik AG

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 ("Kleindienst") 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 April 1, 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 activites 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 ended 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 per share.

As at December 31, 2004, the Company has acquired altogether 3,522,616 shares of Kleindienst Datentechnik AG for a total purchase price of EUR 27,350 at an average unit price of EUR 7.50 per share. This represents 88.07% of the total share capital of Kleindienst Datentechnik AG. The acquisition of the total number of 4,000,000 Kleindienst 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 was settled by Beta Systems by means of available cash and firmly granted bank credits in an amount exceeding the purchase price. As at December 31, 2004, additional purchase costs of EUR 916 were recorded.

Kleindienst and her subsidiaries ("Kleindienst Group") were fully consolidated into the Beta Group for the first time as at April 1, 2004.

The purchase price of EUR 27,350 for the acquired majority shareholding was allocated as follows:

Acquisition Costs: Kleindienst Datentechnik AG	2004
Cash	10,468
Accounts Receivable	13,876
Inventories	7,588
Software Development Costs	3,258
Goodwill	12,169
Licence Rights	2,796
Fixed Assets	6,512
Other Assets	3,349
Deferred Tax Assets	7,075
Accounts Payable	(2,350)
Other Payables	(13,542)
Long-Term Debt and Capital Leases	(11,274)
Deferred Tax Liabilities	(3,273)
Deferred Revenues	(1,621)
Minorities	(7,681)
Purchase Price	**27,350**
Acquired Cash	(10,468)
Cash paid for Business Acquisition, net	**16,882**

The allocation of the purchase price is temporary, as complete records for the final determination of the purchase price are not yet available. The Goodwill in the amount of EUR 12,169 is allocated to the Outsourcing Service business segment. The entire amount is not tax deductible.

The purchase price was paid in full. The acquired Software Development Costs and the Licence Rights are amortized over five years. In addition, the Company acquired tax deductibe accumulated losses in the amount of EUR 20,333 which do not expire.

(all EUR amounts in thousands exept share and per share data)

Kleindienst with its subidiaries 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 Service. The Enterprise Systems segment develops and markets sofware-supported solutions for enterprise-wide document management for various sectors, in particular for payment processing in the banking sector. The Outsourcing Service 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.

Background and aim of the acquisition was 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 Contenct 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 strenghts 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 nine months ended December 31, 2004 are included in the Company's financial results here reported.

The following supplementary information discloses the Pro Forma results for the period ended December 31 under the assumption that Kleindienst had been acquired and fully consolidated from the beginning of the financial year 2003 viz. 2004.

	Twelve months ended 31 December, 2003	
	As reported	**Pro Forma**
Group Revenues	124,407	117,462
Net Income	4,275	(1,040)
Net Income per Share	1.09	(0.26)

In the reported Pro Forma results of operations for 2004 non-recurring consultancy costs in the amount of EUR 1,200 are included.

(all EUR amounts in thousands exept share and per share data)

3. MARKETABLE SECURITIES AVAILABLE FOR SALE

At December 31,	2003	2004
Deutsche Telekom AG Shares, at Cost	971	971
SAP AG Shares, at Cost	1	1
	972	**972**
Unrealized Gains, exceeding one Year	46	-
Realized Gains at Date of Sale in 2004	-	138
Fair Value at December 31, 2003	**1,018**	**-**
Market Value at Date of Sale in 2004	**-**	**1,110**

The shares of Deutsche Telekom AG were valued at EUR 14.57 per share at December 31, 2003. The sale of the shares in 2004 was transacted at an average market price of EUR 15.99 per share; accordingly, a gain of EUR 95 was realized.

The shares of SAP AG, Walldorf were acquired at a price of EUR 3.18 per share; the average market price at the date of sale in 2004 was EUR 146.00 per share. This resulted in a realized gain of EUR 43.

4. ROLL-FORWARD OF ALLOWANCE FOR DOUBTFUL ACCOUNTS

At December 31,	2003	2004
Beginning Balance	650	628
• Provision	137	605
• Charge-off	(159)	(577)
Ending Balance	**628**	**656**

The valuation of Trade Accounts Receivable is based on the amount which will be realized by the Company. Principally, the receivables are valued individually according to their respective expected cash inflow.

5. WORK IN PROCESS (POC)

At December 31,	2003	2004
Receivables from Long-Term Construction Contracts	639	14,187
Prepayments	(346)	(8,382)
Work in Process	**293**	**5,805**

Work in process on long-term construction contracts is stated at production cost plus margin, including administration, selling and interest expenses.

Sales and contract revenues are recognized according to the percentage-of-completion method. The Company uses the cost-to-cost -, viz. the efforts-expended method to determine the percentage of completion. The cost-to-cost method involves expressing costs already incurred as a percentage of the total planned costs, while for the efforts-expended method the completed project time is put into relation with the total planned project time.

All unbilled POC receivables as at December 31, 2004 are expected to be collected within one year.

(all EUR amounts in thousands exept share and per share data)

6. INVENTORIES

At December 31,	2003	2004
Raw materials, Consumables and Supplies	-	2,922
Unfinished Goods	-	3,657
Finished Goods	-	614
	-	**7,193**

Inventories are shown in the balance sheet of the Company for the first time as a result of the Kleindienst acquisition.

7. OTHER CURRENT ASSETS

At December 31,	2003	2004
Tax Receivables	1,055	1,101
Receivable due by Shareholder	-	1,612
Foreign Currency Forward Contracts	-	386
Other	11	112
	1,066	**3,211**

Tax Receivables

An amount of EUR 550 was recognized for taxes withheld on income from investments and dividends. Additionally the Company is subject to withholding tax in various countries, EUR 246 expended being an allowable deduction from income taxes. Based on a lower income tax, prepayments of EUR 305 were recognized as receivables due from the tax authorities.

Receivable due by Shareholder

The receivable of EUR 1,612 due by DZ Bank AG relates to a compensation claim made by Kleindienst Datentechnik AG in 1999 for a trade tax liability.

The trade tax liability resulted from the sale by DZ Bank AG of 66.7% of the share in DZ Service GmbH & Co. KG to Kleindienst Datentechnik AG in fiscal year 1999. This is borne by DZ Bank AG pursuant to the purchase and transfer agreement dated March 9, 1999.

Foreign Currency Forward Contracts

In fiscal year 2004 the Company entered into foreign currency forward contracts in order to cover foreign currency risks related to US-Dollar receivables. As at December 31, 2004 these contracts had a fair market value of EUR 386.

8. PROPERTY AND EQUIPMENT

At December 31,	2003	2004
Acquisition Costs		
• Computer Equipment	8,368	10,923
• Leasehold Improvements	1,409	2,995
• Facilities and Office Equipment	1,001	4,524
	10,778	**18,442**
Accumulated Depreciation	(7,649)	(9,549)
Property and Equipment, net	**3,129**	**8,893**

Depreciation expenses charged to the statements of operations amounted to EUR 1,629 in fiscal year 2003 and to EUR 3,221 in 2004.

(all EUR amounts in thousands exept share and per share data)

9. GOODWILL

At December 31,	2003	2004
Capitalized Amounts		
• Goodwill	8,049	20,149
Accumulated Amortization	(6,694)	(6,704)
Goodwill, net	**1,355**	**13,445**

Following increases in 2003 resulting from the acquisition of the business of SYSTOR Security Solutions GmbH, the increases in fiscal year 2004 result from the acquisition of the business of Kleindienst Datentechnik AG.

The Goodwill is allocated to the ID/Security Management segment with EUR 1,276, and to the Outsourcing Service segment with EUR 12,169.

10. OTHER INTANGIBLE ASSETS

At December 31,	2003	2004
Capitalized Amounts		
• Licence Rights	681	3,836
Accumulated Amortization	(482)	(1,240)
Other Intangible Assets, net	**199**	**2,596**

Following increases in 2003 resulting from the acquisition of the business of SYSTOR Security Solutions GmbH in the amount of EUR 250, the increases in fiscal year 2004 of EUR 3,414 result from the acquisition of Kleindienst Datentechnik AG and the acquisition of further license rights. The amortization expense was EUR 47 in fiscal year 2003 and EUR 1,013 in 2004.

The expected amortization expense for the next years is as follows:

Years ending December 31,	
• 2005	1,064
• 2006	492
• 2007	333
• 2008	308
• 2009	272
• Thereafter	127
Total Amortization	**2,596**

11. CAPITALIZED SOFTWARE DEVELOPMENT COSTS

Pursuant to FAS 86, the Company evaluates the recoverability of the capitalized software costs against the probability of generating positive cash inflows in the future. This resulted in a write down of EUR 200 in 2004.

Total software development costs of EUR 979 and EUR 2.427 were capitalized in fiscal years 2003 and 2004, respectively. Acquired software development costs resulting from the acquisition of the business of SYSTOR Security Solutions GmbH in 2003 resulted in capitalization of EUR 1,369 and EUR 650 in 2003 and 2004, respectively. Further increases in acquired software development costs in fiscal year 2004 of EUR 3,258 resulted from the acquisition of the business of Kleindienst Datentechnik AG in 2004.

Amortization expenses related to capitalized software costs amounted to EUR 1,070 in 2003 and to EUR 1,972 in 2004 including the extraordinary write-off.

(all EUR amounts in thousands exept share and per share data)

12. OTHER NON-CURRENT ASSETS

At December 31,	2003	2004
Long-term Receivables from Unbilled Invoices	4,716	5,822
Receivables due from ASG	469	323
Guarantee Deposits	68	95
Cash Surrender Value of Insurance Policies	572	608
	5,825	**6,848**

The Company has long-term receivables from unbilled invoices. Invoices for EUR 3,493, EUR 1,256, EUR 671 and EUR 402 will be issued in the years 2006 to 2009, 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 ASG'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 an amount of EUR 5,304 has been recognized.

The net assets sold are being deferred and expensed as royalty payments become due. The remaining balance at December 31, 2003 and 2004 amounts to EUR 469 and EUR 323, respectively.

13. SHORT-TERM FINANCE AND CURRENT INSTALLMENTS OF LONG-TERM DEBT AND CAPITAL LEASES

At December 31,	2004
Deutsche Bank AG	1,750
Landesbank Berlin	2,500
Commerzbank AG	1,743
Current Operating Facilities	346
Short-Term Finance and Current Operating Facilities	**6,339**
Current Installments of Long-Term Debt and Capital Leases (ref. Point 18)	3,769
Short-Term Finance	**10,108**

At December 31, 2004 the Company has total short-term credit facilities available in an amount of EUR 24,500.

14. DEFERRED REVENUES

In conformity with the regulations on the realization of revenues this position comprises the revenues already billed but not yet realized, i.e. in respect of services from maintenance-, consulting- or service contracts still to be delivered.

(all EUR amounts in thousands exept share and per share data)

15. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

At December 31,	2003	2004
Other Taxes and Social Security Payables	2,126	2,821
Accrued Payroll and Travel Expenses	5,264	4,227
Other Accrued Expenses and Current Liabilities	893	6,835
	8,283	**13,883**

Other accrued expenses comprise in essence positions for outstanding invoices in the amount of EUR 3,006 and accruals for severance payments and other liabilities against staff in the amount of EUR 2,835.

Included in the accrued expenses is a warranty provision in the amount of EUR 152. The Company provides a basic limited warranty, including parts and labour, for all products for a period ranging from one to two years. The Company estimates that the costs that may be incurred under its basic limited warranty and records a liability in the amount of such costs at the time product revenue is realized. The Company periodically assesses the adequacy of the provision and adjusts the amount as necessary.

16. INCOME TAXES

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

At December 31,	2003	2004
Germany	4,419	2,283
Non-German	382	726
	4,801	**3,009**

The provision for income taxes is attributable as follows:

At December 31,	2003	2004
Current taxes		
• Germany	15	600
• Non-German	308	842
	323	**1,442**
Deferred taxes		
• Germany	1,757	652
• Non-German	(789)	233
	968	**885**
	1,291	**2,327**

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%. An increased tax rate of 26.5% was applied for the first time in 2003. In addition, a solidarity surcharge of 5.5% is levied on the corporate tax established.

The German corporate taxes are determined on the basis of the taxable company earnings, adjusted by deduction of certain non-taxable revenues, and addition of certain non-deductible expenses.

(all EUR amounts in thousands exept share and per 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 17.30% for a combined statutory rate of 39.11% is as follows:

At December 31,	2003	2004
Expected Provision for Income Taxes	1,868	1,176
Foreign Tax Rate Differential	(146)	(318)
Non-deductible Expenses, including Goodwill	674	566
Change in Valuation Allowance	1,453	908
Reversal of non-current Deferred Tax Liability	(2,552)	-
Effect of Change in Income Tax Rate	(26)	-
Other	20	(5)
Actual Provision for Income Taxes	**1,291**	**2,327**
Effective Rate	**26.9%**	**77.3%**

Deferred income tax assets and liabilities are summarized as follows:

At December 31,	2003	2004
Deferred Tax Assets relating to:		
• Capitalilzed Software Costs	1,070	-
• Net Operating Loss Carry-Forward	8,158	17,922
• Accounts Receivable	26	-
• Pension Liabilities	110	114
• Unrealized Foreign Currency Losses	75	-
• Fixed Assets	9	1,034
	9,448	**19,070**
Valuation Allowance	(6,118)	(9,842)
	3,330	**9,228**
Deferred Tax Liabilities relating to:		
• Goodwill	(154)	(240)
• Capitalized Software Development Costs	(792)	(1,581)
• Deferred Revenue	(1,603)	(2,046)
• Work in Process (POC)	-	(2,068)
• Current Liabilities	(152)	(239)
• Unrealized Foreign Currency Gains	(241)	(337)
• Other Liabilities	(2,928)	(1,903)
	(5,870)	**(8,414)**
Net Deferred Tax Liability as per Balance Sheet	**(2,540)**	**814**

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

At December 31,	2003	2004
Deferred Tax Assets		
• Current	35	-
• Non-Current	3,295	4,229
	3,330	**4,229**
Deferred Tax Liabilities		
• Current	(1,995)	(3,415)
• Non-Current	(3,875)	-
	(5,870)	**(3,415)**
Net Deferred Tax Liability as per Balance Sheet	**(2,540)**	**814**

(all EUR amounts in thousands exept share and per 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 NOLs 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. Further valuation allowances in the amount of EUR 320 and EUR 535 were recorded as a result of continuing operating losses in 2004 viz. 2003. Following the merger of Beta Systems of North America, Inc. („BSNA") and Tantia USA in 2003 these valuation allowances were transferred to BSNA.

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 EUR 5,083 was recorded at December 31, 2001 (2002: EUR 5,937). At the end of 2003 management assessed the Canadian loans as uncollectible. As a result, a deferred tax liability of EUR 2,552 was reversed in the books of the Company at December 31, 2003. Following partial repayments of the loans by the American company in 2004 the valuation allowances were adjusted and the deferred tax liability reduced to EUR 1,903.

NOLs in the amount of EUR 20,333 were acquired as a result of the acquisition of Kleindienst Datentechnik AG and her subsidiaries. The Company estimates these to be fully realizable. 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, 2004.

At December 31, 2004 the Company had net operating loss carry-forwards of EUR 45,824 (2003: EUR 19,385), principally in the German and the American entities. While the German NOLs do not expire, the American carry-forwards expire in 2025. Utilization of the loss carry-forwards is set at a maximum of EUR 1,000 per annum. A net taxable income in excess is only recognizable at 60% with the loos carry-forward. Further NOLs exist in the subsidiaries in Spain, UK and Sweden and Kleindienst USA; a valuation allowance was established for this in 2003 in the amount of EUR 693 and in 2004 in the amount of EUR 588.

Deferred tax liabilities on unremitted earnings of non-German subsidiaries intended to be indefinitely reinvested, were not recognized. Such earnings may become taxable under certain circumstances, such as with deregisration or sale of such a subsidiary. Determination of the amount of unrecognized deferred tax liabilities is not practicable.

17. EMPLOYEE BENEFIT PLANS

The Company provides limited defined benefit pension benefits to certain of the former employees of Beta Systems. 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, EUR 608 (2003: EUR 572), is included in other non-current assets. The Company anticipates increasing its contributions by EUR 37 in 2005 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,	2003	2004
Discount Rate	5.00%	4.80%
Long-term Rate of Increase in Remuneration	2.50%	2.00%

(all EUR amounts in thousands exept share and per share data)

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

At December, 31	2003	2004
Projected Benefit Obligation at the Beginning of the Year	599	703
Periodic Pension Costs		
• Interest Cost on Projected Benefit Obligations	34	35
• Amortization of Transition Obligations and Prior Service Cost	70	(9)
• Total Net Periodic Pension Costs	**104**	**26**
Projected Benefit Obligation at the End of the Year	703	729

The valuation of the obligations as at December 31, 2003 and 2004 was determined by independent actuarial method.

According to this valuation, the Accumulated Benefit Obligations (ABO) at December 31, 2004 amount to EUR 729 and are equal to the Projected Benefit Obligations (PBO).

The following table sets forth the status and amount accrued for the defined benefit pension plan:

At December, 31	2003	2004
Projected Benefit Obligations at the End of the Year	703	729
Unrecognized Net Transition Asset	(8)	(5)
Unrecognized Net Gain	182	184
Additional Minimum Liability	(27)	(23)
Accrued Pension Obligations at the End of the Year	**850**	**885**

The Company also maintains a defined contribution plan at its subsidiary in the United Kingdom to which the Company made discretionary contributions of EUR 54 in 2003 and EUR 26 in 2004.

Further pension benefit accruals are based on the defined benefit plan established by the former Kleindienst GmbH, Augsburg in 1957, and amended in 1976 and in 1992. Employees who joined that company after September 30, 1987, are not included in the provisions under this plan; pension obligations exist in respect of those employees who were taken over in connection with the acquisition of the „Datentechnik" segment by Kleindienst GmbH in 1990.

The pension accruals also include a single contract pension commitment towards a former partner of ICR Software & Systeme GmbH & Co. KG. Consistent with standard practice, these pension commitments are not funded through an insured pension plan.

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

At December, 31	2003	2004
Discount Rate	5.50%	4.66%
Long-term Rate of Increase in Remuneration	1.50%	1.50%

(all EUR amounts in thousands exept share and per share data)

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

At December, 31	**2003**	**2004**
Projected Benefit Obligations at the Beginning of the Year	810	878
Periodic Pension Costs		
• Service Cost: Present Value of Benefits earned during the Year	27	27
• Interest Cost on Projected Benefit Obligations	44	48
• Amortization of Transition Obligations and Prior Service Cost	8	(2)
• Actual Pension Payments	(11)	(13)
• Total Net Periodic Pension Costs	**68**	**60**
Projected Pension Obligations at the End of the Year	878	938

The valuation of the obligations as at December 31, 2003 and 2004 was determined by independent actuarial method. According to this valuation, the Accumulated Benefit Obligations (ABO) at December 31, 2004 amount to EUR 938.

The following table sets forth the status and amount accrued for the defined benefit pension plan:

At December, 31	**2003**	**2004**
Projected Benefit Obligations at the End of the Year	878	938
Unrecognized Net Transition Asset	37	34
Unrecognized Net Gain	92	96
Additional Minimum Liability	3	1
Accrued Pension Obligations at the End of the Year	**1,010**	**1,069**

Benefits in the amount of EUR 177 become payable in the next five years as follows:

2005	EUR 20	**2008**	EUR 35
2006	EUR 26	**2009**	EUR 66
2007	EUR 30		

The aggregate benefits expected to be paid in the five years from 2010 to 2014 are EUR 514.

The amounts recognized for the accumulated benefit and the projected benefit pension obligations correspond to the actuarial present values. The accumulated benefit obligations (ABO) and the projected benefit obligations (PBO) represent the pension obligations of the company excluding, viz. including assumed trends related to salary development. The calculation of the pension accrual on the basis of the projected benefit obligation for the first time after the pension accrual previously disclosed resulted in a difference which is being amortized over the average remaining service period of the beneficiaries. The unrecognized transition amount is the unamortized difference as at balance sheet date. The unrecognized net gain is the difference between the amount estimated previously and the actual amount of pension expenses determined afterward. The difference results from the deviations between the assumptions forming the basis of the calculations of the pension obligations and the actual development thereof.

(all EUR amounts in thousands exept share and per share data)

18. LONG-TERM DEBT AND CAPITAL LEASES

Long-term liabilities in the books of Beta Systems AG amounted to EUR 13,013 at December 31, 2004, inclusive of a short-term portion in the amount of EUR 282. This comprised long-term bank loans in the amount of EUR 12,320 and long-term liabilites for capital leases of EUR 693. In fiscal year 2004 the Company took on a long-term bank loan with the Commerzbank AG. A loan liability in the amount of EUR 12,320 was granted to partly fianance the acquisition of the shareholding in Kleindienst Datentechnik AG. The loan bears an interest rate of 1.75% p.a. above EONIA and matures at the end of 2009. As security, a global cessation on all trade receivables and a pledge on Kleindienst shares was assigned as collateral. EUR 320 are due for repayment in fiscal year 2005, leaving the long-term balance of EUR 12,000 due for repayment in equal annual installments of EUR 3,000 over the remainder of the term. At December 31, 2004 the Company has total long-term credit facilities available in an amount of EUR 3,680 in addition to the loan above. The investment credit and the credit facilities are subject to the usual financing indices.

A long-term loan liability in the amount of EUR 693 due to IBM results from the purchase of a data center system through a capital leasing arrangement. The leasing arrangement is subject to interest at an average rate of 4.75% p.a. and matures in 2007. 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. As at December 31, 2004 the remaining long-term portion amounts to EUR 411, while the current portion of EUR 282 is allocated under current liabilities. Amortization in respect of the capitalized equipment, as included in depreciation costs, amounted to EUR 127 in 2004.

Long-term liabilities in the books of the Kleindienst Group amounted to EUR 7,283 at December 31, 2004, inclusive of a short-term portion in the amount of EUR EUR 3,167. These comprise long-term bank loans in the amount of EUR 5,463 and long-term liabilities for capital leases of EUR 1,821.

In return for the contribution of investments by Kleindienst Datentechnik AG in fiscal year 2002 DS Holding took on a non-current loan from DZ Bank AG for EUR 10,226 in that year. The loan is repayable in bi-annual installments from December 2003 to June 2007. The loan carries a variable interest rate based on 2.35% p.a. above 6-months-EURIBOR at repayment dates. As security for the loan, DS Holding has pledged its shares in DZ Service GmbH & Co. KG, DZ Service Verwaltungs-GmbH and Kleindienst Datentechnik Verarbeitungsgesellschaft mbH. In fiscal year 2003, an early repayment of EUR 3,409 was made. A second extraordinary repayment of EUR 1,704 was made in fiscal year 2004. At December 31, 2004, EUR 2,557 remain due in total, thereof, EUR 1,704 fall into the short-term liability period. In fiscal year 2003 DZ Bank granted a loan to DZ Service GmbH & Co. KG in the amount of EUR 4,102 for the purpose of financing the purchase of a new processing system. The loan is repayable in monthly installments of EUR 85 until October 31, 2007. The loan carries a variable interest rate based on 2.23% p.a. above 6-months-EURIBOR at repayment dates. As security for the loan, the hardware and software of the processing system were assigned as collateral. At December 31, 2004, EUR 2,906 remain due in total, therof, EUR 1,026 fall into the short-term liability period. Long-term liabilites for capital leases amounting to EUR 1,603 at December 31, 2004 result from the acquisition of GZB Service GmbH, who uses hardware and software sourced via ASP (Application Service Provider). The ASP contracts have a remaining term of three years, the monthly repayment commitments are usage-based with a contractually agreed minimum. Future lease liabilities are calculated based on the minimum payment of EUR 37 p.m. for the contractually agreed minimum usage, plus a residual carrying value of EUR 486. The lease commitments are discounted at an interest rate of 7% p.a.

Further lease obligations result from the purchase of a data network in 2003 for EUR 77 and a telephone system in 2004 for EUR 141. The purchase costs of these fixed assets amount to EUR 213 viz. EUR 158. The data network is repayable in equal monthly installments of EUR 7 until November 2005. Monthly repayments in the amount of EUR 3 are due in payment of the telephone system until March 2009.

Repayment terms for the long-term bank loans and capital leases are as follows:

	Balance December 31, 2004	Repayment 2005	Repayment 2006	Repayment 2007	Repayment 2008/2009
Commerzbank AG	12,320	320	3,000	3,000	6,000
IBM Leasing	694	282	296	115	-
DZ Bank AG	2,557	1,704	853	-	-
DZ Bank AG	2,906	1,026	1,027	853	-
ASP Leasing	1,603	328	433	842	-
Data Network	77	77	-	-	-
Telephone System	141	32	32	32	45
Total	**20,297**	**3,769**	**5,641**	**4,842**	**6,045**

(all EUR amounts in thousands exept share and per share data)

Future Leasing Liabilities in detail are as follows:

	Leasing Obligations
As at December 31,	
• 2005	854
• 2006	797
• 2007	1,086
• 2008	31
• 2009	36
Total Leasing Liabilities	**2,804**
Less: Interest Portion	(290)
Fair Value of the Obligations	**2,514**
Less: Short-Term Portion	(719)
Long-Term Leasing Liabilites	**1,795**

19. 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 EUR 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 EUR 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 consisted 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 228,200 ordinary shares (Plan 2000: 118,800 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 vested after three years and could thereafter be exercised if the Company's stock price had increased by 50% from the date of grant and by 10% over the most recent year up to the date of the exercise. As the unique exercise conditions under the Plan 2000 could not be achieved and conversion would not have been possible at any time, no options were granted under the Plan in 2004, and the Plan became obsolete entirely. The bonds and related non-recourse loans were redeemed accordingly. The options under the Plan 2001 were granted during 2004; 442 options were thus exercised and converted into 88,400 ordinary shares at an exercise price of EUR 2.98. At December 31, 2004, no convertible bonds exist under the Plan 2000 (2003: 534), and none exist under the Plan 2001 (2003: 532).

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 EUR 4.23 per share, or, shares vesting for three years at a purchase price of EUR 5.92 per share. These represent respective price discounts of 50% and 30%, awarded on the basis of the market price of EUR 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 EUR 2.70, representing a price discount of 30% on the market price of EUR 3.85 per close of business on 7 September, 2001. 4,371 shares were purchased. No share acquisition offer

(all EUR amounts in thousands exept share and per share data)

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 EUR 3.90, representing a price discount of 40% on the market price of EUR 6.50 per close of business on 12 September, 2003. 45,779 shares were purchased. In January 2004 the offer was extended to employees for shares vesting for two years at a purchase price of EUR 7.00, representing a price discount of 40% on the market price of EUR 11.66 per close of business on 30 January, 2004. 61,985 shares ere purchased.

A summary of the status of the Company's stock options (except the stock options of Tantia) as of December 31, 2003 and 2004, and changes during the years ended on those dates is presented below:

At December, 31	**2003**		**2004**	
	Shares	**Weighted Average Exercise Price in EUR**	**Shares**	**Weighted Average Exercise Price in EUR**
Options Outstanding at the Beginning of the Year	291,440	11.51	206,000	5.51
• Cancelled	(85,440)	25.98	(117,600)	7.41
• Exercised	-	-	(88,400)	2.98
Options Outstanding at the End of the Year	**206,000**	**5.51**	**-**	**-**
Options Exercisable at the End of the Year	-		-	

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, 2004 a total of 58,750 and 658,756 options (2003: 324,350 and 783,436 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.

A summary of Tantia's stock options as at December 31, 2003 and 2004 follows:

At December, 31	**2003**		**2004**	
	Shares	**Weighted Average Exercise Price in USD**	**Shares**	**Weighted Average Exercise Price in USD**
Options Outstanding at the Beginning of the Year	1,746,824	1.00	1,107,786	1.00
• Granted	-	-	-	-
• Cancelled	(639,038)	1.00	(390,280)	1.00
• Exercised	-	-	-	-
Options Outstanding at the End of the Year	**1,107,786**	**1.00**	**717,506**	**1.00**
Options Exercisable at the End of the Year	1,107,786		717,506	
Weighted Average Fair Value per Option Granted during the Year	-		-	

(all EUR amounts in thousands exept share and per share data)

In respect of the Tantia stock options plan, a gain of EUR 356 was realized from cancelled options in respect of terminated employees in 2003.

The Company has no unearned deferred compensation costs in accordance with APB No. 25 as at December 31, 2004. No compensation expenses were recorded in respect of the stock options awarded under the Plan 1997 and the Plan 2001 in 2004 (2003: EUR 84 Plan 1997; EUR 581 Plan 2001).

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 (loss) would have been as follows:

At December, 31	**2003**	**2004**
Net Income (Loss)		
• As Reported	3,510	(17)
• Pro Forma	3,533	(53)
• Tax Effect	9	14
	3,524	**(39)**
Net Income (Loss) per Share		
• As Reported	0.89	0.00
• Pro Forma	0.90	(0.01)

The Pro Forma result was established by applying the Black Scholes options pricing model with the following assumptions: 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.

20. INCOME (LOSS) PER SHARE

Basic income (loss) per share is calculated by dividing the net income (loss) by the average number of common shares outstanding during the year. Diluted income (loss) per share is calculated by dividing the net income (loss) by the average number of common shares outstanding assuming dilution, 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 (loss) per share to diluted income (loss) per share from continuing operations:

At December, 31	**2003**	**2004**
Net Operating Income (Loss)	**3,510**	**(17)**
Average Number of Shares Outstanding	3,922,005	4,048,345
Effect of Dilution: Options	64,403	-
	3,986,408	**4,048,345**
Net Income (Loss) per Share		
• Basic	0.89	0.00
• Diluted	0.88	0.00

(all EUR amounts in thousands exept share and per share data)

21. MINORITY INTERESTS IN BETA GROUP COMPANIES AND OTHER

No minority interests are held in any Beta Group company at December 31, 2004. Minorities listed here result from the consolidation with Kleindienst Datentechnik AG and her investments, and represent the interests held by minorities in the earnings of the Kleindienst Group of companies.

At December, 31	2003	2004
Beginning Balance	-	-
Minority Interests in Kleindienst Datentechnik AG and Subsidiaries	-	8,380
Minority Interests	**-**	**8,380**

22. SHAREHOLDERS' EQUITY

On June 7, 1998, the Company's share capital was increased from EUR 4,602 to EUR 9,203 by means of conversion. After this conversion the share capital was increased by 1.800.000 ordinary shares (two-for-one stock split). In 1998, stock options were converted into 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, the Company's share capital was increased from EUR 9,301 to EUR 10,132 on May 5, 1999 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 EUR 20.45 per share, as stipulated in the purchase and sale agreement.

On May 31, 1999 the Company's shareholders resolved to increase the authorized capital (Authorized Capital 1999/I and Authorized Capital 1999/II) by up to EUR 1,131. As a result of various employee share acquisition plans, the share capital was increased in 2000 by EUR 19, in 2001 by EUR 11, in 2003 by EUR 117, and in 2004 by EUR 384.

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

Retained earnings available for distribution are the retained earnings of Beta Systems Software AG. As at December 31, 2004, the distributable retained earnings of Beta Systems Software AG pursuant to German accounting law amounted to EUR 1,290, as at December 31, 2003 they were EUR 2,000.

Dividends in the amount of EUR 1,957 were paid in fiscal year 2004. This represents a dividend of EUR 0.50 per share.

23. DISTRIBUTION AGREEMENTS

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. Revenues in the amount of EUR 3 and EUR 49 were realized with UNISPOOL in 2003 and 2004.

Pursuant to a Distribution Agreement dated January 2002, the Company and UC4 Software GmbH, Wolfsgraben (Austria) established mutual non-exclusive distribution rights for the Company's products: Beta 93 Unix, 93 EDF, 93 EMF

(all EUR amounts in thousands exept share and per share data)

and 93 ADF, and UC4 Software'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. UC4 Software sells 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 revenues recognized in 2003 and 2004 amounted to EUR 129 and EUR 1,189, respectively.

Furthermore, the Company acquired non-exclusive distribution rights for Beta 55 GFS/AFM Advanced File Manager (which the company sold in March 2002), GFS/Stack Dynamic Stack and Beta 54 (which the company sold in September 2003) 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 EUR 454 were realized in 2003, and of EUR 487 in 2004.

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 EUR 200 in 2003, and EUR 498 in 2004.

An OEM agreement was concluded in October 2004 with Compart Systemhaus GmbH for the DocBridge Toolkit product. The DocBridge Toolkit enables the development of applications, with which documents in an unspecified input format can be converted and prepared on-the-fly into a document in the required output format. The revenue realized in 2004 amounted to EUR 124.

24. OPERATING LEASE COMMITMENTS AND LONG-TERM RENTAL AGREEMENTS

The Company has rentals under operating leases for its data processing and office equipment, vehicle fleet, for other business plant and equipment, and long-term rental agreements for its office facilities.

The minimum future lease and rental payments at December 31, 2004 are as follows:

	Office Rentals	Operating Leases
Years ending December, 31,		
• 2005	4,199	2,330
• 2006	3,836	2,433
• 2007	2,952	2,678
• 2008	2,929	2,620
• 2009	2,873	2,687
Total Minimum Rentals and Operating Lease Payments	**16,789**	**12,748**

Total rentals payable from 2009 in respect of office rentals amount to EUR 2,690.

Total rentals expensed in the statements of operations amounted to EUR 3,392 and EUR 5,856 for the years ended December 31, 2003 and 2004, respectively.

25. SEGMENT INFORMATION

Restructuring of the Storage Management Business Segment

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

(all EUR amounts in thousands exept share and per share data)

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 EUR 638 under operating expenses in respect of these measures during 2002; of these EUR 252 remained payable as at 31 December, 2002.

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 the Accrual	(174)
Reversal	(78)
Balance at December 31, 2003	-

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

Formation of the Identity / Security Management Business Segment
Following the acquisition of the SAM product line, the Company formed the Identity/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 Identity/Security Management sector.

A total number 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 2003, 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.

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 ("ECM") was put into effect in fiscal year 2004. This segment now comprises the two sub-segments Enterprise Content Management : Output (previously Beta's segment Document/Output Management) and Enterprise Content Management: Input (previously 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 corresponding portfolio acquired from Kleindienst 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 Service Business Segment
This segment formed an independent economic and 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 Service has been adopted unchanged and continues to constitute an independently managed business entity of its own.

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

In sum, the number of staff reduced at the Augsburg site amounted to 14. None of the employees affected accepted transfers to the Berlin offices. The Company has recorded provisions for restructuring costs in the operating results as at December 31, 2004 in respect of these measures.

These costs relate exclusively to one-time termination benefits.

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

(all EUR amounts in thousands exept share and per share data)

At December 31,	2002
Selling Costs	-
General and Administrative Expenses	304
Total Restructuring Costs	**304**

All of the above costs relate to the reduction of staff. Further material costs are not expected to incur.

Development of the accrued liabilities for staff restructuring costs during 2004 is as follows:

At December 31,	2004
Development of the Accrual	
Total Accrual Established during the Year	304
Use of the Accrual	(158)
Balance at December 31, 2004	**146**

The accrual is expected to be fully utilized during the current financial year.

All segments derive revenues from sales of product licenses as well as maintenance and consulting 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.

At December 31, 2003	Storage Management	ID/Security Management	Data Center Management	ECM/Output Management	ECM/Input Management	Outsourcing Service	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

At December 31, 2004	Storage Management	ID/Security Management	Data Center Management	ECM/Output Management	ECM/Input Management	Outsourcing Service	Total
Revenues from Customers	**3,441**	**15,256**	**16,932**	**16,919**	**37,445**	**10,826**	**100,819**
Intersegment Revenues	462	2,049	2,275	2,273	5,031	1,454	13,544
	3,903	17,305	19,207	19,192	42,476	12,280	114,363
Interest Income	-	62	68	68	(1,033)	(137)	(972)
Amortization and Depreciation	229	661	657	1,170	2,232	1,257	6,206
Segment Income (Loss)	**(259)**	**(2,569)**	**2,219**	**640**	**1,576**	**2,396**	**4,003**
Capital Expenditures	-	980	702	1,041	2,580	539	5,842
Segment Assets	4,729	13,649	13,567	20,029	40,084	25,956	118,014

(all EUR amounts in thousands exept share and per share data)

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,	2003	2004
Revenues		
• Total Revenues for Reportable Segments	68,533	114,363
• Elimination of Intersegment Revenues	(12,739)	(13,544)
• Grand Revenues, as reported	**55,794**	**100,819**
Income before Taxes		
• Total Operating Income for Reportable Segments	3,943	4,003
• Unallocated Amount of Overhead	(124)	(1,154)
• Other Income, net	727	1,132
• Interest Income (Expense), net	255	(972)
• Consolidated Income before Taxes, as reported	**4,801**	**3,009**
Assets		
• Total Assets for Reportable Segments	80,911	118,014
• Unallocated Assets of Overhead	328	-
• Elimination of Intersegment Assets	(19,100)	(14,542)
• Total Group Assets, as reported	**62,139**	**103,472**

A distribution of revenues and net operating income for the regions Germany, Europe, America and other in 2004 is as follows :

At December 31, 2004	Germany	Europe	America	Other	Total
Group Revenues, as reported	**63,253**	**23,774**	**8,369**	**5,423**	**100,819**
Operating Income (Loss) before Taxes	**2,816**	**2,203**	**(1,200)**	**184**	**4,003**

26. RISKS AND UNCERTAINTIES

The Company is engaged in the development and sale of a diversified range of products in the five business segments: Document Management, Data Center Management, Security Management, Storage Management and Enterprise Content Management („ECM Input"). In addition, the segment Outsourcing Service is service provider for scanning services in the banking sector. Data Center Management (17%), Security Management (15%), Document Management (17%) and ECM Input (37%) contribute to the Company's revenues. The Outsourcing Service segment contributed 11% of revenues. The Company expects further significant revenues from the new product SAM Jupiter as well as from the new business segment ECM Input. A severe impact on the Company's earnings could result if the expected revenues from the new products can not be realized.

35% of the Company's revenue arises from sales of the three products Beta 92, Beta 93 and SAM. 37% are contributed by software solution sales from the business segment ECM Input. Price reductions or similar adverse impacts on these products could have a negative effect on the Company's planned results of operations.

The payment processing systems unit of the business segment ECM Input is particularly active in the banking sector, whereby further process optimization and sector-wide transfers of back-office functions could lead to a decline in customer numbers. Apart from that a reduction in the volume of payment processing documents is expected. These tendencies could adversely affect the result of this business segment.

The Outsourcing Service business segment exclusively delivers services for the banking sector, especially for the DZ Bank AG and for the Sparkassenverbund Baden-Württemberg. An expected drop in document volume, price reductions or the decline in the number of market participants could negatively influence the result of the Outsourcing Service segment.

(all EUR amounts in thousands exept share and per share data)

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 EUR 6,736.

27. RELATED PARTY TRANSACTIONS

In connection with stock incentive plans, convertible bonds were previously issued to members of the Supervisory Board and the Management Board of the Company. As at 31 December, 2004 no options were held by members of the Supervisory Board and the Management Board (2003: 78,800 and 25,000 options respectively).

The Company maintains agreements for consulting services with Mr. Harald J. Joos and Mr. Bernhard Auer, members of the Company's Supervisory Board. In 2003, no payments were made in respect of the agreement. Payments in 2004 in favour of Mr. Joos and Mr. Auer amounted to EUR 46 and EUR 17, respectively.

28. GUARANTEES

During the previous ownership of DATASEC, which was sold as at 31 December, 2001, Kleindienst Datentechnik AG had issued an unsecured guarantee in the amount of EUR 333 in favour of Volksbank im Siegerland eG within the terms of providing its share of the security for a long-term loan to DATASEC. The corresponding loan liability at DATASEC is still held in full and expires on November 30, 2009. As a result of shares in DATASEC being sold, Kleindienst Datentechnik AG has the right to release itself from its guarantee obligations or to obtain a right of recourse from the acquirer of the company. The Company is not aware of any evidence that would suggest delivering payment on the guarantee and estimates the Fair Value of the guarantee at zero. No liability is therefore recorded.

After contributing shares held in companies in the Outsourcing Service segment to DS Holding, Kleindienst Datentechnik AG is liable to the DZ Bank AG for the correctness of certain disclosures in the contribution agreement. Total liability was essentially limited to EUR 1,150 and expired on July 26, 2004.

29. 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 minority 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 benefit plans. The Statement generally is effective for fiscal years ending after December 15, 2003. The Company's disclosures in note 17 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 minority 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

(all EUR amounts in thousands exept share and per share data)

change. If determining the carrying amounts is not practicable, fair value at the date FIN 46R first applies may be used to measure the assets, liabilities and minority interest of the VIE. The application of this Interpretation is not expected to have an effect on the Company's Consolidated Balance Sheet.

In December 2004, the FASB issued SFAS No. 123 (Revised 2004), „Share-based Payment" that will require the Company to expense costs related to share-based payment transactions with employees. With limited exceptions, SFAS No. 123(R) requires that the Fair Value of share-based payments to employees be expensed over the period service is received. SFAS No. 123(R) becomes effective from the period beginning after June 15, 2005. This method requires that issued financial statements be restated based on the amounts previously calculated and reported in the Pro Forma footnote disclosures required by SFAS No. 123. SFAS No. 123(R) allows the use of both closed form models and open form models to measure the Fair Value of the share-based payment as long as that model is capable of incorporating all of the substantive characteristics unique to share-based awards. The application of this Interpretation is not expected to have an effect on the Company's Consolidated Balance Sheet.

In December 2004, the FASB issued SFAS No. 153, „Exchanges of Non-monetary Assets, an amendment of APB Opinion No. 29" effective for non-monetary asset exchanges occurring in the fiscal periods beginning after June 15, 2005. SFAS No. 153 requires that exchanges of productive assets be accounted for at Fair Value unless Fair Value cannot be reasonably determined or the transaction lacks commercial substance. SFAS No. 153 is not expected to have a material effect on the Company's Consolidated Financial Statements.

In November 2004, the FASB issued SFAS No. 151, „Inventory Costs, an amendment of ARB No. 43, Chapter 4". SFAS No. 151 requires certain abnormal expenditures to be recognized as expenses in the current period. It also requires that the amount of fixed production overhead allocated to inventory be based on the normal capacity of the production facilities. The standard is effective beginning June 15, 2005. It is not expected that SFAS No. 151 will have a material effect on the Company's Consolidated Financial Statements.

In November 2003 and in March 2004 a consensus was reached by the EITF regarding a part of the discussion paper by the EITF 03-1 „The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments".

SUPPLEMENTS

DEVELOPMENT OF THE GROUP´S ASSETS

	Acquisition Costs				
	Balance 01.01.2004	**Additions**	**Exchange Rate Differences (+/-)**	**Disposals**	**Balance 12.31.2004**
Intangible Assets					
• Capitalized Software Development Costs	17,086	6,335	(13)	1,928	21,480
• Goodwill	8,049	12,169	(69)	-	20,149
• Licences	681	3,414	39	298	3,836
	25,816	**21,918**	**(43)**	**2,226**	**45,465**
Fixed Assets					
• Computer Equipment	8,368	4,102	(48)	1,499	10,923
• Leasehold Improvements	1,409	1,593	1	8	2,995
• Facilities and Office Equipment	1,001	3,768	37	282	4,524
	10,778	**9,463**	**(10)**	**1,789**	**18,442**
Financial Assets					
• Bonds and Securities	49	-	-	49	-
• Other Long-Term Loans	184	-	-	184	-
• Pension Insurance	572	58	-	22	608
	805	**58**	**-**	**255**	**608**
	37,399	**31,439**	**(53)**	**4,270**	**64,515**

(all EUR amounts in thousands exept share and per share data)

EITF 03-1 discusses the significance of not just temporary impairments and their application with regard to Marketable Equity Securities which, according to SFAS 115 „Accounting for Certain Investments in Debt and Equity Securities" fall under the categories „Available for Sale" or „Held to Maturity", as well as Equity Instruments which are realized at acquisition cost according to the „Cost Method". The EITF requires certain quantitative and qualitative disclosures with respect to unrealized losses in connection with Marketable Equity Securities which fall under the categories „Available for Sale" or „Held to Maturity". In addition, the EITF provides for certain disclosure requirements for those „Cost Method" investments which are realized at acquisition costs. Publication of EITF 03-1 was delayed until publication of supplementary disclosure requirements. The disclosures required by EITF 03-1 have no effect on the Company's Consolidated Financial Statements, as Beta Systems holds no Marketable Equity Instruments at balance sheet date.

30. EVENTS AFTER THE BALANCE SHEET DATE

In the next step management now pursues the merger of Kleindienst Datentechnik AG with Beta Systems Software AG. From the corporate legal perspective this creates an important basis for the further integration process of both companies and will lead to a swap of the still outstanding Kleindienst shares into Beta Systems shares. The effective merger date is set to be January 1, 2005. The exchange ratio of the shares will then be determined on the basis of an independent valuation and audit of both companies. The Company expects the merger to come into force in the second half of 2005, following the required agreements by the shareholders. The exchange listing of Kleindienst Datentechnik AG will end with the effectiveness of the merger.

Accumulated Depreciation					Net Book Value	
Balance 01.01.2004	**Depreciation Current Year**	**Exchange Rate Differences (+/-)**	**Disposals**	**Balance 12.31.2004**	**12.31.2003**	**12.31.2004**
12,896	1,972	(6)	1,928	12,934	4,190	8,546
6,694	-	10	-	6,704	1,355	13,445
482	1,013	(1)	254	1,240	199	2,596
20,072	**2,985**	**3**	**2,182**	**20,878**	**5,744**	**24,587**
6,468	1,867	7	1,291	7,051	1,900	3,872
475	580	(87)	-	968	934	2,027
706	774	63	13	1,530	295	2,994
7,649	**3,221**	**(17)**	**1,304**	**9,549**	**3,129**	**8,893**
22	-	-	22	-	27	
173	-	-	173	-	11	-
-	-	-	-	-	572	608
195	**-**	**-**	**195**	**-**	**610**	**608**
27,916	**6,206**	**(14)**	**3,681**	**30,427**	**9,483**	**34,088**

(all EUR amounts in thousands exept share and per share data)

SUPPLEMENTS TO THE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FISCAL YEAR 2004

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, 2004 amounts to EUR 10,663,235.00, divided into 4,171,095 shares (2003: EUR 10,278,781.88, divided into 4,020,710 shares). The contingent capital in accordance with § 4 of the articles of association amounts to EUR 924,180.53, divided into 361,508 shares. The contingent capital (contigent capital 1999/I) in accordance with § 4 of the articles of association, following the still to be lodged registration of the stock options exercised during 2004, amounts to EUR 540,946.81, divided into up to 211,600 shares.

With effect from the Annual Shareholders' Meeting on May 31, 1999, the following changes to the articles of association were resolved: with the approval of the Supervisory Board, the Management Executive Board was entitled to increase the share capital of the Company in one or more stages, until May 31, 2004, by up to EUR 920,325.39 by issuing new shares against cash contributions or payment in kind (authorized capital 1999/I).

A subscription right was to be awarded to the shareholders. With the approval of the Supervisory Board, the Management Executive Board was entitled to exempt contributions in kind from the subscription right of the shareholders. With the approval of the Supervisory Board, the Management Executive Board was 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.

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

Moreover, with the approval of the Supervisory Board, the Management Executive Board was entitled to increase the share capital in one or more stages, until May 31, 2004, by up to a total of EUR 206,388.12 by issuing new shares against cash contributions to grant shares to employees of the Company and affiliated domestic and foreign Companies (authorized capital 1999/II). The legal subscription right of the shareholders was excluded.
The balance of the unused contigent capital of EUR 924,180.53 at December 31, 2004, divided into 361,508 shares, comprises no conversion rights to options.

Personnel Expenses (without Expenses for Stock Options Granted)

Personnel expenses for the fiscal years 2003 and 2004 were as follows:

	2003	2004
Wages and Salaries	TEUR 26,804	TEUR 49,681
Social Contributions	TEUR 4,243	TEUR 4,637
Total	**TEUR 31,047**	**TEUR 54,318**

Performance relating to Other Reporting Periods

Other operating income and expenses contain TEUR 471 relating to other financial years.

Employees

The average number of 864 employees in the fiscal year 2004 (368 in 2003) was distributed as follows:

	2003	2004
Administration	52 Employees	97 Employees
Sales and Service	140 Employees	487 Employees
Manufacture		37 Employees
Development	176 Employees	243 Employees

Of the 1,022 staff employed at December 31, 2004, 315 (30.8%) are covered by a collective bargaining arrangement valid for an unlimited period.

Declaration of Conformity with the German Corporate Governance Code

The declaration of conformity for Beta Systems in accordance with § 161 of the German Stock Corporation Act (AktG) was signed in 2004 and published on the corporate Internet website at www.betasystems.com.

The declaration of conformity for Kleindienst Datentechnik AG in accordance with § 161 of the German Stock Corporation Act (AktG) was signed in 2004 and published on the corporate Internet website at www.Kleindienst.de.

BOARDS OF THE COMPANY

Management Board

Management Board members of the company in the fiscal year 2004 were:

- Mr. Dipl.-Kfm. Karl-Joachim Veigel as Chief Executive Officer,
- Mr. Dipl.-Ing. Dr. Oskar von Dungern, Chief Technology Officer,
- Mr. Dipl.-Wirt.-Ing. (FH) Ralf Männlein (until May 31, 2004), Chief Marketing Officer,
- Mr. Dipl.-Inf. Dietmar Breyer (from September 15, 2004), Chief Marketing Officer.

Payments to the Management Board in the fiscal year 2004

Jan 1, 2004 to Dec 31, 2004, in EURO	Basic Salary	Variable Component	Total	Stock Options Granted in 2004
Karl-Joachim Veigel	251,529.88	103,678.68	355,208.56	None
Dr. Oskar von Dungern	219,996.00	42,960.00	262,956.00	None
Ralf Männlein	71,732.95	29,572.60	101,305.55	None
Dietmar Breyer	53,300.00	65,280.00	118,580.00	None
Total	**596,558.83**	**241,491.28**	**838,050.11**	**None**

In respect of future pension obligations due to previous members of the Management Executive Board, benefit accruals were increased in 2004 by TEUR 26 (2003: TEUR 27).

Mr. Karl-Joachim Veigel and Dr. Oskar von Dungern were elected to the Supervisory Board of Kleindienst Datentechnik AG effective May 25, 2004.

Supervisory Board

Members of the Supervisory Board of the Company in the fiscal year 2004 were:

- Mr. Dipl.-Ing. Harald J. Joos, Chairman of the Supervisory Board, Berlin,
- Dr. Karl Kauermann, Vice Chairman of the Supervisory Board, Berlin,
- Mr. Bernhard Auer, Executive Consultant, Munich,
- Mr. William P. Schmidt, Berlin,
- Mrs. 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.

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,
- Cenda Invest AG.

Mr. Auer is member of the following Supervisory Boards:
- Carnot AG, Frankfurt (until November 2004),
- Serenata AG, Munich,
- Kleindienst Datentechnik AG, Augsburg (from May 25, 2004).

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

Jan 1, 2004 to Dec 31, 2004, in EURO	Fixed Remuneration	Variable Component	Total	Stock Options Granted in 2004
Harald J. Joos	15,400.00	-	15,400.00	None
Dr. Karl Kauermann	11,550.00	-	11,550.00	None
Bernhard Auer	7,700.00	-	7,700.00	None
William P. Schmidt	7,700.00	-	7,700.00	None
Martina Dymala	7,700.00	-	7,700.00	None
Stefan Hillenbach	7,700.00	-	7,700.00	None
Total	**57,750.00**	**-**	**57,750.00**	**None**

Disclosure of Holdings by Company Board Members of Beta Systems Software AG (unaudited)

At December 31, 2004	Shares	Stock Options
Management Board		
Karl-Joachim Veigel	-	-
Dr. Oskar von Dungern	15,520	-
Dietmar Breyer	-	-
Supervisory Board		
Harald J. Joos	-	-
Dr. Karl Kauermann	-	-
Bernhard Auer	-	-
William P. Schmidt	534,166	-
Martina Dymala	1,170	-
Stefan Hillenbach	2,144	-
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.

Goodwill

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 under certain conditions.

It is necessary to distinguish between software intended for sale to third parties (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 and sale to third parties is intended, the costs for the software development, if substantial, are to be capitalized from the date of technical feasibility up to the date of general availability of the software.

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.

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.

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 under certain circumstances (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.

Work in Process (POC)

According to US-GAAP there is an obligation to recognize these assets if the start and the completion of a specific construction contract fall into different accounting periods, and providing certain conditions are met. The Company applies the Percentage-of-Completion Method (POC). The revenues and the period operating result for a construction contract result from the possible, reliable estimate of the revenues, costs and the percentage of completion. According to the German Code, the revenue can only be realized at full delivery of the construction contract viz. at customer acceptance.

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 according to the German Commercial Code, no expenses would be recorded.

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 as well as from the revenue realization of long term construction contracts.

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 commericial 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 thus to be shown as an asset on the balance sheet according to its feasibility.

SUMMARY OF HOLDINGS AT DECEMBER 31, 2004 (UNCONSOLIDATED DATA)

Company	Local Currency	Share Capital in Local Currency	Equity at 31.12.2004 in Local Currency	Income (Loss) in 2004 in Local Currency	Holdings in %	Share Capital in TEUR	Equity at 31.12.2004 in TEUR	Income (Loss) in 2004 in TEUR
• Beta Systems EDV-Software GmbH Vienna, Austria					100	36	113	(75)
• Beta Systems Software SPRL Waterloo, Belgium					100	50	229	114
• Beta Systems Marketing GmbH Berlin, Germany (before Profit Distribution)					100	26	26	10
• Beta Systems Software France SARL Saint Thibault des Vignes, France					100	763	1,492	374
• Beta Systems Software Ltd Reading, Great Britain	TGBP	400	(419)	(229)	100	566	(593)	(333)
• Beta Systems Software SRL Milan, Italy					100	52	952	123
• Beta Systems Software BV Nieuwegein, Netherlands					100	23	418	7
• Betann Systems AB Sundbyberg, Sweden	TSEK	3,893	9,972	2,363	100	432	1,106	264
• Beta Systems Software AG Wallisellen, Switzerland	TCHF	100	1,387	780	100	65	898	506
• Beta Systems Software Espana SL Madrid, Spain					100	180	(742)	(1,053)
• Beta Systems Software of North America, Inc., Peachtree City, USA	TUSD	400	9,319	(23)	100	293	6,832	(14)

During the financial year 2004 Beta Systems Software AG acquired the following share in equity interest and in voting rights in Kleindienst Datentechnik AG:

• Kleindienst Datentechnik AG Augsburg, Germany					88.07	12,000	49,303	(3,450)

In addition, Beta Systems Software AG holds the following indirect equity investments:

Beta Systems Software of North America, Inc. wholly owns Beta Systems Software of Canada Inc., which therefore counts towards the indirect holdings:

• Beta Systems Software of Canada Inc. Calgary, Canada	TCAD	31,356	(14,641)	(921)	100	19,084	(8,911)	(574)

Beta Systems Software AG holds 88.07% of the share capital of Kleindienst Datentechnik AG.

The business activity of Kleindienst Datentechnik Aktiengesellschaft includes the purchase, administration and sale of companies and equity investments, in particular for the Information Technology sector, and especially of companies that use „Kleindienst" in their title, as well as the provision of consulting services for commercial companies in all business matters. The company may itself become engaged in these activities.

Kleindienst Datentechnik AG is the holding company of the following subsidiaries. At December 31, 2004 it is directly invested in these as follows:

- Kleindienst Solutions GmbH & Co. KG, Augsburg (100.0%)
- Kleindienst Datadress GmbH, general partner of Kleindienst Solutions GmbH & Co. KG, Augsburg (100.0%)
- EDM Verwaltungs GmbH, Augsburg (100.0%)
- ICR Verwaltungs GmbH, Augsburg (100.0%)
- Kleindienst Polska Sp. z o.o., Warsaw, Poland (100.0%)
- Kleindienst Corporation, Houston, USA (100.0%)
- Kleindienst Africa Ltd, Lagos, Nigeria (100.0%)

Kleindienst Datentechnik AG holds 74.8% of the share capital of DS Dokumenten Service Holding GmbH. DS Dokumenten Service Holding GmbH is the holding company of the following companies, in which Kleindienst Datentechnik AG is thus at December 31, 2004 indirectly invested as follows:

- DZ Service GmbH & Co. KG, Karlsruhe (50.4%)
- DZ Service Verwaltungs-GmbH, general partner of DZ Service GmbH & Co. KG, Karlsruhe (50.4%)
- GZB Service Gesellschaft für elektronische Kommunikationssysteme, Stuttgart (50.4%)
- Kleindienst Datentechnik Verarbeitungsgesellschaft mbH Karlsruhe (74.8%)
- Kleindienst Datentechnik Zahlungsverkehrsgesellschaft mbH, Karlsruhe (37.6%)

Apart from those holdings listed above, no further equity holdings exist.
The values of the equity and the operating results for the finanical year 2004 are those resulting from the financial statements of the entities drawn up in accordance with US-GAAP (unconsolidated). The balance sheets of foreign subsidiaries were translated from the local currency of the country in which the subsidiary is located to TEUR at the exchange rate prevailing at balance sheet date, while the operating accounts were translated at the average exchange rate during the period.

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