ANNUAL REPORT

[2006]

_betasystems

[At A Glance]

Beta Systems Software AG and Subsidiaries – Group Financial Data in IFRS
(*Until 2003: Group Financial Data in US-GAAP)

Euro in thousands	2002*	2003*	2004	2005	2006	2006 vs. 2005
Total revenues	45,112	55,794	89,993	95,606	96,621	1.1%
Operating income	126	3,819	895	(4,624)	(15,602)	(237.4)%
Income before income taxes	2,292	4,801	317	(5,144)	(16,412)	(219.1)%
Net income (loss)	316	3,510	59	1,571	(18,390)	(1,270.6)%
Cash and cash equivalents	15,740	14,775	11,532	4,383	2,050	(53.2)%
Total shareholders' equity	27,876	31,710	37,595	31,492	12,990	(58.8)%
Total assets	54,679	62,139	104,083	74,594	69,532	(6.8)%
Equity ratio in %	51.0	50.9	36.1	42.2	18.7	(55.7)%
Number of employees	293	381	790	733	645	(12.0%)

German Security Code Number:	522 440
ISIN:	DE0005224406
SE Code:	BSS, Reuters: BSSG.DE
Share Capital:	€ 11.5 million (8.9 million shares)
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 Sponsor:	Equinet Securities AG
IPO Lead Managers:	Deutsche Morgan Grenfell, Goldman Sachs, Sal. Oppenheim jr & Cie.

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PREFACE BY THE CHIEF EXECUTIVE OFFICER

Dear Shareholders,

Behind us lies an eventful year and one that has brought us many changes. The Company's management, too, underwent a far-reaching transformation following the strategic realignment implemented at the beginning of fiscal year 2006. In the course of this I accepted the office of Chief Executive Officer of Beta Systems. My decision to join Beta Systems was motivated on the one hand by the tremendous managerial challenge involved and on the other hand even more so by the Company's tremendous expertise in the IT-sector and the high degree of customer satisfaction it enjoys.

Enormous Potential based on 25 Years' Expertise and a high Level of Customer Satisfaction

As Germany's fifth-largest independent software developer, Beta Systems calls on almost 25 years' of excellent relations founded on a high level of confidence and trust with many blue-chip customers. In Europe we manage to continuously maintain a seat in the front row against the mostly US-American competitors as one of the few independent, European software providers in our specific lines of business. The fact that 18 of the 30 DAX-groups and 50% of the large corporations in the EUROSTOXX-index use our software solutions convinced me of the great potential inherent in this Company.

Positive Trend in the second Half of Fiscal Year 2006

Simultaneously I realized that this enormous potential had as yet not been sufficiently employed. This is substantiated not least by Beta Systems' financial performance of the last few years. From a purely economic perspective we were also not successful in 2006; due to non-recurring effects our net loss of € 18.4 million is clearly negative and in view of this we will again not be able to distribute a dividend to our shareholders in this fiscal year. The unsatisfactory business development is reflected in our share performance.

The first six months of the fiscal year 2006 were dominated by the final implementation of our cost reduction and consolidation measures and we concerned ourselves intensively with an in-depth assessment of our risk position. This was a painful yet inevitable process and allowed us to start the second half of the fiscal year and the future with a significantly streamlined cost structure.

From July onwards we made significant progress, particularly at an operational level and concluded a number of major contracts with key customers such as Allianz, Postbank, Metro Group or UniCredit Group. We succeeded in reversing the downward trend in our licensing business - our main engine for growth -, ending the year with a modest gain of approximately 1% for the year.

Turnaround in 2007

Our target now is to continue this positive trend and to strengthen our maintenance- and service business by concluding new contracts in the licensing- and solutions areas, particularly in the IdM and ECM business segments. Only by pursuing this approach will we be able to boost earnings significantly and achieve the anticipated turnaround into profitability in 2007. The goal which we have set ourselves is for all three Lines of Business to operate profitably by 2008. DCI in fact already met this target in 2006: with a segment profit in excess of € 14 million and an operating profit margin of almost 40% it was our most successful business unit by far.

To continue this positive development we have defined a clear agenda:

Action based on Customer Feedback

From the outset stood intensive dialogue and active listening. In that way I gained, on the basis of numerous discussions with customers, a clear picture of the strengths and weaknesses of Beta Systems. Our customers are extremely satisfied with our products, solutions and services and value our flexibility as a medium-sized provider. Now and in the future this is the most important source of our business success. At the same time we also received clear signals and suggestions from our customers regarding the areas where large corporations expect greater innovation and fresh, creative approaches on the topics of automation, security and transparency of their business processes.

Fine-Tuning our Strategy

On the basis of this profile and our Company history we fine-tuned our strategy and undertook to concentrate our actions on a number of levels. Henceforth we will focus even more vigorously on our strengths. This entails concentrating on our core region (Europe), our core sector (financial services) and our core segment (large corporations). Here we want to achieve above-average growth. We will focus our three Lines of Business ECM (document management), IdM (user management) and DCI (information management in data centers) even more directly on these target markets. Simultaneously we have strengthened our partnership operations decisively in order to achieve growth in those regions and sectors not directly addressed.

The financial results substantiate the correctness of our decisions: Revenues realized with our ten largest customers amounted to almost € 26 million in fiscal year 2006. The successful launch of our document management solutions for the insurance industry accounted a. o. for around 75% of total revenue in the financial services area for Beta Systems in fiscal year 2006.

This strategic realignment resulted in structural changes: our foreign subsidiaries were streamlined and focused on our Lines of Business. Our Research and Development activities were partially re-organized and are now coordinated by our own comprehensively responsible Business Development- and Technology Innovation Teams.

Close Coordination between Sales, Marketing and Public Relations

In the course of our efforts to optimize the communication with our customers we have already achieved a good deal of success as a result of the close coordination between the central functions for Sales, Marketing and Public Relations. This construction existential to our success continues to function better all the time.

The Global Top Account Management, centrally and directly assigned under my Management Board responsibility, is set up to guarantee that selected key accounts receive best possible support across all Lines of Business and that simultaneously a "high-performance" sales culture is established across the Company by means of intensive training measures. The aim is a uniform customer approach which will allow us to gain access to key decision-makers. Numerous marketing- and public relations measures, e.g. the sponsoring engagement of youth soccer in Berlin, the "Brose Baskets" premier-league basketball team and our social involvement in the form of our „Training Initiative", a sponsorship of next-generation IT-specialists, have produced a favorable response in the media. A redesigned website and the dynamic expansion of our trade name have strengthened our image. An increasing number of customer references and constant communication with the capital markets are instruments used to continuously boost the value of the Company's share and to enhance the profile of the Company in the media.

Cost Reduction and Reduction of Vertical Integration

Both the horizontal functions and the management of Beta Systems were downsized and adapted to the market and to the current situation of the Company. Units which did not fit in to our range of core competencies, e.g. the manufacture of the scanner/sorter hardware, were divested. At the same time we reinforced our customer-oriented operations with additional personnel.

Renewing our Product Portfolio

We concentrate on products and solutions which are demanded and needed by our customers. The degree of complexity of our products conforms to the needs and requirements of our customers. As a result our product range is reduced while simultaneously creating greater value for the customer. Development and sales of products and solutions outside our core range were discontinued.

Managing Change

Support by the workforce always plays a significant role in managing change. From the very beginning we communicated our strategy internally and involved our employees in the process. Given the known economic circumstances we were able to generate a principle base of acceptance for the need to implement change and we will continue this process in 2007.

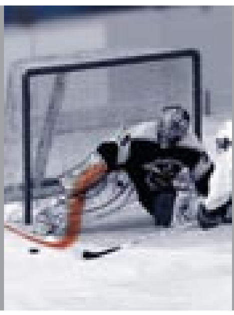
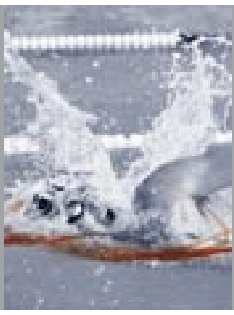
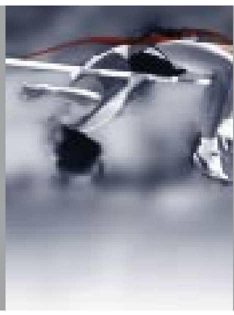
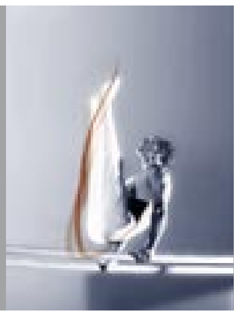
This concentration on core competencies acted as a clear signal to the workforce. It demonstrated the need to build on existing performance and technological leadership. Organizational changes and renewal of our product portfolio were the first important steps towards the anticipated turnaround in 2007. We involved senior members of staff, some of whom have been with the Company for a long time, as much as industry specialists, managers and sales professionals who joined the Company in 2006. On the one hand this imparted continuity and on the other hand enhanced the dynamic approach to the challenges we face. All of us, myself included, were motivated by the first signs of success and the improvement during the fourth quarter. We will need to provide sustained improvement in 2007, as nothing other than success is that which will persuade our employees, customers, partners and not least you, our shareholders, that the measures taken were indeed the right ones.

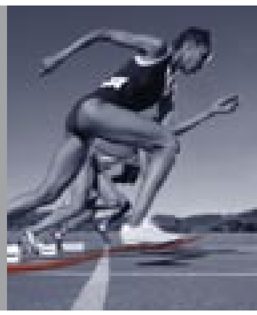
The year ended with the strengthening of the Management Board by means of the appointment to the Management Board of Mr. Gernot Sagl as Chief Financial Officer. This concludes the management restructuring process.

The fiscal year 2006 was an eventful and significant year for Beta Systems. We have laid the foundation for a successful turnaround and have created favorable conditions for growth. The support by customers, analysts, investors and employees has significantly contributed to this. On behalf of the Management Board I wish to thank everyone. I am in no doubt that we will jointly release the enormous potential of Beta Systems Software AG with our clear objectives, convincing strengths and sound growth impetus.

Berlin, March 2007

Kamyar Niroumand
Chief Executive Officer



INVESTOR RELATIONS AND THE BETA SYSTEMS SHARE

Turbulent Times for Beta Systems' Share

Following a 1:2 stock split implemented in December 2005 the Beta Systems' share took off to a positive start into fiscal 2006. At the end of the first quarter share performance was dominated in particular by the takeover bid by the Heidelberger Beteiligungsholding AG (formerly Delta Beteiligungen AG) as well as the announcement of the Company's Annual Results for 2005. Trading in Beta Systems shares was buoyant, resulting in a closing price of € 6.50 at March 31, 2006. Management and Supervisory Board changes announced in the 2nd quarter led to uncertainty at the capital market. The reassessment of the existing risk situation led to a noticeable downward trend in the Company's share price. This was brought to a halt with the announcement of Beta Systems' Q3-results in November. At December 29, 2006 the Company's share price was listed at € 4.80.

Beta Systems' Share Performance – Three-Year Period

Indexed performance of Beta Systems' shares **(red)** from 2004 to 2006, compared with TecDax Performance Index **(black)** and Deutscher Aktienindex DAX **(silver)**

Beta Systems Share – Key Facts & Figures	2006
Earnings per share (Loss)	€ (2.10)
High	€ 6.60
Low	€ 3.40
Share price on 12. 29. 2006	€ 4.80
Number of shares issued	8,859,276 shares
Share capital	€ 11.5 million
Market capital at 12. 29. 2006	€ 42.5 million

Extensive Communication with Capital Markets

Beta Systems continued to pursue its approach of open, timely and transparent communication with institutional and private investors, financial analysts and representatives of the business media during fiscal 2006. Investor Relations activities in 2006 focused extensively on the Company's newly appointed Chief Executive Officer Kamyar Niroumand as well as on the communication of the adjustments made to the corporate strategy following the management changes. During numerous roadshow presentations, individual meetings and interviews with decision-makers at Europe's key financial centers we highlighted the merits of an investment in our share by emphasizing the long-term opportunities associated with a the Beta Systems shareholding. Our website www.betasystems.com provides extensive information for shareholders and potential investors interested in assessing the value of Beta Systems' share.

Beta Systems' Investor Calendar 2007

March 27, 2007
Announcement of the Annual Results 2006
Investor and Analyst Conference Call
Online Press Conference, Berlin

May 9, 2007
Publication of Q1 2007 Report
Investor and Analyst Conference Call

May 23, 2007
Annual General Meeting, Ludwig-Erhard-Haus, Berlin

May/June 2007
Analyst/Investor Conference and European Investor Roadshow

July 31, 2007
Publication of Q2 2007 Report
Investor and Analyst Conference Call

October 30, 2007
Publication of Q3 2007 Report
Investor and Analyst Conference Call

November 2007
Analyst/Investor Conference and European Investor Roadshow

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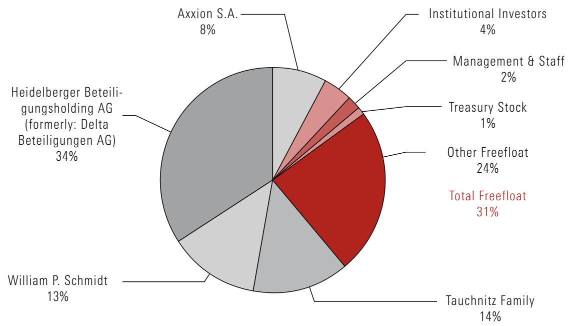
Shareholder Structure (as at December 31, 2006)



BETA SYSTEMS SOFTWARE AG COMPANY PROFILE

Our Mission

Beta Systems Software AG develops high-quality software products- and solutions for the secure and efficient processing of large quantities of data and is one of the leading medium-sized European IT-Solution Providers in this market segment. The software products- and solutions offered support customers in the automation, safeguarding and transparency of their business processes in the three core areas of document management, identity management and information management in data processing centers.

Beta Systems' total over than 1,300 customers worldwide with more than 3,000 operating installations includes major corporations in the fields of financial services, general industry, commerce, logistics and IT-services in Germany, Europe and the USA. 60% of all companies listed on the DAX and 50% of all European EUROSTOXX companies trust in software solutions by Beta Systems, while 7 of the 10 largest European insurance groups rely on Beta Systems' products to accommodate their IT-security and automation needs.

ECM Business Unit – Document Management

Beta Systems' FrontCollect input management solution offers comprehensive functions for the handling of all document processing tasks from scanning, data capture and archiving through to further processing. FrontCollect allows companies to capture all incoming mail and to distribute it to downstream applications such as a business management- or mailbox system.

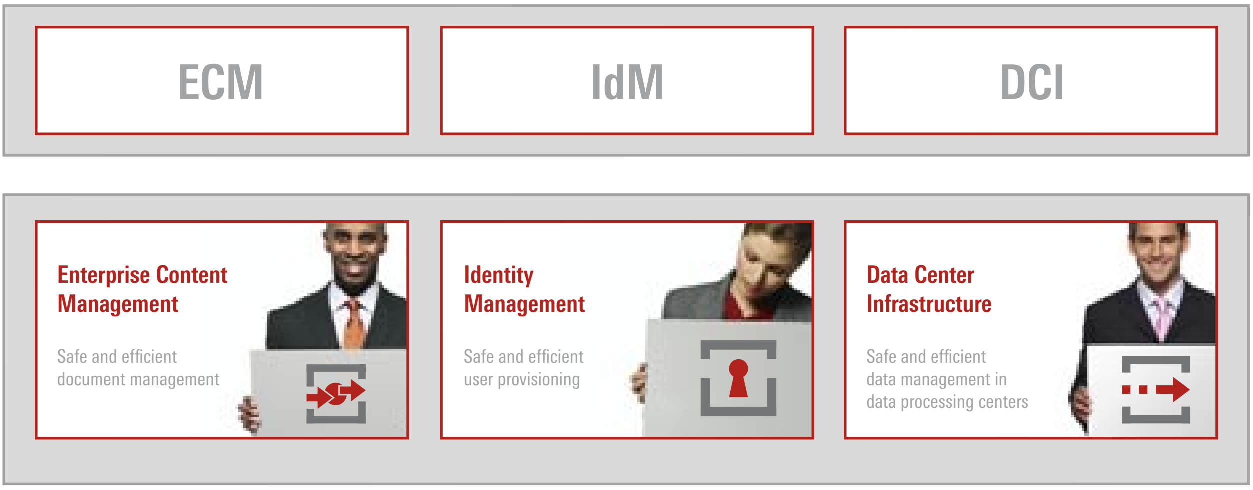
Output management needs are served by Beta Systems' VIDiDOC suite which combines output management with solution-oriented document postprocessing. The solution facilitates efficient distribution, displaying and editing of documents created by business applications and can be tailored to specific user requirements. Its ability to seamlessly integrate with existing workflows provides a valuable and future-oriented platform for automating all document-based business processes. At the same time, features for central and auditable archiving enable customers to comply with the various laws and regulations applying to electronically processed documents.

IdM Business Unit – Identity Management

Beta Systems' security administration solutions ensure optimum data security by enabling large organizations to constantly monitor and enforce security standards. The SAM Jupiter identity management solution is an efficient product suite for managing all IT-users and their access rights according to predefined policies across all platforms and throughout the entire company. SAM Jupiter comprises an integrated product family offering functions and components for automating all crucial user management processes.

**DCI Business Unit –
Information Management in Data Centers**

The Data Center Infrastructure business unit offers cross-industry solutions that support large corporations in handling typical data center related tasks. The focus rests on maintaining a smooth, error-free, secure and uninterrupted central IT-infrastructure for processing extremely large amounts of data and documents. Our mainframe IT-solutions reliably protect business-critical data and ensure that this is constantly available and, in the case of a major incident, can be restored quickly and according to a priority list. Our products and solutions fully integrate with the data center operations and thus allow end-to-end application process control and monitoring across all platforms.



INTERVIEW WITH KAMYAR NIROUMAND AND GERNOT SAGL, MANAGEMENT BOARD MEMBERS OF BETA SYSTEMS SOFTWARE AG

■ **How would you define the core competencies of Beta Systems?**

■ **Niroumand:** Being a medium-sized company we leverage the flexibility and short decision-making channels that come with this size of operation to serve mainly large customers in the financial- and insurance sectors as well as in the general industry. Our core competencies include safe and efficient processing of large amounts of data for many users. We help our customers achieve secure, automated and auditable business processes.

■ **Internationally active IT-companies like Beta Systems rely on a global presence in key markets. Which markets do you focus on?**

■ **Niroumand:** We focus on the markets, sectors and regions that offer great potential for growth. Beta Systems is counted among Germany's Top 5 IT-solution providers, yet we generate 26% of our turnover outside of Germany and 6% in the USA. So the US represents a key market and we are planning to intensify our partner business there. Our direct sales activities in Europe focus on a selective group of countries, the most important ones being Italy, Spain, France and Eastern Europe. We will gain a stronger foothold in other European countries by means of increased cooperation with partners there.

■ **What are the priorities for activities in the current business year?**

■ **Sagl:** With much relieved operating cost structures we started into the second half of 2006, allowing us to fully focus on sales activities and the sustainable improvements for our performance in 2007. Our key customers in the financial services- and industry sectors are giving us positive feedback throughout for focusing our services on this market segment. For example, the bundling of our know-how in the newly founded Competence Center Insurance in the ECM business unit has been very well received.

■ **Niroumand:** And this positive feedback becomes all the more important when taking a look at Beta Systems' customer structure: To illustrate, 50% of Europe's largest banks use our solutions to make their business processes more efficient and secure. And seven of the ten largest European insurance groups opt for products by Beta Systems. These figures speak for themselves.

■ **In the past few years many new laws, regulations and standards centering on "compliance" where introduced in Europe and North America, such as Sarbanes-Oxley, Basel II or the German GDPdU Act (Principles on data access and auditability of digital documents). What opportunities arise from this for you as a software provider?**

COMPLIANCE

In the business world, the term **compliance** is used to describe a company's adherence to laws and guidelines, as well as voluntary codes of conduct. Organizational measures can help companies achieve compliance. Specific compliance departments are sometimes established, especially in banks and financial service businesses. It is their duty to ensure that the company complies with national and international laws and regulations against insider trading or money laundering. In addition, compliance is considered a key component of **corporate governance**. This term refers to the sum of all international and national values and principles defining good and responsible business practice and equally applies to employees and the management of a company. Corporate governance is an ongoing process that reflects the changing nature of requirements, principles and norms. Another aspect of compliance, which is steadily gaining in importance, is information security and data protection. Corporate governance, on the other hand, is concerned with defining and implementing management and control structures.

■ **Niroumand:** Due to our excellent customer relations we know exactly how our customers wish to handle compliance. This information was leveraged in product planning at an early stage, so now all of our business units are in a position to launch innovative and compliance-capable products that meet the market demands to the dot.

Also, our present security management solutions already answer companies' compliance needs in the areas of IT-security and IT-risk management. They offer "the right data for the right user", enable compliant release processes and facilitate risk analysis.

■ **Your strategy involves a stronger focus on financial service providers. There have been quite a few recent developments in this area, such as SEPA, the Single Euro Payment Area, to name but one. How important are they for Beta Systems?**

■ **Sagl:** The impact of the SEPA initiative promoting a uniform payment infrastructure throughout Europe will be of a similar magnitude as was the introduction of the Euro. SEPA will significantly change the way banks and companies are doing business. The obvious benefits include an improved cash flow and major cost savings. The new features of FrontCollect Payment allow our customers to immediately and directly benefit from SEPA once it is in effect. The European standardization efforts represented by SEPA open up very promising growth potentials for us in this region. And, consider the following statistic: According to the German Federal Bank our share of all document-based payment transactions processed in Germany is around 25%. So of the more than 1 billion document-based payment transactions our systems handle over 250 million, meaning we're the undisputed market leader.

SEPA

Beta Systems is introducing functions into its payment transaction software that allow companies and banks to better leverage the benefits of the Single Euro Payment Area (SEPA), which is soon to be implemented. The SEPA initiative aims to introduce harmonized standards to increase the efficiency of payment transactions across national borders within Europe.
While the Euro has introduced a common currency in most member nations of the European Union, all countries mostly still have their own, complex and expensive payment infrastructure. This provides an obstacle for the free flow of international payment transactions. So the task SEPA sets out to accomplish involves harmonizing the terms for financial transactions, including all rights and privileges, for Europe's companies and its more than 450 million citizens. This standard will apply in all 25 EU member states as well as in the EFTA states (Liechtenstein, Iceland, Norway and Switzerland). Once SEPA takes effect as of January 1, 2008, Euro payments across national borders can be performed quickly, securely and without high fees involved. Source: German Federal Bank, July 2006

In your opinion, what are the benefits of using a Beta System solution for customers and their users?

Niroumand: Beta Systems is a professional and innovative company. We enjoy the trust of many large customers, reaching back to our founding in 1983. This includes long-term business agreements. When I decided to leave T-Systems to work for Beta Systems, I was especially impressed with the high quality of Beta's products. According to my experience our customers value our flexible and open portfolio very highly. We also have an excellent partner network and highly creative, motivated employees, many of whom are very experienced and have been with us for many years.

As part of the new strategy, Beta Systems is aiming to position itself as a strategic supplier for major customers. How do you intend to address them more directly in the future?

Niroumand: In order to increase our market penetration we have invested in strengthening sales, orienting its efforts on the large key account segment, and expanding our partner business. We expect these measures to quickly generate opportunities for further increasing our license- and service revenues. Our license business has already seen growth in the 3rd and 4th quarters of 2006 as a result of a number of large orders. This shows that we're on the right track.

What is it that makes large companies in particular choose Beta Systems as their strategic supplier?

Niroumand: Owing to our software products and -solutions, Beta Systems is one of the leading medium-sized providers of IT-infrastructure solutions that help companies automate, secure and monitor their business processes.

The closely interconnected portfolio of solutions offered by our three business units is especially geared toward meeting the demands of large customers who work with huge amounts of data, such as financial service providers or insurance agencies, so they stand to profit the most. Beta Systems helps them capture and process incoming data, archive information, efficiently distribute documents, assign access rights and make data available on the company network in a secure manner.

According to Gartner's IT analysts, 70% of the world's combined business data is stored on mainframes. While this translates into excellent business prospects for Beta Systems, how would you assess your competitiveness when looking at all business units as a whole?

Niroumand: Beta Systems is firmly positioned in the market for standard software, and our product portfolio is generally recognized to be very competitive. This is also reflected, for example, in the important Lünendonk rankings. They place us fifth among Germany's ten leading medium-sized standard software manufacturers. And the internationally leading IT analysts of Gartner, IDC or Burton Group likewise confirm our strong position in the respective markets. For many of our core products, we are rated among the Top 5 providers in Europe or even world-wide. And what's even better, this applies to products by all three business units.

2007 is supposed to bring Beta Systems a successful turnaround. The company is changing from restructuring- to growth mode, the plan being that all business units generate profits as early as 2008. What measures did you take in 2006 to lay the groundwork for this development?

Sagl: We carried out a necessary assessment of the present risk situation which resulted in non-recurring financial effects. In addition the management team was reduced to two Management Board members and an assertive management team. We were also able to significantly cut our operating costs by relocating our ECM business unit in Augsburg and selling our scanner production. At the same time, we created a separate department for logistics and purchasing within Corporate Functions, streamlining existing processes and helping us to identify and leverage further cost saving potentials.

Niroumand: The measures taken to fine-tune our strategy can be summed up as follows: focus, focus, focus. This includes concentrating on software for securing business processes in large corporations, especially those of the financial services and general industry sector. To further strengthen our activities in this area, we implemented a business-wide, Global Top Account Management for key accounts, allowing us to offer our full portfolio from one source.
In the international arena we are focusing on doubling the partner business in Europe and establishing a sustained and profitable presence in North America. As part of our measures we also streamlined the organization in our regional offices and tightened the product portfolio.

Kamyar Niroumand, CEO

Kamyar Niroumand became CEO of Beta Systems Software AG in April 2006. In his previous position held at Deutsche Telekom subsidiary T Systems, he was in charge of the major account business as a member of the Executive Committee since 2005. After receiving a diploma in Business Engineering in 1986, Kamyar Niroumand began his vocational career at Siemens-Nixdorf Computer AG. In 1991 he moved on to debis Systemhaus (dSH) and joined the ranks of dSH sfi GmbH's (Systemhaus für Informationsverarbeitung) executive management in 1995. After the founding of T-Systems in early 2001, Niroumand became managing director of T-Systems CSM GmbH and was also in charge of the Computing & Desktop Services service line until the end of 2004.

Gernot Sagl, CFO

Gernot Sagl assumed the position of Beta Systems Software AG's CFO in October 2006. He gained extensive international management experience during his earlier employments and was Regional Finance Manager of the US Wyeth-White Hall pharmaceuticals corporation in central and eastern Europe before deciding to join Beta Systems. Other previous positions of Mr Sagl, who holds a Master's degree in Business Administration, include Financial Director at the Austrian CCC AG and Director of Controlling and Treasury at ÖAG Handelsbeteiligungs AG.

In 2006, the three business units were restructured into Lines of Business (LoB) based on a profit center model. When looking back on the past year, what were the actual benefits of this change?

Sagl: The key advantage of this type of organization is the high transparency of the three business units.

Also, this structure affords much better operational- and financial control of the individual LoB's activities. This has a very positive impact on costs as each segment, being a profit center, is responsible for operating profitably on its own. As a result the business responsibility rests firmly with each LoB. And let's not forget the improved customer relations: The respective contact persons for each LoB are clearly defined on our side and at the customer as well.

Niroumand: 2006 also clearly showed that the three business divisions perfectly complement each other. As they address the same or very similar customers in the key account tier, we can take advantage of the resulting synergies. This allows Beta Systems to offer its customers a comprehensive approach to processing bulk data in critical business processes containing sensitive information. To cut to the heart of the story, the combined power of the DCI and ECM LoB's answers every need relating to data capture, control, output and distribution through to data archival. And our IdM solution portfolio empowers the customer to optimally administer its users and assign appropriate access rights. This is what comprehensive, secure and efficient data processing is all about.

What are the goals for the individual business units in 2007? Are there differences or has the Management Board assigned the same targets to all of them?

Niroumand: The main goal is to generate and sustain profit. This also means that all business units must operate profitably by 2008. To reach this, we have defined additional key targets that apply throughout the company: firstly, we need to further improve the competitiveness of our portfolio in regard to licenses and solutions in an effort to emphasize our role as solution provider. Next, we plan to additionally strengthen our market position in the financial services area, which already rests on a firm footing in Europe. Another goal is to increase turnover in the service business with products for large companies by 20%. And we will continue to extend our partner business in Europe. We will discontinue direct sales in several countries, steering our activities via qualified partners instead. Among other things, we aim at doubling partner sales turnover over the coming two years.

Cooperation with the world's top soft- and hardware manufacturers is a benchmark for innovative software companies, separating the wheat from the chaff. How is Beta Systems doing in this regard?

Niroumand: Our strategy is to fully integrate our solutions into the leading technology platforms. This is why we have intensified cooperation and partnerships with these companies. As a result, we were able to present solutions that seamlessly integrate with Microsoft's next-generation technologies Windows Vista, Sharepoint Server 2007 and Office 2007 to a specialist audience as early as last fall, to name but one example. And just recently Beta Systems was awarded the top-echelon "Microsoft Gold Certified Partner" status in recognition of extending its Microsoft-related competencies.

Similarly close ties exist to IBM, Oracle und SAP, where we strongly cooperate on the technology- and sales level.

SOA

The service-oriented architecture (SOA) is a system architecture concept upon which companies can build a platform for implementing functions through loosely connected services that are reusable and technically independent. Regardless of the underlying software applications, these services can be called up via interfaces.
Companies implementing a SOA aim to create an IT environment where new systems can be easily adjusted to meet emerging needs, making them very flexible, usable in different contexts and allowing them to be perfectly aligned with individual business processes. This results in cost savings, because single IT components can be easily optimized, and the entire landscape can quickly adapt to new challenges and facilitates staged restructuring of complex application systems.

Many companies and organizations are seeking to further reduce their IT-costs. In this context, how important are market trends such as introducing service-oriented architectures for Beta Systems?

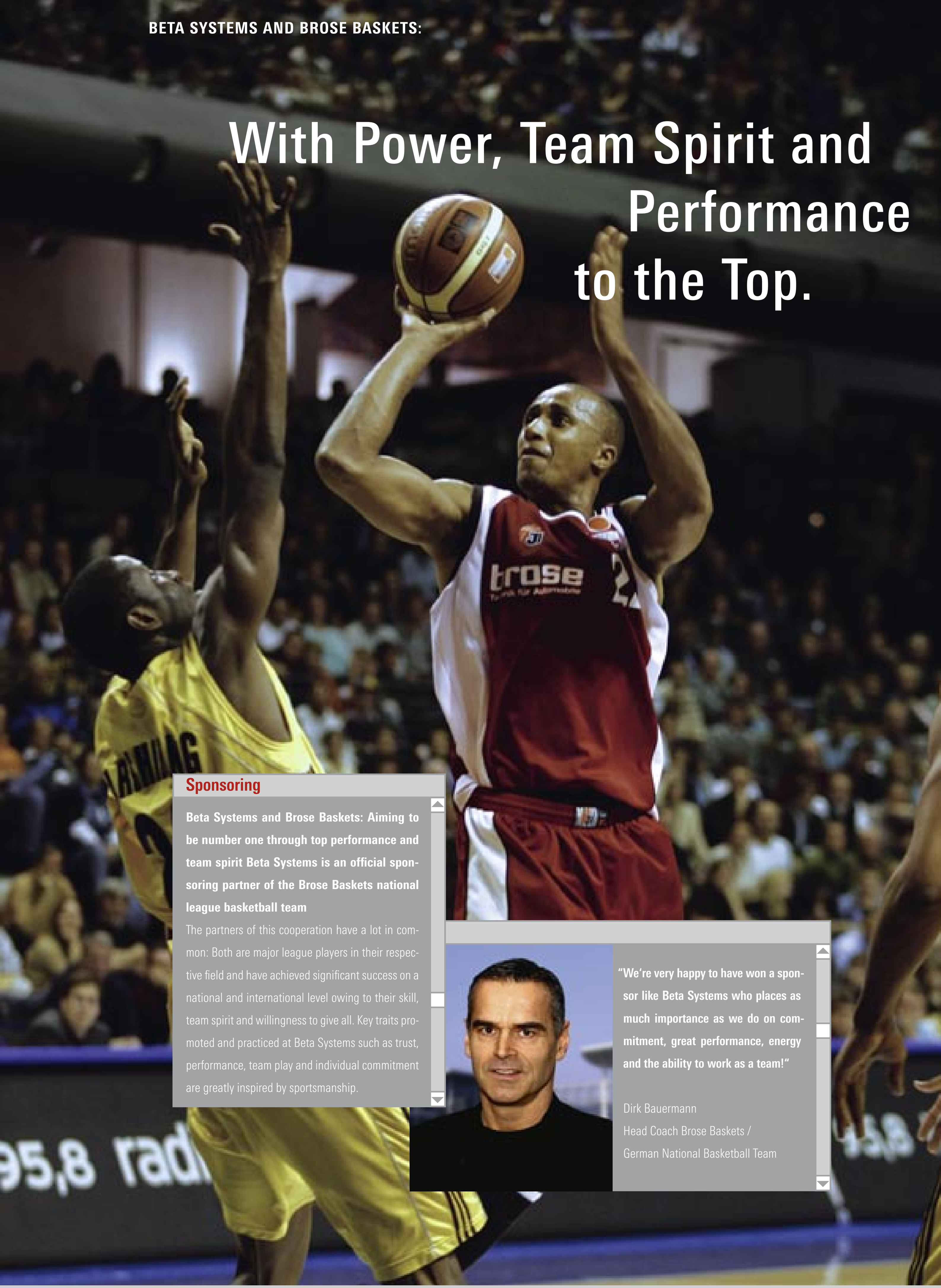
Niroumand: It has certainly paid off that we launched a company-wide SOA initiative at Beta Systems, enabling us to quickly adopt new concepts and developments. As many of our products feature a modular design they can readily offer their services to other applications within a SOA environment via Internet interfaces. It is also possible to use only choice functions of our products. For example, this would allow a company to select the document processing features they need and adopt them to the existing IT-infrastructure. As their systems grow, they can add more components step-by-step.

Business facts and figures aside, in what ways is Beta Systems taking social responsibility?

Sagl: Beta Systems actively supports regional programs for promoting young people in the areas of sports and education. We are, for example, a sponsor of the "Berlin Programming Contest" for university IT-students, and we offer mainframe internships.

Niroumand: Under the motto of "Young Talents" we are also actively involved in supporting youth in sports. Being the president of FC Hertha 03 Zehlendorf, I have made it my personal commitment to support a Berlin soccer club with more than 40 teams.

With Power, Team Spirit and Performance to the Top.



Sponsoring

Beta Systems and Brose Baskets: Aiming to be number one through top performance and team spirit Beta Systems is an official sponsoring partner of the Brose Baskets national league basketball team

The partners of this cooperation have a lot in common: Both are major league players in their respective field and have achieved significant success on a national and international level owing to their skill, team spirit and willingness to give all. Key traits promoted and practiced at Beta Systems such as trust, performance, team play and individual commitment are greatly inspired by sportsmanship.

"We're very happy to have won a sponsor like Beta Systems who places as much importance as we do on commitment, great performance, energy and the ability to work as a team!"

Dirk Bauermann
Head Coach Brose Baskets /
German National Basketball Team

CORPORATE GOVERNANCE REPORT FOR FISCAL YEAR 2006

Responsible and transparent corporate management has always been a paramount issue for Beta Systems. Since the introduction of the German Corporate Governance Code which sets standards for ethical and transparent corporate management and -monitoring, Beta Systems has adhered, with few exceptions, to the suggestions and recommendations in the Code, the current version of which was last amended on June 12, 2006.

The Code's statutory regulations are binding on German companies. As regards the Code's 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 Code and where it departs from it.

Companies may deviate from the Code's suggestions without disclosure.

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.

Information on Corporate Governance at Beta Systems

Documents pertaining to corporate governance – Articles of Association and Corporate Governance Principles of Beta Systems Software AG as well as the Declarations of Conformity issued in recent years – are published on the Company's website at www.betasystems.com. Furthermore, shareholders are kept informed of key dates by means of a Financial Calendar which is published in this Annual Report and on the website.

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

Cooperation between the Management Board and the Supervisory Board

The Management Board and the Supervisory Board cooperate closely for the benefit of the Company. Their common aim is sustainable growth in the Company's value. The Management Board reports to the Supervisory Board regularly, thoroughly and in a timely manner on all relevant questions of corporate planning and strategic development, the course of business and the position of the Group, including the risk position and the risk management system.

Furthermore, it obtains authorization from the Supervisory Board as required for significant business transactions. For further information on cooperation between the Management Board and the Supervisory Board please refer to the Report by the Supervisory Board on pages 40 ff.

Responsible Risk Management

A further aspect of good corporate governance is a company's responsible management of risks. A systematic risk management system ensures that potential risks are identified and assessed at an early opportunity. With this in mind the Management Board and the Supervisory Board undertook an assessment of the present risk situation during the 2nd quarter 2006 and optimized potential risk items. The Beta Systems risk management system is continuously updated, developed and adapted to changing business conditions. More detailed information on risk management can be found in the Risk Management Report on pages 30 ff.

In fiscal year 2006 monitoring of conformity with compliance guidelines was once again an important element of risk management. This included keeping employees regularly informed on legal principles and the corresponding standards applying to internal and external communication. All relevant individuals who work for the Company and who have access to insider information within the scope of their employment are listed in a Register of Insiders and informed about their obligations under German insider-trading law.

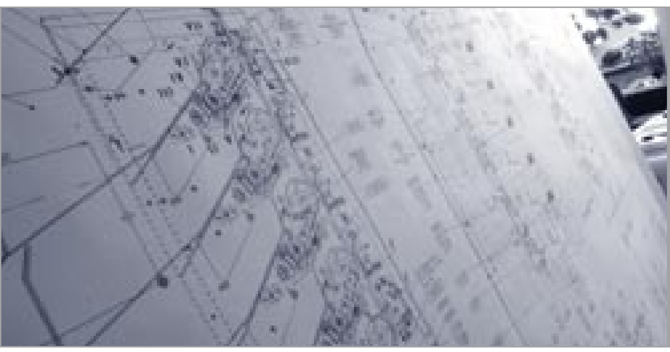
Share Transactions and Shareholdings of the Management Board and the Supervisory Board

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 shares in Beta Systems Software AG, insofar as the value of transactions executed by a Board member or a related party reaches or exceeds the amount of € 5,000 during a calendar year. In accordance with the Insider-Trading Policy of Beta Systems, Board members are obliged to notify Beta Systems of all transactions relating to shares in the Company. In fiscal year 2006 Beta Systems Software AG was notified of the following transactions:

Date	Name	Function	Type of Transaction	Number of Shares	Price in €
03.24.2006	Dr. Oskar von Dungern	Managment Board	Sale	31,040	6.00
03.24.2006	William P. Schmidt	Supervisory Board	Acquisition	31,040	6.00
08.11.2006	Kamyar Niroumand	Managment Board	Acquisition	9,000	4.33

Notification of all transactions is published on the Company's website at www.betasystems.com, in the Investor Relations/Directors' Dealings section. Directors' shareholdings as at December 31, 2006 are as follows:

As at December 31, 2006	Number of Shares
Management Board	
Kamyar Niroumand	19,000
Gernot Sagl	-
Dietmar Breyer (until September 15, 2006)	-
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 Shares	120,610



Remuneration Report

The remuneration package for Management Board members includes a range of remuneration components. Specifically the package consists of fixed remuneration, a bonus, components with a long-term incentive effect, fringe benefits and pension entitlements. The remuneration of the Supervisory Board is set by the Annual General Meeting and is regulated in Article 12 of the Articles of Association. Remuneration of Supervisory Board members is based on their roles and responsibilities and the economic position and financial success of the Company. Further details, including an individualized statement of remuneration, are included in the Remuneration Report which can be found in the „Combined Group and Company Management Report" on pages 18 ff.

Declaration of Conformity pursuant to Section 161 AktG

At their meeting convened on December 15, 2006 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 year 2005 the Management Board and the Supervisory Board of Beta Systems Software AG declared that, with the exception of minor departures, the Company conformed with the principles of conduct recommended in the Government Commission's German Corporate Governance Code and would continue to do so in future. In fiscal year 2006 Beta Systems Software AG departed from the Corporate Governance Code in the versions of June 12, 2006 and June 2, 2005 in the following areas:

Deductible specified for D&O-Insurances

Contrary to the recommendation that liability insurance be taken out by a company for its management board and supervisory board members (so-called Directors' and Officers' - D&O-insurances) should include a suitable deductible, Beta Systems is not of the opinion that this would provide any appreciably better incentive to the 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 practice is planned in future.

Setting up an Audit Committee

In view of the current size and composition of the Supervisory Board (6 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 issues regarding the rendering and auditing of accounts.

Age Limits for Management Board and Supervisory Board Members

Beta Systems regards the stipulation of age limits for Supervisory Board members as restricting the shareholders' rights to elect the Supervisory Board members of their choice. Accordingly, the Company does not specify any age limit in this respect. A similar departure from the Code's recommendation is that no age limit has been set for Management Board members either, since this would summarily restrict the Supervisory Board in its selection of suitable candidates.

Remuneration of the Supervisory Board

The members of the Supervisory Board of Beta Systems Software AG receive a fixed remuneration component only. Membership and chairmanship of the Personnel Committee is not subject to separate compensation. Proposals aimed at amending the Articles of Association in this regard failed to achieve the required majority at past Annual General Meetings.

Remuneration of the Management Board

The members of the Management Board of Beta Systems Software AG receive both a fixed and a variable remuneration component. 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. 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 past Annual General Meetings.

Information on the Remuneration System for the Management Board on the Internet and at the Annual General Meeting

The Management Board and the Supervisory Board of Beta Systems Software AG have not so far published information on the fundamental points of the remuneration system for the Management Board on the Internet, since all information relating to individual remuneration and other components of compensation is included and explained in the Annual Report. This can be accessed via the Company's website and is also furnished to the Annual General Meeting. Starting with the Annual Report 2006 a Remuneration Report will be included in the Annual Report as part of the Group Management Report; it will be made available separately on the Internet. The Supervisory Board will furnish this Remuneration Report to the Annual General Meeting.

With the exception of the above-mentioned deviations, Beta Systems Software AG conformed entirely with the recommendations of the German Corporate Governance Code in the version of June 12, 2006 and July 2, 2005 in the fiscal year 2006 .

Berlin, December 15, 2006

Sebastian Leser	Kamyar Niroumand
Chairman of the Supervisory Board	Chief Executive Officer

We make IT safe.

We make IT safe. Beta Systems' security administration solutions ensure optimum data security by enabling large organizations to constantly monitor and enforce security standards. The SAM Jupiter identity management solution is an efficient tool for managing all IT users and their access rights in accordance with applicable policies across all platforms and throughout the entire company.

COMBINED GROUP AND COMPANY MANAGEMENT REPORT

PRELIMINARY NOTE

The Combined Group and Company Management Report (Group Management Report) should be read in conjunction with the Group's audited Consolidated Financial Statements and the Notes to the Consolidated Financial Statements which are included in a separate section hereunder. The Group's audited Consolidated Financial Statements are based on a number of assumptions. These are detailed in the Notes to the Consolidated Financial Statements (Summary of Significant Accounting Policies and Valuation Methods). The course of business of the Beta Systems Group ("Beta Systems" or "Group") and that of Beta Systems Software AG ("Parent Company" or "AG") are closely linked as the Parent Company is part of the Group-wide development-, sales-, service- and marketing network. The Management Report of the Parent Company and the Group are combined here in one report. All information presented applies to the Group unless clearly stated as being attributable to the Parent Company.

The Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS). Attention is drawn to the fact that all pre-tax amounts for 2005 (operating results, EBIT, EBT) are appended with "from continuing operations" to reflect the fact that the net results for the Outsourcing Service business unit, which was classified as a discontinued operation, were excluded; the amounts disclosed include neither revenues nor operating expenses associated with the Outsourcing Service business unit. The gain from discontinued operations is presented after the deduction of income taxes and is included directly in the Group's net result for the year.

While the Group applies IFRS, the financial statements of the AG (Parent Company) are prepared pursuant to the German Commercial Code (Handelsgesetzbuch – HGB). All charts and diagrams as well as remarks related thereto are included purely for illustrative purposes and are not an integral part of the Management Report.

1. STRATEGIC GUIDELINES AND GENERAL PRINCIPLES

For the past 20 years Beta Systems has been operating as a supplier of high-performance software products and -solutions for the safe and efficient processing of large data volumes. These solutions are designed to support the automation, safeguarding and transparency of customers' IT-based enterprise processes.

The Company's shares were first listed on the stock exchange in 1997. The Group currently employs more than 600 members of staff at its 4 competence centers located in Berlin (the Group's headquarters), Cologne, Augsburg and Calgary. In addition to this 17 group companies and numerous partner enterprises are engaged in business for Beta Systems. The Group's customer base includes large corporations in the financial services-, manufacturing-, retail-, logistics- and IT-sectors in Germany, Europe and the USA.

These software products and -solutions are designed to assist customers in three core areas. Accordingly the operations of Beta Systems are managed along three Lines of Business (LoB's): Enterprise Content Management (document management), Identity Management (user management) and Data Center Infrastructure (information management in data processing centers). IFRS segment reporting consistent with the LoB-structure was introduced in 2006 for the first time. Further details are presented in the Notes to the Consolidated Financial Statements.

The Group's primary objective is to achieve positive and sustainable growth and to ensure that all segments are profitable by 2008 at the latest. In pursuing this approach Beta Systems wishes to increase enterprise value for its customers, investors and employees alike.

In addition to further consolidating operations and implementing cost reduction measures, particularly in the first half of 2006, Beta Systems undertook the regular assessment of the Group's risk situation. In this connection extensive non-recurring adjustments were effected. Furthermore the structure of the management team was streamlined and now consists of a two-member Management Board, complemented by an assertive second management level.

In the second half of the year the restructuring process was concluded and the cost base accordingly streamlined. In addition targeted fine-tuning of the business strategy was performed to ensure a sustainable turnaround of operations in 2007. The measures, introduced under the motto "Focus", mainly included the optimization of the Group's product- and solution portfolio with an emphasis on products aimed at securing enterprise processes in larger corporate structures, in particular for the financial services- and industrial sectors. The Group's international operations are to be enhanced by doubling the level of existing partnership business in Europe and by securing a profitable presence in North America. Within the framework of this action plan Beta Systems' international organization was downsized, the number of sales staff was reduced and the cooperation with partners was intensified.

As part of the fine-tuning process a number of Group-wide strategic goals were defined. These are implemented individually by the LoB's:

- Improving earnings, focusing particularly on sustainability
- Extending the Group's market position in the financial services sector
- Strengthening customer and service orientation with particular focus on key accounts
- Enhancing the portfolio, focusing on licensing and solutions
- Developing the partnership business worldwide

2. ECONOMIC ENVIRONMENT

Beta Systems operates in highly competitive markets, both domestically and internationally, and has established business relations with major global corporations and enterprises in more than 40 countries worldwide. In 2006 approximately 73.9% of Group revenues were earned in Germany, 19.7% in the rest of Europe, 6.1% in the USA and 0.3% in Africa. Accordingly the success of the Group is dependent on the economic performance and growth rates in these regions. In 2006 global GDP grew by 3.9% despite higher interest rates and an increase in oil prices. Cyclical growth recorded in the world economy over recent years has slowed down in the last few months. Growth rates have been relatively evenly spread amongst the regions. In Germany GDP growth was 2.5%, while Europe recorded a gain of 2.9% and the USA 3.3%.

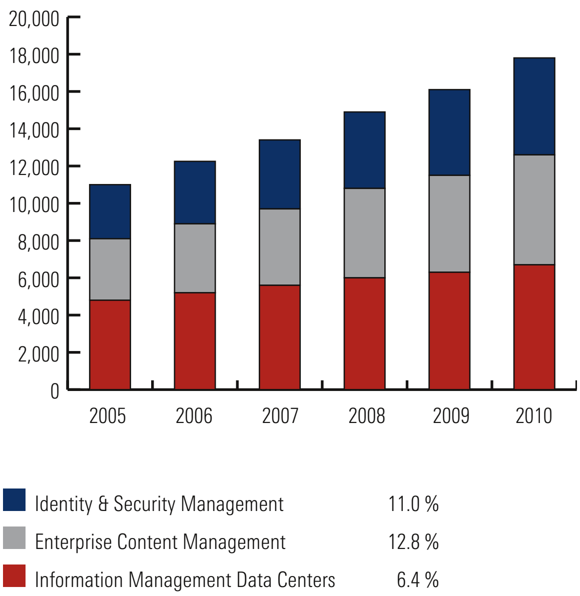
The majority of research institutes have forecast continued growth at a robust level and further increases in European interest rates. At the same time leading commentators remain convinced that there is little hope of an interest rate cut in the USA, as recent growth in the US economy is expected to continue after a brief interruption at the start of 2007. Assuming stability in oil prices inflation is expected to fall in the coming years. The Kiel-based Institut für Weltwirtschaft (IfW - Institute for the World Economy) has projected 2.1% GDP growth for Germany in 2007 (2008: 1.8%), 2.3% for the Euro-zone (2008: 2.1%) and 2.5% for the USA (2008: 2.8%).

The concurring opinion is that there is a good chance that Germany will enjoy a period of sustained growth. The increase in sales tax implemented in Germany from 2007 is expected to have a relatively short-term impact on consumption. In particular, the benefits of an improved labor market situation are expected to stimulate consumer spending. The recent further acceleration of the decline in Germany's unemployment rate is a strong indication that moderate wage demands in recent years are paying dividends in the domestic job market. The boom in business investment is also expected to continue, supported by improved business financial performance and by the fact that the cost of capital is not expected to increase significantly.

Information and Communication Technology (ICT) is increasingly important to the German economy as a whole. The ICT has established itself as one of the most significant economic sectors in Germany. Measured on the basis of gross value added, it is already considered the top economic sector, having overtaken mechanical- and automotive engineering. As an integral part of a knowledge-based economy the ICT is also likely to act as a key growth driver for many other sectors. In total 40% of current economic growth is attributed to the use of ICT. Accordingly ICT growth rates are likely to be higher than GDP.

Beta Systems is organized into three LoB's IdM (Identity Management), ECM (Enterprise Content Management) and DCI (Data Center Infrastructure). All three LoB's have an individual market strategy with regard to earnings and growth. IDC studies show projected annual growth rates of 9.6% on average for these three market segments in the years leading up to 2010. 50% of the market for these segments is located in the USA, while Europe accounts for 30%. Beta Systems' own market analysis shows that the financial sector (banking, insurance and associated IT-service providers) accounts for an estimated 25% of the total market.

Market segments relevant to Beta Systems
Market volume and average annual growth,
worldwide in US$ millions viz. in percent



Source: Beta Systems, IDC Central Europe GmbH, Frankfurt, 2006

The continued consolidation of the European financial markets and the implementation of SEPA (Single Euro Payment Area) represent a significant source of growth potential for Beta Systems.

The SEPA initiative for a single payment infrastructure throughout Europe is predicted to have an impact similar to that associated with the introduction of the Euro. SEPA will significantly change the way that banks and businesses transact with each other and is likely to deliver significant cost savings. Beta Systems' product FrontCollect Payment has solid growth potential as a result. According to statistics published by the Bundesbank (German Central Bank) Beta Systems' share of document-based payments processing in Germany comprises around 25%. Of over one billion document-based payments more than 250 million were processed with Beta Systems' products. From this point of view Beta Systems is already market leader.

In addition SEPA is likely to accelerate the overall process of consolidation within the European capital market. More European banks will be created with significantly higher technical demands and larger data processing centers than those required to date. Drawing on its close relationships with major European banks and its considerable share of the market in various segments Beta Systems is well positioned to establish itself in significantly larger data processing centers with more sizeable product installations.

3. CHANGES IN THE GROUP STRUCTURE

3.1. Disposal of the Kleindienst Scanner GmbH

On March 6, 2006 Beta Systems Software AG announced the successful divestment of the Kleindienst scanner and sorter hardware manufacture with the sale of its subsidiary Kleindienst Scanner GmbH, Adelsried to SIS SEAC ICR SYSTEME GmbH, Konstanz. The sale was concluded economically effective as at January 1, 2006. Management of the Kleindienst Scanner GmbH was handed over to SIS SEAC on April 1, 2006.

Under this arrangement the Kleindienst Scanner GmbH took control of the development and manufacture of scanner and sorter hardware while the product- and marketing rights remain with Beta Systems Software AG. The Kleindienst Scanner GmbH also secures the unique technology- and manufacturing expertise associated with these operations.

Beta Systems Software AG will concentrate on the marketing, sales and service of the scanners and sorters as part of its own ECM product portfolio. In addition the Group continues to provide important services related to these products like project management and maintenance. The scanners and sorters are purchased on consignment basis at fixed agreed terms and conditions.

Expenses in the amount of € 3.1 million arose in fiscal year 2006 in connection with the sale of the Kleindienst Scanner GmbH. These are explained in detail in the section “Financial Performance”.

All 28 employees of Kleindienst Scanner GmbH were taken over with their existing employment contracts.

3.2. Realignment of the Beta Systems Group completed

The disposal of the Outsourcing Service business unit at April 30, 2005, the merger of the Kleindienst Datentechnik AG onto the Beta Systems Software AG at January 1, 2005 and the accretion of the Kleindienst Solutions GmbH & Co. KG at December 31, 2005 were reported in fiscal year 2005. Group-wide restructuring and alignment into three Lines of Business (LoB’s) on the basis of a profitcenter structure were completed with effect from the start of the fiscal year 2006. These changes delivered greater transparency and a significant improvement in the strategic-, operating- and financial management of each business segment. However, expenses incurred in connection with restructuring and severance payments, the reassessment of Beta Systems’ current risk profile, goodwill impairment and corporate consultancy costs had a significant effect on the Group’s consolidated result for 2006.

4. BUSINESS DEVELOPMENT

4.1. Business Development of the LoB’s

The Beta Systems Group was strategically realigned into the three LoB’s DCI, IdM and ECM effective from January 1, 2006. For purposes of comparability the revenues and expenses relating to the prior year were reclassified and allocated in accordance with the current structure. This also applies to the introduction of inter-segment revenues with effect from fiscal year 2006. In connection with the reorganization revenue-oriented inter-segment settlement, which was not effected in the comparative period, was introduced. These inter-segment revenues (2006: € 1.0 million; 2005: € 0) are allocated directly to the LoB’s and are subsequently eliminated in consolidation. Further details are found in the Notes to the Consolidated Financial Statements.

DCI (Data Center Infrastructure)

With strong revenue performance DCI made the significant forecast contribution to the Group’s overall results, generating revenue of € 35.4 million (2005: € 35.4 million) and a segment result of € 14.4 million (2005: € 11.5 million), thus fully meeting the expectations regarding the revenues and financial performance expected of this LoB. This segment is characterized by stable earnings potential from maintenance, expansion and replacement investments. However, it has also had to contend with a stagnating market in recent years, as segment revenue is generated predominantly in the mainframe environment. Revenues generated from licenses were consistent with the previous year. Higher consulting revenues compensated for a decline in maintenance revenue, which was the result of market concentration within the financial sector. The improved net result was primarily due to lower selling expenses and sales commissions as well as cost reductions achieved in the maintenance business. The segment result of € 6.2 million for the 4th quarter 2006 was significantly higher than that recorded in the corresponding comparative quarter (Q4/2005: € 5.6 million).

Benefiting from streamlined sales structures DCI was able to secure its market position in a competitive environment dominated by major US enterprises. In the banking sector the withdrawal of some competitors and the expansion of existing installations enabled the Group to take advantage of continuing concentration and consolidation processes. The acquisition of eleven new key accounts was particularly encouraging. Leading analysts, including the IDC, have again forecast growth in this market segment for the coming years, a trend which is supported by positive developments in the market segment of the IBM mainframe environment.

Beta Systems’ product development will be of particular value in this field. With the new release BSA V4 (Beta Systems Architecture) the core products for the automation of datacenter processes were transferred to a common, optimized technology platform. This in turn paves the way for high-level integration of Beta’s products.

We make IT powerful. Beta Systems Software AG develops high-quality software products and solutions for the secure and efficient processing of large quantities of data, and is one of the leading medium-sized European software solution providers in this market segment. Our products and solutions support customers in efficiently automating, safeguarding and tracing their business processes, thus generating significant market advantages for them.

We make IT powerful.

The major sales accomplishments in this sector included a. o. Porsche (automobiles, Germany), ATOS Origin/Premiere (IT services, Germany), Polska Telefonia (telecommunications, Poland), Instituto de Credito Oficial (public services, Spain), IBM Germany, Allianz Dresdner Information System (both IT support providers, Germany), SEB (financial services, Germany), Federal Life Insurance Company (insurance, USA) and BNP Paribas Lease Group (financial services, France).

IdM (Identity Management)

The LoB IdM reported revenues of € 10.0 million (2005: € 11.8 million) and a segment result of € -7.0 million (2005: € -2.1 million). The budgeted revenue target for 2006 was not met. The decline in revenues resulted mainly from the non-recurring license revenues reported in 2005 following the migration of several large key accounts from SAM to SAM Jupiter. Additionally there was a decline in maintenance business. The net result for 2006 was impacted on by the cost of measures taken to strengthen the sales- and marketing activities; the effect of these measures will only contribute to higher revenues in the future.

IdM activities were brought into closer alignment with datacenter business in order to leverage synergies with the DCI portfolio and to reduce the complexity of SAM Identity Management products. Apart from the streamlining of the management structure and the adjustment of staffing levels Beta Systems further strengthened its sales units which now primarily focus their sales- and marketing activities on license business with key accounts in the financial services sector.

In addition to the SAM Jupiter Version 4 an extended release of Beta Systems' mainframe-based SAM solution was developed in 2006 for IdM. This includes a number of new interfaces with other IdM solutions in addition to improved agents for the full range of standard target systems deployed in the market. In this version SAM represents an integrated and platform-independent IdM suite capable of offering comprehensive Enterprise Single Sign-On (eSSO) functionalities from User Provisioning to Reporting and Auditing.

Sales successes in 2006 included contracts with Banca Intesa (financial services, Italy), T-Systems (IT services, Italy), Komercijalna Banka, (financial services, Serbia and Montenegro), Lufthansa Systems (IT services, Germany), Hypovereinsbank and Deutsche Bank (both financial services, Germany).

ECM (Enterprise Content Management)

The ECM business unit generated revenues of € 52.2 million (2005: € 48.4 million). Despite an increase in revenues of 7.9% as a result of higher revenues from hardware sales this development did not meet the expectations of Management. The segment result of € -6.9 million (2005: € -0.9 million) results primarily from higher sales- and marketing costs as well as expenses in connection with the sale of the Kleindienst Scanner GmbH. The 4th quarter 2006 proved particularly encouraging with a segment result of € 2.6 million (Q4/2005: € 1.2 million).

The consolidation process initiated in the prior year was continued and concluded. Focus on solutions business resulted in the divestment of the in-house scanner and sorter hardware production. The provision for risks arising from a long-term purchase agreement resulted in non-recurring costs of € 2.3 million. Other non-recurring expenses of € 1.0 million arose from the relocation to new premises in Augsburg. These are more representative, smaller in size and more cost-effective.

The gross profit margin of ECM is lower than that generated by the other LoB's due to lower-margin revenues from the hardware sales (2006: € 12.0 million; 2005: € 8.2 million) and a higher proportion of service input associated with the customizing of products and solutions as part of client projects.

The approach - traditionally based on line-of-business-oriented banking customers - on the core business of modernizing and renewing existing installations was extended within the framework of an international expansion program to Eastern Europe. The banking sector presently accounts for more than 75% of ECM revenues. The Group's solid market position in the banking sector, in particular within the area of payment processing, is to be used to further penetrate the development of back-office business in the banking sector. The emphasis is to be placed on the workflow-oriented automation of the standard incoming- and outgoing mail processes. A number of other opportunities exist in this market segment, in particular in the insurance industry, but also in industry and trade. In fiscal 2006 targeted investments in sales, marketing as well as products (FrontCollect) paved the way for entry into the insurance market. The start-up investments have already resulted in first sales success. In cooperation with specialist distribution partners specialized product solutions such as incoming invoice processing as well as input- and output management were increasingly offered to industry- and trade enterprises.

A new core component, FrontCollect Server, was developed for ECM and successfully placed in the market. It forms the basis for a wide range of solutions for the core market financial services. The FrontCollect Payment solutions package is thus now well-equipped to meet the requirements of SEPA (Single European Payment Area)-capable solutions for document-based payment transaction processing from 2008.

The ECM segment secured a number of contracts, a. o. with Magyar Posta (financial services, Hungary), Zagrebacka Banka (financial services, Croatia), The Office for National Statistics (public services, UK), Central Bank of Nigeria (financial services, Nigeria), Unicredit Group (financial services, Italy), ABSA (financial services, South Africa) and Metro (retail/wholesale, Germany).

4.2. Partnerships

The sales-, technology- and development partnerships established with leading software- and hardware producers in recent years (IBM, SAP, HP, Sun, Novell) were continued and extended during fiscal 2006. Beta Systems further organized and developed its sales partner network. This substantially contributed to the business success of Beta Systems in 2006.

Within the scope of the technology partnerships the FrontCollect 2.1 product received the "Powered by SAP NetWeaver®" label. Beta 99 was tested on Microsoft platforms and was certified. Based on these certifications and on other qualifications Beta Systems was awarded the status "Powered by SAP NetWeaver®" by SAP while Microsoft promoted Beta Systems to Gold Certified Partner. On the basis of the existing sales partnership Beta Systems was awarded Certified Partner status by Oracle.

5. FINANCIAL PERFORMANCE, ASSET- AND FINANCIAL POSITION

5.1. Financial Performance of the Beta Systems Group

Beta Systems recorded revenues of € 96.6 million (2005: € 95.6 million), an operating result from continuing operations before other income/expenses in 2006 of € -15.4 million (2005: € -9.8 million) and a net loss for the year in the amount of € -18.4 million (2005: net income for the year of € 1.8 million).

Already included in this is a reduction of personnel costs of T€ 4.1 million compared with 2005 in respect of those employees for whom severance payments in the amount of T€ 3.5 million were effected in fiscal year 2005.

Aside from operating result the Group's financial performance in 2006 was influenced by severance payments and restructuring expenses as well as by expenses in connection with the assessment of the existing risk situation. Non-recurring expenses in the amount of € 11.8 million had a significant effect on the operating result.

Amounts in Euro Thousand	**2006**
Non-Recurring Effects in 2006	
Severance Payments	4,179
Expenses in connection with the Sale of the Kleindienst Scanner GmbH	3,057
Goodwill Impairment Loss	1,287
Corporate Consulting Costs	1,004
Tenancy Termination Augsburg	996
Fair Dealing Consideration	830
Valuation Allowance of Inventories	292
Other	146
Non-Recurring Effects in 2006	**11,791**

Of these non-recurring expenses € 4.2 million were disclosed separately under the position "severance payments and restructuring costs" under the operating expenses.

In addition further non-recurring expenses in the amount of € 7.6 million resulted in 2006 which are included in the cost of sales and the operating expenses. In detail these are non-recurring expenses in the amount of € 3.1 million in connection with the sale of the Kleindienst Scanner GmbH (in detail as a result of an assessment of long-term acceptance risks as well as the assumption of partial retirement liabilities due to employees); € 1.3 million for a goodwill impairment loss; € 1.0 million for corporate consulting costs in connection with the strategic realignment of the Group; € 1.0 million related to the termination of the tenancy arrangement in Augsburg; € 0.8 million for a fair dealing consideration awarded to a key customer; € 0.3 million for a valuation allowance of inventories as a result of the commencement of the liquidation of the Polish subsidiary as well as € 0.1 million for other expenses.

Taken into consideration accordingly, the operating result from continuing operations adjusted by the sum of the above-mentioned non-recurring expenses amounted to € -3.6 million in fiscal 2006. In 2005 on the other hand the operating result accordingly adjusted by non-recurring effects in the amount of € 5.6 million amounted to € -4.2 million.

Excluding these non-recurring measures the operating result from continuing operations 2006 would not have decreased compared with 2005, but would have increased by € 0.6 million.

Development of Revenues

Beta Systems generated total revenues of € 96.6 million, an increase of 1.1% compared with the prior year (2005: € 95.6 million). The development of revenues in summary did not meet the budgeted targets and the expectations of Management. A detailed examination is presented in the segment results. For purpose of comparability the amounts for the year 2005 were reclassified in accordance with the current revenue structure and the consolidated Kleindienst Datentechnik AG revenues, separately disclosed in the prior year, were integrated:

Amounts in Euro Thousand	2005	2006	Change
Revenues	**95,606**	**96,621**	**1.1%**
Software Licenses	26,910	27,127	0.8%
Hardware	8,172	12,015	47.0%
Maintenance	47,200	44,848	(5.0)%
Services	13,324	12,631	(5.2)%

Software license revenues increased by 0.8% to € 27.1 million (2005: € 26.9 million). Of this € 12.2 million alone was recorded in the 4th quarter 2006, an increase of 4.0% compared with the 4th quarter 2005. **Hardware** revenues amounted to € 12.0 million (2005: € 8.2 million). The significant increase of 47.0% results a. o. from key financial services projects in Eastern Europe and Africa. At € 44.8 million, **Maintenance** revenues were lower than in the prior year (2005: € 47.2 million), primarily due to concentration processes in data centers. Revenues from **Services** decreased to € 12.6 million (2005: € 13.3 million) mainly as a result of a decline in scanning services.

Development of Gross Profit

Cost of revenues increased to € 52.4 million (2005: € 48.7 million). Gross profit declined correspondingly by 6.8% to € 44.2 million in the reporting period (2005: € 46.9 million). The gross profit margin 2006 was 45.7% (2005: 49.1%).

Amounts in Euro Thousand	2005	2006	Change
Revenues	95,606	96,621	1.1%
Cost of Revenues	48,680	52,428	7.7%
Gross Profit	**46,926**	**44,193**	**(5.8)%**
Gross Profit Margin	49.1%	45.7%	

In recognition of the non-recurring expenses of altogether € 3.2 million included in the cost of sales in connection with the sale of the scanner-manufacture, the Augsburg relocation and the valuation allowance of inventories the cost of revenues for 2006 without these effects would amount to € 49.2 million. A gross profit margin of 49.1%, comparable to that of the prior year, would result. In addition it must be recognized that the level of vertical integration is reduced as a result of the divestment of the Kleindienst Scanner GmbH and that the cost of revenues are higher as a result of the external procurement of the scanners.

Development of Costs and Expenses

In addition to the separately disclosed severance payments (€ 4.2 million) further non-recurring effects of € 4.4 million are included in the **Operating expenses** in the reporting year. The operating expenses increased by € 2.8 million (5.0%) to € 59.6 million in 2006 (2005: € 56.8 million).

Amounts in Euro Thousand	2005	2006	Change
Operating Expenses	**56,741**	**59,574**	**5.0%**
Selling Expenses	23,340	30,154	(29.2)%
General and Administrative Expenses	12,553	10,770	(14.2)%
Research and Development Expenses	15,050	12,858	(14.6)%
Amortization of Intangible Assets and Goodwill	225	1,613	616.9%
Severance Payments and Restructuring Costs	5,573	4,179	(25.0)%

Included in the increase in **selling expenses** to € 30.2 million (2005: € 23.3 million) are above-mentioned non-recurring effects of € 1.0 million, in particular a non-recurring fair-dealing consideration awarded to a key account. The remaining increase (€ 5.9 million) results mainly from increased personnel expenses in connection with a sales-oriented corporate alignment (€ 2.3 million), increased external sales commissions (€ 1.1 million) as well as increased marketing activities (€ 0.6 million).

The **general and administrative expenses**, adjusted for non-recurring effects of € 1.9 million (in particular costs for corporate consulting and expenses in connection with the sale of the Kleindienst Scanner GmbH) amount to € 8.9 million (2005: € 12.6 million). The decrease of 29.3% (€ 3.7 million) confirms the effectiveness of the cost reduction program in connection with the organizational and corporate legal restructuring since the year 2005.

The decrease in **research and development expenses** to € 12.9 million (2005: € 15.1 million) is primarily due to higher expenditure for the product development of SAM Version 4 in 2005 and to the divestment of the Kleindienst Scanner GmbH at the beginning of 2006 with its associated research and development expenses. The research and development expenses for fiscal 2006 contain € 0.2 million of the above-mentioned non-recurring effects.

The goodwill impairment loss of € 1.3 million relating to the SYSTOR-acquisition reflects the revaluation of the contribution to future expected income and increases the **amortization of intangible assets** to € 1.6 million in 2006 (2005: € 0.2 million).

The expenses for **severance payments** and restructuring costs in the amount of € 4.2 million (2005: € 5.6 million) result from the continuation of the cost reduction measures in fiscal 2006.

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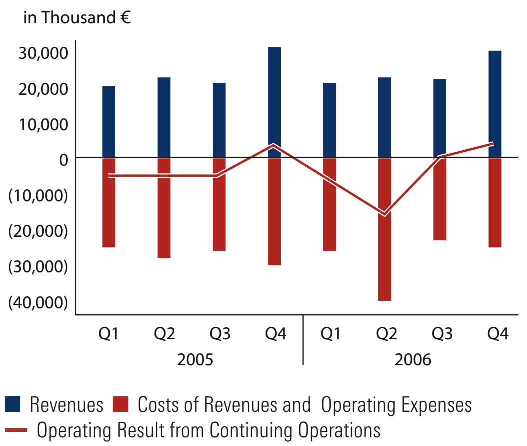
Operating Result from Continuing Operations

The operating result from continuing operations before other income/expenses is as follows:

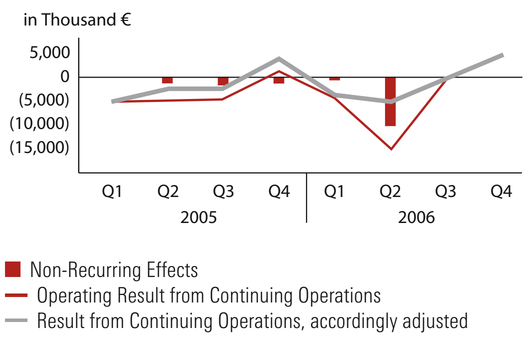
Amounts in Euro Thousand	2005	2006	Change
Operating Result from Continuing Operations	(9,815)	(15,381)	(5,566)
Non-Recurring Effects from Severance Payments and Restructuring Costs	5,573	4,179	(1,394)
Operating Result, adjusted by Severance Payments and Restructuring Costs	**(4,242)**	**(11,202)**	**(6,960)**
Other Non-Recurring Effects	-	7,612	7,612
Operating Result, additionally adjusted by Reassessment of Risk Situation	**(4,242)**	**(3,590)**	**652**

Allowing for the above-mentioned non-recurring effects an operating result, accordingly adjusted, would result which would be better than that of the year 2005 by € 0.6 million.

Development of the Operating Result 2005 and 2006



Development of the Operating Result 2005 and 2006 adjusted by Non-Recurring Effects



A significant improvement in the operating result was achieved in the 4th quarter 2006 as a result of an increase in license revenues in combination with a notably relieved cost structure.

Other Income / Expenses

Beta Systems reported **other expenses** in the amount of € -0.2 million in 2006. In 2005 **other income** of € 5.2 million primarily comprised the reversal of provisions and liabilities (€ 1.9 million) as well as the final purchase price payment by Allen Systems Group, Inc. (Partil sale of a product group in fiscal year 1999, € 1.6 million).

Financing Result

The financing result decreased in fiscal 2006 to € -0.8 million (2005: € -0.5 million) due to lower interest income as a result of a lower level of notice deposits and higher interest expenses from increased interest rates as well as increased availment of credit lines at year-end.

Net Result for the Year and Income Taxes

The net result before income taxes (EBT) from continuing operations and minority interests decreased in 2006 by € 11,3 million to € -16,4 million (2005: € -5.1 million). The decline is explained in detail under "operating result" above. In taking into account the income taxes a net loss for fiscal 2006 results in the amount of € -18.4 million (2005: net income € 1.8 million). For further details please refer to the Notes to the Consolidated Financial Statements.

Included in the net result for 2005 was the gain after the deduction of income taxes from the disposal of the Outsourcing Service business unit in the amount of € 6.1 million. This allowed for remuneration of expenses incurred for severance payments and restructuring costs of € 5.6 million in 2005 already and resulted in a positive result for the year.

Human Resources

The number of staff employed in the Beta Systems Group decreased to 645 at December 31, 2006 (2005: 733 employees). Assignable causes for this primarily were the sale of the scanner-manufacture and the personnel measures effective in the course of the year. At reporting date the staff complement stood at 521 in Germany, 40 in Europe (i.e. excluding Germany), 41 in North America and 43 in other regions.

Around 58.0% of the staff (374 employees) are employed in sales, marketing and services, 27.4% in research and development (177 employees), 12.9% in administration (83 employees) and 1.7% (11 employees) in manufacture and materials management.

5.2. Asset- and Financial Position of the Beta Systems Group

Total balance sheet assets decreased in the fiscal year from € 74.6 million to € 69,5 million. The balance sheet developed in detail as follows:

As at December 31, 2006 Beta Systems records cash and cash equivalents in the amount of € 2.1 million (2005: € 4.4 million). Operating cash flow in 2006 amounts to € -2.8 million and includes severance payments and restructuring costs cash outflows in the amount of € 5.1 million. Payments for investing activities amounted to € 2.1 million. In 2005 net cash provided by investing activities had amounted to a gain of € 7.0 million; this had included proceeds in the amount of € 9.9 million from the sale of the Outsourcing Service business unit.

Cash flows from financing activities amount to € 2.6 million in 2006. This includes an increase in current liabilities of € 5.4 million, while the long-term borrowings related to the acquisition of the Kleindienst Datentechnik AG were redeemed from € 6.0 million to € 4.0 million. In 2005 cash flows from financing activities had amounted to € -12.4 million and included primarily the repayment of long-term borrowings of € 8.2 million, a € 2.1 million reduction in current liabilities as well as dividend payments of € 1.0 million. Interest payments of € 0.6 million were comparable to those reported in the prior year (2005: € 0.5 million).

Trade Accounts receivable increased from € 28.6 million to € 29.0 million in 2006. The increase was essentially attributable to the increased levels of customer invoicing for project sales at year-end. The balances of work in process project orders (POC) and inventories declined by € 1.3 million. This, apart from the higher levels of customer invoicing at year-end, results also from valuation allowances recorded. Assets held for sale decreased from € 1.7 million to zero.

This is attributable to the sale of Kleindienst Scanner GmbH at the beginning of the year.

Fixed assets decreased from € 15.5 million to € 10.3 million in 2006. A detailed schedule of movements is included in the Notes to the Consolidated Financial Statements. As a result of a re-evaluation of the expected future cash contributions by the LoB IdM the goodwill of € 1.3 million was written off in full.

Current liabilities increased from € 32.7 million to € 44.5 million due to an increase in short-term finance of € 5.4 million, improvements in working capital management arrangements associated with trade accounts payable as well as increased liabilities in connection with the sale of the scanner-manufacture.

The increase in long-term liabilities from € 10.4 million to € 12.1 million included the repayment of borrowings relating to the purchase of the Kleindienst Datentechnik AG amounting to € 2.0 million and an increase in deferred tax liabilities of € 3.9 million.

The equity ratio decreased to 18.7% (2005: 42.2%). This development is essentially the consequence of the financial performance. The increase in share capital by € 0.2 million is a result of a recapitalization of the nominal value per share.

5.3. Beta Systems Software AG

Beta Systems Software AG (the "Company") is the controlling entity in the Beta Systems Group and therefore performs certain comprehensive management- and centralized functions for the Group (Group-wide financial management and accounting, human resources, strategic research and development activities, Group-wide process management, global corporate and marketing communication as well as sales management). Additionally the AG is responsible for the operating activities in Germany (sales and services). The Company prepares its annual financial statements in accordance with the German Commercial Code (Handelsgesetzbuch – HGB).

Financial Performance

The Company's net loss for the year amounted to € -18.2 million for the reporting period (2005: € -12.3 million). Significant factors for the continued negative performance were, as is the case for the Group, non-recurring costs for restructuring and expenses for the assessment of the risk situation in the amount of € 16.4 million.

These essentially comprise valuation allowances on inter-company receivables (€ 5.0 million); expenses in connection with the termination of the Augsburg tenancy arrangement comprising both losses on the disposal of leasehold improvements as well as expenses for the winding-up of the lease agreement (€ 3.8 million); expenses in connection with the sale of the Kleindienst Scanner GmbH (€ 3.1 million); expenses for severance payments (€ 1.5 million); amortization of financial assets (€ 1.1 million); expenses for corporate consulting in connection with the strategic realignment of the Group (€ 1.0 million) as well as expenses in connection with a fair dealing consideration awarded to a key account (€ 0.8 million).

A comparison of the financial performance of 2006 with that of the prior year is only limitedly possible. At December 31, 2005 the accretion of the Kleindienst Solutions GmbH & Co. KG onto the Beta Systems Software AG took place. A pro forma comparison is set out below:

Amounts in Euro Thousand	2005	2006	Change
Revenues	**83,691**	**83,814**	**123**
Change in Inventory	(2,451)	(2,061)	390
Other Operating Income	8,282	5,951	(2,331)
Material Consumption	(13,285)	(14,079)	(793)
Personnel Expenses	(52,925)	(43,987)	8,938
Amortization of Financial Assets	(2,703)	(3,869)	(1,166)
Other Operating Expenses	(33,137)	(43,586)	(10,448)
Income from Investments	1,275	1,063	(212)
Financing Result	(410)	(662)	(252)
Result from			
Usual Business Activities	**(11,663)**	**(17,415)**	**(5,646)**
Income Taxes	(641)	(742)	(101)
Other Taxes	(37)	(71)	(34)
Net Loss for the Year	**(12,341)**	**(18,228)**	**(5,781)**

Included in the disclosed income from ivestments is income from investments and loans as well as amortization of financial assets.

Comparable non-recurring effects were included in fiscal 2005 in the amount of € 7.5 million, of which € 5.7 million accounted for severance costs, € 0.6 million for amortization of financial assets and € 1.2 million for corporate consulting costs. The result from the usual business activities, adjusted by non-recurring effects for both fiscal years, amounts to € -1.1 million in 2006 and € -4.2 million in 2005.

Revenues increased in 2006 by € 0.1 million to € 83.8 million (2005: € 83.7 million). The significant changes described for the Group also apply to Beta Systems Software AG as principal entity.

Other operating income declined primarily as a result of lower income from the reversal of provisions and from lower income from foreign currency valuations. By contrast other operating income includes income from the apportionment of shared service costs with subsidiaries (€ 1.5 million) for the first time in fiscal 2006.

While the level of revenues remained relatively constant the total cost of revenues increased from € 13.3 million to € 14.1 million. The cost of sales, adjusted by the non-recurring expenses in connection with the sale of the scanner-manufacture in the amount of € 2.1 million, decreased by € 1.3 million to € 12.0 million. The decrease results primarily from lower costs of contracted services. In fiscal 2005 several consultancy projects were realized which resulted in higher costs for external engineering services. In addition the expenses increased as a result of valuation allowances on inventories (€ 0.6 million). Furthermore allowance must be made for the fact that the decreased vertical integration following the divestment of the Kleindienst Scanner GmbH has tended to result in an increase in cost of sales, as the costs for the external supply of scanners in 2006 is exclusively recorded in the cost of sales.

The personnel costs, adjusted by the costs for severance payments and exemptions in the amount of € 1.5 million (2005: € 5.7 million), decreased from € 47.2 million to € 42.4 million. This decrease of € 4.8 million (10.1%) results from an average staff complement reduction of 80 employees, which is the result of the restructuring measures implemented in prior years.

Amortization increased from € 2.7 million to € 3.9 million. The increase is attributable to the impairment of goodwill and to the systematic amortization of product rights resulting from the accretion of the Kleindienst Solutions at December 31, 2005.

Other operating expenses, adjusted by the above-mentioned non-recurring effects for the valuation allowance on receivables, termination of the Augsburg tenancy agreement and the sale of the scanner-manufacture (€ 10.7 million), decreased from € 33.1 million to € 32.9 million. The decrease results primarily from lower general and administrative expenses which arose in the prior year in connection with the merger. By contrast, sales commissions for large projects increased by € 1.3 million.

Income from investments accruing to Beta Systems AG at € 1.0 million compared almost unchanged. The income from investment comprises income of € 1.4 million from dividend distributions by subsidiaries less increased valuation allowances on financial assets.

Asset Position:

Total balance sheet assets declined from € 64.9 million to € 50.5 million. The decrease of € 14.4 million is attributable on the asset side primarily to a € 6.3 million decrease in non-current assets and the decrease in inter-company receivables in the amount of € 4.0 million.

The decrease in non-current assets is a result of systematic amortization of goodwill and of acquired product rights as well as a decrease in fixed assets as a result of disposals of leasehold improvements in Augsburg. The systematic depreciation and amortization expense amounted to € 3.9 million in 2006.

The decrease in inter-company receivables in the total amount of € 5.0 million was attributable primarily to allowances of receivables due by Beta Systems Software of North America, Inc., Beta Systems Software Ltd (UK) and Beta Systems Software Espana SL (Spain). By contrast, receivables due from other Group companies increased by € 1.7 million.

Cash and cash equivalents decreased from € 2.5 million to € 0.6 million. The development of cash and cash equivalents reported for the Group mirrors the financial position of the Company. In this connection please refer for further information to the details provided on the financial position of the Group.

The reduction in total shareholders' equity from € 24.8 million to € 6.6 million is mainly due to the development of the financial performance for the year.

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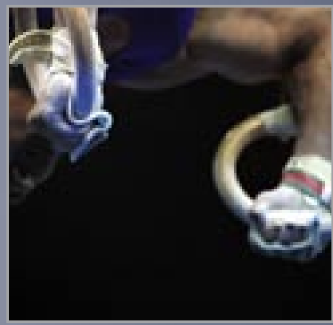


We keep IT flexible. Many of Beta Systems' products are based on a modular architecture and already make their services available to other applications via Internet interfaces. It is also possible to use only selected functions of our products, e.g. allowing a customer to select the document processing features they need and adopt them to the existing IT infrastructure. As their systems grow, additional components can be added step by step.

Liabilities increased from € 18.9 million to € 25.5 million. The increase results from additional bank borrowings in the amount of € 3.6 million and an increase in trade accounts payable of € 3.2million. By contrast, other liabilities were reduced by € 0.1 million.

For information on the shareholders' capital situation of the Company, please refer to the "Outlook" hereunder.

5.4. Appropriation of Net Earnings and Dividend

Beta Systems Software AG did not distribute any dividend in 2006 for fiscal 2005. In view of the net loss incurred in 2006 no dividend will be distributed for 2006.

6. OUTLOOK

Operating globally in the software development- and its distribution markets, Beta Systems is exposed to a number of risks which are inextricably linked to the commercial activities of the Group. Risks can arise when making decisions based on forecasts of market conditions and product opportunities, and as a result of strategic investment and financial investment decisions. In the same way, operating risks affecting strategy, personnel, processes and technologies can arise from the effect of an interaction between internal and external events. Effective risk management involves using the business opportunities available and entering into the associated risks only if a corresponding added value can be derived from the opportunities presented. Risk management is an integral part of the business and corporate decision-making processes at Beta Systems. The Management Board defines fundamental risk guidelines which are subsequently implemented by management. Within the scope of their responsibilities the subsidiaries and LoB's (business units) are also required to implement risk management in accordance with the fundamental Group-wide risk guidelines.

6.1. Elements of the Risk Management System at Beta Systems

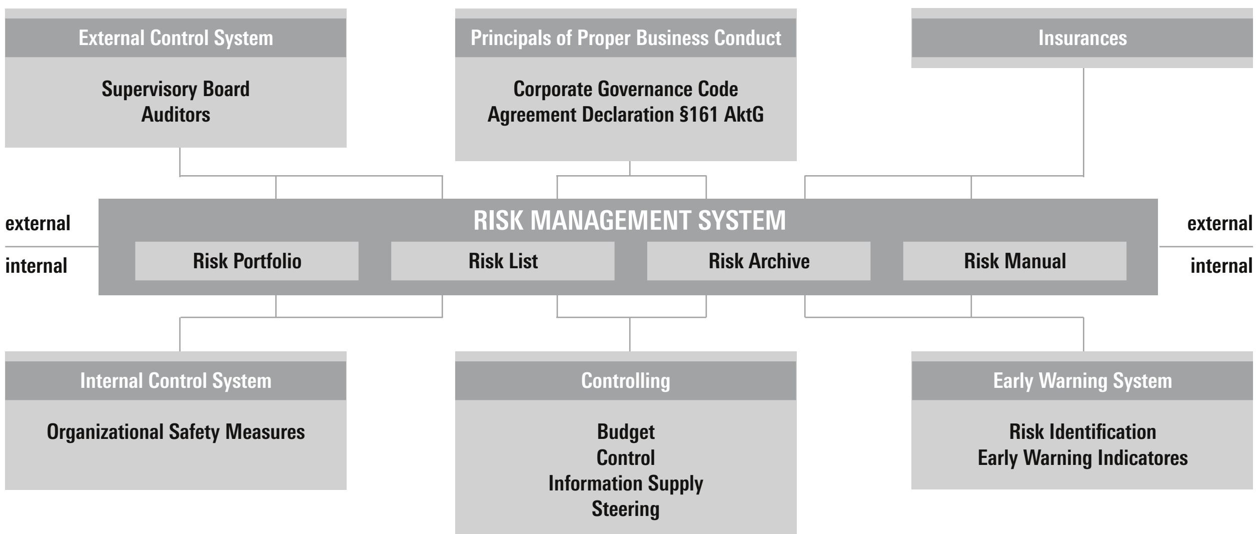
The Risk Management System was adapted to the new organizational structure during 2005 and 2006 and is pursued both within the three lines of business as well as Group-wide.

Based on a company-wide early-warning system, Beta Systems identifies risks at an early stage, analyzes and assesses these risks and initiates appropriate steps to counteract them. The aforementioned measures include the assessment, monitoring and control of company processes by means of internal reporting, the management control system as well as a planning process that is applied consistently throughout the enterprise. Furthermore the Supervisory Board, responsible for monitoring and controlling the Management Board, is continuously and comprehensively informed.

This mechanism is complemented by Beta Systems' principles of Corporate Governance. 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 in accordance with national Corporate Governance standards.

Beta Systems has insurance coverage for potential claims and liability risks; these are designed to ensure that risk-related damages are minimized or completely averted. The scope of these policies is reviewed on a regular basis and amended according to requirements.

Despite the preventative 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

Business and Markets

The global markets for our products are characterized by intense competition. This competition applies to prices, the quality of products and services, product and process development, time-to-market cycles as well as to customer service. Market risk is associated in particular with new products in the ECM segment as well as with products for the Open Systems environment, an area in which the Group is exposed to a high level of income risk as well as high levels of expenditure for market development rollout and market 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 based on usage methods, as opposed to the more traditional capacity-based pricing. Additionally, 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 do these segments have 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 quickly 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 of each year. The maturity, volume and type of customer-specific licenses and service agreements are crucial to Beta Systems' segment performance. Many of the agreements encompass substantial sales volumes, and the sales cycles of Beta Systems' products are 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 when deviations arise. Beta Systems is committed to accelerating project business and improving sales incentive systems, with the express purpose of achieving a more even distribution of business across the individual quarters. At the same time it should be noted that there is a dependence on large-scale projects. Due to their significant contribution to revenues and earnings, large-scale contracts are of particular importance to the achievement of corporate targets. If such contracts should fail to materialize or become subject to delays, these circumstances could have a significant impact on the financial performance.

Product Portfolio

In fiscal year 2006, a sizeable proportion of revenue was generated with four products (EBS 2000, Beta 93, Beta 92 and SAM Jupiter). Any factor which could impact negatively on the pricing or demand for these products presents a risk for the financial performance, financial position and cash flows of Beta Systems. The appeal of the mainframe environment with which the products SAM Jupiter, Beta 92 and Beta 93 are associated depends largely on the innovative prowess and business strategy of IBM and other major hardware- and software suppliers serving this market.

Given the extended product and service portfolio (EBS 2000, FrontCollect, FrontOffice etc.) as well as Beta Systems' own research and development, the Group has been able to significantly 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, there is no guarantee that these measures will always be sufficient. Despite all preventative measures 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 in other countries may fail to protect the proprietary rights of Beta Systems in the same manner as protection is provided in Germany or in the European Union.

Beta Systems conducts thorough tests of new products or product versions prior to 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 guaranteed that customers may not 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 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 Activity and Partner Business

Beta Systems serves customers through local subsidiaries in Europe, North America and Africa. Consequently, the Beta Systems Group and subsidiaries are subject to risks generally associated with international transactions, including currency risks. Beta Systems monitors these risks and will deploy appropriate measures (for example by using forward exchange contracts) if this is deemed necessary under the circumstances.

The achievement of growth targets for foreign operations and within the area of partner business is dependent on the successful alignment of Beta Systems' activities with the specific markets in which the Group operates. 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 reacted to this risk by strengthening foreign sales activities and its foreign subsidiaries, cooperating with additional local sales partners and implementing targeted organizational measures.

Restructuring

Beta Systems has implemented and concluded a Group-wide restructuring and cost reduction program as part of measures initiated in fiscal 2004. These measures continued to affect operating results during the first half of 2006. By the second half of the fiscal year, however, the Group had established a position in which it was able to operate with a lower cost base. Whether the favorable revenue trend recorded since the third quarter can be maintained is dependent on the sustained success of restructuring and on the Group's future market positioning.

Financing

Financing risks principally exist as a result of the financing structure of the Group; on the one side from the provision of credits and of own resources, on the other hand from the increasing interest rate. Responsibility of the finance management is the adequate provision of liquid funds, the cash pooling and the minimization of interest- and foreign currency risks.

Long-term borrowing obligations were redeemed as planned, while current liabilities increased. The Group's financing with external capital are subject to variable interest rate conditions. Beta Systems has partially covered these risks with interest caps.

The granting of borrowings by the banks is attached to the compliance with certain business performance indicators. As a result of the non-recurring expenses in 2006 Beta Systems was not able to comply with these indices. The banking institutions increased the risk-dependent component of the interest rate by 4.0% on average as a result. No bank made use of any special termination right.

Credit lines in the amount of € 12.5 million were available to Beta Systems as at December 31, 2006. At reporting date the Group used credits of € 8.0 million. At the time of the compilation of the financial statements the Group used no credits. The repayment resulted from large operative receipts from license revenues of the prior business quarter and from the annual maintenance charges. For the course of the year Beta Systems assumes an availment of credits comparable to that of the prior year. At the time of the compilation of the financial statements the Company has reduced its credit lines according to schedule to € 3.0 million. Beta Systems is conducting intensive talks and negotiations with its corparate bankers. The discussions are taking an extremely positive course on both sides and demonstrate the great interest in the continuance of the business relations.

For further information regarding the structure of the financing sources please refer to the financial statements.

Shareholders' Equity Situation of the Company

The shareholders' capital of the Beta Systems AG amounts to € 6.604 million at reporting date and thus 57.3% of the share capital.

2007 poses a year of turnaround for Beta Systems. Income from continuing operations will result in an improvement of the shareholders' equity situation; additionally discussions will be held with the major shareholders in order to improve the capital ratio with suitable instruments and measures soon and lastingly.

Should the turnaround, contrary to the budget, not be accomplished in 2007 the risk of a loss of more than 50% of the ordinary share capital exists. The Management Board of the Company would then be obliged pursuant to § 92 AktG to convene a shareholders' meeting without further delay.

Shareholders' Compensation Claim

On April 27, 2005 the Kleindienst Datentechnik AG and the Beta Systems Software AG concluded a merger agreement according to which Kleindienst would be merged in its entirety in exchange for Beta Systems shares and would cease to exist following cession of the assets as a whole. The share exchange ratio was set at three Beta-shares for five Kleindienst-shares.

Previous shareholders of the Kleindienst Datentechnik AG have considered this share exchange ratio as being inadequate and have initiated a shareholders' compensation claim. Beta Systems aims for an amicable settlement in this case. The settlement has to be approved by a meeting of shareholders of the Company. Based on the number of shares outstanding at time of the merger, 430.905 shares, payments in the amount of approximately € 0.4 million, plus legal consulting costs and costs of litigation, could accrue. According to a first analysis no effect to net income would result; an allocation to goodwill would be recorded.

We make IT efficient. The FrontCollect input management tool by Beta Systems offers comprehensive functions for the handling of all document processing tasks, from scanning, data capture and archiving through to further processing. FrontCollect allows companies to capture all incoming mail and to distribute it to downstream applications such as business management or mailbox systems.

We make IT efficient.

6.3. Significant Opportunities

Profitable Market and Revenue Growth in the New LoB's

As part of corporate restructuring within the Beta Systems Group, the marketing-, sales- and service functions previously managed at Group level are now assigned directly to the LoB's IdM, ECM, and DCI. The new structure is aimed at achieving greater interaction with customers and increasing the level of specialization within 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 in meeting customer requirements, accelerated decision-making processes and increased 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 increase revenues. Streamlining of processes within the respective segments will lead to a sustainable increase in profitability.

Benefiting from the new organizational structure, IdM will have the opportunity to generate significant revenue growth in software licensing by focusing on new account business. ECM will benefit from greater market visibility as an ECM player in key markets. With competition being crowded out in the document-based payments market, additional market share can be gained within this area. The sales offensive initiated at the end of the financial year in the IdM and ECM segments has opened up significant growth potential for Beta Systems.

Chances arising from SEPA

The implementation of SEPA (Single European Payment Area) and the continued consolidation of the European financial markets represent a significant source of growth potential for Beta Systems. The aim of SEPA is the replacement of the existing national payment transaction procedures with a uniform European method.

SEPA will significantly change the way that banks and businesses transact with each other and is likely to deliver significant cost savings. Beta Systems' product FrontCollect Payment has solid growth potential as a result. Beta Systems' FrontCollect Payment offers a payment transaction procedures equipped with the most modern technology able to read the new SEPA payment transaction vouchers. FrontCollect directs the captured information to further processing systems or to archives (e.g. Beta Systems' EBS 20). Standard national payment transactions, EU payment transactions and SEPA transfers can be processed fast, safe and efficiently. The SEPA initiative will enable Beta Systems to further strengthen the position of the Group in the European market with its FrontCollect product.

Improved organizational Structure with experienced Management

Benefiting from the establishment of LoB's as profit centers, the respective segment management teams will be better able to control the operating and financial aspects of the business. In the new organizational structure the management teams have been empowered to react quickly to business requirements and to take direct and autonomous control of the operating activities for their 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. These activities are supported by an overall system of Global Top Account Management for key accounts, designed to present Beta Systems on a unified basis and to support the generation of new business and profitable growth.

Expansion of Partner Business

As part of the corporate realignment of the Beta Systems Group a central department has been established in Berlin, focusing solely on business with sales partners. In particular, this department is responsible for further enhancing partner relations and expanding the partnership network in Europe. It will also be channeling its efforts into developing a profitable presence in North America that can be sustained in the long term.

Upgrade of Mainframe Products to new Version of Beta Systems Architecture

The upgrade of the Group's mainframe products to a new Beta Systems architecture (BSA V4) has laid the foundation for significant performance improvements. Based on this formidable technology Beta Systems is now well placed to build stronger customer relationships and expand into growth markets in the medium to long term.

7. RESEARCH AND DEVELOPMENT

The Group's research and development achievements have given forceful support to the process of developing and introducing new products. Releasing more than 40 new products in the course of fiscal 2006, Beta Systems was able to meet a number of significant customer and market requirements thereby fulfilling the growing need for functionality, flexibility and quality.

Fiscal 2006 saw the market rollout of a new core component, FrontCollect Server, developed for ECM. It forms the basis for a wide range of solutions geared towards the key market of financial services. As a result of this latest development, the solutions package FrontCollect Payment is now equipped to meet the requirements of SEPA (Single European Payment Area) for document-based payment processing systems from 2008.

Turning to other areas, an extended release of the mainframe-based SAM solution (Security Administration Manager) was developed in 2006 for IdM. It features a number of new interfaces with other IdM solutions as well as improved agents for the full range of standard target systems. In this version, SAM represents an integrated and platform-independent IdM suite with extensive features such as Enterprise Single Sign-On (ESSO) functionality, User Provisioning, Reporting and Auditing. The latter is of particular significance for customers subject to compliance requirements. In addition, work on SAM version 4.1 was completed during 2006. Compatible with UNIX and Windows systems, it provides the basis for IdM solutions deployable on any platform.

Looking forward to 2007, work is already under way on next-generation solutions that will pave the way for cutting-edge "Web Access Management" technologies.

Within the DCI segment, Research and Development work continued on a program of continuous product improvement. In releasing BSA V4 Beta Systems has been able to transfer its core products for the automation of data center processes to a common, optimized technology platform. This will pave the way for high-level integration of Beta products. In addition, flexible add-ons were incorporated, with the express purpose of improving compatibility with leading solutions such as SAP and market standards such as WebServices.

In 2006, the SOA initiative (Service Orientated Architecture) was taken to the next level, the strategic objective being to align Beta Systems' product landscape even more closely with future-driven technologies and innovative concepts, in addition to improving integration in customers' enterprise processes and developing additional applications and solutions.

8. REMUNERATION REPORT

Management Board Remuneration

The structure of remuneration for the Management Board is laid down by the Personnel Committee which is constituted by the Supervisory Board of Beta Systems Software AG. The Personnel Committee discusses and reviews the remuneration structure on a regular basis.

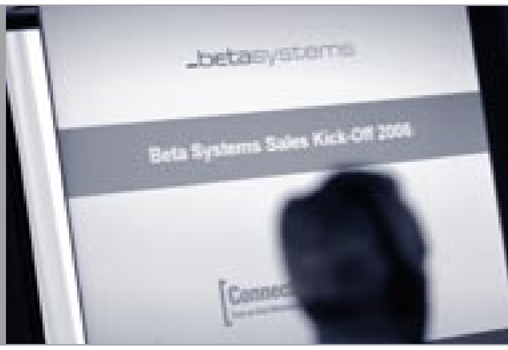
Management Board remuneration comprises two components: the basic component (salary and benefits) and the variable, performance-based component (bonus).

The basic component is paid monthly as a salary. In addition to the salary the members of the Management Board receive benefits in kind which are primarily the provision of a company car or a contribution to car-running expenses. Beyond this, members of the Management Board receive an annual bonus. The determination of whether a bonus is payable and the actual bonus amounts are dependent on the results achieved by the Beta Systems Group as well as the personal performance of the Management Board members.

A non-recurring special payment has been agreed for Management Board member Kamyar Niroumand if a change of control occurs in which more than 75% of the Company's shares furnished with voting rights are purchased by a third party. The amount of this payment is based on the price paid for the majority of shares furnished with voting rights and may not exceed € 5,000,000.00.

No termination benefit arrangements have been contractually agreed for the benefit of Management Board members which would be payable as a result of an early termination of a contract. Termination payments may however result from individual agreements in connection with early contract termination.

Mr. Dietmar Breyer received a termination payment of € 120,000.00 following early termination of his contract.



For fiscal 2006 remuneration of the Management Board was as follows:

	Basic component		Performance-based component
	Salary	Other Remuneration	
	Euro	Euro	Euro
Kamyar Niroumand[1]	270,000.00	9,435.69	240,000.00[2]
Gernot Sagl[3]	9,000.00[4]	-	-[5]
Dietmar Breyer[6]	120,000.00	13,648.57	30,000.00
		120,000.00[7]	
Dr. Oscar von Dungern[8]	103,998.00	6,435.69	8,215.20
Total	**502,998.00**	**149,519.95**	**278,215.20**

[1]Mr. Kamyar Niroumand was appointed to the Management Board as Chief Executive Officer of Beta Systems Software AG effective April 1, 2006.

[2]As agreed in his employment contract Mr. Kamyar Niroumand received a full target performance bonus of € 240,000 independent of performance and of the Group's net result. Payment of a full years' bonus in the year of appointment is not unusual in practice.

[3]Mr. Gernot Sagl was appointed to the Management Board of Beta Systems Software AG as Chief Financial Office effective October 26, 2006.

[4]In consideration of other duties performed By Mr. Gernot Sagl until December 31, 2006, he received pro rata remuneration for fiscal year 2006 amounting to approximately € 9,000.00. A conclusive agreement had not been reached at the time of the compiliation of this report.

[5]Mr. Gernot Sagl will be be awarded his entitlement to a performance related bonus for 2006 in fiscal 2007.

[6]Mr. Dietmar Breyer left the Management Board of Beta Systems Software AG effective September 15, 2006.

[7]Termination gratuity paid to Mr. Dietmar Breyer.

[8]Mr. Oskar von Dungern left the Management Board of Beta Systems Software AG effective June 30, 2006.

No long-term remuneration components (e.g. share option schemes) were issued in the fiscal year. No advances or loans were granted to members of the Management Board of Beta Systems Software AG in the reporting period.

Supervisory Board Remuneration

Remuneration of the Supervisory Board of Beta Systems Software AG is determined by the shareholders at the Annual General Meeting and is governed by Section 12 of the Company's Articles of Association. Remuneration reflects the tasks and responsibilities of the Supervisory Board and the financial situation of the Company.

Each Supervisory Board member receives annual remuneration of € 7,700.00. The Chairman receives double the annual amount payable to a member; the Deputy Chairman receives one-and-a-half times the annual amount payable to a member. In consideration of the pro-rata time spent in office during fiscal year 2006, the amounts received by the individual members of the Supervisory Board were as follows:

	Fixed Remuneration 2006[1]
	Euro
Sebastian Leser[2]	9,408.76
Dr. Arun Nagwaney[3]	7,056.58
Volker Wörle[4]	4,704.38
Jürgen Dickemann	7,910.96
Stefan Hillenbach	7,700.00
Wilhelm Terhaag	7,700.00
Harald J. Joos[5]	5,147.40
William P. Schmidt[6]	4,704.38
Thomas Engelhardt[7]	2,995.62
Total	**57,328.08**

[1]Chairmen of the Supervisory Board during 2006: Mr. Sebastian Leser, Mr. William P. Schmidt and Mr. Harald J. Joos. Deputy Chairmen during 2006: Dr. Arun Nagwaney, Mr. Jürgen Dickemann and Mr. William P. Schmidt.

[2]Mr. Sebastian Leser was appointed Chairman of the Supervisory Board of Beta Systems Software AG with effect from May 22, 2006.

[3]Dr. Arun Nagwaney was appointed Deputy Chairman of the Supervisory Board of Beta Systems Software AG with effect from May 22, 2006.

[4]Mr. Volker Wöhrle was appointed to the Supervisory Board of Beta Systems Software AG with effect from May 22, 2006.

[5]Mr. Harald J. Joos resigned from the Supervisory Board of Beta Systems Software AG with effect from May 2, 2006.

[6]Mr. William P. Schmidt resigned from the Supervisory Board of Beta Systems Software AG with effect from May 22, 2006.

[7]Mr. Thomas Engelhardt resigned from the Supervisory Board of Beta Systems Software AG with effect from May 22, 2006.

In addition, members of the Supervisory Board receive remuneration for direct expenses, including the associated sales taxes, incurred in performing their duties. The Company does not offer performance based remuneration for members of the Supervisory Board. The members and the Chairman of the Personnel Committee do not receive additional remuneration for this function. No advances or loans were made to members of the Supervisory Board of Beta Systems Software AG during the fiscal year.

9. REPORTING PURSUANT TO § 315 ABS.4 HGB VIZ. § 289 ABS. 4 HGB

Both §§ 289 and 315 HGB (German Commercial Register) were appended by a new paragraph 4 as a result of the "Übernahmerichtlinie-Umsetzungsgesetz". Beta Systems complies with the resulting requirements effective January 1, 2006 by means of disclosure in this chapter or reference to the relevant chapter in the Group Report viz. the Company Management Report.

- The issued capital in the amount of € 11,517,058.80 is divided into 8,859,276 ordinary shares. Each ordinary share has a nominal value of € 1.30.
- The corresponding rights and responsibilities are regulated in the stock corporation law.
- The Management Board is not aware of any restrictions relating to the voting rights or the transmission of shares.
- The Company has been informed of direct or indirect investment exceeding 10% of the voting rights in its capital as follows:
  - 34.2255% pursuant to § 22ff. WpHG (in this connection please refer to the disclosures relating to the Share Capital in the Notes): Heidelberger Beteiligungsholding AG, Heidelberg, and viz. Deutsche Balaton AG, Heidelberg
  - 13.0% - William P. Schmidt, Berlin
  - 14.0% - Karin Tauchnitz and family, Berlin
- The nomination and revocation of members of the Management Board are effected in accordance with § 84, 85 AktG.
- Changes in the Articles of Association are effected in accordance with § 133, 179 AktG.
- The Management Board holds no authority to issue or purchase any shares.
- For agreements containing conditions relating to a change of control please refer to the "Remuneration Report".

10. TAKEOVER OFFER BY THE HEIDELBERGER BETEILIGUNGS-HOLDING AG (FORMERLY DELTA BETEILIGUNGEN AG)

On February 22, 2006 Delta Beteiligungen AG put forward an unsolicited public takeover offer to Beta Systems' shareholders for the purchase of their shares in the Company. The offer consisted of 1.75 shares in Delta Beteiligungen AG, with dividend rights accruing from January 1, 2005 and an additional cash payment of € 1.50 for each Beta Systems share.

After careful consideration of the takeover offer the Management and Supervisory Boards recommended that shareholders reject the bid owing to the inadequacy of the benefits offered. The takeover offer ended with Delta Beteiligungen AG holding approximately 34.2255% of the voting rights.

This holding was achieved during the term of the offer through purchases on and off the stock exchange as well as by transfer of voting rights by the parent company of Delta Beteiligungen AG, Deutsche Balaton AG.

11. SUMMARY AND OUTLOOK FOR THE GROUP AND THE COMPANY

The first half of fiscal 2006 was influenced to a large extent by cost reduction measures and restructuring expenses as well as by the need to address and make provision for specific risks. These exceptional items had a significant effect on Beta Systems' operating result. However, excluding these measures, the operating result for 2006 would in fact have improved slightly year on year.

Beta Systems will in future concentrate on those markets, sectors and regions which offer the greatest potential for expansion of its licensing business. Focusing on this objective, efforts will be concentrated on software capable of supporting secure enterprise processes in large organizations, in particular in the financial services and industrial sectors. With this in mind, a Global Top Account Management structure has been established, capable of presenting the Beta Systems portfolio on a unified basis. Within the area of international operations, a target has been set to double Beta Systems' partnership business in Europe and establish sustained, profitable presence in North America. These measures have been accompanied by a streamlining of the international organization and the overall portfolio.

The positive trend witnessed within the area of operations over the course of the third quarter continued into the fourth quarter. As a result of increased revenues from software licensing in the amount of 4.0% compared with the 4th quarter 2005 and in combination with streamlined cost structures a significant improvement in results was reported in the second half of 2006.

Operative turnaround is expected for 2007, Beta Systems is looking to make the transition from restructuring to growth mode.

Supported by the measures implemented in the sales area as part of the Company's strategic realignment the Management Board expects to achieve a low single-digit growth rate in 2007 based on a modest increase in revenues. Basically this revenue increase is to be achieved through organic growth in the IdM and ECM segments. At the same time a positive result is currently expected for all segments, associated with the significant increase in software license- and service business and the simultaneous reduction of hardware revenues. In consequence of the enduring improvement in Beta Systems' cost structure management currently anticipates that the Group will achieve sustained profitability over the course of the rest of the year and an EBIT margin in the single-digit percentage range for 2007.

For the year 2008 Beta Systems expects further revenue growth and a significant improvement in business performance. The consequent implementation of the restructuring measures will come to full effect in 2008 and will provide the basis for a positive business development. The Company's further existence is dependent on no further loss situation arising in future. We anticipate no further continuing loss situation.

The aforementioned outlook applies fundamentally to both the Beta Systems Group as well as to the parent company, the Beta Systems Software AG. A positive net result is predicted for the AG for fiscal 2007 and 2008.

Berlin, in March 2007

Kamyar Niroumand
Chief Executive Officer

Gernot Sagl
Chief Financial Officer

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.

We keep IT running. The Data Center Infrastructure business unit offers cross-industry solutions which support large corporations in the handling of typical data center related tasks. Our mainframe IT solutions facilitate a smooth, error-free, secure and uninterrupted central IT infrastructure for processing extremely large amounts of data and documents. With our products business-critical data is reliably protected, constantly available and, in the case of a major incident, can be restored quickly and according to a priority list.

We keep IT running.

REPORT BY THE SUPERVISORY BOARD

Dear Shareholders,

During the fiscal year 2006 the Supervisory Board of Beta Systems Software AG discharged its duties as required by legislation and the Company's own Articles of Association. The Management Board provided detailed information on the current position and development of Beta Systems Software AG during 17 Supervisory Board meetings.

We advised the Management Board and monitored its management activities. The Supervisory Board participated in all material decision-making processes and was kept informed by the Management Board in good time and in a comprehensive manner by means of regular verbal and written reports on all issues relevant to corporate planning and strategic development, the course of business, the Group's current situation including its risk position, and on corporate risk management. Variances between current business performance and forecasts or targets were clarified on a case-by-case basis. The Management Board obtained agreement on the Company's strategic alignment with us. All business considered to be of particular significance for the Company was discussed in depth on the basis of reports provided by the Management Board during the Supervisory Board's plenary meetings. I personally maintained regular contact with the Management Board to keep abreast of current business developments and material business events. The Supervisory Board granted its approval to transactions requiring authorization; in urgent cases this approval was issued in written form.

Focus of the Advisory Activities

The Supervisory Board discussed a wide range of issues during the financial year under review. The first six months were dominated by the sale of Kleindienst Scanner GmbH and the public takeover bid by Heidelberger Beteiligungsholding AG, Heidelberg (Delta Beteiligungen AG).

The further course was primarily occupied with the monitoring and advising on the strategic alignment of the Beta Systems Group. At our meetings we discussed measures for sustainable increase in revenues and advantages of growth opportunities for the Group as a whole and for individual segments. We also monitored and evaluated the according risk exposure, including the Company's capital resources. In this respect the Supervisory Board and Management Board jointly conducted a thorough discussion and revaluation of the risk position at the end of the first half of fiscal 2006.

Main focus of our meetings during the second half of 2006 was the analysis of business developments during 2006, the medium-term business plan for the fiscal years 2007 to 2009 submitted and explained by the Management Board and including product and market strategies, and staffing measures in consequence of the management restructuring process. The Supervisory Board also attended to the adaptation and remodelling of effective Corporate Governance mechanisms and -standards.

Corporate Governance and Declaration of Conformity

The information provided by the Management Board relating to Corporate Governance also applies to the Supervisory Board. The Management Board and Supervisory Board repeatedly discussed the recommendations and suggestions outlined in the Corporate Governance Code and have issued a current Declaration of Conformity pursuant to Section 161 AktG (German Stock Corporation Act) on December 15, 2006. The Declaration is included in the Corporate Governance Report of this Annual Report and has been made permanently available to shareholders on the Company's website. Prior to several joint meetings the Supervisory Board convened without the presence by the Management Board. These meetings included amongst others a critical review of the working efficiency of the Supervisory Board. During its meeting held on December 15, 2006, the Supervisory Board conducted a final detailed and structured review of its efficiency. The results serve to further optimize its working procedures. The ensuing proposals for improvements in reporting and for the scheduling and conducting of meetings will be implement in due course. Apart from a few exceptions, Beta Systems complies with all recommendations put forward by the Commission of the German Corporate Governance Code in its versions dated June 12, 2006 and June 2, 2005.

Meetings held by the Personnel Committee

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

Changes to the Management Board

With effect from April 1, 2006, **Kamyar Niroumand** took over as Chairman of the Management Board of the Company. As member of the Executive Committee of the Deutsche Telekom subsidiary T-Systems Mr. Niroumand last took charge of the management of the key accounts in his capacity as Chief Sales & Service Officer. As General Manager of T-Systems International GmbH he was responsible for directing business activities in growth regions. With this track record Mr. Niroumand has established a number of outstanding contacts with many multinational corporations and major public-sector institutions and can call on exceptional management- and industry expertise within the international IT-solutions business.

During its meeting held on October 26, 2006, the Supervisory Board appointed **Gernot Sagl** as Chief Financial Officer of Beta Systems Software AG. Mr. Sagl has wide-ranging international management experience and prior to joining held the position of Regional Finance Manager for the globally active US-American pharmaceutical company Wyeth Whitehall where he was responsible for the companies' finances in Central and Eastern Europe. Prior to his engagement with this top-10 pharmaceutical group Mr. Sagl was able to establish comprehensive professional experience a. o. in his capacity as Chief Financial Officer of the Austrian CCC AG as well as during his engagement as Manager Controlling and Treasury of the ÖAG Handelsbeteiligungen AG.

Dietmar Breyer, who in his capacity as Vice Chairman of the Management Board temporarily assumed the responsibility as Chairman of the Management Board until March 31, 2006, left Beta Systems at his own request on September 15, 2006 to devote himself to new career challenges.

Dr. Oskar von Dungern, Management Board member responsible for Research and Development, left the Company at his own request effective June 30, 2006 in order to pursue a new professional assignment. He continues to retain an advisory function for the Company.

Kilian Krieger was appointed General Authorized Signatory since October 4, 2005. He was responsible for Finance, Controlling and Personnel and the main focus of his commission involved the monitoring and implementation of restructuring-, cost-reduction- and integration measures. Mr. Krieger left Beta Systems on September 30, 2006 in accordance with the provisions of his agreement.

We thank Mr. Breyer, Dr. von Dungern and Mr. Krieger for their in part long-term successful engagement in the Management of Beta Systems and wish them professional and personal success for the future.

Changes to the Supervisory Board

During its meeting held on May 2, 2006 the Supervisory Board of Beta Systems Software AG elected **William P. Schmidt** to the position of Chairman of the Supervisory Board. Mr. **Jürgen Dickemann**, CEO of Deutsche Balaton AG, was appointed Vice Chairman.

Prior to this, **Harald J. Joos**, Chairman of the Executive board of DEMAG Cranes & Components GmbH, had informed the Company of his intention to renounce his post at the close of the Supervisory Board meeting on May 2, 2006. Background to his decision were the significant demands placed on him by his management duties at DEMAG.

By resolution at the Annual General Meeting held on May 22, 2006, Mr. **Sebastian Leser**, Karlsruhe, CEO of Heidelberger Beteiligungsholding AG, Heidelberg (Delta Beteiligungen AG), **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 Rooflite, a subsidiary of VKR-Holding, were elected to the Supervisory Board by the shareholders with a three-quarter majority in each case. Mr. William P. Schmidt, Berlin and Mr. Thomas Engelhardt, Kronach were recalled from their duties before expiry of the full term by the electorate.

We express our gratitude also towards Messrs. Joos, Schmidt and Engelhardt for the successful strategic accompaniment of Beta Systems within the scope of their Suspervisory Board duties during the past years. Our wishes for professional and personal success for the future are extended to them as well.

At the constituent Supervisory Board meeting held following the Annual General Meeting of May 22, 2006, the members elected Mr. **Sebastian Leser** as Chairman of the Supervisory Board, and **Dr. Arun Nagwaney** as Vice Chariman.

Adoption of the Annual Financial Statements

The accounting records, the Annual Financial Statements as well as the combined Group Management Report and the Report on the Company's Position (Group Management Report) of Beta Systems Software AG for fiscal year 2006 were audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Berlin, and were granted an unqualified audit opinion. At its meeting held on March 26, 2007 the Supervisory Board, in the presence of the auditor, took cognizance of the audit results and confirmed these. Following its own concluding examination the Supervisory Board raises no objections to the Annual Financial Statements and the Group Management Report. The Supervisory Board approves the Annual Financial Statements prepared by the Management Board. The Annual 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 point defined as part of this year's annual audit of accounts was the current evaluation of the existing risk exposure. The concluding report on this, further audit reports, the Consolidated Financial Statements and the Notes to the Consolidated Financial Statements were forwarded to all Supervisory Board members in sufficient time for their scrutiny. Following its own concluding examination the Supervisory Board raises no objections to the Consolidated Financial Statements and the Group Management Report. The Supervisory Board approves the Consolidated Financial Statements prepared by the Management Board.

The Supervisory Board expresses its gratitude to the Management Board and to all employees of Beta Systems AG for their commitment during the course of fiscal year 2006.

Berlin, March 2007

On behalf of the Supervisory Board
Sebastian Leser
Chairman of the Supervisory Board

INDEPENDENT AUDITOR'S REPORT

We have audited the Consolidated Financial Statements – comprising the balance sheet, the income statement, the statement of changes in shareholders' equity, the statement of cash flows and the notes to the consolidated financial statements, together with the group and company management report – prepared by Beta Systems Software Aktiengesellschaft, Berlin for the fiscal year from January 1, 2006 to December 31, 2006. The preparation of the consolidated financial statements and the group and company management report in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a Abs.1 HGB of the German commercial code are the responsibility of the company's management. It is our responsibility to express an opinion on the consolidated financial statements and the group and company management report based on our audit. In addition we have been instructed to express an opinion as to whether the consolidated financial statements comply in full with IFRS.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB of the German commercial code and the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit in such a way that misstatements and irregularities materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group and company management report are detected with reasonable certainty. Knowledge of the business activities and the economic and legal environment of the group and expectations as to possible misstatements are taken into account in the determination of the audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group and company management report are examined primarily on a random test basis within the framework of the audit.

The audit includes assessing the annual financial statements of those entities included in the consolidation, the determination of entities to be included in the consolidation, the accounting and consolidation principles used and significant estimates made by management as well as evaluating the overall presentation of the consolidated financial statements and the group and company management report.

We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on the findings of our audit, the Consolidated Financial Statements of Beta Systems Software Aktiengesellschaft comply with the International Financial Reporting Standards (IFRS) as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs.1 HGB of the German commercial code and full IFRS and present a true and fair view of the net assets, financial position and results of operations of the group in accordance with these requirements. The group and company management report of Beta Systems Software Aktiengesellschaft is consistent with the Consolidated Financial Statements and as a whole provides a suitable view of the group's position and suitably presents the opportunities and risks of future development.

Without qualifying this assessment, we refer to the disclosures by the Management Board in the group and company management report under paragraph 11 „Summary and Outlook for the Group and the Company". There it is stated that, in the case of a continuing loss situation in the future, the existence of the Company could be jeopardized.

Berlin, March 9, 2007

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

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

[CONSOLIDATED FINANCIAL STATEMENTS]

CONSOLIDATED INCOME STATEMENT

January 1 to December 31 Thousand €, except share data	*Note*	2005	2006
Revenues	*1*	**95,606**	**96,621**
• Product Licenses		26,910*	27,127
• Hardware		8,172*	12,015
• Maintenance		47,200*	44,848
• Services		13,324*	12,631
Cost of Revenues	*2*	**48,680**	**52,428**
Gross Profit		**46,926***	**44,193**
Operating Expenses	*2*	**56,741**	**59,574**
• Selling Expenses		23,340*	30,154
• General and Administrative Expenses		12,553*	10,770
• Research and Development Expenses		15,050*	12,858
• Amortization of Intangible Assets and Goodwill	*14, 15*	225	1,613
• Severance Payments and Restructuring Costs	*3*	5,573	4,179
Operating Result from Continuing Operations, before Other Income (Expenses)		**(9,815)**	**(15,381)**
Other Income (Expenses)	*4*	5,191	(221)
Operating Result from Continuing Operations, including Other Income (Expenses)		**(4,624)**	**(15,602)**
Financing Result		**(520)**	**(810)**
• Interest Income		83	13
• Interest Expenses		(603)	(823)
Result from Continuing Operations, before Income Taxes and Minority Interests		**(5,144)**	**(16,412)**
Income Taxes (Income Tax Benefit)	*5*	(871)	1,978
Income from Discontinued Operations, less Income Taxes	*6*	(6,078)	-
Net Income (Loss) for the Year		**1,805**	**(18,390)**
Minority Interests		234	-
Income (Loss) for the Year attributable to the Shareholders of the Parent Company		**1,571**	**(18,390)**
Earnings per Ordinary Share attributable to the Shareholders of the Parent Company			
• Basic and Diluted	*7*	**0.19**	**(2.10)**
Weighted Average Number of Shares Outstanding used to compute Earnings per Ordinary Share			
• Basic and Diluted		**8,436,914**	**8,738,666**

* including Reclassifications (for detail refer to pages 54 and 55)

See accompanying Notes to the Consolidated Financial Statements

CONSOLIDATED BALANCE SHEET

December 31 Thousand €, except share data	*Note*	2005	2006
Current Assets		**46,852**	**43,055**
• Cash and Cash Equivalents	*8*	4,383	2,050
• Trade Accounts Receivable	*9*	28,609	29,016
• Work in Process Project Orders (POC)	*10*	4,023	3,780
• Inventories	*11*	4,737	3,689
• Prepaid Expenses and Deferred Charges		1,517	1,360
• Other Current Assets	*12*	894	2,614
• Current Income Taxes	*20*	946	546
• Assets Held for Sale		1,743	-
Non-Current Assets		**27,742**	**26,477**
• Fixed Assets	*13*	6,360 *	4,860
• Goodwill	*14*	2,846	1,522
• Other Intangible Assets	*15*	2,261 *	1,087
• Acquired Software Development Costs	*16*	4,038	2,836
• Deferred Tax Assets	*5*	5,068	7,949
• Other Non-Current Assets	*17*	7,169	8,223
Total Assets		**74,594**	**69,532**
Current Liabilities		**32,685**	**44,468**
• Short-Term Finance and Current Installments of Long-Term Borrowings and Finance Leases	*18*	4,912	10,277
• Trade Accounts Payable	*19*	3,511	8,767
• Deferred Revenues		6,008	8,294
• Current Income Taxes	*20*	927	1,142
• Provisions	*21*	2,306	2,638
• Other Current Liabilities	*22*	14,502	13,350
• Liabilities associated with Assets Held for Sale		519	-
Non-Current Liabilities		**10,417**	**12,074**
• Long-term Borrowings and Finance Leases	*23*	4,317	2,094
• Pension Obligations	*24*	2,038	2,028
• Deferred Tax Liabilities	*5*	1,904	5,793
• Other Non-Current Liabilities	*25*	2,158	2,159
Total Liabilities		**43,102**	**56,542**
Shareholders' Equity		**31,492**	**12,990**
• Ordinary Shares: € 1.30 Nominal Value per Ordinary Share (2005: € 1.28 per Ordinary Share)	*27*	11,324	11,517
• Additional Paid-In Capital		8,178	7,985
• Accumulated Income (Loss)		11,130	(7,260)
• Accumulated Other Comprehensive Income		1,279	1,167
• Treasury Stock at Cost: 120,610 Ordinary Shares		(419)	(419)
Total Liabilites and Shareholders' Equity		**74,594**	**69,532**

* including Reclassifications (for detail refer to pages 54 and 55)

See accompanying Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CASH FLOWS

January 1 to December 31 Thousand €, except share data	Note	2005	2006
Net Cash used in Operating Activities		**(984) ***	**(2,825)**
• Net Income (Loss) for the Year		1,805	(18,390)
Reconciliation between Net Income (Loss) for the Year and			
Net Cash used in Operating Activities:			
• Depreciation and Amortization		4,311	5,733
• Non-Cash Expenditures of Discontinued Operations		1,424	-
• (Gain) Loss on the Disposal of Fixed Assets		(6,396)	223
• Interest Expenses		603	823
• Interest Income		(83)	(13)
• Current Tax Expenses		1,446	1,046
• Deferred Tax Expenses (Benefit)		(2,087)	932
• Income Taxes Paid		(773)	(500)
• Foreign Currency Gains (Losses)		92	(273)
• Changes in Assets and Liabilities:			
Increase in Trade Accounts Receivable		(994)	(164)
Increase (Decrease) in Trade Accounts Payable		(340)	5,256
Increase (Decrease) in Deferred Revenues		(3,238)	2,286
Changes in other Assets and Liabilities, including			
Assets Held for Sale		3,246	216
Net Cash provided by (used in) Investing Activities		**6,980 ***	**(2,098)**
• Repayment of Short-Term Investments		705	-
• Purchase of Fixed Assets		(2,342)	(1,710)
• Proceeds from the Disposal of Fixed Assets		369	-
• Proceeds from the Sale of Outsourcing Service, net of Cash Disposed		9,920	-
• Acquisition of Software Development Costs		(610)	(413)
• Proceeds from the Disposal of Investments		-	25
• Cash Paid for Investments		(1,062)	-
Net Cash provided by (used in) Financing Activities		**(12,430) ***	**2,599**
• Net Change in Short-Term Finance		(2,138)	5,366
• Proceeds from the Grant of Long-Term Borrowings		6,000	-
• Repayment of Long-Term Borrowings and Finance Leases		(14,203)	(2,223)
• Interest Paid		(540)	(590)
• Interest Received		-	46
• Dividend Distribution		(1,028)	-
• Payment in connection with the Merger		(521)	-
Effect of Exchange Rate Changes on Cash and Cash Equivalents		**(10)**	**(9)**
Decrease in Cash and Cash Equivalents		**(6,444)**	**(2,333)**
Cash and Cash Equivalents at the Beginning of the Fiscal Year		10,827	4,383
Cash and Cash Equivalents at the End of the Fiscal Year	*8*	**4,383**	**2,050**

* including Reclassifications (for detail refer to pages 54 and 55)

See accompanying Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AND OTHER COMPREHENSIVE INCOME (LOSS) AT DECEMBER 31, 2006

		Ordinary Shares				
Thousand €, except share data	***Note***	**Number of Shares Issued**	**Nominal Amount**	**Additional Paid-In Capital**	**Accumulated Income (Loss)**	**Other Comprehensive Income (Loss)**
Balance at January 1, 2005		**8,342,190**	**10,663**	**18,387**	**(1,413)**	**1,491**
Issuance of Ordinary Shares		517,086	661	2,312	-	-
Cost of Increase in Paid-In Capital		-	-	(521)	-	-
Dividend Distribution		-	-	-	(1,028)	-
Net Income for the Year		-	-	-	1,571	-
Other Comprehensive Loss,						
less Income Taxes						
• Currency Translation Adjustments		-	-	-	-	(212)
Other Comprehensive Loss		-	-	-	-	-
Net Income, including						
Other Comprehensive Loss						
Withdrawal from Additional Paid-In Capital		-	-	(12,000)	12,000	-
Minority interests		-	-	-	-	-
Balance at December 31, 2005		**8,859,276**	**11,324**	**8,178**	**11,130**	**1,279**
Issuance of Ordinary Shares		-	-	-	-	-
Cost of Increase in Paid-In Capital	*27*	-	193	(193)	-	-
Net Loss for the Year		-	-	-	(18,390)	-
Other Comprehensive Loss,						
less Income Taxes						
• Currency Translation Adjustments		-	-	-	-	(112)
Other Comprehensive Loss		-	-	-	-	-
Net Loss, including						
Other Comprehensive Loss						
Balance at December 31, 2006		**8,859,276**	**11,517**	**7,985**	**(7,260)**	**1,167**

	Net Income (Loss) incl. Other 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	
		(120,610)	(419)	28,709	8,886	37,595	
		-	-	**2,973**	-	2,973	
		-	-	**(521)**	-	(521)	
		-	-	**(1,028)**	-	(1,028)	
	1,571	-	-	**1,571**	234	1,805	
	(212)	-	-	**(212)**	-	(212)	
	(212)	-	-	**-**	-	-	
	1,359						
	-						
		-	-	**-**	(9,120)	(9,120)	
		(120,610)	(419)	31,492	-	31,492	
		-	-	**-**	-	-	
		-	-	**-**	-	-	
	(18,390)	-	-	**(18,390)**	-	(18,390)	
	(112)	-	-	**(112)**	-	(112)	
	(112)	-	-	**-**	-	-	
	(18,502)						
		(120,610)	(419)	12,990	-	12,990	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2006

PRESENTATION OF THE SIGNIFICANT ACCOUNTING POLICIES AND VALUATION METHODS

Description of the Business Activity

Beta Systems Software AG, with its principal office at Alt-Moabit 90d, D-10559 Berlin, Germany, together with its subsidiaries comprises the Group ("Beta Systems" or "the Company") for which the subsequent Consolidated Financial Statements for the fiscal year 2006 were compiled in accordance with IFRS standards.

The Company develops, market, implements and supports high-class automation software products and -solutions for the safe and efficient processing of large data volumes for use by enterprises, public administration as well as industry- and trade organizations for application on mainframe computers and other hardware in Mainframe-, Unix-, Linux- and Windows environments.

The Company's products are designed to increase the productivity of voluminous 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 feature a common comprehensive architecture which facilitates the development and integration of the Company's products across platforms, independent of the application.

The software products and -solutions of the Lines of Business ("LoB's") Identity Management ("IdM"), Enterprise Content Management ("ECM") and Data Center Infrastructure ("DCI") of Beta Systems Software AG support the Company's customers in the automation, safeguarding and transparency of their IT-supported business processes.

The business unit Identity Management (IdM) is geared to serve the increasingly growing global demands in the Identity Management sector. Within this LoB cross-sector solutions for the central definition, control and administration of digital identities as well as IT-user rights for purpose of the implementation and 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 management in data center environments. The control and monitoring of the application processes, the processing, storing and restoring as well as the documenting of complex IT-supported business processes is accomplished by the employment of products of this LoB.

The business unit Enterprise Content Management (ECM) supplies a comprehensive, industry-specific solutions portfolio designed to optimize fully integrated document-based business processes within the sectors banking, insurance, public administration, industry, trade and services.

The identification, processing, providing, distribution and archiving of documents and data form the core functions of the products and solutions of this LoB. The ECM product portfolio is supplemented by the Kleindienst scanner and sorter product range, a brand owned by Beta Systems Software AG.

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

On March 9, 2007 the Management Board of Beta Systems Software AG released the Consolidated Financial Statements for the fiscal year 2006 for transmission to the Supervisory Board. It is the duty of the Supervisory Board to examine the Consolidated Financial Statements and to acknowledge their approval.

Financial Reporting Principles

The Consolidated Financial Statements for Beta Systems Software AG were first prepared 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 accumulated income (loss) in the shareholders' equity as at the transition date (January 1, 2004).

The annual financial statements of the fully consolidated companies included in the Consolidated Financial Statements are based on the same accounting policies and valuation methods. The reporting date for all companies is December 31, 2006.

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 according to 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 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 in 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€ 1,522.

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 year 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 that information.

The post-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. During the fiscal year 2005 the Scanner Hardware manufacture was transferred into an independent subsidiary of Beta Systems Software AG, the Kleindienst Scanner GmbH. Contractually effective as at February 22, 2006 the subsequent sale of this subsidiary was concluded with economic effect retrospective to January 1, 2006. The final consolidation of the Kleindienst Scanner GmbH in the basis of consolidation of Beta Systems Software AG was carried out as at March 31, 2006. The management of the Kleindienst Scanner GmbH was handed over to SIS SEAC on April 1, 2006.

Apart from the Beta Systems Software AG as parent company the Consolidated Financial Statements include 17 group companies (2005: 18 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

Software 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 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, 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 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 (ECM) from sales of hardware (scanner systems) and from the sale of trading goods (PC workstations and servers).

Research and Development Costs

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 principles of IAS 38.52 and IAS 38.53.

Acquired Software Development Costs

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

Severance Payments and other Restructuring Costs

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 by means of the reduction of staff on the basis of a social compensation program),
- the concentration on the core business (the sale of the no longer deemed strategically important business unit Outsourcing Service and the corporate legal divestment of the Kleindienst Scanner GmbH).

The corporate restructure was supplemented during the fiscal year 2006 by the following measures:

- personnel changes on Management- and Supervisory Boards,
- downsizing and reorganization of the sales and distribution structure in the subsidiaries (regional realignment),
- Augsburg office relocation (significant reduction in operating expenses in the future),
- cost optimization- and consolidation measures in line with the new business structure (fine-tuning of the corporate strategy, streamlining of the portfolio, industry focus and market-related strategies for the LoB's),
- sale of the subsidiary Kleindienst Scanner GmbH.

Full details on the development of the provisions for severance payments and restructuring costs are provided under the heading "Restructuring".

Financing Result

The financing result comprises all accumulated interest and similar income and expenses. In addition, interest provisions relating to long-term provisions as well as interest income and expenses resulting from short-term cash deposits and short-tem finance are included here. Borrowing costs are recognized as an expense in the accounting period in which they occur.

Gain from Discontinued Operations

The sale of the entire business unit Outsourcing Service, as formerly conducted by 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 year 2005 for the post-tax-results attributable to the activities of the discontinued business.

Detailed particulars regarding the revenues, expenses, the result before taxes as well as the tax expenses resulting from the sale of the Outsourcing Service business unit are provided under the heading "Sale of the Outsourcing Service business unit".

Income Taxes

The net income taxes due for the fiscal year comprise the income taxes calculated for the individual companies based on their taxable income viz. taxable loss for the reporting period and the applicable tax rate. The changes recorded in the deferred tax assets and liabilities are also included here.

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 (loss) 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 attributable to the shareholders of the Company were assessed by adjusting the earnings per ordinary share attributable to the shareholders of the Company by the result from discontinued operations. The earnings per ordinary share from discontinued operations were calculated by dividing the result from the 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 cash at banks callable without notice.

Trade Accounts Receivable and Other Current Assets

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)

The project order contracts comprise the manufacture of customized - and continuing across various accounting periods - made-to-order project solutions designed to meet the individual requirements of customers. On the one side these construction contracts comprise the construction 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, software licensing 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 possible other proportionately allocable administration costs.

During the construction phase the construction costs including margin are activated in the balance sheet as In Process Project Orders (POC).

Inventories

Inventories are stated at the lower value of the average acquisition- or production costs and 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.

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 a net basis, current taxes payable and current taxes receivable were offset against each other.

Derivative Financial Instruments

In order to limit and control existing financial foreign currency and interest risks, certain derivative financial instruments in the form of foreign currency forwards and interest caps are employed. These do not fulfill the requirements of the Fair Value Hedge in terms of Hedge Accounting.

Foreign currency forwards 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 interest risks. The fair value of the interest caps is principally determined on the basis of the present value of the expected future cash inflows.

The results of the valuation adjustments resulting from the changes in fair value are recognized in the applicable accounting period in the income statement.

Fixed Assets

Property and equipment is valued at acquisition cost less systematic allocation of straight-line depreciation amounts.

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.

Intangible assets, excluding goodwill, are subject to systematic allocation of straight-line amortization. For the systematic amortization of the intangible assets a useful life of five 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.

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 recoverable value of the respective asset is determined as the higher amount of the value in use and the fair value less the selling costs. 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.

A goodwill acquired in a business combination is principally tested annually for impairment.

Accounts Payable

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

Provisions

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

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

Pensions Obligations

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

The pension provisions are recognized 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, 2005 and December 31, 2006.

Pension-Related Obligations

Pension-related obligations are included in "Other Non-Current Liabilities". The 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 and a severance payment at the end of the partial retirement employment period. The provisions were calculated according to the actuarial principles in accordance with IAS 19.133 ff. These assumptions are quoted under the heading "Pension-Related Obligations".

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.

Share-Based Compensation

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

Several 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 by 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 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. When, in the case of leased assets, all essential risks and rewards with respect to such property pass on to the lessee, 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.

Fair Value of Financial Instruments

Financial instruments of the Company consist of cash and cash equivalents, derivative financial instruments, accounts receivable, accounts payable, provisions and loans´all of which are stated at their fair values in the balance sheet and the changes in valuation for which are recognized at the time of their accrual in the income statement.

The fair value of loans 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 base of assets and liabilities as recognized in the Consolidated Financial Statements according to IFRS and the corresponding tax base values. 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 from 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 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 appropriate foreign exchange benchmark rate at the reporting date, while the revenues and expenses in the income statements were translated the appropriate 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 2005	2006
USA	1USD = €	0.845023	0.758668
Canada	1CAD = €	0.726269	0.653851
Great Britain	1GBP = €	1.455604	1.489425
Switzerland	1CHF = €	0.642880	0.621891
Sweden	1SEK = €	0.106462	0.110583
Poland	1PLN = €	0.258491	0.260329
Hungary	1HUF = €	0.003958	0.003973
Nigeria	1NGN = €	0.006454	0.005771

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

Realized losses resulting from continuing business transactions in foreign currency were recognized in the position "Other Income (Expenses)" in the income statement and amounted to T€ 273 in 2006 (2005: gains in the amount of T€ 92).

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.

Reclassifications

Several reclassifications were made in the Consolidated Financial Statements to ensure that the presentation of the comparative information for fiscal year 2005 conforms to the presentation for fiscal year 2006. These reclassifications have no impact on the net income or shareholders' equity reported for the prior year.

The reclassifications made in the income statement for fiscal year 2005 in order ensure that the presentation of the comparative information for fiscal year 2005 conforms to the presentation for fiscal year 2006 are detailed in the following table:

Revenues	Original Value	Value after Reclassification	Change
Software Licenses	19,634	26,910	7,276
Hardware	-	8,172	8,172
Maintenance	23,318	47,200	23,882
Services	7,069	13,324	6,255
Project Business Enterprise Content Management (ECM)	45,585	-	(45,585)
Total Revenues	**95,606**	**95,606**	**-**

By means of this reclassification the Company has allocated the separately disclosed revenues from Project Business Enterprise Content Management (ECM) of fiscal year 2005 in accordance with the current revenue classification applied by Beta Systems Software AG. As a result comparability with the disclosures of the prior fiscal period is achieved.

Cost of Revenues and Operating Expenses	Original Value	Value after Reclassification	Change
Total Cost of Revenues	49,566	48,680	(886)
Selling Expenses	21,489	23,340	1,851
General and Administration Expenses	12,525	12,553	28
Research and Development Expenses	16,043	15,050	(993)
Total	**99,623**	**99,623**	**-**

As a result of the complete integration of the Kleindienst Datentechnik AG an adjustment in accordance with the current cost accounting in use by Beta Systems Software AG and the conversion of the functional-area oriented disclosure of costs according to the new organizational structure was carried out. The reclassification was effected in order to ensure comparability with the disclosures of the prior fiscal period.

In detail, sales provisions in the amount of T€ 1,851 were reallocated from Cost of Revenues to Selling Expenses. By contrast, T€ 933 were reallocated from Research and Development Expenses to Cost of Revenues.

As a result of the divestment of the Kleindienst Scanner GmbH the scope of activity of the LoB ECM has changed. This business unit no longer performs any own activities in connection with the research and development of scanners.

The reclassifications made in the balance sheet for fiscal year 2005 in order ensure that the presentation of the comparative information for fiscal year 2005 conforms to the presentation for fiscal year 2006 are detailed as follows:

Non-Current Assets	Original Value	Value after Reclassification	Change
Fixed Assets	5,965	6,360	395
Other Intangible Assets	2,656	2,261	(395)
Total	**8,621**	**8,621**	**-**

The reclassifications resulted from the arrangement and combination of the assets of the Kleindienst Datentechnik AG into the existing asset categories in use by Beta Systems Software AG.

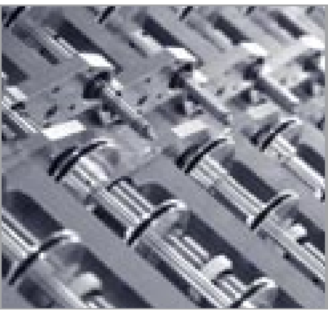
In the course of the system-oriented implementation of the integration (data migration) the values of the Kleindienst Datentechnik AG's fixed assets were allocated according to the current classification applied by Beta Systems Software AG. For this reason a reallocation was effected from Other Intangible Assets to Computer Equipment disclosed under Fixed Assets in the amount of T€ 395. This provides for the comparability of the disclosures.

The following reclassifications were made in the statement of cash flows for fiscal year 2005 in order to adjust these to the amended structure of the statement of cash flows for fiscal year 2006:

Cash provided by (used in):	Original Value	Value after Reclassification	Change
Operating Activities	(1,607)	(984)	623
Investing Activities	7,063	6,980	(83)
Financing Activities	(11,890)	(12,430)	(540)
Total Cashflow	**(6,434)**	**(6,434)**	**-**

Interest paid in the amount of € 540, in the prior year included under Cash used in Operating Activities was now allocated to Cash used in Financing Activities. The relevant payments relate to borrowings and to the availment of short-term finance.

Interest received in the amount of T€ 83, in the prior year included under Cash provided by Investing Activities, was now incorporated under Cash used in Operating Activities.



NEW PRONOUNCEMENTS

In December 2003 the IASB concluded its revision of a number of existing standards („Improvement Project"). The amendments to existing IAS as well as new IFRS and IFRIC interpretations as adopted by the European Union were applied when compiling the Consolidated Financial Statements. The amendments to existing or new standards and interpretations already adopted for application by the European Union, which were issued but are not yet effective at December 31, 2006 were - with the exception of the Standard IFRS 8 „Operating Segments" published on November 30, 2006 - 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.

On May 18, 2005 the IASB published the Standard IFRS 7 "Financial Instruments: Disclosures". This standard complements the principles for the publication of financial instruments hitherto published under IAS 32 and IAS 39. The standard is applicable to reporting periods beginning on or after January 1, 2007. The Company applies the principles of this standard voluntarily ahead of the effective date. The application led to additional disclosures in the Notes.

On January 12, 2006 the IFRIC Committee published the Interpretation IFRIC 8 "Scope of IFRS 2". In IFRIC 8 the IASB comments on the Scope of IFRS 2 „Share-based Payment" applicable to transactions in which the entity receives goods or services as consideration for its share-based payments. According to IFRIC 8, IFRS 2 also has to be applied if the entity can not clearly identify the goods or services received. The application of IFRIC 8 is compulsory for fiscal years beginning on or after May 1, 2006. The Company expects that the adoption of the interpretation could have a material impact on the Group's Consolidated Financial Statements.

On March 1, 2006 the IFRIC Committee published the Interpretation IFRIC 9 "Reassessment of Embedded Derivatives". The interpretation clarifies how, for certain circumstances, embedded derivatives under IAS 39 are to be treated. The interpretation is to be applied for annual periods beginning on or after June 1, 2006. The interpretation is to be applied retrospectively. The adoption of this standard is not expected to have any impact on the financial statements of the Group.

On March 16, 2006 the IASB published Draft Amendments to IAS 1 „Presentations of Financial Statements". According to the changes made in IAS 1, the financial statements have to include disclosures enabling the reader of financial statements to evaluate the objectives, methods and processes of the capital management. The application of this amendment is compulsory for fiscal years beginning on or after January 1, 2007. The first-time application will lead to additional disclosures in the Notes.

On November 30, 2006 the IASB published the Standard IFRS 8 „Operating Segments". IFRS 8 replaces the hitherto relevant IAS 14 Segment Reporting. Except for minimal terminological amendments the wording of the corresponding US-GAAP Standard SFAS 131 was completely taken over by IFRS 8. The Company applies the principles of this standard voluntarily and, for the first time in its Consolidated Financial Statements for the fiscal year 2006, ahead of the effective date. The early application of the standard resulted in a reduced scope in respect of the disclosure of the reporting according to the secondary segmentation, i.e. the segment reporting according to geographic regions.

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.

As at December 31, 2004, Beta Systems Software AG had acquired the majority shareholding of 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 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. 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 findings were approved 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 Software 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 Software 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.

A goodwill resulted from the purchase price allocation (T€ 1,522) and the increase in share capital in connection with the merger (T€ 320) in the total amount of T€ 1,522.

The business activity of the Kleindienst Group was divided into the business segments Enterprise Systems and Outsourcing Service. The Enterprise Systems segment developed and marketed 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 with the known expertise of Beta Systems, especially in the area of information output, 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.

SALE OF THE OUTSOURCING SERVICE BUSINESS UNIT

The Outsourcing Service business unit represented an independent economic unit within the Company.

The business acted 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.

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 Borrowings and Finance Leases	(6,611)
Minority Interests	(7,200)
Liabilities associated with Assets Held for Sale	**(17,735)**

Further detailed financial information hereto is presented in the section "Gain from Discontinued Operations in Fiscal Year 2005" 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

The operational division ECM Hardware 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 business segment (ECM).

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, Adelsried during the fiscal year 2005.

The Management Board and the Supervisory Board of Beta Systems Software AG further jointly reached the conclusion to hand over this operational division of manufacture of the Kleindienst scanner and sorter range to its long-standing partner SIS SEAC ICR Systems GmbH, Konstanz („SIS SEAC") by means of the sale of the Kleindienst Scanner GmbH.

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 by means of 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 was handed over to SIS SEAC on April 1, 2006. The final consolidation of the Kleindienst Scanner GmbH in the basis of consolidation of Beta Systems Software AG was carried out as at March 31, 2006.

By way of this assignment the Kleindienst Scanner GmbH assumed the responsibility for the development and the manufacture of the Kleindienst scanner and sorter hardware, while the product- and marketing rights continue to remain with Beta Systems Software AG. As part of the agreement the Kleindienst Scanner GmbH guarantees the respectively unique technology- and manufacturing know-how.

Beta Systems Software AG's focus lies on the marketing and the sale and service of the scanner and sorter hardware as part of its product offer by the LoB ECM. This is complemented by associated services such as project management and maintenance.

The scanners and sorters are purchased by Beta Systems Software AG on an order-related basis at fixed and agreed conditions.

All 28 employees employed by the Kleindienst Scanner GmbH were taken over at their existing employment terms and conditions.

NOTES TO THE INCOME STATEMENT

1. SEGMENT REPORTING

SEGMENT REPORTING ACCORDING TO BUSINESS UNITS

The segmentation comprises the allocation of reportable data according to the business units of the Company.

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

In its 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 was planned to be accomplished.

This realignment positioned 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 for each.

The delimitation of the business units was effected in accordance with the product- and solutions- oriented market segmentation customary in the IT-market. Strategically responsive structures, transparency and effective marketing thus establish Beta Systems' 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 each particular LoB. The LoB-manager operates as entrepreneur, taking the responsibility for the global success of his business.

This new structure achieves greater proximity with client enterprises and increases 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 effect 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 organization. A significant raise in 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 count among the advantages that accrue.

With the newly created LoB-structure the direct allocation of the functional areas Sales and Service to the LoB's became possible for the first time. Simultaneously the internal cost allocation of the functional areas came into operation for fiscal year 2006. This allows for a "fair according to the input involved" allocation of the costs for the functional areas Sales and Service for fiscal year 2006, while the allocation during the fiscal year 2005 was largely performed according to revenues realized. A retrospective adjustment of the allocation of the internal cost allocation for the fiscal year 2005 in accordance with the structure effective from fiscal year 2006 is practically not feasible. For this reason the Company elects not to reclassifying prior year disclosures in accordance with IAS 1.39 ff. Would reclassification be possible, the costs of the functional areas Sales and Service would have been allocated "fair according to the input involved". This applies also to the introduction of the revenues realized between the business segments effective from fiscal year 2006.

In connection with the reorganization revenue-relevant settlement between the business segments was also introduced. This was not effected in the comparative period. These inter-segment revenues are allocated directly to the LoB's and are subsequently eliminated during the consolidation.

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

All segments derive revenues from sales of product licenses, maintenance and consulting services as well as revenues from construction projects. Hardware sales are also realized in the ECM business segment.

The accounting policies of the operating segments are the same as those described in the "Presentation of the Significant Accounting Policies and Valuation Methods" and were retained unchanged from those applied during the prior year.

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

January 1 to December 31 2005	DCI	IdM	ECM	Elimination	Total Group
Revenues with Customers	35,409	11,797	48,400	-	95,606
...Intersegment Revenues	-	-	-	-	-
Total Revenues	**35,409**	**11,797**	**48,400**	**-**	**95,606**
Cost of Revenues and Operating Expenses of the Business Segments	(23,930)	(13,912)	(49,287)	59	(87,070)
Segment Income (Loss) from Continuing Operations	**11,479**	**(2,115)**	**(887)**	**59**	**8,536**
Interest Income (Expense)	83	-	(603)	-	(520)
Capital Investment Expenditures for Fixed and Intangible Assets	436	3,016	2,869	-	6,321
Total Carrying Amount of Segment Assets	27,627	9,204	37,763	-	74,594
Segment Liabilities	15,964	5,318	21,820	-	43,102
Systematic Depreciation and Amortization	1,597	532	2,182	-	4,311
Unscheduled Valuation Allowances	-	-	-	-	-
Material Costs not affecting Net Income	-	-	2,197	-	2,197

January 1 to December 31 2006	DCI	IdM	ECM	Elimination	Total Group
Revenues with Customers	35,400	9,647	51,574		96,621
...Intersegment Revenues	24	340	654	(1,018)	-
Total Revenues	**35,424**	**9,987**	**52,228**	**(1,018)**	**96,621**
Cost of Revenues and Operating Expenses of the Business Segments	(21,052)	(16,975)	(59,134)	1,721	(95,440)
Segment Income (Loss) from Continuing Operations	**14,372**	**(6,988)**	**(6,906)**	**703**	**1,181**
Interest Income (Expense)	13	-	(823)	-	(810)
Capital Investment Expenditures for Fixed and Intangible Assets	620	183	920	-	1,723
Total Carrying Amount of Segment Assets	28,585	7,790	41,646	-	78,021
Segment Liabilities	21,880	5,962	31,876	-	59,718
Systematic Depreciation and Amortization	1,630	444	2,374	-	4,448
Unscheduled Valuation Allowances	-	1,286	-	-	1,286
Material Costs not affecting Net Income	-	-	3,987	-	3,987

The distribution of the total carrying value of the Company´s assets and the liabilities as well as the systematic allocation of depreciation is allocated in total to the operating business units on a pro rata basis according to the Revenues with Customers. The disclosures for the prior fiscal year were adjusted accordingly.

The material costs not affecting net income relate exclusively to costs for severance payments.

As for purposes of internal reporting and steering of the Company not all costs are allocated to the Results from Continuing Operations generated by the LoB's - i.e. General Administrative Expenses, Amortization of Intangible Assets and Goodwill, Severance Payments and Restructuring Costs, Other Income (Expenses), Financing Result as well as Income Taxes and Income from Discontinued Operations - a reconciliation of the results of the business segments to the Company's consolidated totals is as follows:

Januar 1 to Dezember 31	2005	2006
Segment Income from Continuing Operations	8,536	1,181
Unallocated Overhead Costs:		
• General Administrative Expenses	(12,553)	(10,770)
• Amortization of Intangible Assets and Goodwill	(225)	(1,613)
• Severance Payments and Restructuring Costs	(5,573)	(4,179)
Other Income (Expenses)	5,191	(221)
Operating Result from Continuing Operations, including Other Income (Expenses)	**(4,624)**	**(15,602)**
Financing Result	(520)	(810)
Result from Continuing Operations, before Income Taxes	**(5,144)**	**(16,412)**
Income Taxes (Income Tax Benefit)	(871)	1,978
Income from Discontinued Operations, less Income Taxes	(6,078)	-
Net Income (Loss) for the Year	**1,805**	**(18,390)**

The analysis of sales revenues according to the geographical location into German, EU-states, American and African markets as well as corresponding disclosures relating to the non-current assets in these regions at reporting date is as follows:

December 31, 2005	Germany	Europe	America	Africa	Total
Group Revenues, as disclosed	**57,777**	**24,583**	**6,092**	**7,154**	**95,606**
Non-Current Assets, excluding Deferred Tax Assets	20,163	777	1,565	169	22,674
Deferred Tax Assets	4,557	83	428	-	5,068

December 31, 2006	Germany	Europe	America	Africa	Total
Group Revenues, as disclosed	**71,471**	**18,966**	**5,900**	**284**	**96,621**
Non-Current Assets, excluding Deferred Tax Assets	17,578	157	668	125	18,528
Deferred Tax Assets	7,104	190	655	-	7,949

The management of the risks and uncertainties which may have a negative effect on the economic success of the Company's business segments is described in detail under the heading "Outlook" within the Combined Group Report and Company Management Report.

2. SIGNIFICANT OPERATING EXPENSES IN FISCAL YEAR 2006

Non-Recurring Operating Expenses included in the Operating Result from Continuing Operations for Fiscal Year 2006	Position as disclosed	Non-Reccuring Expenses included therein
Cost of Revenues	52,428	3,198
Selling Expenses	30,154	993
General and Administrative Expenses	10,770	1,886
Research and Development Expenses	12,858	249
Amortization of Intangible Assets and Goodwill	1,613	1,286
Severance Payments and Restructuring Costs	4,179	4,179
Total Cost of Revenues and Operating Expenses	**112,002**	**11,791**

In connection with the sale of the Kleindienst Scanner GmbH non-reccuring expenses in the amount of T€ 2,333 resulted in fiscal year 2006. This amount is included in the Cost of Revenues. Additionally the commencement of the liquidation of the Polish subsidiary resulted in non-reccuring expenses in the amount of T€ 292. Furthermore the early termination of the tenancy agreement over the business premises in Augsburg is included in this position in the amount T€ 573.

Included in the Selling Expenses is an amount of T€ 830 for a product refund relating to a product purchase in the year 2004 granted to a major German customer in terms of fair dealing considerations. Apart from that costs in connection with the termination and execution of the lease agreement and the relocation of offices in Augsburg led to a non-reccuring effect in the amount of T€ 163.

The non-reccuring expenses included in the General and Administrative Expenses relate to expenses for corporate consulting in connection with the strategic realignment undertaken in the amount of T€ 1,004. Furthermore, final costs in connection with the sale of the Kleindienst Scanner GmbH arose in the amount of T€ 724.

The proportionate non-reccuring expenses included in the research and development expenses can be ascribed to the early termination of the tenancy agreement over the business premises in Augsburg.

The significant expense included in the Amortization of Intangible Assets and Goodwill refers to the valuation allowance recorded in connection with the impairment test conducted as at December 31, 2006. This is described in detail under the heading “Goodwill”.

Comprehensive disclosures and details on the Severance Payments and Restructuring Costs are disclosed under the heading “Restructuring”.

3. RESTRUCTURING

Restructuring Costs

The strategy formulated by the management of the Company for fiscal year 2005, “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 as well as the measures introduced to increase the efficiency in the administration-, sales- and development areas were introduced during the fiscal year 2005.

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 employees accrued resulting from the reduction of staff.

The staff reduction measures were conducted on the basis of a social compensation program.

In fiscal year 2005 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 scheduled for fiscal year 2005 were fully implemented at December 31, 2005.

In fiscal year 2006 the corporate restructure was supplemented by identified optimization measures. With the exclusion of the employees transferred to the Kleindienst Scanner GmbH in connection with the sale this essentially comprised the downsizing and reorganization of the sales and distribution structure in the subsidiaries.

In fiscal year 2006 the staff reduction plan affected altogether 43 employees: 4 employees from the Berlin location, 28 employees from Augsburg, 2 employees from Köln and 9 employees from foreign subsidiaries left the Company during the fiscal year 2006. The employees were allocated to the following operational areas:

• Sales and Service	19 employees
• Administration and Shipping	13 employees
• Research and Development	4 employees
• Manufacture	7 employees

The restructuring measures affected all the business segments: Enterprise Content Management (ECM), Data Center Infrastructure (DCI) and Identity Management (IdM).

As at December 31, 2006 costs for severance payments and restructuring costs were disclosed separately in the operating expenses in the income statement. They would have been allocated to the operating expenses as follows:

December 31	2005	2006
Cost of Revenues	717	1,655
Selling Expenses	1,787	1,182
General and Administrative Expenses	2,038	748
Research and Development Costs	1,031	594
Total Severance Payments and Restructuring Costs	**5,573**	**4,179**

The severance payments and restructuring costs detailed above relate to costs for severance and release period payments in the amount of T€ 4,179 (2005: T€ 4,613 for costs for severance payments and T€ 960 for reorganization costs).

The development of the provision for severance payments and restructuring costs during the fiscal year 2006 is as follows:

Development of the Accrual	2005	2006
Balance at January 1	146	2,197
Appropriation	5,573	4,179
Recognition	(3,522)	(3,761)
Balance at December 31	**2,197**	**2,615**

The provision for these severance payments and restructuring costs will result in cash outflows during the fiscal year 2007.

4. OTHER INCOME (LOSS)

December 31	2005	2006
Income (Loss) from		
Foreign Currency Translations, net	92	(273)
Income from the Reversal of		
Provisions and Liabilities	1,946	292
Income from the Sale of		
the Workload Business	1,562	-
Income (Loss) from		
Other Operating Taxes	469	(115)
Income from Valuation Allowances		
to Trade Account Receivables	185	-
Income from		
Insurance Claims	225	9
Tenancy and Leasing Income	45	-
Sundry Income (Loss)	667	(130)
Other Income (Loss)	**5,191**	**(217)**

Income from the Reversal of Provisions and Liabilities

In connection with the business acquisition (Asset Deal) of SYSTOR Security Solutions GmbH, Köln in fiscal year 2003 the investment in SYSTOR Solutions Inc., USA was acquired. Resulting from this acquisition liability in the amount of TUS$ 944 was taken on. As this had lapsed 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. At December 31, 2005 this was reversed.

Income from the Sale of the Workload Business

Effective January 17, 2000 and 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.

5. INCOME TAXES

The Net Result from Continuing Operations before Income Taxes is attributable to the following geographic locations:

December 31	2005	2006
Germany	(8,044)	(17,331)
Abroad	2,900	919
Net Result from Contiunuing Operations, before Income Taxes	**(5,144)**	**(16,412)**

The income tax expenses are attributable as follows:

December 31	2005	2006
Current Taxes		
• Germany	666	742
• Abroad	780	304
Total Current Taxes	**1,446**	**1,046**
Deferred Taxes		
• Germany	(2,528)	663
• Abroad	211	269
Total Deferred Taxes	**(2,317)**	**932**
Total Corporate Taxes	**(871)**	**1,978**

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 federal trade taxes of 17.30% for a combined statutory rate of 39.11% is as follows:

December 31	2005	2006
Expected Expense from Income Tax	(2,012)	(6,362)
Foreign Tax Rate Differences	(209)	(142)
Non-Deductible Operating Expenses, including Amortization of Goodwill and Non-Taxable Earnings	262	172
Unrealized Losses of the Current Fiscal Year	1,329	6,068
Current Income Taxes in respect of Prior Years	-	959
Deferred Taxes resulting from the Change in Net Operating Losses Recognized	(292)	1,022
Effect of Tax Rate Changes	(129)	-
Other	180	261
Actual Income Tax Expense	**(871)**	**1,978**
Effective Corporate Tax Rate	**16.9%**	**(12.1%)**

In fiscal year 2005 no tax expense was recorded 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 accumulated net operating losses from prior periods.

Deferred income tax assets and liabilities are summarized as follows:

December 31	2005	2006
Deferred Tax Assets relating to:		
• Accumulated Net Operating Losses	7,616	7,379
• Trade Accounts Receivable	(539)	-
• Pension Obligations	184	360
• Unrealized Foreign Currency Losses	342	210
• Fixed Assets	1,139	-
Total Deferred Tax Assets	**8,742**	**7,949**
Deferred Tax Liabilities relating to:		
• Trade Accounts Receivable	-	(4,399)
• Goodwill	22	-
• Capitalized Software Development Costs	472	(663)
• Deferred Revenues	(4,087)	91
• Work in Process Project Orders (POC)	(905)	(742)
• Fixed Assets	-	(42)
• Other Liabilities	(1,080)	(38)
Total Deferred Tax Liabilities	**(5,578)**	**(5,793)**
Net Deferred Tax Assets as per Balance Sheet	**3,164**	**2,156**

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

December 31	2005	2006
Deferred Tax Assets	5,068	7,949
Deferred Tax Liabilities	(1,904)	(5,793)
Deferred Taxes as per Balance Sheet	**3,164**	**2,156**

In assessing the possible realization of deferred tax assets on accumulated net operating losses, the Management Board 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.

The German accumulated net operating losses do not expire, while the American accumulated net operating losses expire in 2025. Utilization of the accumulated losses 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 accumulated net operating loss. Further accumulated net operating losses exist in the subsidiaries in Spain, Great Britain and Sweden.

The deferred taxes resulting from the accumulated net operating losses recognized as likely in the amount of T€ 7,379 apply to Beta Systems Software AG (parent company) in the amount of T€ 7,232 and to Beta Systems Software of North America, Inc. in the amount of T€ 147. For the parent company accumulated net corporate operating losses in the amount of T€ 18,237 and accumulated net trade losses in the amount of T€ 19,018 were assumed.

Furthermore only those accumulated net operating losses which are not realizable within five years were recognized. During 2007 deferred tax assets in the amount of T€ 1,028 will probably be realized.

The Company deems accumulated net corporate operating losses in the amount of T€ 47,143 and accumulated net trade losses in the amount of T€ 49,847 as not realizable. The deferred tax assets would amount to T€ 19,155.

Further non-realizable deferred tax assets for accumulated net operating losses and timing differences exist in the subsidiaries in the USA in the amount of T€ 1,694 and in Canada in the amount of T€ 2,041.

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.

6. GAIN FROM DISCONTINUED OPERATIONS IN FISCAL YEAR 2005

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 for the fiscal year 2005 under the position "Gain from Discontinued Operations, less Income Taxes".

Revenues, operating results and financial results relating to the disposed business unit Outsourcing Service for the twelve months to December 31, 2005 were as follows:

	January 1 to December 31, 2005
Revenues with Customers	6,974
Operating Expenses	(7,297)
Operating Loss	**(323)**
Other Expenses	(1)
Financing Result, net	(120)
Loss before Income Taxes	**(444)**
Income from Discontinued Operations, before Deduction of Income Taxes	7,181
Income Taxes	(659)
Gain from Discontinued Operations	**6,078**

Included in the operating expenses for the fiscal year 2005 were expenses for the systematic allocation of depreciation and amortization in the amount of T€ 1,265. No material costs not affecting net income were included in the operating expenses for that fiscal year.

The financing result exclusively comprised interest expenses in the amount of T€ 120.

The income taxes for the fiscal year 2005 exclusively comprised 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 comparative amounts presented for the fiscal year 2005 in the consolidated balance sheets.

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

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

	January 1 to April 30, 2005
Net cash provided by Operating Activities	1,195
Net cash used in Investing Activities	(12)
Net cash used in Financing Activities	(762)
Increase in Cash and Cash Equivalents	**421**

The sale of the business unit effectively reduced the staff complement of Beta Systems Software AG by 232 employees during fiscal year 2005.

7. 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 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 each 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 amounted 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 2005 as a. o. the result of this stock split, the change in the number of ordinary shares presented in the financial statements was adjusted for the comparative reporting period.

As a result of a resolution passed at the Annual General Meeting of shareholders of Beta Systems Software AG on May 22, 2006 to undertake a recapitalization, the share capital of the Company was raised by conversion from APIC to an imputed nominal value of exactly € 1.30 per ordinary share. The recapitalization took place without an issuance of ordinary shares.

Earnings per Ordinary Share as disclosed December 31	2005	2006
Weighted Average Number of Ordinary Shares Outstanding		
Number of Ordinary Shares, basic and diluted	8,436,914	8,738,666
Net Income (Loss) for the Year attributable to the Shareholders of the Parent Company		
Thousand €	1,571	(18,390)
Earnings per Ordinary Share		
€ per Ordinary Share, basic and diluted	**0.19**	**(2.10)**

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

Earnings per Ordinary Share from Continuing Operations December, 31	2005	2006
Weighted Average Number of Ordinary Shares Outstanding		
Number of Ordinary Shares, basic and diluted	8,436,914	8,738,666
Net Loss for the Year from Continuing Operations attributable to the Shareholders of the Parent Company		
Thousand €	(4,507)	(18,390)
Earnings per Ordinary Share		
€ per Ordinary Share, basic and diluted	**(0.53)**	**(2.10)**

The basic and diluted earnings per ordinary share from discontinued operations attributable to the shareholders of the parent company for fiscal year 2005 amounts to € 0.72 per ordinary share.

NOTES TO THE BALANCE SHEET

8. CASH AND CASH EQUIVALENTS

The liquid assets comprise cash on hand in the amount of T€ 6 and cash at banks callable without notice in the amount of T€ 2,044.

9. TRADE ACCOUNTS RECEIVABLE

Valuation Allowance for Expected Uncollectible or Doubtful Accounts

December 31	2005	2006
Beginning Balance	656	917
• Provision	304	574
• Charge-Off	(43)	(380)
Ending Balance	**917**	**1,111**

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".

The carrying amount of the trade accounts receivable, which were assigned as collateral for a long-term debt due to the Dresdner Bank AG in the form of a global cession, amounted to T€ 21,757 as at December 31, 2006.

10. IN PROCESS PROJECT ORDERS (POC)

December 31	2005	2006
Order Revenues realized	9,885	8,070
…thereof during the Reporting Period	7,716	7,066
Total Costs accrued	(7,012)	(5,169)
Disclosed Project Income	**2,873**	**2,901**
Advance Payments Received	(5,862)	(4,290)
Receivables due from Customers for In Process Project Orders	**4,023**	**3,780**

The In Process Project Orders (POC) are recognized in the balance sheet during the construction phase at construction costs including margin.

The revenues 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.

In Process Project Orders (POC), for which the amounts of advance payments received exceed the values for which revenues have been recognized at reporting date are contained with a liability balance in the amount of T€ 472 (2005: T€ 0) as at December 31, 2006 under the position "Other Current Liabilities" in the balance sheet.

The In Process Project Orders (POC) reported as at December 31, 2006 will be completed within one year.

11. INVENTORIES

December 31	2005	2006
Production Supplies and Materials	4,825	4,546
Finished Goods	633	339
Subtotal	**5,458**	**4,885**
Valuation Allowances	(721)	(1,196)
Total Carrying Amount of Inventories	**4,737**	**3,689**

As a result of the sale of the Kleindienst Scanner GmbH effective January 1, 2006 the vertical range of manufacture has changed for Beta Systems Software AG. For this reason Unfinished Goods are not separately disclosed in the inventories, the disclosure is included in that of the production supplies and materials in the amount of T€ 0 (2005: T€ 2,117).

The gross value of the value-adjusted inventories amounted to T€ 3,902 (2005: T€ 721). The increase in the valuation allowance was recognized as an expense in fiscal year 2006.

No valuation gains were recognized for the inventories. Pledging as collateral for liabilities did not exist.

Purchases in the amount of T€ 13,112 are included in the cost of revenues (2005: T€ 11,591).

12. OTHER CURRENT ASSETS

December 31	2005	2006
Derivative Financial Instruments	19	36
Foreign Sales Tax Benefit	424	95
Sundry Current Assets	451	422
Other Current Assets	**894**	**553**

Derivate Financial Instruments

In fiscal year 2006 the Company entered into foreign currency forward contracts in order to cover foreign currency risks related to US-Dollar receivables. As at December 31, 2006 no open positions exist from forward contract business. 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€ 36 as at December 31, 2006 (2005: T€ 19).

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	2005	2006
Acquisition Costs		
• Computer Equipment	11,261	12,274
• Leasehold Improvements	2,899	1,914
• Facilities and Office Equipment	3,680	3,129
Acquisition Costs	**17,840**	**17,317**
Accumulated Systematic Depreciation	(11,480)	(12,457)
Fixed Assets, net	**6,360**	**4,860**

Systematic depreciation expenses charged to the income statement amounted to T€ 2,884 in fiscal year 2006 (2005: T€ 2,710) and are included in the cost of revenues and the operating expenses.

14. GOODWILL

December 31	2005	2006
Acquisition Costs		
• Goodwill	2,846	2,809
Valuation Allowance	-	(1,287)
Goodwill	**2,846**	**1,522**

The acquisition costs result from the Asset Deal with the SYSTOR Security Solutions GmbH in fiscal year 2003 in the amount of T€ 1,287 (Goodwill I) and the acquisition of the Kleindienst Datentechnik AG in fiscal year 2004 in the amount of T€ 1,522 (Goodwill II). The variance in the acquisition costs of the goodwill results from a foreign currency difference of the Goodwill I in the amount of T€ 37. The Goodwill I was allocated to the business unit Identity Management (IdM), the Goodwill II to the business unit Enterprise Content Management (ECM).

Based on the business budget for 2007 to 2011 an impairment test was conducted in fiscal year 2006 as at reporting date. This resulted in a valuation allowance of the SYSTOR Goodwill in the full amount.

The valuation of the Goodwill I was established on the basis of the expected discounted net future cash inflows attributable to the assets. For the budget of the expected cash inflows the Company adopted the assumptions regarding the revenue increases customary for the trade for the following years of a range of between 5% p.a. and 10% p.a. and applied a capital interest rate in the amount of 20% p.a. (2005: 20% p.a.).

The valuation loss in respect of the Goodwill I is included in the operating expenses under the position "Amortization of Intangible Assets and Goodwill".

The valuation of the Goodwill II was established on the basis of the expected discounted net future cash inflows attributable to the assets. For the budget of the expected cash inflows the Company adopted the assumptions regarding the revenue increases customary for the trade for the following years of a range of between 5% p.a. and 10% p.a. and applied a capital interest rate in the amount of 20% p.a. (2005: 20% p.a.).

The adjustment of the interest rate resulted from a change in the risk premium in the amount of 5% p.a., which corresponds to a conservative increase in the future cash inflows.

A requirement to recognize an impairment loss did not result in respect of Goodwill II.

15. OTHER INTANGIBLE ASSETS

December 31	2005	2006
Acquisition Costs		
• License Rights	4,456	3,471
Accumulated Amortization	(2,195)	(2,384)
Other Intangible Assets, net	**2,261**	**1,087**

Other Intangible Assets essentially comprise the product rights for the product suite SAM (Security Administration Manager). This constitutes software for the administration of digital IT-user rights and software licenses.

During fiscal year 2005 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 consisted of a revenue-dependent purchase price payment in the amount of T€ 1,100 valid until the year 2010. The Company is liable to settle the purchase price by making payment in the amount of 20% of the annual revenues realized with this product.

Following a re-assessment of revenue expectations until the year 2010 the revenue-dependent purchase price component was reduced by T€ 846 and stipulated at an amount of T€ 254. The carrying value of the asset amounts to T€ 203 at reporting date (2005: T€ 1,100). This amount will be amortized on a straight-line basis over the estimated remaining useful life until the year 2010.

The outstanding liability in respect of the purchase amounts to T€ 293 at December 31, 2006 (2005: T€ 1,100).

Beta Systems Software AG assumes annual revenue increases with this product in the amount of 10% (2005: 20%). The fair value is determined on the basis of the expected discounted cash outflows.

The systematic amortization expense included in the operating expenses under the position "Amortization of Intangible Assets and Goodwill" in fiscal year 2006 amounted to a total amount of T€ 327 (2005: T€ 225).

Designed to improve the information content of the income statement the Company presents the amortization of intangible assets, especially that of the goodwill, in a separate position.

The expected systematic allocation of amortization expense for the next years is made up as follows:

At December 31	
2007	319
2008	272
2009	259
2010	237
Total Expected Amortization Expense	**1,087**

The Company conducted an impairment test for its other intangible assets as at reporting date. The valuation of the other 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 customary for the trade in the business segments for the following years, by business segment as the case may be, of a range of between 5% p.a. and 10% p.a. and applied a capital interest rate in the amount of 15% p.a. (2005: 20% p.a.).

The adjustment of the interest rate resulted from a change in the risk premium in the amount of 5% p.a., which corresponds to a conservative increase in the future cash inflows.

16. ACQUIRED SOFTWARE DEVELOPMENT COSTS

December 31	2005	2006
Acquisition Costs		
• Acquired Software Development Costs	6,329	6,362
Accumulated Amortization	(2,291)	(3,526)
Acquired Software Development Costs, net	**4,038**	**2,836**

The acquired software development costs comprise the product rights for the software in the business unit ECM. The core function of the software is the recognition, processing and the archiving of document-based information.

Investments for acquired software development costs in fiscal year 2006 amounted to T€ 13 (2005: T€ 610).

Amortization expenses related to acquired software costs amounted to T€ 1,236 in fiscal year 2006 (2005: T€ 1,049). The amortization expenses are included in total in the cost of revenues.

The valuation was established on the basis of the acquisition costs less the systematic allocation of 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 customary for the trade in the business segments for the following years, by product and by business segment as the case may be, of a range of between 5% p.a. and 10% p.a. and applied a capital interest rate in the amount of 15% p.a. (2005: 20% p.a.).

The adjustment of the interest rate resulted from a change in the risk premium in the amount of 5% p.a., which corresponds to a conservative increase in the future cash inflows.

A requirement to recognize an impairment loss did not result.

17. OTHER NON-CURRENT ASSETS

December 31	2005	2006
Long-term Trade Accounts Receivable	6,360	6,941
Guarantee Deposits and Other Non-Current Assets	129	372
Cash Surrender Valaue of Insurance Policies	680	910
Other Non-Current Assets	**7,169**	**8,223**

Long-term Trade Accounts Receivable

The invoicing of the long-term trade accounts will take place in the years 2008 to 2012 for T€ 3,501, T€ 2,486, T€ 612, T€ 259 and T€ 83 respectively.

The carrying amount of the trade accounts receivable, which were assigned as collateral for a long-term debt due to the Dresdner Bank AG in the form of a global cession, amounted to altogether T€ 21,757 as at December 31, 2006.

18. SHORT-TERM FINANCE AND CURRENT INSTALLMENTS OF LONG-TERM BORROWINGS AND FINANCE LEASES

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

December 31	2005	2006
Deutsche Bank AG	-	673
Landesbank Berlin	500	2,987
Commerzbank AG	2,032	1,987
Dresdner Bank AG	-	2,425
Short-Term Finance and Current Operating Liabilites due to Banking Institutions	**2,532**	**8,072**
Current Installments of Long-Term Borrowings and Finance Leases	2,380	2,205
Short-Term Finance	**4,912**	**10,277**

The repayment obligations for the short-term finance due to banking institutions are due within the next twelve months. The interest rate for the short-tem finance ranges between EONIA plus 1.25% p.a. and 8.75% p.a.

At December 31, 2006 the Company has total short-term credit facilities available in an amount of T€ 12,500 (2005: T€ 12,000).

The granting of liabilities due to banking institutions is bound to the compliance with certain business performance indicators. These economic indices could not be met during fiscal year 2006. The banking institutions thus made use of their right and increased the interest rate by an average of 4% p.a. No bank made use of any special termination condition.

19. 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.

20. CURRENT INCOME TAXES

Tax Payments

The provisions for liabilities in respect of corporate taxes amount to T€ 1,142 at reporting date (2005: T€ 927).

Tax Receivables

An amount of T€ 67 was recognized for receivables from capital gains tax receivables on interest income (2005: T€ 316 inclusive of tax receivables from withholding taxes on dividend payments). Additionally the Company is subject to withholding tax in various countries - these are an allowable deduction from corporate taxes in the amount of T€ 130 at reporting date.

The receivables due in respect of corporate taxes amount to T€ 350 at reporting date. In fiscal year 2005, the Company additionally 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. The amounts were received during fiscal year 2006.

21. PROVISIONS

December 31	2005	2006
Accruals for Severance Payments and Restructuring Costs	2,197	2,615
Warranty Liabilities	109	23
Provisions	**2,306**	**2,638**

Provisions for Severance Payments and Restructuring Costs

This position comprises exclusively provisions for severance payments still due to employees affected by the staff reduction measures. Full details on the development of the provisions 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.

Provisions in the amount of T€ 86 were used during the fiscal year 2006 (2005: T€ 43).

All provisions are considered entirely short-term.

22. OTHER CURRENT LIABILITIES

December 31	2005	2006
Other Taxes and Social Security Payables	2,995	1,926
Deferred Payroll and Personnel Expenses	5,347	6,495
Outstanding Invoices for Goods and Services	4,186	2,580
Sundry Current Liabilities	1,974	2,349
Other Current Liabilities	**14,502**	**13,350**

Taxes and Social Security Payables

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

Deferred Payroll and Personnel Expenses

This position comprises provisions for holiday entitlements, overtime and flexi-time as well as provisions for sales commissions and incentive payments. Refunds due from travel expenses are also contained herein.

Outstanding Invoices for Goods and Services

Substantially included here are provisions for outstanding invoices for goods and services received and for legal-, auditing- and consulting services.

Sundry Short-Tem Liabilities

Included in the sundry short-term liabilities is a revenue-dependent purchase price liability valid for the following four years for the Software SAM Enterprise Single Sign-On („SAM eSSO") in the amount of T€ 293 (2005: T€ 1,100). This liability is assessed on the basis of future revenue-dependent earn-out payments until fiscal year 2010. The Company is liable to settle the purchase price by making payment in the amount of 20% of the annual revenues realized with this product.

Beta Systems Software AG assumes annual revenue increases with this product in the amount of 10% (2005: 20%). The fair value is determined on the basis of the expected discounted cash outflows.

In Process Project Orders (POC) for which the amounts of advance payments received exceed the values for which revenues have been recognized at reporting date, are included with a liability balance in the amount of T€ 472 (2005: T€ 0) as at December 31, 2006 under this position as well.

23. LONG-TERM BORROWINGS AND FINANCE LEASES

Long-term liabilities in the books of Beta Systems AG amount to T€ 4,299 at December 31, 2006, inclusive of a short-term portion in the amount of T€ 2,205 (2005: T€ 6,697 and T€ 2,380, respectively). This comprised long-term bank borrowings in the amount of T€ 4,000 (2005: T€ 6,000) and long-term liabilities for finance leases of T€ 299 (2005: T€ 697). The current portion of the long-term borrowings and the finance leases is allocated in the balance sheet under the position "Short-Term Finance and Current Installments of Long-Term Borrowings".

Long-Term Borrowings

In fiscal year 2005 the Company took up a long-term bank borrowings in the amount of T€ 6,000 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 due to Beta Systems Software AG (parent company) was assigned as collateral. T€ 2,000 were due for repayment in fiscal year 2006, leaving the 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, 2006 the Company has no other long-term credit facilities available in addition to the borrowing above (2005: None in addition to the borrowing above).

Finance Leases

A long-term 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 borrowing. As at December 31, 2006 the remaining obligation in respect of this acquisition amounts to a total of T€ 141 (2005: T€ 411), inclusive of the current portion of this long-term finance lease in the amount of T€ 141 (2005: T€ 296).

Further lease obligations result from the purchase of a telephone system in 2004 for T€ 141. The acquisition costs of this fixed asset amounted to T€ 158. 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, 2006 the remaining obligation in respect of the finance lease for the telephone system amounts to T€ 66, inclusive of the current portion of this long-term finance lease in the amount of T€ 28 (2005: T€ 103 viz. T€ 32).

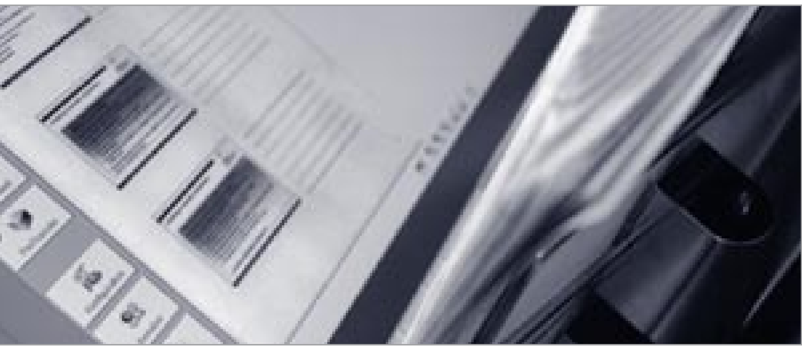
A new finance lease agreement was concluded during fiscal year 2005 with IBM for acquisition of mainframe computer equipment in the amount of T€ 200. The lease arrangement is subject to interest at an average rate of 4.70% p.a. and matures in 2009. Pursuant to IAS 17 the Company has capitalized the present value of the lease payments and recorded the same amount as long-term borrowings. As at December 31, 2006 the remaining obligation in respect of this acquisition amounts to a total of T€ 92, inclusive of the current portion of this long-term finance lease in the amount of T€ 36 (2005: T€ 183 viz. T€ 52).

Amortization in respect of this capitalized asset, as included in depreciation costs, amounted to T€ 258 in 2006 (2005: T€ 234), as follows:

	2005	2006
IBM Leasing Data Center	190	190
Telephone System	32	32
IBM Leasing Mainframe Computer	12	36
Total	**234**	**258**

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

	Balance December 31, 2005	Balance December 31, 2006	Repayment 2007	Repayment 2008	Repayment 2009
Dresdner Bank AG	6,000	4,000	2,000	2,000	-
IBM Leasing Data Center	411	141	141	-	-
Telephone System	103	66	28	30	8
IBM Leasing Mainframe Computer	183	92	36	37	19
Borrowings and Finance Leases	**6,697**	**4,299**	**2,205**	**2,067**	**27**



Total future Lease Obligations in detail are as follows:

At December 31	
2007	215
2008	70
2009	27
Sum of Minimum future Lease Obligations	**312**
Less Interest Portion 2007	(10)
Less Interest Portion 2008 - 2009	(3)
Total Carrying Value of the Obligations from Finance Leases	**299**
Short-Term Portion of the Carrying Value	**205**
Long-Term Portion of the Carrying Value	**94**

24. PENSION OBLIGATIONS

Pension obligations exist at Beta Systems Software AG on the basis of individual formal agreements and a general pension scheme.

The Company provides limited defined benefit pension benefits to one founder member and two former Management Board Members of Beta Systems Software AG. 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 life insurance policies to cover its pension obligations. The cash surrender value of these policies, T€ 910 (2005: T€ 680), is included under the position "Other Non-Current Assets". The Company anticipates increasing its contributions by T€ 32 in fiscal year 2007 to fund the future plan obligations.

A general pension scheme exists for several former employees of the Kleindienst Datentechnik AG. These pension obligations arise from a bargaining agreement dated December 21, 1972 and appendices thereto. All employees who joined the services of the company on or before September 20, 1987 are eligible for benefit. The general pension scheme provides for the granting of an old-age pension after a 10-year service period with the company and following the attainment of the age of 65 viz. on receipt of the advanced old-age pension in the full amount from the legally regulated pension fund as well as the granting of a disability pension on termination following the attainment of the age of 58 on the grounds of a permanent disability in terms of the legally regulated pension fund.

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

December 31	2005	2006
Interest Rate	4.36%	4.36%
Pension Increases		
• Individual Agreements	2.00%	2.00%
• General Scheme	1.50%	1.50%
Salary Increases		
• Individual Agreements	none	none
• General Scheme	none	none
Fluctuations		
• Individual Agreements	none	none
• General Scheme	3.50%	3,50%
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 individual commitments are due to retired former employees of the Company. Salary increases are not relevant.

No increases in remuneration were considered in the calculation of the general scheme, as the monthly old-age and disability pensions are based on fixed, salary-independent pension components in the amount of T€ 2.76 for each year of service after the completed age of 30 years.

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

December 31	2005	2006
Projected Benefit Obligations at the Beginning of the Year	1,667	1,907
Periodic Pension Costs:		
• Interest Cost on Projected Benefit Obligations	86	83
• 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	136	(34)
• Total Net Periodic Pension Cost	32	39
• Actual Pension Payments during the Fiscal Year	(14)	(105)
• Reversal of Benefit Obligations	-	(89)
Projected Benefit Obligations at the End of the Year	**1,907**	**1,890**

The past service costs for fiscal year 2006, as well as for the prior year, amount to T€ 0.

The following table sets forth the composition of the provision for the defined benefit pension plan:

December 31	2005	2006
Projected Benefit Obligations at the End of the Year	1,907	1,890
Unrecognized Net Gain	131	138
Provision for Pension Obligations at the End of the Year	**2,038**	**2,028**

No past service costs are included in the unrecognized net gain.

The valuation of the obligations as at December 31, 2006 was determined by independent actuarial method. 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 Company also maintains a defined contribution plan at its subsidiary in the United Kingdom to which the Company made discretionary contributions of T€ 34 in 2006 (2005: 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.

25. PENSION-RELATED OBLIGATIONS

Pension-related obligations in the amount of T€ 911 (2005: T€ 813) are included in "Other Non-Current Liabilities". The 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 and a severance payment at the end of the partial retirement period. The provisions were calculated according to the actuarial principles in accordance with IAS 19.133 ff.

The obligations of the commitment legally came into force with the conclusion of the partial retirement agreement between the employer and the employee and are established at each reporting date on the basis of their present value under recognition of the degree of the probable availment. During the employment phase settlement arrears accrue on the employer's side according to the block model in the amount of the not yet remunerated portion of the service performed. This fact is compensated for by means of the accrual of a liability the value of which is determined on the basis of the present value.

Assumed discount rates and rates of increase in remuneration used in calculating the present values of projected benefit obligations and settlement arrears at December 31, 2006 follow:

December 31	2005	2006
Interest Rate	3.97%	3.97%
Salary Increases	2.00%	2.00%

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

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.

26. STOCK OPTION PLANS

Following the launch of Tantia Technologies, Inc., now Beta Systems Software of North America, Inc., Herndon, USA 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, 2006 a total of 136,550 options were issued to recipients in Europe at an exercise price of US$ 1.00 per option (2005: 58,750 options to recipients in America and 389,626 options to recipients in Europe). 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, 2006 follows:

December 31	2005 Weighted Average Exercise Price Ordinary Shares	in US$	2006 Weighted Average Exercise Price Ordinary Shares	in US$
Exercisable Options at the Beginning of the Year	717,506	1.00	448,376	1.00
Options Granted	-	-	-	-
Options Expired	(269,130)	1.00	(311,826)	1.00
Options Excercised	-	-	-	-
Exercisable Options at the End of the Year	**448,376**	**1.00**	**136,550**	**1.00**

The Company records no unearned deferred compensation costs as at December 31, 2006.

NOTES TO THE SHAREHOLDERS' EQUITY

27. SHAREHOLDERS' EQUITY

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 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 amounted 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 amounted to T€ 11,324 with altogether 8,859,276 ordinary shares issued, including 120,610 treasury shares.

As a result of a resolution passed at the Annual General Meeting of shareholders of Beta Systems Software AG on May 22, 2006 to undertake a recapitalization, the share capital of the Company was raised by T€ 193 by conversion from APIC. The recapitalization took place without an issuance of ordinary shares. On June 2, 2006 the conversion was registered in the Commercial Register.

The issued ***Share Capital*** of the Company at December 31, 2006 amounts to T€ 11,517 with altogether 8,859,276 ordinary shares issued, including 120,610 treasury shares. The imputed nominal value per ordinary share of the Company therefore amounts to € 1.30 per ordinary share.

The full amount has been paid in for all ordinary shares issued.

The amount of T€ 7,985 disclosed under ***Additional Paid-In Capital*** comprises the accumulated value of transactions with the Company's shareholders which exceeded the nominal value of the ordinary shares. The Additional Paid-In Capital in accordance with German HGB differs from this value by an amount of T€ 3,426. The reasons for this variance are differing carrying values resulting from the merger with the Kleindienst Datentechnik AG in the amount of T€ 2,239, differing treatment of the transaction costs for the merger in the amount of T€ 521 and compensation costs for share-based compensation in the amount of T€ 666.

Results accumulated under ***Accumulated Income (Loss)*** comprise the accumulated net income viz. the accumulated net losses of the Group as at reporting date. A loss in the amount of T€ 18,390 represents the portion of the accumulated net result which was not retained during prior years.

The dividend distribution is determined on the basis of the stock corporation law and the individual financial statements of the parent company in accordance with German HGB and amounted to T€ 0 in fiscal year 2006 in respect of fiscal year 2005 (in fiscal year 2005 in respect of fiscal year 2004: T€ 1,028).

The amounts recognized under ***Other Comprehensive Loss*** are accumulated net amounts after the deduction of the apportionable income taxes. The income and losses of the fully consolidated subsidiaries result in changes not affecting net income in the shareholders' equity and result from foreign exchange translation differences. Furthermore, unrealized valuation changes of available-for-sale financial instruments and held-for-sale securities are recognized in Other Comprehensive Loss.

The composition of and the changes in the shareholders' equity is presented in the "Consolidated Statement of Changes in Shareholders' Equity".

28. DIVIDEND DISTRIBUTION

Amounts available for distribution to the shareholders are determined in accordance with the stock corporation law and the individual financial statements of the Beta Systems Software AG (parent company). These accounts are prepared in accordance with the German commercial code (HGB).

As at December 31, 2006 the balance sheet loss for the year in accordance with German HGB amounts to T€ 17,634 (2005: T€ 0).

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

29. MINORITY INTERESTS

No minority interests are held in any Beta Group company at December 31, 2006.

OTHER DISCLOSURES

30. GUARANTEES

During the previous ownership of Datasec GmbH, Siegen, which was sold as at 31 December, 2001, Kleindienst Datentechnik AG had issued an unsecured guarantee in the amount of T€ 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 GmbH. The corresponding loan liability at Datasec GmbH is still held in full and expires on November 30, 2009. As a result of shares in Datasec GmbH 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.

31. CONTINGENT LIABILITIES

Altogether 11 applicants initiated a shareholders compensation claim against Beta Systems Software AG during the fiscal year 2005 in connection with the merger onto the Kleindienst Datentechnik AG. The shareholders compensation claim aims at a cash adjustment in the sense of § 15 Abs. 1 UmwG. In the case of an adjudging verdict a cash adjustment would become due to all previous shareholders of the Kleindienst Datentechnik AG who became shareholders of the Company as a result of the merger. In the case of a settlement a first approximation by the Company's legal consultants estimates payments for a total amount of approximately T€ 400. At this stage the final outcome can not be concluded exactly. In the case of a settlement this would increase the purchase price and would be allocable to the goodwill of the LoB ECM in the full amount. No effect to net income would result. In addition, the net realizable value determined pursuant to the impairment test in accordance with IAS 36 conducted at December 31, 2006 would also cover the carrying values inclusive of the estimated cash adjustment.

32. RELATED PARTY TRANSACTIONS

The Company maintains an agreement for consulting services with Dr. Oskar von Dungern (Member of the Management Board until June 30, 2006). In fiscal year 2006 Dr. Oskar von Dungern received payments under this agreement in the amount of T€ 12. As at December 31, 2006 no outstanding balances are due for payment to Dr. Oskar von Dungern. Further 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 2006".

33. AUDITOR'S FEES

The expenses accrued during the fiscal year 2006 in respect of fees paid to the KPMG as Group Auditors amounted to T€ 156 for audit fees, T€ 35 for tax consultancy and T€ 102 for other auditing services rendered (2005: T€ 125 for audit fees, T€ 72 for tax consultancy and T€ 64 for other auditing services rendered).

34. OPERATING LEASE COMMITMENTS AND LONG-TERM RENTAL AGREEMENTS

The Company has payment commitments from operating leases for its data processing and office equipment, vehicle fleet, for other business plant and equipment as well as 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, 2006 are as follows:

At December 31	Office Rentals	Operating Leasing
2007	3,035	1,270
2008	3,064	493
2009	3,036	106
2010	2,968	22
2011	2,701	22
Total Minimum Payments for Rentals and Operating Leasing	**14,804**	**1,913**

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, 2006 amounted to T€ 6,664 (2005: T€ 5,152). Included hereunder is the early termination of the tenancy agreement over the business premises in Augsburg in the amount of T€ 850.

DEVELOPMENT OF THE GROUP'S ASSETS

	Acquisition Costs					Depreciation and Amortization					Carrying 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	11,089	508	162	498	11,261	8,175	495	135	450	8,355	2,914	2,906
• Leasehold Improvements	2,956	40	18	115	2,899	969	720	16	115	1,590	1,987	1,309
• Facilities and Office Equipment	2,554	1,794	109	777	3,680	346	1,495	78	384	1,535	2,208	2,145
Fixed Assets	**16,599**	**2,342**	**289**	**1,390**	**17,840**	**9,490**	**2,710**	**229**	**949**	**11,480**	**7,109**	**6,360***
Goodwill and Other Intangible Assets												
• Goodwill	1,596	1,202	48	-	2,846	-	-	-	-	-	1,596	2,846
• Licenses	2,292	2,167	(3)	-	4,456	1,643	552	-	-	2,195	649	2,261*
Goodwill and Other Intangible Assets	**3,888**	**3,369**	**45**	**-**	**7,302**	**1,643**	**552**	**-**	**-**	**2,195**	**2,245**	**5,107**
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	**32,090**	**6,321**	**334**	**7,274**	**31,471**	**18,259**	**4,311**	**229**	**6,833**	**15,966**	**13,831**	**15,505**

* including Reclassifications (for details refer to pages 54 and 55)

	Acquisition Costs					Depreciation and Amortization					Carrying Value	
Thousand €	**Balance January 1, 2006**	**Additions**	**Exchange Differences**	**Disposals**	**At December 31, 2006**	**Balance January 1, 2006**	**Additions**	**Exchange Differences**	**Disposals**	**At December 31, 2006**	**December 31, 2005**	**December 31, 2006**
Fixed Assets												
• Computer Equipment	11,261	725	(61)	(349)	12,274	8,355	1,479	(30)	102	9,702	2,906	2,572
• Leasehold Improvements	2,899	525	(1)	1,509	1,914	1,590	590	-	1,429	751	1,309	1,163
• Facilities and Office Equipment	3,680	460	(104)	907	3,129	1,535	815	(50)	296	2,004	2,145	1,125
Fixed Assets	**17,840**	**1,710**	**(166)**	**2,067**	**17,317**	**11,480**	**2,884**	**(80)**	**1,827**	**12,457**	**6,360**	**4,860**
Goodwill and Other Intangible Assets												
• Goodwill	2,846	-	(37)	-	2,809	-	1,286	1	-	1,287	2,846	1,522
• Licenses	4,456	-	1	986	3,471	2,195	327	2	140	2,384	2,261	1,087
Goodwill and Other Intangible Assets	**7,302**	**-**	**(36)**	**986**	**6,280**	**2,195**	**1,613**	**3**	**140**	**3,671**	**5,107**	**2,609**
Acquired Software Development Costs	**6,329**	**13**	**3**	**(17)**	**6,362**	**2,291**	**1,236**	**(1)**	**-**	**3,526**	**4,038**	**2,836**
Group Assets	**31,471**	**1,723**	**(199)**	**3,036**	**29,959**	**15,966**	**5,733**	**(78)**	**1,967**	**19,654**	**15,505**	**10,305**

SUPPLEMENTARY DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FISCAL YEAR 2006

Share Capital

As a result of a resolution passed at the Annual General Meeting of shareholders of Beta Systems Software AG on May 22, 2006 to undertake a recapitalization, the share capital of the Company was raised by T€ 193 by conversion from APIC. The recapitalization took place without an issuance of ordinary shares. On June 2, 2006 the conversion was registered in the Commercial Register.

The Share Capital at reporting date amounts to € 11,517,058.80, divided into 8,859,276 ordinary shares (2005: € 11,324,189.68, divided into 8,859,276 ordinary shares).

Personnel Expenses (excluding Restructuring Costs)

Personnel expenses for the fiscal years 2005 and 2006 were as follows:

	2005	2006
Wages and Salaries	T€ 48,893	T€ 45,448
Social Contributions	T€ 4,414	T€ 3,805
Total	**T€ 53,307**	**T€ 49,253**

Performance related to Other Reporting Periods

Other operating income (loss) contains expenses in the amount of T€ 1,578 related to other fiscal years (2005: income in the amount of T€ 1,946).

Staff Complement

The average number of 681 employees in the fiscal year 2006 (2005: 754 employees) was distributed as follows:

	2005	2006
Sales and Service	341 Employees	378 Employees
Development	270 Employees	195 Employees
Administration	92 Employees	87 Employees
Manufacture	51 Employees	21 Employees
Total	**754 Employees**	**681 Employees**

Of the 645 staff employed at December 31, 2006 (2005: 733 employees), 174 employees (27.0%) are covered by the currently valid collective bargaining arrangement IG Metall (2005: 226 employees viz. 30.8%). Effective January 1, 2006 Beta Systems Software AG resigned its membership from the employer's union.

A comparability of the function-related staff complement disclosures with the disclosures of the prior year is only limitedly possible, as the allocation of the employees to the functional areas was reorganized in accordance with the LoB-structure which came into operation in fiscal year 2006. A retrospective adjustment of the allocation of the employees to the functional areas for the fiscal year 2005 in accordance with the new structure is practically not feasible. For this reason the Company elects not to reclassify prior year disclosures in accordance with IAS 1.39. Would reclassification be possible, the employees would have been allocated to the functional areas according to performance.

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 15, 2006 by the Management and Supervisory Boards for the fiscal year 2006 and has been made permanently available to the shareholders 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 2006 were:

- Mr. Dipl.-Wirtschaftsing. Kamyar Niroumand, Chief Executive Officer, Member from April 1, 2006,
- Mr. Gernot Sagl, MA, Chief Financial Officer, Member from October 26, 2006,
- Mr. Dipl.-Inf. Dietmar Breyer, Member until September 15, 2006, Vice Chairman of the Management Board, Chief Executive Officer until March 31, 2006,
- Mr. Dipl.-Ing. Dr. Oskar von Dungern, Member until June 30, 2006, Chief Technology Officer.

The total remuneration for members of the Management Board amounted to T€ 811 during fiscal year 2006. A further amount of T€ 120 was incurred as a result of the termination of an agreement (2005: T€ 1,260 in total). Variable remuneration of T€ 32 relating to fiscal year 2005 was not disbursed.

In respect of future pension obligations due to former members of the management Board benefit provisions were increased in the amount of T€ 28 during the fiscal year (2005: T€ 98).

Supervisory Board

Members of the Supervisory Board of the Company during the fiscal year 2006 were:

- Mr. Dipl.-Kfm. Sebastian Leser, MBA - Diplômé de l'ESSEC, Karlsruhe, Member from May 22, 2006, Chairman of the Supervisory Board, Member of the Management Board of Heidelberger Beteiligungsholding AG, Heidelberg, Member of the Management Board of Fidelitas Deutsche Industrie Holding AG, Berlin from December 7, 2006,
- Dr. Arun Nagwaney, London, Member from May 22, 2006, Vice Chairman of the Supervisory Board, Director of AF Capital Partners Ltd, London, Director Bell Holdings Ltd, London,
- Mr. Dipl.-Kfm. Volker Wöhrle, Rheinstetten, Member from May 22, 2006, International Sales Director of Rooflite, a Company of VKR-Holding, Horsholm, Denmark,
- Mr. Dipl.-Kfm. Jürgen Dickemann, Heidelberg, Member from June 14, 2005, Vice Chairman of the Supervisory Board from May 2 until May 22, 2006, Member of the Management Board of Deutsche Balaton, Heidelberg,
- Mr. Stefan Hillenbach, Berlin, Member from May 16, 2000, Employee Representative, Expert Developer DMS Project Leader, Berlin,
- Mr. Wilhelm Terhaag, Augsburg, Member from June 14, 2005, Employee Representative, Workers' Council Augsburg,
- Mr. Dipl.-Ing. Harald J. Joos, Berlin, Member until May 2, 2006, Chairman of the Supervisory Board, Chairman of the Management Board of Demag Cranes & Components, Wetter a.d. Ruhr until April 28, 2006,
- Mr. William P. Schmidt, Berlin, Member until May 22, 2006, Chairman of the Supervisory Board from May 2 until May 22, 2006, Vice Chairman of the Supervisory Board until May 2, 2006,
- Mr. Thomas Engelhardt, Kronach, Member until May 22, 2006, Asset Manager for the Sparkasse Jena-Kronach.

Dr. Arun Nagwaney is Member of the Board of Directors of the following Companies:

- Plastics Capital Ltd, London,
- Bell Plastics Ltd, Poole,
- BNL (UK) Limited, Knasborough,
- Trimplex Ltd, Belvedere,
- Trimplex Safety Tread Ltd, Belvedere.

Mr. Volker Wöhrle is member of the following Supervisory Board:

- Heidelberger Beteiligungen, Heidelberg, Vice Chairman of the Supervisory Board.

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

- CornerstoneCapital AG, Frankfurt/Main, Vice Chairman of the Supervisory Board,
- ABC Beteiligungen AG, Heidelberg, Chairman of the Supervisory Board,
- Stratec Grundbesitz AG, Mannheim, Chairman of the Supervisory Board since January 20, 2006.

The Supervisory Board members Mr. Sebastian Leser, Mr. William P. Schmidt, Mr. Thomas Engelhardt, Mr. Wilhelm Terhaag and Mr. Stefan Hillenbach hold no other Supervisory Board mandates.

The total remuneration for members of the Supervisory Board amounted to T€ 57 during fiscal year 2006 (2005: T€ 58).

The disclosure requirements pursuant to IAS 24 on the remuneration of Management in key positions of the Group comprise the remuneration of the members of the Management Board and the Supervisory Board.

The total remuneration of the members of the Management and Supervisory Boards comprises various remuneration elements. The individualization and further details are contained under the heading of the audited "Remuneration Report" within the Combined Group Management Report and Company Report.

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

The Consolidated Financial Statements as at December 31, 2006 were compiled in compliance with International Financial Reporting Standards (IFRS). These statements are exempting Consolidated Financial Statements according to § 315a Abs.1 HGB of 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.

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 provisions 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.

Share-Based Compensation

According to IFRS 2 the obligation exists to recognize the fair value of the share-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.

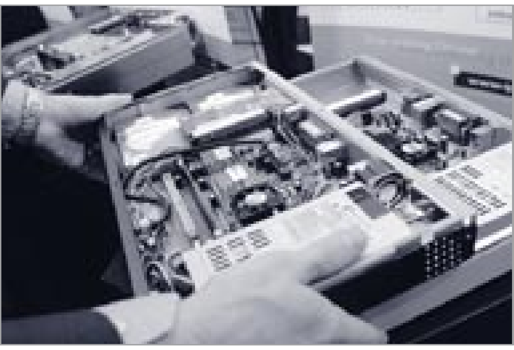
Foreign Currency Valuation

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, 2006 (Unconsolidated)

	Local Currency	Share Capital in Local Currency at 12. 31. 2006	Equity at 12. 31. 2006 in Local Currency	Income (Loss) in 2006 in Local Currency	Interest	Share Capital in T€	Equity at 12. 31. 2006 in T€	Income (Loss) in 2006 in T€
• Beta Systems EDV-Software GmbH, Vienna, Austria					100%	36	354	238
• Beta Systems Software SPRL, Waterloo, Belgium					100%	50	245	
• Beta Systems Marketing GmbH, Berlin, Germany (Profit Distribution)					100%	26	26	
• Beta Systems Software France SARL, Saint Thibault des Vignes, France					100%	763	1,799	353
• Beta Systems Software Ltd, Reading, Great Britain	TGBP	400	(1,183)	(615)	100%	596	(1,761)	(906)
• Beta Systems Software SRL, Milan, Italy					100%	52	707	192
• Beta Systems Software BV, Nieuwegein, Netherlands					100%	23	512	99
• Betann Systems AB, Sundbyberg, Sweden	TSEK	3,893	8,698	(3,243)	100%	431	962	(350)
• Beta Systems Software AG, Wallisellen, Switzerland	TCHF	100	978	495	100%	62	608	315
• Beta Systems Software Espana SL, Madrid, Spain					100%	1,553	(401)	(542)
• Beta Systems Software of North America, Inc., Herndon, USA	TUSD	400	7,757	(2,684)	100%	304	5,885	(2,140)
• Kleindienst Datadress GmbH (i.L.), Augsburg, Germany					100%	26	26	(4)
• EDM Verwaltungs GmbH (i.L.), Augsburg, Germany					100%	25	31	(2)
• ICR Verwaltungs GmbH (i.L.), Augsburg, Germany					100%	25	30	(1)
• Kleindienst Polska Sp.z.o.o. (i.L.), Warsaw, Poland	TPLN	2,000	645	(1,266)	100%	521	168	(322)
• Beta Systems Software Africa Ltd., Lagos, Nigeria	TNGN	5,000	47,859	3,882	100%	29	276	32

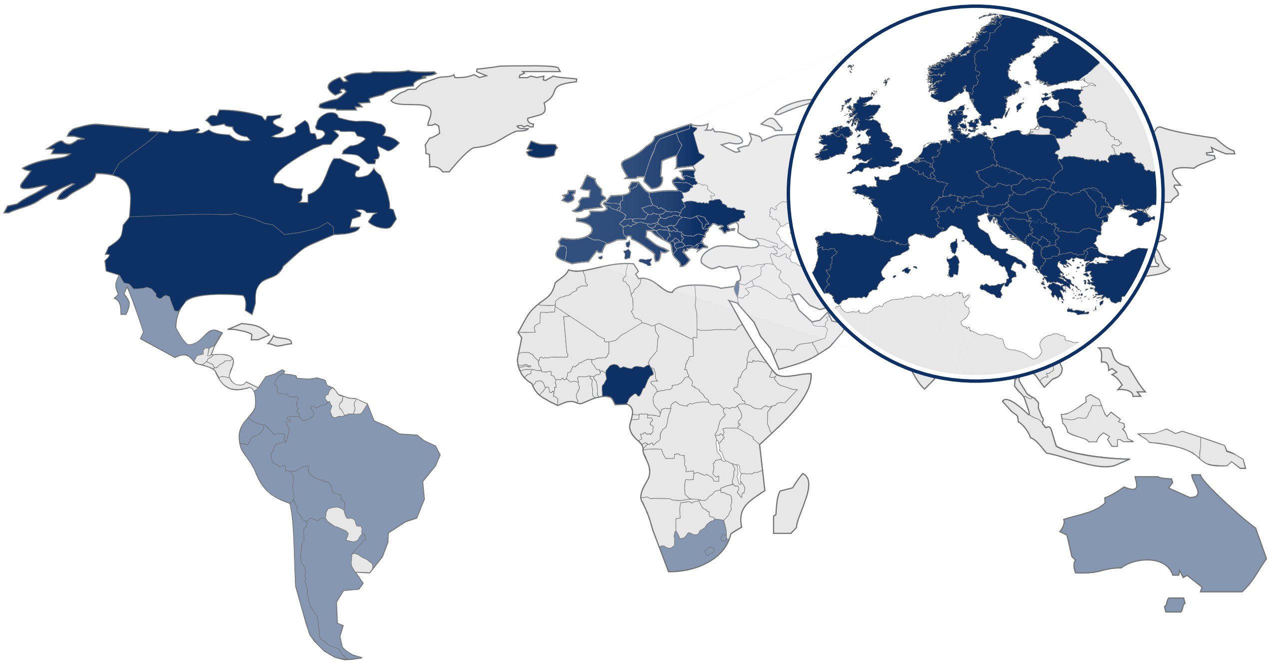
Apart from those holdings listed above, no further equity holdings exist.

In addition Beta Systems Software AG holds the following indirect equity investments:
Beta Systems Software of North America, Inc. wholly owns Beta Systems Software of Canada Inc., which therefore counts towards the indirect holdings:

• Beta Systems Software of Canada Inc. Calgary, Canada	TCAD	31,356	(18,697)	(1,532)	100%	20,502	(12,225)	(1,219)

The sale of Kleindienst Scanner GmbH became economically effective on January 1, 2006.

The values of the equity and the operating results for the fiscal year 2006 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 national currency 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.



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