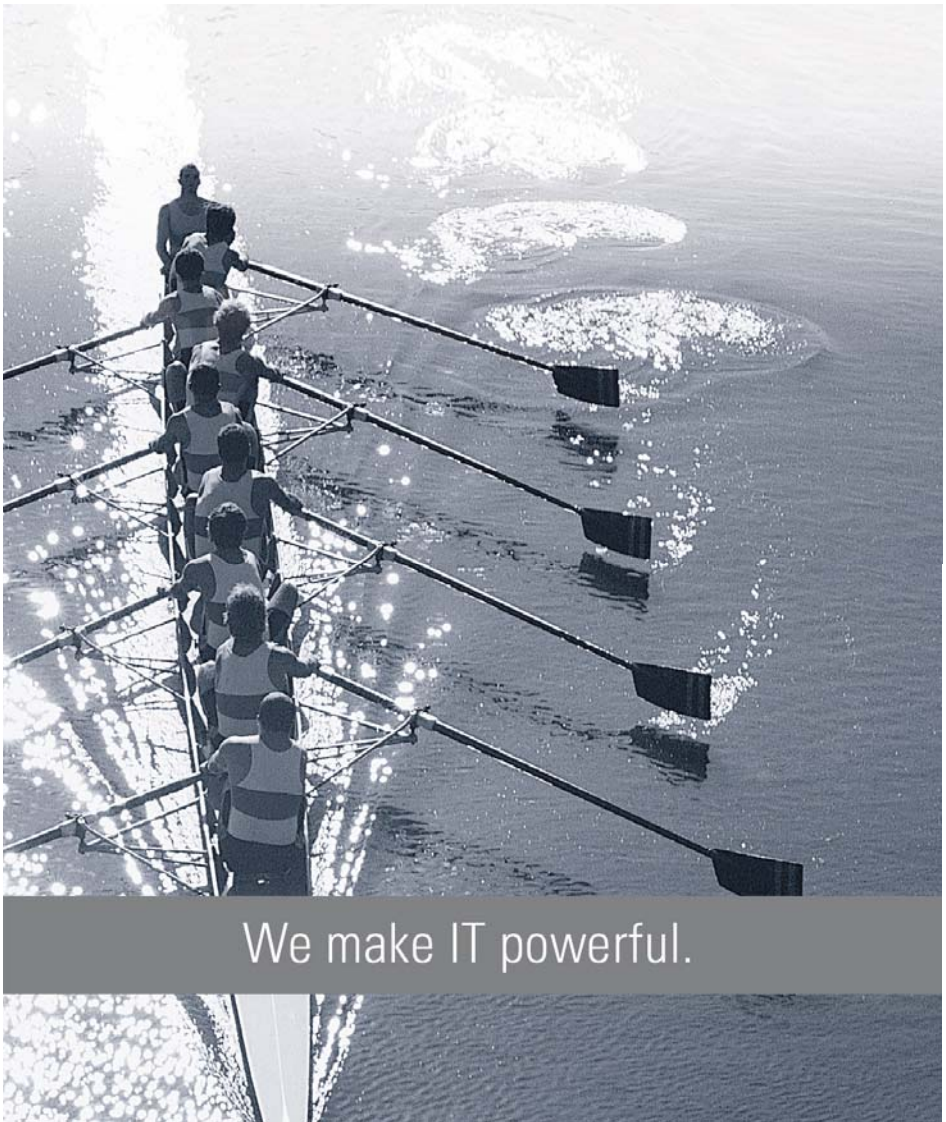
betasystems

[Quarterly Report]

02/06



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Beta Systems key financial figures for Q2 2006

- Revenue increased to € 23.5 million (Q2 2005: € 23.4 million)
- Special Items: Exceptional expenses of € 12.3 million for cost reduction and consolidation measures and the current risk assessment had an effect on the operating result.
- Operating result (from continuing operations including aforementioned exceptional expenses) reduced to € -15.4 million (Q2 2005: € -3.5 million).
- Quarterly result decreased to € -9.4 million / € -1.08 per share (Q2 2005: € 4.1 million / € 0.50 per share).
- Comparable, adjusted operating result reduced to € -3.2 million (Q2 2005: € -2.5 million).
- Comparable, adjusted quarterly result reduced to € -2.1 million / € -0.23 per share (Q2 2005: € -0.9 million / € -0.11 per share).

Beta Systems key financial figures for first half 2006

- Revenue increased to € 45.3 million (HY 2005: € 43.2 million).
- Special Items: Exceptional expenses of € 13.0 million for cost reduction and consolidation measures and the current risk assessment had an effect on the operating result.
- Operating result (from continuing operations including aforementioned exceptional expenses) reduced to € -19.0 million (HY 2005: € -7.6 million).
- Half-year result reduced to € -10.9 million / € -1.25 per share (HY 2005: € 2.0 million / € 0.24 per share).
- Comparable, adjusted operating result increased to € -6.0 million (HY 2005: € -6.6 million).
- Comparable adjusted half-year result reduced to € -3.1 million / € -0.35 per share (HY 2005: € -2.5 million / € -0.30 per share).

Assessment of the current risk situation

"The significantly reduced operating result in Q2 and in the first half 2006 as in comparison with the previous year is in particular attributable to the special items within the cost reduction and consolidation measures and the assessment of the current risk situation which amounted to a total of € 13.0 million", stated Kamyar Niroumand, CEO of Beta Systems Software AG. "Therefore we have undertaken a necessary assessment of the current risk situation which involved some one-off items". In addition the management team has been significantly slimmed down with two board members in the future and one implementational first management level. I explained in the last report that our company was to switch from restructuring mode to growth mode. In Q2 we have set a positive signal here by stabilizing our revenue growth and halting the drop in the licence business – our most important growth engine. We are continuing to devote the highest level of attention to increasing our licence business. And at the same

time we are working extremely hard to improve our sustained results, which we have not yet been able to do in this first half year."

Fine tuning of the company strategy: Focus, Focus, Focus

Mr Niroumand summarized his first 100 days as CEO of Beta Systems Software AG as follows: "I have concentrated during this period on our sales activities in the operating business and visited two to three important strategic customers every week. This has been extremely helpful in the further development of our company strategy. "The series of measures now agreed for the fine-tuning of our strategy can be summarized with the words focus, focus and more focus. We develop exclusive, high-value software products and solutions for the secure and efficient processing of extremely large data volumes. This consists of a concentration on software for the safeguarding of business processes in large companies, especially in the financial services and industrial sectors. In our international business we are focussing on doubling the partner business in Europe and on a long-term profitable presence in North America. In the course of these measures we have slimmed down our country organizations and a streamlined our portfolio. Our prime objective is to generate sustained positive results. This means that by 2008 at the latest all the business sectors must be working profitably. Based on the successfully implemented cost reduction and cost consolidation measures and the current risk assessment we have carried out, we expect that we will be able to increase our comparable, adjusted operating result over the rest of the year."

Important Operating Events

- Personnel changes in the management board and supervisory board
- Sales successes with new customers in Germany, Europe and USA
- Strategic partnerships agreed in the Partner Success Programme
- Leading analysts with positive ranking for Beta Systems.

Personnel changes in the management board and supervisory board

- Dietmar Breyer is leaving the company
- The general shareholder meeting has elected a new supervisory board

The management board and supervisory board announced on July 27, 2006, that management board member, Mr Dietmar Breyer, will be leaving the company on his own volition on August 31, 2006 to devote himself to new responsibilities. Through the resignation of Dietmar Breyer and the departure of management board member Dr. Oskar von Dungern on June 30, 2006 the new management team around Kamyar Niroumand has been slimmed down. For a transition period the CEO, Kamyar

Niroumand, will run the company as the sole management board member. The new appointment of a CFO board position is planned for the near future.

With the decision of the general shareholder meeting on 22 May 2006, Mr Sebastian Leser, Karlsruhe, board member of Delta Beteiligungen AG; Mr Jürgen Dickemann, Heidelberg, board member of Deutsche Balaton AG; Mr Dr. Arun Nagwaney, London, Director AF Capital Partners Ltd., London and Director Plastics Capital Ltd., London and Mr Volker Wöhrle, Rheinstetten, International Sales Director at Velux Deutschland GmbH have been elected onto the supervisory board of Beta Systems Software AG. Following the new elections the supervisory board members Mr William P. Schmidt and Mr Thomas Engelhardt left the supervisory board prior to the end of their term.

Mr Sebastian Leser is currently not exercizing any activities in other supervisory boards established pursuant to statutory provisions. Mr Jürgen Dickemann is a member of the supervisory board of CornerstoneCapital AG, Frankfurt; ABC Beteiligungen Aktiengesellschaft, Heidelberg; Stratec Grundbesitz AG Mannheim. Dr. Arun Nagwaney is also a member of the board of directors of Bell Plastics Ltd., Poole; Bell Holdings Ltd. Poole; Trimplex Ltd.; Belvedere; Safety Tread Ltd., Belvedere and BNL (UK) Ltd., Knasborough (all UK). Mr Volker Wöhrle is not a member of other supervisory boards established pursuant to statutory provisions.

At the constitutive meeting of the supervisory board that took place after the general shareholder meeting, the supervisory board elected Mr Sebastian Leser as chairman and Dr. Arun Nagwaney as vice chairman.

The supervisory board of Beta Systems Software AG is now comprised as follows:

- Mr Sebastian Leser (supervisory board chairman)
- Dr. Arun Nagwaney (supervisory board vice chairman)
- Volker Wöhrle
- Jürgen Dickemann
- Wilhelm Terhaag (employee representative)
- Stefan Hillenbach (employee representative)

Sales successes with new customers in Germany, Europe and USA

- Beta Systems wins new customers in all business areas of DCI, IdM und ECM.

The new strategic orientation with its clear company structure, market-related sector strategies and a focus on sales, led to significant sales successes in Q2 with new customers for Beta Systems. In Spain substantial companies in the public administration and telecommunications sectors were secured for new licence contracts and which in the future will deploy products from the Data Center Infrastructure sector. In the core market of Germany, FrontCollect, a Beta Systems Enterprise Content Management solution, was placed in the Sparkasseversicherung against substantial competitors. In the IdM segment a significant sales success was achieved in the USA with a new customer acquisition in the insurance and financial services area.

Strategic partnerships agreed in the Partner Success Programme

- Beta Systems stepped up its cooperation with well-qualified development and sales partners.

Beta Systems and msg Systems, one of the 10 largest IT consultancy and system integration companies in Germany have agreed a strategic cooperative partnership for the Identity Management (IdM) and Enterprise Content Management (ECM) segments. In the IdM segment msg project services were immediately supported by the deployment of SAM Jupiter from Beta Systems. In the ECM segment msg systems will mainly integrate the Beta Systems' FrontCollect intelligent inbox processing system into its range.

Beta Systems for its part will benefit through this partnership from the technical expertise, the segment knowledge, the integration experience and the project management, output and service management expertise of msg systems. Both companies are expecting this partnership to drive strong impetus in the market, particularly in the insurance, banking, automotive and healthcare sectors.

In the Data Center Infrastructure segment a close cooperative partnership with ASDIS Software AG has been agreed. This has already begun with the integration of ASDIS with Harbor Enterprise NSM, the Beta Systems' solution for the enterprise-wide backup and restore of business-critical data. Beta Systems differentiates itself from the competition with this pioneering, integrated service in that NSM-users can immediately sort out the updates, upgrades or configuration changes of Harbor clients with minimal effort, full transparency and from a central location. The only pre-requisite is the deployment of the Auto Update Option from harbour Enterprise NSM. This has enabled customers to reduce their operating costs whilst increasing their operational security.

Leading analysts with positive ranking for Beta Systems.

- SAM Jupiter from Beta Systems is classified in the 'Challenger' quadrant of the Gartner Magic Quadrant Report.
- Beta Systems is in 5th place in the Lünendonk-Ranking of leading German, medium-sized standard software companies 2005.

Gartner positions the Identity Management solution, SAM Jupiter as a "Challenger" in the Magic Quadrant Report for the user provisioning market. The study classifies suppliers in relation to product capacity and market penetration up to March 2006 and takes into account which of them will probably be dominating the market by the end of 2006 and influencing the technological development. Also considered is which suppliers have the highest customer visibility, win the most invitations to tender and can show the most new and existing installations at Gartner customers.

Beta Systems is in fifth place in the Lünendonk Ranking of the ten leading German, medium-sized standard software companies. The ranking lists the ten highest-revenue companies who have their head offices in Germany, generate more than 60 percent of their revenues from standard software production, sales and maintenance and whose total revenue is not in excess of EUR 500 million. In addition Beta Systems achieved an outstanding 12th position in the Top 25 List of standard software companies in Germany, also recently published by Lünendonk.

Both rankings prove the significant position of Beta Systems Software AG in the standard software market and underline the high degree of competitiveness in its product portfolio.

Financial Position, Financial Performance and Cash Flows

Important notes and preliminary remarks

All reports are prepared in accordance with the generally recognized International Financial Reporting Standards (IFRS). Previous year figures, i.e. all balance sheet items and all items for calculation of profit and loss, have been converted accordingly. Owing to the cessation in 2005 of business operations in the field of the Outsourcing Service, all result values before tax for the year 2005 are suffixed "from continuing operations“ and take into account neither the sales nor the operational expenses of the field of operations ceased. The result from the field of operations ceased is shown after tax, and is incorporated directly into the result of the reporting period.

The results given below refer to the consolidated business results of the Beta Systems Group. In the reporting year 2006, the conversion of segment information to conform to the new business structure, i.e. the business segments Identity Management (IdM), Enterprise Content Management (ECM) and Data Center Infrastructure (DCI) was implemented.

Development of Revenues

As a provider of complex IT business solutions, Beta Systems achieves sales from the components of software licencing, maintenance and service. Sales also result from hardware in the form of scanner systems and other retail goods (e.g. PC workstations and servers).

Sales revenues increased to € 23.5 million in Q2 2006 from € 23.4 million in Q2 2005. The companies in the Beta Systems Group concluded a series of contracts across the world with substantial customers. Some of the largest commercial success in the DCI segment were den ATOS Origin/Premiere (trading, Germany), Polska Telefonia (telecommunications, Poland), IBM Svenska (IT services, Sweden) and the Instituto de Crédito Oficial (public administration, Spain). In the IdM segment large contracts were signed with Banca Intesa (financial services, Italy), Westfield and Aetna Life Insurance (insurance companies, USA.) A significant sales volume was achieved in the ECM segment through the conclusion of contracts with Sparkassenversicherung (insurance), VR Kreditwerk (financial services) and West LB (financial services, all Germany).

The revenues from sales of software licences were € 5.5 million in Q2 2006, therefore slightly over the previous year's level. (Q2 2005: € 5.4 million) Hardware revenue increased from € 2.2 million in the previous year to € 3.6 million in Q2 2006, primarily as a result of the Magyar Posta project secured in the first quarter. Maintenance revenues dropped from € 12.9 million to € 11.6 million in Q2 2006, since in the previous year's quarter a back payment was included in the ECM segment. Services revenue dropped from € 2.9 million to € 2.8 million.

Performance of Business Segments

The DCI segment recorded a sales reduction in Q2 2006 from € 7.9 million in Q2 2005 to € 6.9 million in Q2 2006, this was in particular due to lower licence revenues. The operating result decreased from € 2.3 million to € -1.1 million primarily as a result of a higher level of investment in strategic customer relationships. In the IdM segment the revenues in Q2 2006 dropped to € 2.0 million (Q2 2005: € 2.7 million). The operating result of € -2.6 million was below the previous year's level of € -0.7 million as expected due to the continued high level of investment in research and development plus also in marketing and sales. The ECM segment recorded a clear revenue growth from € 12.8 million to € 15.1 million through increased licence and hardware revenues. The operating result decreased from € -0.9 million in Q2 2005 to € -7.2 million in Q2 2006 primarily through the increased hardware proportion and a risk provision following long-term purchase commitments for external products.

Gross Profit

Gross profit decreased by 42.2% to € 4.3 million in Q2 2006 in relation to € 10.2 million in Q2 2005. The gross profit margin dropped to 18.4% in Q2 2006 from 43.6% in the previous year, primarily as a result of the higher hardware proportion in the ECM segment in combination with the increased service costs and the risk provision following long-term purchase commitments for external products.

Costs and Expenses Development

Operating expenses increased by 43.8% to € 19.7 million in Q2 2006 in relation to € 13.7 million in Q2 2005. These include exceptional expenses for further cost reductions and consolidation measures and the current assessment of the risk situation of € 12.3 million. These have been distributed across the cost items of "cost of revenues", "general and administrative costs", "severance payments and restructuring costs". The exceptional expenses consist mainly of consultancy services for the fine-tuning of the company strategy, investments in the reinforcement of strategic customer relationships, a risk provision following long-term purchase commitments plus severance payments and relocation costs at the Augsburg site due to the personnel adjustment measures carried out. As a result of the exceptional expenses the level of operating expenses increased compared with revenue from 58.5% in the previous year's period to 84.1% in Q2 2006.

Income

In Q2 2006 Beta Systems recorded an operating loss from continuing operations of € -15.4 million in comparison with an operating loss of € -3.5 million in the previous year's quarter. The compararable operating result, adjusted by the special items, decreased to € -3.2 million in Q2 (previous year: € -2.5 million).

The earnings before interest and tax from continuing operations (EBIT) was € -16.3 million in Q1 2006 in relation to € -3.0 million in Q1 2005. The financial result increased to € -0.1 million (previous year: € -0.2 million). The earnings before taxes from continuing operations (EBT) were € -16.4 million in Q2 2006 (previous year: € -3.1 million).

Income Tax and Net Result

Net result in Q2 2006 at € -9.4 million or € -1.08 per share was under the previous year's level (Q2 2005: € 4.1 million / € 0.50 per share). Adjusted by exceptional items the net earnings decreased in Q2 2006 to € -2.1 million / € -0.23 per share (Q2 2005: € -0.9 million / € -0.11 per share). The net result included an income tax benefit of € 7.0 million (Q2 2005: €1.6 million). The weighted average number of shares issued in Q2 2006 was 8,738,666 (Q2 2005: 8,221,580 shares).

Financial Position and Shareholder's Equity

As of June 30, 2006 Beta Systems showed liquid assets of € 5.3 million and an equity amounting to € 20.5 million in relation to liquid assets of € 4.4 million and equity of € 31.5 million on December, 31, 2005. Accounts receivable had reduced in relation to the closure date from € 28.6 million on December 31, 2005 to € 22.7 million on the quarterly closure date and at the same time the production orders increased from € 4.0 to € 8.0 million. The increased active latent taxes of € 14.2 million resulted mainly from the income tax benefit of € 7.0 million.

The long-term financial liabilities in the Beta Systems Group decreased from € 4.3 million on December 31, 2005 to € 3.7 million on the quarterly closure date. The rise in the deferred revenues from € 6.0 to € 14.2 million resulted mainly from the revenue accrual of maintenance contracts. Through the creation of provisions for severance payments and the risk provisions following long-term purchase commitments for external products, the provisions increased from € 2.3 million on December 31, 2005 to € 11.1 million on the quarterly closure date.

Personnel

In the Beta Systems Group the number of employees reduced from 733 at the end of the 2005 financial year to 685 on June 30, 2006. The decline was mainly the result of the sale of Scanner GmbH and the personnel adjustment measures carried out as part of the company reorganisation undertaken the previous year and effective in Q1 2006.

Hotline for investors, analysts and journalists

For questions on the Q2 results 2006, please contact the Investor Relations Team on telephone number +49 30 726 118 -170 and -171 or by email at ir@betasystems.com.

The Management Board

__Disclosure of Directors' Holdings of Beta Systems Software AG__

At June 30, 2006	**Number of shares**
Management Board	
Kamyar Niroumand	10,000
Dietmar Breyer	-
Dr. Oskar von Dungern (until June 30, 2006)	-
Supervisory Board	
Sebastian Leser	-
Dr. Arun Nagwaney	-
Jürgen Dickemann	-
Volker Wöhrle	-
Stefan Hillenbach	4,288
Wilhelm Terhaag	-
Harald J. Joos (until May 2, 2006)	4,000
William P. Schmidt (until May 22, 2006)	1,136,372
Thomas Engelhardt (until May 22, 2006)	66,960
Beta Systems Software AG	
Treasury stock	120,610

None of the Supervisory Board or Management Board members currently hold stock options or conversion rights to shares of Beta Systems Software AG.

Beta Systems Software AG, Berlin, Germany
Beta Systems Software AG (Deutsche Börse - Prime Standard: BSS) is a leading supplier of infrastructure software for en-terprise critical applications for the automation and protection of business processes. Beta Systems provides software in the following areas: Identity Management (IdM), Enterprise Content Management (ECM) and Data Centre Infrastructure (DCI). All solutions are able to process high-volumes of information and throughput. They secure business critical data and help achieve compliance by addressing regulatory requirements. The ECM product range includes scanners and sorters from Kleindienst - a brand owned by Beta Systems Software AG.

Beta Systems with headquarter in Berlin has been listed on the Deutsche Börse (German stock exchange) since 1997 and currently employs about 700 people. The company has 17 subsidiaries worldwide, as well as numerous business partners. Beta Systems' worldwide customer base comprises more than 1,000 IT service providers and large organisations from the fields of finance and insurance, manufacturing, commerce, telecommunications, logistics and energy supply, along with public sector organisations. For further information please visit: www.betasystems.com

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This quarterly report contains forward-looking statements based on current assumptions and forecasts by the management of Beta Systems. Although these assumptions and forecasts are based on prudent commercial judgment, there can be no assurance that the expectations expressed therewith are correct or will materialize. The assumptions and forecasts contained herein may be subject to risks or uncertainties which could cause actual results or outcomes to differ materially from those expressed in the assumptions and forecasts. Factors that may cause actual results to differ materially are, among others, changes in economic conditions and the business-related environment, changes in exchange rates and interest rates, introduction of competing products, lack of demand for or interest in new products or services, as well as changes with regard to the Company's strategy. Beta Systems disclaims any obligation to update any forward-looking statements to reflect subsequent events or circumstances.

Beta Systems Software AG and Subsidiaries
Consolidated Income Statement
(According to IFRS; in Thousand €, except share data)

	Note	Q2/2005 (unaudited)	Q2/2006 (unaudited)
Revenues	1	**23,411**	**23,457**
Software Licences		5,438	5,468
Hardware Sales		2,188	3,556
Maintenance		12,861	11,606
Services		2,924	2,827
Cost of Revenues		**13,214**	**19,143**
Software Licences		1,060	2,855
Hardware Sales	2	1,113	8,019
Maintenance		8,560	4,635
Services		2,481	3,634
Gross Profit		**10,197**	**4,314**
Operating Expenses		**13,692**	**19,731**
Selling	2	5,327	8,684
General and Administrative		3,230	4,562
Research and Development		4,217	4,001
Amortization of Intangible Assets		(108)	124
Severance Payments and Restructuring Costs	3	1,026	2,360
Operating Result from Continuing Operations		**(3,495)**	**(15,417)**
Other Income (Expenses)		523	(836)
Result from Continuing Operations, including Other Income (Expenses)		**(2,972)**	**(16,253)**
Financing Result		**(165)**	**(120)**
Interest Income		45	12
Interest Expense		(210)	(132)
Result from Continuing Operations, before Income Taxes		**(3,137)**	**(16,373)**
Income Tax Benefit		(1,642)	(6,969)
Income from Discontinued Operations, less Income Taxes	4	(5,628)	-
Income (Loss) for the Fiscal Period		**4,133**	**(9,404)**
Earnings per Ordinary Share			
Basic and Diluted		**0.50**	**(1.08)**
Weighted Average Number of Shares Outstanding used to compute Earnings per Ordinary Share			
Basic and Diluted		**8,221,580**	**8,738,666**

See accompanying Notes to the Consolidated Financial Statements

Beta Systems Software AG and Subsidiaries
Consolidated Income Statement
(According to IFRS; in Thousand €, except share data)

	Note	Q1-Q2/2005 (unaudited)	Q1-Q2/2006 (unaudited)
Revenues	*1*	**43,210**	**45,268**
Software Licences		10,477	9,944
Hardware Sales		3,469	6,758
Maintenance		24,312	22,695
Services		4,952	5,871
Cost of Revenues		**23,146**	**31,758**
Software Licences		2,980	3,808
Hardware Sales	*2*	2,396	11,536
Maintenance		13,014	9,319
Services		4,756	7,095
Gross Profit		**20,064**	**13,510**
Operating Expenses		**27,687**	**32,550**
Selling	*2*	10,796	15,182
General and Administrative		7,272	6,859
Research and Development		8,471	7,105
Amortization of Intangible Assets		122	249
Severance Payments and Restructuring Costs	*3*	1,026	3,155
Operating Result from Continuing Operations		**(7,623)**	**(19,040)**
Other Income (Expenses)		2,217	(114)
Result from Continuing Operations, including Other Income (Expenses)		**(5,406)**	**(19,154)**
Financing Result		**(258)**	**(126)**
Interest Income		128	32
Interest Expense		(386)	(158)
Result from Continuing Operations, before Income Taxes		**(5,664)**	**(19,280)**
Income Tax Benefit		(2,545)	(8,372)
Income from Discontinued Operations, less Income Taxes	*4*	(5,107)	-
Income (Loss) for the Fiscal Period		**1,988**	**(10,908)**
Earnings per Ordinary Share			
Basic and Diluted		**0.24**	**(1.25)**
Weighted Average Number of Shares Outstanding used to compute Earnings per Ordinary Share			
Basic and Diluted		**8,221,580**	**8,738,666**

See accompanying Notes to the Consolidated Financial Statements

Beta Systems Software AG and Subsidiaries
Consolidated Statement of Cash Flow
(According to IFRS; in Thousand €, except share data)

	Q1-Q2/2005 (unaudited)	Q1-Q2/2006 (unaudited)
Net Cash Provided by Operating Activities	**6,755**	**1,479**
Net Income (Loss) for the Fiscal Period	1,988	(10,908)
Adjustments to reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	2,174	2,287
Non-Cash Expenditures of Discontinued Operations	1,266	-
Gain on Sale of Fixed Assets	(10)	(13)
Gain on Sale of Outsourcing Service Business Unit	(5,846)	-
Interest Expense	258	159
Interest Paid	(331)	(144)
Current Tax Expenses	1,525	481
Deferred Tax Expenses	(2,901)	(8,763)
Income Taxes Paid	(208)	(75)
Foreign Currency Gains (Losses)	409	(172)
Changes in Assets and Liabilities:		
- Decrease in Trade Accounts Receivable	1,394	9,343
- Increase (Decrease) in Trade Accounts Payable	(902)	1,972
- Increase in Deferred Revenues	6,914	8,154
- Change in other Assets and Liabilities, including Assets Held for Sale	1,025	(842)
Net Cash Used in Investing Activities	**10,135**	**(498)**
Interest Income	128	32
Repayment of Short-Term Investments	705	-
Purchases of Fixed Assets	(246)	(576)
Proceeds from Disposals of Fixed Assets	260	46
Proceeds from Sale of Outsourcing Service, net of Cash Disposed	9,920	-
Acquisition of Software Development Costs	(237)	-
Cash Paid for Investments and Payments for Asset Deals	(395)	-
Net Cash Used in Financing Activities	**(6,742)**	**1**
Repayment of Short-Term Borrowings	(5,714)	2,583
Repayment of Long-Term Debt and Finance Leases	-	(2,582)
Dividend Distribution	(1,028)	-
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**(237)**	**(54)**
Increase in Cash and Cash Equivalents	**9,911**	**928**
Cash and Cash Equivalents at the Beginning of the Fiscal Period	10,836	4,383
Cash and Cash Equivalents at the End of the Fiscal Period	**20,747**	**5,311**

See accompanying Notes to the Consolidated Financial Statements

Beta Systems Software AG and Subsidiaries
Consolidated Balance Sheet
(According to IFRS; in Thousand €, except share data)

	Note	12.31.2005 (audited)	6.30.2006 (unaudited)
Current Assets		**46,852**	**44,420**
Cash and Cash Equivalents		4,383	5,311
Trade Accounts Receivable		28,609	22,733
Work in Process Project Orders (POC)		4,023	7,950
Inventories		4,737	4,247
Prepaid Expenses and Deferred Charges		1,517	1,795
Other Current Assets		894	2,384
Current Income Taxes		946	-
Assets Held for Sale	5	1,743	-
Non-Current Assets		**27,742**	**33,740**
Fixed Assets		5,965	5,416
Goodwill		2,846	2,820
Other Intangible Assets		2,656	2,011
Acquired Software Development Costs		4,038	3,445
Deferred Tax Assets		5,068	14,197
Other Non-Current Assets		7,169	5,851
Total Assets		**74,594**	**78,160**
Current Liabilities		**32,685**	**47,646**
Short-Term Debt and Current Installments of Long-Term Debt and Finance Leases		4,912	5,443
Trade Accounts Payable		3,511	8,950
Deferred Revenues		6,008	14,161
Current Income Taxes		927	165
Accrued Expenses		2,306	11,065
Other Current Liabilties		14,502	7,862
Liabilities Associated with Assets Held for Sale	5	519	-
Non-Current Liabilities		**10,417**	**10,064**
Long-Term Debt and Finance Leases		4,317	3,665
Pension Obligations and Obligations for Partial Retirement		2,038	2,419
Deferred Tax Liabilities		1,904	2,272
Other Non-Current Liabilities		2,158	1,708
Total Liabilities		**43,102**	**57,710**
Shareholders' Equity		**31,492**	**20,450**
Ordinary Shares	6	11,324	11,517
Additional Paid-In Capital		20,178	19,985
Accumulated Loss		(870)	(11,778)
Accumulated Other Comprehensive Income		1,279	1,145
Treasury Stock at Cost: 120,610 Ordinary Shares		(419)	(419)
Total Liabilities and Shareholders' Equity		**74,594**	**78,160**

See accompanying Notes to the Consolidated Financial Statements

Beta Systems Software AG and Subsidiaries - Consolidated Statement of Changes in Shareholders' Equity and Comprehensive Income (Loss)

(According to IFRS; in Thousand €, except share data)

At June 30, 2006 (unaudited)

	Ordinary Shares: Number of Shares Issued	Ordinary Shares: Nominal Amount	Additional Paid-In Capital	Accumulated other Comprehensive Income (Loss)	Accumulated Income (Loss)	Net Income (Loss), incl. Comprehensive Income (Loss)	Treasury Stock: Number of Ordinary Shares	Treasury Stock: Amount, at Cost	**Shareholders' Equity attributable to the Shareholders of the Parent Company**	Minority Interests	Total Shareholders' Equity
Balance at January 1, 2005	**8.342.190**	**10.663**	**18.387**	**1.491**	**(1.413)**		**(120.610)**	**(419)**	**28.709**	**8.886**	**37.595**
Issuance of Ordinary Shares	517.086	661	2.312	-	-		-	-	**2.973**	-	2.973
Cost of Increase in Paid-In Capital			(521)						**(521)**		(521)
Dividend Distribution	-	-	-	-	(1.028)		-	-	**(1.028)**	-	(1.028)
Net Income for the Year	-	-	-	-	1.571	1.571	-	-	**1.571**	(364)	1.207
Other Comprehensive Income, net of Tax Effect											
Currency Translation Adjustments	-	-	-	-	-	(212)					
Other Comprehensive Income, net of Tax Effect	-	-	-	(212)	-	(212)			**(212)**		(212)
Total Comprehensive Income						1.359					
Minority Interests	-	-	-	-	-		-	-	-	(8.522)	(8.522)
Balance at December 31, 2005	**8.859.276**	**11.324**	**20.178**	**1.279**	**(870)**		**(120.610)**	**(419)**	**31.492**	**-**	**31.492**
Issuance of Ordinary Shares	-	193	(193)	-	-		-	-	-		-
Dividend Distribution	-	-	-	-	-		-	-	-		-
Net Loss for the Fiscal Period	-	-	-	-	(10.908)	(10.908)	-	-	**(10.908)**		(10.908)
Other Comprehensive Loss, net of Tax Effect											
Currency Translation Adjustments	-	-	-	-	-	(134)					
Other Comprehensive Loss, net of Tax Effect	-	-	-	(134)	-	(134)	-	-	**(134)**		(134)
Total Comprehensive Loss						(11.042)					
Balance at June 30, 2006	**8.859.276**	**11.517**	**19.985**	**1.145**	**(11.778)**		**(120.610)**	**(419)**	**20.450**	**-**	**20.450**

See accompanying Notes to the Consolidated Financial Statements

Beta Systems Software AG and Subsidiaries
Notes to the Consolidated Financial Statements according to IFRS
(In Thousand €, except share data)
Interim financial report at June 30, 2006 (unaudited)

Summary of Significant Accounting Policies

Description of Business Activity — Beta Systems Software Aktiengesellschaft and subsidiaries ("Beta Systems" or “the Company") develops, markets and supports enterprise automation software solutions for mainframe computers and other hardware managed by information systems departments of large corporations, government agencies and other organizations. The Company's products are designed to increase the productivity of data centres by automating manual tasks and optimizing the use of hardware resources. The Company's products feature a common comprehensive architecture which facilitates the development and integration of the Company's products across applications. The ECM business segment develops and sells Document-Management-Solutions for various sectors and especially for the payment processing in the banking sector.

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

Financial Reporting Principles — The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS), and particularly in compliance with IAS 34 for interim financial reports. Accordingly they do not include all of the information and footnotes required by International Financial Reporting Standards (IFRS) for annual financial statements. In the opinion of management, all adjustments considered necessary for fair presentation (normal recurring accruals) were included. Operating results for the period ended June 30, 2006 are not necessarily indicative of the results that may be expected for the fiscal year 2006. For further information, refer to the Company’s financial statements and footnotes thereto for the fiscal year ended December 31, 2005.

Basis of Consolidation and Consolidation Methods — All companies in which Beta Systems has legal control are fully consolidated. The effects of intercompany transactions are eliminated.

As the reporting structure in use by the Kleindienst Group does not comprise any comparable differentiation into the reporting categories applied by Beta Systems Software AG effective from January 1, 2006, the allocation of the revenues realized by the Kleindienst Group and the cost of revenues viz. the manufacturing costs for the comparative period are partially based on estimates and assumptions.

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 receipt of payment is probable. According to IFRS, regulations for the allocation of the purchase price for multiple element licence contracts do not exist. If a licensing agreement includes multiple elements, revenues are allocated to those elements based on vendor specific objective evidence of Fair Value. Maintenance revenue is recognized pro rata temporis over the maintenance period.

Service revenue consists principally of installation and training services and is recognized as the services are performed. In addition to the existing standard software product range, the Company also offers products to meet the demand for individually customized software solutions. Revenues from these construction contracts are recognized according to the percentage-of-completion method, a method requiring the following criteria to be satisfied for revenue recognition: rights and responsibilities must be clearly defined in the contract, pre-project calculation of costs and revenues must be possible, the final profitability of the project must be able to be determined

reliably and objectively, i.e. further projected costs and revenues must equally be able to be estimated accurately, risks may not hinder the ability to deliver the contract (e.g. credit risks, legal considerations), and payment by the customer must be probable. The Company uses the Cost-to-Cost Method to determine the percentage of completion.

Research and Development and Acquired Software Development Costs — Research and development costs are charged to expenses as incurred. The development of new software products and substantial enhancements to existing software products takes place incrementally and iteratively. The research phase of an internal development project to create a software product cannot be distinguished from the development phase, accordingly expenses cannot be distinctly allocated to these phases. The Company treats these expenditures as if they were incurred in the research phase only, in accordance with IAS 38.52 and IAS 38.53.

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

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

Earnings per Ordinary Share — The basic earnings per ordinary share is calculated by dividing the net result for the fiscal period by the weighted average number of ordinary shares outstanding during the reporting period. Diluted net loss per ordinary share is calculated in accordance with IAS 33 to reflect the diluting effect of shares.

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

Inventories — Inventories are stated at the lower of historical costs or net selling price, considering the lower of cost or market principle. Inventory risks are accounted for by adequate reserves for slow-moving, obsolete and damaged items where appropriate. Obsolete allowances are reversed.

Fixed Assets — Fixed Assets are valued at acquisition cost and subsequently depreciated using the straight-line method over the assets' useful lives as follows: building improvements — five to ten years; computer equipment — three to five years; facilities and office equipment — three to thirteen years.

Goodwill and Other Intangible Assets — Intangible assets including goodwill are valued at acquisition cost, net of impairments. At each reporting date the Company assesses the recoverability based on future cash flows in accordance with IAS 36.

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

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

Foreign Currencies — The balance sheets of foreign subsidiaries are translated to Euro on the basis of period-end exchange rates, while the income statements are translated using average exchange rates during the period. Cumulative translation adjustments are reported as a separate component of other comprehensive income.

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.

1. Segment Information

All segments derive revenues from sales of product licenses as well as maintenance, consulting and services. Additionally, hardware sales are realized.

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

The results for the active business segments of the Company are presented according to the Company's primary reporting format:

Q2/2005	**DCI**	**IdM**	**ECM**	**Elimi-nation**	**Total Group**
Total Revenues	7,881	2,719	12,811	-	23,411
Segment Income (Loss) from Continuing Operations	2,293	(735)	(905)	-	653
Q2/2006	**DCI**	**IdM**	**ECM**	**Elimi-nation**	**Total Group**
Total Revenues	6,923	2,047	15,127	(640)	23,457
Segment Income (Loss) from Continuing Operations	1,112	(2,569)	(7,176)	262	(8,371)
Q1-Q2/2005	**DCI**	**IdM**	**ECM**	**Elimi-nation**	**Total Group**
Total Revenues	15,961	4,820	22,429	-	43,210
Segment Income (Loss) from Continuing Operations	4,047	(1,898)	(1,352)	-	797
Q1-Q2/2006	**DCI**	**IdM**	**ECM**	**Elimi-nation**	**Total Group**
Total Revenues	13,395	3,751	28,762	(640)	45,268
Segment Income (Loss) from Continuing Operations	2,843	(5,101)	(6,781)	262	(8,777)

A reconciliation of the revenues of the reportable segments to the Company's consolidated totals is as follows:

	Q2/2005	Q2/2006
Segment Income (Loss) from Continuing Operations	653	-8,371
Unallocated Overhead Costs	(4,148)	(7,046)
Other Income (Expenses)	523	(836)
Result from Continuing Operations, including Other Income (Expenses)	(2,972)	(16,253)
Financing Result	(165)	(120)
Result from Continuing Operations, before Income Taxes	(3,137)	(16,373)
Income Tax Benefit	(1,642)	(6,969)
Income from Discontinued Operations, less Income Taxes	(5,628)	-
Income (Loss) for the Fiscal Period	4,133	(9,404)

	Q1-Q2/2005	Q1-Q2/2006
Segment Income (Loss) from Continuing Operations	797	-8,777
Unallocated Overhead Costs	(8,420)	(10,263)
Other Income (Expenses)	2,217	(114)
Result from Continuing Operations, including Other Income (Expenses)	(5,406)	(19,154)
Financing Result	(258)	(126)
Result from Continuing Operations, before Income Taxes	(5,664)	(19,280)
Income Tax Benefit	(2,545)	(8,372)
Income from Discontinued Operations, less Income Taxes	(5,107)	-
Income (Loss) for the Fiscal Period	1,988	(10,908)

2. Significant Operating Expenses

For provisions for contingencies in connection with long-term acceptance obligations for non-Company products the Company recognized an amount of T€ 5,300. This amount is included in Cost of Hardware.

Included in Selling Expenses is an amount of T€ 1,400. This represents the cost for a product refund granted to a major German customer in terms of fair dealing considerations.

3. Restructuring

Further measures introduced during the first quarter of the current fiscal year to reduce operating expenses by streamlining business processes were further implemented. The staff reduction affects employees at the Augsburg location. The restructuring concerns the LoB ECM. The measures are expected to be completely implemented by the end of the following reporting quarter.

As at June 30, 2006 costs for severance payments were accrued as follows:

	Q1-Q2/2005	Q1-Q2/2006
Cost of Revenues	70	1,731
Selling Expenses	26	441
Administrative Expenses	126	470
Research & Development Expenses	804	513
Total Severance Payments	1,026	3,155

The amount was accrued during the first two quarters of the current fiscal year. All of the above costs relate to the reduction of staff.

4. Sale of the Outsourcing Service business unit

The operating revenues, expenses and income taxes transacted by this business unit for the **fiscal year 2005** is shown in the consolidated **income statement for the comparative reporting period** under the position “Loss from Discontinued Operations, less Income Taxes”.

On April 10, 2005, the Outsourcing Service business unit was sold to the Transaktionsinstitut für Zahlungsverkehrsdienstleistungen AG (TAI AG), a subsidiary of the DZ Bank AG. The sale was economically effective retrospectively to January 1, 2005.

5. Outsourcing of the Kleindienst Scanner and Sorter Hardware Manufacture through the Sale of the Kleindienst Scanner GmbH

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 concluded. The sale was economically effective retrospectively to January 1, 2006. No effect to the income statement resulted from this in the reporting period.

The assets and liabilities held by this business unit as at December 31, 2005 are shown in the consolidated balance sheet for the comparative reporting period under the positions “Assets Held for Sale” viz. “Liabilities associated with Assets Held for Sale”.

The final consolidation was done effective April 1, 2006.

6. Shareholders’ Equity

As a result of a resolution passed at the General Shareholders’ Meeting held on May 22, 2006 to undertake a recapitalization the share capital was raised by conversions of T€ 193 from APIC to T€ 11,517. The recapitalization took place without the issuance of any ordinary shares. The recapitalization results in a proportionate value of exactly € 1.30 per ordinary share.

7. Change in Management

In an extraordinary meeting held on December 17, 2005 the Supervisory Board appointed Mr. Kamyar Niroumand as Chief Executive Officer. Effective April 1, 2006, Mr. Niroumand assumed his position. Mr. Dietmar Breyer was appointed Deputy Chief Executive Officer effective April 1, 2006.

Mr. Harald J. Joos, Chairman of the Supervisory Board, terminated his mandate upon the ending of the Supervisory Board meeting held on May 2, 2006. During its meeting held on May 2, 2006, the Supervisory Board appointed Mr. William P. Schmidt as Chairman of the Supervisory Board. Mr. Jürgen Dickemann was appointed Vice Chairman of the Supervisory Board.

In accordance with a resolution passed at the General Meeting of Shareholders held on May 22, 2006 the tenure of the members of the Supervisory Board Mr. William P. Schmidt and Mr. Thomas Engelhardt was recalled.

The shareholders elected Mr. Sebastian Leser, Mr. Jürgen Dickemann, Dr. Arun Nagwaney and Mr. Volker Wöhrle onto the Supervisory Board of the Company.

At the constitutive meeting of the Supervisory Board held subsequent to the General Shareholders' Meeting the Supervisory Board elected Mr. Sebastian Leser as Chairman and Dr. Arun Nagwaney as Deputy Chairman.

Dr. Oskar von Dungern, member of the Management Board, left the Company effective June 30, 2006.

8. Takeover bid by Delta Beteiligungen Aktiengesellschaft

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: € 1.30 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 27, 2006 the Delta Beteiligungen Aktiengesellschaft notified the Management Board of the Company that the public takeover bid had been accepted at March 22, 2006 for altogether 1,063,794 shares. The takeover bid ended with a share of the voting rights of 34% for Delta Beteiligungen Aktiengesellschaft.

9. Events after the Reporting Date

On July 27, 2006 the Company announced that Dietmar Breyer, Deputy Chief Executive Officer, would leave the services of the Company at his own request on August 31, 2006.