ANNUAL REPORT

[2005]

_betasystems

At A Glance

Beta Systems Software AG and Subsidiaries – Group Financial Data according to IFRS

Euro in thousands	2001*	2002*	2003*	2004	2005	2005 vs. 2004
Total revenues	44,980	45,112	55,794	89,993	95,606	6.2%
Operating income	(7,327)	126	3,819	895	(4,624)	(616.6)%
Income before income taxes	(7,221)	2,292	4,801	317	(5,144)	(1,722.7)%
Net income (loss)	(10,505)	316	3,510	59	1,571	2,562.7%
Cash and cash equivalents	13,658	15,740	14,775	11,532	4,383	(62.0)%
Total shareholders' equity	28,503	27,876	31,710	37,595	31,492	(16.2)%
Total assets	50,816	54,679	62,139	104,083	74,594	(28.3)%
Equity ratio in %	56.1	51.0	50.9	36.1	42.2	-
Number of employees	334	293	381	790	733	(7.2)%

* Data according to US-GAAP

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.

Content

LETTER TO OUR SHAREHOLDERS

Dear Shareholders,

Fiscal 2005 proved to be a particularly eventful year. As part of our annual report published a year ago, we announced that we would be channeling targeted investments into growth markets, while at the same time making fundamental changes to the structure of the Beta Systems Group and realigning our business segments. These plans were implemented with conviction over the course of the fiscal year just ended. Working at a brisk pace, we were able to address a number of complex issues associated with the acquisition and integration of Kleindienst Datentechnik AG, in addition to executing a stock split. These measures were accompanied by several changes to the management structure of Beta Systems.

We shall be outlining our key accomplishments in the following sections. Furthermore, we shall be discussing the extent to which we succeeded in meeting the targets communicated as part of last year's annual and interim reports as well as at the many presentation roadshows, conferences and investor meetings held during the year.

A fiscal year dominated by cost streamlining, consolidation and integration

We continued to pursue our fundamental strategy, adjusting it in line with prevailing economic conditions over the course of 2005 where such realignment was deemed appropriate. At the beginning of 2005, we initiated a Group-wide program by the name of „Growth and Profit 2005 – GaP'05" program. Alongside a number of cost-reduction measures implemented with immediate effect, we also carried out several staff-related adjustments throughout the Group. In parallel, the Group's entire product and solutions portfolio underwent a thorough process of optimization, with the express purpose of gearing our financial and staff resources more effectively towards those business segments with the most promising growth and earnings opportunities.

The successful amalgamation with Kleindienst Datentechnik AG was one of the key milestones in the corporate history of Beta Systems. Thus, it gives us great pleasure to confirm that this project has now been completed– a project made possible, to a large extent, by the General Meeting of Shareholders and their decision to approve it. It was only once the merger had actually been executed that we were able to speed up measures aimed at strategic realignment and strengthen the market positioning chosen for the new Beta Systems Group. The merger has proved particularly successful in bolstering Beta Systems' market position within the area of Enterprise Content Management (ECM). Moreover, by pooling the resources of both enterprises, we have been able to leverage fast-track synergy potential and cost-reduction opportunities created as a result of streamlined administration and management within a single stock corporation rather than the two separate entities operating prior to the merger.

Focusing on strategic realignment

Supported by a speedy action plan and the dedication of our staff, we were able to press ahead with the task of strategic realignment and organizational restructuring. In future, we will be concentrating on Identity Management (IdM), Enterprise Content Management (ECM) and Data Center Infrastructure (DCI) as our three lines of business. We are committed to pooling our expertise and unlocking our full potential within these core areas. Furthermore, we are confident that our strategy of focusing on the growth segments of Identity Management and Enterprise Content Management and leveraging potential in Data Center Infrastructure is the most propitious move when it comes to seeing our challenging ideas through to fruition.

In a market driven by a plethora of statutory regulations, leading industry analysts have forecast dynamic growth for IdM and ECM. We provide state-of-the-art IT solutions designed to support customers in this business-critical area of legal compliance. What is more, our new corporate structure offers great potential:

Closer proximity to customers, broader portfolio and stronger strategic partnerships with clients

- By assigning sales, service and marketing tasks directly to the individual lines of business, we are able to establish closer links with client companies
- Sales and service staff are able to focus on the specific areas of expertise covered by each line of business and the associated customer requirements
- Benefiting from a leaner and less complex organizational structure with clearly defined LoB responsibilities, we can react to customer demands in a more timely and flexible manner
- Available resources can be channeled into continuous innovation and targeted portfolio acquisitions in our growth LoBs
- By focusing on profitability and growth, Beta Systems will be able to assume the role of „strategic supplier" in three core enterprise-critical segments of IT infrastructure
- As one of the few German and European suppliers, Beta Systems stands for superior expertise, stability and reliability

Our game plan is now in place: we have created a transparent corporate structure, introduced market-oriented LoB strategies with a high-impact management system and implemented streamlined cost structures.

We recorded a number of highly successful deals over the course of 2005 and further strengthened our position as a strategic supplier to customers. In addition to successful projects in our core segment, DCI, we generated significant revenues with SAM Jupiter and FrontCollect in our high-potential lines of business IdM and ECM. In pursuing a targeted approach when it comes to developing our product portfolio, we have also bolstered our market position for the future: new and existing customers expect high-performance, integra-

Our DCI solutions stand for maximum workflow efficiency in IT infrastructures, ensuring uninterrupted data processing and superior operational reliability. The result is a seamless flow of information throughout the value chain.

We keep IT running.

tion-oriented products that are consistent with given IT strategies and fulfill ever-growing requirements with regard to corporate security. The latest version of SAM Jupiter provides the basis for a threefold increase in our target market within the area of IdM. Furthermore, in bringing together various technical solutions under FrontCollect, we have been able to improve throughput significantly and scale back processing complexity. Finally, we rolled out Beta Web Enabler as a joint graphical user interface for several products developed by Beta Systems and former Kleindienst.

Despite an encouraging sales performance in IdM and ECM, we fell slightly short of our overall revenue target. The market environment in 2005 was characterized by intense competition and extremely challenging conditions in the IT sector. Particularly in Germany, which continues to be an immensely important market for Beta Systems, large corporations were once again reluctant to make any major investment decisions with regard to IT projects. In addition, profit from operations was impacted by non-recurring charges associated with restructuring. As part of our corporate communications, we emphasized the fact that fiscal 2005 would be dominated by cost streamlining, consolidation and integration, while also highlighting that there was unlikely to be any fresh impetus in terms of revenue and earnings. In view of the bottom-line results for fiscal 2005, we shall not be proposing a dividend payout to the Annual General Meeting on May 22, 2006.

We shall do everything in our power to improve operational profitability, while continuing to follow our chosen path in 2006 with unfaltering tenacity. We are confident that our team, now operating within new structures, will make a substantial contribution to the growth in company value. Our commitment within this area is reflected in the appointment of Mr. Kamyar Niroumand as CEO effective from April 1, 2006. In this crucial phase of our company's history, he offers all the essential skills needed to guide Beta Systems to the next level and meet our growth targets. Our goal is to tackle the year 2006 with a new organizational structure and a new management team, and to establish our incisive concept within the marketplace. Within this context, our main focus will be on generating revenue. At the same time, however, we shall continue to streamline internal cost structures. Our new corporate structure is particularly well suited to our requirements, as it is designed to ensure simpler processes, accelerated workflow and optimized internal structures. As part of the planning processes for the year 2006, the Management Board, together with the heads of the respective business units, identified further significant potential for cost reduction that can be realized irrespective of the planned increase in revenue.

In our efforts to realize this potential, fiscal 2006 is once again expected to produce exceptional expenses similar in scope to those recorded in 2005; these expense items have been accounted for in our corporate planning. The Supervisory Board has approved these measures and has assured the Management Board of its full support in implementation. We shall once again have to accept non-recurring expenses in order to position ourselves as a lean, agile and flexible player among Europe's key market leaders in our business segments, thereby responding to fast-paced markets and increasing competition within the international software arena.

We would like to take this opportunity to express our gratitude to you, the shareholders of Beta Systems Software AG, for all the support you have given us and the trust you have placed in our team. 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.

We would also like to thank our members of staff around the globe. In a year characterized by dynamic transition, they yet again demonstrated their ability to perform to the highest standards. We believe that we have laid a solid foundation for the successful future of the company.

The Management Board

Dietmar Breyer
Chairman of the Board

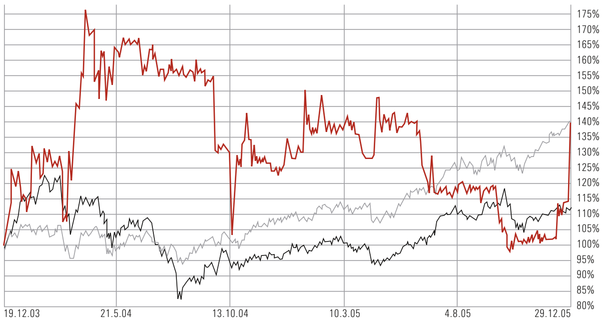
Dr. Oskar von Dungern
Member of the Board

INVESTOR RELATIONS

Beta Systems' Share Performance

The first quarter of 2005 proved positive for Beta Systems in terms of stock market performance, with the company's share price breaching the threshold of 7 € (split-adjusted). Following the announcement of Beta Systems' financial results for the first half, which were dominated by exceptional charges associated with restructuring, merger and consolidation, Beta Systems' share price receded over the course of the second quarter. However, it regained its footing in the fourth quarter, which is traditionally one of the most buoyant periods of business for the company. Closing at 6.40 €, Beta Systems' share price edged slightly higher year on year. The 1:2 stock split passed by the General Meeting of Shareholders was executed at the end of December. As part of the stock split, the company's share capital was restructured to the extent that one ordinary share was replaced by two ordinary shares. Thus, the notional value of each ordinary share of Beta Systems Software AG in the company's share capital has been reduced from approx. 2.56 € to approx. 1.28 € per share.

Long-term chart Beta Systems' share performance over a period of 3 years

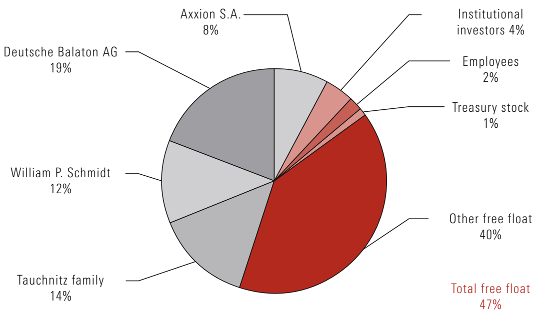


Indexed performance of Beta Systems' shares **(red)** 2003 to 2005 in comparison with TecDax Performance Index **(black)** and the Deutsche Aktienindex DAX **(silver)**

Beta Systems Shares – Key Facts & Figures

Earnings per share	2005
High	7.31 €
Low	4.50 €
Share price on Dec. 30, 2005	6.40 €
Dividend per share	0.125 €
Number of shares issued	8,859,276 shares
Share capital	€ 11.3 million
Market cap. on Dec. 30, 2005	€ 56.7 million

Current Shareholder Structure (Dec. 30, 2005)



Capital Market Communication

Over the course of fiscal 2005, Beta Systems once again pursued its approach of open, timely and transparent communication with institutional and private investors, financial analysts and representatives of the business press. One of the focal points of the company's communication activities in the period under review was reporting on the merger of Kleindienst Datentechnik AG with Beta Systems Software AG as well as on Group-wide reorganization measures. As part of numerous roadshow presentations, one-to-one meetings and interviews with decision-makers at Europe's key financial centers in Germany, Switzerland and the UK, we highlighted the merits of our share by emphasizing the long-term opportunities associated with an investment in Beta Systems. Within this context, we also outlined the many benefits and the outstanding potential of the new Beta Systems Group.

Beta Systems' Investor Calendar 2006

March 27, 2006

Announcement of annual results 2005
Online press conference in Berlin

April/May 2006

Analyst/investor conference and European investor roadshow

May 10, 2006

Publication of the first quarter 2006 report
Investor and analyst conference call

May 22, 2006

Annual general meeting at Ludwig-Erhard-Haus, Fasanenstraße 85, 10623 Berlin

August 10, 2006

Publication of the second quarter 2006 report
Investor and analyst conference call

November 10, 2006

Publication of the third quarter 2006 report
Investor and analyst conference call

October/November 2006

Analyst/investor conference and European investor roadshow

Contact

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CORPORATE GOVERNANCE REPORT FOR FISCAL 2005

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 was introduced in 2002 and last amended in June 2005. It comprises three different kinds of standards:

- Prevailing legal provisions governed by German law
- Recommendations
- Suggestions

The legal provisions are binding on German companies. As regards the recommendations, Section 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 German Corporate Governance Standard and where there are departures from it. Companies may deviate from the suggestions without furnishing any specific explanations.

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

- Supervisory Board
- Management Board
- Working relationship between the Management Board and the Supervisory Board
- 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 the Company and its customers, employees, shareholders, partners and the public at large, within the company's national and international markets.

Corporate Governance Principles

All documents pertaining to Corporate Governance – Articles of Association and Corporate Governance Principles of Beta Systems Software AG as well as Declarations of Conformity for the respective years – have been made available on the website of the Company. Compliance with the Corporate Governance Principles is monitored by the Compliance Officer:

Arne Baßler
Compliance Officer
Phone: +49 30 726 118 170
Fax: +49 30 726 118 881
complianceoffice@betasystems.com

Duties of the Management Board and Supervisory Board

In accordance with German law governing stock corporations, Beta Systems maintains a dual board system, i.e. a structure with separate management and supervisory functions. At present, the Management Board comprises two members, while the Supervisory Board consists of six members.

As the executive body responsible for managing the Group, the Management Board is bound by the interests of the Group. Within this context, its actions are oriented towards the sustainable growth in company value. The Management Board defines the principles of corporate policy and is responsible for positioning the company in terms of corporate strategy, planning and specifying a budget for the Company, allocating resources, as well as supervising management staff within the respective lines of business. The Management Board is responsible for preparing quarterly and annual reports. It informs the Supervisory Board, thoroughly, regularly and on a timely basis, about all issues that are of relevance to the Company with regard to strategy and the implementation of strategic measures, corporate planning, the course of business, cash flows and financial performance, as well as risks associated with the Company's business activities.

The Supervisory Board monitors and advises the Management Board with regard to the manner in which the latter conducts its business. The Supervisory Board discusses the course of business, corporate planning, strategy and implementation at regular intervals. It examines the quarterly reports and approves the consolidated and separate financial statements of Beta Systems Software AG, taking into consideration all reports provided by the auditor. Furthermore, the Supervisory Board is responsible for appointing and dismissing members of the Management Board. Management Board decisions deemed to be of major significance – e.g. large-scale acquisitions, divestments and financial measures – require prior authorization by the Supervisory Board. The Supervisory Board is structured on a tripartite basis and has a Personnel Committee. The Personnel Committee is responsible mainly for putting forward recommendations with regard to the appointment of Management Board members. The principle of impartiality applies to shareholder representatives.

Stock transactions and compensation of the Management Board and Supervisory Board

Pursuant to Section 15a of the Securities Trading Act (Wertpapierhandelsgesetz – WpHG), the members of the Management Board and the Supervisory Board are legally obliged to disclose the acquisition or disposal of securities relating to Beta Systems Software AG insofar as the value of a transaction executed by the aforementioned member or related parties reaches or exceeds the threshold of 5,000 € in a calendar year. In accordance with the Insider Trading Policy of Beta Systems, members of the Supervisory Board and Supervisory Board are obliged to notify Beta Systems of all transactions relating to Company securities. In fiscal 2005, Beta Systems Software AG was notified of the following transactions:

Date	Name/Institution	Function	Type of Transaction	Quantity*	Price* in €
Nov. 11, 2005	William P. Schmidt	Supervisory Board	Acquisition	27,000	5.00
Dec. 21, 2005	Harald J. Joos	Supervisory Board	Acquisition	4,000	5.55
Dec. 28, 2005	Thomas Engelhardt	Supervisory Board	Acquisition	10,060	5.44

*split-adjusted

Information pertaining to these transactions has been published on the Company's website at www.betasystems.com, Investor Relations / Corporate Governance / Directors' Dealings section. Details regarding shareholdings and compensation of the Management Board and Supervisory Board members have been provided in the Supplements to the Notes of this annual report.

Declaration of Conformity in accordance with Section 161 AktG

At their meeting convened on December 9, 2005, the Management Board and Supervisory Board issued the following joint declaration:

In the last Declaration of Conformity published on the Internet and in the Annual Report of Beta Systems Software AG for fiscal 2004, 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 that the Company would continue to do so in future. In fiscal 2005, Beta Systems Software AG deviated from the Corporate Governance Code in the version of June 2, 2005, in the following areas:

Deductible specified for D&O insurance

Contrary to the recommendation that liability insurance taken out by a company for its management board and supervisory board members (so-called Directors' and Officers' – D&O – insurance) should include a suitable deductible, Beta Systems is not of the opinion that this would lead to any significant improvement in motivation or sense of responsibility of its directors and officers. The insurance policies currently taken out by Beta Systems do not include a deductible, 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) as well as Beta Systems' company 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 members of the Management Board and Supervisory Board

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 specify 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 the 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 Articles of Association within this area failed to achieve the required majority at the last Annual General Meeting of Shareholders.

Compensation of the 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 in 2004 or have expired. Proposals aimed at issuing stock options to the Management Board in the future, taking into account the recommendations of the German Corporate Governance Code, failed to achieve the required majority at the last Annual General Meeting of Shareholders.

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 to the General Meeting of Shareholders. It also contains calculations regarding the value of stock options already issued to senior managers. Therefore, it is also not intended that the Chairman of the Supervisory Board of Beta Systems Software AG will furnish any specific information at the General Meeting of Shareholders, 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 2005 fiscal year Beta Systems Software AG conformed entirely with the recommendations of the German Corporate Governance in the version of June 2, 2005.

Berlin, December 9, 2005

Harald J. Joos
Chairman of the Supervisory Board

Dietmar Breyer
CEO

CORPORATE PROFILE

Beta Systems has established itself as one of the leading suppliers of infrastructure software for enterprise-critical applications geared towards the automation and protection of business processes. We operate within the segments of Identity Management (IdM), Enterprise Content Management (ECM) and Data Center Infrastructure (DCI). Our solutions are tailored to the requirements of large-volume data processing, offering superior reliability in business-critical processes that involve sensitive data and require compliance with statutory regulations (Compliance). The product portfolio for software solutions within the ECM segment is complemented by scanners and sorters marketed under the Kleindienst brand, which is also owned by Beta Systems Software AG.

Beta Systems has been listed on the German stock exchange since 1997 and currently employs more than 700 people, located mainly at the company's four Competence Centers in Berlin (HQ), Cologne, Augsburg and Calgary. In addition, we have established a strong international presence, working in close cooperation with 18 subsidiaries and a number of business partners. Our global customer base includes over 1,000 IT service providers and major corporations operating within the fields of finance and insurance, retail/wholesale trading, manufacturing, energy supply and public-sector administration. For further information, please feel free to visit www.betasystems.com.

Our Mission

We develop, market and implement profitable infrastructure software for large companies. Our business focuses on reliability – and the trust placed in us by customers is our most valuable asset:

- We supply software solutions for cost-effective IT infrastructures.
- We are seen as strategic suppliers and enjoy the trust of IT managers, boards of directors and senior executives.
- We deliver superior reliability for IT-based business processes.
- We assist our customers in accelerating their workflow.
- We contribute to the success of internal corporate compliance measures and ensure that statutory and market-specific requirements (Compliance) are fulfilled both at national and international level.

Our Positioning

Beta Systems is synonymous with reliability and cost advantages:

- Reliability in allocating IT access rights throughout enterprises: Identity Management.
- Reliability when it comes to collecting, processing, delivering, distributing and archiving business-critical information: Enterprise Content Management.
- Reliability and transparency in implementing all-embracing IT-based business processes, including backup and recovery of enterprise data: Data Center Infrastructure.

Our Goals

We believe in profitable growth:

- We are committed to positioning ourselves among the foremost European software solution providers in our market segments.
- Our focus is on enhancing company value by improving our profitability levels in a sustainable manner and by leveraging revenue potential as far as possible.

Our Strategy

Our approach is to focus on core competencies:

- We are commited to expanding in the growth segments of Identity Management and Enterprise Content Management.
- We are commited to generating maximum profitability in our core business Data Center Infrastructure.
- We are commited to achieving high level of customer loyalty through close networking with client companies.
- We are commited to maximizing customer satisfaction by means of flexibility, agility, innovatory prowess and first-class service.

Our IdM solutions are designed to improve transparency and deliver greater systems security throughout the enterprise. We facilitate implementation of cross-company compliance regulations and provide the necessary foundation for performance-driven security processes.

We make IT safe.

FOCUS ISSUE: BETA SYSTEMS – THE NEW CORPORATE GROUP

The company pursued its established approach of creating growth and raising profitability during fiscal 2005, adapting the strategy to economic reality. The focus of activity was continuing integration and the merger with Kleindienst Datentechnik AG, in which a majority shareholding was acquired in 2004. Against this background, the "Growth and Profit 2005 – GaP'05" program was launched across the group early in the year. In addition to a range of initiatives designed to reduce costs in the short term, the entire product and solutions portfolio was systematically optimized. This provided the basis for a successful realignment of the Beta Systems Group as a whole.

As part of the realignment, a profit center structure was set up comprising the three business segments Identity Management (IdM), Enterprise Content Management (ECM) and Data Centre Infrastructure (DCI). The marketing, sales and service functions, which were previously grouped centrally, are now directly assigned to these three business areas. All segments have their own market focus in terms of income and growth and their own place in the overall Beta Systems strategy. The new structure has several advantages. Area-based management facilitates improved operational and financial control of business in the various segments. This in turn enables Beta Systems to sharpen its customer focus, offer a comprehensive portfolio and act as a strategic partner in three critical sectors of IT infrastructure for its customers.

KEY STAGES OF REORGANIZATION:

"Growth & Profit 2005 - GaP'05" program launched at the start of the year

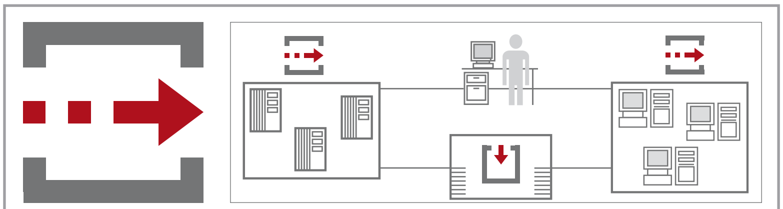
Merger approved by annual shareholders' meetings of Beta Systems and Kleindienst

Merger becomes effective

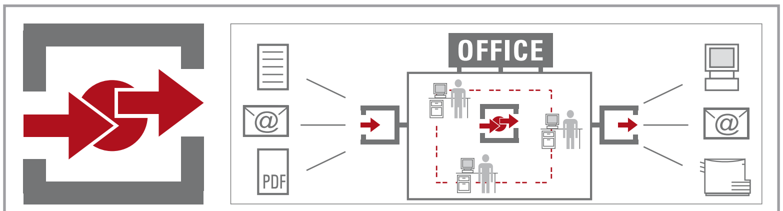
New management for strategic areas

Start with new organizational structure

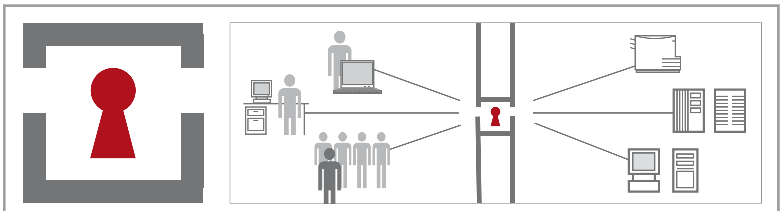
BETA SYSTEMS PORTFOLIO



Data Center Infrastructure Controlling and monitoring data center processes - keeping data safe and accessible.



Enterprise Content Management Ensuring the efficiency of document handling - from input to processing to output.



Identity Management Provisioning and administration of access rights - optimum security for systems and applications.

FOCUS FOR THE FUTURE: ECM AND IdM

ECM – Enterprise Content Management

The Beta Systems ECM segment delivers solutions designed to optimize document-based business processes in the sectors of banking, insurance, public administration, industry, retail and services. The amalgamation with Kleindienst Datentechnik AG brought about a significant expansion of the service range in the ECM segment. The 'VIDiDOC Suite' output management solution has been enhanced to include a wide range of products for the field of input management, covering every stage of document processing from scanning, data collection and archiving to administration. In addition, with Kleindienst scanners and sorters, Beta Systems is able to offer the appropriate hardware components to support the processing of larger document quantities and complex applications.

Beta Systems opted for fresh management expertise in order to expand the Enterprise Content Management business segment. In November 2005, Dr. Mathias Petri took on responsibility for the area of cross-sector solutions in the ECM segment. His main task is to identify and exploit new sales potential. With over 15 years' experience in document management and ECM, Dr. Petri is a veteran of the IT sector. Norbert Baumgärtner is in charge of another sales offensive in the Beta Systems ECM area, this time in the shape of ECM solutions for the banking sector.

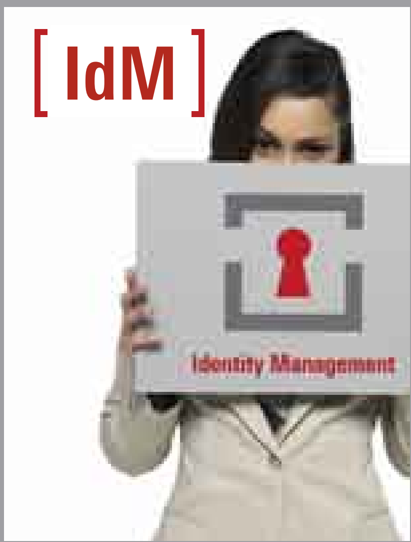
The Gartner Group expects the global ECM market to expand by over 10% on average, with growth in Europe likely to rise even more. Analysts see this development as the result of increased demand for software solutions that are easily scalable and integrated.

"We have sophisticated solutions and years of market experience. Our input management solutions are founded on over 30 years of expertise, and we can also draw on more than 20 years of experience in our output management portfolio," says Norbert Baumgärtner, explaining the strong ECM expertise of Beta Systems. The theme is taken up by Mr. Mathias Petri: "Beta Systems products can be used in all kinds of sectors. In the banking and insurance environment in particular, we have already achieved excellent market penetration in Germany. We can also apply this expertise to other business processes, for example in industrial enterprises. What's more, our solutions have a high degree of scalability, which makes it easy to handle both small and very large quantities of data. The fact that many leading companies choose to implement our ECM solutions and carry on using them in the long term proves that point. One of our goals for 2006 is to work more with strategically important customers like specialist consultancy firms and major system providers."

IdM – Identity Management

The efficient management of identities, access rights and responsibilities in many different applications is more than a simple administration and security issue. It allows companies to gain a competitive edge by improving the efficiency and reliability with which they provide products and services, whilst significantly raising the security levels in these organizations. Increasing legal requirements (regulatory compliance) act as another important driver of business. The market research company IDC is forecasting an annual growth rate of around 8% for the identity management market.

In the IdM business area at Beta Systems, the cross-sector solutions being developed, marketed and sold enable large companies and IT service providers to manage digital identities and comply with IT security guidelines. SAM Jupiter is an integrated suite of functions and components from Beta Systems. It automates key user administration processes (such as creating and deleting user accounts), whilst enabling company-wide security guidelines to be defined and controlled.

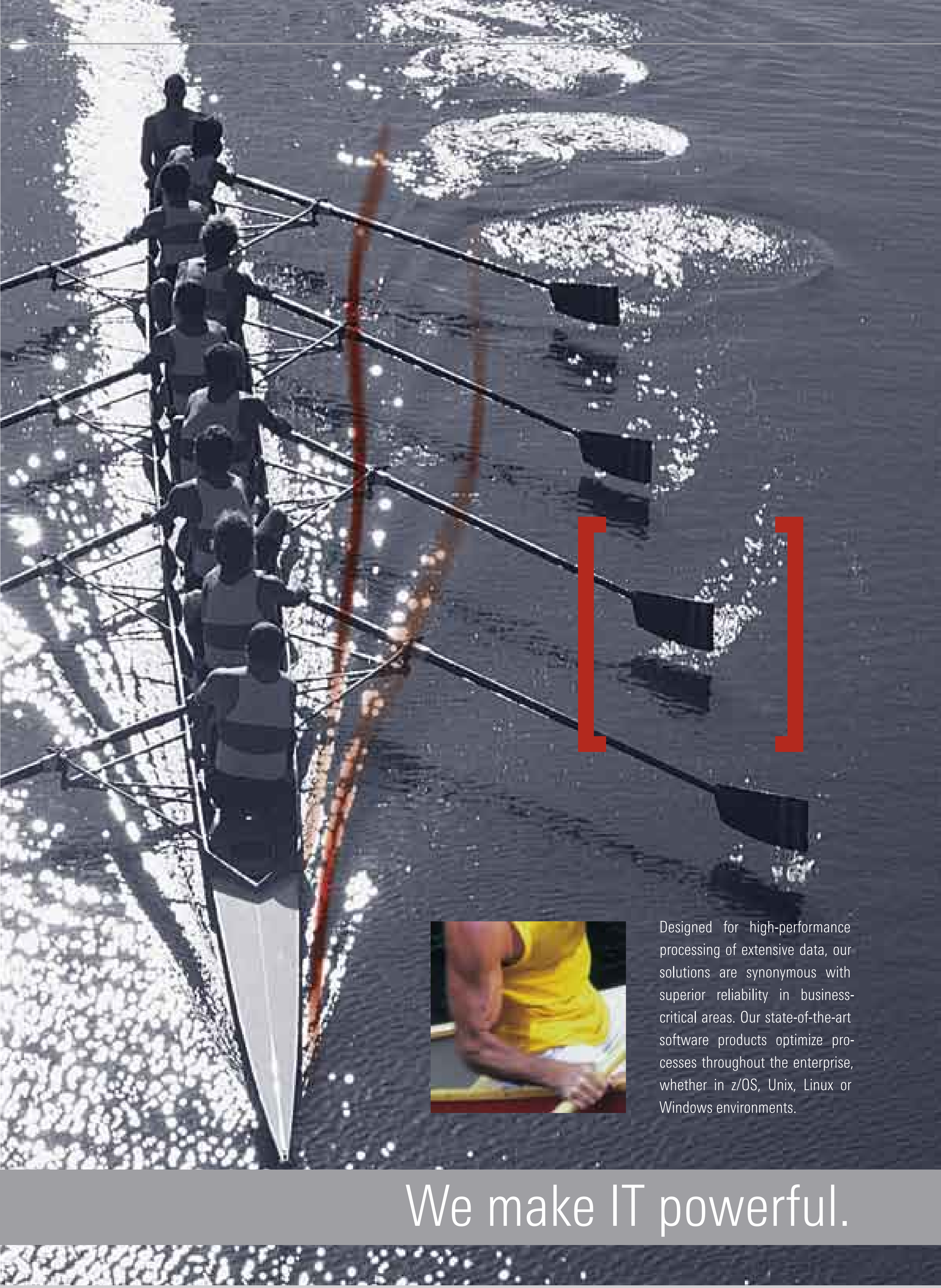


Dr. Oskar von Dungern, Board Research and Development, explains: "More than ever, decision-makers these days look for well-established, dependable suppliers with a distinctive focus who can guarantee the necessary expertise. They want a reliable partner for the long term. Over the past few years, Beta Systems has consolidated its strong and secure market position as a supplier of identity management software, for example by realizing many complex implementation projects under fixed price terms. In the new business area of Identity Management, we are pooling all of our global resources into a single organizational unit. This will allow us to support our customers even more effectively, and also improve our response times. Concentrating our expertise to a greater degree also means that we can face the future with confidence."

THE BASIS: DCI

DCI – Data Center Infrastructure

Alongside the expanding areas of ECM and IdM, the business area Data Centre Infrastructure (DCI) is a fundamental pillar of the company. This area focuses on cross-sector solutions for the secure, traceable and error-free IT support of business processes in large data centers – the core business of Beta Systems for over 20 years. Over 150,000 "jobs" (data centre operations) are controlled, monitored and documented every day by Beta Systems solutions in the IT departments of major automobile companies and financial service providers; to give another example, over 100 terabytes of information is stored by 10,000 servers in a recoverable format. The DCI area enjoys an extremely broad customer base, comprising highly stable customer relationships built up over many years. It includes many of the world's leading banks, insurance companies, retail firms and industrial enterprises. Under the management of Harald Podzuweit, the stated aims of the business area include high levels of customer satisfaction and customer retention as well as an expansion of business with regular customers in the German-speaking region, Europe and North America.



Designed for high-performance processing of extensive data, our solutions are synonymous with superior reliability in business-critical areas. Our state-of-the-art software products optimize processes throughout the enterprise, whether in z/OS, Unix, Linux or Windows environments.

We make IT powerful.

BETA SYSTEMS SOFTWARE AKTIENGESELLSCHAFT, BERLIN

COMBINED GROUP AND COMPANY MANAGEMENT REPORT FOR THE FISCAL YEAR 2005

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 greater detail as part of the Notes to the Consolidated Financial Statements (Summary of Significant Accounting Policies). The course of business of the Beta Systems Group (referred to as „Beta Systems") and course of business of Beta Systems Software AG (referred to as „the Company") are closely linked, as the Company is part of the Group-wide development, sales, service and marketing network. Therefore, the management report pertaining to Beta Systems Software has been combined with that of the Beta Systems Group. All information presented shall apply to the Group, unless data is clearly specified as being attributable solely to the Company.

As from fiscal 2005, the consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). Within this context, all data for previous years, i.e. all balance sheet items as well as all items included in income statements, has been adjusted accordingly. The conversion from US-GAAP to IFRS has resulted in a number of differences in terms of financial reporting. These have been outlined in the Notes to the consolidated financial statements, which also include reconciliations.

Owing to the discontinued operations within the area of Outsourcing Service, all data for 2004 and 2005 relating to profit before taxes (e.g. operating profit and EBT) has been listed with the supplementary annotation "from continuing operations". These figures include neither revenues nor operating expenses associated with the business unit disposed of by the company. The income from discontinued operations is reported after taxes and is included directly in net income/(loss) for the year or the result of the reporting period. The Group applies IFRS, whereas the financial statements of the AG (Aktiengesellschaft – stock corporation governed by German law, i.e. the parent company) are prepared pursuant to the German Commercial Code (Handelsgesetzbuch – HGB). All charts, diagrams and similar elements, including remarks related thereto, have been included purely for illustrative purposes and are not deemed to be an integral part of the management report.

1. STRATEGIC PRINCIPLES AND GENERAL BASIS OF BUSINESS

For the past 20 years, Beta Systems 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 at delivering solutions and systems within the area of information technology (IT). In 2005, the Group's operating activities were divided into five business segments. These segments are Data Center Management, Identity/Security Management and Storage Management, as well as the segment Enterprise Content Management (ECM), which comprises the areas Input Management and Output Management. The above-mentioned segments develop and market solutions encompassing both hardware and software components, as well as services relating to the installation, operation and maintenance of such solutions. Each segment corresponds to a reportable segment within the meaning of IFRS 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. Financial reporting on the basis of the new organizational structure, featuring the three segments Identity Management (IdM), Enterprise Content Management (ECM) and Data Center Infrastructure (DCI), will commence effective from 2006.

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. Therefore, the Group's commercial success is also dependent on global economic conditions and the general performance of the economy as a whole. The world economy was able to produce forward momentum in 2005, despite the surge in crude oil prices. In the euro zone, however, economic dynamism was less pronounced in the period under review. Here, the first half of the year was dominated by more or less stagnant domestic demand and, consequently, economic weakness. In contrast, the second six months of the year produced a slight economic upturn.

In Beta Systems' core market, Germany, real GDP growth stood at just 0.9%, i.e. lower than in the previous year (1.6%). Within this context, the third and fourth quarter saw a significant improvement in Germany's economic climate compared with the beginning of the year. Domestic companies experienced an upturn in the number of orders received in the fourth quarter. Once again, however, this was driven mainly by foreign business. As was the case in 2004, the German IT market was characterized by fierce competition, considerable pressure on prices and budgetary restrictions with regard to IT spending. In contrast to the preceding year, however, market analyses suggest that companies were more willing to set aside funds for investments. The German trade association BITKOM recorded market growth of 2.6% for the IT sector in 2005.

The leading economic research institutes have forecast a slight improvement in the economy for the coming year, with the euro zone predicted to grow by 1.7% and Germany by 1.2%. Growth will continue to be driven by buoyant demand from abroad, a weak euro and low oil prices. The decision by Germany's new coalition government to raise the level of VAT in 2007 is also likely to provide fresh impetus, with a considerable increase in consumer goods purchases expected for 2006. Having said that, these factors are unlikely to produce sustainable economic dynamism. Economic analysts are adamant that Germany's economy will remain bifurcated: while the market stimuli from abroad are expected to be pronounced over the coming months, this trend is unlikely to have a significant effect on the domestic economy. Induced by favorable export forecasts and low interest rates, enterprises are likely to invest in new machinery and equipment. However, capacity utilization levels among companies focusing on the domestic market remain low. Thus, capital expenditure associated with this segment of the economy is unlikely to generate sufficient forward momentum for a sustainable upturn in investment spending. The Kiel-based Institut für Weltwirtschaft (IfW) has forecast less dynamic growth for 2007, prompted mainly by the fiscal strains associated with government policy as well as a weakening of the world economy.

3. CHANGES TO GROUP STRUCTURE

There were significant changes to the Group structure in the fiscal year 2005, attributable to the merger with Kleindienst Datentechnik AG, the disposal of the Outsourcing Service unit, the change to the ownership structure of Kleindienst Solutions GmbH & Co. KG and the spin-off of Kleindienst Scanner GmbH.

3.1. Disposal of Outsourcing Service unit

Upon the occurance of all the conditions precedent on April 30, 2005, Kleindienst Datentechnik AG sold its entire ownership interest in DS Dokumenten Service Holding GmbH, Karlsruhe, i.e. its Outsourcing Service business unit, to Transaktionsinstitut für Zahlungsverkehrsdienstleistungen AG (TAI AG), Frankfurt am Main, a subsidiary of DZ BANK AG, Frankfurt am Main. The transaction took commercial effect on January 1, 2005, and was executed in the second quarter. The purchase consideration was Euro 10.4 million.

The inclusion of the Outsourcing Service unit in the future strategic approach and positioning of Kleindienst Datentechnik AG and the new Beta Systems Group as an IT service provider for infrastructure software was discussed in depth as part of an analysis conducted with the express purpose of identifying potential synergies and business opportunities. Within this context, the management came to the conclusion that the above-mentioned segment no longer played a central strategic role for Kleindienst Datentechnik AG and its positioning within the Beta Systems Group. The Outsourcing Service business unit provided services which generally were performed by the customers of the former Kleindienst Group themselves. The assets held for disposal as well as the liabilities are reported separately in the adjusted amounts of the consolidated balance sheet for the preceding year.

Owing to the sale, this business segment no longer contributed to the operational results of the Beta Systems Group in 2005. However, extraordinary income of Euro 6.1 million from the disposal was recorded at Group level in fiscal year 2005. The assets and liabilities held for disposal are reported separately in adjusted balance sheet values for the comparative period.

3.2. Merger

In December 2004, the Management Board and Supervisory Board announced their intention to merge Kleindienst Datentechnik AG into Beta Systems Software AG effective from January 1, 2005.

In merging Kleindienst Datentechnik AG into Beta Systems Software AG, the process of corporate integration has been taken to the next level. These measures are expected to facilitate the Group's efforts to leverage location-, product- and solution-specific cross-selling potential and to streamline cost structures. By pooling the activities of Beta Systems in the area of Document/ Output Management with those of Kleindienst within the field of Input Management to create the new strategic business segment „Enterprise Content Management", Beta Systems will enhance its competitive position as a European IT specialist for infrastructure software. The integration provides the best-possible basis for a consistent and effective marketing approach as a strategic supplier to the joint customer base, while at the same time facilitating the provision of combined solutions from a single source.

The merger resulted in an exchange of shares held by outside shareholders of Kleindienst Datentechnik AG for shares in Beta Systems Software AG. Beta Systems had already acquired an interest of approx. 90% of shares and voting rights in Kleindienst Datentechnik AG by means of block purchases, public mandatory offers and stock-exchange purchases. In June 2005, the resolutions required for the merger were presented to the Annual General Meetings of both companies for approval.

For the purposes of determining the share-exchange ratio, Beta Systems and Kleindienst commissioned PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, to prepare an external valuation report for both companies in accordance with statutory requirements. The company valuations were conducted in accordance with the so-called Ertragswertverfahren (income method, method of discounted future income), taking into account assets to be valued separately. The „Ertragswerte" (capitalized income values) of the two companies corresponded to Euro 10.265 (Euro 20.53 before stock split) per Beta Systems share and Euro 6.145 (Euro 12.29 before stock-split) per Kleindienst share, including the special asset items. The appropriateness of the share-exchange ratio was assessed by Warth & Klein GmbH Wirtschaftsprüfungsgesellschaft, Düsseldorf, as the independent court-appointed Mergers Auditor.

The share-exchange ratio for the merger was set at three Beta Systems shares for five Kleindienst shares, i.e. 0.6 Beta Systems shares for each Kleindienst share. The exchange of Kleindienst shares was performed automatically by the custodian banks and Commerzbank Aktiengesellschaft, Frankfurt am Main, as fiduciary and was free of charge for Kleindienst shareholders entitled to conversion.

On April 27, 2005, Beta Systems and Kleindienst concluded a notarized merger agreement, on the basis of which the entirety of Kleindienst assets passed to Beta Systems. The merger agreement was approved by the General Meeting of Shareholders of Kleindienst, held on June 13, 2005, and that of Beta Systems, held on June 14, 2005. Furthermore, the General Meeting of Shareholders of Beta Systems passed a resolution, whereby for the purposes of the merger the share capital shall be increased by up to Euro 0.7 million, to a total of up to Euro 11.3 million, by issuing up to 0.3 million no-par value bearer shares (Stückaktien governed by German law) with a notional par value of Euro 1.28 (Euro 2.56 before stock spilt) each and a dividend entitlement effective from January 1, 2005. The merger became effective upon entry of the merger transaction in the Commercial Register of Beta Systems at the Amtsgericht Charlottenburg district court on August 25, 2005. Kleindienst Datentechnik AG, as the transferring entity, thus ceased to exist.

The listing of former Kleindienst shares in the Regulated Market of the Frankfurt Securities Exchange was discontinued effective from the end of August 26, 2005. The new shares of Beta Systems were included in trading on the Regulated Market of the Frankfurt Securities Exchange (Prime Standard) effective from September 1.

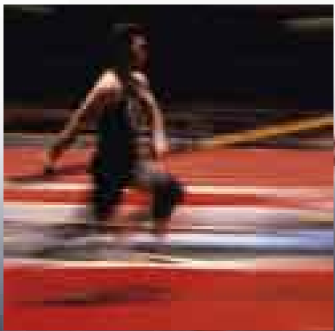
3.3. Change to the ownership structure of Kleindienst Solutions GmbH & Co. KG, Augsburg

At the partners' meeting of Kleindienst Solutions convened on December 14, 2005, a resolution was passed whereby Kleindienst Datadress GmbH, Augsburg, would cease to be sole unlimited partner (so-called Komplementär) of Kleindienst Solutions effective from December 31, 2005. The company has thus been wound up without liquidation. As sole remaining partner and legal successor within the meaning of Section 738 of the German Civil Code (BGB), Beta Systems Software AG shall continue the business activities of the aforementioned entity (so-called „Anwachsung"). Thus, all contractual obligations as well as assets and liabilities passed to Beta Systems Software AG effective from December 31, 2005.

3.4. Spin-off of Kleindienst Scanner GmbH, Augsburg

In accordance with the articles of incorporation of October 26, 2005, Kleindienst Scanner GmbH, Augsburg, was established as a wholly owned subsidiary of

Our service portfolio includes tailor-made solutions for complex IT infrastructures. Integrating high-performance standard components, we deliver flexible, future-safe technology that is geared to the requirements of specific industries and dovetails perfectly with existing resources.



We keep IT flexible.

Beta Systems Software AG. As part of a purchase agreement dated December 30, 2005, Kleindienst Solutions GmbH & Co. KG sold its scanner manufacturing unit to Kleindienst Scanner GmbH.

3.5. Realignment of the Beta Systems Group

The „Growth and Profit 2005 - GaP'05" program initiated at the beginning of the year was centered around cost reduction and integration measures, as well as Group-wide restructuring and focus on three business segments by the name of Identity Management (IdM), Enterprise Content Management (ECM) and Data Center Infrastructure (DCI) – with separate, market-driven strategies in terms of profitability and growth.

IdM is responsible for developing, marketing and distributing cross-sector solutions for the management of digital identities, particularly user rights, and compliance with IT security standards in large enterprises and IT service providers. ECM supplies industry-specific solutions designed to optimize document-based business processes within the areas of banking, insurance, public-sector administration, industry, trade and services.

The DCI segment focuses on cross-sector solutions for reliable, transparent and error-free IT support of business processes in data centers.

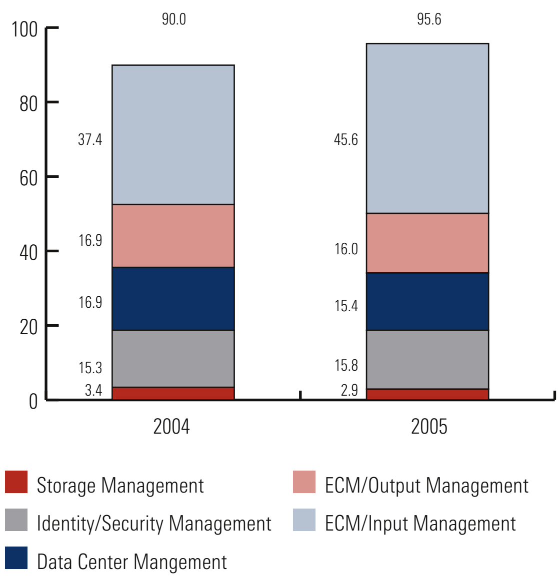
For further information on the changes to the Group's structure, please refer to the Notes to the Consolidated Financial Statements.

STRATEGIC BUSINESS SEGMENTS		
IdM	**DCI**	**ECM**
IDENTITY MANAGEMENT	**DATA CENTER INFRASTRUCTURE**	**ENTERPRISE CONTENT MANAGEMENT**
Cross-sector solutions for security administration – for large enterprises and IT service providers	**Cross-sector solutions for storage, scheduling and auditing – for large enterprises and IT service providers**	**Sector-oriented solutions for administrative bodies, retailers, manufacturers, service providers and insurers as well as banks, including hardware (scanners)**

4. BUSINESS REVIEW

4.1. Business Units and Products

Revenue structure according to segments in million €*



** Rounding differences are possible*

Data Center Management

The Data Center Management segment, focusing mainly on Job Scheduling, recorded sales of Euro 15.4 million (2004: Euro 16.9 million) and a segment result of Euro 2.5 million (2004: Euro 2.1 million) for the period under review. This area is characterized by stable earnings potential from maintenance, expansion and replacement investments. However, it nevertheless has to contend with a stagnating market environment, as segment revenue is generated predominantly within the mainframe environment. As forecast, revenue generated from license and license upgrade agreements remained below the level recorded a year ago. The higher segment result was attributable principally to cost-reduction measures and lower selling expenses. These are attributable to the reduction in commission payments and a temporary decline in staffing levels within the area of sales.

In terms of sales activities, the most significant accomplishments included license and license upgrade agreements negotiated with IBM/ATOS Origin (IT services), REWE (retail) and AMB Generali and Signal Iduna (both insurance companies) in Germany, Rikestrygdeverket (insurance, Scandinavia) and GIE Europex (financial services, France) in Europe as well as ADP Canada (services) in North America.

Development activities in the Data Center segment were focused on preparing an upgrade of the classic mainframe products to a new, high-performance version in 2006. Another highlight was the completion of the new Beta 92 Enterprise release, which has been designed for the purposes of archiving cross-enterprise log data, such as system access information.

Identity/Security Management

The Identity/Security Management segment generated sales of Euro 15.8 million in the period under review (2004: Euro 15.3 million), recording a segment loss of Euro 2.7 million (2004: loss of Euro 3.1 million). The slight increase in revenue is attributable mainly to more buoyant service business. Cost-reduction measures implemented as part of the restructuring program had an initial positive effect on the segment result.

The „Focal Point" enterprise single sign-on solution acquired from OKIOK, Montreal, Canada, represents a major extension to Beta System's SAM Identity Management Suite. The new product will be marketed as a separate module under the name of SAM Enterprise Single Sign-On (SAM eSSO). In addition to stepping up marketing activities in order to enhance market awareness of SAM, Beta Systems established the IdM business segment as part of the Group's overall restructuring program, with an own sales and maketing team, the objective being to support sales activities in the SAM environment. In terms of extended revenue potential, however, these marketing and sales measures are not expected to bear fruit until a later stage. The main emphasis of development work was on completing the new version of SAM Jupiter, which now covers all the relevant platforms such as UNIX, Windows and z/OS.

In Germany, contracts secured despite fierce competition included projects involving IBM/Deutsche Bank (financial services), Lufthansa (transport and logistics) and Hypovereinsbank (financial services). This was complemented by new licenses and license upgrades negotiated in Europe and North America, which included customers such as Servibanca (credit institution, Spain), T-Systems (IT services, Italy), VUB Banka (credit institution, Poland) as well as VISA (credit institution, USA) and USAA (automotive, USA).

ECM/Output Management

The ECM/Output Management segment recorded sales of Euro 16.0 million (2004: Euro 16.9 million) and a segment result of Euro 1.1 million (2004: Euro 0.5 million) in 2005. Despite encouraging sales generated with new products within the VIDiDOC Suite, this segment was unable to compensate fully for sluggish demand relating to classic Output Management solutions deployed in the mainframe environment. The forward momentum achieved in terms of the segment result was attributable mainly to cost-reduction measures as well as the improvement in service margins.

In Germany, the sales team succeeded in negotiating agreements with IBM/ATOS Origin (IT services), BMW (automobile), Volkswohlbund Versicherung (insurance) and KfW Bankengruppe (financial services), as well as several other companies. In Europe, large-scale agreements signed in the period under review included projects involving Caixa Galicia (insurance, Spain), IKEA (retail, Scandinavia) and Toyota (automobile, UK).

Within this segment, the software engineering team completed enhanced versions of Beta Web Enabler and Beta 93 Document Transfomer in the period under review. The new version of Beta Web Enabler allows the incorporation of various data sources within a single graphical user interface. In addition, this next-generation product includes so-called multifavorites that summarize information from various source systems and make it more easily accessible to users. With the help of the new release of Beta System's Document Transformer, users are able to perform a subsequent analysis of existing lists, with all relevant data being computed and processed automatically.

ECM/Input Management

The ECM/Input Management segment recorded sales of Euro 45.6 million (2004: Euro 37.4 million) and a segment loss of Euro 4.9 million (2004: segment income Euro 1.7 million) in the period under review. The increase in sales achieved in this area was driven mainly by consolidation effects. In view of the fact that the Kleindienst Group did not become part of the consolidated group of Beta Systems Software AG until April 1, 2004, the comparative items of the income statement for 2004 only included pro-rata figures for a period of nine months. Thus, this segment recorded revenue growth in a year-on-year comparison, whereas revenue declined on the basis of a full twelve-month comparison. The decline in the segment result was again due to a reduction in gross margins. This was the result of the high fixed costs as well as the increased proportion of hardware sales, which are generally associated with lower margins.

In terms of sales activities, the segment was able to secure two large-scale projects with substantial revenue in the period under review. The clients in question were Zagrebacka Banka (financial services, Croatia) and the National Planning Commission (public administration, Nigeria). In Germany, major agreements were negotiated with Hypovereinsbank (financial services), Sparkassen Informatik (IT services) and Postbank (credit institution).

The main focus of development work in the area of Input Management was on ensuring connectivity of existing modules with external systems. A point in case is FrontCollect Invoice, which was linked with SAP applications via a connector interface and subsequently certified by SAP. It is designed to facilitate the exchange of supplier, order and invoice data. In addition, EBS20 – a solution used for the purpose of long-term archiving – was connected to the Centera interface.

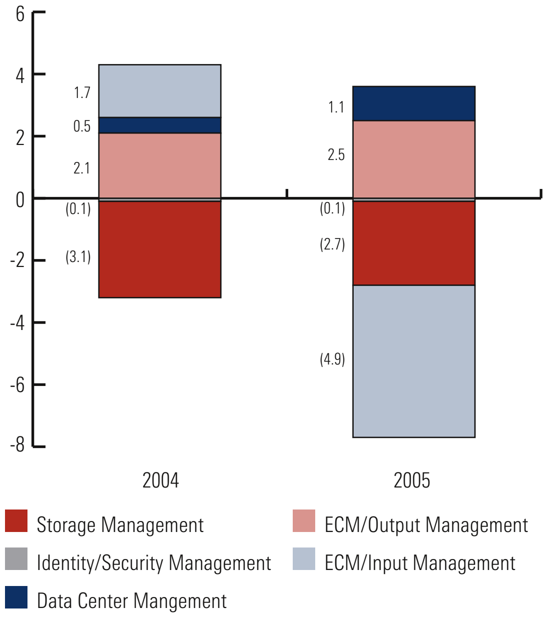
Storage Management

The Storage Management segment recorded sales of Euro 2.9 million (2004: Euro 3.4 million) and a segment loss of Euro 0.1 million (2004: loss of Euro 0.1 million) in the period under review. As in the past, a majority of revenue was generated in North America. The reduction in sales is attributable in particular to low maintenance revenue as a result of last year's decline in new license business.

Projects included Southern California Edison (industry), World Savings (financial services) and University of South California (public administration, all North America), as well as Techniker Krankenkasse (insurance, Germany) and Top Danmark (IT services, Scandinavia) in Germany and Europe.

In line with corporate planning, sales activities were focused mainly on expanding the segment's maintenance business. The main emphasis of development work in the period under review was on converting Harbor NSM products into a platform-independent software architecture.

Segment results in million €*



* *without consolidation effects*

4.2. Partnerships

The sales, technology and development partnerships established by Beta Systems with leading hardware and software vendors (e.g. IBM, SAP, HP, Sun, Hitachi) were maintained and further extended of the course of 2005. In addition, Beta Systems operates as a Certified Partner of Microsoft and Oracle.

5. FINANCIAL PERFORMANCE, FINANCIAL POSITION AND CASH FLOWS

5.1. Financial Performance

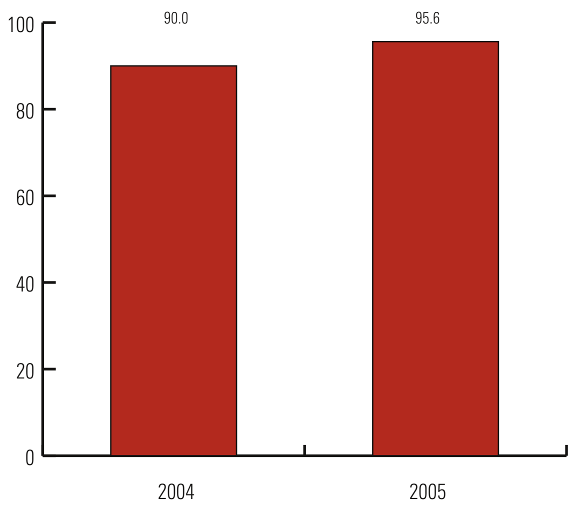
Beta Systems recorded net income of Euro 1.6 million (2004: Euro 0.1 million) in fiscal 2005. The Group operating result from continuing operations declined by Euro 5.5 million to minus Euro 4.6 million (2004: Euro 0.9 million), while earnings before taxes (EBT) from continuing operations receded by Euro 5.4 million to minus Euro 5.1 million (2004: Euro 0.3 million).

Within this context, both revenue and earnings performance were dominated by three exceptional factors. Alongside the complete consolidation of Kleindienst Datentechnik AG for the first time, they included expenses associated with the commercial and legal integration and merger of Kleindienst as well as Group-wide restructuring and cost-reduction measures. In addition, the result for 2005 was influenced by income from the disposal of the Outsourcing Service unit.

Revenue and Gross Profit

Beta Systems generated total revenues of Euro 95.6 million (2004: Euro 90.0 million) in the period under review. This corresponds to growth of Euro 5.6 million or 6.2% compared with the previous year. The decline in the segment result was due to a reduction in gross margins. This was the result of the high fixed costs as well as the increased proportion of hardware sales, which are generally associated with lower margins.

Total revenue in million €



Our ECM solutions are aimed at streamlining document - based business processes. They ensure pinpoint accuracy in document distribution and processing, as well as providing high-end functionality when it comes to the automated administration of identities and access rights.

We make IT simple.

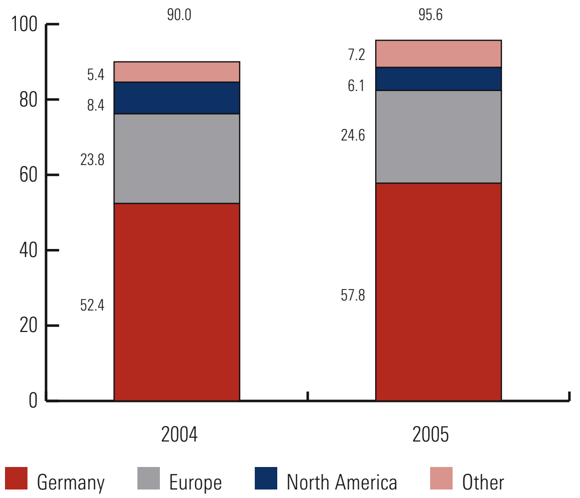
As a supplier of complex enterprise solutions, Beta Systems generates revenues from business activities relating to software licenses, maintenance and services. In addition, revenues within the area of ECM/Input Management are derived from company-produced hardware (e.g. scanner systems) and hardware reselling (e.g. PC workstations and servers). As the reporting structure applied to this area (corresponds to the former Enterprise Systems segment of Kleindienst Datentechnik AG) does not differentiate between the categories of revenue mentioned above, revenues generated in this area as well as manufacturing costs and costs of goods sold are reported separately as project business Enterprise Content Management (i.e. solutions associated with hardware, software licenses, maintenance and services).

Revenues from services increased by 16.4% from Euro 6.1 million in 2004 to Euro 7.1 million in 2005. This growth was attributable mainly to more pronounced project business associated with SAM. Revenues from software licenses declined by 11.3% from Euro 22.1 million in 2004 to Euro 19.6 million in 2005. The reduction was mainly due to lower revenue from new licenses and license upgrades as a result of the stagnating market environment. At Euro 23.3 million, maintenance revenues were slightly lower than a year ago (2004: Euro 24.4 million), mainly due to the contraction of business in the Storage segment.

In Germany, a key market for Beta Systems, revenues increased from Euro 52.4 million a year ago to Euro 57.8 million in 2005. Growth within this area was driven mainly by the complete consolidation of companies formerly belonging to the Kleindienst Group. In the United States, Beta Systems recorded a significant decline in license business. This was due to the gradual phase-in of the new organizational structure. The North American branch offices were brought together at a single location, headed by a new management team. Revenues generated in Europe increased in the year under review, with the Group's sales units in France and the Benelux region meeting or exceeding their sales and earnings targets.

On the whole, revenue performance, fell short of management expectations.

Revenue structure according to regions in million €



Gross profit declined by 10.3% to Euro 46.0 million in the period under review (2004: Euro 51.3 million). The gross profit margin stood at 48.2% in 2005 (2004: 57.1%). This was attributable mainly to the higher proportion of hardware (third-party and company-produced goods) in the consolidated manufacturing costs and costs of goods sold associated with project business Enterprise Content Management (ECM) and the thus resulting decline in gross margins.

Costs and Expenses Development

Operating expenses increased by Euro 4.6 million, i.e. 9.0%, to Euro 55.9 million in fiscal 2005, compared with Euro 51.3 million in 2004. The expense item „Redundancy Payments and Restructuring Expenses" includes exceptional charges of Euro 5.6 million associated with integration, restructuring and cost-reduction measures performed within the framework of the „Growth and Profit 2005 - GaP'05". These included expenses associated with staff downsizing, expenses for redundancy payments as well as consulting expenses relating to Group reorganization and restructuring. As a result of higher operating expenses, dominated in particular by exceptional items, in conjunction with less pronounced revenue growth, operating expenses as a percentage of revenue rose to 58.4% in 2005 (2004: 57.0%). The decline in selling expenses is a direct result of lower sales commissions and a temporary reduction in staffing levels. Expenses associated with research and development increased by Euro 1.9 million to Euro 16.0 million. This was due to the full inclusion over a 12-month period of the development department operated by the former Kleindienst Group.

Operating Income

In the period under review, operating expenses – including cost of goods sold – increased by Euro 15.5 million in total compared with the preceding year. Operating expenses amounted to Euro 105.4 million in total in fiscal 2005 (2004: Euro 89.9 million). In the period under review, Beta Systems recorded an operating loss from continuing operations of Euro 4.6 million (2004: operating income of Euro 0.9 million). This figure includes exceptional expenses association with redundancy payments as well as restructuring activities.

Finance Result and Other Income

The finance result amounted to Euro 0.5 million in the period under review, thus more or less matching the figure posted a year ago (2004: Euro 0.6 million). Beta Systems generated above-par other income in the amount of Euro 5.2 million over the course of fiscal 2005 (2004: Euro 0.8 million). Other operating income was mainly attributable to the reversal of provisions and the final payment for the sale of Workload products to the Allen Systems Group in 2000.

Income before Tax and Income Tax

Earnings before taxes (EBT) from continuing operations declined by Euro 5.4 million – from Euro 0.3 million in fiscal 2004 – to minus Euro 5.1 million in fiscal 2005. In the period under review, Beta Systems recorded tax income of Euro 0.9 million, as opposed to tax expense of Euro 0.4 million in 2004. This was due to the useuse ofloss carryforwards not previously recognized. The subsequent recognition of these loss carryforwards was attributable chiefly to the merger of Beta Systems and Kleindienst. The disposal of the Outsourcing Service unit led to income of Euro 6.1 million from discontinued operations. The unit was sold for a total of Euro 10.4 million.

Net Income

The Group recorded net income of Euro 1.6 million in fiscal 2005 (2004: Euro 0.1 million), which corresponds to Euro 0.19 per share (2004: Euro 0.01 per share). This increase was attributable mainly to income of Euro 6.1 million from the sale of the Outsourcing Service unit. As part of the stock split, executed at the end of december, the company's share capital was restructured to the extent that one no-par value share („Stückaktie" governed by German law) was replaced by two no-par value shares („Stückaktie" governed by German law). Thus, the notional interest of each no-par value share ("Stückaktie" governed by German law) of Beta Systems Software AG in the Company's share capital has been reduced from approx. Euro 2.56 to approx. Euro 1.28 per share. The weighted average number of shares issued was 8,436,914 (2004: 8,096,691).

Human Resources

As a result of the Group-wide reduction in staffing levels, the number of people employed at Beta Systems declined from 790 in 2004 to 733 at December 31, 2005. Of these, 605 members of staff are employed in Germany, 54 in Europe (excluding Germany), 35 in North America and 39 in other regions. Approx. 7.0% of staff (51 employees) are employed in Production and Materials Management, 45.1% in Sales, Marketing and Services (331 employees), 36.0% in Research & Development (264 employees) and 11.9% in Management and Administration (87 employees).

5.2. Financial Position and Cash Flows

The financial position and cash flows in fiscal 2005 were dominated by the effects of the sale of the Outsourcing Service unit.

Total assets declined from Euro 104.1 million to Euro 74.6 million in the fiscal year under review due mainly to the disposal of assets and liabilities associated with the Outsourcing Service unit.

As of December 31, 2005, Beta Systems had cash and cash equivalents of Euro 4.4 million, compared with Euro 11.5 million at December 31, 2004. The cash and cash equivalents received in connection with the sale of the Outsourcing Service unit were used to reduce financial liabilities within the Group, thus resulting in a year-on-year reduction in debt. For the Beta Systems Group as a whole, total debt declined from Euro 12.5 million in fiscal 2004 to Euro 4.3 million in fiscal 2005.

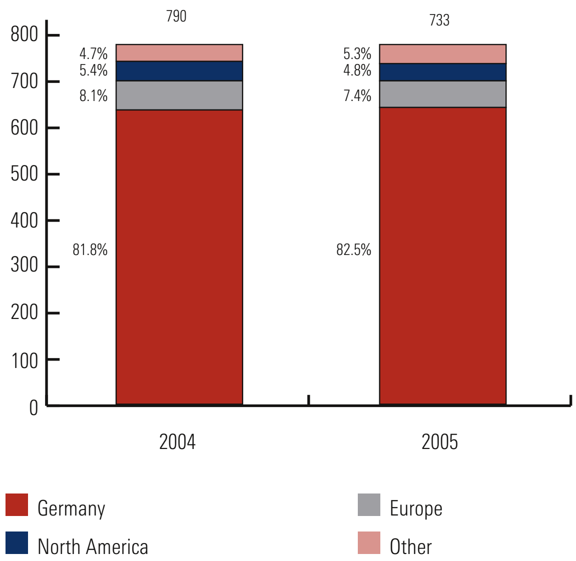
At Euro 28.6 million, accounts receivable were higher than the figure reported a year ago (2004: Euro 27.6 million). At the same time, POC receivables decreased as a result of lower orders within the area of project business. Accrued expenses declined from Euro 9.2 million in 2004 to Euro 6.0 million in 2005. The increase in provisions was mainly associated with restructuring measures.

As of December 31, 2005, the minority interests associated with the acquisition of Kleindienst Datentechnik AG were no longer applicable. These interests had included two components: first, minority shareholders held shares in Kleindienst Datentechnik AG; secondly, DZ-Bank held an interest in Kleindienst's Outsourcing Service unit. The minority interests in Kleindienst Datentechnik AG were eliminated as a result of the merger, while those associated with the Outsourcing Service unit were eliminated as a result of the sale of this business segment.

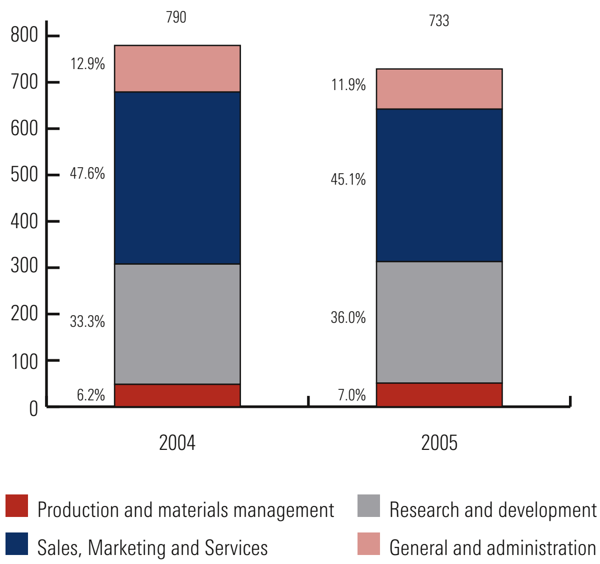
As a result of the issuance of new no-par value bearer shares for merger purposes, share capital increased from Euro 10.7 million in 2004 to Euro 11.3 million in 2005. The equity ratio rose to 42.2% (2004: 36.1%).

Recording negative ccash flow from operating activities ofof minus Euro 0.1 million, cash and cash equivalents declined by Euro 6.4 million, as the inflow of cash from divestments was insufficient to counterbalance the outflow of cash associated with financing activities.

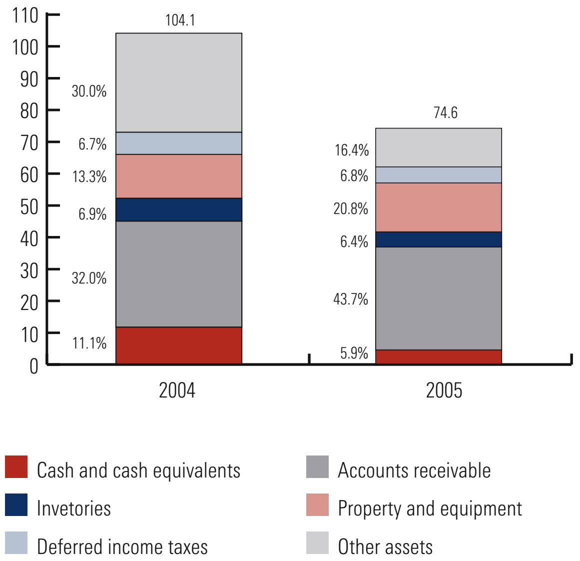
Employee structure per region



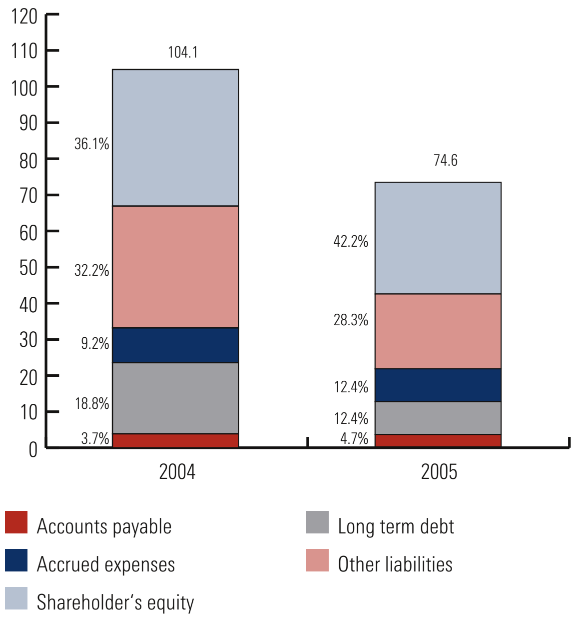
Employee structure per function



Structure of assets in million €



Structure of liabilities and shareholder's equity in million €



5.3. Beta Systems Software AG

Beta Systems Software AG (the „Company") is the controlling company of the Beta Systems Group and therefore performs certain governance 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, it is responsible for operating activities in Germany (sales and services). The Company prepares its annual financial statements in accordance with the German Commercial Code (Handelsgesetzbuch – HGB) and publishes them separately.

The Company's net result declined substantially by Euro 13.6 million in the year under review, i.e. from a net income of Euro 1.3 million in fiscal 2004 to a net loss of Euro 12.3 million in fiscal 2005.

The year-on-year decline was attributable mainly to the reduction in sales from Euro 35.7 million a year ago to Euro 31.7 million in fiscal 2005. This decline was influenced to a large extent by the contraction of license business. The reduction in sales was reflected almost entirely in bottom-line results.

Other operating income increased by Euro 4.1 million, mainly as a result of Group allocations associated with Kleindienst Solutions GmbH & Co. KG. In the previous year, a total of Euro 2.4 million was included in other operating income due to write-ups and the reversal of allowances previously recognized in connection with loans to and receivables from affiliated companies.

Personnel expenses increased by Euro 2.2 million due to the fact that staff of Kleindienst Datentechnik AG were taken over as part of the merger but also as a result of restructuring activities and redundancy payments. Other operating expenses increased by Euro 4.6 million. This was mainly dominated byby the takeover of operating activities in the amount of Euro 2.0 million as well as expenses associated with the merger in the amount of Euro 1.8 million.

Overall, the extraordinary result was balanced amounts to minus Euro 5.1 in the period under review, the constituent elements being income of Euro 9.5 million (HGB) from the disposal of the Outsourcing Service unit, a gain of Euro 15.4 million from the merger as well as a loss of Euro 29.9 million associated with the accretion of Kleindienst Solutions. Due to the fact that the change in the corporate structure of Kleindienst Solutions (principle of „Anwachsung" under German law, i.e. accretion) did not occur until December 31, 2005, the Company's income statement only includes the entirety of accumulated losses associated with Kleindienst Solutions, rather than revenues and expenses. In the period under review, Kleindienst Solutions generated revenues of Euro 52.0 million. The net loss of Euro 5.1 million for the year includes restructuring expenses of Euro 4.1 million related to process optimization and streamlining of the vertical range of production. Interest income increased by Euro 0.9 million as a result of the interest on receivables from the variable capital of Kleindienst Solutions. The accumulated losses are included in the loss associated with the merger.

The change in the financial position in fiscal 2005 was dominated mainly by corporate transactions associated with the merger of Kleindienst Datentechnik AG and the change to the ownership structure („accretion") of Kleindienst Solutions. The decline in non-current assets, particularly financial assets, was due to the elimination of the investment previously held in Kleindienst Datentechnik AG, in the amount of Euro 32.9 million, following the merger transaction. In contrast, non-current assets increased as a result of the takeover of assets associated with the merger and the change in the corporate structure outlined above. The Company's current assets increased by Euro 12.0 million, mainly as a result of the takeover of inventories of Kleindienst Solutions in the amount of Euro 5.2 million as well as the takeover of receivables in the amount of Euro 5.8 million. Accued expenses increased by Euro 13.7 million, mainly as a result of the transfer of obligations associated with the accretion of Kleindienst Solutions.

As regards cash flows, the key influencing factors were the increase in cash and cash equivalents by Euro 1.8 million and the reduction of bank borrowings by Euro 9.5 million. This was driven mainly by efforts to standardize cash management systems throughout the Group following the merger. In addition, the proceeds from the sale of the Outsourcing Service unit in the amount of Euro 10.4 million were used in order to reduce borrowings. Share capital was increased by Euro 0.7 million for the purposes of the merger. Alongside share capital, capital reserves increased by Euro 4.5 million due to the takeover of assets of Kleindienst Datentechnik AG. A total of Euro 12.0 million was taken from capital reserves for the purpose of offsetting the net loss.

5.4. Appropriation of Earnings and Dividend

In 2005, Beta Systems Software AG paid a dividend of Euro 0.125 per share (split-adjusted) for the fiscal year 2004. In view of the annual results, no dividend payment will be made for fiscal 2005.

6. REPORT ON ANTICIPATED DEVELOPMENTS

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 the management. The subsidiaries and business units (segments) are also responsible for risk management, in accordance with the fundamental risk guidelines established for the entire Group.

6.1. 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, performed all tasks assigned to it in the fiscal year under review. The risk management system was adapted to the new organizational structure in fiscal 2005.

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.

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.

6.2. 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 is associated in particular with new products in the ECM segment as well as products developed for the Open Systems environment, an area in which the company is exposed to an increased level of income risk induced by the general vagaries of sales activities, in conjunction with considerable initial expenditure requirements, including market development, rollout and penetration costs. 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, there are a number of market risks relating to Input Management, 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 revenue from software licenses is generated in the fourth quarter. 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 project business and improving sales incentive systems, with the express purpose of achieving more evenly distributed business across the individual quarters. At the same time, however, it should be noted that there is certain

Operating in the background, our software makes sure that IT workflow remains highly efficient at all times. The result is more than convincing: accelerated business processes and a significant reduction in associated costs.

We make IT efficient.

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 Portfolio

In fiscal 2005, a sizeable proportion of revenues was generated with six products (SAM, Beta 88, 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 88, 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 extended product and service portfolio (EBS 2000, FrontCollect, FrontOffice, etc.) as well as 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.

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.

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, i.e. in accordance with deadlines. Nonetheless, the supply or delivery of new products may be subject to delays. Such delays may adversely affect the market acceptance of Beta Systems' products and the commercial development of the Group.

International Business Activities and Partner Business

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 (forward exchange contracts) if this is deemed necessary. In 2005, the euro/dollar exchange rate prompted Beta Systems to apply a foreign currency hedge for revenues denominated in US dollars by conducting forward foreign currency transactions.

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.

Acquisitions

Beta Systems' strategy of non-organic growth contains 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 project management as soon as the takeover has been concluded are designed to keep these risks manageable.

Restructuring

Beta Systems implemented Group-wide restructuring and cost reduction measures as part of the „Growth and Profit 2005 - GaP'05" program. The majority of these measures were completed in 2005. As from January 1, 2006, the Group is operating in its new structure. Future earnings performance will depend to a large extent on the long-term success of restructuring and the Group's strategic positioning within the market.

Financing

Compared with the previous year, financing risks were scaled back in fiscal 2005. Existing lines of credit were reduced throughout the Group. These debt instruments are subject to floating rate interest payments, negotiated on the basis of favorable interest rates applicable at the time. Within this context, risks may occur within this area in the event of higher interest rates. These risks have been addressed by means of interest rate hedging.

6.3. Key Opportunities

Profitable market and revenue growth in the new segments

As part of corporate restructuring within the Beta Systems Group, the marketing, sales and service functions previously managed at Group level were assigned directly to the IdM, ECM and DCI lines of business. The new corporate structure is aimed at achieving greater interconnection with client enterprises and increasing the level of specialization within the Group's sales and service teams in order to tailor their activities more precisely to the specific requirements of the various market segments. As a result, Beta Systems can ensure faster reaction to customer demand, greater flexibility when it comes to meeting specific requirements as well as accelerated decision-making processes and more pronounced entrepreneurship within the new organization. Beta Systems' management is of the opinion that the new corporate structure and the advantages associated with it will offer tangible opportunities to capture additional market share and propel revenue upwards. Streamlining of processes within the respective segments will lead to a sustainable increase in profitability levels.

Benefiting from the new organizational structure, the IdM segment will have the opportunity to generate significant revenue growth within the field of software licensing by focusing on new account business. The ECM segment will benefit from greater market visibility as an ECM player in key sectors. By crowding out competitors, additional market share can be captured within the area of paper-based payments. Furthermore, the sales offensive initiated at the end of the fiscal year within the areas of IdM and ECM has opened up significant growth potential for Beta Systems.

Improved organizational structure with experienced management

Benefiting from the newly introduced profit center structure, segment management will be able to control business activities more effectively both in operational and financial terms. Working within this new organizational structure, the individual management teams have been empowered to respond quickly to company requirements in each area and to take more direct and autonomous control of the operating activities in the respective segments. By tailoring sales activities to the requirements of specific product categories, Beta Systems will also be able to bolster its position in the marketplace.

Strategic acquisitions and next-generation applications to enhance the product portfolio

In acquiring Kleindienst Datentechnik AG,Beta Systems extended its business portfolio to include Input Management and now offers a broader range of solutions within the ECM value chain. The management is of the opinion that Beta Systems' targeted acquisition of individual components and business segments will create a stronger and broader product portfolio, which in turn will enhance the Group's position in the competitive arena.

Expansion of partner business

As part of corporate realignment introduced within the Beta Systems Group, a central department focusing solely on business with sales partners was established in Berlin. In particular, the newly established department is responsible for further enhancing existing partner relations and expanding Beta Systems' global partner network. Particularly in the ECM segment, Beta Systems now has the opportunity to team up with well-known partners and market a state-of-the-art product and solutions portfolio which encompasses the entire ECM value creation process.

Reorganization and amalgamation of US enterprises

As a result of the corporate merger outlined in previous sections, the North American enterprises operated by Beta Systems and Kleindienst were combined to create a single entity. In line with this strategic reorganization, a new location was chosen as a base for future operations in North America. A focused approach in terms of market accountability and sales activities, headed by a new management team, will form the basis for successful marketing in this region.

Upgrade of mainframe products to new standard architecture version

In upgrading the Group's mainframe products to a new standard architecture version, Beta Systems has laid a solid foundation for significant performance improvement. Within this context, Beta Systems will be able to position itself with a formidable technology base, which in the mid to long term will provide a solid basis for even higher customer retention and expansion within the growth markets.

7. 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.

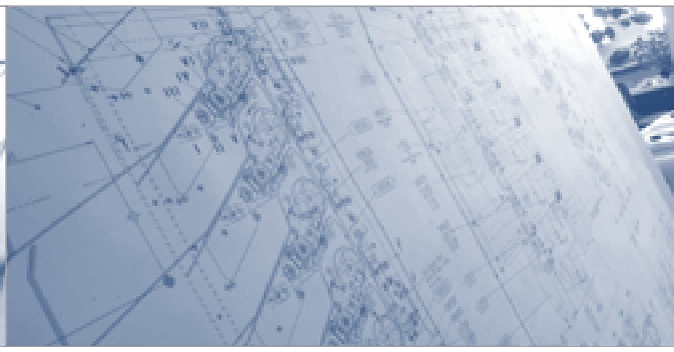
Beta Systems remained fully committed to the „Enterprise Solutions Strategy", gearing the product and service portfolio to cross-enterprise solutions in the period under review and thus fulfilling the requirements of a „service-oriented architecture". The main focus of strategic development activities was centered around the further enhancement of the product range. Thanks to a new version of SAM Jupiter using state-of-the-art Java technology, a threefold increase in Beta Systems' target market within the area of IdM have been archieved. Furthermore, in bringing together various document processing solutions under FrontCollect, featuring consistent architecture, we have been able to improve throughput significantly and thus further enhance operational reliability. Finally, we rolled out Beta Web Enabler as a joint graphical user interface for several products developed by Beta Systems and former Kleindienst.

8. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

Disposal of Kleindienst Scanner GmbH

Beta Systems announced on March 6, 2006 that she has decided to discontinue the company's own hardware manufacturing operations by selling its wholly-owned subsidiary Kleindienst Scanner GmbH to long-standing partner SIS SEAC ICR Systeme GmbH, Konstanz (SIS SEAC). The sale is to be executed retroactively effective from January 1, 2006, and management of Kleindienst Scanner GmbH will be transferred to SIS SEAC effective from April 1, 2006. Following the sale, SIS SEAC will be responsible for the development and manufacture of scanner/sorter systems within the H series, while the actual product and marketing rights will remain with Beta Systems.

In future, Beta Systems will focus on marketing and sales activities relating to scanner systems, working within the framework of its own ECM solutions business in the area of Input Management. This will be complemented by other associated IT services such as project management and maintenance. For future projects, scanner/sorter hardware will be purchased by Beta Systems on a case-by-case basis in accordance with predefined terms and conditions, thus allowing the company to scale back its vertical range of production and implement more flexible structures within the area of fixed costs. SIS SEAC intends to merge the production of scanners/sorters with its own manufacturing operations, which will allow the enterprise to offer a broader product range for Beta Systems' ECM solutions business. As part of the agreement, SIS SEAC will also secure Kleindienst Scanner GmbH's unique technology and manufacturing know-how by keeping on all 28 members of staff within the framework of existing employment contracts.



Public takeover offer by Delta Beteiligungen AG

On February 22, 2006, Delta Beteiligungen Aktiengesellschaft, Heidelberg, put forward an unsolicited public takeover offer to Beta Systems shareholders for the purpose of acquiring their shares in Beta Systems for a consideration of 1.75 Delta Beteiligungen shares with a dividend entitlement from January 1, 2005, and an additional cash offer of Euro 1.50 for each Beta Systems share. The offer document was presented to the Management Board of Beta Systems on the same day.

Based on an extensive assessment of the takeover offer and subsequent discussion, the Management Board and Supervisory Board are of the opinion that the purchase consideration put forward is not appropriate. Therefore, both the Management Board and the Supervisory Board recommend that shareholders of Beta Systems Software Aktiengesellschaft should not accept the offer. On March 8, 2006 the full text of the joint response was published on http://www.betasystems.com as well as in the form of an announcement in the Börsen-Zeitung; the document has also been retained for subsequent free-of-charge distribution by Beta Systems Software Aktiengesellschaft.

9. SUMMARY AND OUTLOOK

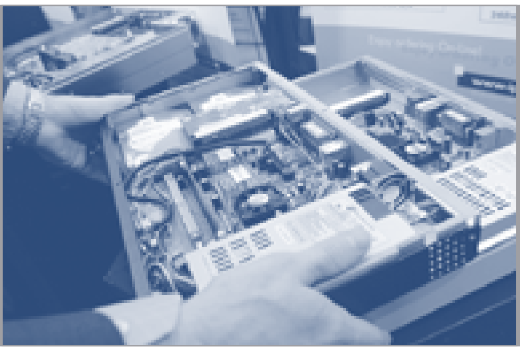
Fiscal 2005 was dominated, as planned, by cost streamlining, consolidation and integration. Benefiting from the Group-wide restructuring program initiated in the first quarter of 2005 and the successful merger with Kleindienst Datentechnik AG, the requirements for sustainable revenue and earnings growth have been met and a solid base from which to drive company value was established. We shall do everything in our power to improve operational profitability, while continuing to follow our chosen path in 2006 with unfaltering tenacity.

We believe that the next two fiscal years will see a slight improvement in the general economic climate, although the German IT market is unlikely to receive any significant impetus. 2006 will be a year in which we shall be focusing on establishing our new structure within the marketplace. The main emphasis of our sales activities will be on expanding revenues in the growth segments of ECM and IdM, as well as gearing our mainframe-based products towards the technological platforms of the future. As part of the planning processes for the year 2006, the Management Board, together with the heads of the respective business units, has identified further significant potential for cost reduction that can be realized irrespective of the planned increase in revenue. As part of efforts to realize this potential, the 2006 financial year is once again expected to produce exceptional expenses similar in scope to those recorded in the 2005 financial year; these expense items have been accounted for in the Group's plans. Following implementation of measures aimed at reducing costs and making structures more flexible, we expect to see higher revenues and a tangible improvement in profitability within the Beta Systems Group and the parent company in fiscal 2006, with a considerable improvement in bottom-line results for the Company and consolidated earnings similar to the level recorded in 2005.

Berlin, March 2006
The Management Board

Legal Notice

This Report contains forward-looking statements based on underlying assumptions and estimates by the management of Beta Systems Software AG. Although management is of the opinion that these forward-looking statements are realistic, there can be no assurance that the expectations, beliefs or projections are correct, will materialize or be achieved or accomplished. The forward-looking statements and assumptions contained herein may be subject to risks or uncertainties which could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements. A number of factors that are deemed to be of relevance as regards such deviations have been outlined in the risk report. Beta Systems disclaims any obligation to update any forward-looking statements to reflect subsequent events or circumstances. All trade names, trademarks, and service marks or logos used in this document are the property of the respective companies.



REPORT BY THE SUPERVISORY BOARD

Dear Shareholders,

The Supervisory Board of Beta Systems Software AG discharged its duties under legal regulations and the Company's bylaws. The Management Board provided detailed information regarding the position and business development of Beta Systems Software AG as part of eleven Supervisory Board meetings held in the year under review, one of which was held as a conference call. 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 a 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

In the first half of 2005, the main focus of the Supervisory Board's activities was on the „Growth & Profit 2005 – GaP'05" restructuring program and associated measures – cost-reduction measures, staff downsizing, optimization of the product and solutions portfolio – as well as on the continuing integration and amalgamation of Kleindienst Datentechnik AG. The Management Board reported comprehensively and regularly on all measures implemented and milestones reached as well as possible risks relating to the „GaP'05" project. Over the remaining course of the year, the chief emphasis was on monitoring and advising on the corporate planning and implementation of strategic realignment measures for the Beta Systems Group.

The Management Board presented and explained its corporate plans and budgets for the fiscal years 2006 to 2010, as well as product and market strategies. Within this context, the main focus of Supervisory Board meetings convened towards the end of 2005 was on analyzing business development in 2005 as well as discussing the status report relating to corporate strategy and implementation measures associated with the new structure of the Company.

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. The Management Board and Supervisory Board discussed the recommendations and suggestions outlined in the Corporate Governance Code and issued an updated Declaration of Conformity pursuant to Section 161 AktG on December 9, 2005. The aforementioned Declaration has been included in the Corporate Governance Report of this annual report and was made permanently available to shareholders 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 June 2, 2005.

Meetings held by the Personnel Committee

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

Within the context of Mr. Karl-Joachim Veigel's departure from the Company effective from September 21, 2005, the Supervisory Board, acting on the recommendation of the Personnel Committee, appointed Mr. Dietmar Breyer as CEO of Beta Systems Software AG for a transitional period. In addition, Mr. Kilian Krieger was appointed General Representative effective from October 4, 2005. He was assigned the task of overseeing the areas of Finance, Controlling, Human Resources, IT/Organization and Purchasing.

On December 17, 2005, having convened an extraordinary Supervisory Board meeting, the Supervisory appointed Mr. Kamyar Niroumand as the new CEO/ Chairman of the Management Board effective from April 1, 2006. At the same meeting, Mr. Dietmar Breyer was appointed as Deputy Chairman of the Management Board effective from April 1, 2006.

As a member of the Executive Committee of Deutsche Telekom subsidiary T-Systems, Mr. Niroumand held the position of Chief Sales & Service Officer, his main area of responsibility being T-Systems' key account business. As Managing Director of T-Systems International GmbH, he was also responsible for directing business activities in growth regions. Drawing on his outstanding management and industry expertise in the international IT solutions business, his task will be to propel Beta Systems forward in pursuit of the Group's growth targets and position the company among the top five independent German software specialists.

Changes to the Supervisory Board

The standard term of office of all Supervisory Board members ceased upon conclusion of the Annual General Meeting of Shareholders on June 14, 2005. The General Meeting of Shareholders elected the following new members of the Supervisory Board: Mr. Harald J. Joos, Chairman of the Managing Committee of Demag Cranes & Components, Berlin, Mr. William P. Schmidt, Berlin, Mr. Jürgen Dickemann, Chairman of the Management Board of Deutsche Balaton AG, Heidelberg, as well as Mr. Thomas Engelhardt, Asset Manager at Sparkasse Jena, Kronach. Prior to this, the staff of the Beta Systems Group had elected Mr. Stefan Hillenbach, Software Engineer, Berlin, as well as Mr. Wilhelm Terhaag, Works Council, Augsburg, as employee representatives. As part of its meeting held subsequent to the General Meeting of Shareholders, the Supervisory Board elected Mr. Harald Joos as Chairman of the Supervisory Board and Mr. William P. Schmidt as Deputy Chairman of the Supervisory Board.

Adoption of the Financial Statements

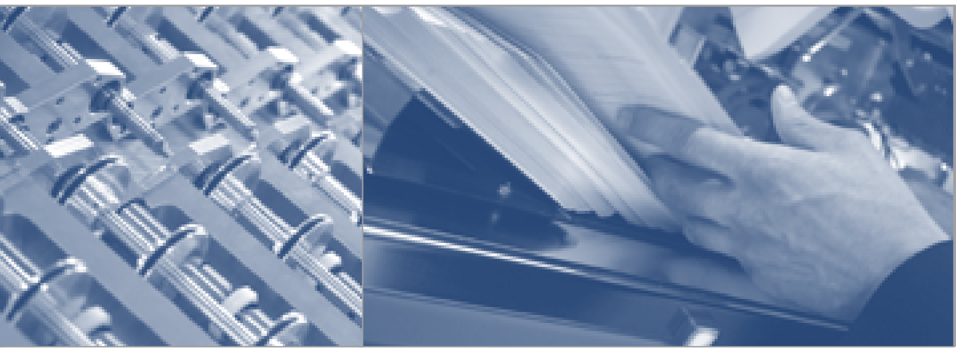
The accounting records, financial statements and combined Group management report and report on the Company's state of affairs (Group management report) of Beta Systems Software AG for fiscal 2005 were audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Berlin, and were granted an unqualified audit opinion. In its meeting of March 24, 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 International Financial Reporting Standards (IFRS) and were audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Berlin. The focal points defined as part of this year's annual audit of accounts related to the conversion of financial reporting to IFRS, the disposal of the Outsourcing Service business unit as well as the amalgamation with Kleindienst Datentechnik AG. 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 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 fiscal 2005.

Berlin, March 2006
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 sheet, the consolidated income statement, the statement of changes in shareholders' equity, the consolidated cash flow and the notes to the consolidated financial statements - prepared by Beta Systems Software Aktiengesellschaft, Berlin for the fiscal year from January 1, 2005 to December 31, 2005. The preparation of the consolidated financial statements and the group management report in accordance with the International Financial Reporting Standards (IFRS) as they are to be applied in the EU, and in conjunction with the complementary provisions to be applied in accordance with § 315a Abs.1 HGB of the German commercial code are the responsibility of the company's legal representatives. It is our responsibility to express an opinion on the consolidated financial statements and the group management report based on the audit conducted by ourselves.

We conducted our audit of the consolidated financial statements in accordance with § 317 of the German commercial code and the German generally accepted standards for the audit of financial statements issued by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit in such a way that misstatements and irregularities, which have a material effect on the presentation of the position of the net assets, financial position and results of operations, expressed by the consolidated financial statements in compliance with the accounting principles to be applied, and on the group management report, can be identified with adequate certainty. Knowledge of the business activity and the economic and legal environment of the group as well as the prospect of possible misstatements are taken into account in the determination of the audit procedures. The effectiveness of the internal accounting control system and the substantive proof of the disclosures in the consolidated financial statements and in the group management report is examined predominantly on a random test basis within the scope of the audit.

The audit includes the review of the annual financial statements of the companies included in the consolidated financial statements, the delimitation of the basis of consolidation, the evaluation of the accounting policies and valuation methods applied and the fundamental assessment of the legal representatives as well as the appraisal of the overall presentation of the consolidated financial statements and the group management report.

We are of the view that our audit provides a reasonable basis for our opinion.

In our opinion, which is based on the findings gained during our audit, the consolidated financial statements are presented in accordance with the International Financial Reporting Standards (IFRS) as they are to be applied in the EU, and the complementary provisions to be applied in accordance with § 315a Abs.1 HGB of the German commercial code, and presents under recognition of these regulations a true and fair view of the net assets, financial position and results of operations of the group.

The combined group management report and company report is in conformity with the consolidated financial statements, represents an altogether appropriate view on the status of the company and suitably presents the opportunities and risks of future development.

Berlin, March 10, 2006

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Kronner	Marquordt
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

CONSOLIDATED INCOME STATEMENT

January 1 to December 31		2004	2005
Thousand €, except share data	***Note***		
Revenues:			
• Licences		22,062	19,634
• Maintenance		24,381	23.318
• Service		6,105	7,069
• Project Business Enterprise Content Management (ECM)		37.445	45,585
Total revenues	*1*	**89,993**	**95,606**
Cost of revenues:			
• Licences		2,668	2,322
• Maintenance		7,601	8,422
• Service		6,360	4,075
• Project Business Enterprise Content Management (ECM)		22,016	34,747
Total cost of revenues		**38,645**	**49,566**
Gross profit		**51,348**	**46,040**
Operating expenses:			
• Selling		23,592	21,489
• General and administrative		12,386	12,525
• Research and development		14,149	16,043
• Amortization of intangible assets		988	225
• Severance payments and restructuring costs	*2*	141	5,573
Total operating expenses		**51,256**	**55,855**
Other operating income	*3*	803	5,191
Operating income (loss) from continuing operations		**895**	**(4,624)**
• Interest income		198	83
• Interest expenses		(776)	(603)
Financing result		**(578)**	**(520)**
Income (loss) from continuing operations, before income taxes and minority interests		**317**	**(5,144)**
Income tax expense (benefit)	*4*	446	(871)
(Gain) loss from discontinued operations, less income taxes	*5*	283	(6,078)
Net income (loss) for the year		**(412)**	**(1,805)**
Minority interests		(471)	234
Net income attributable to the shareholders of the company		**59**	**1,571**
Earnings per ordinary share			
• Basic and diluted	*6*	**0.01**	**0.19**
Weighted average number of shares outstanding used to compute earnings per ordinary share			
• Basic and diluted		**8,096,691**	**8,436,914**

See accompanying Notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS) AT DECEMBER 31, 2005

Thousand €, except share data	Note	Ordinary Shares Number of shares issued	Ordinary Shares Nominal amount	Additional Paid-in Capital	Accumulated other comprehensive income (loss)
Balance at January 1, 2004		**8,041,420**	**10,279**	**17,791**	**1,225**
Issuance of ordinary shares		300,770	384	586	-
Dividend distribution		-	-	-	-
Net income for the year		-	-	-	-
Other comprehensive income,					
net of tax effect					
• Unrealized loss on investment securities		-	-	-	-
• Currency translation adjustments		-	-	-	-
Other comprehensive income		-	-	-	266
Total comprehensive income					
Unearned deferred compensation		-	-	10	-
Minority interests		-	-	-	-
Balance at December 31, 2004		**8,342,190**	**10,663**	**18,387**	**1,491**
Issuance of ordinary shares	*24*	517,086	661	2,312	-
Cost of increase in paid-in capital		-	-	(521)	-
Dividend distribution	*25*	-	-	-	-
Net income for the year		-	-	-	-
Other comprehensive loss,					
net of tax effect					
• Currency translation adjustments		-	-	-	-
Other comprehensive loss					(212)
Total comprehensive income					
Minority interests	26	-	-	-	-
Balance at December 31, 2005		**8,859,276**	**11,324**	**20,178**	**1,279**

See accompanying Notes to the Consolidated Financial Statements.

	Accumulated income (loss)	Net income, including comprehensive income (loss)	Treasury Stock Number of shares	Treasury Stock Amount, at cost	Shareholders' equity attributable to the shareholders of the parent company	Minority interests	Total shareholders' equity
	485		**(120,610)**	**(419)**	**29,361**	**-**	**29,361**
	-		-	-	**970**	-	970
	(1,957)		-	-	**(1,957)**	-	(1,957)
	59	59	-	-	**59**	(471)	(412)
	-	(41)	-	-	-	-	-
	-	307	-	-	-	-	-
	-	266	-	-	**266**	-	266
		325					
	-		-	-	**10**	-	10
	-		-	-	-	9,357	9,357
	(1,413)		**(120,610)**	**(419)**	**28,709**	**8,886**	**37,595**
	-		-	-	**2,973**	-	2,973
	-		-	-	**(521)**	-	(521)
	(1,028)		-	-	**(1,028)**	-	(1,028)
	1,571	1,571	-	-	**1,571**	234	1,805
	-	(212)	-	-	-	-	-
		(212)			**(212)**	-	(212)
		1,359					
	-		-	-	-	(9,120)	(9,120)
	(870)		**(120,610)**	**(419)**	**31,492**	**-**	**31,492**

CONSOLIDATED BALANCE SHEET

December 31 Thousand €, except share data	Note	2004	2005
• Cash and cash equivalents	7	10,827	4,383
• Restricted cash		705	-
• Trade accounts receivable	9	27,615	28,609
• Work in process project orders (POC)	10	5,805	4,023
• Inventories	11	7,177	4,737
• Prepaid expenses and deferred charges		1,987	1,517
• Other current assets	12	496	894
• Current income taxes	19	15	946
Total current assets		**54,627**	**45,109**
• Assets held for sale		21,966	1,743
Total current assets, including assets held for sale		**76,593**	**46,852**
• Fixed assets	13	6,714	5,965
• Goodwill	14	1,596	2,846
• Other intangible assets	14	1,044	2,656
• Acquired software development costs	15	4,477	4,038
• Deferred tax assets	4	6,923	5,068
• Other non-current assets	16	6,736	7,169
Total assets		**104,083**	**74,594**
• Short-term debt and current installments of long-term debt and finance leases	17	7,050	4,912
• Trade accounts payable		3,851	3,511
• Deferred revenues	18	9,246	6,008
• Current income taxes	19	-	927
• Accrued expenses	20	298	2,306
• Other current liabilities	20	12,992	14,502
Total current liabilities		**33,437**	**32,166**
• Liabilities associated with assets held for sale		11,465	519
Total current liabilities, including liabilities associated with assets held for sale		**44,902**	**32,685**
• Long-term debt and finance leases	21	12,520	4,317
• Pension obligations	22	1,954	2,038
• Deferred tax liabilities	4	5,846	1,904
• Other non-current liabilities		1,266	2,158
Total liabilities		**66,488**	**43,102**
Shareholders' equity:			
• Ordinary shares: € 1,28 imputed nominal value per ordinary share	24	10,663	11,324
• Additional paid-in capital		18,387	20,178
• Accumulated loss		(1,413)	(870)
• Accumulated other comprehensive income		1,491	1,279
• Treasury stock at cost: 120,610 ordinary shares		(419)	(419)
Total shareholders' equity attributable to the shareholders of the parent company		**28,709**	**31,492**
Minority interests	26	8,886	-
Total shareholders' equity		**37,595**	**31,492**
Total liabilites and shareholders' equity		**104,083**	**74,594**

See accompanying Notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOW

January 1 to December 31 Thousand €, except share data	2004	2005
Operating activities:		
• Net income (loss) attributable to the shareholders of the company	(412)	1,805
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
• Depreciation and amortization	4,630	4,311
• Non-cash expenditures of discontinued operations	2,366	1,424
• Gain on sale of fixed assets	(22)	(6,396)
• Deferred compensation costs	10	-
• Interest expenses	776	603
• Interest paid	(1,180)	(540)
• Current tax expenses	1,442	1,446
• Deferred tax expenses	(381)	(2,087)
• Income taxes paid	(1,030)	(773)
• Foreign currency gains	122	92
• Changes in assets and liabilities:		
(Increase) Decrease in trade accounts receivable	5,437	(994)
Decrease in trade accounts payable	(1,873)	(340)
Decrease in deferred revenues	(3,403)	(3,238)
Change in other assets and liabilities, including current tax liabilities and assets held for sale	(7,126)	3,080
Net cash used in financing activities	**(644)**	**(1,607)**
Investing activities:		
• Interest received	198	83
• Repayment of short-term investments	(705)	705
• Purchases of fixed assets	(1,666)	(2,342)
• Proceeds from sales of fixed assets	590	369
• Proceeds from sale of Outsourcing Service, net of cash disposed	-	9,920
• Acquisition of software development costs	(1,268)	(610)
• Cash paid for investments and payments for asset deals	(16,882)	(1,062)
Net cash provided by (used in) financing activities	**(19,733)**	**7,063**
Financing activities:		
• Proceeds from grant of short-term borrowings	8,761	280
• Net change in short-term borrowings	(406)	(2,418)
• Proceeds from grant of long-term debt	12,320	6,000
• Repayment of long-term debt and finance leases	(2,882)	(14,203)
• Dividend distribution	(1,957)	(1,028)
• Issuance of ordinary shares	384	-
• Additional paid-in capital viz. payment for the merger	586	(521)
Net cash provided by (used in) financing activities	**16,806**	**(11,890)**
Effect of exchange rate changes on cash and cash equivalents	**337**	**(10)**
Decrease in cash and cash equivalents	(3,234)	(6,444)
Cash and cash equivalents at the beginning of the fiscal year	14,061	10,827
Cash and cash equivalents at the end of the fiscal year	**10,827**	**4,383**
Supplementary cash flow disclosures:		
• Acquisition of business through increase in capital	-	2,973

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2005

PRESENTATION OF THE SIGNIFICANT ACCOUNTING POLICIES AND VALUATION METHODS

Description of Business Activity

Beta Systems Software AG, with its principal office at Alt-Moabit 90d, D-10559 Berlin, Germany, comprises together with its subsidiaries the Group ("Beta Systems" or "the Company") for which the subsequent financial statements for the fiscal year 2005 were compiled in accordance with IFRS standards.

The Company develops, markets, implements and supports high-performance infrastructure software solutions for the use by large corporations, public administration and industry- and trade organizations for application on mainframe computers and other hardware in z/OS-, Unix-, Linux- und Windows environments.

The Company's products are designed to increase the productivity of high-volume data processing transactions in data centers by means of the cost saving automation of manual tasks and the qualitative optimization of the use of hardware resources. Highest safety standards in critical business processes with sensitive data, and the observance of legal regulations form the fundamental structure of the products. The Company's products further feature a common comprehensive architecture which facilitates the development and integration of the Company's products across platforms, independent of the application.

The core business expertise of the Company is the realization of efficient business processes within the corporate framework of the following Lines of Business ("LoB's"): Identity Management ("IdM"), Data Center Infrastructure ("DCI") and Enterprise Content Management ("ECM").

Within the Line of Business (LoB) Identity Management (IdM) cross sector solutions for the administration of digital identities, and the compliance with IT-security standards in large enterprises and for IT-service providers are developed, marketed and distributed. The Line of Business (LoB) Data Center Infrastructure (DCI) focuses on cross sector solutions for reliable, transparent and error free IT support of business processes in data centers. The Line of Business (LoB) Enterprise Content Management (ECM) supplies industry specific solutions designed to optimize document based business processes within the banking, insurance, public administration, industry, trade and services sectors.

The ECM product portfolio is supplemented by the products of the Kleindienst scanner und sorter range, a brand owned by Beta Systems Software AG.

The Company's principal office is located in Berlin, Germany, and subsidiaries are located throughout Europe, Africa and North America.

On March 10, 2006 the management board of Beta Systems Software AG released the Notes to the Consolidated Financial Statements for transmission to the supervisory board. It is the duty of the supervisory board to examine the Notes to the Consolidated Financial Statements and to acknowledge their approval.

Financial Reporting Principles

The consolidated financial statements for Beta Systems Software AG were prepared, for the first time in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the interpretations by the International Financial Interpretations Committee (IFRIC), for the fiscal year 2005.

All comparative information was adjusted in accordance with the regulations for the first-time adoption of IFRS (IFRS 1). All valuation differences resulting from the change in financial reporting principles were, without affecting net income, offset against the Company's retained earnings in the shareholders' equity as at the transition date (January 1, 2004). The adoption of accounting standards from US-GAAP (United States Generally Accepted Accounting Principles) to IFRS further results in changes to the financial reporting. These are fully explained, together with respectively detailed reconciliations, under the heading "Change of Financial Reporting Principles from US-GAAP to IFRS".

The annual financial statements of the fully consolidated companies included in the consolidated financial statements are based on same accounting policies and valuation methods. The reporting date for all companies is December 31, 2005.

The consolidated financial statements are prepared in Euro Thousand (T€). Due to the utilization of electronic data processing devices differences in the addition of rounded values and percentages may arise.

Basis of Consolidation and Consolidation Methods

Beta Systems Software AG is the parent company. All companies which are subject to a controlling interest by the parent company ("subsidiaries") were included in the consolidated financial statements by means of full consolidation. A controlling influence exists when the parent company is in the position to influence, directly or indirectly, the financial and business policies of the company.

Inter-company revenues and expenses, accounts receivable, accounts payable, inter-company operating results and inter-company dividend payments were eliminated.

As a result of the acquisition of a 51.3% stake (2,052,251 shares) in Kleindienst Datentechnik AG, Augsburg, Germany ("Kleindienst") in fiscal year 2004 the Company acquired the majority of the capital and the votes in the Kleindienst Datentechnik AG. The effective purchase date was April 1, 2004. Hence, the regulations of IFRS 3 which came into effect for the first time in 2004, were required to be applied. Kleindienst and her subsidiaries ("Kleindienst Group") were fully consolidated for the first time as at April 1, 2004.

The first-time inclusion of this new investment was carried out using the purchase method by allocating the acquisition costs to the identifiable assets and liabilities of the acquired company. The excess of the acquisition costs over the fair value of the net assets was recorded as goodwill.

As the reporting structure in use by the Kleindienst Group does not comprise any comparable differentiation into the revenue categories applied by Beta Systems Software AG, the revenues realized and the cost of revenues viz. the manufacturing costs for the Kleindienst Group were not reported according to the classification of the aforementioned structure. The disclosure of the relevant information is respectively presented separately under the position "Project business Enterprise Content Management (ECM)".

As a result of further acquisitions the capital share in Kleindienst Datentechnik AG was increased to 88.1% (3,522,616 shares) as at December 31, 2004. As at June 30, 2005 the capital share amounted to 89.2% (3,569,095 shares).

The merger of the Kleindienst Datentechnik AG onto Beta Systems Software AG effectively came into legal force on August 25, 2005 upon entry in the Commercial Register at Charlottenburg, Berlin. As a result, all assets and liabilities of the Kleindienst Datentechnik AG were transferred to Beta Systems Software AG, and the Kleindienst Datentechnik AG ceased to exist.

The ordinary share capital of Beta Systems Software AG was increased by 517,086 ordinary shares as a result of the merger. The corresponding increase in shareholders' equity was realized on the basis of the market value of the Company's share ruling on the date of the merger. The increase in share capital and the disposal of minorities in consequence of the merger resulted in a goodwill in the amount of T€ 1,202.

On April 30, 2005, Outsourcing Service, the business unit formerly managed by the Kleindienst Datentechnik AG, and with it, all shares in the DS Dokumenten Service Holding GmbH, was sold to the Transaktionsinstitut für Zahlungsverkehrsdienstleistungen AG (TAI AG). The sale was effectively concluded retrospective to January 1, 2005.

As a result of the discontinued operations of the Outsourcing Service business unit, all financial pre-tax-information from continuing operations for the fiscal years 2004 and 2005 was adjusted in the income statement to the effect that neither the revenues viz. the cost of revenues, nor the operating expenses of the discontinued business unit are included in the information presented.

The after-tax-result from the discontinued operations is presented in the income statement after income taxes and merges directly into the Company's financial result for the fiscal year.

The remaining regional and foreign subsidiaries of the Kleindienst Datentechnik AG were amalgamated with the corresponding companies of the Beta Systems Group, or renamed. The Scanner Hardware business unit was transferred into an independent subsidiary of Beta Systems Software AG, the Kleindienst Scanner GmbH.

Apart from the Beta Systems Software AG as parent company the consolidated financial statements include 18 group companies (2004: 25 group companies).

The basis of consolidation is presented in the table "Group Companies" at the end of the Notes to the Consolidated Financial Statements.

ACCOUNTING POLICIES AND VALUATION METHODS

Revenue Recognition

Product license revenue, consisting of new product licenses and CPU upgrades, is recognized when persuasive evidence of an arrangement exists, when delivery has occurred, the fee is fixed or determinable, and collectibility is probable. According to IFRS, regulations for the allocation of the purchase price for multiple element license contracts do not exist. If a licensing agreement includes multiple elements, revenues are allocated to those elements on the basis of their fair value. Maintenance revenue is recognized pro rata temporis over the maintenance service period.

Service revenue consists of services for installation and training and is recognized, on the basis of contractually agreed prices, at the time when the services are delivered. Revenues from consulting are similarly realized at the time of performance of the services and are recognized on the basis of the service time performed.

In addition to the existing standard software products for infrastructure software, the Company also offers products designed to meet the individual requirements and technological resources of customers in the form of customized IT project solutions and individual support. On the one side these construction contracts comprise the creation of made to order software through modification or further development of existing standard products, and on the other hand project orders which comprise the combination of hardware from in-house production, software licensing, maintenance and various services.

Revenues from these construction contracts are recognized in compliance with IAS 11 according to the progress of the performance in accordance with the percentage-of-completion method, a method making reference to the degree of completion of the project, and requiring the following criteria to be satisfied for revenue recognition: the amount of the revenue must be able to be determined reliably, the economic gain resulting from the delivery of the service must be probable, the percentage of completion at reporting date must be reliably measurable, and the total projected costs of the contract must be able to be determined dependably. The legally enforceable rights of both parties are contractually defined. The Company uses the cost-to-cost method to determine the degree of completion of the progress for construction contracts.

Apart from the revenue categories referred to additional revenues are realized in the LoB Enterprise Content Management from sales of hardware from in-house construction (scanner systems) and from the sale of trading goods (PC workstations and servers).

Research and Development and Acquired Software Development Costs

For intangible assets developed in-house, the production period is divided into a research- and a development phase. Costs incurred during the research phase are recognized as an expense in the income statement as incurred. Expenses incurred during the development phase are capitalized in the amount of their production costs from the time that the requirements for capitalization according to IAS 38 are met.

In-house research and development projects by the Company, which result in the construction of new software products or in the substantial enhancements to existing software products, proceed without being able to be clearly differentiated into a research and a development phase. Due to the lack of conformity with the recognition criteria an allocation of the costs to the particular phases is thus not possible. All software development costs are therefore recognized as research costs in the consolidated income statement in the period of their accrual in accordance with the provisions of IAS 38.52 and IAS 38.53.

Acquired capitalized software development costs are recognized in the balance sheet in the amount of the acquisition costs, less the systematic allocation of amortization and the possible unscheduled impairment losses.

For each reporting period the costs are amortized according to the straight-line method over the estimated useful life of the software (five years).

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

Severance Payments and other Restructuring Costs

Following the acquisition of the majority holding in the Kleindienst Datentechnik AG in fiscal year 2004 the decision was taken to implement a change in the organizational structure by amalgamation of the administrative functions to the Company's headquarter in Berlin. Respective restructuring measures in the form of a formal personnel plan concerning the administration employees in Augsburg were formalized and completely concluded by the end of the fiscal year 2004. The costs for the severance payments appropriately due in fiscal year 2004, as well as amounts for accrued provisions for severance payments yet to be claimed were contained in the operating expenses of the business unit Enterprise Content Management (ECM) in fiscal year 2004.

During the course of 2005, restructuring measures decided and implemented under the framework of the "Growth and Profit program 2005" ("GaP'05") and other measures were:

- the corporate legal integration (the merger of Kleindienst Datentechnik AG onto Beta Systems Software AG),
- the measures introduced to increase the efficiency in the administration-, sales- and development areas (the amalgamation of business processes and the optimization of cost structures through reduction of staff on the basis of a social compensation program), as well as
- the concentration on the core business (the sale of the no longer deemed strategically important business unit Outsourcing Service).

Costs accumulated in connection with the implementation of these restructuring measures and the associated staff reduction costs. These costs were recognized to operating expenses in the income statement at the time of their accrual. Also contained in the operating expenses are amounts for accrued provisions for severance payments and restructuring costs yet to be claimed.

Financing Result

The financing result comprises all accumulated interest and similar income and expenses. In addition, interest accruals relating to long-term provisions as well as interest income and expenses resulting from short-term investment deposits and borrowings are included here.

Gain (Loss) from Discontinued Operations

The sale of the entire business unit Outsourcing Service, as managed under the Kleindienst Datentechnik AG was legally transacted on April 30, 2005 and was economically effective retrospective to January 1, 2005. The consequences of the discontinuation of this business unit were taken into recognition effective from this date, and the financial results affecting the income statement were respectively adjusted for the fiscal years 2004 and 2005 for the after-tax-results attributable to the activities of the discontinued business. Detailed particulars regarding the revenue, expenses, the result before taxes and the tax expense resulting from the sale of the Outsourcing Service business unit are provided further below.

Income Tax Benefit

The net income tax refund for the fiscal year comprises the income tax calculated for the individual companies based on their taxable income viz. taxable loss for the reporting period and the applicable tax rate, as well as the changes recorded to the deferred tax assets and liabilities.

Minority Interests

The minority interests were assessed on the basis of the share held by the minority shareholders of the fair value of the assets and liabilities at the acquisition date. At subsequent consolidations the share of the minority interest holders was adjusted by the respective result of the period. The increase in the goodwill reported in fiscal year 2005 resulted from the swap of ownership interests held by minority shareholders in Kleindienst Datentechnik AG relating to the merger.

Earnings per Ordinary Share /
Earnings per Ordinary Share from Continuing Operations /
Earnings per Ordinary Share from Discontinued Operations

The earnings per ordinary share were calculated by dividing the net income for the year attributable to the shareholders of the company by the weighted average number of ordinary shares in circulation during the fiscal year. The earnings per ordinary share from continuing operations were assessed by adjusting the earings per ordinary share by the result from discontinued operations. The earnings per ordinary share from the discontinued operations were calculated by dividing the result for the year from discontinued operations by the weighted average number of ordinary shares in circulation during the fiscal year. No option rights to the purchase of new ordinary shares, which would influence the net earnings per ordinary share, existed.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and notice deposits with a maximum maturity of three months.

Restricted Cash

As at December 31, 2004 cash on hand in the amount of T€ 705 was restricted in connection with a liability towards a customer. An advance payment was delivered on a construction project. The amount was utilized in 2005 according to progress of the project.

Short-Term Securities

Marketable Equity Securities are classified as "available-for-sale". All purchases and sales are recognized using trade date accounting. The value in the balance sheet is the fair value, determined on the basis of the share prices and bank confirmations. Changes in value are recorded immediately in the income statement.

Trade Accounts Receivable and Other Current Assets

Current trade accounts receivable are stated at their acquisitions cost less valuation allowances for expected uncollectible or doubtful accounts. Other current assets are valued at their acquisition cost less impairment losses.

In Process Project Orders (POC)

In terms of the business activity of the Company the project order contracts comprise the construction of customized made to order IT project solutions designed to meet the individual requirements of the customer, and which last across various accounting periods. On the one side these construction contracts comprise the creation of made to order software through modification or further development of existing standard products, and on the other hand project orders which comprise a combination of hardware from in-house production, software licensing, maintenance and various services.

The nature and the extent of the goods and services to be delivered are in compliance with the respective contract terms; usually these are construction contracts for which the extent of the contractually agreed performance is provided at a fixed fee.

The allocation of the revenues and expenses to the respective accounting periods is determined on the basis of application of the realized progress of the total project by applying the percentage-of-completion method for each of the respective construction contracts. The Company uses the cost-to-cost method to determine the degree of completion of the project, whereby the actual costs accrued for the performance already completed at reporting date are set in ratio to the estimated total project costs at that time.

Project costs comprise costs both directly allocable to the project, as well as general production overhead costs indirectly allocable, and, based on contractual agreement terms, perhaps other allocable administration costs.

During the construction phase the construction costs are activated in the balance sheet as in process project orders (POC).

Inventories

Inventories are stated at the lower of the average acquisition or production costs viz. the net realizable value at the reporting date. In the case of commercial inventories the net realizable value is based on the current market price, while the value determined from projected income less estimated production costs is used as a basis for the other inventories. Inventory risks resulting from storage, slow-moving, obsolete and damaged goods are taken into consideration by accounting for appropriate valuation adjustments.

Work in process is stated at production costs. These comprise direct material and production costs as well as other material and production overhead costs which can be allocated indirectly.

Current Income Taxes

Current income taxes are determined based on the amounts of the corporate taxes due viz. receivable which are expected to result from the individual companies' taxable income viz. taxable loss for the current and former reporting periods. They are established under assumption of the tax regulations and tax rates valid for the respective companies at reporting date, and are recognized at that value which is expected to result as tax payment or tax refund. As settlement will be effected on net basis, current taxes payable and current taxes receivable were offset against one another.

Derivative Financial Instruments

In order to limit and control existing financial foreign currency risks, certain derivative financial instruments, i.e. in particular currency forwards, are used. These do not fulfill the requirements of the Fair Value Hedge in terms of Hedge Accounting. Derivate financial instruments are stated at acquisition cost at the time of the conclusion of the contract, and stated at fair value in the subsequent reporting periods. The fair value of the currency forwards is assessed on the basis of the forward rates ruling on the reporting date.

Fixed interest caps are made use of to cover foreign currency risks. The fair value of the fixed interest cap is determined on the basis of the present value of the expected future cash inflows.

The result of the valuation adjustment resulting from the change in fair value is recognized in the applicable accounting period in the income statement.

Fixed Assets

Property and equipment is valued at acquisition viz. production cost, less systematic allocation of straight-line depreciation amounts. Apart from the direct material and labor costs, the production costs of self-constructed plant and equipment comprise also appropriate material and labor overhead costs.

The systematic depreciation of the depreciable assets is based on the assets' expected useful lives. The following useful lives are uniformly applied across the Group:

Estimated Useful Life	Years
Technical Plant and Machinery, Computer Equipment	3 - 5
Leasehold Improvements	5 - 10
Facilities and Office Equipment	3 - 13

Goodwill and Other Intangible Assets

Acquired Intangible assets, including goodwill, are valued in the balance sheet at acquisition cost, less systematic allocation of straight-line depreciation amounts, and unscheduled impairment losses.

For the systematic amortization of the intangible assets a useful live of between five and ten years is uniformly applied across the Group.

Other Non-Current Assets

Other non-current assets include an investment intended to fund a portion of the Company's pension obligations. The Company values this investment at cash surrender value. In addition, other non-current assets include receivables from long-term rental- and leasing contracts assessed on the basis of their present value less potential impairment of value.

Leased Assets

When, in the case of leased assets, all essential risks and rewards with respect to such property pass on to the lessee (IAS 17), the lessee capitalizes the asset under non-current assets and the present value of the obligation towards the lessor is carried as a liability. The difference between the present value of the future lease installments and the sum of the discounted lease installments constitutes deferred interest costs which are realized over the term of the agreements proportionate to the total amounts payable.

Impairment Test

All assets under the application of IAS 36 are assessed for indications of an impairment of value at each reporting date. If such indications are found the value in use or the higher fair value less the selling costs is determined for the respective asset. Should this recoverable value be below the carrying value for this asset, the carrying value of the asset is reduced to its net realizable value.

Accounts Payable

Current accounts payable are stated at their net carrying value, which is equivalent to the repayment value.

Accrued Expenses

Provisions are accrued when the Company has a legal or valid obligation towards a third party due to a past event and if it is likely that such obligation will result in an outflow of funds. Such provisions are stated at such value as can be determined at the time the annual financial statements are compiled, on the basis of the best estimate. If such amount cannot be reasonably estimated, no provision is accrued. If the present value of the provision, determined on the basis of customary interest rates, differs substantially from the nominal value, the provision is stated at the present value of the obligation.

Other Current Liabilities

Other current liabilities are stated at their net carrying value, which is equivalent to the repayment value.

Financial Liabilities

Upon recognition liabilities are stated in the amount of the actual inflow less transaction costs. A difference between the amount received and the repayment amount is stated in the financing result and is distributed over the financing term.

Pensions and Similar Obligations

On the basis of existing contracts, certain employees are due to receive pension payments upon taking retirement and upon meeting certain conditions. These defined benefit pension commitments are partly covered by the investment in a pension fund reinsurance earmarked for this purpose.

The pension provision is stated in the balance sheet in accordance with IAS 19 according to the projected unit credit method under application of the corridor method. Actuarial gains and losses are recognized in the income statement.

The valuation of the pension obligations was determined on the basis of independent actuarial opinions for the reporting dates December 31, 2004 and December 31, 2005.

Pension related obligations comprise commitments due in respect of partial retirement plans originating from collective bargaining agreements. Under certain conditions the employer effects certain payments to employees attaining the age of 57 years during the partial retirement period, as well as a severance payment at the end of the partial retirement employment agreement. The provisions were calculated according to a method similar to the pension provisions. The assumptions are quoted under the heading "Employee Benefit Plans".

No other direct claims by employees for other post-employment benefits exist against the employer. As a result no requirement to accrue further provisions exists.

Stock Based Compensation

The Company accounts for its stock based compensation which it grants in equity-settled share-based payments in accordance with the provisions of IFRS 2.

Certain employees were granted options which entitle the holders to acquire ordinary shares at a previously determined fixed exercise price on a certain exercise date. In the event that the share market price exceeds the exercise price on exercise date, the title holder realizes a gain in the amount of the difference. If the market price is below the exercise price, the options expire. Usually the option holders are required to fulfill certain vesting conditions (e.g. continued service with the Company) within the determined vesting period.

IFRS requires the realization of granted share based payments to the income statement.

The total cost results from the multiplication of the fair value of the options at grant date, with the expected number of options fulfilling the conditions. If the options can be exercised immediately at grant date without a vesting period, the costs are to be recognized immediately. If certain vesting conditions are required to be fulfilled for the exercise of the options, the total costs are distributed over the service period. Cancellations by the employees or the early settlement in cash or cash equivalents during the service period results in an adjustment of the costs still to be distributed over the remaining periods. The assumptions are quoted under the heading "Stock Option Plans".

Operating Leasing / Finance Leasing

The classification of leases as finance leasing viz. operating leasing is determined on the basis of the economic content of the lease agreement in accordance with IAS 17.10.

Fair Value of Financial Instruments

Financial instruments of the Company consist of cash and cash equivalents, marketable securities and derivative financial instruments, accounts receivable, loans, accounts payable and accrued expenses which are stated at their fair value, and the changes in valuation for which are recognized at the time of their accrual in the income statement.

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.

Deferred Income Taxes

Deferred tax assets and liabilities are determined using the liability method according to IAS 12 for all temporary differences between the accounting and tax bases of assets and liabilities as recognized in the consolidated financial statements according to IFRS. In addition, tax gains on future taxable earnings resulting from existing losses carried forward which are likely to be realized are also considered in the calculation. Exceptions to the application of this principle are differences relating to non-deductible goodwill, and temporary differences in connection with investments. The assumptions are quoted under the heading "Income Taxes".

Assets Held for Sale and Liabilities associated with Assets Held for Sale

Assets are to be classified as assets held for sale when the respective carrying value is realized predominantly from a disposal transaction and not from the continuous usage of the assets. Assets held for sale and liabilities associated with assets held for sale are stated in the balance sheet for the fiscal year and the comparative period separately from the other current assets and liabilities.

Foreign Currency Conversion

The assets and liabilities denominated in the balance sheets of foreign subsidiaries were converted to Euro on the basis of the foreign exchange benchmark rate at the reporting date, while the revenues and expenses in the income statements were translated using average foreign exchange benchmark rate during the period.

The exchange benchmark rates of the main currencies developed as follows:

Country	Currency Unit	Exchange benchmark rate at December 31	
		2004	2005
USA	1USD = €	0.733138	0.845023
Canada	1CAD = €	0.608643	0.726269
Great Britain	1GBP = €	1.414227	1.455604
Switzerland	1CHF = €	0.647794	0.642880
Sweden	1SEK = €	0.110865	0.106462
Poland	1PLN = €	0.244640	0.258491
Hungary	1HUF = €	0.004070	0.003958
Nigeria	1NiN = €	0.005720	0.006454

Cumulative currency translation adjustments resulting from changes not affecting the income statement were reported as a separate component in the shareholders' equity.

Realized gains resulting from continuing business transactions in foreign currency were recognized in the income statement and amounted to T€ 92 in 2005 (2004: T€ 122).

Use of Accounting 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.

Significant projections as well as nature and carrying values of assets with inherent valuation risks are described separately in each case in the Notes to the Consolidated Financial Statements.

CHANGE OF FINANCIAL REPORTING PRINCIPLES FROM US-GAAP TO IFRS

The Company applied the IFRS reporting standards for the first time in its interim consolidated financial statements as at June 30, 2005. The transition date applied to the accounting standards is January 1, 2004. All balance sheet positions and all items in the income statement for the reporting period and the comparative period were retrospectively adjusted in accordance with IFRS 1.

The conversion affects the recognition of all assets and liabilities in accordance with IFRS, the elimination of assets and liabilities excluded from application under IFRS, the reclassification of assets and liabilities to which the previous classification as asset viz. liability did not correspond now according to IFRS, and the valuation of the assets and liabilities according to IFRS.

All necessary IFRS valuation adjustments were allocated without affecting income to retained earnings in the Company's shareholders' equity in the opening balance as at January 1, 2004.

In recognition of the conversion from the previously adopted reporting principles (US-GAAP) the Company has implemented following changes viz. made use of the following exemptions:

Share-based Payments

In terms of IFRS 2 „Share-based payments", the Company has to recognize share-based payments at their fair value and to distribute this cost over the service period. According to US-GAAP, share-based payments could be recognized as well as in accordance with the intrinsic value method, or the fair value method, the latter of which is similar to IFRS 2. The intrinsic value amounted to the difference between the quoted market price of the stock on grant date and the exercise price payable by the employee. The Company applied the intrinsic value method, and accordingly recognized additional expenses in the income statement according to US-GAAP for the fiscal year 2004 in the amount of T€ 780. No conversion adjustments are recorded in the Company's income statements for the current fiscal year, as no share- or option-based rights existed any longer. The exemption in accordance with IFRS 2.60 was not made use of.

Business Combinations

In the event of the partial acquisition of a business entity, all assets and liabilities are required to be completely revalued at their fair value in accordance with IFRS 3 "Business Combinations". Under the principles of US-GAAP the assets and liabilities were recognized in compliance with the equity method according to the respective equity ratio of the purchaser under application of the proportional revaluation method.

Effective April 1, 2004, the Company acquired the majority shareholding in the Kleindienst Datentechnik AG. Following further successive purchases by the Company the shareholding in the Kleindienst Datentechnik AG by minority shareholders amounted to ca. 10% as at June 30, 2005. The undisclosed reserves relating to the acquired assets attributable to the minority interest holding, net of an adjustment for the goodwill were recognized in the amount of T€ 5,554 as at April 1, 2004, and expensed to the income statement in subsequent reporting periods.

Employee Benefits

IAS 19 "Employee benefits" requires that appropriate provisions are accrued for the settlement of all post-employment benefit obligations probably due in future to the employees.

According to US-GAAP by comparison, the evidence of a contractual agreement was required. As a result these additional future obligations, in consideration of the likelihood of future claims by employees, were recognized in an amount of T€ 526 as at April 1, 2004 (IAS 19.140).

The valuation of the pension liabilities did not result in a material difference compared with US-GAAP.

Intangible Assets

In accordance with the provisions of US-GAAP the Company capitalized production costs for in-house software development from the time when technological feasibility of the research and development projects was reached. An exact distinction between the research phase and the development phase was not required. Thus, in essence, all software development production costs were capitalized for the software until the time of general availability of the product at the market.

By comparison, IAS 38 "Intangible assets" requires the distinct separation between a research process and a development processes, and correspondingly the separate allocation of research costs and development costs, before the capitalization of software development costs can be recognized (IAS 38.52). The Company's research and development project processes however are iterative and incremental, with the result that no definite distinction can be made between them.

The Company has therefore allocated all previously capitalized amounts for software development costs, less the corresponding accumulated amortization for these products, without affecting income to retained earnings in the shareholders' equity in the opening balance sheet as at January 1, 2004 in the total amount of T€ 3,142.

As a result the Company records no further capitalization of software development production costs and no further corresponding amortization in the results for the fiscal year to December 31, 2005. The prior year comparative information was adjusted accordingly. The net effect for the year to December 31, 2004 amounted to T€ 512.

Deferred Income Taxes

The revaluation and recognition of balance sheet items in accordance with IFRS result in adjustments for deferred income taxes. These relate principally to the capitalized software costs, the capitalization of undisclosed reserves for minority interest holders and the accruals for obligations from post-employment benefits. The effects of these adjustments are disclosed in the detailed reconciliations below.

The Company did not make use of the following exemptions for first-time adopters:

- Fair value or revaluation as deemed cost (IFRS 1.16-19)
- Employee benefits (IFRS 1.20)
- Cumulative translation differences (IFRS 1.21)

The following exceptions are not relevant to the Company:

- Compound financial instruments (IFRS 1.23)
- Assets and liabilities of subsidiaries, associates and joint ventures (IFRS 1.24-1.25)
- Derecognition of financial assets and financial liabilities (IFRS 1.27)
- Hedge accounting (IFRS 1.28)
- Estimates (IFRS 1.31-1.34)

Reconciliations of the results for the twelve months to December 31, 2004 as well as reconciliations of the shareholders' equity as at January 1, 2004 and as at December 31, 2004 from US-GAAP to IFRS follow:

	January 1 to December 31, 2004
Result for the Year according to US-GAAP	**(17)**
Reallocation of Minority Interest in Earnings	699
Elimination of Amortization of Software Development Costs	1,138
Elimination of Capitalization of Software Development Costs	(2,413)
Reversal of Accruals for Retirement	33
Stock Based Compensation Costs	780
Amortization of Undisclosed Reserves of Minority Interests	(1,927)
Deferred Taxes	1,295
Result for the Year according to IFRS	**(412)**

Reconciliation of the shareholders' equity:

	January 1, 2004
Shareholders' Equity according to US-GAAP	**31,709**
Derecognition of Software Development Costs, net against Retained Earnings	(3,142)
Reclassification of Stock Based Compensation Costs from APIC	(453)
Reclassification of Stock Based Compensation Costs to Retained Earnings	453
Deferred Taxes against Retained Earnings	794
Shareholders' Equity according to IFRS	**29,361**

	December 31, 2004
Shareholders' Equity according to US-GAAP	**31,762**
Reallocation of Minority Interest in Earnings	8.380
Derecognition of Software Development Costs, net against Retained Earnings	(3,142)
Deferred Taxes on Software Development Costs against Retained Earnings	793
Cancellation of the Capitalization and Amortization of Software Development Costs	(1,275)
Deferred Taxes on Cancellation of the Capitalization and Amortization of Software Development Costs	553
Exposure of the Undisclosed Reserves of the Minorities	5,491
Deferred Taxes on Exposure of the Undisclosed Reserves of the Minorities	(2,326)
Amortization of the Undisclosed Reserves of the Minorities	(1,927)
Deferred Taxes	754
Cancellation of the Step Acquisition	(1,486)
Income from the Reversal of Partial Retirement Provisions	33
Deferred Taxes on Partial Retirement	(15)
Elimination of the Reversal of the Deferred Compensation Costs from APIC	(1,233)
Elimination of the Reversal of the Deferred Compensation Costs to Net Income	1,233
Shareholders' Equity according to IFRS	**37,595**

Adjustments affecting the cash flow for the prior year comparative period are as follows:

	January 1 to December 31, 2004
Net Income	76
Depreciation	789
Compensation Costs for Stock Options	(780)
Deferred Taxes	(1,295)
Minority Interests	(1,170)
Changes in other Assets and Liabilities, net	(47)
Net Cash used in Operating Activities	**(2,427)**
Capitalization of Software Costs	2,427
Net Cash provided by Investing Activities	**2,427**
Change in Cash and Cash Equivalents	**-**

NEW PRONOUNCEMENTS

On March 31, 2004 the IASB published the Standard IFRS 3 "Business Combinations". The IFRS 3 provisions are applicable for the first time for business combinations for which the agreement date is on or after March 31, 2004. For this reason the acquisition of the majority interest in Kleindienst Datentechnik AG was valued and recorded already in accordance with the provisions of IFRS in connection with IAS 36 (revised 2004) and IAS 38 (revised 2004).

In December 2003, the IASB concluded its revision of a number of existing standards („Improvement Project"). The amendments to existing IAS, new IFRS and IFRIC interpretations as adopted by the European Union, were applied when compiling the Consolidated Financial Statements. In addition to more extensive disclosure requirements, such application resulted in particular in modified accounting for available-for-sale financial instruments and for hedged transactions.

The amendments to existing or new standards and interpretations already adopted for application in the European Union which were issued but are not yet effective at December 31, 2005, were not voluntarily applied ahead of the effective date. Specifically, these are: IFRS 6 (Exploration and Evaluation of Mineral Resources); IFRIC 4 (Determining Whether an Agreement Contains a Lease); IFRIC 5 (Rights to Interests Arising from Decommissioning, Restoration and Environmental Funds); amendments to IAS 19 (Employee Benefits (Option to recognize actuarial gains and losses directly in equity)), and amendments to IAS 39 (Financial Instruments: Recognition and Measurement (change of stipulations on cash flow hedge accounting)).

These amendments are not expected to have any significant impact on the financial statements of the Group and are in part of no relevance for the Group.

The amounts of the previous year within the context of the transitory provisions of IAS 39 (revised 2004) were not restated for reasons of immateriality.

On May 18, 2005 the IASB published the Standard IFRS 7 "Financial Instruments: Disclosures". This standard provides for a summary of the provisions for the publication of financial instruments hitherto published under IAS 32 and IAS 30. The standard is applicable to reporting periods beginning on or after January 1, 2007.

BUSINESS ACQUISITION / MERGER

Kleindienst Datentechnik AG

On March 18, 2004, the Company concluded three acquisition- and assignment contracts for the purchase of altogether 2,052,251 shares in Kleindienst Datentechnik AG, Augsburg, Germany ("Kleindienst"), at an acquisition price of € 7.50 per share. This represented 51.31% of the total share capital and voting rights in Kleindienst Datentechnik AG. Transfer of ownership became effective upon payment of the purchase price on the acquisition date of April 1, 2004. The regulations of IFRS 3 which came into force during 2004 were thus required to be applied to this acquisition.

Between March 19, 2004 and March 31, 2004 the Company purchased further 513,428 shares in Kleindienst Datentechnik AG on the stock exchange, at a price not exceeding € 7.50 per share. The total share holding as at March 31, 2004 of 2,565,679 shares was allocated to investments.

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 in Kleindienst Datentechnik AG at an offer price of € 7.50 per share. Issued share capital of Kleindienst Datentechnik AG on April 1, 2004, the date of signature of the public offer, amounted to T€ 12,000, divided into 4,000,000 ordinary shares with a nominal value of € 3.00 per share. The acceptance period ended on May 18, 2004.

Kleindienst Datentechnik AG and her subsidiaries ("Kleindienst Group") were fully consolidated into the Beta Systems Group for the first time as at April 1, 2004 according to IAS 28.

As at December 31, 2004, Beta Systems Software AG had acquired altogether 3,522,616 shares in Kleindienst Datentechnik AG for a total purchase price in the amount of T€ 27,350, i.e. at an average unit price of € 7.50 per share. This represented 88.07% of the total share capital and voting rights in Kleindienst Datentechnik AG.

The total purchase price for the acquisition of Kleindienst Datentechnik AG was settled by Beta Systems Software AG by means of available cash and firmly granted bank credits in an amount exceeding the total purchase price. The purchase price was settled in full. As at December 31, 2004, additional purchase costs of T€ 916 were activated.

The purchase price of T€ 27,350 for the acquired majority shareholding in Kleindienst Datentechnik AG as at December 31, 2004 was allocated as follows:

Purchase Price: Kleindienst Datentechnik AG	2004
Cash and Cash Equivalents	10,468
Trade Accounts Receivable	13,876
Orders on Hand	4,421
Inventories	7,588
Fixed Assets	6,512
Goodwill	10,416
Licence Rights	3,880
Capitalized Software Development Costs	3,700
Other Assets	3,349
Deferred Tax Assets	4,955
Trade Accounts Payable	(2,350)
Deferred Revenues	(1,621)
Other Liabilities	(13,542)
Long-term Debt and Finance Leases	(11,800)
Deferred Tax Liabilities	(3,273)
Minority Interests	(9,229)
Purchase Price	**27,350**
Acquired Cash and Cash Equivalents	(10,468)
Cash paid for Business Acquisition, net	**16,882**

The valuation of the acquired assets and liabilities was determined according to their specific fair values.

During the course of the valuation, acquired software development costs and license rights in the amount of T€ 3,700 and T€ 3,880, orders on hand in the amount of T€ 4,421, and goodwill in the amount of T€ 10,416 were identified a. o. in accordance with the recognition criteria of IAS 38.

The acquired software development costs and the license rights were scheduled for amortization between four and seven years, the orders on hand for a period of two years. The goodwill is tested annually, viz. on indication, for impairment of value. If necessary, an impairment loss is recognized. The impairment test carried out at reporting date 2004 did not indicate the need to recognize such a loss.

The Goodwill was allocated to the Outsourcing Service business unit in the amount of T€ 10,096, and to the business unit ECM Input Management in the amount of T€ 320. The entire amount was not tax deductible and was not to be systematically amortized. As a result of the sale of the Outsourcing Business Unit during the fiscal year 2005 the goodwill allocated to this business unit passed to the purchaser (see in the following hereunder: "Sale of the Outsourcing Business Unit").

In addition, the Company acquired accumulated tax deductibe losses in the amount of T€ 20,333. These do not expire.

The Kleindienst Datentechnik AG with its subsidiaries was already well known as counting amongst the leading developers and providers of software-supported Document Management solutions, with key areas of competence in product development, systems integration, services and support.

The business activity of the Kleindienst Group was divided into the business segments Enterprise Systems and Outsourcing Service. The Enterprise Systems segment develops and markets software supported solutions for enterprise wide document management for various sectors, in particular for payment processing in the banking sector. The Outsourcing Service segment represented 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 infrastructure software. The combination of Kleindienst's specialist product portfolio in the area of document input ("Input Management") with the known expertise of Beta Systems, especially in the area of information output ("Output Management"), was to result in comprehensive software solutions for the safe handling of all business processes with the simultaneous reduction of processing costs for the business success of existing and future customers.

The business unit resulting from the combination of the two complementary concepts, "Enterprise Content Management" ("ECM"), is presented since as an independently managed line of business of Beta Systems Software AG, under which the extended capacity and the competence as provider of complex

software infrastructure for all relevant platforms in the entire European market, resulting from the bundling of the strengths of both enterprises as a result of the takeover of Kleindienst, is managed.

Results of operations of the acquired business activities for the nine months ended December 31, 2004 are included in the comparative information here reported.

The following supplementary information discloses the pro forma results for the fiscal year ended December 31, 2004 making the assumption that Kleindienst Datentechnik AG had been acquired and fully consolidated with effect from the beginning of the fiscal year 2004.

	January 1 to December 31	
	2004	**2004**
	As Disclosed	**Pro Forma**
Group Revenues		
Thousand €	89,993	102,868
Net Income (Loss) for the Year		
Thousand €	59	(1,073)
Earnings per Ordinary Share		
€ per Ordinary Share, basic and diluted	0.01	(0.13)

In the reported pro forma results of operations for fiscal year 2004 non-recurring consultancy costs in the amount of T€ 1,200 were included.

The acquired interest in Kleindienst Datentechnik AG as at June 30, 2005 by Beta Systems Software AG amounted to a total of 3,569,095 shares at an average unit price of € 7.50 per share (December 31, 2004: 3,522,616 shares). This represented 89.23% of the total share capital and voting rights in Kleindienst Datentechnik AG.

On April 22, 2005 the share exchange ratio for the planned merger of Kleindienst Datentechnik AG into Beta Systems Software AG was agreed on by both companies. According to this, Kleindienst shareholders were to receive 0.6 Beta Systems shares for each Kleindienst share.

The share exchange ratio was determined by PricewaterhouseCoopers GmbH Wirtschafts-prüfungsgesellschaft, Frankfurt am Main in accordance with the discounted future earnings method (Ertragswertverfahren). The appropriateness of the process and the finding were audited by Warth & Klein GmbH Wirtschaftsprüfungsgesellschaft, independent merger auditors appointed by the Court.

The merger was unanimously voted on at the Annual General Meeting held by Beta Systems AG on June 14, 2005, and at the Annual General Meeting held by Kleindienst Datentechnik AG on June 13, 2005. The merger was registered in the commercial register at the District Court of Charlottenburg, Berlin on August 25, 2005. The merger thus became legally effective, with Beta Systems AG becoming the universal successor of Kleindienst Datentechnik AG, which simultaneously ceased to exist.

The ordinary share capital of the Company was increased by 517,086 ordinary shares as a result of the merger. The corresponding increase in paid-in capital was based on the market value of the share ruling on the merger date, i.e. € 5.75 per ordinary share, and amounted to T€ 2,973. Against this, transaction costs in the amount of T€ 856, less taxes in the amount of T€ 335, were accounted for. The net increase in paid-in capital thus amounted to T€ 2,452.

A goodwill in the amount of T€ 1,202 resulted from the increase in share capital and the disposal of minorities.

SALE OF THE OUTSOURCING SERVICE BUSINESS UNIT

The Outsourcing Service business unit represented an independent economic unit within the business structure of the Kleindienst Group acquired during fiscal year 2004. The Kleindienst Datentechnik AG held 74.8% of the share capital in DS Dokumenten Service Holding GmbH.

The DS Dokumenten Service Holding GmbH was the holding company of the following companies which is was thus directly invested in as at April 1, 2004, the date of acquisition of the Kleindienst Datentechnik AG by Beta Systems Software AG:

- DZ Service GmbH & Co. KG, Karlsruhe (50.4%)
- DZ Service Verwaltungs-GmbH, General Partner of the 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%)

Beta Systems Software AG continued the business unchanged and as a result Outsourcing Service represented an independently managed business unit within the Beta Systems Group.

The chief activity of the business unit comprised in the acting as an external service provider for banks and savings banks, primarily in the business environment of the DZ Bank AG Group and the SparkassenVerband Baden-Württemberg, for the taking over of the electronic capture, processing and archiving of payment processing documents of these companies.

As part of an analysis conducted with the purpose of identifying potential synergies and long-term business opportunities, the further inclusion of the Outsourcing Service business unit within the Company strategy was considered in depth. In the outcome, the management boards and the supervisory boards of Kleindienst Datentechnik AG and Beta Systems Software AG jointly reached the conclusion that from a strategic point of view this segment would not play a central role in the future positioning of the Beta Group.

Steps to implement a disposal were consequently introduced. The assets held for sale in connection with this business unit as at December 31, 2004 were as follows:

Assets held for Sale : Outsourcing Service	**2004**
Cash and Cash Equivalents	9
Trade Accounts Receivable	1,562
Inventories	16
Fixed Assets	2,179
Goodwill	10,096
Licence Rights	5,240
Other Current Assets	112
Other Non-Current Assets	1,612
Deferred Tax Assets	1,140
Assets held for Sale	**21,966**
Trade Accounts Payable	(183)
Current Income Taxes	(2,302)
Other Liabilities	(656)
Current Installments of Long-term Debt and Finance Leases	(3,058)
Long-term Debt and Finance Leases	(4,008)
Deferred Tax Liabilities	(1,258)
Liabilities associated with Assets held for Sale	**(11,465)**

Table continued in the next column.

On April 10, 2005, the Outsourcing Service business unit, inclusive of all shares in the DS Dokumenten Service Holding GmbH, was sold to the Transaktionsinstitut für Zahlungsverkehrsdienstleistungen AG (TAI AG), a subsidiary of the DZ Bank AG. The purchase price amounted to T€ 10,350. The sale was economically effective retrospective to January 1, 2005.

The assets held for sale in connection with this business unit as at April 30, 2005 were as follows:

Assets held for Sale : Outsourcing Service	**2005**
Cash and Cash Equivalents	430
Trade Accounts Receivable	1,778
Inventories	40
Fixed Assets	1,880
Goodwill	10,275
Licence Rights	4,280
Other Assets	1,743
Deferred Tax Assets	478
Assets held for Sale	**20,904**
Trade Accounts Payable	(120)
Current Income Taxes	(2,302)
Other Liabilities	(1,502)
Long-term Debt and Finance Leases	(6,611)
Minority Interests	(7,200)
Liabilities associated with Assets held for Sale	**(17,735)**

The implementation of the sale was completed by June 30, 2005.

Further detailed financial information hereto is presented in the section "Gain (Loss) from Discontinued Operations" under the heading "Notes to the Income Statement".

OUTSOURCING OF THE KLEINDIENST SCANNER AND SORTER HARDWARE MANUFACTURE THROUGH THE SALE OF THE KLEINDIENST SCANNER GMBH

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 comprised the two sub-segments "Enterprise Content Management: Output" (previously Beta Systems' business segment Document/Output Management) and "Enterprise Content Management: Input" (previously Kleindienst's business segment Enterprise Systems).

This presentation reflected that of the Company's Management chosen decision making approach at the time of the business acquisition in fiscal year 2004, i.e. to combine the existing own Document/Output portfolio and the corresponding document input portfolio acquired from Kleindienst into an integral and unique business solution within the business segment Enterprise Content Management ("ECM"), and as such also to present and to manage it.

The operational division ECM Hardware appendant to the business unit ECM Input did not represent an independent economic unit within the business structure of the Kleindienst Group acquired during fiscal year 2004. Beta Systems Software AG adopted this operational division unchanged, equally without it representing an independently managed business unit within the Beta Systems Group.

The operational division ECM Hardware functioned exclusively as developer and manufacturer of the Kleindienst scanners and sorters for the Enterprise Content Management ("ECM") business segment, and as supplier of these products and spares to the two business segment partners Data Center Infrastructure ("DCI") and Identity Management ("IdM").

As part of the strategic realignment efforts this operational division of development and production of the Kleindienst scanner and sorter hardware including the assets and liabilities associated with it was transferred into an independent subsidiary of Beta Systems Software AG, the Kleindienst Scanner GmbH, during the fiscal year 2005.

The management board and the supervisory board of Beta Systems Software AG further jointly reached the conclusion to outsource this operational division of manufacture of the Kleindienst scanner and sorter range through the sale of the Kleindienst Scanner GmbH to its long standing partner SIS SEAC ICR Systems GmbH („SIS SEAC"). Steps to implement a disposal were consequently introduced.

The assets of the Kleindienst Scanner GmbH held for sale as at December 31, 2005 were as follows:

Assets held for Sale : Kleindienst Scanner GmbH	2005
Inventories	1,614
Fixed Assets	129
Assets held for Sale	**1,743**
Accrued Expenses and Other Current Liabilities	(519)
Liabilities associated with Assets held for Sale	**(519)**

On March 6, 2006 the Company announced that the outsourcing of the Kleindienst scanner and sorter hardware manufacture through the sale of the subsidiary Kleindienst Scanner GmbH to SIS SEAC was successfully concluded.

The sale was economically effective retrospective to January 1, 2006, and the management of the Kleindienst Scanner GmbH will be handed over to SIS SEAC on April 1, 2006.

By way of this assignment SIS SEAC will assume the responsibility for the development and the manufacture of the Kleindienst scanner and sorter hardware, while the product and marketing rights will continue to remain with Beta Systems Software AG.

Beta Systems Software AG will focus in future on the marketing, the sale and the service of the scanner and sorter hardware within its own business solutions offer in the area of ECM Input Management. This will be complemented by associated services such as project management and maintenance.

SIS SEAC intend to merge the development and production of the Kleindienst scanners and sorters with its own manufacturing operations which will allow the enterprise to offer a wider product range for Beta Systems' ECM business. As part of the agreement SIS SEAC will also guarantee the respectively unique technology and manufacturing know-how.

The scanner and sorter hardware will in future be purchased by Beta Systems Software AG order related on the basis of fixed agreed conditions.

All 28 employees currently employed by the Kleindienst Scanner GmbH will be taken over by SIS SEAC at their existing employment terms and conditions.

NOTES TO THE INCOME STATEMENT

1. SEGMENT REPORTING

SEGMENT REPORTING ACCORDING TO BUSINESS UNITS

Adoption and subsequent Sale of the Business Segment Outsourcing Service

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 was adopted unchanged at the time of the business acquisition in fiscal year 2004 and continued to constitute an independently managed business entity of its own.

The sale of the entire business segment Outsourcing Service was transacted during fiscal year 2005. This is described in full detail under the heading "Sale of the Outsourcing Service Business Unit". Further detailed financial information relating to this business segment is presented in the section "Gain (Loss) from Discontinued Operations" under the heading "Notes to the Income Statement".

Current Reporting

Until December 31, 2005 management of the Company was effected along the five business units Storage-, Data Center-, ID/Security-, ECM Output- and ECM Input Management.

All segments derive revenues from sales of product licenses, maintenance and consulting services, and revenues from construction projects. As a result of the combining of business activities with the Kleindienst Group, hardware sales are also realized in the ECM Business Solutions and the ECM Banking Solutions segments.

The accounting policies of the operating segments are the same as those described in the "Presentation of the Significant Accounting Policies and Valuation Methods". Segment amounts disclosed are prior to any elimination entries made in consolidation. Additionally, entities in Germany and Canada engage in research and development activities.

Inter-company sales are principally transacted on the basis of the usual market terms and conditions.

January 1 to December 31 2004	Storage Management	Data Center Management	ID/Security Management	ECM Output Management	ECM Input Management	Elimination	Total Group
Revenues with Customers	3,441	16,932	15,256	16,919	37,445	-	89,993
...Intersegment Revenues	518	2,548	2,296	2,547	5,636	(13,545)	-
Total Revenues	**3,959**	**19,480**	**17,552**	**19,466**	**43,081**	**(13,545)**	**89,993**
Segment Income (Loss) from Continuing Operations	**(53)**	**2,137**	**(3,057)**	**526**	**1,668**	**(326)**	**895**
Interest Income (Expense)	-	68	62	68	(1,033)	1,033	198
Capital Investment Expenditures for Fixed and Intangible Assets	-	702	980	1,041	17,093	-	19,816
Total Carrying Amount of Segment Assets	4,729	13,567	13,649	20,029	30,143	-	82,117
Segment Liabilities	2,106	7,732	6,967	7,726	40,691	-	65,222
Scheduled Depreciation and Amortization	229	657	661	1,170	2,601	-	5,318
Material Costs not affecting Net Income (except Depreciation and Amortization)	-	-	-	-	-	-	-

January 1 to December 31 2005	Storage Management	Data Center Management	ID/Security Management	ECM Output Management	ECM Input Management	Elimination	Total Group
Revenues with Customers	2,868	15,396	15,790	15,967	45,585	-	95,606
...Intersegment Revenues	365	1,961	2,012	2,035	5,807	(12,180)	-
Total Revenues	**3,233**	**17,357**	**17,802**	**18,002**	**51,392**	**(12,180)**	**95,606**
Segment Income (Loss) from Continuing Operations	**(106)**	**2,517**	**(2,655)**	**1,086**	**(4,858)**	**(608)**	**(4,624)**
Interest Income (Expense)	-	31	32	32	(614)	602	83
Capital Investment Expenditures for Fixed and Intangible Assets	250	186	3,016	193	369	-	4,014
Total Carrying Amount of Segment Assets	5,187	11,735	16,840	12,170	26,919	-	72,851
Segment Liabilities	2,395	5,462	6,702	5,665	20,720	-	40,944
Scheduled Depreciation and Amortization	215	349	501	362	2,884	-	4,311
Material Costs not affecting Net Income (except Depreciation and Amortization)	-	-	-	-	2,197	-	2,197

Future Reporting

In a meeting held on August 22, 2005 the supervisory board of the Company passed a resolution planning the strategic reorganization of the Beta Systems Group. By means of a new business segment structure the transition from product supplier to solution provider is planned to be accomplished.

This realignment restructures the existing business units of the Company into the three Lines of Business (LoB's) IdM (Identity Management), DCI (Data Center Infrastructure) and ECM (Enterprise Content Management), with individual market-driven strategies with the focus on profitability and growth for each. The ECM Lob comprises the operational divisions ECM Business Solutions and ECM Banking solutions. Strategically responsive structures, transparency and effective marketing are designed to establish Beta System's position as strategic supplier in three critical key areas of the IT Infrastructure business.

The LoB's constitute the top line in the structure and are oriented towards relevant markets and strategic challenges. For this purpose the Company's products and services are allocated to each LoB on the basis of its strategic business concept. The profit center structure is designed to provide LoB management with direct, more self-determined operational and financial control, which also incorporates the product development of the allocated products, as well as the production and project management. The marketing-, sales- and service functions previously shared within the Company are also allocated directly to the particular LoB's. The LoB manager operates as entrepreneur, taking the responsibility for the global success of his business. Country managers in the subsidiaries of the Company function as operational managers, working closely together with the different LoB's.

This new structure is aimed at achieving greater proximity with client enterprises and increasing the level of specialization within the Company's sales and service teams in order to tailor their activities more accurately to the specific requirements of the different market sectors. The prime objective of these measures is the faster reaction to customer demand, greater flexibility in meeting specific requirements as well as accelerated decision-making processes and more pronounced entrepreneurship within the new organization. It is expected to significantly raise the efficiency of general business processes and the "go-to-market" process, as well as closer strategic partnership with the customer as a result of allocation of the marketing-, sales- and service activities to the LoB's.

The newly realigned LoB structure was introduced on October 1, 2005. Following a transition period of three months, it will become effective on January 1, 2006.

SEGMENT REPORTING ACCORDING TO GEOGRAPHICAL REGIONS

The secondary segmentation comprises the breakdown of sales revenues according to the geographical location in national, EU-states, and foreign sales markets. The following is a presentation of the revenues for the fiscal year, as well as the acquisition costs for the purchase of assets and the total carrying value of the segment assets as at reporting date for the regions Germany, Europe, America and Africa.

December 31, 2004		Germany	Europe	America	Other	Total
Group Revenues, as disclosed		52,427	23,839	8,369	5,358	89,993
Segment Income (Loss) from Continuing Operations		**34**	**1,877**	**(1,200)**	**184**	**895**
Capital Investment Expenditures for Fixed and Intangible Assets	19,478	233	105	-	19,816	
Total Carrying Amount of Segment Assets		60,974	14,560	4,013	2,570	82,117
Segment Liabilities		56,386	4,196	2,829	1,811	65,222

December 31, 2005	Germany	Europe	America	Other	Total
Group Revenues, as disclosed	57,777	24,583	6,092	7,154	95,606
Segment Income (Loss) from Continuing Operations	**(5,492)**	**2,521**	**(826)**	**(827)**	**(4,624)**
Capital Investment Expenditures for Fixed and Intangible Assets	3,440	341	223	10	4,014
Total Carrying Amount of Segment Assets	54,710	10,731	3,408	4,002	72,851
Segment Liabilities	32,869	2,330	2,642	3,103	40,944

2. RESTRUCTURING

Restructuring Costs in Fiscal Year 2004

The central administrative functions performed for the Kleindienst Group by the Kleindienst Datentechnik AG at its location in Augsburg were discontinued by the end of fiscal year 2004; following the business acquisition by Beta Systems AG these activities were successively taken over by the Company's own administrative capacities located at Berlin.

In sum, the number of administrative staff reduced at the Augsburg site in this connection amounted to 14 persons. None of the employees affected accepted transfers to the Berlin offices. The Company recorded provisions for restructuring costs in the operating results as at December 31, 2004 in respect of the suspension of this functional area. These costs related exclusively to termination benefits appropriately due to the affected employees, and were allocated in total to the business segment Enterprise Content Management.

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

December 31	2004
Selling Costs	-
General and Administrative Expenses	304
Total Restructuring Costs	**304**

All of the above costs related to the reduction of staff. Further material costs were not expected to incur. The development of the accrued liabilities for restructuring costs as at December 31, 2004 was as follows:

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

The accrual was utilized during the current fiscal year as follows:

December 31	2005
Balance at December 31, 2004	146
Recognition	(146)
Balance at December 31, 2005	**-**

Restructuring Costs in Fiscal Year 2005

The strategy formulated by the management of the Company for fiscal year 2005, the "Growth and Profit 2005" ("GaP'05") program, included the implementation of plans to realize further cost saving potential. Measures to reduce operating expenses group-wide by streamlining the organizational and cost structures, and the measures introduced to increase the efficiency in the administration-, sales- and development areas were introduced during the current fiscal year.

In connection with the amalgamation of business processes (integration and merger costs resulting from the merger of Kleindienst Datentechnik AG onto Beta Systems Software AG and the sale of the business unit Outsourcing Service) and the cost reduction measures introduced, including the targeted outsourcing of functional areas, compensation costs for the termination of services of certain employees accrued resulting from the reduction of staff.

The staff reduction measures were conducted on the basis of a social compensation program. The staff reduction plan affected altogether 70 employees: 32 employees from the Berlin location, 33 employees from Augsburg, and 5 employees from foreign subsidiaries left the Company during the fiscal year 2005. The employees were allocated to the following operational areas:

Sales and Service	21 employees
Administration and Shipping	21 employees
Research and Development	16 employees
Manufacture	12 employees

The restructuring measures in the development department affected the business segments Enterprise Content Management (ECM) and Data Center Infrastructure (DCI). The measures were fully implemented at the reporting date.

As at December 31, 2005 costs for severance payments are included in the operating expenses in the income statement as follows:

December 31	2005
Cost of Revenues Project Business ECM	717
Selling Costs	1,787
General and Administrative Expenses	2,038
Research and Development Costs	1,031
Total Restructuring Costs	**5,573**

Of the restructuring costs detailed above costs in the amount of T€ 4,613 relate to severance payments in terms of the staff reduction measures, while expenses in the amount of T€ 960 were recorded for reorganization. Further material costs are not expected to incur.

The development of the accrued liabilities for restructuring costs as at December 31, 2005 is as follows:

December 31 Development of the Accrual	2005
Balance at January 1, 2005	-
Appropriation	2,197
Balance at December 31, 2005	**2,197**

3. OTHER OPERATING INCOME

December 31	2004	2005
Income from Foreign Currency Translations, net	122	92
Income from the Reversal of Provisions and Liabilities	-	1,946
Income from the Sale of the Workload Business	512	1,562
Income from Other Operating Taxes	-	469
Income from Valuation Allowances to Trade Account Receivables	-	185
Compensation Payments and Income from Insurance Claims	-	225
Tenancy and Leasing Income	34	45
Other Operating Income	135	667
Other Operating Income	**803**	**5,191**

Income from the Reversal of Provisions and Liabilities

In connection with the business acquisition of SYSTOR Security Solutions GmbH, Köln in fiscal year 2003 (Asset Deal) the investment in SYSTOR Solutions Inc., USA was acquired. Resulting from this acquisition liability in the amount of TUS$ 944 was taken on. As the liability had lapsed at reporting date, the liability was reversed as at December 31, 2005. An income in the amount of T€ 746 was realized in this regard.

In connection with the majority interest acquired in Kleindienst Datentechnik AG in fiscal year 2004 a provision was accrued in connection with a liability for the payment of a fee towards a partner of the Kleindienst Datentechnik AG in the amount of T€ 1.200. This liability is no longer considered recoverable at reporting date and was reversed.

Income from the Sale of the Workload Business

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 USA 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.

On January 17, 2005 the remaining unpaid balance of the purchase price in the amount of TUS$ 2,418 became due for payment. After settlement of the current amount due in the amount of TUS$ 441 this resulted in an income of TUS$ 1,977, viz. T€ 1,562.

4. INCOME TAXES

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

December 31	2004	2005
Germany	(265)	(8,044)
Non-German	582	2,900
Net Income before Taxes	**317**	**(5,144)**

The provision for income taxes is attributable as follows:

December 31	2004	2005
Current Taxes		
•Germany	600	666
•Non-German	842	780
Total Current Taxes	**1,442**	**1,446**
Deferred Taxes		
•Germany	(1,229)	(2,528)
•Non-German	233	211
Total Deferred Taxes	**(996)**	**(2,317)**
Total Corporate Taxes	**446**	**(871)**

Since the year 2004 the corporate tax rate on undistributed earnings and on distributed earnings is 25.0%. In addition, a solidarity surcharge of 5.5% is levied on the corporate tax liability 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.

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:

December 31	2004	2005
Expected Expense from Income Tax	124	(2,012)
Foreign Tax Rate Differences	(318)	(209)
Non-Deductible Expenses, including Goodwill and Non-Taxable Earnings	261	262
Unrealized Losses of the Current Fiscal Year	908	1,329
Income Taxes for unrealizable Losses of Prior Years	-	2,300
Realization of Losses of Prior Years	-	(2,592)
Taxable Shielding Effects of Partnerships	(356)	(129)
Other	(173)	180
Actual Income Tax Expense	**446**	**(871)**
Effective Corporate Tax Rate	**140.7%**	**16.9%**

No tax expense was recorded in the fiscal year in respect of the gain from the sale of the discontinued business unit, as the Company made use of hitherto unrealized deferred tax assets from net operating loss carry-forwards from prior periods.

Deferred income tax assets and liabilities are summarized as follows:

December 31	2004	2005
Deferred Tax Assets relating to:		
• Net Operating Loss Carry-Forwards	8,080	7,616
• Trade Accounts Receivable	-	(539)
• Pension Obligations	114	184
• Unrealized Foreign Currency Losses	-	342
• Fixed Assets	1,034	1,139
Total Deferred Tax Assets	**9,228**	**8,742**
Deferred Tax Liabilities relating to:		
•Goodwill	(240)	22
•Capitalized Software Development Costs	(1,333)	472
•Deferred Revenues	(2,046)	(4,087)
•Work in Process Project Orders (POC)	(2,068)	(905)
•Current Liabilities	(239)	-
•Unrealized Foreign Currency Gains	(337)	-
•Other Liabilities	(1,888)	(1,080)
Total Deferred Tax Liabilities	**(8,151)**	**(5,578)**
Net Deferred Tax Assets as per Balance Sheet	**1,077**	**3,164**

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

December 31	2004	2005
Deferred Tax Assets	6,923	5,068
Deferred Tax Liabilities	(5,846)	(1,904)
Deferred Taxes as per Balance Sheet	**1,077**	**3,164**

In assessing the possible realization 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.

Net operating loss carry-forwards in the amount of T€ 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 during the following years. Following the merger of Kleindienst Datentechnik AG and the accretion of Kleindienst Solutions GmbH & Co. KG deferred taxes for operating loss carry-forwards not previously realized were established in the fiscal year in the amount of T€ 2,592, as the Company is of the opinion that these can now be utilized in the combined business operation.

The Company recorded a correction of the deferred taxes for net operating loss carry-forwards in the amount of T€ 2,300 for domestic net operating loss carry-forwards no longer realizable.

Further non-realizable deferred tax assets for net operating loss carry-forwards and timing differences exist in the subsidiaries in USA (T€ 1,371), Canada (T€ 5,360), Spain (T€ 196) and Great Britain (T€ 378).

At December 31, 2005 the Company had net operating loss carry-forwards of T€ 19,472 (2004: T€ 20,659), principally in the German and the American entities. While the German net operating loss carry-forwards do not expire, the American net operating loss carry-forwards expire in 2025. Utilization of the loss carry-forwards in Germany is set at a maximum of T€ 1,000 per annum. A net taxable income in excess is only recognizable at 60% with the loss carry-forward. Further net operating loss carry-forwards exist in the subsidiaries in Spain, Great Britain and Sweden.

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

5. GAIN (LOSS) FROM DISCONTINUED OPERATIONS

The net income resulting from the disposal of the Outsourcing Service business unit at the time of the disposal of this business unit amounted to T€ 7,181. In recognition of all operating revenues, expenses and income taxes transacted by this business unit in fiscal year 2005 until the date of disposal, a gain in the amount of T€ 6,078 is presented in the consolidated income statement under the position "(Gain) loss from discontinued operations, less income taxes". Comparative amounts for the previous fiscal year were adjusted accordingly.

Revenues, operating results and financial results relating to the disposed business unit Outsourcing Service for the twelve months to December 31 are as follows:

January 1 to December 31	2004	2005
Revenues with Customers	10,826	6,974
Operating Expenses	(10,458)	(7,297)
Operating Income (Loss)	**368**	**(323)**
Other Income (Expense)	329	(1)
Financing Result, net	(394)	(120)
Income (Loss) before Income Taxes	**303**	**(444)**
Income from the Discontinued Operations, before Income Taxes	-	7,181
Income Tax Expense	(586)	(659)
Gain (Loss) from Discontinued Operations	**(283)**	**6,078**

In addition to the revenues with customers in the amount of T€ 6,974 (2004: T€ 10,826) the segment realized revenues with other business units in the amount of T€ 275 (2004: T€ 1,454).

Included in the operating expenses are expenses for systematic depreciation and amortization in the amount of T€ 1,265 (2004: T€ 3,146). No material costs not affecting net income are included in the segment's operating expenses for the fiscal year 2005 and the comparative reporting period.

The financing result comprises interest income in the amount of T€ 0 (2004: T€ 25) and interest expenses in the amount of T€ 120 (2004: T€ 419).

The income taxes for the fiscal year 2005 exclusively comprise tax expenses from the usual business activity of the discontinued business segment.

The disposed net assets of the business unit amounted to T€ 3.169. No assets and liabilities relating to this business segment are contained in the amounts presented in the consolidated balance sheets at reporting date.

Further detailed financial information to the total carrying value of the segment assets and of the segment liabilities is presented in the section "Sale of the Outsourcing Service Business Unit".

The net cash flow for the disposed business unit is as follows:

	January 1 to December 31, 2004	January 1 to April 30, 2005
Net Cash provided by Operating Activities	3,790	1,195
Net Cash used in Investing Activities	(367)	(12)
Net Cash used in Financing Activities	(4,128)	(762)
Increase (Decrease) in Cash and Cash Equivalents	**(705)**	**421**

The sale of the business unit effectively reduced the Company's staff complement by 232 employees.

6. EARNINGS PER ORDINARY SHARE

The basic earnings per ordinary share is calculated by dividing the net income (loss) available to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the fiscal year.

Diluted earnings per ordinary share is calculated by dividing the net income (loss) available to present and potentially new ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the fiscal year, adjusted for the effects of all dilutive potential ordinary shares. The dilutive effect of outstanding options is reflected by application of the treasury stock method in diluted earnings per ordinary share.

The 1:2 stock split agreed upon at the Annual General Meeting of shareholders of Beta Systems Software AG on June 14, 2005 was registered in the Commercial Register on December 15, 2005. The share capital of the Company was accordingly restructured to the effect that one ordinary share of Beta Systems Software AG was replaced by two ordinary shares of the Company. The imputed nominal value per ordinary share of Beta Systems Software AG therefore amounts to € 1.28 per ordinary share. The stock split was executed at the stock exchange from December 28, 2005 to December 29, 2005.

Due to the change in the weighted average number of ordinary shares outstanding during the fiscal year as a. o. the result of this stock split, the change in the number of ordinary shares was adjusted retrospectively for all reporting periods presented in the financial statements.

Earnings per Ordinary Share as Disclosed		
December 31	**2004**	**2005**
Weighted Average Number of Ordinary Shares Outstanding		
Number of Ordinary Shares, basic and diluted	8,096,691	8,436,914
Net Income for the Year		
Thousand €	59	1,571
Earnings per Ordinary Share		
€ per Ordinary Share, basic and diluted	**0.01**	**0.19**

The basic and diluted earnings per ordinary share from continuing operations is as follows:

Earnings per Ordinary Share from Continuing Operations		
December 31	**2004**	**2005**
Weighted Average Number of Ordinary Shares Outstanding		
Number of Ordinary Shares, basic and diluted	8,096,691	8,436,914
Net Income (Loss) for the Year from Continuing Operations		
Thousand €	342	(4,507)
Earnings per Ordinary Share		
€ per Ordinary Share, basic and diluted	**0.04**	**(0.53)**

In addition, the basic and diluted earnings per ordinary share for the financial result for the discontinued operations of the Outsourcing Service business unit is presented here:

Earnings per Ordinary Share for the Discontinued Operations		
December 31	**2004**	**2005**
Weighted Average Number of Ordinary Shares Outstanding		
Number of Ordinary Shares, basic and diluted	8,096,691	8,436,914
Net Income (Loss) for the Discontinued Operations		
Thousand €	(283)	6,078
Earnings per Ordinary Share		
€ per Ordinary Share, basic and diluted	**(0.03)**	**0.72**

NOTES TO THE BALANCE SHEET

7. CASH AND CASH EQUIVALENTS

The maximum maturity period for short-term financial investments was less than three months at the time of the investment.

8. SHORT-TERM SECURITIES

December 31	2004	2005
Deutsche Telekom AG Shares, at Acquisition Cost	971	-
SAP AG Shares, at Acquisition Cost	1	-
	972	**-**
Unrealized Gains, exceeding one Year	-	-
Realized Gains at Date of Sale in 2004	138	-
Income from Sale at Market Value in 2004	1,110	-
Fair Value at December 31, 2005	**-**	**-**

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

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

9. TRADE ACCOUNTS RECEIVABLE

Valuation Allowance for Expected Uncollectible or Doubtful Accounts

December 31	2004	2005
Beginning Balance	628	656
Provision	605	304
Charge-Off	(577)	(43)
Ending Balance	**656**	**917**

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

Receivables with a maturity of more than one year are recognized in the balance sheet under the position "Other Non-Current Assets".

10. IN PROCESS PROJECT ORDERS (POC)

December 31	2004	2005
Order Revenues realized	14,187	9,885
…thereof in the Reporting Period	13,009	1,585
Total Costs accrued	(7,808)	(7,012)
Disclosed Project Income	**6,379**	**2,873**
Prepayments Received	(8,382)	(5,862)
Retainers	-	-
Receivables due from Customers for In Process Project Orders	**5,805**	**4,023**

During the construction phase the construction costs incl. margin are recognized in the balance sheet as in process project orders (POC).

Revenues and expenses are recognized on the basis of the realized progress of the total project according to the percentage-of-completion method under application of the cost-to-cost method. Project costs comprise costs both directly allocable to the project, as well as indirectly allocable general production overhead costs.

All unbilled receivables as at December 31, 2005 from in process project orders (POC) are due for collection within one year.

11. INVENTORIES

December 31	2004	2005
Production Supplies and Materials	3,730	2,708
Work in Process	4,073	2,117
Finished Goods	799	633
Subtotal	**8,602**	**5,458**
Valuation Adjustments	(1,425)	(721)
Total Carrying Amount of Inventories	**7,177**	**4,737**

The carrying value of the value adjusted inventories amounted to T€ 1.425 viz. T€ 721 in 2004 and 2005. No valuation gains were recognized for the inventories. Pledging as collateral for liabilities did not exist. Purchases in the amount of T€ 11,591 are included in the cost of revenues (2004: T€ 10,334).

12. OTHER CURRENT ASSETS

December 31	2004	2005
Derivative Financial Instruments	386	19
Foreign Sales Tax Benefit	24	424
Other Current Assets	86	451
Other Current Assets	**496**	**894**

Derivate Financial Instruments

In fiscal year 2005 the Company entered into foreign currency forward contracts in order to cover foreign currency risks related to US-Dollar receivables. At reporting date a fixed interest cap, the usance of which is in coordination with the interest liability structure of an investment loan, exists on the basis of a variable yield (3-months-EURIBOR). The interest cap guarantees a maximum interest rate of 3.00% until December 31, 2008. The fair value of the derivative financial instruments amounted to T€ 19 as at December 31, 2005 (2004: T€ 386).

Other assets with a maturity of more than one year are recognized in the balance sheet under the position "Other Non-Current Assets".

13. FIXED ASSETS

December 31	2004	2005
Acquisition Costs and Production Costs		
• Computer Equipment	9,102	9,274
• Leasehold Improvements	2,945	2,888
• Facilities and Office Equipment	3,694	4,820
Acquisition Costs and Production Costs	**15,741**	**16,982**
Accumulated Systematic Depreciation	(9,027)	(11,017)
Fixed Assets, net	**6,714**	**5,965**

Depreciation expenses charged to the income statement amounted to T€ 2,710 in fiscal year 2005 (2004: T€ 2,697) and is included in the cost of revenues and the operating expenses.

14. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

31, Dezember	2004	2005
Acquisition Costs		
• Goodwill	1,596	2,846
Accumulated Amortization	-	-
Goodwill, net	**1,596**	**2,846**

In consequence of the merger of the Kleindienst Datentechnik AG onto the Beta Systems Software AG in fiscal year 2005 an increase in the goodwill in the amount of T€ 1,202 plus a foreign currency gain in the amount of T€ 48 resulted from the increase in share capital and the disposal of minorities. This increase in goodwill was allocated to the Enterprise Content Management (ECM) business segment.

Other Intangible Assets

December 31	2004	2005
Acquisition Costs		
• License Rights	2,294	4,318
Accumulated Amortization	(1,250)	(1,662)
Other Intangible Assets, net	**1,044**	**2,656**

Intangible assets comprise licenses, industrial property rights, software, user rights for plant owned by third parties and licenses derived thereof.

The increases in fiscal year 2004 resulted mainly from the acquisition of the business activities of Kleindienst Datentechnik AG. In fiscal year 2005 further license rights in the amount of T€ 2,167 were acquired. This acquisition essentially comprised the product rights for the new SAM Enterprise Single Sign-On product ("SAM eSSO") and was allocated to the Identity Management business segment (IdM). The acquisition costs for the product amounted to T€ 2,140 and consisted of a revenue-dependent purchase price payment in the amount of T€ 1,100 estimated to become due over the next five years.

The systematic amortization expense in fiscal year 2005 amounted to T€ 552 (2004: T€ 1,013). The expected systematic amortization expense for the next years is as follows:

At December 31	
2006	504
2007	479
2008	444
2009	441
2010	423
Thereafter	365
Total Expected Amortization Expense	**2,656**

The Company conducted an impairment test for its goodwill and its intangible assets as at reporting date. The valuation of the intangible assets was established on the basis of the expected discounted net future cash inflows attributable to the assets. For the forecast of the expected cash inflows the Company adopted the assumptions regarding the revenue increases for the following years customary for the trade in the business segments, by product and by business segment as the case may be, within a range of between 5% and 15% and applied a capital interest rate in the amount of 20% p.a. A requirement to recognize an impairment loss did not result.

15. ACQUIRED SOFTWARE DEVELOPMENT COSTS

Acquired software development costs resulting from the acquisition of the business of SYSTOR Security Solutions GmbH resulted in capitalization of acquired software development costs in the amount of T€ 650 in 2004. Further increases in acquired software development costs in fiscal year 2004 in the amount of T€ 3,700 resulted from the acquisition of the business of Kleindienst Datentechnik AG in 2004. Investments for acquired software development costs in fiscal year 2005 amounted to T€ 610.

Amortization expenses related to acquired software costs amounted to T€ 1,049 in fiscal year 2005 (2004: T€ 920).

The valuation was established on the basis of the acquisition costs less the systematic amortization. A verification of the current carrying values of the acquired software development costs was established on the basis of the expected discounted net future cash inflows attributable to the software products. For the forecast of the expected cash inflows the Company adopted the assumptions regarding the revenue increases for the following years customary for the trade in the business segments, by product and by business segment as the case may be, within a range of between 5% and 15% and applied a capital interest rate in the amount of 20% p.a. A requirement to recognize an impairment loss did not result.

16. OTHER NON-CURRENT ASSETS

December 31	2004	2005
Long-term Receivables due from Customers		
from Unbilled Invoices	5,710	6,360
Receivables due from ASG	323	-
Guarantee Deposits	95	129
Cash Surrender Valaue of Insurance Policies	608	680
Other Non-Current Assets	**6,736**	**7,169**

Long-term Receivables due from Customers from Unbilled Invoices

The invoicing of the long-term receivables due from customers will take place in the years 2007 to 2010 for T€ 3,609, T€ 1,933, T€ 680 and T€ 137, respectively.

Receivable due from ASG

The purchase price of the sale of the Workload business to the Allen Systems Group, Inc. („ASG") effective January 17, 2000 was paid in the form of a 30% contingent royalty on all future revenues associated with ASG's products until such time as the purchase price was paid in full. The net assets sold were being deferred and proportionally expensed as royalty payments became due.

The remaining balance as at December 31, 2004 amounted to TUS$ 441 viz. T€ 323.

This balance was settled in full in fiscal year 2005.

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

In addition to the long-term financing facilities described in detail under the heading "Long-Term Debt and Finance Leases" below, the Company made use of the following short-term credit facilities:

December 31	2004	2005
Deutsche Bank AG	1,750	-
Landesbank Berlin	2,500	500
Commerzbank AG	1,743	2,032
Current Operating Credit Facilities	346	-
Short-Term Finance and Current Operating Liabilites due to Banking Institutions	**6,339**	**2,532**
Current Installments of		
Long-Term Debt and Finance Leases	711	2,380
Short-Term Finance	**7,050**	**4,912**

The repayment obligations are due within the next twelve months. The interest rate ranges between 1-month-EURIBOR plus 2.00% and 3-months-EURIBOR plus 1.25%.

At December 31, 2005 the Company has total short-term credit facilities available in an amount of T€ 21,500 (2004: T€ 24,500).

18. DEFERRED REVENUES

In compliance 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.

19. CURRENT INCOME TAXES

Tax Receivables

Amounts of T€ 316 were recognized for tax receivables from withholding taxes on dividend payments and for capital gains tax receivables on interest income. Additionally the Company recognized an amount of T€ 630 for reimbursement claims from the tax authorities from capital gains taxes for retroactively refunded taxes to shareholders in connection with the dividend distribution. Additionally the Company is subject to withholding tax in various countries - these withholding taxes are an allowable deduction from corporate taxes.

Tax Payments

The accruals for liabilities in respect of corporate taxes amount to T€ 927 at reporting date.

20. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

December 31	2004	2005
Accruals for Severance Payments and Restructuring Costs	146	2,197
Warranty Liabilities	152	109
Accrued Expenses	**298**	**2,306**

Accruals for Severance Payments and Restructuring Costs

Further details to the accruals for severance payments and restructuring costs are provided under the heading "Restructuring".

Warranty Liabilities

The Company provides a basic limited warranty, including parts and labor, 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.

The beginning balance of the provision for warranty liabilities amounted to T€ 221 at the beginning of the fiscal year 2004. During the fiscal years 2004 and 2005 only availments were recorded in the amount of T€ 69 viz. T€ 43.

All accruals are considered entirely short-term.

December 31	2004	2005
Other Taxes and Social Security Payables	2,820	2,995
Accrued Payroll and Personnel Expenses, incl. Travel Expenses	4,227	5,347
Outstanding Invoices for Goods and Services	3,006	4,186
Other Current Liabilities	2,939	1,974
Other Current Liabilities	**12,992**	**14,502**

Taxes and Social Security Payables

This position comprises liabilities due to the authorities for GST/VAT and for payroll taxes, as well as payments due to social security institutions.

Accrued Payroll and Personnel Expenses, incl. Travel Expenses

These staff related provisions comprise accruals for holiday entitlements, overtime and flexi-time balances, as well as provisions for sales commissions, incentive payments and refunds due from travel expenses.

Outstanding Invoices for Goods and Services

Substantially included here are accruals for outstanding invoices for goods and services received, for legal-, auditing- and consulting services, and for royalty obligations towards OEM partners.

21. LONG-TERM DEBT AND FINANCE LEASES

Long-term liabilities in the books of Beta Systems AG amount to T€ 6,697 at December 31, 2005, inclusive of a short-term portion in the amount of T€ 2,380 (2004: T€ 13,231 and T€ 711, respectively). This comprised long-term bank loans in the amount of T€ 6,000 (2004: T€ 12,320) and long-term liabilities for finance leases of T€ 697 (2004: T€ 911). The current portion of the long-term debt and the finance leases is allocated in the balance sheet under the position "Short-term debt and current installments of long-term debt".

Long-Term Debt

In fiscal year 2004 the Company took up a long-term bank loan with the Commerzbank AG. A loan liability in the amount of T€ 12,320 was granted to partly finance the acquisition of the shareholding in Kleindienst Datentechnik AG. The loan bore an interest rate of 1.75% p.a. above EONIA and matured at the end of 2009. As security, a global cessation on all trade receivables and a pledge on Kleindienst shares were assigned as collateral. In line with the merger of the Kleindienst Datentechnik AG onto Beta Systems Software AG in fiscal year 2005 this loan was repaid in full. A new long-term bank loan in the amount of T€ 6,000 was taken up with the Dresdner Bank AG. The loan bears an interest rate of 1.25% p.a. above 3-months-EURIBOR and matures at the end of 2008. As security, a global cessation on all trade receivables was assigned as collateral. T€ 2,000 are due for repayment in fiscal year 2006, leaving the long-term balance of T€ 4,000 due for repayment in equal annual installments of T€ 2,000 over the remainder of the term.

At December 31, 2005 the Company has no total long-term credit facilities available in addition to the loan above (2004: T€ 3,680 in addition to the loan above).

Finance Leases

A long-term loan liability due to IBM results from the purchase of a data center system through a finance lease agreement. The lease arrangement is subject to interest at an average rate of 4.75% p.a. and matures in 2007. Pursuant to IAS 17 the Company has capitalized the present value of the lease payments, and recorded the same amount as long-term debt. As at December 31, 2005 the remaining obligation in respect of this acquisition amounts to a total of T€ 411 (2004: T€ 693), inclusive of the current portion of this long-term finance lease in the amount of T€ 296 (2004: T€ 282).

Further lease obligations result from the purchase of a data network in 2003 in the amount of T€ 77 and a telephone system in 2004 for T€ 141. The acquisition costs of these fixed assets amounted to T€ 213 viz. T€ 158. The data network was repayable in equal monthly installments of T€ 7 until November 2005. Monthly repayments in the amount of T€ 3 are due in payment of the finance lease for the telephone system until March 2009. As at December 31, 2005 the remaining obligation in respect of the finance lease for the telephone system amounts to T€ 103, inclusive of the current portion of this long-term finance lease in the amount of T€ 32.

A new finance lease agreement was concluded during fiscal year 2005 with IBM for acquisition of data center equipment in the amount of T€ 200. The lease arrangement is subject to interest at an average rate of 4.70% p.a. and matures in 2009. Pursuant to IAS 17 the Company has capitalized the present value of the lease payments, and recorded the same amount as long-term debt. As at December 31, 2005 the remaining obligation in respect of this acquisition amounts to a total of T€ 183, inclusive of the current portion of this long-term finance lease in the amount of T€ 52.

Amortization in respect of this capitalized asset, as included in depreciation costs, amounted to T€ 287 in 2005 (2004: T€ 204) as follows:

	2004	**2005**
IBM Leasing 1	127	190
Data Network	53	53
Telephone System	24	32
IBM Leasing 2	-	12

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

	Balance December 31, 2004	**Balance December 31, 2005**	**Repayment 2006**	**Repayment 2007**	**Repayment 2008**	**Repayment 2009**
Commerzbank AG	12,320	-				
Dresdner Bank AG	-	6,000	2,000	2,000	2,000	
IBM Leasing	693	411	296	115	-	
Data Network	77	-	-	-	-	
Telephone System	141	103	32	32	32	8
IBM Leasing	-	183	52	52	52	26
Debt and Finance Leases	**13,231**	**6,697**	**2,380**	**2,199**	**2,084**	**34**

Future Lease Obligations in detail are as follows:

At December 31	
2006	390
2007	206
2008	92
2009	42
Total Obligations from Finance Leases	**730**
Less Interest Portion 2006	(10)
Less Interest Portion 2007 - 2009	(23)
Total Carrying Value of the Obligations from Finance Leases	**697**
Short-Term Portion of the Carrying Value	**380**
Long-Term Portion of the Carrying Value	**317**

22. 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, T€ 680 (2003: T€ 608), is included under the position "Other non-current assets". The Company anticipates increasing its contributions by T€ 37 in 2006 to fund the future plan obligations.

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

The calculations as at December 31, 2005 are based on the following assumptions:

December 31	2004	2005
Interest Rate	4.80%	4.36%
Pension Increases	2.00%	2.00%
Salary Increases	2.00%	2.00%
Fluctuations	none	none
Retirement Age - Women	56.5 - 60	56.5 - 60
Retirement Age - Men	61.5 - 65	61.5 - 65

The decrements applied are based on the "Richttafeln 2005 G von Klaus Heubeck ".

The calculations of the provisions for the partial retirement are based on similar assumptions, with the exception of the interest rate applied, which is 3.97% p.a.

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:

December 31	2004	2005
Projected Benefit Obligation at the Beginning of the Year	1,581	1,667
Periodic Pension Costs:		
• Interest Cost on Projected Benefit Obligations	83	86
• Amortization of Transition Obligations and Prior Service Cost which will cease in the Event of an Improvement of an exisiting Covenant for completed Years of Service	(11)	136
• Total Net Periodic Pension Cost	27	32
• Actual Pension Payments during the Fiscal Year	(13)	(14)
Projected Benefit Obligation at the End of the Year	**1,667**	**1,907**

The valuation of the obligations as at December 31, 2005 was determined by independent actuarial method. According to this valuation, the present value of the accumulated benefits at December 31, 2005 in the amount of T€ 729 is equal to the current benefits (DBO). The actuarial gains and losses are distributed under application of the corridor method. The disclosure is included in the cost of revenues and in the operating expenses.

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

December 31	2004	2005
Projected Benefit Obligations at the End of the Year	1,667	1,907
Unrecognized Net Transition Asset	29	-
Unrecognized Net Gain	280	131
Additional Minimum Liability	(22)	-
Accured Pension Obligation at the End of the Year	**1,954**	**2,038**

The Company also maintains a defined contribution plan at its subsidiary in the United Kingdom to which the Company made discretionary contributions of T€ 26 in 2005 (2004: T€ 26).

The accumulated benefit obligations viz. the defined benefit obligations (DBO) 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 defined 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.

23. STOCK OPTION PLANS

During the fiscal years 2000 and 2001 the Company adopted two stock incentive plans („Plan 2000" and „Plan 2001") for its employees and members of its Management Board. 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 456,400 ordinary shares (Plan 2000: 237,600 ordinary shares; Plan 2001: 218,800 ordinary 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 distinct 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 2000 in 2004, and the Plan 2000 became obsolete entirely. The bonds and related non-recourse loans were redeemed accordingly. The options under the Plan 2001 were granted during 2004; 884 options were thus exercised and converted into 176,800 ordinary shares at an exercise price of € 1.49 per ordinary share. At reporting date no convertible bonds exist under the Plan 2000, and none exist under the Plan 2001.

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 400,000 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, ordinary shares vesting for six years at a purchase price of € 2.115 per ordinary share, or, ordinary shares vesting for three years at a purchase price of € 2.96 per ordinary share. These represent respective price discounts of 50% and 30%, awarded on the basis of the market price of € 4.23 per ordinary share per close of business on September 21, 2000. 5,520 ordinary shares and 8,746 ordinary shares were purchased, respectively. For the second tranche, eligible employees could purchase, in September 2001, ordinary shares vesting for three years at a purchase price of € 1.35 per ordinary share, representing a price discount of 30% on the market price of € 1.925 per ordinary share per close of business on September 7, 2001. 8,742 ordinary shares were purchased. No share acquisition offer was made in 2002. For the fourth tranche, eligible employees could purchase, in September 2003, ordinary shares vesting for three years at a purchase price of € 1.95 per ordinary share, representing a price discount of 40% on the market price of € 3.25 per ordinary share per close of business on September 12, 2003. 91,558 ordinary shares were purchased. In January 2004 the offer was extended to employees for ordinary shares vesting for two years at a purchase price of € 3.50 per ordinary share, representing a price discount of 40% on the market price of € 5.83 per ordinary share per close of business on January 30, 2004. 123,970 ordinary shares were purchased.

A summary of the stock options as at December 31, 2005 is presented as follows:

December 31	2004 Ordinary Shares	2004 Weighted Average Exercise Price in €	2005 Ordinary Shares	2005 Weighted Average Exercise Price in €
Exercisable Options at the Beginning of the Year	206,000	5.51	-	-
Options Granted	-	-	-	-
Options Cancelled	(117,600)	7.41	-	-
Options Excercised	(88,400)	2.98	-	-
Exercisable Options at the End of the Year	-	-	-	-

An amount of T€ 10 was appropriated to the income statement during fiscal year 2004. This expense was allocated to the functional areas as follows: T€ 2 to general and administrative expenses and T€ 4 in each case to selling expenses and research and development expenses.

The assessment of the value of the expense is based on the computations in accordance with the Black/Scholes stock options pricing model under application of the following assumptions: expected volatility 21%, expected dividend yield 0%, risk free interest rate 3.5%, expected maturity 5 years. The Company estimates the fair value of the awards at grant date based on a forfeiture rate of 18% per annum.

Following the launch of Tantia Technologies, Inc., now Beta Systems Software of America, 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 the Beta Group on May 11, 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 at December 31, 2005 a total of 58,750 and 389,626 options (2004: 58,750 options and 658,756 options) were issued to recipients in America and Europe respectively at an exercise price of US$ 1.00 per option. The options vest after three years, and expire upon termination of employment with the Company or any subsidiary of the Company during the vesting period. The validity period of the Plan ends in the year 2010.

A summary of Tantia's stock options as at December 31, 2005 follows:

December 31	2004 Ordinary Shares	2004 Weighted Average Exercise Price in US$	2005 Ordinary Shares	2005 Weighted Average Exercise Price in US$
Exercisable Options at the Beginning of the Year	1,107,786	1.00	717,506	1.00
Options Granted	-	-	-	-
Options Cancelled	(390,280)	1.00	(269,130)	1.00
Options Excercised	-	-	-	-
Exercisable Options at the End of the Year	**717,506**	**1.00**	**448,376**	**1.00**

The Company records no unearned deferred compensation costs as at December 31, 2005.

No compensation expenses were recorded in respect of the stock options awarded under the Plan 2001 during the fiscal years 2004 and in 2005.

NOTES TO THE SHAREHOLDERS' EQUITY

24. SHAREHOLDERS' EQUITY

On June 7, 1998, the Company's existing share capital was increased from T€ 4,602 to T€ 9,203 by means of an APIC conversion. Accordingly, the number of ordinary shares issued increased by 1,800,000 to 3,600,000 ordinary shares. Further, stock options were converted in 1998 into ordinary shares and as a result, the number of ordinary shares issued increased from 3,600,000 to 3,638,492 ordinary shares, and the share capital from T€ 9,203 to T€ 9,301.

As a result of the conversion of the convertible bonds in connection with the HARBOR acquisition, the Company's share capital was increased on May 5, 1999 from T€ 9,301 to T€ 10,132, and the number of ordinary shares issued by 324,935 to 3,963,427 ordinary shares. Due to restrictions in the United States on the resale of shares not registered with the SEC, the Company bought back 12,477 shares originally issued in respect of the acquisition in 1999 at a price of € 20.45 per ordinary share, as stipulated in the purchase and sale agreement. The acquired shares are disclosed as treasury stock in the statement of shareholders' equity at acquisition cost.

On May 31, 1999 the Company's shareholders resolved to grant authorization to increase the authorized capital (Authorized Capital 1999/I and Authorized Capital 1999/II) for granting of stock options to employees of the Company until May 31, 2004. In fiscal year 2000 the share capital was thus increased as a result of an employee share acquisition plan by T€ 18, and the number of ordinary shares issued by 7,133 ordinary shares. The issued share capital of the Company at December 31, 2000 amounted to T€ 10,118 with altogether 3,970,560 ordinary shares issued, incl. 12,477 treasury shares.

The Company was authorized under § 71 par. 1 no. 8 of German Stock Corporation Act (AktG) to purchase own shares up to a total of 10% of the value of the nominal amount of existing share capital. 47,828 ordinary shares were thus repurchased at an average value of € 3.43 per ordinary share in fiscal year 2001. The acquired ordinary shares are disclosed as treasury stock in the statement of shareholders' equity at acquisition cost. The authorization to purchase own shares expired on November 23, 2002.

As a result of various further employee share acquisition plans, the share capital of the Company was increased in the fiscal years 2001 and 2003 by T€ 11 and T€ 117 respectively, and in fiscal year 2004 by T€ 384. This corresponded with the respective increase in the number of ordinary shares issued of 4,371, 45,779 and 150,385 ordinary shares. The issued share capital of the Company at December 31, 2004 amounted to T€ 10,663 with altogether 4,171,095 ordinary shares issued, incl. 60,305 treasury shares.

On August 25, 2005 the merger of Kleindienst Datentechnik AG onto Beta Systems Software AG became legally effective. On the basis of the agreed share exchange ratio the ordinary share capital of Beta Systems Software AG was increased by 258,543 ordinary shares as a result of the merger, with a corresponding increase in the value of the share capital of T€ 661.

On December 15, 2004 the 1:2 stock split agreed upon on June 14, 2005 was registered in the Commercial Register. The share capital of the Company was accordingly restructured to the effect that one ordinary share of the Company was replaced by two ordinary shares. In total, the existing share capital of the Company increased from 4,429,638 ordinary shares to 8,859,276 ordinary shares. The imputed nominal value per ordinary share of the Company therefore amounts to € 1.28 per ordinary share. The stock split was executed at the stock exchange from December 28, 2005 to December 29, 2005.

The issued share capital of the Company at December 31, 2005 amounts to T€ 11,324 with altogether 8,859,276 ordinary shares issued, incl. 120,610 treasury shares.

The composition of the capital reserves is presented in the "Consolidated Statement of Changes in Shareholders' Equity".

25. DIVIDEND DISTRIBUTION

Retained earnings available for distribution to the shareholders are the retained earnings disclosed in the individual financial statements of the Beta Systems Software AG. These accounts are prepared in accordance with the German commercial code (HGB).

As at December 31, 2005 the balance sheet income for the year in accordance with German HGB amounts to T€ 0 (2004: T€ 1,290).

Dividends in the amount of T€ 1,028 were paid to the shareholders in fiscal year 2005 (2004: T€ 1,957). This represented a dividend of € 0.125 per ordinary share (2004: € 0.25 per ordinary share).

26. MINORITY INTERESTS

No minority interests are held in any Beta Group company at December 31, 2005. Minorities presented as at December 31, 2004 resulted from the consolidation with Kleindienst Datentechnik AG and her investments, and represented the interests held by minorities in the earnings of the Kleindienst Group of companies as at December 31, 2004.

OTHER DISCLOSURES

27. 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 T€ 50 and T€ 14 were realized with UNISPOOL in 2004 and 2005, respectively.

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 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 license and maintenance sales, respectively. The revenues recognized in 2004 and 2005 amounted to T€ 1,189 and T€ 918, 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 T€ 487 were realized in 2004, and of T€ 403 in 2005.

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 license sales. Maintenance royalties range between 50% and 100%, depending on the service provided. In 2004 the Company realized revenues in the amount of T€ 498, and of T€ 162 in 2005.

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 T€ 124, and in 2005 to T€ 36.

28. RISKS AND UNCERTAINTIES

The Company is engaged in the development and sale of a diversified range of products in the five business segments: ECM Output– and ECM Input Management, Data Center Management, ID/Security Management and Storage Management. Data Center Management (16%), ID/Security Management (16%), ECM Output Management (18%) and ECM Input Management (48%) contribute to the Company's revenues.

28% of the Company's revenue arises from sales of the three products Beta 92, Beta 93 and SAM. 48% are contributed by software solution sales from the business segment ECM Input (mainly EBS 2000). Entry into the market by competitors, price reductions or similar adverse impacts on these products could have a negative effect on the Company's planned results of operations. Revenues from other products of the portfolio mainly depend on the development of the market and on the acceptance of these solutions by the customers.

The payment processing systems unit of the business segment ECM 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.

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 T€ 7,410.

29. 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 favor 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.

30. RELATED PARTY TRANSACTIONS

The Company maintains agreements for consulting services with Mr. Harald J. Joos (Chairman of the Supervisory Board) and with Mr. Bernhard Auer (Member of the Supervisory Board until June 14, 2005). Payments in 2004 in favor of Mr. Joos and Mr. Auer amounted to T€ 46 and T€ 17, respectively. In 2005 no payments were made in connection with the agreements. Full disclosures on the remuneration of the management board and the supervisory board of the Company can be found under the heading „Supplementary Disclosures to the Consolidated Financial Statements for the Fiscal Year 2005".

31. AUDITOR'S FEES

The expenses accrued during the fiscal year 2005 in respect of fees paid to the KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft, Berlin amounted to T€ 110 for audit fees, T€ 72 for tax consultancy and T€ 49 for other professional services rendered.

32. 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 lease terms are evident from the presentation of the future lease and rental payments. Options for extensions do not exist.

The minimum future lease and rental payments at December 31, 2005 are as follows:

December 31	Office Rentals	Operating Leasing
2006	3,112	2,192
2007	3,126	2,167
2008	3,107	2,127
2009	3,109	2,115
2010	3,113	2,103
2011	543	-
Total Minimum Payments for Rentals and Operating Leasing	**16,110**	**10,704**

No contractual obligations for the payment of office rentals exist beyond the year 2011.

Total costs for office rentals and operating lease commitments expensed during the fiscal year ended on December 31, 2005 amounted to T€ 5,152 (2004: T€ 5,856)

33. EVENTS AFTER THE REPORTING DATE

In an extraordinary meeting held on December 17, 2005, the Supervisory Board of the Company appointed Mr. Kamyar Niroumand as Chief Executive Officer of Beta Systems Software AG effective April 1, 2006. Mr. Dietmar Breyer was appointed Deputy Chief Executive Officer effective April 1, 2006.

On February 22, 2006 the Delta Beteiligungen Aktiengesellschaft addressed a public takeover bid to the shareholders of Beta Systems Software AG. In terms of this bid the Delta Beteiligungen Aktiengesellschaft offers for each ordinary share of Beta Systems Software AG (imputed nominal value: € 1.28 per ordinary share) 1.75 new shares of the Delta Beteiligungen Aktiengesellschaft (imputed nominal value of € 1.00 per ordinary share) and an additional cash payment in the amount of € 1.50 per ordinary share. The acceptance period ended on March 22, 2006.

On March 6, 2006 the Management Board announced the outsourcing of the Kleindienst scanner and sorter hardware manufacture through the sale of the Kleindienst Scanner GmbH, Augsburg to its long standing partner SIS SEAC. The sale was concluded with retroactive effect to January 1, 2006. The management of company will be handed over on April 1, 2006.

DEVELOPMENT OF THE GROUP'S ASSETS

	Acquisition and Production Costs					Depreciation and Amortization					Net Book Value	
Thousand €	**Balance January 1, 2004**	**Additions**	**Exchange Differences**	**Disposals**	**At December 31, 2004**	**Balance January 1, 2004**	**Additions**	**Exchange Differences**	**Disposals**	**At December 31, 2004**	**December 31, 2003**	**December 31, 2004**
Fixed Assets												
• Computer Equipment	8,375	2,273	(54)	1,492	9,102	6,468	1,444	7	1,288	6,631	1,907	2,471
• Leasehold Improvements	1,401	1,543	1	-	2,945	391	569	(4)	-	956	1,010	1,989
• Facilities and Office Equipment	1,001	2,938	38	283	3,694	790	684	(22)	12	1,440	211	2,254
Fixed Assets	**10,777**	**6,754**	**(15)**	**1,775**	**15,741**	**7,649**	**2,697**	**(19)**	**1,300**	**9,027**	**3,128**	**6,714**
Goodwill and Intangible Assets												
• Goodwill	1,360	320	(84)	-	1,596	-	-	-	-	-	1,360	1,596
• Licences	681	1,860	51	298	2,294	482	1,013	9	254	1,250	199	1,044
Goodwill and Intangible Assets	**2,041**	**2,180**	**(33)**	**298**	**3,890**	**482**	**1,013**	**9**	**254**	**1,250**	**1,559**	**2,640**
Acquired Software Development Costs	**7,253**	**4,350**	**-**	**-**	**11,603**	**6,205**	**920**	**-**	**(1)**	**7,126**	**1,048**	**4,477**
Group Assets	**20,071**	**13,284**	**(48)**	**2,073**	**31,234**	**14,336**	**4,630**	**(10)**	**1,553**	**17,403**	**5,735**	**13,831**

On March 8, 2006 the Management Board and the Supervisory Board of Beta Systems software AG published a joint response, according to which they consider the offered purchase consideration for the public takeover bid inappropriate, and in which they make recommendation to the shareholders of the Company not to accept the offer by the Delta Beteiligungen Aktiengesellschaft.

SUPPLEMENTARY DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FISCAL YEAR 2005

Share Capital / Contingent Capital / Authorized Capital

The Share Capital at reporting date amounts to € 11,324,189.68, divided into 8,859,276 ordinary shares (2004: € 10,663,235.00, divided into 8,342,190 ordinary shares).

The Contingent Capital decided on May 31, 1999, which comprised an unused balance in the amount of € 924,180.53 as at December 31, 2004, divided into 361,508 shares, no longer exists at reporting date; § 4 of the articles of association was amended in 2005.

With effect from the annual shareholders' meeting held on May 31, 1999, the Management Board was entitled to, with the approval of the Supervisory Board, increase the share capital of the Company in one or more stages, until May 31, 2004, by up to € 920,325.39 by issuing new ordinary 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 Board was entitled to exempt contributions in kind from the subscription right of the shareholders. With the approval of the Supervisory Board, the Management 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 ordinary shares to which they would be entitled after exercising their conversion rights. In addition, with the approval of the Supervisory Board, the Management 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 Board was entitled to increase the ordinary share capital in one or more stages, until May 31, 2004, by up to a total of € 206,388.12 by issuing new ordinary 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 Authorized Capital decided on May 31, 1999 (Authorized Capital 1999/I and Authorized Capital 1999/II) has lapsed through time and was revoked by resolution at the annual general meeting held on June 14, 2005.

	Acquisition and Production Costs					Depreciation and Amortization					Net Book Value	
Thousand €	**Balance January 1, 2005**	**Additions**	**Exchange Differences**	**Disposals**	**At December 31, 2005**	**Balance January 1, 2005**	**Additions**	**Exchange Differences**	**Disposals**	**At December 31, 2005**	**December 31, 2004**	**December 31, 2005**
Fixed Assets												
• Computer Equipment	9,102	508	162	498	9,274	6,631	495	135	450	6,811	2,471	2,463
• Leasehold Improvements	2,945	40	18	115	2,888	956	720	16	115	1,577	1,989	1,311
• Facilities and Office Equipment	3,694	1,794	109	777	4,820	1,440	1,495	78	384	2,629	2,254	2,191
Fixed Assets	**15,741**	**2,342**	**289**	**1,390**	**16,982**	**9,027**	**2,710**	**229**	**949**	**11,017**	**6,714**	**5,965**
Goodwill and Intangible Assets												
• Goodwill	1,596	1,202	48	-	2,846	-	-	-	-	-	1,596	2,846
• Licences	2,294	2,167	(3)	140	4,318	1,250	552	-	140	1,662	1,044	2,656
Goodwill and Intangible Assets	**3,890**	**3,369**	**45**	**140**	**7,164**	**1,250**	**552**	**-**	**140**	**1,662**	**2,640**	**5,502**
Acquired Software Development Costs	**11,603**	**610**	**-**	**5,884**	**6,329**	**7,126**	**1,049**	**-**	**5,884**	**2,291**	**4,477**	**4,038**
Group Assets	**31,234**	**6,321**	**334**	**7,414**	**30,475**	**17,403**	**4,311**	**229**	**6,973**	**14,970**	**13,831**	**15,505**

Personnel Expenses (excl. Restructuring Costs and without Expenses for Stock Options Granted)

Personnel expenses for the fiscal years 2004 and 2005 were as follows:

	2004	2005
Wages and Salaries	T€ 49,681	T€ 48,893
Social Contributions	T€ 4,637	T€ 4,414
Total	**T€ 54,318**	**T€ 53,307**

Performance related to Other Reporting Periods

Other operating income contains income in the amount of T€ 1,946 related to other fiscal years (2004: T€ 471).

Staff Complement

The average number of 754 employees in the fiscal year 2005 (2004: 632 employees) was distributed as follows:

	2004	2005
Administration	89 Employees	92 Employees
Sales and Service	263 Employees	341 Employees
Manufacture	37 Employees	51 Employees
Development	243 Employees	270 Employees

Of the 733 staff employed at December 31, 2005 (2004: 790 employees), 226 employees (30.8%) are covered by a collective bargaining arrangement valid for an unlimited period (2004: 315 employees viz. 39.9%).

Declaration of Conformity with the German Corporate Governance Code

The declaration of conformity for Beta Systems Software AG in accordance with § 161 of the German Stock Corporation Act (AktG) was issued on December 9, 2005 by the Management and Supervisory Boards for the fiscal year 2005 and published in German and English on the corporate Internet website at www.betasystems.com.

BOARDS OF THE COMPANY

Management Board

Management Board members of the Company during the fiscal year 2005 were:

- Mr. Dipl.-Kfm. Karl-Joachim Veigel, Chief Executive Officer until September 21, 2005,
- Mr. Dipl.-Inf. Dietmar Breyer, Chief Marketing Officer, Chief Executive Officer from September 21, 2005,
- Mr. Dipl.-Ing. Dr. Oskar von Dungern, Chief Technology Officer.

Remuneration of the Management Board in fiscal year 2005

January 1 to December 31, 2005 in €	Basic Remuneration	Variable Remuneration	Total	Stock Options Granted in 2005
Karl-Joachim Veigel	200,871.00	600,000.00	800,871.00	None
Dr. Oskar von Dungern	223,593.57	8,400.00	231,993.57	None
Dietmar Breyer	203,416.89	24,000.00	227,416.89	None
Total	**627,881.46**	**632,400.00**	**1,260,281.46**	**None**

Additionally Mr. Karl-Joachim Veigel and Mr. Ralf Männlein received in fiscal year 2005 variable remuneration in respect of the fiscal year 2004 in the amount of € 7,201.32 viz. € 18,645.16.

No loans or advances were paid to members of the Management Board.

In respect of future pension obligations due to former members of the Management Board, benefit accruals were increased in 2005 by T€ 98 (2004: T€ 24).

Mr. Karl-Joachim Veigel and Dr. Oskar von Dungern were members of the Supervisory Board of Kleindienst Datentechnik AG effective from May 25, 2004 until the date of registration of the merger of Kleindienst Datentechnik AG on August 25, 2005. Mr. Karl-Joachim Veigel was Chairman of the Supervisory Board.

Supervisory Board

Members of the Supervisory Board of the Company during the fiscal year 2005 were:

- Mr. Dipl.-Ing. Harald J. Joos, Chairman of the Supervisory Board, Berlin, Chairman of the Management Board of Demag Cranes & Components, Berlin,
- Dr. Karl Kauermann, Vice Chairman of the Supervisory Board, until June 14, 2005,
- Mr. William P. Schmidt, Vice Chairman of the Supervisory Board, Berlin, since June 14, 2005,
- Mr. Bernhard Auer, Executive Consultant, Munich, until June 14, 2005,
- Mr. Jürgen Dickemann, Chairman of the Management Board of the Deutsche Balaton, Heidelberg, since June 14, 2005,
- Herr Thomas Engelhardt, Asset Manager for the Sparkasse Jena, Kronach, since June 14, 2005,
- Mrs. Martina Dymala, Product Quality Engineer, as Employee Representative, Berlin, until June 14, 2006,
- Mr. Wilhelm Terhaag, Workers' Council, as Employee Representative, Augsburg, since June 14, 2005,
- Mr. Stefan Hillenbach, Software Engineer, as Employee Representative, Berlin

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

- Berliner Volksbank eG, Berlin,
- Schindler Deutschland Holding GmbH, Berlin.

Mr. Auer is member of the following Supervisory Boards:

- Serenata AG, München,
- Kleindienst Datentechnik AG, Augsburg, since May 26, 2004, until August 25, 2005.

Mr. Dickemann holds the following memberships in the Supervisory Boards of:

- CornerstoneCapital AG, Frankfurt, Vice Chairman of the Supervisory Board,
- ABC Beteiligungen Aktiengesellschaft, Heidelberg, Chairman of the Supervisory Board since January 26, 2005,
- Stratec Grundbesitz AG i. Gr., Mannheim, Chairman of the Supervisory Board. since January 20, 2006.

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

Remuneration of the Supervisory Board in fiscal year 2005.

January 1 to December 31, 2005 in €	Fixed Remuneration	Variable Remuneration	Total	Stock Options Granted in 2005
Harald J, Joos	15,400.00	-	15,400.00	None
Dr, Karl Kauermann	5,221.23	-	5,221.23	None
William P, Schmidt	9,809.59	-	9,809.59	None
Bernhard Auer	3,480.82	-	3,480.82	None
Jürgen Dickemann	4,219.18	-	4,219.18	None
Thomas Engelhardt	4,219.18	-	4,219.18	None
Martina Dymala	3,480.82	-	3,480.82	None
Wilhelm Terhaag	4,219.18	-	4,219.18	None
Stefan Hillenbach	7,700.00	-	7,700.00	None
Total	**57,750.00**	**-**	**57,750.00**	**None**

ADDITIONAL DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN CONNECTION WITH GERMAN ACCOUNTING PRINCIPLES

The consolidated financial statements as at December 31, 2005 were compiled in compliance with International Financial Reporting Standards (IFRS). These statements are exempting consolidated financial statements according to the German commercial code (HGB) and comply with the directives of the European Union regarding Group Accounts (Directive 83/349/EEC). The accounting-, valuation- and consolidation methods deviating from German law are explained below:

Main Differences between German Financial Reporting Standards and International Financial Reporting Standards (IFRS)

Fundamental Differences

German Financial Reporting Standards and International Financial Reporting Standards (IFRS) are based on fundamentally different principles. While the German commercial code (HGB) focuses on the principle of prudence and the protection of creditors, the overriding focus of the IFRS standards is the supply of relevant information for decision making. For this reason, the comparability of annual financial statements – over various successive years as well as of different companies – is given greater priority under IFRS than under the German commercial code (HGB).

Revenue Recognition of Multiple Element Arrangements

In most cases Beta Systems Software AG provides licenses inclusive of service and maintenance, partly free of charge in the first year (multiple element arrangement). In comparison with the German commercial code (HGB) revenue is recognized according to IFRS when:

- persuasive evidence of an agreement exists,
- delivery of the goods viz. service has occurred,
- the fee is reliably determinable,
- collectibility is probable,
- the costs incurred or still to be incurred in connection with the delivery of the service can be determined reliably.

While according to German commercial code (HGB) the recognition of revenues is determined in accordance with the revenues allocated to the various elements of the sales contract, revenue allocation in accordance with IFRS 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. According to IFRS 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 (HGB). IFRS makes no distinction between ongoing and limited licenses, so that the license portion contained in leasing agreements can be realized immediately for all accounting periods. If a licensing agreement includes multiple elements, revenues are allocated on the basis of fair value.

In Process Project Orders (POC)

According to IFRS 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 commercial code (HGB), the revenue can only be realized at partial or full delivery of the construction contract viz. at customer acceptance.

Inventories

In comparison with the German commercial code (HGB) only the selling market can be considered for the lower realizable value of inventories according to IFRS.

Derivative Financial Instruments

In accordance with IFRS derivative financial instruments are stated at acquisition cost at the time of conclusion of the contract and stated at fair value in subsequent accounting periods. Unrealized valuation gains or losses from derivative financial instruments concluded for the purpose of hedging are allocated, depending on the type of the underlying hedging business, either directly to shareholders' equity or to the income statement. Valuation differences from other derivative transactions are always allocated to the income statement. According to the German commercial code (HGB) the valuation of derivative financial instruments is based on their hedging exchange rates. Impending losses are recognized to the income statement without exception. Unrealized gains are not recognized.

Business Combinations

With respect to business combinations the IFRS accounting standards stipulate that in the event of a business combination the purchase price has to be allocated to the assets acquired and the liabilities assumed. A remaining positive difference – Goodwill – is to be recognized as and asset while a remaining negative difference – Badwill – is to be allocated to the income statement. Recognized Goodwill is not subject to systematic amortization and is impaired under application of the regulations according to IFRS 3 "Business Combinations" in combination with IAS 36 "Impairment of Assets" only upon evidence of an impairment of value. According to the German commercial code (HGB) Goodwill is systematically amortized over between four and a maximum of twenty years.

Other Provisions

According to IFRS, provisions are required to be accrued when a liability against a third party is likely (i.e. more likely than not) and when the value of the anticipated liability can be determined reliably. In contrast the accrual of provisions under the German commercial code (HGB) is based on the principle of prudence and results in the accrual of provisions even in the event of a lesser probability.

Contrary to the German commercial code (HGB), 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 IFRS value.

Stock based Compensation

According to IFRS 2 the obligation exists to recognize the fair value of the stock based compensation as expense in the operating income statement over the service period. Under the German commercial code (HGB) such expense would not be recorded.

Deferred Income Taxes

Under IFRS an obligation exists to recognize deferred tax assets and liabilities resulting from temporary differences between tax bases and valuations in the IFRS balance sheet under application of the currently prevailing tax rate. Deferred tax assets from tax loss carry forwards are required to be capitalized depending on their probability of being realized. Under German law the recognition of deferred tax assets is optional; the recognition of tax assets from loss carry forwards is not regulated explicitly in the German commercial code (HGB).

Foreign Currency Valuation

According to IFRS assets and liabilities denominated in foreign currencies are valued using the foreign exchange benchmark rate at the reporting date, irrelevant of the exchange rate at the historical cost date. As a result and in contrast to the German commercial code (HGB) IFRS requires that both unrealized losses and unrealized gains be recognized.

This comes to bear particularly relevant 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 in process project orders (POC).

Operating Leasing / Finance Leasing

Compared with the German commercial code (HGB) the IFRS accounting rules used to distinguish between operating leasing – investment risk borne by the lessor – and finance leasing – risk borne by the lessee – are based to a much greater extent on economic facts, i.e. on the extent to which risks and rewards incident to ownership of a leased asset lie with the lessor or the lessee.

GROUP COMPANIES
SUMMARY OF HOLDINGS AS AT DECEMBER 31, 2005 (UNCONSOLIDATED)

	Local Currency	Share Capital in Local Currency	Equity at 31.12.2005 in Local Currency	Income (Loss) in 2005 in Local Currency	Interest	Share Capital in T€	Equity at 31.12.2005 in T€	Income (Loss) in 2005 in T€
• Beta Systems EDV-Software GmbH, Vienna, Austria					100%	36	89	(24)
• Beta Systems Software SPRL, Waterloo, Belgium					100%	50	245	117
• Beta Systems Marketing GmbH Berlin, Germany (Profit Distribution)					100%	26	26	4
• Beta Systems Software France SARL Saint Thibault des Vignes, France					100%	763	1,796	604
• Beta Systems Software Ltd Reading, Great Britain	TGBP	400	(568)	(148)	100%	582	(826)	(218)
• Beta Systems Software SRL, Milan, Italy					100%	52	715	263
• Beta Systems Software BV, Nieuwegein, Netherlands					100%	23	413	95
• Betann Systems AB, Sundbyberg, Sweden	TSEK	3,893	11,941	1,969	100%	414	1,271	212
• Beta Systems Software AG, Wallisellen, Switzerland	TCHF	100	1,283	596	100%	64	825	385
• Beta Systems Software Espana SL, Madrid, Spain					100%	1,553	141	(178)
• Beta Systems Software of North America, Inc. Herndon, USA	TUSD	1,500	10,440	1,625	100%	1,235	8,823	1,271
• Kleindienst Datadress GmbH, Augsburg, Germany					100%	26	30	(7)
• EDM Verwaltungs GmbH, Augsburg, Germany					100%	25	33	(1)
• ICR Verwaltungs GmbH, Augsburg, Germany					100%	25	31	1
• Kleindienst Polska Sp.z.o.o., Warsaw, Poland	TPLN	2,000	1,911	296	100%	493	495	74
• Kleindienst Africa Ltd., Lagos, Nigeria	TNiN	5,000	43,977	12,745	100%	29	283	78
• Kleindienst Scanner GmbH, Augsburg, Germany					100%	25	23	(2)

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:

	Local Currency	Share Capital in Local Currency	Equity at 31.12.2005 in Local Currency	Income (Loss) in 2005 in Local Currency	Interest	Share Capital in T€	Equity at 31.12.2005 in T€	Income (Loss) in 2005 in T€
• Beta Systems Software of Canada Inc.								
Calgary, Canada	TCAD	31,356	(17,181	(1,159)	100%	22,773	(12,478)	(768)

During the fiscal year 2004 Beta Systems Software AG acquired the majority share in equity interest and voting rights in Kleindienst Datentechnik AG.

Kleindienst Datentechnik AG was merged onto Beta Systems Software AG on August 25, 2005.

Effective December 31, 2005, Kleindienst Datadress GmbH retired as general partner of Kleindienst Solutions GmbH & Co. KG.

Following accretion onto Beta Systems Software AG, Kleindienst Solutions GmbH & Co. KG was dissolved effective December 31, 2005.

Kleindienst Corporation, Houston, USA, was merged onto Beta Systems Software of North America, Inc. effective December 31, 2005.

Apart from those holdings listed above, no further equity holdings exist.

The values of the equity and the operating results for the fiscal year 2005 are those resulting from the financial statements of the individual entities drawn up in accordance with IFRS (unconsolidated). The balance sheets of foreign subsidiaries were converted from the local currency of the country in which the subsidiary is located to Euro at the foreign exchange benchmark rate at the reporting date, while the income statement was translated at the average foreign exchange benchmark rate during the period.

BETA SYSTEMS GROUP WORLDWIDE

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