```
void HandleFieldsDeclaration
(Node nodeDeclaration, String value)
{ lastFieldsValue = value; {
(sectionDelimiter.length()
== 0) { sectionDelimiter =
DetermineSeparator(value);
```

# [ANNUAL REPORT 2010]

```
} String[] strArrFields =
DetermineLineValues(section
Delimiter, value);
for (int i = 0; i < strArr
Fields.length; i++) {nodeField =
xmlControlData.createElement
(„field“); nodeDeclaration.
appendChild(nodeField);
String fieldName = strArrFields[i];
//Handling for Unix escaping if
(isBackslash(escapingMode)
&& fieldName.endsWith(„\\“))
```

# At a glance

**Beta Systems Software AG and Group Companies – Group Financial Data in IFRS**

| Thousand € | 2006 | 2007 | 2008 | 2009[1] | 2010[1] |
|---|---|---|---|---|---|
| | | | | | |
| Revenues | 96,621 | 88,596 | 90,439 | 52,260 | 47,642 |
| EBITDA net of special items | - | - | - | 5,214 | 3,865 |
| EBIT net of special items | - | - | - | 2,379 | 1,010 |
| EBITDA[2] | - | - | - | 5,214 | (693) |
| EBIT[2] | (15,602) | 5,819 | 6,445 | 2,379 | (3,548) |
| Result before income taxes[2] | (16,412) | 4,904 | 5,951 | 2,661 | (3,425) |
| Net income for the fiscal period[2] | (18,390) | 2,310 | 4,805 | 1,241 | 814 |
| Cash | 2,050 | 3,176 | 1,822 | 1,986 | 1,223 |
| Shareholders' equity | 12,990 | 23,713 | 28,587 | 29,742 | 30,216 |
| Balance sheet total | 69,532 | 69,408 | 70,980 | 76,990 | 70,339 |
| Equity ratio in % | 18.7 | 34.2 | 40.3 | 38.6 | 43.0 |
| Number of employees | 645 | 603 | 633 | 364 | 347 |

[1] from continued operations / [2] incl. special items

| | |
|---|---|
| **German Security Code Number:** | 522 440 |
| **ISIN:** | DE0005224406 |
| **Ticker symbol:** | BSS, Reuters: BSSG.DE |
| **Share capital:** | € 17.3 million (13.3 million shares) |
| **IPO:** | June 30, 1997 |
| **Market segment & market place:** | Prime Standard at Deutsche Boerse, Frankfurt,<br>Stock Exchanges Berlin, Duesseldorf, Hamburg, Stuttgart |
| **Indexes:** | Prime All Share, Technology All Share, CDAX,<br>DAXsector All Software, DAXsector Software,<br>DAXsubsector All Software, DAXsubsector Software |
| **Designated Sponsor:** | equinet Bank AG |
| **IPO Lead Managers:** | Deutsche Morgan Grenfell,<br>Goldman Sachs,<br>Sal. Oppenheim jr & Cie. |

# Content

# FOREWORD BY THE MANAGEMENT BOARD

**Dear Shareholders,**
Looking back on the fiscal year 2010, we feel we are justified in saying it was »a year of decisions«. The sale of the ECM business and the subsequent start to the profound restructuring and realignment of our company has had both a positive and negative impact on our results. The sum total of these effects is that we at the Beta Systems Group have generated a positive net income of € 0.8 million pursuant to IFRS, including all income components from continued and discontinued operations. Our intention is now to explain the decisions behind these results to you.

The ***first decision*** was to sell our ECM business to BancTec. By doing so, we found the best solution for our company, our customers and for you as our valued investors. Restructuring this business, which was hard hit even by the 2009 financial crisis, would have been virtually impossible for us to achieve on the basis of our own resources. However, even more important to us than the positive non-recurrent effect of € 5.6 million from the sale were the funds of € 16 million and more which we would receive through to the end of 2011 and which we will use primarily to finance the Group's restructuring and to reduce our short-term borrowing. Beyond this, we have earmarked part of these funds for expanding our software and solutions portfolio.

The ***second decision*** was then to direct our attention internally to ourselves and to review all processes and structures rigorously with the aim of redimensioning the Beta Systems Group following the separation from ECM. This was our clearly defined task as the newly assembled Management Board team at mid-2010 assigned to us by the Supervisory Board which was also newly elected. One of the outcomes was our decision to reduce personnel by almost 20% in general central administration functions as well as in a number of areas in sales and development. This involved the radical simplification of numerous processes and structures to make our whole organization leaner and more efficient. The constructive discussions with our Works Council members and employees in Germany and in our companies abroad have already reached an advanced stage, and we anticipate that the requisite agreements will have been concluded shortly, i.e. before the first quarter of 2011 comes to a close. The necessary provisions of € 4.6 million have been included in the results of continued operations in 2010. We estimate that these measures will result in long-term cost savings of up to € 5 million a year, which would mean that they will have paid for themselves as early as 2012.

The ***third decision*** was – with our sights firmly fixed externally on our markets and customers – to terminate less profitable sales partnerships, discontinue non-core activities and gradually adjust our business model. Revenues have initially fallen as a result. To achieve a more even cost burden, many of our customers are following the trend of preferring flexible, modular, subscription-based usage and pricing models to high, one-off investments for software licenses. Our intention is to take account of these trends by adjusting our business model accordingly.

At the moment, Beta Systems is not a high-growth company. Instead, we have consciously taken the path of self-restraint in all regions and all areas of the portfolio in order to achieve better profitability in the future. This entails concentrating on key market trends such as virtualization, cloud computing and agility in IT which our corporate customers, be they SMEs or large companies with global operations, intend to use to their benefit. For us this also means that achieving sustainable profitability and positive cash flows have gone to the top of the list and take precedence over the size of our company and giving way to the pressure of generating quantitative revenue growth. This is the only way we can focus on the expectations of our customers, consistently enrich our development pipeline with ground-breaking innovations and solution offerings encompassing the whole of IT security, and throw a bridge between business requirements for governance, risk management and compliance (GRC) and the corporate IT of our customers.

In 2010, we paved the way in terms of cost optimization, restructuring and strategic realignment. At the same time, we expect the result the fiscal year 2011 to be only marginally positive. Indeed, the year 2011 will be a »year of transition« for us during which we master the consequences of the many changes, before 2012 when we will be striving for sustainable growth again. At present, we are even discussing the possibilities and advantages that changing over to a new fiscal year, ending September 30, and a short fiscal year 2011 might have. This measure and switching the stock exchange segments to General Standard, which will become effective in June, would be further building blocks in this process, and we are counting on your support for this when the time comes. We intend to use this phase of transition and to concertedly deploy the resources freed up by switching stock exchange segments to proceed with the innovations planned in the portfolio underpinned by the now much leaner structure of the company. At the same time, we will also be improving the accuracy of our forecasts and optimizing management and control options.

We hope that you will see from our explanations that we have risen to meet the many challenges and have made a series of partly very difficult decisions. These decisions were not always pleasant but, in our view, the right ones in terms of consistency and their long-term effect. May we thank you for the trust that you have vested in us and the patience that you have bestowed on us. Your support and your cooperation are immensely important to us in the future. We will continue to count on this and look forward to greeting you personally at our Annual General Meeting of Shareholders in June in Berlin. Our thanks also to our employees for their professional commitment which they bring daily to the challenge of mastering and shaping the necessary process of transformation.

Berlin, in March 2011

| Jürgen Herbott | Gernot Sagl |
|---|---|
| Chief Executive Officer | Chief Financial Officer |

## COMPANY PROFILE

**Beta Systems Software AG**

Beta Systems Software AG (Prime Standard: BSS, ISIN DE0005224406) offers large corporations, mid-sized companies and organizations high-end infrastructure software and solutions which spans sectors. These products enhance the performance of a company's IT in terms of its availability, scaleability and flexibility. Data centers optimize their job and output management. Moreover, especially companies with high numbers of users are supported in the automation of their IT user administration. Improved security also serves to fulfill the requirements placed on business operations in respect of governance, risk management and compliance (GRC).

Beta Systems was founded in 1983, has been a listed company since 1997, and has a workforce of around 350 employees. The company's principal place of business is Berlin. Beta Systems operates in Germany and internationally through 14 subsidiaries and cooperations with numerous partner companies. Throughout the world more than 1,300 customers use the products and solutions of Beta Systems to improve their processes and security in more than 3,200 running installations. At present, Beta Systems generates 50 percent of its sales from international business.

More information on the company and its products can be found under www.betasystems.com.

# INVESTOR RELATIONS AND THE BETA SYSTEMS SHARE

**Beta Systems share delivers positive performance over the course of the year**

At the start of the year 2010, the capital markets came under persistent pressure from the sovereign debt crisis of the PIGS countries (Portugal, Ireland, Greece and Spain). Despite a package of measures put together by the eurozone members for these countries the financial markets remained volatile, not least due to these developments, through to the summer. Moreover, a potential danger was still perceived in the tail-end of the financial and economic crisis. The markets recovered again in October and, along with rallying imports, Germany's domestic economy began to pick up momentum. Despite disparate data from the eurozone and the USA, the German DAX, MDAX, SDAX and TecDAX indices held their ground well in comparison with other European indices through to the end of the year.

The Beta Systems share also remained volatile in 2010 and the trading volume was on occasion modest at a generally low price level, which was also due to the high proportion of investors with a long-term investment horizon.

Following an initially stable start to the year 2010 (+ 6.6% by the end of March 2010), and having recorded an increase of almost 30% by the end of June 2010, the Beta Systems share had gained 8.5% by the end of September 2010 as against the start of the year. Trading, which was moderate at the beginning of the year, picked up considerably in the second quarter of 2010 but declined subsequently in the third quarter. Although the Beta Systems share closed the year with a gain, it was nonetheless unable to match the positive price performance of the overall market during the course of the year.

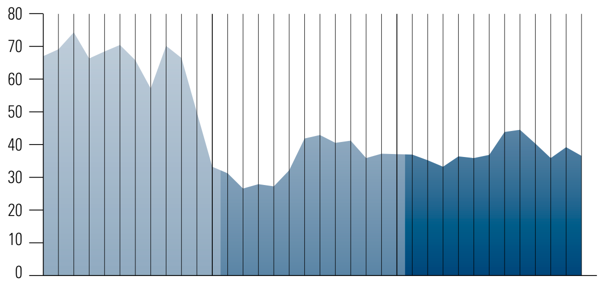
The price of the Beta share began the year on January 4, 2010 at € 2.58, stood at € 2.75 on March 31, 2010, and had risen to € 3.35 by June 30, 2010 (opening and closing price in Xetra). However, it only received impetus upon the release of the information in mid-May that a major contract had been won and upon the announcement of the sale of the ECM business to BancTec on June 3, 2010. The stock exchange responded positively to the sale, which was reflected in increase of the share price of up to € 3.60 (variable Xetra price on June 28, 2010), which was its peak for the fiscal year 2010. The good price performance was also buoyed by positive press reports, which lifted it by more than 20% in the month of June alone.

Positive analyst evaluations followed in July, along with the appointment of Jürgen Herbott, the new Chief Executive Officer, which was well received by market participants and resulted in the share price stabilizing at € 3.35 (Xetra closing price on July 30, 2010). Renewed uncertainty in the overall market caused the Beta Systems share to shed some of its value again in August.

Although the overall market recovered somewhat in September, the Beta Systems share was unable to benefit from this development owing to a number of sales contracts. On September 30, 2010, it posted € 2.80 (Xetra closing price).

Despite a generally positive market environment, the Beta Systems share reflected the uptrend only to a limited extent and closed at € 3.05 at month's end. Upon release of the nine-month figures, it entered into a phase of volatile trading and fell to its lowest point for the year of € 2.69. Following a modest price trend in December, the Beta Systems share finally closed the year at € 2.75 (Xetra closing price), thereby delivering an annual performance of +6.6%. The trading volume declined marginally in comparison to the previous year.

**Market capitalization of the Beta Systems share**

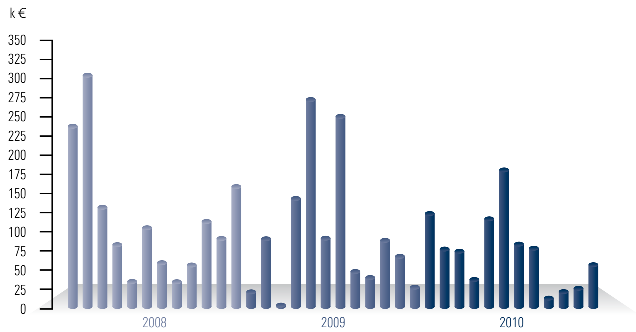



Beta Systems Market capitalization 2008 – 2010 in € million (Xetra)

**Price performance of the Beta Systems share**


Beta Systems share price performance 2008 – 2010 in € (Xetra)

**Trading volume of the Beta Systems share**




Beta Systems share trading volume 2008 – 2010 in thousands of units (Xetra)

**Beta Systems key share data**

| | 2008 | 2009 | 2010 |
|---|---|---|---|
| Earnings per share from continued operations | - | € 0.15 | € (0.26) |
| Earnings per share | € 0.36 | € 0.09 | € 0.06 |
| High (Xetra) | € 5.65 | € 4.00 | € 3.60* |
| Low (Xetra) | € 1.86 | € 1.91 | € 2.36* |
| Year-end closing (Xetra) | € 2.10 | € 2.50 | € 2.75 |
| Number of shares issued | 13,288,914 units | 13,288,914 units | 13,288,914 units |
| Share capital | € 17.3 million | € 17.3 million | € 17.3 million |
| Year-end market capitalization | € 27.9 million | € 33.2 million | € 36.5 million |

* variable share price in Xetra

**Change to General Standard**

At the beginning of 2011, Beta Systems made the decision to change the stock exchange segment. The decision to switch from Prime Standard to General Standard was based on the fact that the companies listed on Prime Standard are first and foremost those targeting international investors. Since, alongside the major shareholders, almost exclusively national investors and private investors currently hold shares in the company, the Management Board and the Supervisory Board came to the conclusion that the financial and organizational effort involved in being listed on Prime Standard is not commensurate in terms of the benefit for the Company. These expenses are therefore to be saved in future.

On March 10, 2011, the management of the Frankfurt Stock Exchange rescinded the admission of the shares of Beta Systems Software AG (BSS, ISIN ) to the segment of the Regulated Market with post-admission obligations (Prime Standard). The withdrawal of the admission was published on the same day under www.deutsche-boerse.com and will become effective at midnight on June 10, 2011. The shares will be admitted to trading (introduction) in the Regulated Market (General Standard) from June 13, 2011. The withdrawal does not affect the admission of the shares of Beta Systems Software AG to the Regulated Market.

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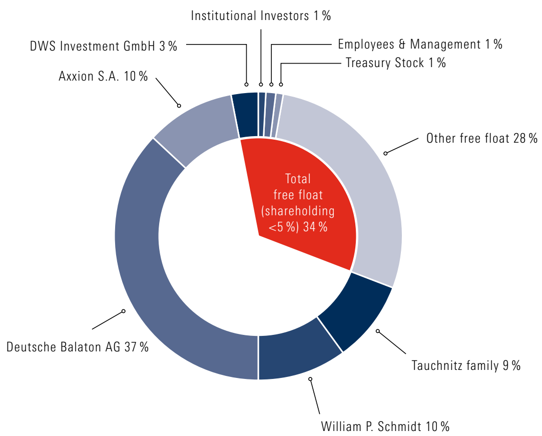
**Shareholder structure (as per December 31, 2010)**




**Beta Systems' Financial Calendar 2011**

**March 31, 2011**
Publication of the 2010 Annual Results
Online Financial Results Press Conference, Berlin

**May 12, 2011**
Three Months' Statement 2011

**June 7, 2011**
Annual General Meeting, Berlin

**August 11, 2011**
Six Months' Statement 2011

**November 10, 2011**
Nine Months' Statement 2011

**November 2011**
Analyst/Investor Conference

# ANNUAL CORPORATE GOVERNANCE STATEMENT AND CORPORATE GOVERNANCE REPORT

Beta Systems has always placed great importance on responsible and transparent management. Since the introduction of the German Corporate Governance Code (GCGC), which has established standards for value-oriented and transparent management and supervision of the company, Beta Systems, has espoused the suggestions and the recommendations of the Code in its current version dated May 26, 2010, apart from a few exceptions. In this Corporate Governance Statement the Management and Supervisory Boards of Beta Systems Software AG report on corporate governance in accordance with Code Item 3.10 of the GCGC and with Section 289a para. 1 of the German Commercial Code (HGB) in this statement.

**Information on Corporate Governance at Beta Systems**

Documents pertaining to Corporate Governance, specifically the Articles of Association of Beta Systems Software AG, the current Declaration of Conformity and those of previous years, and this Corporate Governance Statement and Corporate Governance Report, are easily accessible on the website of the Company at www.betasystems.com under the Investor Relations/Corporate Governance heading.

Furthermore, shareholders are regularly informed about the dates set for major recurrent events and publications in the financial calendar which is made permanently accessible in good time on the website of the Company under the Investor Relations/Financial Calendar heading and published in the Annual Report.

Beta Systems informs participants in the capital market and the interested public without delay, regularly and promptly about the financial position of the Group and new developments. The annual report, the half-yearly financial report and the quarterly financial reports are published within the framework of the given deadlines. Information about current events and new developments is published in the form of press releases and, whenever appropriate, ad-hoc releases. All information is available promptly in German and English and published on the Internet. In addition, the website under www.betasystems.com provides extensive information on the Beta Systems Group, its products and solutions and the Beta Systems share.

**Shareholders and the Annual General Meeting of Shareholders**

The shareholders of Beta Systems Software AG exercise their rights of codetermination and control at the Annual General Meeting of Shareholders which takes place at least once a year. The Meeting takes decisions on all matters defined under the law with binding effect on all shareholders and the Company. In the voting process, each share confers the right to one vote. All shareholders who have registered within the deadline are entitled to participate in the Annual General Meeting. Shareholders who are unable to take part personally in the Meeting have the option of having their voting rights exercised by a bank, an association of shareholders, a proxy appointed by Beta Systems Software AG who is bound to instructions issued or another proxy of their choice.

The reports and documentation required by law for the Annual General Meeting of Shareholders, including the agenda and the Consolidated and Separate Annual Financial Statements were published on the website at www.betasystems.com under the Investor Relations/Annual General Meeting of Shareholders 2010 heading.

The invitation to the Annual General Meeting of Shareholders and the reports and information necessary for passing resolutions were published in accordance with the provisions set out under the German Stock Corporation Act (AktG) and were also made available on the website of Beta Systems Software AG.

Compliance with the Corporate Governance Standards is monitored by the Compliance Officer.

**Contact**
Arne Baßler
Director Corporate Communications and Compliance Officer
Tel.: +49-(0)30-726118-170
Fax: +49-(0)30-726118-881
e-Mail: complianceoffice@betasystems.com

**Declaration of Conformity and reporting on Corporate Governance**

It is mandatory for German companies to apply the provisions prescribed under the law. In respect of the recommendations, Section 161 of the German Stock Corporation Act (AktG) requires listed companies to make an annual declaration on the extent to which each individual company complies with the German Corporate Governance Code and where it diverges from it. This also includes a description of any divergences from the recommendations of the Code.

On December 14, 2010, the Management Board and Supervisory Board of Beta Systems Software AG jointly issued an updated 2010 Declaration of Conformity in accordance with Section 161 of the German Stock Corporation Act (AktG).

**Declaration of Conformity of Beta Systems Software AG with the German Corporate Governance Code in accordance with Section 161 of the German Stock Corporation Act (AktG)**

The Management Board and Supervisory Board of Beta Systems Software AG submitted the last Declaration of Conformity in accordance with Section 161 German Stock Corporation Act (AktG) on December 3, 2009. This Declaration of Conformity was published on the Internet and in the 2009 Annual Report.

The Declaration set out below applies to the recommendations of the German Corporate Governance Code (»GCGC«) in the version dated June 18, 2009, published in the electronic German Federal Gazette on August 5, 2009 (»2009 Version«) for the period from December 4, 2009 to July 1, 2010. From July 2, 2010 onwards, the Declaration below applies to recommendations of the Code in the version dated May 26, 2010, published in the electronic German Federal Gazette on July 2, 2010 (»2010 Version«).

That said, the Management Board and the Supervisory Board of Beta Systems Software AG declare that the recommendations of the German Commission of the German Corporate Governance Code have been complied with since the last Declaration of Conformity dated December 3, 2009, with the deviations cited therein and those set out below.

Beta Systems Software AG will comply with the recommendations of the German Corporate Governance Code of the German Government Commission in the future as well, with the following deviations:

- **Code Items 2.3.1 and 2.3.3 – Postal vote in respect of the Annual General Meeting of Shareholders:**

The Code stipulates that, for purpose of convening the Annual General Meeting, postal vote forms, among other items, must be published on the company's website, together with the agenda (Code Item 2.3.1). Moreover, it requires the company to assist shareholders in the use of postal votes (Code Item 2.3.3 ). Beta Systems has opted not to have postal voting for its shareholders as the Company already offers its shareholders the possibility of having their voting rights exercised by a representative appointed by the Company. The shareholders already have the possibility of submitting their votes prior to the Annual General Meeting of Shareholders. Having postal voting in addition would therefore not be instrumental in making it even easier for them to exercise their voting rights. Moreover, the Articles of Association of Beta Systems Software Aktiengesellschaft do not provide for the option of postal voting.

- **Code Item 2.3.2 – Relaying of the convening of the Annual General Meeting of Shareholders and convention documents by electronic channels:**

The Code recommends that companies should send notification of the convening of the Annual General Meeting of Shareholders, together with convention documents, to all domestic and foreign financial service providers, shareholders and associations of shareholders by electronic means if the approval requirements are fulfilled. The Company does not comply with this recommendation as the necessary approval requirements (pursuant to the Articles of Association) do not exist. As, owing to the nature of the bearer shares, the domestic and foreign financial service providers, shareholders and the associations of shareholders are unknown to the Company, and as it is currently not possible to ensure that the majority of these parties can be reached via electronic channels, the Company waives the option of electronic dispatch.

- **Code Item 3.8 – Deductible in D&O insurance policies:**

Since the »2009 version« of the Code, the recommendation of agreeing a deductible in Code Item 3.8 is only applicable to the D&O policy for Supervisory Board members whereas the deductible in concluding a D&O policy for Management Board members is now mandatory under the law. The insurance policies currently taken out by Beta Systems do not include any deductible. Beta Systems will not be providing for a deductible for Supervisory Board members in future either as such a measure would not constitute a fundamentally improved incentive effect as regards the motivation and the sense of responsibility of its Supervisory Board. In contrast, the existing and current policy pertaining to the Management Board was changed in good time owing to the amendment of Section 93 of the German Stock Corporation Act (AktG) in the new version and in accordance with the deadline which expired on June 30, 2010. Since this date the policy has included a deductible for the Management Board.

- **Code Item 4.2.3 – Compensation of the Management Board:**

The Management Board members of Beta Systems Software AG receive fixed and variable compensation. At present, the Annual General Meeting of Shareholders has not authorized a Management Board compensation program that includes components with long-term incentive effect and risk elements in the form of shares, stock options or comparable instruments. Such instruments were last issued in 2001 as part of programs previously implemented within this area. Rights resulting from these programs were last exercised in 2004 or have expired.

The Board member contracts of Beta Systems Software AG do not currently provide for a severance payment cap. The reason for this lies in the restriction of the Board member contract to a period of between two and a half and three years. In view of these short terms of office, additional agreements for the purpose of avoiding inappropriate severance payment were not necessary. Moreover, agreeing such severance payment caps and, if necessary, any enforcement at a later date, may cause legal problems. The fundamental idea of the recommendation is, however, taken account of as, in the event of premature mutual cancellation of a Board member contract, a severance payment provision which reflects the principle of appropriateness is to be agreed with the respective Board member.

- **Code Items 5.1.2 and 5.4.1 – Age limits for Management Board and Supervisory Board members:**

Beta Systems regards the stipulation of age limits for Supervisory Board members (Code Item 5.4.1) as imposing a limitation on shareholders' rights to elect the Supervisory Board members of their own choice. Accordingly, the Company has not set any age limit. A similar departure from the Code's recommendation is that there is no age limit for Management Board members either (Code Item 5.1.2) as this would restrict the Supervisory Board in its selection of suitable candidates.

- **Code Items 5.1.2 and 5.4.1 - Diversity in the composition of the Management Board and the Supervisory Board:**

As regards the composition of the Management Board, the Code recommends that diversity be respected, in particular as regards the appropriate consideration of women (Code Item 5.1.2). The principle of equality was applied in the appointing of Management Board members. The qualifications of the candidates were the determinant factors for appointing them to the respective positions.

In specifying concrete objectives for the composition of the Supervisory Board, while taking account of the specifics of the enterprise, the Code recommends that, along with the aforementioned age limit, the international activities of the enterprise, potential conflicts of interest and diversity should be considered, including an appropriate degree of female representation in particular (Code Item 5.4.1). In respect of election proposals for the Supervisory Board members, the principle of equality was similarly applied and, in addition, the Company's international activities taken into account. In as much, the qualifications of the candidates were therefore the determinant factor for appointing them to the respective positions.

- **Code Item 5.3.2 – Setting up of an Audit Committee:**

In view of the current size and composition of the Supervisory Board (six persons) as well as the size of Beta Systems itself, the Supervisory Board does not currently intend to set up a separate Audit Committee. Essentially the entire Supervisory Board deals with all issues relating to accounting and auditing, risk management and compliance, the necessary independence required of the external auditor, the issuing of the audit mandate to the auditor, the defining of key audit areas and agreeing the auditor's fee.

- **Code Item 5.3.3 – Setting up of a Nomination Committee:**

Given the current size and composition of the Supervisory Board (six persons) as well as the size of Beta Systems itself, the Supervisory Board does not currently intend to set up a separate Nomination Committee. Essentially the entire Supervisory Board deals with proposals for elections.

- **Code Item 5.4.6 – Compensation of the Supervisory Board:**
In Item 5.4.6, the Code recommends that Supervisory Board members receive performance-related compensation alongside fixed compensation. The Supervisory Board members of Beta Systems Software AG, however, receive compensation only in the form of fixed remuneration. Beta Systems Software AG diverges from this recommendation as it does not currently view it as appropriate. Moreover, Beta Systems Software AG does not consider performance-related compensation to be a suitable tool for supporting the tasks of the Supervisory Board as an auditing and control committee. Membership and chairmanship of the Personnel Committee is also not subject to specific compensation.

Berlin, December 14, 2010

| | |
|---|---|
| Dr. Günter Lewald | Jürgen Herbott |
| Chairman of the Supervisory Board | Chief Executive Officer |

**Working methods of the Management Board and the Supervisory Board**

A fundamental principle under German corporate law is the dual system of management by the executive and non-executive bodies of the Management Board and the Supervisory Board respectively, each of which is endowed with its own set of competences. The Management Board and the Supervisory Board work closely together on a basis of trust in the supervision and control of the Company and for its benefit. Their common aim is to raise the enterprise value on a sustainable basis.

The Management Board reports regularly, in a timely manner and extensively to the Supervisory Board on all issues relevant to corporate planning and strategic development, on the course of business, the Group's situation, including the risk position, and on risk management and compliance. The Supervisory Board advises and supervises the Management Board in its management of the Company. It is involved in strategy and planning as well as in all issues of fundamental significance for the Company.

Moreover, the Supervisory Board gives its approval to important transactions requiring such approval. The Chairman of the Supervisory Board coordinates the work of the Supervisory Board, chairs its meetings and represents its concerns externally. An extraordinary meeting of the Supervisory Board may convened, if appropriate, when events of particular relevance occur. The Supervisory Board has laid down bylaws to regulate its work. Following the reelection of the Supervisory Board on August 17, 2010, these bylaws were revised.

As in previous years, the Supervisory Board regularly informed in itself about important legal disputes and consulted on the procedure to be adopted. For more information, please see the 2010 Report by the Supervisory Board of Beta Systems Software AG.

Mr. Gernot Sagl headed up the Company as the only member of the Management Board until July 18, 2010. Since the appointment of Mr. Jürgen Herbott on July 19, 2010, the Management Board has been made up of two persons, with Mr. Herbott as Chief Executive Officer and Chairman. The principle of equality was applied in the appointing of Management Board members. The qualifications of the candidates were the determinant factors for appointing them to the respective positions.

A set of bylaws regulates the work of Management Board and is supplemented by a schedule of responsibilities comprising information specifically on the assignment of departments. Moreover, the bylaws regulate matters reserved for the full Board of Management, and the required majority for Management Board resolutions (unanimous consent or majority decision). The bylaws of the Management Board were revised after the appointment of Mr. Jürgen Herbott to the position of new Chief Executive Officer.

In appointing persons to executive positions in the company, the Management Board places emphasis on diversity and gives due consideration to women. More information on the working methods of the Management Board and the Supervisory Board can be found in the 2010 Report by the Supervisory Board of Beta Systems Software AG.

**Composition of the Supervisory Board**

In accordance with the Articles of Association, the Supervisory Board of Beta Systems Software AG is made up of six members. Of these members, four are elected by the Annual General Meeting of Shareholders. In accordance with Section 4 para. 1 of the German One-Third Participation Act (DrittelbG), two Supervisory Board members are employees' representatives elected by the workforce. Members are elected for the period until the end of the Annual General Meeting of Shareholders which decides on ratifying the actions of the Supervisory Board for the fourth fiscal year after the start of their term of office, not counting the fiscal year in which the term of office begins. The term of office of the Supervisory Board members ended with the regular Annual General Meeting of Shareholders in 2010. If successors were elected before the expiry of the terms of office of retired members, the respective election was made pursuant to Article 7 para. 2 of the Articles of Association for the remaining period of office of the retired member.

On August 17, 2010, the regular Annual General Meeting of the shareholders of Beta Systems Software AG elected Dr. Günter Lewald, Mr. Stephan Helmstädter, Mr. Herbert Werle and Dr. Carsten Bräutigam as new members of the Company's Supervisory Board by a large majority through votes cast on an individual basis. Dr. Günter Lewald was elected to the office of Chairman of the Supervisory Board in the subsequent constituent meeting of the new Supervisory Board. Mr. Stephan Helmstädter is the new Vice Chairman of the Supervisory Board. Other members of the Supervisory Board are Mr. Stefan Hillenbach and Mr. Peter Becker who had already been elected on April 28, 2010, by the employees as their representatives for the new term of office.

**Aims of the Supervisory Board as regards its composition**

The members of the Supervisory Board together have the requisite knowledge, abilities and expert experience required for duly carrying out the respective tasks.

In proposals for the election of members to the Supervisory Board attention is paid to the knowledge, abilities and expert experience required for undertaking the respective tasks, as well as diversity in the composition of the Board. Currently all members of the Supervisory Board have international experience. Moreover, all members of the Supervisory Board have extensive knowledge of the IT sector. No women are currently represented on the Supervisory Board. In the election proposals for the Supervisory Board members, the principle of equality was applied. The qualifications of the candidates were, however, the determinant factors for appointing them to the respective positions.

No age limit has been determined for Supervisory Board members as Beta Systems regards this as a limitation of shareholders' rights to elect the Supervisory Board members. Former Management Board members of Beta Systems Software AG are not represented on the Supervisory Board.

The members of the Supervisory Board participate in continuous professional development and training necessary for carrying out their tasks under their own responsibility and are given appropriate support by the Company.

A sufficient number of independent members who do not have any business or personal relationship with the Company or with its Management Board belong to the Supervisory Board. There were no consultancy or other service agreements or contracts for work concluded between members of the Supervisory Board and the Company in the reporting year. Conflicts of interest relating to the members of the Management and Supervisory Boards which are to be disclosed immediately did not arise.
The mandates fulfilled by members of the Management Board and the Supervisory Board in supervisory boards to be formed under the law and/or in comparable domestic and international controlling bodies of commercial enterprises as well as the related party disclosures can be found in the Notes to the Consolidated Financial Statements.

**Committees of the Supervisory Board**
Up until August 17, 2010, the Supervisory Board of Beta Systems Software AG had a Personnel Committee and a Business Committee made up of its own members. These two committees will not continue to operate under the newly elected Supervisory Board as, in future, the entire Supervisory Board will inform itself, deliberate on and decide the topics formerly addressed by these committees.

The Personnel Committee comprised three members in the persons of Mr. Sebastian Leser, Dr. Arun Nagwaney and Mr. Stefan Hillenbach. It confers on the appointment of Management Board members and determines the amount and the structure of the Management Board remuneration both of which it reviews on a regular basis. In the reporting period, the Personnel Committee did not convene separate meetings as the issues were discussed and decisions made by the whole Supervisory Board.
The Business Committee had three members in the persons of Mr. Sebastian Leser, Mr. Jürgen Dickemann and Mr. Stefan Hillenbach. The Committee's task was to ratify transactions which require the approval of the Supervisory Board. The Committee did not meet during the reporting period as all transactions requiring approval were submitted to the whole Supervisory Board for its approval.

As described in the Declaration of Conformity of December 14, 2010, there is currently neither an Audit Committee nor a Nomination Committee owing to the current size and composition of the Supervisory Board (six persons) and the size of Beta Systems itself. Essentially the entire Supervisory Board deals with all questions regarding the rendering and auditing of accounts and is responsible for submitting election proposals to the Annual General Meeting of Shareholders.

**Remuneration Report**
The total remuneration of Management Board members is made up of a series of components. To be specific, remuneration comprises a fixed and a profit- and performance-related component (bonus). The remuneration of the Supervisory Board is determined by the Annual General Meeting of Shareholders and is regulated under Article 10 of the Articles of Association. Remuneration is based on the tasks and the responsibilities of the Supervisory Board members as well as on the financial position and the performance of the Company. In its meeting on August 17, 2010, the regular Annual General Meeting of Shareholders passed a resolution to raise the remuneration of the Supervisory Board and to amend the Articles of Association accordingly. Detailed information, including an itemization of remuneration, can be found in the Remuneration Report in the section under the 2010 Combined Management Report on the Group and on the Parent Company of Beta Systems Software AG.
As per December 31, 2010, there were no option rights and no valid option rights program so that none of the members of the Supervisory Board or the Management Board currently hold stock option rights or conversion rights to the shares of Beta Systems Software AG.

**Responsible Risk Management**
Good corporate governance also entails responsible management of risks by the Company. The Management Board of Beta Systems Software AG and the management of the Beta Systems Group have extensive, groupwide and company-specific reporting and control systems at their disposal which enable the recording, assessment and control of these risks. Systematic risk management ensures that any risks are detected at an early stage and assessed.
The risk management system of Beta Systems is developed on an ongoing basis and adjusted to changes in the environment. The early warning system for the identification of risks is reviewed by the independent auditor. The Management Board reports regularly to the Supervisory Board on the risks and their development. The Supervisory Board concerns itself in particular with supervising the accounting process, including reporting, the effectiveness of the internal control system, risk management and the internal audit system, compliance as well as the audit of the annual accounts.
More detailed information on risk management has been included in the Opportunities and Risk Report which is part of the 2010 Combined Management Report on the Group and on the Parent Company of Beta Systems Software AG. This section also comprises the report on the accounting-related internal control and risk management system required under the German Accounting Law Modernization Act (BilMoG).
The monitoring and observance of compliance guidelines was also an integral part of risk management in the fiscal year 2010. Part of this was to keep employees informed of the legal basis and the relevant requirements placed on internal and external communication. All relevant individuals who work for the Company and have access to inside information within the scope of their employment are registered in an Insider List and informed of the obligations arising from such insider rights.

**Share transactions and shareholdings of the Management Board and the Supervisory Board**
Pursuant to section 15a of the German Securities Trading Act (WpHG) members of the Management and Supervisory Boards are required by law to disclose the purchase or sale of the shares of Beta Systems Software AG if the value of any transaction(s) conducted by the respective member or parties related to him reaches or exceeds an amount of € 5,000 in a calendar year. In accordance with the Insider Trading Policy of Beta Systems Software AG, members of the executive and non-executive bodies are obliged to report all transactions with shares of the Company. The following transactions were reported to Beta Systems Software AG in the fiscal year 2010 (all Beta Systems shares; financial instrument: ISIN DE0005224406):

| Date of the transaction | Person with notifiable holding | Reason for the disclosure requirement | Position | Type of transaction | Units | Price in € | Comment |
|---|---|---|---|---|---|---|---|
| | | | | | | | |
| 09/08/2010 | Jürgen Herbott | Person performing managerial responsibilities | Member of a managing body (Board member) | Purchase (Xetra) | 1,000 | 2.95 | - |
| 09/23/2010 | Jürgen Herbott | Person performing managerial responsibilities | Member of a managing body (Board member) | Purchase (Xetra) | 1,000 | 3.00 | - |
| 12/16/2010 | Jürgen Herbott | Person performing managerial responsibilities | Member of a managing body (Board member) | Purchase (Xetra) | 1,000 | 2.78 | - |

As soon as they are carried out, all transactions are disclosed on the website of the Company at www.betasystems.com under the Investor Relations/Corporate Governance/Directors' Dealings section. Directors' shareholdings as per December 31, 2010, are as follows:

| As per December 31, 2010 | Number of shares |
|---|---|
| | |
| **Management Board** | |
| Jürgen Herbott[1] | 3,500 |
| Gernot Sagl | 0 |
| **Supervisory Board** | |
| Dr. Günter Lewald[2] | 0 |
| Stephan Helmstädter[2] | 0 |
| Herbert Werle[2] | 0 |
| Dr. Carsten Bräutigam[2] | 0 |
| Stefan Hillenbach[3] | 6,432 |
| Peter Becker[3] | 0 |
| Sebastian Leser[4] | 0 |
| Dr. Arun Nagwaney[4] | 0 |
| Jürgen Dickemann[4] | 0 |
| Volker Wöhrle[4] | 0 |
| Wilhelm Terhaag[5] | 0 |
| **Beta Systems Software AG** | |
| Treasury shares | 120,610 |

[1] Mr. Jürgen Herbott was appointed to the position of the new Chief Executive Officer (CEO) of Beta Systems Software AG on July 19, 2010. Prior to joining the Company, he already held 500 shares in the Company.

[2] The regular Annual General Meeting of the Shareholders of Beta Systems Software AG, which took place on August 17, 2010, elected Dr. Günter Lewald, Mr. Stephan Helmstädter, Mr. Herbert Werle and Dr. Carsten Bräutigam as new members of the Company's Supervisory Board. Dr. Günter Lewald was elected to the office of Chairman of the Supervisory Board in the subsequent constituent meeting of the new Supervisory Board. Mr. Stephan Helmstädter is the new Vice Chairman of the Supervisory Board.

[3] Mr. Stefan Hillenbach and Mr. Peter Becker were elected by the employees as their representatives on April 28, 2010, pursuant to Section 4 para. 1 of the German One-Third Participation Act (DrittelbG).

[4] The end of the regular Annual General Meeting of Shareholders on August 17, 2010, marked the expiry of the period of office of the former members of the Supervisory Board, Mr. Sebastian Leser (Chairman of the Supervisory Board) and the other members Dr. Arun Nagwaney (Vice Chairman of the Supervisory Board), Mr. Jürgen Dickemann and Mr. Volker Wöhrle. Information on reportable Director's Holdings therefore pertains to this date.

[5] Mr. Wilhelm Terhaag, employee representative on the Supervisory Board, left the Supervisory Board upon the sale of Beta Systems ECM Solutions GmbH (since September 29, 2010: BancTec ECM Solutions GmbH) to the BancTec Group on June 3, 2010.

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

**Accounting and Audit of the Annual Financial Statements**

Beta Systems Software AG draws up its consolidated financial statements and its interim consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) as applicable within the European Union. The separate annual financial statements of Beta Systems Software AG are drawn up in accordance with the German Commercial Code (HGB). The consolidated financial statements are prepared by the Management Board and examined by the external auditor and the Supervisory Board. The quarterly financial reports and the half-yearly financial report are discussed by the Supervisory Board with the Management Board prior to being released.

The consolidated annual financial statements and the separate annual financial statement of Beta Systems Software AG were audited by KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, the external auditor appointed by the Annual General Meeting of Shareholders in 2010. The audits are carried out in accordance with German auditing regulations and in observance of the generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland e.V. The audit scope included also the early warning system for the identification of risks pursuant to Section 91 para. 2. German Stock Corporation Act (AktG) and compliance with the reporting duties on Corporate Governance pursuant to Section 161 German Stock Corporation Act.

Moreover, a contractual agreement was concluded with the external auditor that it would inform the Supervisory Board without delay about any grounds for bias or disqualification as well as about major findings and occurrences which may come to light during the audit. There was no occasion for this in the context of the audit carried out for the fiscal year 2010.

# COMBINED MANAGEMENT REPORT ON THE GROUP AND ON THE PARENT COMPANY (REPORT ON THE SITUATION OF THE COMPANY AND THE GROUP) FOR THE FISCAL YEAR 2010

## CONTENT

# COMBINED MANAGEMENT REPORT ON THE GROUP AND ON THE PARENT COMPANY (REPORT ON THE SITUATION OF THE COMPANY AND THE GROUP) FOR THE FISCAL YEAR 2010

## FOREWORD

Beta Systems Software AG has drawn up this Report on the situation of the Company and the Group (Management Report) as at December 31, 2010, in accordance with the provisions set out under the law. It is to be read in conjunction with the combined and separate financial statements. The business development of the Beta Systems Group (»Beta Systems« or »Group«) and of Beta Systems Software AG (the »Parent Company«) are closely linked, as the Parent Company is the core of the groupwide development, sales, service and marketing network. For this reason, the report on Beta Systems Software AG has been combined with the report on the Beta Systems Group. All information applies to the Group unless clearly attributed to the Parent Company.

Unless otherwise indicated, all information in the tables is denominated in thousands of euros (k€).

The Combined Financial Statements as at December 31, 2010, have been prepared in accordance with the standards and interpretations of the International Financial Reporting Standards (IFRS), as applicable within the European Union. The information set out below relates to the consolidated results of the Beta Systems Group. The Operating segments section has been prepared in accordance with the current structure of the Company and therefore concentrates on the two lines of business (LoBs) of Data Center Infrastructure (DCI) and Identity Management (IdM).

The audited Combined Financial Statements are based on a series of assumptions which are described in detail in the Notes to the Combined Financial Statements (Accounting Policies and Valuation Methods).

The annual financial statements of Beta Systems Software AG (Parent Company) have been drawn up in accordance with the provisions of the German Commercial Code (HGB).

The explanations set out in the following section pertain mainly to the continued operations. Explanatory notes on discontinued operations (»ECM«) have been included in the Combined Statement of Income under the »Net income (loss) of discontinued operations for the fiscal period including result recognized on the disposal of the discontinued operations (post-tax)« item. The Combined Statement of Cash Flows comprises explanatory notes on continued and discontinued lines of business.

The operating results of the Group as a whole and its continuing operations in the two segments (»DCI/IdM«) were subject to a series of special influences emanating from the process of redimensioning, reorganization, restructuring and enhancing efficiency subject over the period under review. Beta Systems has therefore defined key parameters, such as the operating result before expenses for reorganization and restructuring, and disclosed them separately. The fundamental approach was to eliminate special effects – which distort business activities – from calculations and thus impair the comparability of key data with that of previous years. Moreover, issuing a statement on the Group’s future development and net income is only possible to a limited extent due to the special influences.

## 1. BACKGROUND, GENERAL CONDITIONS AND STRATEGY

### 1.1. Background

**The Beta Systems Group**

For more than 25 years, Beta Systems has developed high-profile software products and solutions for the secure and efficient processing of bulk data, which supports companies of any size with heterogeneous IT environments in the automation, safeguarding and transparency of their IT-based business processes. For example, especially companies in the financial sector, in trading, the telecommunications business and industry benefit from these products as, owing to their size and the nature of their business, they are required to process extremely large volumes of sensitive data and documents in business processes critical to their operations. Through its own sales force, Beta Systems offers its products, solutions and services directly to decision makers in the IT and specialist departments of these companies.

*Enjoying fresh products day in day out because solutions by Beta Systems have helped automate the logistics delivery chain.*

Beta Systems Software Aktiengesellschaft (the »Parent Company«) makes up the Group (»Beta Systems« or the »Company«), together with its subsidiaries. Beta Systems Software AG (the Parent Company) is the holding company of the Beta Systems Group. Along with managing operations in Germany, it is also the owner of the largest part of the product rights. This also includes the development and maintenance of existing products and the development of new products. The holding company heads up all cross-functional management and centralized operations (groupwide finance and accounting, personnel, strategic research and development, groupwide process management, worldwide corporate and marketing communication, as well as sales management). More detailed explanations on Beta Systems Software AG (holding company of the Beta Systems Group) can be found in Section »3.3. Earnings, financial and asset position of the Beta Systems Software AG«.

The Beta Systems Group ranks among Europe's leading mid-sized software suppliers in its market segment and has been listed on the stock exchange since 1997. Currently around 350 people are employed in its competence centers in Berlin (headquarters), Cologne, Neustadt an der Weinstraße, Ruesselsheim and Calgary (Canada). In addition, another 14 group companies and numerous partner companies are engaged in business for the Group. Its customers include major companies with global operations, mid-sized companies and organizations in the financial services sector and industry, along with IT service providers and public-sector administration in Germany, Europe, and North and South America. The core business is the sale of usage rights (licenses) to Beta Systems software solutions and associated services. Along with maintenance, these services also comprise installation, project management, consultancy and training.

# [WORKLOAD MANAGEMENT]

Data Center Infrastructure (DCI) line of business (LoB) activities are concentrated in Berlin, Neustadt an der Weinstraße and Ruesselsheim. In this LoB, Beta Systems offers its customers standard products, consultancy services and operational support services for companywide data center activities as a fully integrated end-to-end service from one source. Ensuring the seamless, error-free, secure and steady-state availability of a central IT infrastructure for the processing of huge volumes of data and documents is the focus of business.

The Cologne branch concentrates on the Identity Management (IdM) LoB. Beta Systems' Identity Management solutions enable the administration of all IT users while securing access to systems and resources. The Beta Systems Security product portfolio facilitates the automation of all critical processes in IT user administration. In addition, the compliance products of Beta Systems support the implementation of companywide guidelines and compliance with legal and business requirements at a domestic and international level.

All offices located in Germany are staffed by employees in Sales, Services and Research and Development. The Group's administration is situated in Berlin. Beta Systems is represented internationally through its own Group companies in Europe and in North America where employees are mainly engaged in sales activities. Moreover, Beta Systems maintains a Support Center for America and a department for service-related development in Calgary. The Beta Systems Group has entered into many sales partnerships in order to market its products in the international arena. More information is given in Section »2.5. Partnerships«.

A series of events have had a major impact on the business activities and structure and on the management of the Beta Systems Group in 2010. The most important events are described below:

**1.2. Spin-off and sale of ECM solution business marks the turning point in the Company's development**

In June 2010, Beta Systems announced the sale of its Enterprise Content Management (ECM) business to the BancTec Group. This sale had a profound impact on the fiscal year 2010 and on the Company's future strategic alignment. In accordance with the sale and purchase agreement, the divestiture of the ECM business in organizational terms, as well as its products, customers and solutions from the Beta Systems Group, took economic effect on May 31, 2010. The change of control became effective upon the signing of the agreement on June 3, 2010.

The sale to the BancTec Group ushered in the repositioning of Beta Systems as pure infrastructure software provider. In the wake of the spin-off of the ECM solutions business, the Management Board of Beta Systems Software AG extensively reviewed alternatives for action (including restructuring from the Company's own resources, joint ventures and participations) with the aim of reorganizing the business. The option of selling to strategic investors was also reviewed. Having carefully considered the alternatives, the Management Board decided in favor of accepting the purchase offer submitted by BancTec.

The discussion of asset, financial and earnings position was therefore significantly influenced by the following transactions:

1. Upon entry into the Commercial Register on March 1, 2010, the Dropdown and Transfer Agreement dated December 22, 2010, between Beta Systems Software AG and Beta Systems ECM Solutions GmbH became retrospectively effective on January 1, 2010. Through this measure, the Company thus transferred the separable ECM business, operated from the locations of Augsburg, Vienna and Budapest, as well as Beta Systems of Africa, Lagos and the respective assets and liabilities to Beta Systems ECM Solutions GmbH. At that time, Beta Systems ECM Solutions GmbH, Berlin, was a wholly-owned enterprise of the Company.
2. Under the agreement dated June 3, 2010, between Beta Systems Software AG and BancTec GmbH, Langen and BancTec Inc, Dallas USA, the Company sold 100% of the shares in Beta Systems ECM Solutions GmbH (now BancTec ECM Solutions GmbH).

For more information on the sale of the ECM solutions business and the effect on the earnings, asset and financial position in 2010, we refer to Section »2.1. Sale of Beta Systems ECM Solutions GmbH« and to Section »2. Discontinued Operations Enterprise Content Management (ECM)« in the Notes to the Combined Financial Statements.

**Adjustment of the personnel structure**

As a result of reviewing alternatives for cost optimization following the sale of the ECM business, a decision was made to scale back up to 20% of jobs in general central administration and support functions as well as in downstream functions in sales and development, both in Germany and abroad. The relevant discussions with employee representatives and employees in Germany and in the international locations have already reached an advanced stage. In order to carry out this redimensioning in as socially a responsible fashion and as efficiently as possible measures take account of the whole range of instruments available for making suitable offers, such as severance payments, early retirement, reducing working hours or supplementary benefits. The exact form this will take, however, is currently being negotiated by the parties involved. The relevant meetings and discussions are expected to have been concluded in the near future, i.e. in the first quarter of the fiscal year 2011. The respective provisions of € 4.6 million at Group and € 3.7 million at Company level have been included in the result of continued operations in 2010.
A stringent approach to spending is to be practiced in all areas incurring costs, such as marketing, research and development, general administration (cost centers), particularly as regards buying in external services.

**Management and control no longer based on the former line of business structure**

As a logical consequence of the sale of the ECM business, and given the advanced stage of integration and joint realignment of the DCI/IdM segments, the decision was made to change the former separation of the business segments and to adopt a functional organization structure.

The new profit centers were set up based on the revenue types of (software) licenses, maintenance and services. The introduction of statements of operating results and transparent netting processes for each of these profit centers has been planned over the course of the fiscal year 2011. This measure is likely to have an impact on the form and content of the future operating segments. Reporting on the operating segments in the fiscal year 2010 reflects the former structure of the former lines of business (DCI/IdM) to provide a better basis for comparison.

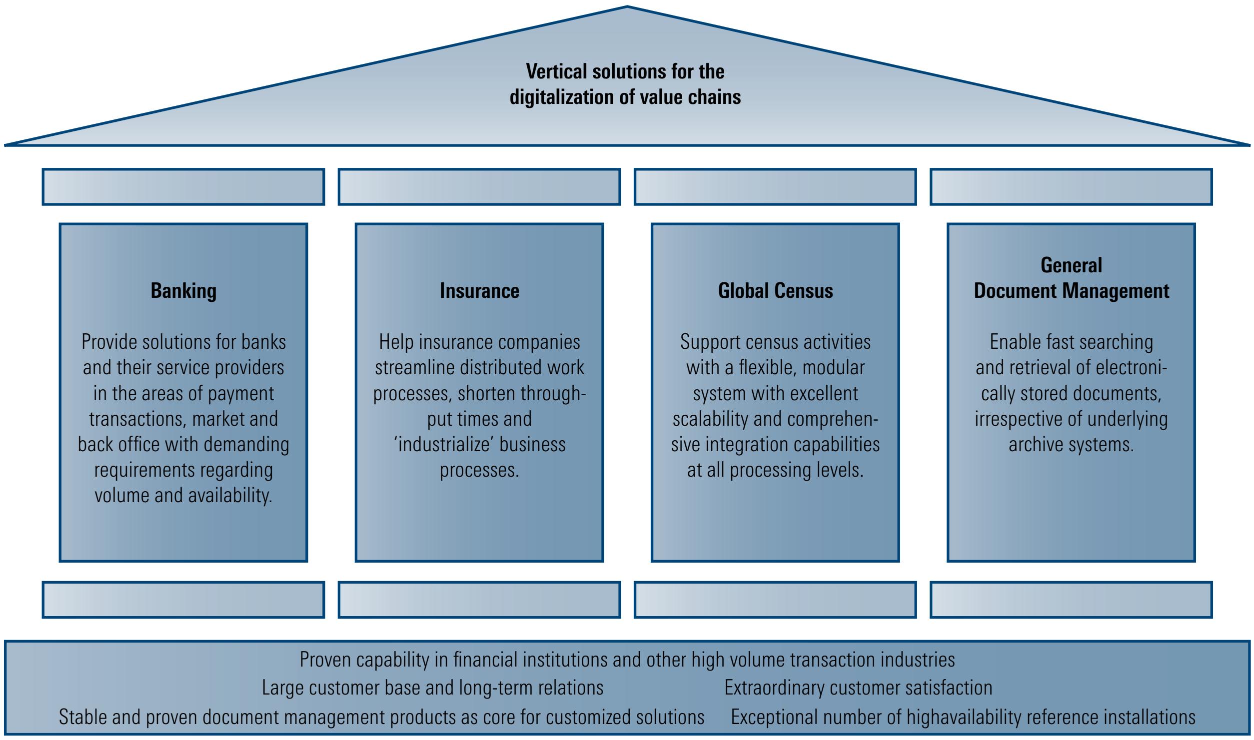
In addition, Beta Systems is also investigating the option of adjusting external reporting formerly based on the cost-of-sales method to the total cost method and will apply the outcome of these deliberations at an appropriate time to external reporting over the course of the year. The aim behind this measure is to improve transparency, particularly as regards the presentation of the cost types.

**New appointment at Management Board level and new Supervisory Board elections**

In its meeting on July 16, 2010, the Supervisory Board of Beta Systems Software AG appointed Jürgen Herbott to the position of new Chief Executive Officer (CEO) of Beta Systems Software AG effective July 19, 2010. Moreover, the Supervisory Board renewed the contract of Gernot Sagl, Chief Financial Officer (CFO), in the same meeting.

The regular Annual General Meeting of the shareholders of Beta Systems Software AG, which took place on August 17, 2010, in Berlin, elected Dr. Günter Lewald, Mr. Stephan Helmstädter, Mr. Herbert Werle and Dr. Carsten Bräutigam as new members of the Company's Supervisory Board by a large majority and way of votes cast on an individual basis. Dr. Günter Lewald was elected to the office of Chairman of the Supervisory Board in the subsequent constituent meeting of the new Supervisory Board. Mr. Stephan Helmstädter is the new Vice Chairman of the Supervisory Board. Other members of the Supervisory Board are Mr. Stefan Hillenbach and Mr. Peter Becker who were elected by the employees as their representatives for the new period of office prior to the Annual General Meeting of Shareholders.

**1.3. Current software and solutions portfolio**




Continued operations, comprised under the infrastructure business, combine the strengths of Beta Systems into extensive product lines used to promote efficient and secure IT processes. The focus is on solutions in the areas of Data & Document Processing, with the main brands of Beta 91 Agility, Beta 92 Agility, Beta 93 Agility, Beta UX, LDMS and DoXite, and solutions for Security & Compliance, with the main brands of SAM Enterprise Identity Manager, SAM Jupiter and Beta 96 Enterprise Compliance Auditor. The software and solutions portfolio can therefore be roughly divided into two areas which, in future, will be developed, marketed and sold more vigorously as integrated product suites under the overarching aspect of governance, risk management and compliance (GRC).

- **Data & Document Processing: secure and efficient information management in data centers and highly efficient document processing:**
  In this segment, Beta Systems offers its customers standard products, consultancy services and operational support services for companywide data center activities as a fully integrated, end-to-end service from one source. The range of software and solutions also provide security in the capturing, processing, availability, distribution and archiving of business-critical document-based information.

- **Security & Compliance: secure and efficient user management as well as comprehensive management of legal and regulatory requirements:** Beta Systems' software and solutions enable the administration of all IT users and the securing of access to systems and resources. The Beta Systems security product portfolio facilitates the automation of all critical processes in IT user administration. In addition, the compliance products of Beta Systems support the implementation of companywide guidelines and compliance with legal and business requirements at a domestic and international level.

**1.4. Economic environment**

Beta Systems operates in highly competitive domestic and international markets and has established business relationships with global players, large corporations, organizations and mid-sized companies in 38 countries. A major influence on Beta Systems' markets is therefore the development of the global economy. Moreover, the performance and success of the company is dependent on the economic and business trends in the regions where the Beta Systems Group is present.

The real global gross domestic product (GDP) expanded by 3.8% in 2010 (estimate of IHS Global Insight). According to the Kiel Institute for the World Economy (IfW), the global economy has entered a phase of moderate growth following the Big Recession. This growth phase is likely to persist throughout most of 2011, albeit with slowing momentum.

Following the crisis, the German economy experienced a swift upturn in 2010 and expanded rapidly again in 2010. Price-adjusted GDP climbed by 3.6%, which is the strongest growth rate posted since unification (DESTATIS press release dated February 15, 2011). In 2010, GDP in the eurozone and in the USA climbed by 1.7% and 2.8% respectively as against the previous year. (Eurostat press release dated March 3, 2011).

In January 2011, the Center for European Economic Research (ZEW) was anticipating a continuation of the dynamic economic uptrend as investments in Germany and abroad have picked up again. At the end of 2010, the Kiel Institute for the World Economy was also still predicting a very dynamic economic recovery in Germany. It expects this development to hold steady in the next two years, with momentum nonetheless initially slowing. The reasons cited include, for instance, a dampening of export activities which is initially likely to significantly brake German production despite robust domestic demand.
Furthermore, against the backdrop of the strong expansion in 2010 and the generally very favorable outlook for the next two years it should nonetheless not be forgotten that, on the one hand, the consequences of the crisis on the real economy are still great and that, on the other, global economic conditions are still in uncharted waters. The Kiel Institute for the World Economy predicts a GDP growth of 2.3% in Germany in 2011 (2012: 1.3%), of 1.3% in the eurozone (2012: 1.3%), and of 2.5% in the USA (2012: 3.0%).

**Trends in the market environment**

Even after the last throes of the economic crisis have tailed off, our customers will still be undergoing a process of consolidation, for instance in the financial services sector, and, at the same time, all industries will remain under great pressure to contain costs. These processes continue to give rise to demand for software which concentrates on adjusting business processes, IT systems and organizations, also in the context of consolidations. As before, the Management Board anticipates that the demand for infrastructure software will hold steady in the coming years as well, driven first and foremost by the pressure exerted on customers from costs and compliance.

According to the IDC (International Data Corporation), many companies in Germany began to invest more again in their IT on the back of brightening sales and earnings prospects in 2010. Information released by the German industry Association BITKOM also shows that 2010 was also a pleasing year for the ITC (Information Technology and Telecommunications) sector. Furthermore, the figures suggest that this is likely to be the case in 2011 as well. The association reports that expectations for sales in the coming year are a similarly positive right across all sub-segments of the industry. Right at the top of the list are services and software. This also corroborates the strategy of Beta Systems which, along with the sale of software licenses, will concentrate primarily on raising service revenues in the future.
According to BITKOM, the German ITC sector generated an increase in revenues of 1.4% to € 141.6 billion. In 2011, the association anticipates an overall market growth of 2.0% to € 144.5 billion. The market for software and IT services (10.3% and 22.6% respectively of the overall market) has achieved a trend reversal from -4.4% in the previous year to 1.7% in 2010, which is an increase to € 46.7 billion.

The European Information Technology Observatory (EITO) assumes that the ITC market will expand again throughout Europe in 2011. Revenues for hardware, software and IT services are set to grow by 3.9% to € 314 billion. EITO sets pan-European growth in the ITC market at 1.5%, which is an increase to € 715 billion.

Beta Systems regards the ongoing process of concentration in the European economy as an opportunity of winning major enterprises as customers and of offering them new and/or extended licenses. Also in respect of the consolidation processes within conglomerates, such as combining the IT infrastructures of parent companies and subsidiaries or large companies hiving off IT infrastructures to external IT providers (outsourcing), Beta Systems believes it has an advantage over other competitors owing to its extensive portfolio and the fact that it is a mid-sized company which can react flexibly while still retaining its customer proximity.

IDC analysts predict an increase in global IT spend from US$ 1.5 billion to US$ 1.6 billion in 2011. Large software companies were again releasing positive guidance for 2011 and, similar to 2010, assume growth in revenues and profits in 2011.

Beta Systems Software AG ranks among Germany's leading mid-sized standard software companies. According to the IDC, more money was invested worldwide in standard software in 2010 (US$ 304.8 billion) than in 2009 (US$ 293.6 billion). Growth has been estimated at US$ 321.2 billion in 2011. In 2010, expenditure in standard software resumed its growth path in Western Europe as well and posted US$ 86.7 billion (2009: US$ 84.8 billion). The IDC expects this figure to rise to US$ 90.2 billion in 2011.

The global spend on IT services is set to grow according to the IDC. More funds were invested worldwide in standard software in 2010 (US$ 574.7 billion) than in 2009 (US$ 565.4 billion). In 2011, analysts estimate growth at € 595.9 billion. In Western Europe, however, the IDC indicates that investments stagnated at US$ 203.9 billion (2009: US$ 203.7 billion) but anticipates an increase to US$ 208.1 billion in 2011. Germany is the country where the IDC believes the demand for IT services will be strongest.

BITKOM identifies cloud computing and IT security, among others, as the most important IT trends in 2011. These topics and technologies also form the focal point of the product and solution strategies of Beta Systems. Customers are to be given the opportunity of adjusting the way in which their software is used more closely to their needs, thereby making it even more safer and efficient. Among other things, this approach also leads to new pricing models based on the expected scope of use.

The market research company Gartner anticipates global revenues of US$ 16.5 billion (+11.3%) in the global market for IT security in 2010. According to the IDC, software expenditure is set to rise in the coming years in Germany as there will also be a demand for IT security solutions and for solutions which automate business processes. It reports that investments will, however, be made first and foremost in IT security as special attention will be paid to securing company data. The IDC expects software spend to rise by an average 4.4% in the years from 2009 to 2014. Around a quarter of the investments in software will be made in system infrastructure software. Despite the crisis, this segment recorded as slight increase in 2010. One of the reasons for this increase was the aforementioned demand for IT security solutions which will boost the market in the years ahead.

Beta Systems' strategy has also been geared to servicing rising demand for infrastructure software in the coming years, driven primarily by customers being under pressure to curb costs and ensure compliance. With this in mind, the Company develops and markets software products and solutions which secure governance, risk management and compliance (GRC) in its customers' IT environments.

**1.5. Strategic guidelines**

**Key components**

Beta Systems' strategy takes account of the expectations of different target groups and stakeholders: shareholders providing equity, banks providing external funds, employees and customers. The aim is to achieve a balance between these different interests so that sufficient funds can be made available for investments in an attractive software and solutions portfolio delivering great benefit to the customer, for a redimensioning of the organization structures in a socially responsible way which takes account of the individual circumstances of our employees, and for repayment of loans to lending banks as well as a sustainable increase in enterprise value for our investors.

The Company's strategic decision to separate from the ECM business marked the start to its extensive repositioning initiated in the second half of the fiscal year. Beta Systems' intention is to secure its good position through this measure as one of the few independent mid-sized infrastructure software and technology solution suppliers in Europe. The main objective in the years ahead is now to gradually lift sales from their low level in order to secure positive results and margins and, ultimately, to create sustainable value for investors, customers and employees.

The strategic guideline in the development of the Company is an innovation and acquisition strategy, adjusted to the new parameters which, along with in-house innovations and co-innovations with customers and partners, envisages acquisitions in the narrower market environment at a later point in time.

The focus of the Company's future strategic alignment is first and foremost Security & Compliance and GRC where it aims to offer customers solutions for managing and controlling risks, complying with legal provisions and improving systems, processes and workflows in corporate IT. In order to facilitate an integrated, transparent and efficient Security & Compliance management geared to business requirements from one source and to keep costs down, these GRC solutions are to be linked up with data sources from Beta Systems' Data & Document Processing systems as well as with applications from other software manufacturers and the customer's own systems.

**Priority given to cash flow and profitability over revenue growth**

Following the sale of the ECM business and the providing of administrative services agreed through to the end of the fiscal year 2010, a decision was made based on in-depth analysis to realign the business model and redimension the Company. Along with the permanent stabilization of long-term cash flows from recurring revenue types, the aim of this measure is to optimize costs and considerably lower breakeven point against the background of the new size of the Company.

**Changed priorities in the business model**

Accordingly, the business model will now be weighted in favor of recurring, sustainable license and maintenance revenues as well as building up the services business for initial operation, adjustment and consultancy in respect of the solutions delivered.

The market and customer trends described in Section »1.4. Economic environment«, such as cloud computing, software-as-service or on-demand solutions for instance, which are being strongly promoted by all the large technology and platform manufacturers in the field of corporate software, examples being IBM, SAP or Oracle, and also by large users, give the customers of Beta Systems the opportunity of adapting the way in which they use software more adequately to their needs. In order to achieve a more even and usage-dependent cost burden, many customers are following the trend of preferring flexible, modular, subscription-based usage and pricing models to high, one-off investments for software licenses. Beta Systems will have to take these developments into account in its business model in order to put the company on a secure footing in the long term. Here, considerably more importance will be accorded to securing the future customer base in the form of ongoing, recurrent orders placed for licenses and maintenance as well as to long-term stability of margins and cash flows.

**Raising service revenues and service margins**

As part of its realigning, Beta Systems will also be placing emphasis on raising service revenues and service margins generated through IT solutions which are deployed to monitor customer IT environments. The first step in this process will be to concentrate all service activities in order to structure this business into an independent profit center. The new service department is responsible for pricing within its organization structure and will, in addition, be subject to new reporting channels. In addition, Beta Systems will be striving to consistently optimize its maintenance and service offerings and its price structures in line with the market. Less profitable service revenues will be waived in the future.

**Optimization of sales activities**

As part of optimizing its business model, Beta Systems will also be concentrating on improving its sales activities with existing customers to the greatest extent possible. Moreover, at the same time, the Company will forge ahead with initiatives to release additional potential – aside from the existing customer base – in business with mid-sized companies as well as outside the classical market of mainframe-based data centers in the uninterrupted rise of the open systems market. More information is included in Section »2.3. Performance of the Lines of Business (LoBs)«.

**Targeted in-house product innovations**

A key component in the strategy to guarantee a product portfolio fully in line with market and customer requirements, as described above, while, at the same time, ensuring high quality standards, is the targeted consistent development of in-house products despite the restructuring and reorganization envisaged. More detailed explanations are given in Section »9. Research and development«.

**External add-ons to the portfolio**

External add-ons to the portfolio will only be supported if these products serve to supplement the existing portfolio on a sustainable basis and the Company can anticipate clear growth opportunities. In the past, the portfolio was optimized through the targeted acquisition of smaller profitable companies or through partnerships. More information can be found in Section »2.5. Partnerships«.

**Separation from unprofitable portfolio components and non-core activities**

Against the backdrop of the sale of the ECM business, it also became necessary to review the remaining portfolio of Beta Systems and to adjust it to the new circumstances to secure profitability. Part of this process was the disposal of non-core activities and unprofitable sales partnerships, such as with UC4, Proginet and isonet.

That revenues would decline accordingly was deliberately taken into account by the Management Board.

**Geographical expansion**

The Beta Systems Group generates a large part of its revenues in Germany, Austria and Switzerland (known as the D-A-CH region) and in the Rest of Europe. In the fiscal year 2010, the share of business in Germany in the total revenues of the Beta Systems Group therefore came to around 50% and 41% in the Rest of Europe. Beta Systems intends to step up its business activities in Europe, particularly through the aforementioned cross-selling and up-selling activities involving new products to existing customers, as there are good opportunities for growth thanks to the Company’s sound market presence and promising market position. Moreover, the Beta Systems Group plans to reinforce its presence and shape business profitably long term in South America and in the Middle East. More information is given in Section »2.5 Partnerships«. Expanding to other regions of the world is currently not part of strategic deliberations.

At the same time, the Company's own network of international sales enterprises is subject to ongoing review and less profitable sales activities in the company's have been terminated.

## 2. BUSINESS PERFORMANCE

The spin-off and sale of the ECM business and the subsequent start to the process of reorganizing and restructuring the Company were factors influencing the course of business of Beta Systems Software AG and its results to varying degrees, both positive and negative, in 2010. Against the backdrop of the overall outcome of these overlapping effects, the Group closed the fiscal year 2010 with a consolidated net income of € 0.8 million, including all income components from continued and discontinued operations. The separate financial statements of the Company, drawn up under the German Commercial Code (HGB), also disclose an annual net income of € 1.2 million. Key factors of influence were the non-recurrent effects from the ECM disposal, provisions formed for reorganization and restructuring, and a decline in the revenues of continued operations.

### 2.1. Sale of Beta Systems ECM Solutions GmbH

On June 3, 2010, Beta Systems Software AG announced the sale of its Enterprise Content Management (ECM) business to the BancTec Group. The respective purchase agreement for the takeover of 100% of the shares in Beta Systems ECM Solutions GmbH, Augsburg, was concluded with BancTec GmbH, Langen, and BancTec, Inc., Dallas, Texas/USA, on the same day. At the same time, the assets assigned to this segment in the USA and Austria were sold to the BancTec Group.

The sale had a great impact on the earnings, financial and asset position and their presentation in the combined financial statements of the fiscal year 2010. The divestment of the ECM business in accounting and organizational terms from the Beta Systems Group took economic effect on May 31, 2010/June 3, 2010. For a transition period up until the end of 2010, both companies signed a shared services agreement for administrative services in order to ensure a smooth transfer to the new owner for customers, suppliers and employees.

For more information on the sale of the ECM solutions business and the effect on the strategic alignment of the Beta Systems Group as well as the earnings, asset and financial position in 2010, we refer to Section »1.2. Spin-off and sale of ECM solution business marks the turning point in the Company's development« and to Section »2. Discontinued Operations Enterprise Content Management (ECM)« in the Notes to the Combined Financial Statements.

### 2.2. Restructuring and reorganization

The sale of the ECM business to the BancTec Group ushered in the aforementioned repositioning of Beta Systems as an infrastructure software provider. More detailed explanations on the measures taken as part of restructuring can be found in Section »1.2. Spin-off and sale of ECM solution business marks the turning point in the Company's development« and Section »2. Discontinued Operations Enterprise Content Management (ECM)« in the Notes to the Combined Financial Statements.

One of the decisions made in deliberations on optimizing the cost basis and the context of redimensioning was the scaling back of up to 20% of jobs in Germany and abroad. The relevant meetings and discussions are expected to have been concluded in the first quarter of the fiscal year 2011. The respective provisions of € 4.6 million have been included in the result of continued operations in 2010. More detailed explanations on the personnel measures can be found in Section »1.2. Spin-off and sale of ECM solution business marks the turning point in the Company's development« and Section »2. Discontinued Operations Enterprise Content Management (ECM)« in the Notes to the Combined Financial Statements.

**2.3. Performance of the Lines of Business (LoBs)**

As described above, business performance will be explained in line with the former structure of the Beta Systems Group which accorded with the two DCI and IdM Lines of Business.

| | Q1–Q4/2010 | | | Q1–Q4/2009 | | | | |
|---|---|---|---|---|---|---|---|---|
| Operating segments in k€ | DCI | IdM | Total | DCI | IdM | Total | ECM (discontinued operations) | Total incl. discontinued operations |
| | | | | | | | | |
| Total revenues | 37,520 | 10,122 | 47,642 | 39,535 | 12,725 | 52,260 | 28,846 | 81,106 |
| | | | | | | | | |
| Cost of revenues and operating expenses of the operating segments | (21,652) | (10,391) | (32,042) | (22,147) | (9,860) | (32,007) | (27,535) | (59,542) |
| Segment income (loss) for the year | 15,868 | (268) | 15,600 | 17,388 | 2,865 | 20,253 | 1,311 | 21,564 |

**DCI (Data Center Infrastructure)**

The DCI LoB made a positive contribution to profit and closed the fiscal year 2010 with revenues of € 37.5 million (2009: € 39.5 million) and a segment income of € 15.9 million (2009: € 17.4 million). There was a marginal increase in revenues from software licenses and services as opposed to maintenance revenues which declined in 2010. The DCI segment result also fell as a result of this downturn in revenues.

| DCI revenues in k€ | 2010 | 2009 |
|---|---|---|
| | | |
| Product licenses | 18,020 | 17,780 |
| Maintenance | 16,665 | 19,145 |
| Services | 2,835 | 2,610 |
| Revenues | 37,520 | 39,535 |

In recent years, the DCI LoB has operated in a generally stagnating market environment, as sales in this business were generated first and foremost from the mainframe business. The process of concentration and consolidation (also in the banking sector) was turned to the advantage of the Company's license business through taking over from competitors or through add-ons installed in existing installations.

In the year 2010 there were many software releases and updates of existing products. Moreover, 2011 will see the development of new product generations through which Beta Systems will do justice to its leading position in the market as an innovative company specialized in data center solutions. The research and development costs remained at a constant level in the DCI LoB.

In the context of consultancy projects in the DCI LoB, numerous competitor products were replaced through migration to Beta Systems products in 2010 as well. Moreover, the first projects in the scheduling environment were realized in the period under review. In addition, customers were offered solutions specially tailored to their requirements. Alongside classical Beta products, cross-selling activities also included the placing of LDMS (SI Software Innovation GmbH) and DoXite (DETEC Software Products GmbH), products purchased through acquisitions in recent years, with customers.

**Optimization of sales activities**

Collaboration between the DCI and IdM LoBs has been stepped up in recent years to release synergy effects. The integration of these two businesses has meanwhile reached an advanced stage, enabling them both to be jointly realigned in the future.

Both LoBs are already in the process of jointly streamlining their sales activities. As part of optimizing the business model, Beta Systems will concentrate initially on its current customer base and strive to achieve a higher proportion in the IT budget of its long-standing existing customers (cross- and up-selling activities). The Company's intention is to forge ahead with selling from its product portfolio, supplemented in recent years also by acquisitions, to new and existing customers. Beyond this, there is additional potential with mid-sized companies and outside the classical market of mainframe-based data centers in the open systems market. In this business, activities will focus on products such as DoXite, SAM or Beta UX, all customized in-house to suit the markets.

In 2010, new or extended contracts were signed in the DCI LoB with the following customers: HUK Coburg Versicherungsgruppe (financial services provider, Germany), Codan Forsikring A/S, (financial services provider, Denmark), T. Garanti Bankasi A.S. (financial services provider, Turkey), KfW Bankengruppe (financial services provider, Germany), SIA-SSB Spa (financial services provider, Italy), Casino Services SAS (financial services provider, France), Allianz Managed Operations & Services SE (IT services provider, Germany), Hessische Zentrale für Datenverarbeitung (IT services provider, Germany), Leoni AG (automotive supplier, Germany), rku.it GmbH (IT services provider, Germany), SIV AG (IT services provider, Germany) and PNC Bank Corp. (Financial services provider, USA).

**IdM (Identity Management)**

In the fiscal year 2010, the IdM LoB generated revenues of € 10.1 million (2009: € 12.7 million), which is a slight decline (€ -0.3 million; 2009: € 2.9 million). Total revenues fell given the lower level of software revenues.

| IdM revenues in k€ | 2010 | 2009 |
|---|---|---|
| | | |
| Product licenses | 2,201 | 4,370 |
| Hardware | 89 | 129 |
| Maintenance | 3,824 | 4,286 |
| Services | 4,008 | 3,940 |
| **Revenues** | **10,122** | **12,725** |

Beta Systems developed new market and customer-oriented versions of the IdM products in 2010, partly within the LoB and partly through development teams working across different locations. The Company was thus able to present the current version of SAM Enterprise Identity Manager at the end of 2009. In addition, the SAM Business Process Workflow was completed through a partnership in the fiscal year ended. Despite the development of new product versions, research and development expenses in the IdM LoB also remained at the same level.

The focus of IdM in service projects carried out in 2010 was upgrading to the new SAM Enterprise product generation in the installations of a number of large existing customers.

As already described above in respect of the DCI LoB, further progress has been made stepping up collaboration between the IdM and the DCI LoBs and both businesses will be structuring their future sales activities in particular together.

Successful sales activities of the IdM LoB include contracts signed with a major international Portuguese bank (financial services provider, Portugal), Fortis Banque NV (financial services provider, Belgium), and Bank Leumi (Switzerland) AG (financial services provider, Switzerland).

**2.4. Focus on sector and best/good practice solutions and services**

The IT processes in the largely heterogeneous and highly efficient IT environments of customers in a wide variety of sectors and dimensions can be monitored cost-effectively and securely by Beta Systems products based on solutions comprised in the software portfolio and numerous modular add-ons and customized modifications. Based on the strong backing of a powerful service organization with a wealth of extensive experience from many customer projects, sector-specific and best/good practice solutions (i.e. tried-and-tested practices and sample solutions, for instance for electronic personnel or customer files, energy utilities billing, IT compliance in banks, IT security in shipbuilding), can be delivered to our customers.

Beta Systems is therefore concentrating on raising service revenues and service margins generated through business with these solutions. More information can be found in Section »1.5. Strategic guidelines«.

**2.5. Partnerships**

In the preceding fiscal years, Beta Systems entered into technological partnerships with global IT players such as IBM, Microsoft, SAP, Oracle, HP, Sun, Novell, to name a few, which were continued and stepped up in the fiscal year 2010. These partnerships enable Beta Systems to offer its customers powerful software solutions which always reflect cutting-edge technology. Furthermore, they also give the Company access to the development laboratories and test versions of the latest products before they are brought to the market.

A new addition to the group of technological partners is RedHat. Partnership with this company will enable Beta Systems to make test and development environments based on Linux available to the two market leaders.

Since the end of 2010, Beta Systems has delivered proof of its expertise in the field of security through Microsoft's »Identity and Security« Silver Competency level.

Beyond this, Beta Systems initiated other new partnerships in 2010. At the start of 2010, the Company made a strategic investment in its Security portfolio by taking over the rights to rolmine from ipg AG. In addition, Beta Systems will also be using the workflow management system of partner company WJ&P Systemhaus AG for its SAM Business Process Workflow. Also at the start of 2010, the Company's data processing was supplemented through the takeover of the global distribution rights for APX/PCC, a product of APM-Software GmbH.

Towards the end of 2010, Beta Systems and ATICS GmbH stepped up their cooperation in the Unix environment. Accordingly, ATICS GmbH's IT Consultancy will distribute Unix-based products of Beta Systems Software AG under a reseller agreement. The focus of collaboration is on Beta solutions for archiving job logs and output management for distributed systems.

Moreover, the Beta Systems Group plans to reinforce its presence and shape business profitably long term through cooperations in South America and in the Middle East. To this end, the Company signed a partnership agreement with software supplier Eccox Technology S.A. based in Brazil which will take over the sale and distribution and support for SAM Enterprise Identity Manager in South America. Back at the start of 2010, a partnership with Al-Falak Electronic Equipment & Supplies Co. as Beta Systems' new distributor in the Middle East entered into force. Al-Falak has taken over the marketing, sale and distribution of the IT infrastructure and security solutions in the Kingdom of Saudi Arabia, the United Arab Emirates as well as in Bahrain, Qatar and Kuwait. The first sales projects resulted from these two partnerships in 2010.

## 3. EARNINGS, FINANCIAL AND ASSET POSITION

### 3.1. Earnings position of the Beta Systems Group

The explanations set out in the following sections pertain to the continued operations.
Explanatory notes on discontinued operations have been included in the Combined Statement of Income under the »Net income (loss) of discontinued operations for the fiscal period, including result recognized on the disposal of the discontinued operations (post-tax)« item. The Combined Statement of Cash Flows comprises explanatory notes on continued and discontinued operations.

In the fiscal year 2010, Beta Systems generated revenues of € 47.6 million (2009: € 52.3 million) and earnings before interest and tax (EBIT) of € -3.5 million (2009: € 2.4 million). EBIT adjusted for reorganization and restructuring expenses (EBIT net of special items) came to € 1.0 million. Net result for the year stood at € 0.8 million (2009: € 1.2 million).

**Development of revenues**

The decline in revenues of € 4.6 million in comparison with the year-earlier figure was attributable, among other factors, to the termination of the distribution partnership with UC4 Software GmbH, Wolfsgraben, Austria, which meant that, as opposed to the fiscal year 2009, no revenues were generated from this source (revenues through UC4 in 2009: € 1.9 million). Along with UC4, other less profitable distribution partnerships were terminated. A further key factor of influence was the start to the gradual realignment of the business model in 2010 to reflect current market and customer requirements, described in Section »1.5. Strategic guidelines«. Moreover, the reticence of a number of customers to place orders or delays in decisions on major projects in the first half of 2010 caused revenues to fall sharply. Compensating this decline over the remainder of the year was not possible. The aforementioned effects resulted in a downturn in software license and maintenance revenues. Revenues generated by services, however, rose slightly in 2010 comparison with a year ago. An explanation of the development of revenues by segment is included in the Operating segments section as part of the Notes to the Combined Financial Statements. For the sake of comparability, figures have been classified according to revenue type and compared with the previous year's figures:

| Revenues of the Group | 2010 | 2009 | Change in k€ | Change in % |
|---|---|---|---|---|
| | | | | |
| Product licenses | 20,222 | 22,150 | (1,928) | (8.70)% |
| Hardware | 89 | 129 | (40) | (31.01)% |
| Maintenance | 20,489 | 23,431 | (2,942) | (12.56)% |
| Services | 6,842 | 6,550 | 292 | 4.46% |
| **Revenues** | **47,642** | **52,260** | **(4,618)** | **(8.84)%** |

**Development of gross profit**

The cost of revenues dropped to € 17.9 million in 2010 (2009: € 20.5 million) on the back of a decline in royalty expenses for license and maintenance (UC4 effects: € 0.9 million). A reduction in personnel costs also contributed to the lower cost of revenues.

The lower level of revenue costs was largely able to cushion the downturn in revenues in 2010. As a result, although gross profit fell by € 1.9 million in the reporting period, the equivalent of 6.1%, to € 29.8 million, measured against revenues (gross profit margin) it climbed to 62.5% (2009: 60.7%).

| Development of gross profit | 2010 | 2009 | Change in k€ | Change in % |
|---|---|---|---|---|
| | | | | |
| Revenues | 47,642 | 52,260 | (4,618) | (8.84%) |
| Cost of revenues | 17,866 | 20,548 | (2,682) | (13.05%) |
| Gross profit to sales | 29,776 | 31,712 | (1,936) | (6.10%) |
| Gross profit margin | 62.50% | 60.68% | | |

**Development of operating expenses and income**

Operating expenses and income rose to € 33.3 million in the reporting year (2009: € 29.3 million), a development mainly due to the increase in other expenses and, in addition, higher general administration expenses. This was offset by lower selling expenses, research and development expenses which remained virtually unchanged and higher sundry income. Measured against revenues, operating expenses and income climbed to 69.9% (2009: 56.1%).

The increase in other expenses, and thus of operating expenses and income overall, was the result of costs of € 4.6 million incurred by reorganization and restructuring.

Excluding these costs, operating expenses and income fell by € 0.5 million in a year-on-year comparison. The ratio of operating expenses and income to sales revenues came to an adjusted 60.4%.

The increase in general administration expenses came to € 6.6 million (2009: € 5.9 million) and comprises consultancy fees for the spin-off of the ECM LoB as well as for the reorganization and for general legal advice in conjunction with litigation. Personnel expenses also declined in this area (employees as per December 31 respectively: 2010: 55 employees; 2009: 73 employees).

Selling costs fell appreciably, by € 0.8 million, the equivalent of 5.4%, to € 14.4 million due to lower internal and external commission (2009: € 15.2 million). There was a decrease in personnel expenses owing to this effect (employees as per December 31 respectively: 2010: 179 employees; 2009: 170 employees).

Research and development expenses remained unchanged at € 9.1 million (2009: € 9.1 million). In this area, personnel expenses dropped in comparison with a year ago (employees as per December 31 respectively: 2010: 113 employees; 2009: 121 employees).


[IDENTITY MANAGEMENT]

Sundry income comprised income of € 0.8 million from the providing of services under the shared services agreement with the BancTec Group.

**Earnings before interest and tax (EBIT)**

Over the year under review, EBIT declined to € -3.5 million (2009: € 2.4 million). EBIT adjusted for expenses for reorganization and restructuring of € 4.6 million (EBIT net of special items) stood at € 1.0 million and, accordingly, EBITDA net of special items came in at € 3.9 million.

**Financial result**

The financial result, which posted € 0.1 million, remained virtually unchanged from the year-earlier figure (2009: € 0.2 million). Interest and similar expenses also remained at an almost constant level. Although, in the second half of 2010, the average utilization of credit lines, and thus interest expenses, was reduced considerably to below the level of 2009, the appreciably higher average drawdowns in the first half of 2010 in comparison with the year-earlier period resulted in a countereffect in interest expenses. Here account must be taken of the fact that utilization in an amount of € 14.9 million at the start of 2010 was above the initial figure of 2009 (€ 8.8 million).

*Having a good feeling about traveling because the airline has used Beta Systems to secure access rights to its business applications.*

**Net result for the year and income taxes**

Earnings before tax (EBT) from continued operations declined considerably by € 6.1 million to € -3.4 million in 2010 (2009: € 2.7 million) which was attributable to € 4.6 million in expenses for restructuring and reorganization.

Income taxes stood at € 0.1 million in 2010 (2009: € -0.7 million). The result of continued operations (after tax) posted € -3.4 million (2009: € 2.0 million).

Disposal proceeds (before tax) came to € 5.6 million in the fiscal year 2010. The result of the discontinued line of business, including proceeds from the disposal of discontinued ECM operations (net of transaction costs and taxes) and performance up until May 31, 2010/June 3, 2010, amounted to € 4.2 million (2009: € -0.8 million).

Profit for the fiscal year 2010 resulting from the aforementioned income components came to € 0.8 million (2009: € 1.2 million).

Earnings per ordinary share from continued operations stood at € -0.26 (2009: € 0.15 per share). Earnings per share, including all the aforementioned income components posted € 0.06 (2009: € 0.09 per share). The weighted average number of shares outstanding came to 13,168,304 shares in the fiscal year 2010.

**3.2. Financial and asset position of the Beta Systems Group**

The balance sheet total contracted to € 70.3 million (2009: € 77.0 million). A closer look at the Statement of Financial Position and the Statement of Cash Flows shows the following development:

On December 31, 2010, Beta Systems disclosed cash and cash equivalents in an amount of € 1.2 million (2009: € 1.9 million).

The cash flows shown below pertain to Beta Systems as per December 31, 2010, with discontinued operations included up until May 31, 2010/ June 3, 2010.

| Net cash in k€ | 2010 | 2009 | Change in k€ |
|---|---|---|---|
| | | | |
| … from operating activities | 67 | (3,120) | 3,187 |
| … provided by (used in) investing activities | 4,302 | (2,291) | 6,593 |
| **Free Cash flow** | **4,369** | **(5,411)** | **9,780** |
| | | | |
| … provided by (used in) financing activities | (5,131) | 5,661 | (10,792) |
| **Increase (decrease) in cash** | **(763)** | **250** | **(1,013)** |

The cash flow from operating activities rose to € 0.1 million (2009: € -3.1 million). The improvement was mainly attributable to the lower cash outflow from the discontinued ECM LoB. The balance of cash flow from operating activities climbed by € 3.8 million. This was offset by a decline in the cash flow from operating activities in continued operations, which came to €-1.0 million in 2010 in comparison with the year-earlier figure of € -0.4 million. This development primarily reflects the unsatisfactory business situation of the first three quarters of 2010.

The cash flow from investing activities was positive in 2010 in comparison with the year-earlier period, mainly owing to the disposal of the ECM LoB. In the second half of 2010, the Beta Systems Group took receipt of € 7.6 million in proceeds from the disposal. In the context of the divestment of Beta Systems ECM Solutions GmbH, € 1.1 million in liquidity essential for operations was transferred to the purchaser. Payments were also made in connection with the purchase of rolmine from Swiss ipg AG, which came to € 0.6 million, and the last purchase price installment for the acquisition of the DETEC companies (€ 1.0 million) in February 2010.

All in all, free cash flow has therefore improved significantly in comparison with the previous year, rising by € 9.8 million to € 4.4 million.

In comparison with the previous year's period, the cash flow from financing activities in continued operations came to € -5.1 million in 2010 (2009: € 5.7 million) and, as against 2009, included a substantial reduction of € 3.6 million in short-term debt and of € 1.0 million in liabilities from finance leasing.

Drawdowns on credit lines at banks posted € 8.7 million as per December 31, 2010, compared with € 12.2 million a year ago. Credit lines granted stood at € 12.0 million on December 31, 2010, (2009: € 14.5 million).

Trade receivables declined slightly to € 39.4 million (2009: € 41.7 million). For more detailed explanations reference is made to the Notes to the Combined Financial Statements.

Assets of € 19.9 million (as of May 31, 2010/June 3, 2010), allocated to the ECM segment, were sold as a result of the disposal of the ECM business. These were offset by liabilities of € 10.1 million associated with these assets (as of May 31, 2010/June 3, 2010). The respective purchase price claim vis-à-vis the BancTec Group was disclosed under other current assets which rose significantly to € 10.4 million, up from € 3.2 million, as a result. Of the receivables still outstanding, which amounted to € 9.3 million on December 31, 2010, € 2.9 million were due and payable on the same date.

Non-current assets comprise purchase costs from finance leasing for a new IBM mainframe for development and test purposes (€ 1.5 million) as well as for the rolmine software acquired from ipg AG, Switzerland, in the first quarter of 2010 (€ 0.6 million).

Goodwill from continued operations remained unchanged. Other intangible assets and software product rights acquired declined owing to scheduled amortization. Deferred tax assets remained virtually unchanged from the previous year's level at € 7.7 million.

Current liabilities had declined by December 31, 2010, owing to the substantial reduction in short-term debt and other current liabilities. Short-term finance of € 9.7 million comprised the utilization of credit lines in an amount of € 8.7 million (2009: € 12.2 million), the short-term portion of the DETEC financing in an amount of € 0.7 million (2009: € 0.7 million), and finance leasing of € 0.3 million (2009: € 0.2 million). For more information on the maturity and interest rate structure of loans, reference is made to the Notes to the Combined Financial Statements.

Provisions comprise items for restructuring and reorganization totaling € 4.6 million and relate to provisions for expenses without effect on income from personnel-related measures and the associated consultancy expenses.

Current liabilities, however, fell by € 3.4 million through payment of the last DETEC purchase price installment to the former owners (€ 1.0 million) and lower personnel-related obligations.

Deferred income declined by € 2.2 million. This item includes amounts already invoiced for services from maintenance, consulting and service agreements to be rendered in the future. Revenues from the aforementioned invoiced maintenance services were recognized on an accrual basis.

Non-current Liabilities stood at € 11.8 million which is below the previous year's figure (2009: € 15.1 million). The scheduled redemption of loans resulted in a lower level of borrowing. By December 31, 2010, deferred tax liabilities had dropped to € 8.4 million, down from € 9.8 million on December 31, 2009.

Shareholders' equity advanced from € 29.7 million to € 30.2 million, and the equity ratio rose accordingly to 43.0%, up from 38.6%.

**3.3. Earnings, financial and asset position of Beta Systems Software AG**

Beta Systems Software AG (the Parent Company) is the holding company of the Beta Systems Group.
More information on the Group's structure can be found in Section »1.1. Background«. The Parent Company draws up its annual financial statements, which are published separately, in accordance with the regulations of the German Commercial Code (HGB).

A major factor of influence on the description of the asset, financial and earning position of the Company are the transactions explained in Section »1.2. Spin-off and sale of ECM solution business marks the turning point in the Company's development«.

In order to guarantee a basis for an informative comparison of the figures, the explanations which follow include percentage figures on the effects from the spin-off and sale of Beta Systems ECM Solutions GmbH. In addition, proceeds from the sale of the holding in Beta Systems ECM Solutions have been reported under extraordinary income in an amount of € 6.0 million.

The effects of restructuring and reorganization measures have been underscored with »of which« notes on personnel expenses and on earnings before tax.

To improve the informative value of the statement of financial position and the income statement the effects of the spin-off and the development in core business is shown below.

| **Development of revenues and result of the Parent Company AG in k€** | **2010** | **2009** | **Change** |
|---|---|---|---|
| | | | |
| Operating performance | 28,262 | 57,927 | (29,665) |
| Other operating income | 7,439 | 7,072 | 367 |
| Cost of materials and acquired service | (1,041) | (7,193) | 6,152 |
| Personnel expenses | (19,082) | (33,836) | 14,754 |
| *(Personnel expenses net of restructuring costs)* | *(15,369)* | *(33,836)* | *18,467* |
| Depreciation and amortization | (1,438) | (2,229) | 791 |
| Other operating expenses | (17,768) | (22,845) | 5,077 |
| Income from investments | 1,952 | 2,422 | (470) |
| **Interest income** | **(656)** | **(701)** | **45** |
| Earnings before tax | (2,332) | 617 | (2,949) |
| *Earnings before tax net of restructuring costs* | *1,381* | *617* | *764* |
| Extraordinary income | 6,027 | 0 | 6,027 |
| Extraordinary expenses | (1,256) | 0 | (1,256) |
| Taxes | (1,282) | (78) | (1,204) |
| **Net profit for the year** | **1,157** | **539** | **618** |

The operating performance is the sum total of sales revenues and changes in inventory. Income from investments is the result of income from holdings, income from profit and loss transfer agreements and from loans to affiliated companies, as well as financial assets impairment.

The operating performance as the sum total of sales revenues and changes in inventory declined from € 57.9 million to € 28.3 million. A proportion of around 90% of this change is attributable to the spin-off of Beta Systems ECM Solutions GmbH, with the remaining approximately 10% resulting from the decline in the sales revenues of core business. Major effects emanated from the termination of the distribution partnership between the Company and UC4 GmbH for the UC4 product effective January 1, 2010, which caused revenues to decline by € 1.3 million in a year-on-year comparison. Moreover, similar to the Group, the downturn in revenues was also attributable to declining license and service revenues in the IdM LoB.

Other operating income in 2010 pertains to the core business, as in the previous year. An increase of € 0.3 million was generated primarily from the higher level of shared services in respect of Beta Systems ECM Solutions GmbH.

Around 85% of the € 6.1 million decrease in the cost of materials is accounted for by the spin-off. The decline in the core business resulted primarily from the lower level of services and royalties for license and maintenance revenues with the UC4 software and termination of the distribution cooperation.

The Company's personnel expenses were almost halved through the spin-off. In contrast, the Company has recorded expenses for reorganization and the restructuring of € 3.7 million. As the main part of the workforce on December 31, 2010, was employed in the Company, this is where scaling back of jobs envisaged will affect employees most.

The lower level of depreciation and amortization is almost exclusively attributable to the spin-off.

Other operating expenses have fallen by 22% in the wake of the disinvestment. The increase in continued operations is primarily the result of higher costs for the new data center.

As in 2009, income from investments pertains to continued operations in the fiscal year ended. The contribution of the German subsidiaries to profit climbed by € 1.4 million to € 2.1 million. As regards the international subsidiaries, the Company has waived contribution in order to strengthen their equity bases in 2010.

Interest income remained at the year-earlier level despite the significant cash inflow from the disposal of Beta Systems ECM Solutions GmbH. The reason for this result might be significantly higher drawdowns on credit lines in the first half of 2010 in comparison with the previous year.

Extraordinary income comprises proceeds from the sale of Beta Systems ECM Solutions GmbH.

Along with costs of € 1.0 million incurred by the sale of Beta Systems ECM Solutions GmbH, extraordinary expenses include € 0.2 million in expenses from changes in the valuation of pension provisions in the context of implementing the German Accounting Law Modernization Act (BilMoG). The Company promptly recorded all differences from the statutory revaluation through profit and loss.

Taxes amounting to € 1.3 million result mainly from the spin-off and subsequent sale of the ECM LoB in accordance with the German Reorganization Tax Act (UmwStG).

In the aftermath of the aforementioned spin-off of the separable ECM business and the sale of Beta Systems ECM Solutions GmbH, non-current assets fell from € 25.1 million to € 22.2 million, mainly in connection with the disposal of goodwill worth € 3.0 million for the separable ECM business. This was the result of the business combination of Kleindienst Datentechnik AG with Beta Systems Software AG in 2005.

Similar to the Group, material changes in non-current assets in the fiscal year 2010 were constituted by the addition of the product rights for ipg AG's rolmine and the purchase of a new IBM mainframe (finance leasing).

The decline in inventories was almost exclusively attributable to the spin-off.

Receivables and other assets climbed by € 4.0 million. The sundry assets item comprises purchase price receivables vis-à-vis BancTec GmbH, Langen, amounting to € 9.3 million. The offsetting decline in trade receivables was due to the spin-off of Beta Systems ECM Solutions GmbH.

The sale of Beta Systems ECM Solutions enabled the financing of ECM operations to be dispensed with on the one hand, while, on the other, payments of € 7.2 million accruing to the Company from the sale were used specially for the purpose of reducing borrowings from banks.

All in all, along with three medium-term loans of € 1.5 million for financing the DETEC purchase price, there were revolving credit lines from three different banks in an amount of € 12.0 million (2009: € 14.5 million) available of which € 8.7 million had been utilized by the end of the reporting period.

Drawdowns were made on short-term credit lines to ensure the Company's liquidity. The granting of credit by the financing banks is contingent on certain financial ratios being fulfilled. Moreover, there is collateral to secure the credit lines in the form of a global assignment of trade receivables.

For more explanations on the financial position, reference is made to the explanations on the financial position of the Group. Given the size of the Parent Company in relation to the Group, the closely interlinked service interdependencies within the Group and the centralized treasury function, the financial position of the Group and of the Parent Company are similar.

Shareholders' equity grew to € 15.4 million, up from € 14.5 million, an increase resulting from the net income of the Company.

Provisions were raised by € 3.0 million based on tax provisions of € 0.9 million in connection with the sale of Beta Systems ECM Solutions GmbH and on provisions of € 3.7 million formed for restructuring and reorganization costs. The remaining portion is attributable to the spin-off.

The decrease in liabilities from € 23.2 million to € 15.7 million was caused first and foremost by the reduction in borrowings from banks. Repayments were made from payments received from the ECM disposal. Similar to the downturn in other liabilities, the decline in trade payables is connected with the spin-off of the separable ECM business.

### 3.4. Equity of the Company, result available for distribution and dividend

On the reporting date of December 31, 2010, the Company disclosed equity of € 15.4 million (2009: € 14.5 million). Given a net income of € 1.2 million, accumulated loss had been reduced from € -19.4 million in 2009 to € -18.2 million in the fiscal year 2010.

In 2010, Beta Systems Software AG did not pay any dividend for the fiscal year 2009. There will be no dividend distribution for fiscal 2010 either. If Beta Systems Software AG should generate accumulated profit in the coming years, the Management Board plans to review the possibility of paying dividends, taking into account the respective financial position and investment requirements.
The complete set of financial statements drawn up under the German Commercial Code can be viewed on the Company's website at http://www.betasystems.com/en under the Investor Relations/Financial Reports heading.

## 4. EMPLOYEES

The number of employees in the continued operations of the Beta Systems Group as per December 31, 2010, fell to 347 (2009: 364). The average number of employees in fiscal 2010 came to 352 (2009: 371 employees). At the end of the reporting period, the workforce by country was as follows: 275 employees in Germany (2009: 299), 37 employees in the rest of Europe, excluding Germany (2009: 35), 35 employees in North America (2009: 30).

On December 31, 2010, a proportion of 51.6% of the workforce (179 employees) were engaged in sales, marketing and services, 32.5% in research and development (113 employees) and 15.9% (55 employees) in administration.

Upon the sale of the ECM Line of Business, 277 employees in discontinued operations left the Company on May 31, 2010/June 3, 2010.

### Personnel expenses and remuneration structure

Personnel expenses declined by € 1.7 million to € 26.3 million, which corresponds to a reduction of 6.1%. This effect is spread across all areas of business. Beta Systems Software AG is not subject to any collective wage agreement. The remuneration of the employees is made up of twelve monthly salaries and a variable component. The variable component depends on the individual goals of the respective employee and the goals of the Company. The remuneration of the Management Board is described in Section »9. Remuneration Report«.

### Personnel measures as part of redimensioning

More detailed explanations on the personnel measures initiated can be found in Section »1.2. Spin-off and sale of ECM solution business marks the turning point in the Company's development«.

**Training**

Beta Systems Software AG successfully trained young people in the careers of IT specialist – application development, industrial clerks and marketing communication specialists in 2010 as well.

Four trainees successfully completed their vocational training in 2010. Two of the trainees were hired as permanent staff. Three new trainees embarked on their training programs in the careers of IT specialist – application development and industrial clerk on September 1, 2010. There are therefore three trainees in their first year, one trainee in the second year, and three in the third and final year of training.

**University and academic junior staff**

Beta Systems Software AG supports committed young people in their vocational training and is actively involved in many projects promoting training, young people and sports. The Company's social commitment and fulfillment of its responsibility to society are firmly embedded in its corporate culture.

Starting in 2010, Beta Systems finances three grants for especially gifted and dedicated students at the Hasso-Plattner-Institut für Softwaresystemtechnik (HPI School of Design Thinking) in Potsdam. In the selection of the graduate students for the scholarships account is taken not only of their academic achievements but also of their extra-mural commitment.

**Occupational health and safety**

The medical and safety-related support of Beta Systems Software AG under German law on occupational safety is carried out by AMD TÜV GmbH, a company belonging to TÜV Rheinland.

Part of this support is, for instance, participation in four meetings a year on occupational safety which are documented in the form of minutes. This also includes conducting and documenting visits to workplaces which concentrate primarily on the safety and health of the employees. Key areas in this process are existing potential hazards, such as ergonomics at monitor workstations, and fire protection. Beyond this, employees were trained as fire protection officers and eyesight tests carried out on employees with monitor workstations.

## 5. ANNUAL CORPORATE GOVERNANCE STATEMENT AND CORPORATE GOVERNANCE REPORT

Documents pertaining to Corporate Governance at Beta Systems Software AG, the current corporate governance statement and the declarations of conformity in previous years are easily accessible on the website of the Company at www.betasystems.com under the Investor Relations/Corporate Governance heading.

## 6. SHARE TRANSACTIONS AND SHAREHOLDINGS OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

Pursuant to section 15a of the German Securities Trading Act (WpHG) members of the Management and Supervisory Boards are required by law to disclose the purchase or sale of the shares of Beta Systems Software AG if the value of any transaction(s) conducted by the respective member or parties related to him reaches or exceeds an amount of € 5,000 in a calendar year. In accordance with the Insider Trading Policy of Beta Systems Software AG, members of the executive and non-executive bodies are obliged to report all transactions with shares of the Company. The following transactions were reported to Beta Systems Software AG in the fiscal year 2010 (all Beta Systems shares; financial instrument: ISIN DE0005224406):

**Notifiable share transactions**

| Date of the transaction | Person with notifiable holding | Reason for the disclosure requirement | Position | Type of transaction | Units | Price in € | Comment |
|---|---|---|---|---|---|---|---|
| | | | | | | | |
| 09/08/2010 | Jürgen Herbott | Person performing managerial responsibilities | Member of a managing body (Board member) | Purchase (Xetra) | 1,000 | 2.95 | - |
| 09/23/2010 | Jürgen Herbott | Person performing managerial responsibilities | Member of a managing body (Board member) | Purchase (Xetra) | 1,000 | 3.00 | - |
| 12/16/2010 | Jürgen Herbott | Person performing managerial responsibilities | Member of a managing body (Board member) | Purchase (Xetra) | 1,000 | 2.78 | - |

As soon as they are carried out, all transactions are disclosed on the website of the Company at www.betasystems.com under the Investor Relations/Corporate Governance/Directors' Dealings section. Directors' shareholdings as per December 31, 2010, are as follows:

| As per December 31, 2010 | Number of shares |
|---|---|
| | |
| **Management Board** | |
| Jürgen Herbott[1] | 3,500 |
| Gernot Sagl | 0 |
| | |
| **Supervisory Board** | |
| Dr. Günter Lewald[2] | 0 |
| Stephan Helmstädter[2] | 0 |
| Herbert Werle[2] | 0 |
| Dr. Carsten Bräutigam[2] | 0 |
| Stefan Hillenbach[3] | 6,432 |
| Peter Becker[3] | 0 |
| Sebastian Leser[4] | 0 |
| Dr. Arun Nagw aney[4] | 0 |
| Jürgen Dickemann[4] | 0 |
| Volker Wöhrle[4] | 0 |
| Wilhelm Terhaag[5] | 0 |
| | |
| **Beta Systems Software AG** | |
| Treasury shares | 120,610 |

[1] Mr. Jürgen Herbott was appointed to the position of the new Chief Executive Officer (CEO) of Beta Systems Software AG on July 19, 2010. Prior to joining the Company, he already held 500 shares in the Company.

[2] The regular Annual General Meeting of the Shareholders of Beta Systems Software AG, which took place on August 17, 2010, elected Dr. Günter Lewald, Mr. Stephan Helmstädter, Mr. Herbert Werle and Dr. Carsten Bräutigam as new members of the Company's Supervisory Board.. Dr. Günter Lewald was elected to the office of Chairman of the Supervisory Board in the subsequent constituent meeting of the new Supervisory Board. Mr. Stephan Helmstädter is the new Vice Chairman of the Supervisory Board.

[3] Mr. Stefan Hillenbach and Mr. Peter Becker were elected by the employees as their representatives on April 28, 2010, pursuant to Section 4 para. 1 of the German One-Third Participation Act (DrittelbG).

[4] The end of the regular Annual General Meeting of Shareholders on August 17, 2010, marked the expiry of the period of office of the former members of the Supervisory Board, Mr. Sebastian Leser (Chairman of the Supervisory Board) and the other members Dr. Arun Nagwaney (Vice Chairman of the Supervisory Board), Mr. Jürgen Dickemann and Mr. Volker Wöhrle. Information on reportable Director's Holdings therefore pertains to this date.

[5] Mr. Wilhelm Terhaag, employee representative on the Supervisory Board, left the Supervisory Board upon the sale of Beta Systems ECM Solutions GmbH (since September 29, 2010: BancTec ECM Solutions GmbH) to the BancTec Group on June 3, 2010.

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

## 7. OPPORTUNITIES AND RISK REPORT

Good corporate governance also entails a responsible management by the Company of risks. The Management Board of Beta Systems Software AG and the management of the Beta Systems Group have extensive, groupwide and company-specific reporting and control systems at their disposal which enable the recording, assessment and control of these risks. Systematic risk management ensures that any risks are detected at an early stage and assessed. The risk management system of Beta Systems is developed on an ongoing basis and adjusted to changes in business conditions. The early warning system for the identification of risks is reviewed by the auditor. The Management Board reports regularly to the Supervisory Board on the risks and their development. The Supervisory Board concerns itself in particular with monitoring the accounting process, including reporting, the effectiveness of the internal control system, of risk management and of the internal audit system, of compliance as well as of the annual financial statements audit.

Beta Systems is exposed to a number of risks and opportunities which are inextricably linked with entrepreneurial activities entailed in its global activities in software development and distribution.

Risks may arise when making decisions based on estimates of the products and market opportunities as well as from strategic investments and financial investments. Similarly, operational risks may be incurred by the influence and interaction of internal and external events on strategy, employees, processes and technologies.

The risk policy consists of exploiting the opportunities which present themselves in the context of business activities to the full and only entering into associated risks if value added can be derived from the opportunity. An important prerequisite here is, however, the ability of the Company to understand its own entrepreneurial risk as an additional parameter of management and control, and of optimizing and proactively influencing it. In accordance with Beta Systems' understanding of risk and risk policy, these risks are divided up into the following categories: market and product risks, risks inherent in strategic investments, risks from financial assets and operating risks. The Management Board has formulated a set of guidelines which define the scope within which performance-related and financial risks may be entered into.

### 7.1. Components of the Risk Management System (RMS) of Beta Systems

Beta Systems has set in place a risk management system which complies with statutory provisions. The Excel-based system in use was replaced by a standard product at the end of 2010. Beta Systems has significantly optimized its current risk management through the GRC Cockpit (Governance Risk Compliance Cockpit). All information and risks are now updated on a daily basis and presented in a form easily understandable at a glance. In addition, the extensive analysis and reporting system also features automatic alerts and follow-ups so that no information can be lost. This system allows Beta Systems to respond more swiftly and cost effectively to changes. The Company identifies, analyzes and evaluates potential and existing risks on an ongoing process with a view to the probability with which they may occur and their impact.

To this end, Beta Systems has specified the measures taken to counteract risk and appointed persons responsible at the operating level, and has documented the outcome of this analysis in the GRC Cockpit. The Management Board and the Supervisory Board use this Cockpit to gain an overview of the risk position of the Company and to identify any need for action at an early stage. Up until the introduction of the GRC Cockpit, Beta Systems specified the measures taken to counteract risk, appointed persons responsible at the operating level, and documented the outcome of this analysis in a Risk List. The Risk List enabled the Management Board and the Supervisory Board to gain an overview of the risk position of the Company and to identify any need for action at an early stage.

A Risk Portfolio provides an additional overview of the risks comprised in the GRC Cockpit. Moreover, the Risk Archive is dedicated to the documentation of changes in the GRC Cockpit. The evaluation of the risks is carried out in accordance with the Risk Management System Manual which also documents the structure and workflow entailed under risk management.

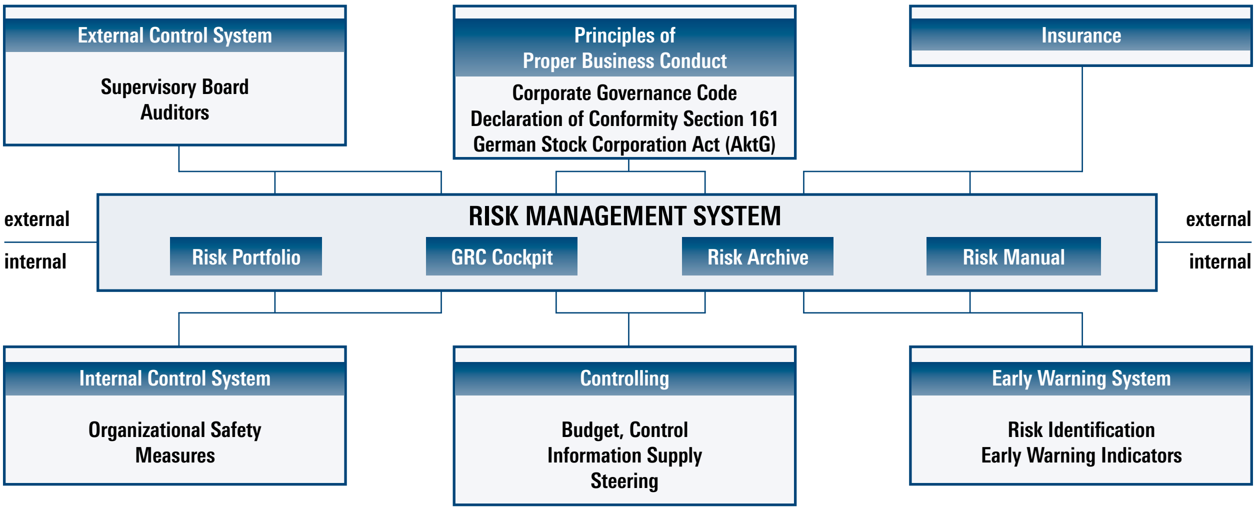



Chart: Beta Systems Risk Management System

The first risk managers in the hierarchy are the department heads. In addition, each and every employee of Beta Systems is called upon to report new or changed potential risks to the risk manager (RM Head, LoB Head, head of cross-divisional functions and lines). The risks are updated and assessed on an ongoing basis.

The risks are adjusted, supplemented or deleted from the GRC Cockpit and archived, also over the course of the year, in meetings which are held in the context of monthly reporting and the monthly meetings of senior management. Monitoring the status of risk as part of monthly reporting covers material risks in the segments, the lines and cross-departmental functions. The frequency of meetings and reporting ensures a high degree of transparency and sensitivity of the Company and management for potential risk.

As an innovative company engaged in the software development sector, Beta Systems is called upon to consciously enter into entrepreneurial risk in order to maintain its high standards of innovation. A number of risks associated with research and development activities as well as in sales and services can therefore only be limited to a certain extent. Beta Systems' standpoint is that it must take on commensurate risks, as this is the only way of safeguarding its innovative and competitive advantage.
By contrast, in the areas of finance and organization, it is a matter of course for Beta Systems to avoid or secure against risks to the greatest extent possible. The principles which apply to development activities are not valid for these areas. In the understanding of Beta Systems, responsible entrepreneurial activities in these areas are generally associated with activities inherent in avoiding risk.

Along with the individual countermeasures listed in the Risk List, there are five security systems embedded in the organization structure or facilities of Beta Systems which serve to minimize risk. These systems comprise the following: operational safety systems as a formal part of the organization which specify operational workflows (including the documentation of entrepreneurial activities which takes the form of describing all operational and business transactions and defines the process of signatures required for all business transactions), systems to secure products and contracts (quality assurance department for the development of products and Contract Management to protect the Group against liability risks), systems to secure capital and investments (organization structure ensuring that all major utilizations of funds which exceed the scope of daily business are conducted in accordance with the signature rules and regulations of Beta Systems; financial planning ensures that there is always a sufficient amount of funds available), the human resources safety system, as well as a system ensuring efficiency within the Company and of management.

The Head of Risk Management, the risk managers and Controlling are responsible for developing the methods, systems and operating instructions for the Risk Management System (RMS). The Head of Risk Management also fulfils a groupwide support function for all questions relating to the RMS. Moreover, all functions exercised by Controlling, namely planning, control, management and the providing of information, are part of the RMS.

In addition, Beta Systems has set in place an early warning system for monitoring risks applied first and foremost to the market and customers, as this is where revenues is deemed the key parameter.
In as much as is expedient from a business standpoint, Beta Systems has taken out insurances covering potential loss and liability risks which ensure that the financial consequences of any risk events occurring can be contained or excluded altogether. The extent of coverage is reviewed on an ongoing basis and adjusted, if necessary.

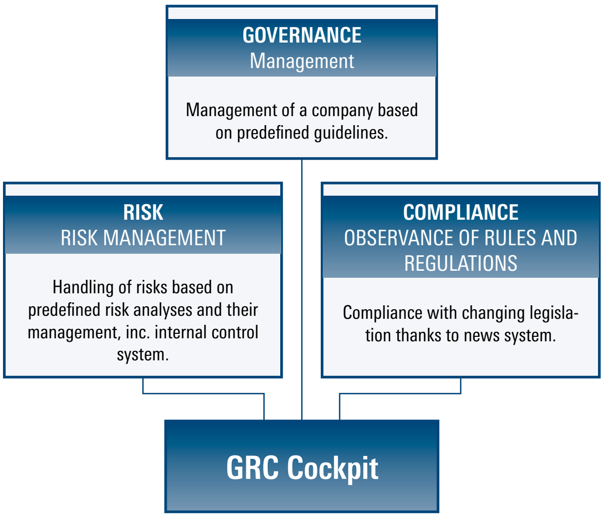
# WORKLOAD MANAGEMENT

Despite the precautionary measures, loss sustained or claims asserted by market partners and their negative effect on the financial position of Beta Systems cannot be entirely excluded.

The monitoring and observance of compliance guidelines was also an integral part of risk management in the fiscal year 2010. Part of this was to keep employees informed of the legal basis and the relevant requirements placed on internal and external communication, flanked by the introduction of a Code of Conduct for the sales partners.

*Getting your car back the very next day because the car manufacturer uses solutions by Beta Systems to manage its spare parts logistics.*

Moreover, all relevant individuals who work for the Company and have access to inside information within the scope of their employment are registered in an Insider List and informed of the obligations arising from such insider rights.




**7.2. Significant opportunities**

**Opportunities from restructuring and reorganization**

**Adjustment of the organization structure**

Since the sale of the ECM business, Beta Systems now concentrates exclusively from an organizational standpoint on the infrastructure business and the product-oriented DCI/IdM segments. Here the focus will be on products designed for Data & Document Processing and for the high-growth markets of security and compliance.

Even after the last throes of the economic crisis have tailed off, our customers will still be undergoing a process of consolidation in the financial services sector, and, at the same time, this sector will remain under great pressure to contain costs. These processes continue to give rise to demand for software which concentrates on adjusting business processes, IT systems and organizations, also in the context of consolidations. As before, the Management Board anticipates that the demand for infrastructure software will hold steady in the coming years as well, driven first and foremost by the pressure exerted on customers from costs and compliance.

**Ongoing cost improvements**

The Company is expecting further cost-saving potential from its repositioning and redimensioning following the sale of the ECM business.

**New product lines and portfolio streamlining**

To ensure that its product portfolio remains on the cutting edge, Beta Systems invests in new product generations (including the new Agility product generation) and in extending its portfolio through acquisitions.

In doing so, the Company takes the opportunity of reinforcing its market position on a sustained basis with the aim of releasing additional revenue and earnings potential through an improved and market-oriented product and solution offer, coupled with a uniform presence market in the market. This incurs the customary risks associated with introducing new products in the market identified in this Opportunities and Risk Report.

**Compliance**

Another trend that Beta Systems has identified is compliance software which ensures the compliance, the monitoring thereof and the control of legislation and guidelines throughout the respective company. In recent years, companywide compliance with legislation, directives and guidelines has become increasingly importance owing to a slew of amendments and stringent changes to the law. Compliance is particularly important in banks and insurance companies which process large volumes of critical data. The products and solutions of the Beta Systems Group place special importance on companywide compliance with legislation, directives and guidelines, thereby guaranteeing the observance of business requirements relevant for governance, risk management and compliance (GRC). The Company is expecting this trend to accelerate, with a concurrent increase in demand for its products and solutions, which will result in growth opportunities for the Beta Systems Group.

**Stronger links between business processes and IT processes**

Beyond this, Beta Systems has identified other market trends in software for the companywide integration of business functions through the combination of a number of applications and different platforms as well as in software for the locating, design, control and improvement of business processes. Beta Systems will continue to focus its development activities in these areas.

**Global trend toward consolidation**

Moreover, there are business opportunities from the ongoing process of consolidation at a global level. As a result, the Company may be able to win new major customers or large IT outsourcing service providers which will generate impetus for the license and service business. Based on its highly specialized and newly aligned product and solution offering, combined with its competitive advantages as a mid-sized enterprise which has, for instance, greater flexibility and customer proximity, Beta Systems is at a strategically advantageous starting point for participating in these market trends.

**7.3. Significant risks**

**Business and markets**

The global markets for our products are characterized by fierce competition. This is valid for prices, the quality of products and services, development time and time to market and service. It is particularly applicable to products newly developed for open systems environments which incur a greater earnings risk from heightened sales risks accompanied by greater expenses for market development, market launch and market penetration.

The achieving of revenue targets depends particularly on how these markets generally develop and the acceptance of our solutions by customers. There is a risk that the market may not develop as anticipated or that the relevant products may not be as well received in the market as originally anticipated. Measures to counteract this threat include placing paramount importance on adjusting and developing products which are aligned to market needs. Beta Systems is confronted here with fierce price competition in all its segments. The trend currently emerging in the software industry is the transition away from capacity-related price calculation methods towards use-oriented models. Moreover, Beta Systems' business is exposed to the danger of slumps in the market and in growth due to unforeseeable developments. Changes in the legal environment in regulated sectors can also be a cost factor.

The specific risks inherent in the ECM business and described up until now are no longer applicable due to the sale of the line of business in its entirety.

**Fluctuations, seasonality of revenue, large-scale projects**

The seasonality typical of revenues is set to increase in the wake of the sale of the ECM business as the share of software license revenues in total revenues will be greater. Typical of the infrastructure business, and customary in the software sector, is that large-scale projects with high license volumes are commissioned by major companies in the final quarter of a fiscal year in particular. This causes greater volatility in revenues and a distortion in the breakeven point during the year which is postponed to year-end. As a result, the extent to which the results of the specific periods fluctuate and the dependency of the consolidated results on high license revenues will increase towards the end of the year.

The maturities, the volume and content of customer-specific license and service agreements are decisive for Beta Systems' performance as reflected in the results of operations of the LoBs. Many of the agreements cover high revenue volumes, and the selling cycles for the products of Beta Systems are often very long and partly difficult to determine in advance. Owing to the large share of the license and service businesses in total revenues, these risks are closely watched in order to be able to intervene swiftly and effectively in the event of untoward developments. A more even distribution of business over the quarters is to be promoted by strengthening the project business and improving sales incentive systems. At the same time, there is the typical dependency on large-scale projects: Owing to their weighting in the sales and earnings contribution large-scale projects are particularly important for the achieving of the Company's goals. If such orders were not to be placed or subject to a delay, this could have a considerable impact on the financial position.

**Product portfolio**

In fiscal 2010, 66.8% of revenues were generated by the four products Beta 93, Beta 92, SAM Jupiter and LDMS. Any factor burdening pricing or demand for these products and services may negatively affect the asset, financial and earnings position. The appeal of the mainframe environment, served primarily by the Beta 93, SAM Jupiter and Beta 92 products, depends greatly on the innovations and business policy of I BM and other major hard- and software manufacturers. The main product of the ECM segment (EBS 2000) is no longer part of the product portfolio. Revenues are therefore concentrated on the remaining products with, however, a much lower level of cost-related risk.

Beta Systems is currently building up its existing product portfolio in the mainframe business by adding the rights to the Large Documents Management System (LDMS) product through the acquisition of SI Software Innovation GmbH and the LaserSoft/DoXite product through the acquisition of the DETEC companies. In this process, LDMS and LaserSoft/DoXite will be treated as individual product lines in their own right. Beta Systems assumes that the synergies released from combined product portfolio can be used successfully in for processing in data centers.

At the start of 2010, Beta Systems purchased all property rights to the rolmine product of Swiss partner ipg AG, thereby enhancing the strategic significance of its security products. Under the product name of SAM Rolmine, Beta Systems offers major companies in particular, which have a high numbers of users, a holistic role life cycle management system. SAM Rolmine is a key component of the new SAM Enterprise Identity Management Suite and of the z/Security solutions for data centers by Beta Systems. Beta Systems considers the purchase to be a strategic investment in future-oriented Identity Access Management.

Widening and adding to the product and services portfolio may incur more expenses than planned, the development of new markets may fail, and/or sales and earnings targets may not be achieved. Acquisitions potentially carried out in the future with a view to avoiding the aforementioned effects may place considerable financial burdens on the Beta Systems Group and may bind considerable management resources; the integration of companies acquired may fail and the goals pursued might not be achieved at all or only to a limited extent.

Beta Systems has introduced a number of measures to protect its product rights, including copyright protection, brand names and trademarks, licenses, confidentiality agreements and a number of different technical precautions. There can, however, be no guarantee that these protective measures will be sufficient. Despite all the preventative measures, for instance, it may still be possible for third parties to copy or develop Beta Systems products or otherwise to gain access to information which Beta Systems regards as its intellectual property. Moreover, third parties may use the source codes of software belonging to the Beta Systems Group beyond the scope contractually agreed after these codes have been made accessible to them on the basis of an escrow agreement. The Beta Systems Group may also not be eligible to own the rights to employee inventions. Moreover, the Beta Systems Group is not able to prevent third parties from using certain external software which it also uses and, with respect to such external software, may be subject to unfavourable contractual conditions. Moreover, the property rights of Beta Systems are not protected in a number of other countries to the same extent as in Germany or in the EU. By the same token, Beta Systems might infringe the protection rights of third parties, in particular copyrights and patents. This threat is also counteracted by proactive risk management.

Beta Systems conducts a thorough testing of new products or product versions before they are released in the market. Despite such testing, products may contain errors of which Beta Systems is unaware. The process of eliminating these errors may bind substantial resources. Furthermore, there is no guarantee that customers will not assert claims for damages, request an exchange of the software or other concessions from the Company. In addition, Beta Systems has taken numerous precautions to ensure that products are launched on the market 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 exert a negative impact on the development of Beta Systems. Finally, reference is made to the fact that OEM agreements might be terminated.

**Risk from reorganization and restructuring**

The opportunities, described under Section »7.2. Significant opportunities«, from reorganization and restructuring are, at the same time, juxtaposed to a series of risks. The measures described might not develop their full impact within the prescribed period of time or in terms of performance, or may not have any impact at all, or provisioning might prove to be insufficient. In addition, the scaling back of jobs envisaged will increase the danger of losing know-how.

**International operations**

Beta Systems serves its customers through local subsidiaries in Europe as well as in North America and Africa. Accordingly, the Beta Systems Group with its subsidiaries are exposed to risks accruing from international business, including currency risk.

**Partnerships**

The Beta Systems Group must find suitable partners in order to expand its partner sales; untoward developments in existing cooperations and partnerships may have an adverse effect on sales.

**Dependency on qualified personnel and know-how incumbents**

Notwithstanding the restructuring and reorganization measures, the success of the company depends greatly on the availability of qualified employees with specialized knowledge. Accordingly, preventing highly qualified employees from leaving the Company and recruiting new well-qualified personnel remains a decisive factor which will influence the Company's future earnings, financial and asset position. The current dearth of qualified personnel on the labor market incurs a risk that positions open through fluctuation or new positions cannot be filled with suitable personnel – or only with a delay.

**External tax audits**

Future external tax audits may result in subsequent tax claims asserted by the financial authorities; if netting prices within the Group are not recognized, this will incur subsequent tax claims; grounds for not recognizing loss carryforwards may result in impairments of deferred tax assets and therefore have a negative impact on the asset and earnings position of the Beta Systems Group, leading to future tax burdens.

**Credit risk**

Credit risk is the risk of financial loss to a company if its customers fail to fulfill their contractual payment obligations in respect of the company. The potential credit risk for the Company consists mainly in defaulted customer receivables. Owing to the high number of customers with good credit standing the risk of default for the Company, measured in terms of its total revenues, is, as experience has shown, very low. The crisis in the financial markets has not caused any material changes. In individual cases, credit default results from unrecoverable amounts from individual sales transactions with small revenue volumes.

The market and cost-related risk in the ECM segment is no longer applicable as this segment has been sold. There is, however, a greater credit risk associated with the outstanding installments on the purchase price owed by BancTec GmbH, Langen. These installments have been secured by a receivables assignment furnished by BancTec ECM solutions GmbH, Augsburg, as well as a guarantee provided by BancTec, Inc., the parent company. The reduction of short-term debt has, however, been instrumental in lowering the credit risk in respect of the customers of the discontinued operations.

**Liquidity risk**

The liquidity risk is the risk of a company not being able to settle its financial obligations by the respective deadline. The aim and the task of liquidity management is to have its own and borrowed funds available in sufficient quantities. The results and the liquidity of the Beta Systems Group are subject to seasonal fluctuations.

The liquidity planning and monitoring of the inherent risks is carried out as part of central, groupwide Cash Management by way of a series of supplementary measures. A consistently implemented receivables management, requirements planning updated on a regular basis, a centrally managed cash pool, the effective control of payment to creditors through observing full terms of payment and discounts and, last but not least, an effective controlling systems to minimize and optimize costs form the basis for calculating the financing requirements from own funds and borrowings and the targeted optimization of cash return. As clearly shown in the Combined Statement of Cash Flows, the liquidity position has improved owing to the higher level of operating cash flow from continued operations and through payments received from the disposal of the ECM business. Moreover, there is less risk of the cash flow developing negatively because of the ECM segment.

All in all, the Company had credit lines of € 12.0 million (2009: € 14.5 million) available at short notice at its principal banks on December 31, 2010.

The financing commitments of these banks are tied to the Company's achieving certain financial ratios. As per December 31, 2010, the Company had fulfilled all covenants. By applying terms and conditions in the lending agreements customary in the markets, credit institutions have termination rights and extraordinary termination rights under certain circumstances. In our opinion, regular reporting by the Company and its option of repaying loans utilized in the first quarter of a year from the cash flow generated from software license and maintenance contracts make it an interesting proposition for banks to maintain business relationships with Beta Systems.

At the current point in time, the Company has written commitments from banks on a credit volume totaling € 12.0 million.

**Currency risk**

Owing to its international operations, the Company is exposed to currency risk arising from the fluctuations in exchange rates in relation to business transactions and the assets and liabilities denominated in foreign currency. With the aim of managing these currency risks and of keeping the impact of volatility risks on the consolidated results within plannable and acceptable limits, the Company buys and sells derivative instruments in the form of forward exchange transactions. For more detailed explanations we refer to the section on »Financial instruments – Currency risk« in the Notes to the Combined Financial Statements.

**Interest rate risk**

The monitoring of the interest rate risk is also carried out as part of group-wide Cash Management. Excess payments from the central cash pool carry interest and, taking account of the estimated need for funds at short notice, are invested in the short to medium term in the money market. Similarly, the short-term operating payment deficit is covered by a credit on current account at the interest rates customary in the market.

**Shareholders' equity position of the Parent Company**

The shareholders' equity position of Beta Systems Software AG (Parent Company) has continued to improve. At the end of the reporting period, equity came to 89.4% (2009: 84.0%) of capital subscribed.

**Communication and information technology**

There may be security issues with and interruptions to the functions of the communications and information technology used within the Beta Systems Group. Beta Systems has therefore taken the requisite disaster recovery measures through backing up its systems as well as through the installation of virus scanners and other security measures to keep this risk to a minimum.

**Risks inherent in the sale of the ECM business**

As per December 31, 2010, Beta Systems had receivables of € 9.3 million still outstanding and due from BancTec GmbH, Langen, (BancTec for short) from the agreement (Sales and Purchase Agreement/Sale of the ECM Business). Of this amount, € 2.9 million had been due and payable for at least 48 days by the reporting date. The other receivables of € 6.5 million from the aforementioned agreement are due and payable for the most part in 2011 and had been paid through to the date when the financial statements were drawn up. The cause of the suspension of payment by BancTec lies in the differing interpretation of the purchase agreement by the two parties in respect of a purchase price component which is separable from the other receivables. As per December 31, 2010, receivables from the purchase price component came to € 2.9 million. Beta Systems assumes that the purchase price agreed by and legally binding on the two parties in 2010 is correct and enforceable. The legal advisers consider Beta Systems to be in a good legal position.

## 8. (GROUP) ACCOUNTING-RELATED INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

**Definition of terms and components of the internal Control and Risk Management System (RMS) within the Beta Systems Group**

The internal control and risk management system implemented within the Beta Systems Group comprises all principles, procedures and measures designed to secure the effectiveness, efficiency and regularity of (Group) accounting as well as to ensure compliance with the pertinent statutory provisions. The internal control system of the Beta Systems Group consists of an internal management and control system and an internal monitoring system. With this in mind, the Management Board of Beta Systems Software AG in its executive function of heading up the Company has especially entrusted responsibility for the internal control systems of the Beta Systems Group to Finance & Controlling, Human Resources and IT. All departments managed within Beta Systems Software AG.

Monitoring measures both integrated into and independent of processes constitute the components of the internal monitoring system of the Beta Systems Group. Alongside manual process controls such as the principle of dual control, automated IT-supported process controls, an IT authorization concept and functional segregation are also an integral part of measures incorporated into processes. Monitoring integrated into processes continues to be supervised and ensured by executive bodies or by specific Group functions such as, for instance, the Legal Department.

The Supervisory Board is involved in the internal monitoring system of the Beta Systems Group in its supervisory activities which are independent of processes. The Supervisory Board concerns itself in particular with monitoring the accounting process, including reporting, the effectiveness of the internal control system, of risk management and of the internal audit system, of compliance as well as of the annual financial statements audit.

The Group's independent auditor and other supervisory bodies such as, for instance, tax inspectors, carry out auditing activities which are independent of processes. In particular, the audit of the combined financial statements by the Group's external auditor and the audit of the Group companies' separate financial statements constitute the main supervisory measures, independent of processes, associated with the Group accounting process.

In respect of Group accounting, the internal control system as an integral part of the risk management system is sensitized to the risk of erroneous statements in the Group's bookkeeping and in external reporting.

To ensure the systematic early recognition of risks throughout the Group, a risk management system has been set up within the Beta Systems Group which comprises an early warning system pursuant to Section 91 para. 2 of the German Stock Corporation Act (AktG) and serves to support risk control and monitoring. In accordance with Section 317 para. 4 of the German Commercial Code (HGB), the Group's auditor assesses the functional capability of the early warning system which is modified swiftly and appropriately by the Beta Systems Group to changes in the environment. More explanations on the risk management system are given in the Opportunities and Risk Report.

**Use of IT Systems**

The recording of accounting transactions in the individual accounts of Beta Systems Software AG's subsidiaries is carried out mainly in the SAP accounting system. For the purpose of drawing up the combined financial statements of Beta Systems Software AG, the Group subsidiaries provide separate financial statements which take the form of standardized reporting packages supplemented by additional information. These packages are then incorporated by all Group companies into the SAP BCS reporting system and subsequently consolidated. In order to ensure IT security, access and permission rights to the accounting-related EDP systems (SAP systems) are defined. This guarantees that the users of the respective Systems only have access to the information and systems which they require to fulfill their tasks.

**Specific Risks associated with (Group) Accounting**

Specific risks associated with Group accounting may arise due to the carrying out of unusual or complex transactions, particularly at the end of the fiscal year which is especially critical because of the time window involved. Moreover, transactions which are not routinely processed may harbor potential risk. The necessary discretion accorded to employees in the recognition and measurement of assets and liabilities may give rise to (Group) accounting-related risks.

**Significant supervision and control activities to ensure the regularity and reliability of (Group) accounting**

The measures of the internal control system pertaining to the regularity and reliability of (Group) accounting ensure that business transactions are recorded in their entirety and promptly in accordance with statutory provisions and the rules and regulations laid down in the Articles of Association. Moreover, measures have been taken to ensure that inventory controls are duly and properly carried out, and that the assets and liabilities presented in the combined financial statements have been accurately recognized, measured and disclosed. Activities involving supervision and control also ensure that the accounting records provide information that is reliable and leaves a clear audit trail.

At Group level, the control activities specifically aimed at ensuring the regularity and reliability of (Group) accounting comprise the analysis and, if required, correction of the separate financial statements submitted by the Group companies, taking account of the reports prepared by the independent auditors and the pertinent discussions on the financial statements.

The scope of rules and regulations at Group level also cover the centralized determination of the parameters to be applied to the measurement of pension and other provisions. In addition, the preparation and aggregation of further data used as a basis for external information in the notes to the financial statements and the management report (including events after the balance sheet date) is also performed at Group level.

**Disclaimer**

Based on the organization, control and monitoring structures established within the Beta Systems Group, the internal control and risk management system enables the capturing, preparation and assessment of all business transactions relating to the Group in their entirety, as well as their correct presentation in (Group) accounting.

In particular, decisions made on the basis of personal discretion, faulty controls, criminal activity or other untoward circumstances cannot be entirely eliminated and may then impair the effectiveness and reliability of the internal control and the risk management system deployed within the Group. As a result, the groupwide application of the respective systems is unable to guarantee the correct, complete and prompt recording of business transactions in (Group) accounting with absolute certainty.

The statements made are only relevant to the companies of Beta Systems Software AG included in the combined financial statements and whose financial and business policies Beta Systems Software AG can influence, either directly or indirectly, in order to derive benefit from their activities.

## 9. RESEARCH AND DEVELOPMENT

In the fiscal year 2010, research and development activities were an important stimulus for the development and launch of new products and solutions. The manifold customer and market requirements placed on product enhancement were implemented through the launching of around 40 new product releases. Beta Systems entrusts most of its research and development (R&D) activities to its own employees. R&D costs came to € 9.1 million in the fiscal year 2010 (2009: € 9.1 million).

**The DCI Line of Business**

The research and development activities in the DCI LoB were concentrated mainly on the ongoing development of the proven portfolio as part of the Agility product generation. The abilities anchored in the Agility concept enabling the integration of customers' Internet and Intranet environments have been developed further and added to in current product releases.

Integrating the technologies of SI Software Innovation and Beta Systems in Berlin has resulted in a jointly developed product: The Beta UX ContentMaster, a combined output and document management system, which will be actively marketed in 2011.

The R&D activities in the field of IT compliance were stepped up through the completion of a revised end-to-end version of Beta 96 Enterprise Compliance Auditor. An innovative solution enabling flexible audits and reports in the area of IT compliance is the result of cooperation with a development team from DETEC, a subsidiary, using the DoXite technology developed at the Ruesselsheim location.

**The IdM Line of Business**

In 2010, research and development activities in the IdM LoB were focused on the platform flexibility of the SAM Enterprise product generation. Over the course of the year, support for additional operating platforms and database systems were released. In supplementation of these activities, the product rights, which also entail the development and maintenance responsibilities for the SAM Rolmine product, were transferred from ipg AG to Beta Systems. The outcome was the first release of this product under management by Beta Systems.

The agreement of a partnership and the subsequent cooperative development with WJ&P, a software manufacturer based in Mannheim, Germany, enabled the SAM Business Process Workflow to be completed. This solution allows business processes and application procedures to be implemented flexibly and securely within the SAM Enterprise Suite. Plans for 2011 include the intensive use and ongoing development of this technology basis for other areas of application.

**Targeted in-house product innovations**

For Beta Systems, having a product portfolio that can offer efficient, cutting-edge software solutions to fully satisfy customer requirements is of great strategic importance. To achieve this while maintaining our high standards, the targeted development of our own products derived from our strategy is an essential component of the redimensioning envisaged for the company.

Similar to service operations, activities in research and development will be concentrated within a new organization structure. Along with consistently supplementing and adjusting our portfolio, the aim is to strengthen the interconnectivity between existing product lines in a move towards an integrated product suite. The current Agility and Enterprise product generations, combined with stronger solution orientation, form the pivotal points of these efforts to ensure that the development of new modules is in line with concrete customer applications scenarios, thus responding fully to market requirements placed on web orientation, security, safeguarding investments and compliance in the future as well.

In this context, new methods of development are to be implemented on an ongoing basis so as to shorten development cycles and reduce development costs.

## 10. REMUNERATION REPORT

The Remuneration Report describes and explains the principles of the remuneration system for members of the Company's Management Board and includes itemized information on the structure and the amount of remuneration received by the Management Board members. In addition, the Report also comprises information on the remuneration of the Supervisory Board. The presentation of this information accords with the provisions set out under the German Commercial Code and the requirements of the German Corporate Governance Code (GCGC).

### 10.1. Remuneration of the Management Board

**Adjustment of the remuneration system in the fiscal year 2010 in the course of appointing and re-appointing of Management Board members**

In its meeting on July 16, 2010, the Supervisory Board of Beta Systems Software AG appointed Mr. Jürgen Herbott as a member of the Management Board and as the new Chief Executive Officer (CEO) for a term of office from July 19, 2010 to December 31, 2012. In the same meeting, the Supervisory Board also decided on the concluding of the employment contract between the Company and Mr. Herbott. Moreover, in its meeting on July 16, 2010, the Supervisory Board renewed the contract and the appointment of Mr. Gernot Sagl as a member of the Management Board for a term of office from July 19, 2010 to June 30, 2013. At the same time as its resolution on the employment contracts of the Management Board members, the Supervisory Board determined the remuneration of Management Board members in these contracts. The regulation applying to the variable component of Board member Mr. Gernot Sagl's remuneration will be changed again by way of resolution by the Supervisory Board and agreement on modification dated March 29, 2011, and variable remuneration components for Management Board members are to be made consistent.

**Principles of the remuneration system in the fiscal year 2010**

The overall remuneration of members of the Management Board is made up of two components: a non-performance-related component (annual salary and benefits) and a profit- and performance-related component (bonus).

The basic ***annual salary*** is paid out monthly in twelve identical partial amounts. In addition, Management Board members receive ***non-cash benefits***. These benefits include the use of a company car for private purposes and the granting of a car allowance as well as insurance compensation under accident insurance policies taken out on behalf of the Management Board members (or, in the event of their death, their heirs). In addition, Mr. Herbott receives contributions towards his health insurance and personal pension.

Apart from the aforementioned, Management Board members receive ***a variable component*** which takes the form of an annual bonus the granting and amount of which depends on the degree to which the personal and company-related objectives of the Management Board members have been fulfilled.

The employment contract of Mr. Sagl provided for an annual bonus for the financial year ended and prior to the adjustment of the variable component of his remuneration with effect from fiscal 2011 (as described in the following). The amount of this annual bonus depended both on the Company's success and on his personal performance and was capped at € 50,000, depending on the degree to which his objectives were achieved. Furthermore, his employment contract also provided for another bonus for exceptional service and performance the amount of which was determined at the discretion of the Supervisory Board within one month after the adoption of the annual financial statements; this bonus was also capped at € 50,000.

In the context of the appointing of Mr. Herbott over the course of the reporting period and the associated adjusting of variable remuneration components from the fiscal year 2011 onwards (as described in the following), the variable remuneration of Mr. Herbott in the year under review was determined at the discretion of the Supervisory Board in accordance with the provisions specified in his contract of employment. His personal performance and the development of the Company formed the basis for the decision.

Factors determining the variable component – subject to the aforementioned discretion – of Management Board remuneration were first and foremost the start to a repositioning of the Company, the development of new marketing strategies and the restructuring of the Company's organization structure particularly in respect of setting up profit centers.

Upon the renewal of his mandate, Mr. Sagl received an additional non-recurrent gross amount of € 115,000 in July 2010.

Finally, the Supervisory Board reserves the right to decide on special remuneration for exceptional service at its discretion. During the reporting period, no decision pertaining to this kind of special remuneration for a Management Board member was made.

**Annual bonus from the fiscal year 2011 onwards**

As from the fiscal year 2011, the employment contracts of members of the Management Board provide for variable remuneration components assessed over a multi-year period. As a result, the remuneration structure will be aligned more strongly to the Company's sustainable development than in the past.

As from 2011, Management Board members will receive a variable component which takes the form of an annual bonus. The granting and amount of this bonus will depend on the degree to which the personal and company-related objectives of the individual Board member have been fulfilled. The personal and company-related objectives and the ratio between objectives achieved and the amount of the bonus will be determined by the Supervisory Board for the following year respectively. The Supervisory Board may determine the annual (objectives) bonus for Mr. Herbott in a range of up to € 325,000 and for Mr. Sagl up to € 225,000.

The annual (objectives) bonus set by the Supervisory Board for the individual members of the Management Board is assessed on the basis of a three-year period: One third of the (objectives) bonus fixed for a fiscal year will fall due and payable depending on the extent to which objectives have been achieved one month after the annual financial statements have been adopted by the Supervisory Board. Another third of the (objectives) bonus (second partial amount) will fall due and payable one month after the annual financial statements have been adopted in the next fiscal year. The final third of the (objectives) bonus (third partial amount) will fall due and payable one month after the annual financial statements have been adopted in the following fiscal year respectively.

The second and third partial amounts of the bonus will be adjusted to the development of the Company's performance as follows: If EBIT (earnings before interest and tax) has risen for the fiscal year preceding the date when payment falls due in a year-on-year comparison, payment of the of the respective partial amount will be raised by the corresponding percentage rate by up to a maximum of 50%. If EBIT declines in the respective fiscal year preceding the date when payment falls due in a year-on-year comparison, payment of the respective partial amount will be lowered by the corresponding percentage rate. If the decline in EBIT is more than 25% the respective partial amount shall be reduced by 50%. If EBIT declines by more than 50% payment of the respective partial amount will not be made at all. The Supervisory Board can at its discretion replace EBIT as a parameter by EBT (earnings before tax) for the following year.

The claim to payment of the annual bonus is not void should the employment contract have been terminated by the date when such claim becomes due and payable. In this case, the annual bonus will become due and payable in total once the next set of annual financial statements has been adopted and will be adjusted accordingly to the development of EBIT in the preceding fiscal year, in line with the regulation described above.

The other aforementioned remuneration components apply unchanged in the fiscal year 2011.

**Contract period and termination provisions**

Board member employment contracts are concluded for the respective term of office and terminate at the end of this period without any notice being necessary. In the event of a Board member being dismissed, the Company and the Board member may terminate the employment contract in observance of the statutory period of notice. The right to termination for an important reason shall remain unaffected.

**Retirement benefit commitments**

No retirement benefit commitments have been made to the Management Board of Beta Systems Software AG.

In the event of a Board member's death during his term of office, the Company is, however, obliged as joint creditor to continue to pay his fixed salary for the month of his decease and the three following months to his surviving spouse and children still in training or education.

**Regulations applicable in the event of a change of control**

Mr. Herbott is entitled to terminate his employment contract with the Company under extraordinary circumstances if 95% of the voting shares in the Company are acquired by a third party and his position as member of the Management Board is significantly affected by this change of control (the term used to define such an event in his employment contract). The Supervisory Board can request that the term of office be prolonged for up to six months after which the Management Board mandate and the employment contract shall end. If the Management Board member exercises his right to termination under extraordinary circumstances, or if the employment relationship is terminated prematurely within twelve months following the change of control at the instigation of the Company without there being an important reason for which the Management Board member bears responsibility, the Management Board member is entitled to receive a non-recurrent payment (severance payment) amounting to his annual overall remuneration. The annual bonus of the preceding fiscal year will be taken as the basis for the variable remuneration component.

There are no further severance commitments entered into for members of the Company's Management Board.

**Management Board remuneration in the fiscal year 2010**

The Supervisory Board has reviewed the remuneration of members of the Management Board in the fiscal year 2010 and has concluded that, overall, the composition of remuneration components and the amount of remuneration are appropriate.

Management Board remuneration comes to € 552,608.34 in total for the fiscal year 2010 (2009: € 464,425.14).

The remuneration of the individual members of the Management Board in fiscal 2010 is set out in the table below:

| Remuneration of the Management Board in € | Year | Fixed components | | Performancebased components | Total |
|---|---|---|---|---|---|
| | | Fixed annual salary | Other benefits | | |
| **Jürgen Herbott** | **2010** | **97,347.24** | **27,299.62** | **54,000.00** | **178,646.86** |
| (since 07/19/2010) | 2009 | - | - | - | - |
| **Gernot Sagl** | **2010** | **150,000.00** | **8,961.48** | **215,000.00[1]** | **373,961.48** |
| | 2009 | 150,157.96 | 8,961.00 | 100,000.00 | 259,118.96 |
| **Kamyar Niroumand** | **2010** | **-** | **-** | **-** | **-** |
| (until 07/18/2009) | 2009 | 198,000.00 | 7,306.18 | 0.00 | 205,306.18 |
| **Total** | **2010** | **247,347.24** | **36,261.10** | **269,000.00** | **552,608.34** |
| | 2009 | 348,157.96 | 16,267.18 | 100,000.00 | 464,425.14 |

[1] Including a special non-recurrent payment of € 115,000 for contract renewal.

In the fiscal year 2010, Mr. Gernot Sagl received an amount of € 91,494,00 (2009: € 92,128.96) from Beta Systems Software AG in non-performance-based remuneration for his activities as a Management Board member of the Beta Systems Software AG. In addition, Mr. Sagl received total remuneration of € 58,506.00 (2009: € 58,030.00) for his activities as Managing Director of Beta Systems Software AG's Austrian subsidiary, Vienna-based Beta Systems EDV Software Gesellschaft m.b.H., in the fiscal year 2010. This amount is included in the aforementioned Management Board remuneration.

In the fiscal year 2010, no stock options or comparable remuneration components with long-term incentive effect were issued. Moreover, the members of Beta Systems Software AG's Management Board did not receive any advance payment or loans in the reporting year.

**Payments made to former members of the Management Board**

Former members of the Company's Management Board did not receive any pension payments or other payments in the fiscal year. The pension provisions for former members of the Management Board and their dependents came to € 822,000 in the fiscal year 2010 (2009: € 1,005,000). For more information on the pension provisions formed please see Notes to the 2010 Combined Financial Statements.

**10.2. Remuneration of the Supervisory Board**

The remuneration of Beta Systems Software AG's Supervisory Board is regulated in Article 10 of the Articles of Association. Remuneration is based appropriately on the tasks and the responsibilities of the Supervisory Board members as well as on the financial position and the success of the company.

The members of the Supervisory Board receive fixed annual remuneration. The Chairman of the Supervisory Board receives € 30,000 and the other members of the Supervisory Board € 10,000. No provision has been made for performance-related remuneration of Supervisory Board members. Membership and chairmanship of the Personnel Committee are not subject to specific compensation.

Accordingly, the individual members of the Supervisory Board received the amounts shown in the table below in the fiscal year 2010:

| Remuneration of the Supervisory Board in € | Fixed remuneration 2010 | Fixed remuneration 2009 |
|---|---|---|
| | | |
| Dr. Günter Lewald<br>Chairman of the Supervisory Board<br>(since 08/17/2010) | 11,178 | - |
| Stephan Helmstädter<br>Vice Chairman of the Supervisory Board<br>(since 08/17/2010) | 3,726 | - |
| Herbert Werle (since 08/17/2010) | 3,726 | - |
| Dr. Carsten Bräutigam (since 08/17/2010) | 3,726 | - |
| Peter Becker (since 08/17/2010) | 3,726 | - |
| Stefan Hillenbach | 10,000 | 10,000 |
| Sebastian Leser (until 08/17/2010) | 18,822 | 30,000 |
| Dr. Arun Nagwaney (until 08/17/2010) | 6,274 | 10,000 |
| Volker Wöhrle (until 08/17/2010) | 6,274 | 10,000 |
| Jürgen Dickemann (until 08/17/2010) | 6,274 | 10,000 |
| Wilhelm Terhaag (until 06/02/2010) | 4,192 | 10,000 |
| **Total** | **77,918** | **80,000** |

In addition, the members of the Supervisory Board are reimbursed with outlays associated with the discharge of their office, including any VAT.

In the reporting year, members of the Supervisory Board of Beta Systems Software AG did not receive any advance payment or loans.

**10.3. D&O Insurance**

Beta Systems Software AG has taken out a D&O insurance (liability group insurance) for members of the executive boards and senior executives of the Company as well as for all executive bodies of affiliated companies in Germany and abroad. The insurance covers the personal liability risk for the event that damages are asserted against this group of persons in the exercising of their management tasks.

Commencing the day after June 30, 2010, the D&O insurance taken out for members of the Management Board provides for a deductible of 10% of the loss up to one and a half times the fixed annual salary at minimum of the respective Management Board member.

Contrary to the recommendations of the German Corporate Governance Code, however, insurance policies currently concluded by the Company do not provide for a deductible in D&O insurances for members of the Supervisory Board. Beta Systems Software AG will not be arranging for a deductible for Supervisory Board members in future either as the Company Systems does not consider that this type of measure would lead to any significant improvement in the motivation or sense of responsibility of its Supervisory Board members.

## 11. DISCLOSURE AND REPORT BY THE MANAGEMENT BOARD OF BETA SYSTEMS SOFTWARE AG PURSUANT TO SECTIONS 289 PARA. 4 AND 315 PARA. 4 GERMAN COMMERCIAL CODE (HGB)

**Composition of subscribed capital**

The capital stock of the Company is currently € 17,275,588.20 and is divided up into 13,288,914 shares. An amount of € 1.30 in the capital stock is attributable to each share. The associated rights and duties are regulated under the German Stock Corporation Act (AktG).

**Restrictions affecting voting rights or the transfer of rights**

Pursuant to Section 71b of the German Stock Corporation Act (AktG), the treasury shares held by a stock corporation do not carry voting rights. Beta Systems Software AG has 120,610 treasury shares where voting rights are excluded.

The Board of Management is not aware of any other restrictions which relate to the voting rights or the transfer of shares.

**Direct and indirect shareholdings of the capital stock which exceed 10% of the voting rights**

The Company has been notified of direct or indirect shareholdings of the capital stock which exceed 10 % of the voting rights:

ABC Beteiligungen AG, Heidelberg, Germany, holds 37.1155 % of the voting rights. Of this percentage amount the following is apportioned to the company pursuant to Section 22 para. 1 sentence 1 item 1 German Securities Trading Act (WpHG): the voting rights of Heidelberger Beteiligungsholding AG, a company controlled by ABC Beteiligungen AG, and pursuant to Section 22 para. 2 sentence 1 German Securities Trading Act (WpHG) the voting rights of Deutsche Balaton AG.

Heidelberger Beteiligungsholding AG: 20.2868 % (2,695,902 voting rights)

Deutsche Balaton Aktiengesellschaft: 16.8287 % (2,236,349 voting rights)

On November 3, 2010, Heidelberger Beteiligungsholding AG, Heidelberg, published an ad-hoc statement in which it announced that it had reached an agreement on the same day with Deutsche Balaton Aktiengesellschaft, Heidelberg, through discussions on the sale of a stake in Beta Systems Software AG, Berlin, held through Heidelberger Beteiligungsholding AG in Beta Systems Software AG, Berlin, (see ad-hoc statement released by Heidelberger Beteiligungsholding AG on June 10, 2010). Under this agreement Deutsche Balaton Aktiengesellschaft will acquire around 99.99 % of the approximately 2.7 million shares held by Heidelberger Beteiligungsholding AG in Beta Systems Software AG at a purchase price of € 3 per share of Beta Systems Software AG. Furthermore, the shares remaining with Heidelberger Beteiligungsholding AG would continue to be subject to the voting trust agreement with Deutsche Balaton Aktiengesellschaft.

More details are included in the statement on capital stock in the Notes to the Financial Statements of the Parent Company.

Pursuant to Section 21 para. 1 sentence 1 German Securities Trading Act (WpHG), William P. Schmidt, Berlin, Germany, holds 10.24 % of the voting rights (1,360,672 shares). Of this amount he holds 1,034,320 shares (7.78 % of the voting rights) directly. 326,352 shares (2.46 % of the voting rights) are allocable to him pursuant to Section 22 para. 1 sentence 1 item 6 of the German Securities Trading Act (WpHG).

Axxion S.A., Munsbach, Luxembourg, holds 10.15% of the voting rights (1,349,145 voting rights).

To the knowledge of the Management Board, no other shareholder holds more than 10% of the share capital, either directly or indirectly.

**Shares with special rights**

There are no shares with special rights at Beta Systems Software AG. Each share carries one vote in the Annual General Meeting of Shareholders.

**Type of voting rights control with employee participation**

There is no voting right control in relation to employee shares.

**Legal provisions and the provisions of the Articles of Association on the appointing and dismissing of members of the Management Board and on amendments to the Articles of Association**

The members of the Management Board are exclusively appointed and dismissed under the legal provisions (Sections 84, 85 German Stock Corporation Act (AktG)). There is no specific regulation in the Articles of Association governing the appointing and the dismissal of individual or all members of the Management Board. The Supervisory Board is responsible for the appointing and dismissal. It appoints Management Board members for a maximum of five years. A renewal of the appointment or extending the term of office is permitted for five years of maximum respectively.

Amendments to the Articles of Association are possible as determined by the respective legal provisions (Sections 133, 179 German Stock Corporation Act (AktG)). Pursuant to Article 11 of the Articles of Association of Beta Systems Software AG, the Supervisory Board is authorized to make amendments which relate only to the respective version; in as much, the Annual General Meeting of Shareholders is not required to pass a resolution.

**Authorization of the Management Board relating in particular to the option of issuing or buying back shares**

The Management Board has not been authorized to issue shares. In particular, the Management Board is currently not authorized to raise the share capital on the basis of authorized or contingent capital.

In accordance with the resolution passed on May 15, 2009, by the General Meeting of Shareholders, the Management Board is authorized to purchase and use own (treasury) shares pursuant to Section 71 para. 1 item 8 of the German Stock Corporation Act (AktG) and to exclude subscription and right of tender. The authorization was valid until November 14, 2010.

The Management Board is authorized to buy back the Company's own shares up to a maximum amount of 10 % of the current capital stock. At no time may the shares purchased, together with other treasury shares in the possession of the Company or attributable to it under Sections 71a et. seq. of the German Stock Corporation Act (AktG), account for more than 10 % of the capital stock. The purchase is to be carried out at the choice of the Management Board via the stock exchange or through an offer to purchase publicly addressed to all shareholders or by way of a public invitation to tender such offer.

Moreover, the Management Board is authorized to use the shares of the Company acquired based on this or an earlier authorization for all legally permissible purposes, especially the following and, in so doing, to exclude the subscription right of shareholders: The Management Board is authorized to retract the Company's shares, subject to approval by the Supervisory Board without further resolution by the Annual General Meeting, to sell the shares on the stock exchange, to offer the shares to third parties in the context of acquiring companies, parts of companies or participating interests in companies or industrial property rights, to offer such shares to shareholders for subscription based on an offer addressed to all shareholders in observance of the principle of equal treatment (Section 53a of the German Stock Corporation Act (AktG)) or in fulfillment of the rights of holders of convertible and option debentures issued by the Company or Group companies.

**Material agreements of the Parent Company which are subject to the condition of a control change in the wake of a takeover and the resulting effects; no compensation arrangements for the event of takeover bids**

In respect of the agreement which are subject to the conditions governing the change of control, reference is made to the Remuneration Report. There are no other agreements, for instance compensation agreements, in the event of a takeover offer.

The explanatory report of the Management Board of Beta Systems Software Aktiengellschaft on information pursuant to Sections 289 para. 4 and 315 para. 4 German Commercial Code (HGB) in the Report on the situation of the Company and the Group for the fiscal year 2010 will be submitted to the Annual General Meeting of Shareholders and can be viewed on the website at http://www.betasystems.com/en/investors/annualgeneralmeeting/annualgeneralmeeting2011.html. Upon request, each shareholder shall immediately receive a free copy of the report which will also be on display at the Annual General Meeting.

*Being granted your loan you at the very first meeting because – thanks to Beta Systems – your bank adviser has direct and efficient access to all digitally archived documents.*

## 12. MATERIAL EVENTS AFTER THE BALANCE SHEET DATE

**Switch to another stock exchange segment**

Beta Systems intends to switch stock exchange segment and aims in future to be listed in the General Standard of the Frankfurt Stock Exchange. To this end, an application was submitted the Admission Board on March 4, 2011 to rescind admission of the shares to the segment of the regulated market with post-admission obligations (Prime Standard).

The management of Frankfurt Stock Exchange gave its approval on March 10, 2011. The withdrawal of the admission was published on the same day on the Internet under www.deutsche-boerse.com and will become effective at midnight on June 10, 2011. The shares will be admitted to trading (introduction) in the Regulated Market (General Standard) from June 13, 2011, onwards.

# [ DOCUMENT MANAGEMENT ]

The withdrawal does not affect the admission of the shares of Beta Systems Software AG to the Regulated Market.

The reason for the switch is that companies listed on Prime Standard are first and foremost those targeting international investors. As, alongside the major shareholders, almost exclusively national investors and private investors currently hold shares in the company, the Management Board and the Supervisory Board have come to the conclusion that the financial and organizational effort involved in being listed on Prime Standard is not commensurate in terms of the benefit for the Company and its shareholders and that these expenses could therefore be saved in future.

## 13. SUMMARY AND GUIDANCE FOR THE GROUP AND THE PARENT COMPANY

Upon completion of the process of realigning the business model in favor of steady stream of order intake as well as forfeiting less profitable sales partnerships, and based on the premises described in Section »1.4. Economic environment« and Section »1.5. Strategic guidelines«, management anticipates a temporary further decline in non-recurrent license revenues. Consequently, the Management Board is expecting revenues to settle at between € 45 million and € 47 million in 2011, flanked by the corresponding downturn in revenues at the level of the Company. Moderate growth in revenues both within the Group and the Company, on the back of the strong orientation of the portfolio towards Security & Compliance and GRC solutions, can only be expected as from the subsequent fiscal year.

However, a major factor of influence on the earnings situation will be cost optimization and the associated lowering of breakeven as a result of reorganization and restructuring.
In this context, the Management Board anticipates an increasing level of savings of up to € 2.5 million in operating expenses for the entire Group over the course of the year 2011 as compared with the fiscal year 2010. In subsequent years, a permanent savings effect on the whole Group is expected in the range of up to € 5.0 million a year, also compared with 2010. A significant proportion of these savings is expected at Company level. Given the sum total of the aforementioned effects, the Management Board anticipates that both the Group and the Company will generate marginally positive results in the fiscal year 2011. A significant improvement in profit and margins is expected from 2012 onwards.

In this connection, the proceeds received by the company from the ECM sale through to the end of 2011 will be used primarily to fund the restructuring and reorganization and, in addition, to secure investments in building up the software and solutions portfolio.

## 14. DECLARATION OF THE MANAGEMENT BOARD PURSUANT TO SECTION 312 PARA. 3 OF THE GERMAN STOCK CORPORATION ACT (AKTG)

Reportable legal transactions or other measures which the company undertook or refrained from undertaking upon the instruction or in the interest of the controlling company were not recorded in the fiscal year 2010. In this context, we make reference to the Company's Dependency Report.

Berlin, March 21, 2011

| | |
|---|---|
| Jürgen Herbott | Gernot Sagl |
| Chief Executive Officer | Chief Financial Officer |

**Disclaimer**

This Annual Report contains forward-looking statements which are based on assumptions and estimates made by the management of Beta Systems Software AG. Although the expectations inherent in these forward-looking statements are assumed to be realistic, no guarantee can be undertaken that these expectations prove to be correct. The assumptions may harbor risks and uncertainties which may lead to actual results diverging significantly from the forward-looking statements. The factors which may cause such divergence have been described i.a. in the Risk Report. An update of these forwardlooking statements by Beta Systems is neither planned nor does management undertake any obligation to do so. All company, product and service brand names and logos used here are the property of the respective company.

## BETA SYSTEMS SOFTWARE AKTIENGESELLSCHAFT, BERLIN
## AFFIRMATION BY THE LEGALLY AUTHORIZED REPRESENTATIVES PURSUANT TO SECTION 315 PARA. 1 SENTENCE 6 AND SECTION 289 PARA. 1 SENTENCE 5 OF THE GERMAN COMMERCIAL CODE (HGB)

To the best of our knowledge, and in accordance with the applicable reporting principles, the Combined Financial Statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Report on the situation of the Company and the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

To the best of our knowledge, and in accordance with the applicable reporting principles, the annual financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Parent Company, and the Report on the situation of the Company and the Group includes a fair review of the development and performance of the business and the position of the Parent Company, together with a description of the principal opportunities and risks associated with the expected development of the Parent Company.

Berlin, March 21, 2011

| | |
|---|---|
| Jürgen Herbott | Gernot Sagl |
| Chief Executive Officer | Chief Financial Officer |

## REPORT BY THE SUPERVISORY BOARD

**Dear Shareholders,**

The Supervisory Board of Beta Systems Software AG discharged the duties entrusted to it under the law and the Articles of Association with great diligence in the fiscal year 2010. The Management Board informed the Supervisory Board at 18 meetings (physical meetings and telephone conferences) in detail about the business situation and the development of Beta Systems Software AG. Ensuring that the Supervisory Board was adequately supplied with information was the joint task of both the Management Board and the Supervisory Board. To the exception of Dr. Carsten Bräutigam, all Supervisory Board members were present at more than half the meetings. Mr. Wilhelm Terhaag only attended meetings of the Supervisory Board up until June 2, 2010, as, upon the sale of the ECM business on June 3, 2010, he was no longer member of the Supervisory Board.

We regularly advised and supervised the Management Board in respect of its management of the Company. The Supervisory Board was involved in all material decisions and was informed extensively by the Management Board, also in the form of written and oral reports, in a regular and timely fashion about all issues relating to corporate planning and strategic development, on the course of business, the situation of the Company, including its risk position, as well as in respect of risk management, the internal control and risk management system relevant for the accounting process, and compliance. We were an integral part of the internal monitoring system within the Beta Systems Group through our supervision activities carried out independently of processes and were particularly concerned with monitoring the accounting process, including reporting, the effectiveness of the internal control system, of risk management and of the internal audit system, of compliance as well as of the annual financial statements audit.

Any divergences from the plans and goals were explained to us in detail. The Management Board conferred with us to agree the strategy of the Company. We discussed all transactions significant for the Company in detail based on reports submitted by the Management Board in full Supervisory Board meetings. After thorough examination and consultation, we approved the reports and the resolutions proposed by the Management Board as required by the law and the Articles of Association. Apart from the Supervisory Board meetings, the Chairman of the Supervisory Board had regular contact with the Management Board and kept himself informed of the current development of business and material transactions. Moreover, in his capacity as Chairman of the Supervisory Board, he coordinated the work of the Supervisory Board, chaired its meetings and represented the Board externally in all matters. The Supervisory Board ratified important transactions requiring its approval. Conflicts of interest relating to the members of the Management and Supervisory Boards which are to be disclosed immediately to the Supervisory Board and communicated to the Annual General Meeting of Shareholders did not arise.

The Supervisory Board has an adequate number of independent members who dispose(d) of sufficient time to be able to exercise their mandates; no former member of the Management Board belongs to the Supervisory Board. The Supervisory Board members do not act on behalf on executive bodies nor in a consultancy capacity to major competitors of the Company.

**Supervisory Board elections**

The regular Annual General Meeting of the shareholders of Beta Systems Software AG, which took place on August 17, 2010, elected Dr. Günter Lewald, Mr. Stephan Helmstädter, Mr. Herbert Werle and Dr. Carsten Bräutigam as new members of the Company's Supervisory Board by a large majority through votes cast on an individual basis. Dr. Günter Lewald was elected to the office of Chairman of the Supervisory Board in the subsequent constituent meeting of the new Supervisory Board. Mr. Stephan Helmstädter is the new Vice Chairman of the Supervisory Board. Other members of the Supervisory Board are Mr. Stefan Hillenbach and Mr. Peter Becker (who replaces Mr. Wilhelm Terhaag) who were elected by the employees as their representatives for the new period of office before the Annual General Meeting of Shareholders. Mr. Stephan Helmstädter was appointed independent financial expert within the meaning of Section 100 para. 5 of the German Stock Corporation Act (AktG). He has special expertise in the fields of accounting and the auditing of annual financial statements.

**Key Points of Consultation**

In the fiscal year 2010, the Supervisory Board met to confer on a broad range of issues. In the first half of the year, issues of special importance included the discussion of current sales undertakings, measures to raise profitability on a sustainable basis, and widening the scope of growth opportunities for the whole Group as well as for individual business lines, and deliberations on ethics guidelines. A special point of consultation was the future strategic alignment of the Enterprise Content Management (ECM) business and its hiving off to form ECM Solutions GmbH (later renamed as Beta Systems ECM Solutions GmbH), along with the relevant documentation. Items on the agenda also included the approval given to the business combination of DETEC Software Products GmbH and DETEC Decision Technology Software GmbH as the absorbing company in accordance with the German Reorganization of Companies Act (UmwG) as well as the approval of Control and Profit Transfer Agreement concluded between Beta Systems Software AG and the future DETEC Software GmbH, a company which, at that time, still operated under the name of DETEC Decision Technology Software GmbH. The Supervisory Board also discussed the monitoring and the assessment of the current risk position in financial terms, including the capital base of the Company. As, in May 2010, the Management Board and Supervisory Board were still in the process of deliberating on options for the development of the Company, the financial calendar was adjusted accordingly and the regular Annual General Meeting of Shareholders was postponed until August 17, 2010.

At the beginning of the second half of 2010, the Supervisory Board approved the proposal for a decision to sell the ECM business through the disposal of 100% of the shares held in Beta Systems ECM Solutions GmbH to the BancTec Group.

Moreover, in the second half of 2010, the meetings of the Supervisory Board concentrated on the analysis of business performance in 2010 and the medium-term planning submitted and explained by the Management Board for the financial years from 2011 to 2013, including the product and market strategies, the risk management system, and the monitoring of the internal control and risk management system relating to the accounting process, as well as the impact of the German Accounting Law Modernization Act (BilMoG) on auditing activities. Planned restructuring measures and the strategic realigning of the Company were also the topic of discussions. Beyond this, the Management Board kept the Supervisory Board informed of progress made with the integration of SI Software Innovation GmbH, an acquired company, and the DETEC companies.

In its meeting on July 16, 2010, the Supervisory Board appointed Mr. Jürgen Herbott to the position of new Chief Executive Officer of Beta Systems Software AG commencing July 19, 2010. Moreover, the Supervisory Board renewed the contract of Mr. Gernot Sagl, Chief Financial Officer, in the same meeting.

The Supervisory Board adopted new bylaws for the Management Board and the Supervisory Board and reassigned Management Board responsibilities.

In addition, the Supervisory Board discussed the Half-yearly Financial Report 2010 and the Three- and Nine-month 2010 Financial Reports with the Management Board prior to their publication in accordance with Code Item 7.1.2 of the German Corporate Governance Code. The Supervisory Board also conferred on adjusting and creating effective, new corporate governance mechanisms and standards.

**Legal disputes**

As in previous years, the Supervisory Board regularly informed itself about important legal disputes and consulted on the procedure to be adopted. This also includes the court case involving the former Chief Executive Officer Mr. Kamyar Niroumand in the context of his dismissal for an important reason by way of resolution dated July 18, 2009, passed by the Supervisory Board. The lawsuit brought by Mr. Niroumand was fully dismissed by the District Court of Berlin in its verdict passed on August 27, 2010. Mr. Niroumand has appealed against the judgment dismissing the action to the Berlin Appellate Court. Moreover, the Supervisory Board had reports regularly submitted to it on other court cases of significance for the company.

**Corporate Governance and Declaration of Conformity**

The Management Board reports on corporate governance at Beta Systems – also on behalf of the Supervisory Board – in the Declaration of Conformity and in the Corporate Governance Report which is part of the 2010 Annual Report. The Management Board and the Supervisory Board have repeatedly discussed the recommendations and suggestions of the German Corporate Governance Code and submitted an updated Declaration of Conformity pursuant to Section 161 of the German Stock Corporation Act (AktG) on December 14, 2010. The declaration is included in the section on Declaration of Conformity and Corporate Governance Report in the 2010 Annual Report and has been made permanently accessible to the shareholders on the website of the Company. As almost the entire Supervisory Board was reelected at the Annual General Meeting of Shareholders on August 17, 2010, the Chairman of the Supervisory Board initially postponed the examination of its efficiency to the period following the adoption of the annual financial statements 2010/11. By this time, the Supervisory Board will have gathered sufficient experience to enable it to discuss the issues of the way in which its work is organized and its efficiency in a targeted and extensive manner. As in previous years, the proposals resulting from this discussion aimed at enhancing reporting and the procedure of meetings will form the basis for improvements to be subsequently implemented.

Beta Systems Software AG has complied and will continue to comply – apart from a few exceptions – with all recommendations of the Government Commission of the German Corporate Governance Code in the Code versions of May 26, 2010, published in the German Federal Gazette on July 2, 2010, and of June 18, 2009, published in the German Federal Gazette on August 5, 2009.

**Personnel Committee and Business Committee**

Up until August 17, 2010, the Supervisory Board of Beta Systems Software AG had a Personnel Committee and a Business Committee made up of its own members. These two committees will not continue to operate under the newly elected Supervisory Board as, in future, the entire Supervisory Board will inform itself, deliberate on and decide the topics formerly addressed by these committees.

The Personnel Committee, which consisted of three people, conferred on the appointment of Management Board members and determined the amount and the structure of Management Board remuneration both of which it reviewed on a regular basis. In the reporting period, the Personnel Committee did not convene separate meetings as the issues were discussed and decisions made by the whole Supervisory Board.

The Business Committee was made up of three persons. The Committee's task was to ratify transactions which require the approval of the Supervisory Board. The Committee did not meet during the reporting period as all transactions requiring approval were submitted to the whole Supervisory Board for its approval.

As described in the Declaration of Conformity of December 14, 2010, there is currently neither an Audit Committee nor a Nomination Committee owing to the current size and composition of the Supervisory Board (six persons) and the size of Beta Systems Software AG itself. Essentially the entire Supervisory Board deals with all questions regarding the rendering and auditing of accounts and is responsible for submitting election proposals to the Annual General Meeting of Shareholders.

**Adoption of the Financial Statements**

The accounting, financial statements and the Combined Management Report on the Group and the Parent Company (Report on the situation of the Company and the Group) of Beta Systems Software AG for the fiscal year 2010 were audited by KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, and were granted an unqualified auditor's opinion. The key audit areas defined in the process of this year's annual audit of the accounts were the recognition of revenues, the presentation of the sale of the ECM business as well as restructuring, the testing of goodwill and significant financial assets for impairment, the completeness and valuation of other provisions, the completeness of the Notes to the Combined Financial Statements, management reporting on the Company and the Group, along with the process of drawing up the combined and separate financial statements. The ensuing report, other audit reports and the financial statements with detailed explanations were sent to all Supervisory Board members in good time for their scrutiny. The Supervisory Board took cognizance of the audit results and affirmed them in its meeting of March 29, 2011, in the presence of the auditor. Following its own concluding examination, the Supervisory Board raises no objections to the financial statements and the Combined Management Report on the Group and the Parent Company. In its meeting on March 29, 2011, the Supervisory Board ratified the annual financial statements, drawn up by the Management Board and audited by KPMG AG, and the Combined Management Report on the Group and on Beta Systems Software AG for the fiscal year 2010, which are hereby adopted.

The combined financial statements were prepared by the Management Board in accordance with the International Financial Reporting Standards (IFRS), as applicable within the EU, and were audited by KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin. Following its own concluding examination, the Supervisory Board raises no objections to the combined financial statements and the Combined Management Report on the Group and the Parent Company. The Supervisory Board also approved the combined financial statements prepared by the Management Board in its meeting on March 29, 2011, in the presence of the auditor.

In this meeting the Management Board also reported to the Supervisory Board on the profitability of the Company, in particular on the return on capital employed. Furthermore, a detailed report was made on the financial position of the subsidiaries.

In addition, the Management Board prepared a report for the fiscal year 2010 on relations with associated companies (Dependency Report). This report documents the fact that Beta Systems Software AG did not sustain any disadvantage in respect of the legal transactions disclosed and received appropriate compensation. The Dependency Report was examined by the independent auditor, with the following findings and opinion:

»Based on the conclusive findings of our audit, there are no objections to be raised within the meaning of Section 313 para. 4 German Stock Corporation (AktG) against the report submitted by the Management Board on relations with associated companies. We therefore grant the following unqualified opinion pursuant to Section 313 para. 3 German Stock Corporation Act (AktG) in respect of the report in Annex 1 submitted by the Management Board on relations with associated companies of Beta Systems Software Aktiengesellschaft, Berlin, for the fiscal year 2010:

Based on our duly performed audit and assessment we confirm that the information provided in the report is accurate.«

We received both the Dependency Report and the audit report of the independent auditor in good time. Based on its own examination, the Supervisory Board concurred with the assessment made by the independent auditor in its meeting on March 29, 2011, and ratified the report. There were no objections to the explanations of the Management Board.

The Supervisory Board would like to thank the Management Board and all the employees of Beta Systems AG for their commitment throughout the fiscal year 2010.

Berlin, in March 2011
On behalf of the Supervisory Board

Dr. Günter Lewald
Chairman of the Supervisory Board

## AUDITOR'S REPORT

»We have audited the Combined Financial Statements prepared by the Beta Systems Software Aktiengesellschaft, comprising the Combined Statement of Financial Position, the Combined Statement of Income, the Combined Statement of Comprehensive Income, the Combined Statement of Changes in Shareholders` Equity, the Combined Statement of Cash Flows and the Notes to the Combined Financial Statements, together with the Report on the Situation of the Company and the Group for the business year from January 1, 2010 to December 31, 2010.

The preparation of the Combined Financial Statements and the Report on the Situation of the Company and the Group in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a para. 1 German Commercial Code (HGB) are the responsibility of the Parent Company's management. Our responsibility is to express an opinion on the Combined Financial Statements and the Report on the Situation of the Company and the Group based on our audit.

We conducted our audit of the Combined Financial Statements in accordance with Section 317 German Commercial Code (HGB) and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany, IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the Combined Financial Statements in accordance with the applicable financial reporting framework and in the Report on the Situation of the Company and the Group are detected with reasonable assurance. 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 audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the Combined Financial Statements and the Report on the Situation of the Company and the Group are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the Combined Financial Statements and Report on the Situation of the Company and the Group. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the Combined Financial Statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to Section 315a para. 1 German Commercial Code (HGB) and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Report on the Situation of the Company and the Group is consistent with the Combined 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.«

Berlin, March 21, 2011

KPMG AG
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| Dr. Kronner | Krebs |
| Wirtschaftsprüfer | Wirtschaftsprüfer |
| (German Public Auditor) | (German Public Auditor) |

# CONSOLIDATED FINANCIAL STATEMENTS

## CONTENT

## COMBINED STATEMENT OF INCOME

| (Thousand €, unless otherwise noted) | *Note* | 2010 | 2009 |
|---|---|---|---|
| | | | |
| **Continued operations** | | | |
| **Revenues** | | **47,642** | **52,260** |
| Product licenses | | 20,222 | 22,150 |
| Hardware | | 89 | 129 |
| Maintenance | | 20,489 | 23,431 |
| Services | | 6,842 | 6,550 |
| | | | |
| **Cost of revenues** | | **17,866** | **20,548** |
| | | | |
| **Gross profit** | | **29,776** | **31,712** |
| | | | |
| **Operating expenses and income** | | **33,324** | **29,333** |
| Selling expenses | | 14,415 | 15,245 |
| General administrative expenses | | 6,568 | 5,889 |
| Research and development expenses | | 9,110 | 9,052 |
| Sundry income | *3* | (1,524) | (1,139) |
| Other expenses | *4* | 4,755 | 286 |
| (of which expenses for reorganization and restructuring | | 4,558 | 0) |
| | | | |
| **Operating result** | | **(3,548)** | **2,379** |
| (of which operating result before expenses for reorganization and restructuring | | 1,010 | 2,379) |
| | | | |
| **Finance result** | *5* | **123** | **282** |
| Interest income | | 797 | 894 |
| Interest expenses | | (674) | (612) |
| | | | |
| **Result before income taxes of continued operations** | | **(3,425)** | **2,661** |
| | | | |
| Income taxes | *6* | 64 | (657) |
| | | | |
| **Net income (loss) for the fiscal period of continued operations** | | **(3,361)** | **2,004** |
| | | | |
| Net income (loss) of discontinued operations for the fiscal period including result recognized on the disposal of the discontinued operations (post-tax) | | 4,175 | (763) |
| | | | |
| **Net income (loss) for the fiscal period** | | **814** | **1,241** |
| | | | |
| **Earnings per ordinary share of continued operations**<br>Basic and diluted | | **(0.26) €** | **0.15 €** |
| | | | |
| **Earnings per ordinary share**<br>Basic and diluted | | **0.06 €** | **0.09 €** |
| | | | |
| **Weighted average shares outstanding to calculate earnings per ordinary share**<br>Basic and diluted | *7* | **13,168,304 units** | **13,168,304 units** |

The accompanying Notes are an integral part of this Financial Report.

## COMBINED STATEMENT OF FINANCIAL POSITION

| (Thousand €) | Note | 12/31/10 | 12/31/09* |
|---|---|---|---|
| **Current assets** | | **52,014** | **55,423** |
| Cash | 8 | 1,223 | 1,986 |
| Trade receivables | 9 | 39,425 | 41,661 |
| Construction contracts | 10 | 504 | 5,514 |
| Inventories | 11 | 0 | 2,752 |
| Other current assets | 12 | 10,385 | 3,168 |
| Income tax assets | | 477 | 342 |
| **Non-current assets** | | **18,325** | **21,567** |
| Property, plant & equipment | 13 | 2,250 | 2,315 |
| Goodwill | 14 | 3,372 | 5,403 |
| Other intangible assets | 15 | 1,731 | 2,582 |
| Acquired software product rights | 16 | 2,323 | 2,574 |
| Deferred tax assets | | 7,740 | 7,848 |
| Other non-current assets | 17 | 909 | 846 |
| **Total assets** | | **70,339** | **76,990** |
| **Current liabilities** | | **28,295** | **32,179** |
| Short-term debt | 19 | 9,725 | 13,188 |
| Trade payables | | 2,809 | 3,206 |
| Deferred income | 20 | 4,978 | 7,166 |
| Income tax liabilities | | 969 | 0 |
| Provisions | 21 | 4,558 | 0 |
| Other current liabilities | 22 | 5,256 | 8,619 |
| **Non-current liabilities** | | **11,828** | **15,069** |
| Long-term debt | 23 | 1,684 | 1,735 |
| Employee benefits | 24+25 | 1,542 | 3,030 |
| Deferred tax liabilities | | 8,410 | 9,803 |
| Other non-current liabilities | | 192 | 501 |
| **Total liabilities** | | **40,123** | **47,248** |
| **Shareholders` equity** | 26 | **30,216** | **29,742** |
| Share capital | | 17,276 | 17,276 |
| Capital reserve | | 10,709 | 10,709 |
| Retained earnings (losses) | | 1,910 | 1,096 |
| Other comprehensive income | | 740 | 1,080 |
| Treasury shares | | (419) | (419) |
| **Total liabilities and shareholders` equity** | | **70,339** | **76,990** |

The accompanying Notes are an integral part of this Financial Report.

*) Balances as at December 31, 2009 include assets and liabilities of discontinued operations ECM, please refer to Note 2 »Discontinued Operations Enterprise Content Management (ECM)« of the accompanying Notes.

## COMBINED STATEMENT OF CASH FLOWS

| (Thousand €) | Q1 – Q4/2010 | Q1 – Q4/2009 |
|---|---|---|
| | | |
| **Cash flow from / used in operating activities** | **67** | **(3,120)** |
| | | |
| **Cash flow from / used in operating activities of continued operations** | **(1,027)** | **(393)** |
| Net income (loss) for the fiscal period | (3,361) | 2,004 |
| | | |
| Reconcilation from net income (loss) for the fiscal period to net cash from operating activities: | | |
| | | |
| Depreciation and amortization | 2,855 | 2,835 |
| (Gain) loss on the disposal of property, plant & equipment and intangible assets, net | 70 | (1) |
| Finance result, net | (123) | (282) |
| Current tax (income) expenses | 718 | 795 |
| Deferred tax (income) expenses | (782) | (138) |
| Income taxes paid | (875) | (821) |
| Foreign currency losses (gains), net | (608) | (242) |
| Changes in assets and liabilities: | | |
| (Increase) decrease in trade receivables | (264) | (4,085) |
| Increase (decrease) in trade payables | 763 | (2,279) |
| Increase (decrease) in deferred revenues | (1,180) | (492) |
| Changes in other assets and liabilities | 1,760 | 2,313 |
| | | |
| **Cash flow from / used in operating activities of discontinued operations** | **1,094** | **(2,727)** |
| | | |
| **Cash flow from / used in investing activities** | **4,302** | **(2,291)** |
| | | |
| **Cash flow from / used in investing activities of continued operations** | **(2,086)** | **(1,721)** |
| Acquisition of property, plant & equipment and intangible assets | (1,109) | (469) |
| Interest received | 23 | 55 |
| Cash paid for investments, net of acquired cash | (1,000) | (1,307) |
| | | |
| **Cash flow from / used in investing activities of discontinued operations (including net cash from the disposal of discontinued operations)** | **6,388** | **(570)** |
| | | |
| **Cash flow from / used in financing activities** | **(5,131)** | **5,661** |
| | | |
| **Cash flow from / used in financing activities of continued operations** | **(5,131)** | **5,661** |
| Net increase (decrease) in short-term debt | (3,554) | 6,067 |
| Proceeds from grant of long-term debt | 0 | 1,000 |
| Repayment of long-term debt | (1,049) | (940) |
| Interest paid | (528) | (466) |
| | | |
| **Cash flow from / used in financing activities of discontinued operations** | **0** | **0** |
| | | |
| **Increase (decrease) in cash** | **(763)** | **250** |
| Cash at the beginning of the fiscal period* | 1,986* | 1,822* |
| Cash at the end of the fiscal period* | 1,223 | 1,986* |
| | | |
| Effect of exchange rate fluctuations on cash | (7) | (86) |

The accompanying Notes are an integral part of this Financial Report.

*) Balances include cash of discontinued operations ECM, please refer to Note 2 »Discontinued Operations Enterprise Content Management (ECM)« of the accompanying Notes.

## COMBINED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

| Q1 – Q4/2010 (Thousand €, except share data in number of shares) | Ordinary shares: Number of shares issued | Share capital | Capital reserve | Retained earnings (losses) | Other comprehensive income | Total | Treasury shares: Number of treasury shares | Value at cost | Total shareholders' equity |
|---|---|---|---|---|---|---|---|---|---|
| **Balance as at January 1, 2009** | **13,288,914** | **17,276** | **10,709** | **(145)** | **1,166** | **29,006** | **(120,610)** | **(419)** | **28,587** |
| Net income for the fiscal period | 0 | 0 | 0 | 1,241 | 0 | 1,241 | 0 | 0 | 1,241 |
| Differences arising on foreign currency translation | 0 | 0 | 0 | 0 | (86) | (86) | 0 | 0 | (86) |
| **Total comprehensive income (loss)** | **0** | **0** | **0** | **1,241** | **(86)** | **1,155** | **0** | **0** | **1,155** |
| **Balance as at December 31, 2009** | **13,288,914** | **17,276** | **10,709** | **1,096** | **1,080** | **30,161** | **(120,610)** | **(419)** | **29,742** |
| Net income for the fiscal period | 0 | 0 | 0 | 814 | 0 | 814 | 0 | 0 | 814 |
| Differences arising on foreign currency translation | 0 | 0 | 0 | 0 | (340) | (340) | 0 | 0 | (340) |
| **Total comprehensive income (loss)** | **0** | **0** | **0** | **814** | **(340)** | **474** | **0** | **0** | **474** |
| **Balance as at December 31, 2010** | **13,288,914** | **17,276** | **10,709** | **1,910** | **740** | **30,635** | **(120,610)** | **(419)** | **30,216** |

The accompanying Notes are an integral part of this Financial Report.

## COMBINED STATEMENT OF COMPREHENSIVE INCOME

| (Thousand €) | 2010 | 2009 |
|---|---|---|
| **Net income (loss) for the fiscal period** | **814** | **1,241** |
| **Income and expenses recognized in equity** | **(340)** | **(86)** |
| Differences arising on foreign currency translation | (340) | (86) |
| **Total comprehensive income (loss) for the fiscal period** | **474** | **1,155** |

The accompanying Notes are an integral part of this Financial Report.

# NOTES TO THE COMBINED FINANCIAL STATEMENTS OF BETA SYSTEMS SOFTWARE AG AND ITS SUBSIDIARIES

## GENERAL INFORMATION

Beta Systems Software Aktiengesellschaft (»AG«), having its registered office in Germany, together with its subsidiaries forms the Group (»Beta Systems«, »the Group« or »the Company«) for whom the following combined financial statements have been prepared in accordance with IFRS for the fiscal year 2010.

The Company's headquarters is in Alt-Moabit 90d, D-10559 Berlin, Germany. The subsidiaries are based in Europe and in North America.

**Description of the business operations**

For more than 25 years, Beta Systems has developed high-profile software products and solutions for the secure and efficient processing of bulk data, which supports companies of any size with heterogeneous IT environments in the automation, safeguarding and transparency of their IT-based business processes. For example, especially companies in the financial sector, in trading, the telecommunications business and industry benefit from these products as, owing to their size and the nature of their business, they are required to process extremely large volumes of sensitive data and documents in business processes critical to their operations. Through its own sales force, Beta Systems offers its products, solutions and services directly to decision makers in the IT and specialist departments of these companies.

The Beta Systems Group ranks among Europe's leading mid-sized software suppliers in its market segment and has been listed on the stock exchange since 1997. Its customers include major companies with global operations, mid-sized companies and organizations in the financial services sector and industry, along with IT service providers and public-sector administration in Germany, Europe, and North and South America. The core business is the sale of usage rights (licenses) to Beta Systems software solutions and associated services. Along with maintenance, these services also comprise installation, project management, consultancy and training.

Data Center Infrastructure (DCI) line of business (LoB) activities are concentrated in Berlin, Neustadt an der Weinstraße and Ruesselsheim. In this LoB, Beta Systems offers its customers standard products, consultancy services and operational support services for companywide data center activities as a fully integrated end-to-end service from one source. Ensuring the seamless, error-free, secure and steady-state availability of a central IT infrastructure for the processing of huge volumes of data and documents is the focus of business.

The Cologne branch concentrates on the Identity Management (IdM) LoB. Beta Systems' Identity Management solutions enable the administration of all IT users while securing access to systems and resources. The Beta Systems Security product portfolio facilitates the automation of all critical processes in IT user administration. In addition, the compliance products of Beta Systems support the implementation of companywide guidelines and compliance with legal and business requirements at a domestic and international level.

**Declaration of conformity**

The Beta Systems Software AG's combined financial statements have been prepared in conformity with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), as they are applicable in the European Union.

The Beta Systems Software AG's Management Board has approved the combined financial statements for the fiscal year 2010 for release to the Supervisory Board on March 21, 2011. It is the Supervisory Board's responsibility to examine the Company's Combined Financial Statements and to provide their approval.

**Functional currency**

The Combined Financial Statements have been prepared in thousands of euros (k€). All amounts have been commercially rounded to the nearest k€. The euro is the Parent Company's functional currency unit. As rounded sums and percentage figures are added with the use of automatic computing aids, mathematical differences due to this rounding off may occur.

**Basis and methods of consolidation**

Beta Systems Software AG is the Parent Company of the Beta Systems Software Group. All companies subject to a controlling interest by the Parent Company (»subsidiaries«) were included in the Combined Financial Statements by means of full consolidation. A controlling influence exists when a parent company is in a position to influence, directly or indirectly, the financial and business policies.

The annual financial statements of the consolidated companies included in the Combined Financial Statements are based on the consistent application of accounting policies and valuation methods. The reporting date for all companies is December 31, 2010.

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

In addition to Beta Systems Software AG as the Parent Company, the combined financial statements include a further 14 subsidiaries (2009: 20 subsidiaries). The consolidated companies are accounted for in the chart »Group's Entities« at the end of the Notes on the Consolidated Accounts.

## ACCOUNTING POLICIES AND VALUATION METHODS

The accounting policies and valuation methods described hereinafter have been consistently applied by all the Group Company's. Historical acquisition and production costs are primarily used as a basis for combined financial statements. For the assets and liabilities to which this principle is not applied, explanatory notes and particulars are provided in the accounting policies and valuation methods subsequently described.

**Use of accounting estimates and discretionary decisions**

The preparation of the combined financial statements in accordance with the regulations of the IFRS requires the corporate management's use of estimates and assumptions and this has an impact on the assets and liabilities as shown in the combined financial statements as well as on the total income and expenses. It is possible that the actual results later obtained deviate from these estimates and assumptions.

The estimates and their underlying assumptions are continuously verified. Modifications to accounting related estimates are entered in the profit and loss statement for the reporting period during which these modifications were made as well as in subsequent reporting periods, if necessary.

For the combined financial statements the management made significant forward-looking assumptions and estimates, in particular as pertains to the assets and liabilities named below. Detailed information is provided in the Notes to the following items:

**Note 6** »Income taxes«
**Note 9** »Trade receivables«
**Note 10** »Construction contracts«
**Note 11** »Inventories«
**Note 13** »Property, plant & equipment«
**Note 14** »Goodwill«
**Note 15** »Other intangible assets«
**Note 16** »Acquired software product rights«
**Note 18** »Finance leasing«
**Note 24** »Retirement benefits«
**Note 25** »Termination benefits«
**Note 27** »Financial instruments«
**Note 32** »Contingent liabilities«

**Revenue recognition**

Software license revenue, consisting of new product licenses and CPU upgrades, is recognized when persuasive evidence of an arrangement exists, when delivery of the software has occurred and the execution key has been provided, the fee is fixed or determinable and receipt of payment is probable. When an agreement includes multiple elements, revenues are allocated to those elements on the basis of their fair value. For revenue recognized from licenses with temporary use, the criteria described in IAS18 IE 20 are applied.

Maintenance revenue is recognized pro rata temporis over the maintenance service period.

Service revenue consists of services for consulting, installation and training and is recognized, on the basis of contractually agreed prices, at the time when the services are delivered.

In addition to the existing standard software products for infrastructure software, the Company offers, in the context of consulting services, products designed to meet the individual requirements and technological resources of customers in the form of customized project solutions and individual support. These construction contracts comprise the creation of made-to-order software through modification or further development of existing standard products.

Revenues from these construction contracts are recognized pursuant to IAS 11 according to the progress of contractual fulfillment in accordance with the percentage-of-completion method (POC), a method which addresses 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 as of the 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 project, whereby the actual costs accrued for the performance already completed as of the reporting date are set in relation to the estimated total project costs at that time.

In the case of contracts with long terms payment due, the revenue is recognized in the corresponding amount of the fair value of the trade receivables.

**Research and development costs**

Research and development projects by the Company, which result in the development of new software products or in 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 product rights are therefore recognized as research costs in the Combined Statement of Comprehensive Income in the period of their accrual in accordance with the principles of IAS 38.52 and IAS 38.53. All research and development costs are therefore recognized as expenses in the periods in which they were occurred.

**Sundry income / other expenses**

Sundry income and other expenses, such as gains or losses from the disposal of tangible assets, are recognized in the profit and loss for the fiscal period in which they were occurred. Gains or losses from foreign exchange rate fluctuations are shown as a net amount.

**Finance result**

The financial income comprise all interest received from deposits at banks as well as from long-term receivables. Financial expenses are in the main comprised of interest expenses from financing through credit institutions. All interest income and expenses are recognized by using the effective interest method for the fiscal period during which they were accrued.

**Current income taxes**

The current income taxes are the result of the amount of income taxes due and/or refundable on the taxable income applicable for the individual companies or the tax losses from current or previous reporting periods. They are measured using the tax regulations and rates in effect on the reporting date with the amount that is to be expected as a payment or a refund of taxes. Since current tax assets and liabilities are to be settled on a net basis, actual tax liabilities and actual claims for restitution of overpaid taxes have been netted out.

**Deferred income taxes**

Deferred taxes have been determined in accordance with the liability method prescribed in IAS 12 for all temporary differences between the amounts in the balance sheet items of the consolidated financial statement according to IFRS and the corresponding tax basis values. In addition, the probably realizable tax benefit will be factored into the calculation of future taxable income resulting from existing loss carryforwards. Deferred taxes were not stated at differences between non tax deductible goodwill and temporary differences connected with participating investments. The assumptions are listed under Point 6, »Income Taxes«.

**Earnings per ordinary share**

The undiluted earnings per ordinary shares is calculated by dividing the net income allocated to the common stockholders of the Parent Company with the weighted average of the shares outstanding during the fiscal year.

The diluted earnings per ordinary shares is calculated using the net income allocated previous and possibly new common stockholders are entitled to and dividing it by the weighted average of the shares outstanding during the fiscal year, taking into account the effects of all diluting potential ordinary shares. The diluting effect from all options issued is contained in the diluted result per ordinary shares as the treasury stock method is applied.

**Cash**

Cash includes cash on hand and demand deposits at banks callable without a notice. Valuation is carried out at the closing exchange rate on the reporting date.

**Trade receivables**

Trade receivables are initially measured at their fair value. Subsequent they were measured at amortized costs.

Due to their short term nature, the fair value of trade receivables coming due for payment within the next twelve months corresponds to their carrying value. To measure receivables from contracts with long-term payment due at fair value, these receivables are recognized at the present value of expected cash flows.

For trade receivables denominated in foreign currencies the closing exchange rate at the reporting date is applied.

**Construction contracts**

The project order contracts comprise the manufacture of customized made-to-order project solutions designed to meet the individual requirements of customers. These construction contracts comprise the construction of made-to-order software through modification or further development of existing standard products. The nature and the extent of the services are to be delivered according to 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 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 relation to the estimated total project costs at that time.

Project costs comprise both direct costs as well as general production overhead costs in connection with the existing agreements indirectly allocable.

During the construction phase the construction costs including margin are recognized in the Statement of Financial Position as construction contracts. This represents the gross unbilled amount expected to be collected from customers for contract work performed to date, excluding progress payments already received. If advance payments and progress payments received from a customer exceed the recognized profits for a construction contract, the net excess is presented in the Statement of Financial Position under »Advanced payments received for construction contracts«.

**Inventories**

Inventories are stated at the lower of the average acquisition 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 other inventories. Inventory risks resulting from storage, slow-moving-, obsolete and damaged goods are taken into consideration by accounting for appropriate valuation adjustments.

**Other current assets**

Other short term receivables largely consist of the Company's other non-operating receivables as well as prepaid expenses and deferred charges. They are valued at their acquisition costs less impairment losses. The fair value roughly corresponds to the carrying value because of the short terms nature.

**Property, plant & equipment**

Tangible assets are valued at their historical acquisition costs less the accumulated allocation of scheduled straight-line depreciation amounts.

The scheduled depreciation of the depreciable assets is recognized through profit or loss and is based on the assets' expected useful lives. Assets which are subject to a finance lease arrangement are depreciated over the useful life of the asset.

The following estimated useful economic lives are applied:

| Estimated useful life | Years |
|---|---|
| Computer equipment | 3 – 5 |
| Leasehold improvements | 5 – 10 |
| Facilities and office equipment | 3 – 13 |

Methods of depreciation, anticipated useful life times and carrying values are reviewed on every reporting date.

The gains and losses from the disposal of tangible assets are determined by comparing the payments and the carrying value of the investment and are each recorded as »Sundry Income« or »Other Expenses« respectively.

**Goodwill**
Goodwill arises on a business combination and is the excess of the cost of the acquisition over the Company interest in the net fair values of the identifiable assets and liabilities and contingent liabilities of the acquierer's. Goodwill is measured in this resulting difference amount, less all accumulated impairment losses resulting from impairment testing conducted in accordance with IAS 36. If the excess resulting from a business combination is negative, the excess is immediately recognized through profit or loss.

**Other intangible assets and acquired software product rights**
Acquired intangible assets with finite useful lives are valued in the Combined Statement of Financial Position in the amount of the acquisition costs, less the accumulated allocation of scheduled amortization and impairment losses.

Intangible assets are subject to scheduled amortization on a straight-line basis. For the scheduled amortization of the intangible assets, which is recognized through profit or loss in each reporting period, an estimated useful economic life of five up to seven years is applied as a general rule.

**Other non-current assets**
Other long term receivables include insurance policies intended to fund a portion of the Company's pension obligations. The Company sets the value of these investments at their fair value.

**Impairment of assets**
***Financial assets:*** All financial assets are initially measured at their fair value, i.e. cash, trade receivables and derivative financial instruments are annually reviewed, on the respective reporting dates, for indications of impairment as specified in IAS 36.12. Major assets are individually tested for impairment.

If there is objective evidence that one or more events have a negative effect on the asset's estimated future cash flows, an impairment of the asset will ensue. This will be calculated from the difference between the carrying value and the (lower) attainable present value of the asset's estimated discounted cash flows. An impairment loss shall be recognized immediately in the profit and loss.

Reversals of impairment losses are undertaken only if the impairment can be related objectively to an event that took place after the impairment was recognized. This is then carried out.

***Non-financial assets:*** All non-financial assets, i.e. property, plant and equipment, goodwill, other intangible assets and acquired software product licenses are regularly reviewed, on the respective reporting dates, for indications of impairment as specified in IAS 36.12. Major assets are individually reviewed for impairment.

If there is any indication of impairment loss, an attainable amount is determined for the asset as the amount higher than the amount of the value in use and the fair value less the cost of disposal. Should the thus determined attainable value be lower than the carrying value recognized for this asset, then the carrying value of the asset is to be reduced to its attainable amount. The value in use is determined based on the present value of anticipated future cash flows. An impairment loss shall be recognized immediately in the profit and loss.

If there are indications that an impairment with respect to other intangible assets and acquired software product licenses that was recorded in the past has diminished or no longer exists, this loss will be reversed. The carrying value thus determined may not exceed the asset's value resulting from the amortized costs less any depreciation scheduled up to this point in time.

In addition, once yearly the goodwill acquired in business combination, based on the expected discounted net cash flows allocated to the net asset value of the specified cash-generating units. The calculation of the attainable revenue is based on the value in use. Impairments are recognized and are not reversed.

**Operating leasing / finance leasing**
The classification of leases as finance leases or operating leases is determined on the basis of the economic content of the lease agreement in accordance with IAS 17.8. When all essential risks and rewards with respect to such property pass on to the lessee, the lease agreement is classified as a finance lease.

The lessee capitalizes the asset under property, plant & equipment and accounts for it in accordance with the valuation method applicable to the specific asset. The present value of the obligation towards the lessor is carried as a liability. The difference between the net 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.

Other leases are operating leases and are not recognized in the Combined Statement of Financial Position. Payments made under operating leases are recognized in the Statement of Comprehensive Income over the term of the lease.

**Trade payables**
Trade payables are measured at their fair values. In the case of trade payables due within the next twelve months, because of the short terms nature, these correspond to the listed repayment amounts (carrying value).

**Provisions**

Provisions are set up if the company has legal or constructive obligations to third parties based on past events and it is likely that such obligations will result in an outflow of funds. The provisions are carried with the value that can be determined with the best possible estimates at the point in time when the annual financial statement is prepared. If the present value of the provision as determined on the basis of standard interest rates is significantly different from the nominal value, the present value of the liability is used.

In addition to provisions according to IAS 37, if necessary, this balance sheet entry may also contain provisions for employee severance payments or termination benefits in accordance with IAS 19.

**Other current liabilities**

Other current liabilities are stated at their fair values. Due to their short term nature, these closely correspond to their carrying values (repayment amounts).

**Long-term debts**

Financial liabilities are carried in the actual accrued amounts less the transaction costs. Any differences between the amount received and the repayment amount are spread over the financing period and recorded in the financial result.

**Retirement benefits**

Based on company agreements and contracts, under certain conditions, an obligation exists to provide pension payments for employees after their retirements. These performance-related obligations are partially offset by reinsurance coverage especially set up for this purpose. These pension schemes are entered on the balance sheet in accordance with IAS 19 using the projected unit credit method and are included in the »Employee Benefits«. The actuarial gains or losses are distributed using the corridor method. They are presented in the turnover costs and operating expenses. The actuarial gains or losses outside of the corridor are shown proportionately in the profit and loss statement relative to the remaining average expected working time of the employees covered by the plan.

Based on legal conditions, the Company makes contributions to state pension insurance institutions. The payment of these contributions satisfies all the Company's obligations in this respect. The expenses involved in these contributions are recognized in the profit and loss.

**Termination benefits**

Employee benefits due in respect of partial retirement plans originating from the aftermath of collective bargaining agreements are also included in the position »Employee benefits«.

Benefits are recognized through profit or loss when a respective offer by the Company for a partial retirement employment agreement is likely to be exercised.

The provisions were calculated according to the actuarial principles in accordance with IAS 19.133 et seq. These assumptions are quoted under the Note 19. »Termination benefits«.

**Discontinued operations**

Revenues and expenses from business operations classified as discontinued are separated from the revenues and expenses of continued lines of business and shown cumulatively in the item »Net income (loss) of discontinued operations for the fiscal year period including result recognized on the disposal of the discontinued operations (post-tax)« in the Combined Statement of Income. The gain from the sale as well as any costs incurred within the scope of the sale are also attributed to the discontinued operation. Comparison periods respectively are adjusted in accordance with IFRS 5.34.

In conformity with IFRS 5.40, no reclassifications resulted in the Consolidated Statement of Financial Position from the discontinuation of the business operation. The net asset values and liabilities to be assigned to the discontinued operation at the time of the sale were measured at the lower of carrying value or fair value less the costs associated with the sale and these assets and liabilities are represented in a separate record for the discontinue operation.

**Financial instruments**

Financial instruments include all contracts which constitute a financial asset and a financial liability or an equity instrument with third parties. The Company's financial instruments include financial assets and liabilities such as cash, cash equivalents, financial assets held for sale, trade receivables and payables, short term financing and financial leasing and financial liabilities as well as derivative financial instruments in the form of foreign currency forwards.

Non-derivative financial instruments are recorded at their fair value upon acquisition. In most cases this corresponds to the acquisition costs plus all transaction costs that can be directly attributed to it. The measurement of non-derivative financial instruments subsequent to initial recognition was done depending on the categorization in accordance with IAS 39 and the method used is described in the valuation rules for the respective financial instrument.

Derivative financial instruments in the form of foreign currency forwards are used to limit and manage the risks involved in foreign currency translation. These do not fulfill the requirements of the fair value hedge within the meaning of hedge accounting. Derivative financial instruments are carried acquisition costs; attributable transaction costs are recognized as they are incurred. The measurement subsequent to initial recognition is done at fair value. This fair value of the hedging instrument is derived from forward rates on the reporting date. The measurements resulting from the adjustments due to changes in the fair value are recorded in the respective period in the profit and loss statement.

**Foreign currency translation**

The assets and liabilities denominated in the statement of financial positions of the foreign subsidiary are converted to Euro on the basis of the appropriate foreign exchange benchmark rates on the reporting date, while the revenues and expenses in the statement of income were translated using the appropriate average monthly foreign exchange benchmark rates.

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

| Country | Currency unit | Exchange benchmark rate at December 31 2010 | 2009 | Average exchange rate for the year 2010 | 2009 |
|---|---|---|---|---|---|
| USA | USD 1 = € | 0.747049 | 0.694440 | 0.753520 | 0.717650 |
| Canada | CAD 1 = € | 0.748503 | 0.662339 | 0.731760 | 0.630800 |
| Great Britain | GBP 1 = € | 1.160362 | 1.124860 | 1.165170 | 1.122090 |
| Switzerland | CHF 1 = € | 0.798403 | 0.673900 | 0.723390 | 0.662310 |
| Sweden | SEK 1 = € | 0.111359 | 0.097466 | 0.104740 | 0.094150 |
| Nigeria | NGN 1 = € | 0.004921 | 0.004579 | 0.004929 | 0.004748 |

Gains realized from continuing business transactions in foreign currency are recognized on a net basis in the positions »Sundry income« respectively »Other Expenses« in the Combined Statement of Income.

Cumulative currency translation adjustments resulting from changes not affecting the statement of income were shown, net of the tax effect, as a separate component of »Other Comprehensive Income« in shareholders' equity.

| Exchange differences arising on translation of foreign operations disclosed as a seperate component of equity | 2010 | 2009 |
|---|---|---|
| | | |
| Balance as at January 1 | 1,080 | 1,166 |
| Gains on currency translation differences | 667 | 517 |
| Loss on currency translation differences | (1,007) | (601) |
| Other currency translation adjustments | 0 | (2) |
| **Balance as at December 31** | **740** | **1,080** |

**Shareholders' equity**
Payments into the accounting par value of common shares are classified as equity. Additional costs that can be directly attributed to the issue of common stock and stock option plans are recognized, less the incurred tax effects, in the equity.

Every ordinary share gives the shareholder a voting right.

If common stock classified as equity is bought back, the repurchased shares are classified as treasury shares and deducted from the equity at acquisition costs after adjustment for is made for any tax effects.

## NEW ACCOUNTING GUIDELINES

Amendments to existing and new IFRS and IFRIC, as issued by IASB, have been adhered to in the preparation of the combined financial statements. Amendments to existing or new standards and interpretations issued prior to December 31, 2010, but not yet effective were not applied prematurely.

***Standards and Interpretations to be applied in the Current Fiscal Year***

The new version of ***IFRS 1 First-time Adoption of International Financial Reporting Standards***, published in November 2008 by the IASB is primarily intended to improve the structure of the existing standard, thereby simplifying its application. There are no changes in the content of the requirements placed on first adopters from the amendment. Amended IFRS 1 is to be applied to reporting periods starting on or after July 1, 2009. Earlier application is permitted. The application of these amendments is unlikely to have any effect on the accounting methods applied by the Company and the presentation of its net assets, financial position and result of operations.

The IASB, in July 2009, published amendments to the ***IFRS 1 First-time Adoption of International Financial Reporting Standards*** which were adopted by the European Union on June 23, 2010. This amendment includes exemption provisions related to the application of defined IFRS for businesses in the oil and gas industry and was updated to include an existing exemption to use the transitional provisions as specified in IFRIC 14, sector-independently. The mandatory application to fiscal years beginning after December 31, 2009 has had no effect on the Group's presentation of its financial position, cash flows and results of operations.

The amendment to the ***IFRS 2 Share-based Payments***,published by the IASB in June 2009 and adopted by the European Union on March 23, 2010, explains the accounting procedures used for intra-group share-based payment transactions using cash settlements. The application of the amended standard is mandatory for fiscal years beginning after December 31, 2009. Since no such transactions took place in the Company, the application has had no effect on the Group's presentation of its financial position, cash flows and results of operations.

The IASB published a revised version of ***IFRS 3 Business Combinations*** in January 2008. The standard introduces changes in the accounting treatment of business combinations which will have an impact on the amount of goodwill recognition, the results generated during the reporting period in which the business was acquired, and future results. The standard is mandatorily applicable to the fiscal years beginning on or after July 1, 2009. The application of these amendments is unlikely to have any effect on the accounting methods applied by the Company and the presentation of its net assets, financial position and result of operations.

The IASB published a revised version of ***IAS 27 Consolidated and separate Financial Statements*** in January 2008. The new IAS 27 prescribes that changes in the ownership interest which do not incur loss of control must be accounted for as a transaction under equity. Such transactions may therefore result neither in goodwill nor in a profit or loss. Moreover, standards governing the distribution of loss to the owners of the parent company and investments without control and the accounting regulations for transactions incurring loss of control were changed. The standard is mandatorily applicable to the fiscal years beginning on or after July 1, 2009. The application of these amendments is unlikely to have any effect on the accounting methods applied by the Company and the presentation of its net assets, financial position and result of operations.

In July 2008, the IASB published the revised version of ***IAS 39 Financial instruments: recognition and measurement – eligible hedged items*** which is applicable for the first time to fiscal years commencing on or after July 1, 2009. The amendment specifies how the principles under IAS 39 on recognizing hedging relationships are to be applied to the designation of a one-sided risk in a hedged item and the designation of inflation risks as an underlying. The application of these amendments is unlikely to have any effect on the accounting methods applied by the Company and the presentation of its net assets, financial position and result of operations.

The IASB published amendments to ***IFRIC9 and IAS 39*** in March 2009. These amendments pertain to the ***Reassessment of embedded Derivatives*** and their ***Recognition and Measurement***. The amendments are applicable to the fiscal years beginning on or after July 30, 2009. The amendments require a company to assess whether an embedded derivative must be separated from its underlying contract if a company reclassifies a hybrid financial asset in the class of financial instruments to be measured at fair value through profit and loss. The amendments are unlikely to have any effect on the accounting of the Company or the Notes to the Combined Financial Statements.

The International Financial Reporting Interpretation Committee published the interpretation of ***IFRIC 12 Service Concession Arrangements*** in November 2006. The interpretation provides guidelines on accounting for the infrastructure assets entrusted to the operator underlying such agreements. The various phases are defined more precisely and instructions given on how to recognize the respective expenses and revenues. The amendments are applicable to the fiscal years beginning on or after April 1, 2009. The application of these amendments is unlikely to have any effect on the accounting methods applied by the Company and the presentation of its net assets, financial position and result of operations.

The International Financial Reporting Interpretation Committee published an interpretation of ***IFRIC 15 Agreements for the Construction of a Real Estate*** in July 2008. This interpretation clarifies under which circumstances revenue from the construction of real estate is to be disclosed in the financial statements and whether a contract falls within the scope of application of IAS 1 or IAS 18. The amendments are applicable to the fiscal years beginning on or after April 1, 2009. The application of these amendments is unlikely to have any effect on the accounting methods applied by the Company and the presentation of its net assets, financial position and result of operations.

The International Financial Reporting Interpretation Committee published the interpretation of ***IFRIC 16 Hedges of a net Investment in a foreign Operation*** in July 2008. This interpretation provides a set of guidelines for accounting for hedging in a foreign currency of a net investment in a foreign operation. The amendments are applicable to the fiscal years commencing on or after July 1, 2009. The application of these amendments is unlikely to have any effect on the accounting methods applied by the Company and the presentation of its net assets, financial position and result of operations.

The International Financial Reporting Interpretation Committee published its interpretation of ***IFRIC 17 Distributions of Non-cash Assets to Owners***, in November 2008. This interpretation clarifies the recognition of distributions of non-cash assets to owners. The interpretation is applicable to reporting periods beginning on or after November 1, 2009. The application of these amendments is unlikely to have any effect on the accounting methods applied by the Company and the presentation of its net assets, financial position and result of operations.

The International Financial Reporting Interpretation Committee published its interpretation of ***IFRIC 18 Transfer of Assets from Customers***, in January 2009. This interpretation clarifies the requirements placed on accounting for the transfer of assets or cash payments from a customer for the construction or acquisition of an asset. The amendments are applicable to reporting periods beginning on or after November 1, 2009. The application of these amendments is unlikely to have any effect on the accounting methods applied by the Company and the presentation of its net assets, financial position and result of operations.

*Stress-free phoning thanks to »cost transparency at a glance« because the provider uses solutions by Beta Systems to generate and dispatch clearly itemized invoices.*

***Improvements to IFRS 2008***

In May 2008, the IASB published a collection of amendments to various IFRSs with the primary aim of eliminating inconsistencies and clarifying formulations. The amended standards, applicable on or after July 1, 2009, are unlikely to have any effect on the accounting methods applied by the Company and the presentation of its net assets, financial position and result of operations.

***Improvements to IFRS 2009***

In April 2009 the IASB published yet another set of amendments to various IFRSs. In addition to its aim of tightening the standards and make them easier to understand, these amendments have an effect on accounting procedures in accordance with IFRS 8, IAS 17, IAS 36 and IAS 39. The improvements, adopted by the European Union on March 23, 2010 are applicable for the first time for fiscal years beginning on or after January 1, 2010. The application of these regulations led to changes in the Group's segment reporting procedures.

***Premature Application of Standards and Interpretations***

The Company does not apply existing or new standards and interpretations issued prior to December 31, 2010, but not yet effective.


DOCUMENT COMPOSITION

***Standards and Interpretations published but not yet applied***

The following interpretations had been published and adopted by the European Union by the reporting date; application of these interpretations is, however, not yet mandatory:

In January 2010, the IASB published amendments to the ***IFRS 1 First-time Adoption of International Financial Reporting Standards*** that are intended to free first-time IFRS adopters from the provision of defined comparative figures in accordance with IFRS 7. The application of these amendments, adopted by the European Union on June 30, 2010, is mandatory for fiscal years beginning as of June 30, 2010. There will be no effect on the Company's presentation of its financial position, cash flows and results of operations.

In November 2009, the IASB published a revised version of the ***IAS 24 Related Party Disclosures***, which was adopted by the European Union on July 19, 2010. It was to simplify the definition of related companies or entities and free companies that have links with public institutions from the mandatory provision of certain information. The application of the new version of the IAS is mandatory for fiscal years beginning after December 31, 2010. The application is not likely to have any effect on the Group's presentation of its financial position, cash flows and results of operations.

The amendments to the ***IAS 32 Financial Instruments: Presentation*** published by the IASB in October 2008 and adopted by the European Union on December 23, 2009 clarify the accounting procedures for certain pre-emptive rights when the instruments issued are not in the issuer's functional currency. The application of the amended standard is mandatory for fiscal years beginning on or before February 1, 2010 and will probably not have any effect on the Company's presentation of its financial position, cash flows and results of operations.

The International Financial Reporting Interpretation Committee published an amendment to the ***IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*** in November 2009. This includes the mandatory processing of a prepayment in order to fulfill the minimum funding requirement as an asset value. The amendment was adopted by the European Union on July 19, 2010 and the application is mandatory for fiscal years beginning as of January 1, 2011. There are not likely to be any effects on the Company's presentation of its financial position, cash flows and results of operations.

In November 2009, the International Financial Reporting Interpretation Committee published die interpretation ***IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments***. This interpretation, adopted by the European Union on July 23, 2010 is to clarify the accounting of equity instruments issued by a debtor upon renegotiating the conditions of a financial liability for the purpose of complete or partial repayment. The interpretation is mandatory for fiscal years beginning after June 30, 2010 and its application will probably not have any effect on the Group's presentation of its financial position, cash flows and results of operations.

## OPERATING SEGMENTS

### SEGMENT REPORTING ACCORDING TO OPPERATING SEGMENTS

At the reporting date two Lines of Business (LoBs) defined as operating segments DCI (Data Center Infrastructure) and IdM (Identity Management) are listed, with the different market-related strategies in each case.

The entire operating segment ECM (Enterprise Content Management) was sold on June 3, 2010. In the following overview, the presentation of the operating segments was divided into continuing and discontinued operating segments.

The accounting policies of the operating segments are described in »Accounting Policies and Valuation Methods« and have not been changed from the previous year.

**Continuing operations**

The operating segments are set up according to the structure of the company's management and the internal reporting system. Since the strategic units offer different products and services, require different technologies and different distribution and marketing strategies, they are managed separately. This differentiation is common in the product and solution oriented market segmentation of the IT market. Beta Systems` operating segments clearly positions itself as a strategic supplier in two key areas of the IT infrastructure business.

The LoBs are set up with a focus on the respective markets that are to be addressed and the strategic challenges involved. For this purpose, each LoB is assigned the Company's products and services that correspond to their strategic business model. The set-up as a profit center enables the management of each LoB to control its business operations in a direct and independent manner, operationally as well as financially; the operations include the development of the products assigned to it as well as the manufacturing and the project management. With the LoBs structured as described, they are also able to look after the distribution and service directly. Along with this, the internal accounting for services in these areas is also possible - this facilitates a fair cost allocation for the distribution and service. The LoB's manager is responsible for the world-wide success of his business.

Both segments generate revenue from licenses, maintenance and consultancy service as well as revenue from project contracts. The IdM segment additionally generates hardware sales on a small scale. The accounting for the revenue between the segments is done under the same conditions as it is between unrelated third parties.

| | Q1–Q4/2010 | | | Q1–Q4/2009 | | |
|---|---|---|---|---|---|---|
| **Operating segments k€** | **DCI** | **IdM** | **Total** | **DCI** | **IdM** | **Total** |
| | | | | | | |
| Revenues with customers | 37,520 | 10,122 | 47,642 | 39,535 | 12,725 | 52,260 |
| Cost of revenues and operating expenses of the operating segments | (21,652) | (10,391) | (32,042) | (22,147) | (9,860) | (32,007) |
| | | | | | | |
| **Segment's operating income (loss) for the fiscal period** | **15,868** | **(268)** | **15,600** | **17,388** | **2,865** | **20,253** |
| | | | | | | |
| Interest income | 627 | 169 | 797 | 696 | 224 | 920 |
| Interest expenses | (531) | (143) | (674) | (110) | (37) | (147) |
| Capital investment expenditures for fixed and intangible assets | (774) | (971) | (1,745) | (6,489) | (181) | (6,670) |
| Scheduled depreciation and amortization | (2,248) | (607) | (2,855) | (2,181) | (654) | (2,835) |

No sales revenues were generated based on business transactions between the Company's individual operating segments.

In accordance with the improvements to the IFRS 2009, which are to be applied to the present fiscal period, according to IFRS 8.23 valuations of all assets and liabilities need only be provided if this information is regularly reported to the chief operating decision maker. The information is included in the Group's regular management reports and is therefore not listed in this overview. Interest income and expenses and scheduled depreciations have been allocated in accordance with the reported sales revenues from customers. The total acquisition costs for plant, property and equipment, goodwill and other intangible assets as well as acquired software product licenses represent the operation's investments. The goodwill gained in the merger, other intangible assets as well as acquired software product licenses have been allocated directly to the respective operating unit.

For the purposes of Company's internal reporting, not all expenses have been allocated to the LoBs' operating results; the reconciliation of the operating units' results with the Company's combined aggregate figures is outlined as follows:

| **Reconciliation to Beta Systems' consolidated results k€** | **Q1–Q4/ 2010** | **Q1–Q4/ 2009** |
|---|---|---|
| | | |
| Total segment operating income for the fiscal period | 15,600 | 20,253 |
| Unallocated overhead costs | (15,917) | (18,726) |
| Sundry income | 1,524 | 1,139 |
| Other expenses | (4,755) | (286) |
| Operating result | (3,548) | 2,379 |
| Finance result | 123 | 282 |
| Result before income taxes | (3,425) | 2,661 |
| Income taxes | 64 | (657) |
| **Net income (loss) for the fiscal period of continued operations** | **(3,361)** | **2,004** |

The breakdown of the sales revenue according to the geographic location of the sales markets in Germany, other European countries, America, Africa and the rest of the world as well as the corresponding information pertaining to the non-current assets in these regions is illustrated in the following chart:


[OUTPUT MANAGEMENT]

| Information about Geographics k€ Q1 – Q4 / 2010 | Germany | Other Europe | America | Africa and RoW | Total |
|---|---|---|---|---|---|
| | | | | | |
| Total revenues | 23,860 | 19,613 | 4,143 | 26 | 47,642 |
| | | | | | |
| Non-current assets excluding deferred tax assets* | 9,970 | 96 | 519 | 0 | 10,585 |
| Deferred tax assets* | 6,886 | 4 | 850 | 0 | 7,740 |
| Employee benefits* | 1,542 | 0 | 0 | 0 | 1,542 |
| | | | | | |
| **Information about Geographics k€ Q1 – Q4 / 2009** | **Germany** | **Other Europe** | **America** | **Africa and RoW** | **Total** |
| | | | | | |
| Total revenues | 27,529 | 19,847 | 4,883 | 0 | 52,260 |
| | | | | | |
| Non-current assets excluding deferred tax assets* | 12,935 | 112 | 599 | 73 | 13,719 |
| Deferred tax assets* | 7,045 | 4 | 742 | 57 | 7,848 |
| Employee benefits* | 3,030 | 0 | 0 | 0 | 3,030 |

*) Balances as on December 31, 2009 include assets and liabilities of discontinued operations ECM, please refer to Note 2 »Discontinued Operations Enterprise Content Management (ECM)« of the accompanying Notes

*Getting all the necessary documents at the right time because the insurance company manages its entire outgoing mail with the aid of solutions by Beta Systems.*

**Discontinued operations ECM**

In connection with the sale completed on June 3, 2010, the operations ECM were effectively separated from Beta Systems in terms of the rights and obligations of organization and financial accounting as of May 31, 2010. No significant business transactions took place in the days between the separation and the transfer of control.

The segment ECM generated revenue from licenses, maintenance, hardware and service performance as well as revenue from project contracts. The sales revenue from the discontinued operations ECM with customers amounted to k€ 11,773 up to May 31, 2010 (2009: k€ 28,845). There was no further sales revenue. Details for the directly attributable expenses and income, the operational unit's results and the reconciliation with the discontinued operation's results are shown under Point 2, »Discontinued Operations Enterprise Content Management (ECM)«.

The share of interest income and expenses attributed to the segment up to May 31, 2010 each amounted to k€ 0 (2009: interest income k€ 0, interest expenses k€ 466). The segment's scheduled depreciations for the same period consisted of k€ 136 (2009: k€ 798).

For details regarding non-current assets, deferred tax refund claims and trade payables from employee benefits please continue referring to Point 2, »Discontinued Operations Enterprise Content Management (ECM)«. All assets and liabilities represented here were for the most part in Germany.

# NOTES ON THE COMBINED FINANCIAL STATEMENTS OF INCOME AND ON ASSETS AND LIABILITIES

## 1. ACQUISITION OF DETEC COMPANIES, RUESSELSHEIM

Through an agreement signed on December 22, 2008 effective as of January 1, 2009, Beta Systems Software AG acquired 100% of the shares in DETEC Decision Technology Software GmbH (»DETEC GmbH«) and DSP DETEC Software Products GmbH (»DSP GmbH«), both located in Russelsheim. DETEC's portfolio comprises products to generate optically high-quality and sophisticated documents in the output management area through the formatting of output data. The core DETEC product, LaserSoft/DoXite, formats graphical documents from data, texts and layouts. The section is allocated to the business segment DCI.

The purchase price amounts to k€ 4,749. The investment was financed through the Company's own funds and borrowings.

The acquisition date for purposes of initial consolidation is January 1, 2009. The allocation of the purchase price accordance with IFRS 3 was recognized as follows:

| DETEC Companies, Ruesselsheim, Purchase Price Allocation in k€ | Carrying amount | Revalution | Market Value |
|---|---|---|---|
| | | | |
| Goodwill | 0 | 2,864 | 2,864 |
| Product Rights | 0 | 1,181 | 1,181 |
| Customer Base | 0 | 983 | 983 |
| Deferred Tax Liabilities | 0 | (649) | (649) |
| Cash | 1,736 | 0 | 1,736 |
| Property, Plant & Equipment | 144 | 0 | 144 |
| Other Current Receivables and Liabilities | (440) | 0 | (440) |
| Deferred Income | (1,070) | 0 | (1,070) |
| **Net Assets, including Goodwill** | **370** | **4,379** | **4,749** |

The value of the goodwill is the result of a number of factors, such as the value of the core workforce and synergies in the area of sales and distribution. In the reporting period, the DETEC companies contributed revenues of k€ 3,844 (2009: k€ 4,556) and a profit of k€ 271 (2009: 407) to the combined result.

Effective as of January 1, 2010, DSP GmbH was legaly merged with DETEC GmbH. It now operates under the name of DETEC Software GmbH with its headquarters in Ruesselsheim.

## 2. DISCONTINUED OPERATIONS ENTERPRISE CONTENT MANAGEMENT (ECM)

Beta Systems Software AG sold its operations Enterprise Content Management (ECM) to the BancTec Group on June 3, 2010. In an extraordinary meeting, the Supervisory Board on June 2, 2010 authorized the Management Board to conclude the negotiations. The framework conditions and the performance of a due diligence- as well as the contract initiation phase for the sale of the discontinued operation meant that the probability estimate in accordance with the requirements of IFRS 5.7 and 8 did not take place until June 2, 2010.

The purchase agreement pertaining to the takeover of 100% of the shares in Beta Systems ECM Solutions GmbH, Augsburg, was signed on June 3, 2010, with BancTec GmbH, Langen, and BancTec, Inc., Dallas, Texas/USA. At the same time, the assets assigned to this LoB in the USA and Austria was sold to the BancTec Group.

The core business of the ECM solutions segment consists in offering IT solutions and services through to end-to-end systems (including hardware such as scanners and sorters) for the FrontCollect product line. Along with the processing of payment documentation, these solutions address the automation of the general incoming mail and documents of large banking institutions and insurance companies in Central, Eastern Europe and Africa. The ECM Solutions business has a workforce of around 260 employees, the majority of whom work at the Augsburg location and in the ECM subsidiary in Nigeria.

In 2009 the ECM business was reorganized and spun-off in an independent subsidiary at the start of 2010. Therefore, at the extraordinary meeting of the shareholders of Beta Systems Software AG, which took place in Berlin on December 16, 2009, the Company's shareholders approved the draft of the spin-off and takeover agreement between Beta Systems Software AG as the transferring legal entity and Beta Systems ECM Solution GmbH as the absorbing legal entity with a majority of 94.02%. The spin-off of the ECM solution business was carried out upon approval by the Shareholders' Meeting of Beta Systems ECM Solutions GmbH on February 22, 2010, and the entry into the Register of Companies on March 1, 2010.

With the signing of the purchase agreements on June 3, 2010, the control of the operations ECM by Beta Systems was transferred to the acquirer. As the sale was completed, the operations ECM were effectively separated from Beta Systems in terms of the rights and obligations of organization and financial accounting as of May 31, 2010. No significant business transactions took place in the days between the separation and the transfer of control.

By December 31, 2010, a pretax profit in the amount of k€ 5,620 was generated from the sale of the ECM operations; it is recognized in the following profit and loss statement of the discontinued operational unit. Depreciations of assets to the fair value less the costs associated with the sale (in accordance with IFRS 5.20-22) have not been recognized.

The Combined Statement of Income of the discontinued ECM operations is stated as follows:

| Beta Systems Software AG - ECM Business Combined Statement of Income (Thousand €, unless otherwise noted) | Q1-Q4/2010 * | Q1-Q4/2009 * |
|---|---|---|
| | | |
| Revenues | 11,773 | 28,845 |
| | | |
| Income / Expenses | 12,017 | 29,840 |
| | | |
| Finance result | 5,620 | 26 |
| | | |
| Result before income taxes | 5,376 | (969) |
| | | |
| Income taxes relating to the profit or loss from the ordinary activities of the discontinued operations | (567) | 206 |
| | | |
| Income taxes relating to the profit recognized on the disposal of the discontinued operations | (634) | 0 |
| | | |
| **Net income (loss) of discontinued operations for the fiscal period including result recognized on the disposal of the discontinued operations (post-tax)** | **4,175** | **(763)** |
| | | |
| **Earnings per ordinary share of the discontinued operation** Basic and diluted | **0.32 €** | **(0.06) €** |
| | | |
| **Weighted average shares outstanding to calculate earnings per ordinary share** Earnings per ordinary share ** Basic and diluted | 13,168,304 pcs. | 13,168,304 pcs. |
| | | |
| Income and expenses recognized in equity | (56) | (28) |
| Exchange differences arising on translation of foreign operations of the discontinued operations | (56) | (28) |

* The income of the discontinued operations for the fiscal year 2010 contains the result of the operating activities of the period January 1 to Mai 31, 2010, afterward realized optional components of the sale and purchase agreement. The prior period contains the period January 1 to September 30, 2009.

** The number of ordinary shares references to the number of shares that are assigned directly to the parent company.

Assets and liabilities of the discontinued ECM operations compose as follows:

| Beta Systems Software AG – ECM Business Assets and liabilities (Thousand €) | 05/31/2010 | 12/31/2009 |
|---|---|---|
| | | |
| **Current assets** | **17,429** | **12,256** |
| Cash | 1,078 | 98 |
| Trade receivables | 6,418 | 2,630 |
| Construction contracts | 4,937 | 5,305 |
| Inventories | 3,137 | 2,751 |
| Other current assets | 1,859 | 1,465 |
| Income tax assets | 0 | 8 |
| | | |
| **Non-current assets** | **2,482** | **2,754** |
| Property, plant & equipment | 374 | 480 |
| Goodwill | 2,031 | 2,031 |
| Other intangible assets | 22 | 22 |
| Deferred tax assets | 0 | 168 |
| Other non-current assets | 55 | 53 |
| | | |
| **Assets of disposal groups classified as held for sale** | **19,911** | **15,010** |
| | | |
| **Current liabilities** | **8,206** | **3,374** |
| Short-term debt | 0 | 1 |
| Trade payables | 1,551 | 1,160 |
| Deferred income | 3,531 | 1,007 |
| Income tax liabilities | 208 | 0 |
| Other current liabilities | 2,915 | 1,206 |
| | | |
| **Non-current liabilities** | **1,848** | **1,937** |
| Employee benefits | 1,232 | 1,206 |
| Deferred tax liabilities | 616 | 731 |
| | | |
| **Liabilities of disposal groups classified as held for sale** | **10,054** | **5,311** |

A trade receivable with a carrying value of k€ 1,120, due to Beta Systems ECM Solutions GmbH from a customer, attributed to the operational activities of the discontinued operations ECM, is not contained in the trade receivables recognized in the amount of k€ 6,418 (2009: k€ 2,630). The main risks and opportunities associated with the collection of this receivable have remained with Beta Systems, although the trade receivable legally belongs to the responsibility of the discontinued operations, Therefore it is shown along with the trade receivables of Beta Systems’ continuing operations.

Involving the foregoing table, the derivation of the audited Combined Statements of Financial Position as at December 31, 2009 as shown in the Annual Report 2009, to the balance sheet items as at December 31, 2009 shown without assets and liabilities of the discontinued ECM operations arises as follows:

| Beta Systems Software AG – Combined Statement of Financial Position (Thousand €) | 12/31/2009 ** | 12/31/2009* |
|---|---|---|
| | | |
| **Current assets** | **43,166** | **55,423** |
| Cash | 1,888 | 1,986 |
| Trade receivables | 39,031 | 41,661 |
| Construction contracts | 209 | 5,514 |
| Inventories | 0 | 2,752 |
| Other current assets | 1,704 | 3,168 |
| Income tax assets | 334 | 342 |
| | | |
| **Non-current assets** | **18,814** | **21,567** |
| Property, plant & equipment | 1,835 | 2,315 |
| Goodwill | 3,372 | 5,403 |
| Other intangible assets | 2,560 | 2,582 |
| Acquired software product rights | 2,574 | 2,574 |
| Deferred tax assets | 7,680 | 7,848 |
| Other non-current assets | 793 | 846 |
| | | |
| **Assets of disposal groups classified as held for sale** | **15,010** | **-** |
| | | |
| **Total assets** | **76,990** | **76,990** |
| | | |
| **Current liabilities** | **28,806** | **32,179** |
| Short-term debt | 13,188 | 13,188 |
| Trade payables | 2,046 | 3,206 |
| Deferred income | 6,159 | 7,166 |
| Other current liabilities | 7,413 | 8,619 |
| | | |
| **Non-current liabilities** | **13,131** | **15,069** |
| Long-term debt | 1,735 | 1,735 |
| Employee benefits | 1,824 | 3,030 |
| Deferred tax liabilities | 9,071 | 9,803 |
| Other non-current liabilities | 501 | 501 |
| | | |
| **Liabilities of disposal groups classified as held for sale** | **5,311** | **-** |
| | | |
| **Total liabilities** | **47,248** | **47,248** |
| | | |
| **Shareholders` equity** | **29,742** | **29,742** |
| Share capital | 17,276 | 17,276 |
| Capital reserve | 10,709 | 10,709 |
| Retained earnings (losses) | 1,096 | 1,096 |
| Other comprehensive income | 1,080 | 1,080 |
| Treasury shares | (419) | (419) |
| | | |
| **Total liabilities and shareholders` equity** | **76,990** | **76,990** |

* Statement of Financial Position as at December 31, 2009 as shown in the Annual Report 2009, without a separation of assets and liabilities of the discontinued ECM operations as sold at June 3, 2010.

** Statement of Financial Position as at December 31, 2009 with balance sheet items shown without assets and liabilities of the discontinued ECM operations as sold at June 3, 2010, each given in a separate line item.

The Statement of Cash Flows of the discontinued operations is included and separately shown in the Combined Statements of Cash Flows of the Group. The cash flow from the disposal of the discontinued operations, adjusted for the cash transferred in the sale, amounts to k€ 6,502 (2009: k€ 0) for the fiscal year 2010.

## 3. SUNDRY INCOME

The sundry income is composed of:

| Sundry income | 2010 | 2009 |
|---|---|---|
| | | |
| Gain from foreign currency translations, net | 608 | 242 |
| Income from release of provisions and liabilities | 15 | 7 |
| Gain on disposal of property, plant & equipment | 0 | 7 |
| Income from insurance claims | 55 | 49 |
| Compensatory claim of the commercial agent for loss of clientele | 24 | 480 |
| Income from services provided to Beta Systems ECM Solution GmbH | 694 | 0 |
| Other income | 128 | 354 |
| **Total continued operations** | **1,524** | **1,139** |

In 2009 the discontinued operations ECM accounted for a total of k€ 55 in other income; thus the Group's grand total consisted of k€ 1,194.

## 4. OTHER EXPENSES

The other expenses are composed of:

| Other expenses | 2010 | 2009 |
|---|---|---|
| | | |
| Expenses for reorganization and restructuring | (4,558) | 0 |
| Loss on disposal of property, plant & equipment | (70) | (11) |
| Loss from other operating taxes | (75) | (90) |
| Sundry expenses | (52) | (186) |
| **Total continued operations** | **(4,755)** | **(287)** |

The discontinued operations ECM contributed k€ -112 to other expenses in 2009, so that the Group's grand total then consisted of k€ -399.

The expenses for reorganization and restructuring resulted from the additions to provisions for staff benefits/restructuring and include expenses for severance payments and termination benefits.

## 5. FINANCE RESULT

In the present reporting period, the interest income from continuing operations exceeds the interest expenses of k€ 674 by k€ 797; thus the financial result from continuing operations amounts to k€ 123 (2009: interest income k€ 895, interest expenses k€ 612, financial result from continuing operations k€ 283).

In 2009 the discontinued operations ECM accounted for a total of k€ 26 in interest income; thus the Group's financial result consisted of k€ 309.

## 6. INCOME TAXES

The income taxes shown in the statement of recognized income and expense from the continuing operations is composed as follows:

| Income tax benefit/expense | 2010 | 2009 |
|---|---|---|
| | | |
| Current taxes | | |
| Germany | 260 | 284 |
| Abroad | 458 | 511 |
| | **718** | **795** |
| Deferred taxes | | |
| Germany | (1,125) | 168 |
| Abroad | 343 | (306) |
| | **(782)** | **(138)** |
| | | |
| **Total** | **(64)** | **657** |

The breakdown of earnings before tax of continuing and discontinued operations, the related income taxes and a reconciliation of the income taxes in total emerges as follows:

| Reconciliation of expected and effective income tax expense | 2010 | 2009 |
|---|---|---|
| | | |
| Earnings before tax of continued operations | (3,425) | 2,661 |
| Earnings before tax of discontinued operations | 5,376 | (969) |
| **Earnings before tax** | **1,951** | **1,692** |
| | | |
| Expected tax expenses | 585 | 508 |
| Non-deductible operating expenses | 145 | 738 |
| Withholding tax | 160 | 0 |
| Unrealized losses of the current fiscal year | 1,197 | 3,055 |
| Taxes prior years | 373 | 0 |
| Usage of uncapitalized tax loss carryforward | (1,506) | (3,290) |
| Foreign tax rate differences | 0 | (43) |
| Non-taxable dividends | 0 | (388) |
| Other | 183 | (129) |
| **Total effective income tax** | **1,137** | **451** |
| Effective corporate tax rate | 58.3 % | 26.7 % |
| | | |
| Income tax expense shown in Combined Statement of Income of continued operations | (64) | 657 |
| Income tax expense assigned to discontinued operations | 1,201 | (206) |
| **Effective income tax expense** | **1,137** | **451** |

The expected tax expense is the result of the combined corporate tax rate, solidarity surcharges and the trade tax rate of 30.0%.

Deferred income tax assets and liabilities are summarized as follows:

| Deferred taxes according to Statement of Financial Position | 12/31/2010 | 12/31/2009* | Change |
|---|---|---|---|
| | | | |
| Balance sheet item | | | |
| Accumulated net operating losses | 7,679 | 7,467 | 212 |
| Property, plant & equipment | 0 | 27 | (27) |
| Pension obligations | 57 | 199 | (142) |
| Deferred expenses | 4 | 155 | (151) |
| **Deferred tax assets** | **7,740** | **7,848** | **(108)** |
| | | | |
| Balance sheet item | | | |
| Trade receivables | (6,549) | (6,938) | 389 |
| Customer base | (508) | (626) | 118 |
| Capitalized software development costs | (444) | (672) | 228 |
| Deferred income | (384) | (1) | (383) |
| Construcion contracts (POC) | (22) | (820) | 798 |
| Property, plant & equipment | 0 | (3) | 3 |
| Other liabilities | (504) | (743) | 239 |
| **Deferred tax liabilities** | **(8,411)** | **(9,803)** | **1,392** |
| | | | |
| **Total** | **(671)** | **(1,955)** | **1,284** |

*) Balances as at December 31, 2009 include deferred taxes k€ 563 of discontinued operations ECM, please refer to Note 2 »Discontinued Operations Enterprise Content Management (ECM)«.

The derecognition of deferred tax liabilities from the discontinued operation ECM is shown in the deconsolidation results.

An estimation of the possibility to realize deferred tax assets as loss carryforwards is done by taking into account the probability of realizing a portion of the deferred tax assets or the total amount. Ultimately, the realization of deferred tax assets depends on whether it is probable that future taxable income will be available.

US-american loss carryforwards are realizable until 2025 while those in Germany can be utilized for an indefinite period. The use of tax loss carryforwards is limited in Germany to k€ 1,000 annually. The amount exceeding the taxable income may only be offset to 60% of the loss carryforward. Further loss carryforwards exist in the subsidiary companies in Spain, Great Britain and Sweden.

Of the deferred taxes from probably utilizable loss carryforwards in the amount of k€ 7,682 (2009: k€ 7,467), k€ 6,829 (2009: k€ 7,173) is allocated to Beta Systems Software AG (Parent Company) and k€ 853 (2009: k€ 294) to Beta Systems Software of North America, Inc. For the Parent Company, corporate tax loss carryforwards in the amount of k€ 20,778 (2009: k€ 18,436) and trade tax loss carryforwards in the amount of k€ 23,386 (2009: k€ 28,107) were utilized.

For the taxable unit of the Parent Company (Steuerlicher Organkreis), deferred taxes on losses carried forward are capitalized only to the extent to which they are offset by taxable temporary differences. The increase of deferred tax assets on losses carried forward is mainly the result of the expansion of the taxable unit under DETEC Software GmbH in 2010.

At this point in time, the Company does not consider loss carryforwards in Germany in the amount of k€ 26,270 (2009: k€ 28,819) for trade taxes and k€ 15,106 (2009: k€ 29,560) for corporate taxes as realizable. The deferred tax asset would consist of k€ 6,398 (2009: k€ 9,041).

Further tax refund claims from loss carryforwards and temporary differences in the amount of k€ 1,293 (2009: k€ 1,672), which cannot be utilized, exist in the subsidiaries in the USA.

Accounting estimates used in the measurement of deferred tax refund claims are based on prospective assumptions in connection with the planned use of loss carryforwards. The underlying assumptions pertaining to the extent of realizable losses carried forward and the tax rates are described above.

## 7. EARNINGS PER ORDINARY SHARE

The earnings per ordinary share was calculated by dividing the annual financial result allocated to the Parent Company's shareholders by the weighted average of common shares outstanding in the fiscal year. Options to issue new ordinary shares which would influence the earnings per ordinary share did not exist.

| Earnings per share | 2010 | 2009 |
|---|---|---|
| | | |
| Weighted average number of ordinary shares outstanding, basic and diluted | 13,168,304 | 13,168,304 |
| | | |
| Profit for the year attributable to the shareholders of the parent company in k€ | 814 | 1,241 |
| **Earnings per ordinary share € per ordinary share, basic and diluted** | **0.06** | **0.09** |

The weighted average number of ordinary shares outstanding used as denominators in the calculation of the undiluted and diluted earnings per ordinary share was determined as follows:

| Weighted average of ordinary shares outstanding | Days in circulation | 2010 | 2009 |
|---|---|---|---|
| | | | |
| Balance as at December 31, 2009 | 365 | | 13,168,304 |
| Balance as at December 31, 2010 | 365 | 13,168,304 | |
| **Total** | | **13,168,304** | **13,168,304** |

## 8. CASH

The cash of the Company comprises as follows:

| Cash and cash eqivalents | 12/31/2010 | 12/31/2009* |
|---|---|---|
| | | |
| Cash on hand | 4 | 4 |
| Demand deposits held at banks | 1,218 | 1,982 |
| **Total** | **1,223** | **1,986** |

*) Balances as at December 31, 2009 include amounts of discontinued operations ECM, please refer to Note 2 »Discontinued Operations Enterprise Content Management (ECM)«.

## 9. TRADE RECEIVABLES

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

The Company's total trade receivables consisted of k€ 39,425 on the reporting date (2009: k€ 41,661, incl. the corresponding receivables from the discontinued operations ECM). This amount contains a trade receivable with a carrying value of k€ 1,120 from a customer, which was originally attributed to the operational activities of the discontinued operations ECM. The main opportunities and risks associated with the collection of this receivable have remained Beta Systems.

Due to the short terms involved, the fair value of trade receivables coming due for payment within the next twelve months corresponds to their carrying value; for receivables with longer terms, the fair value is determined by means of deducting the accrued interest of the expected cash flows: Discounted trade receivables with due dates of more than a year are included to the amount of k€ 15,353 (2009: k€ 16,085, incl. corresponding receivables from the discontinued operations ECM) in the total value of the trade receivables. The interest rate used consists of 3.15% p.a. (2009: 5.0% p.a.).

The maturity of the receivables as on reporting date is as follows:

| Trade receivables due > 12 months | 12/31/2010 | 12/31/2009* |
|---|---|---|
| | | |
| 2011 | 0 | 7,542 |
| 2012 | 8,948 | 5,353 |
| 2013 | 4,525 | 2,565 |
| 2014 | 1,417 | 612 |
| 2015 | 463 | 13 |
| **Total** | **15,353** | **16,086** |

*) Balances as at December 31, 2009 include amounts of discontinued operations ECM, please refer to Note 2 »Discontinued Operations Enterprise Content Management (ECM)«.

The determination of the impairment is based on different assumptions and on individually particular receivables. The Company's customer base substantially comprises customers from the banking and insurance sectors and key accounts from the industrial sector. These have, in the majority of cases, an investment grade rating; the trade receivables portfolio is not burdened with any material credit losses.

The age structure of the trade receivables on the reporting date is shown as follows:

| Trade receivables | December 31, 2010 | | December 31, 2009* | |
|---|---|---|---|---|
| Aging analysis | Carrying amount | Valuation allowance | Carrying amount | Valuation allowance |
| | | | | |
| Not yet due | 28,660 | | 23,780 | |
| Due 0 – 30 days | 9,325 | | 16,701 | |
| Past due 31 – 90 days | 188 | | 333 | |
| Past due 91 – 180 days | 64 | | 614 | |
| Past due 181 – 365 days | 176 | | 228 | |
| Past due more than 365 days | 1,151 | (139) | 299 | (294) |
| **Total** | **39,564** | **(139)** | **41,955** | **(294)** |

*) Balances as at December 31, 2009 include amounts of discontinued operations ECM, please refer to Note 2 »Discontinued Operations Enterprise Content Management (ECM)«.

Allowances for expected uncollectible or doubtful trade receivables are used to record impairment losses for individual trade receivables possibly impaired by credit losses. The development in the valuation allowance for expected uncollectible or doubtful trade receivables during the fiscal year was as follows:

| Valuation allowance | 12/31/2010 | 12/31/2009* |
|---|---|---|
| | | |
| Beginning balance | (294) | (499) |
| Allocation | (95) | (73) |
| Appropriation of valuation allowance | 15 | 0 |
| Release | 34 | 278 |
| Disposal discontinued operations ECM | 201 | 0 |
| **Total** | **(139)** | **(294)** |

*) Balances as at December 31, 2009 include amounts of discontinued operations ECM, please refer to Note 2 »Discontinued Operations Enterprise Content Management (ECM)«.

Further explanations for trade receivables and the associated credit and contingency risks are provided under Note 27 »Financial Instruments«.

## 10. CONSTRUCTION CONTRACTS

| Construction contracts | 12/31/2010 | 12/31/2009* |
|---|---|---|
| | | |
| Capitalized revenues of current contracts | 696 | 9,040 |
| Progress payments received | (192) | (3,526) |
| **Total** | **504** | **5,514** |

*) Balances as at December 31, 2009 include amounts of discontinued operations ECM, please refer to Note 2 »Discontinued Operations Enterprise Content Management (ECM)«.

The construction contracts are recognized in the Combined Statement of Financial Position during the construction phase at production costs, including the margin. The total of the item »Construction Contracts« includes the following calculated capitalized income:

| Capitalized income of current contracts | 2010 | 2009* |
|---|---|---|
| | | |
| Capitalized revenues of current contracts | 696 | 9,040 |
| Total costs accrued in respect of current contracts | (231) | (5,910) |
| **Total** | **465** | **3,130** |

*) Balances as at December 31, 2009 include amounts of discontinued operations ECM, please refer to Note 2 »Discontinued Operations Enterprise Content Management (ECM)«.

In 2010, the recorded income statement related revenues of the construction contracts amounts to k€ 987 in total (2009: k€ 10,223 including relevant revenues of the discontinued operations ECM).

Accounting estimates used in the measurement of the construction contracts are based on prospective assumptions in connection with the planned costs and the percentage of completion for the individual projects. These assumptions are based on long standing experience with regards to the extent and cost of consulting services required.

On the reporting date, construction contracts for which advance payments and progress payments in excess of the values for which revenues have been recognized were received, respectively for which the construction phase has not yet begun did not exist.

The construction contracts reported as on December 31, 2010 will presumably be completed within one year.

## 11. INVENTORIES

The total inventories as of December 31, 2009, in the amount of k€ 2,752 were to be attributed to the discontinued operations ECM. There is no need of any inventory keeping in the continued operations of the Company.

## 12. OTHER CURRENT ASSETS

| Other current assets | 12/31/2010 | 12/31/2009* |
|---|---|---|
| | | |
| Prepaid expenses & deferred charges | 710 | 1.718 |
| Receivables from Purchase Price Agreement of purchase of discontinued operations ECM | 9,373 | 0 |
| Derivative financial instruments | 37 | 0 |
| Foreign sales tax benefit | 179 | 188 |
| Sundry current assets | 87 | 1,262 |
| **Total** | **10,385** | **3,168** |

*) Balances as at December 31, 2009 include amounts of discontinued operations ECM, please refer to Note 2 »Discontinued Operations Enterprise Content Management (ECM))«.

Accounting estimates used in the measurement of other current assets pertain to the measurement of a possible contingency risk or future developments in foreign currency rates. Details regarding this and derivative financial instruments are explained under Note 27 »Financial Instruments«.

## 13. PROPERTY, PLANT & EQUIPMENT

| Property, plant & equipment (net) | 12/31/2010 | 12/31/2009* |
|---|---|---|
| | | |
| Acquisition costs | | |
| Computer equipment | 12,427 | 17,525 |
| Leasehold improvements | 1,409 | 1,929 |
| Facilities and office equipment | 1,271 | 3,856 |
| **Total acquisition costs** | **15,107** | **23,310** |
| | | |
| Accumulated depreciation | **(12,857)** | **(20,995)** |
| **Total** | **2,250** | **2,315** |

*) Balances as at December 31, 2009 include amounts of discontinued operations ECM, please refer to Note 2 »Discontinued Operations Enterprise Content Management (ECM)«.

Scheduled depreciation expenses were charged to the Combined Statement of Income as follows:

| Scheduled depreciation | 2010 | 2009* |
|---|---|---|
| | | |
| Cost of revenues | 54 | 147 |
| Selling expenses | 44 | 161 |
| General & administrative expenses | 563 | 710 |
| Research & development expenses | 442 | 528 |
| **Total** | **1,104** | **1,546** |

*) Balances as at December 31, 2009 include amounts from discontinued operations ECM, please refer to Note 2 »Discontinued Operations Enterprise Content Management (ECM)«.

During the reporting year, the Company purchased computer and office equipment by making use of financial leasing agreements. These are explained in detail under Point 18, »Finance Leasing«. On December 31, 2010, the carrying value of property, plant and equipment forming a part of a financial lease was k€ 1,220 (2009: k€ 358).

Accounting estimates used in the measurement of property, plant & equipment are based on prospective assumptions with reference to the expected economic useful lives of these assets. These are described in detail under the heading »Property, Plant & Equipment« within the »Accounting Policies and Valuation Methods«.

The development of the carrying amounts from the beginning to the end of the reporting period is presented in the table »Development of the Group's Fixed and Intangible Assets«.

## 14. GOODWILL

| Goodwill (net) | 12/31/2010 | 12/31/2009* |
|---|---|---|
| | | |
| Acquisition costs | 3,372 | 5,403 |
| Valuation allowance | 0 | 0 |
| **Total** | **3,372** | **5,403** |

*) Balances as at December 31, 2009 include amounts of discontinued operations ECM, please refer to Note 2 »Discontinued Operations Enterprise Content Management (ECM)«.

The acquisition costs are composed as follows:

| Acquisition costs goodwill | | | | 12/31/2010 | 12/31/2009* |
|---|---|---|---|---|---|
| | | | | | |
| **Acquired business** | **Business segment** | **Type of acquisition** | **Year** | | |
| Kleindienst Datentechnik AG* | ECM | Share Deal | 2004 | 0 | 2,031 |
| SI Software Innovation GmbH | DCI | Share Deal | 2008 | 507 | 507 |
| DETEC companies | DCI | Share Deal | 2009 | 2,865 | 2,865 |
| **Total** | | | | **3,372** | **5,403** |

*) Balances as at December 31, 2009 include amounts of discontinued operations ECM, please refer to Note 2 »Discontinued Operations Enterprise Content Management (ECM)«.

Please also refer to Point 1 of the Notes »Acquisition of DETEC companies, Ruesselsheim«.

The measurement of goodwill is based on the following assumptions:

| Key assumptions for the forecast 2010<br>Budget period 2011 – 2013 | | | | |
|---|---|---|---|---|
| | | | | |
| **Acquired business** | **Valuation** | **Capital interest rate** | **Revenue increase** | **Growth rate*** |
| SI Software Innovation GmbH | Impairment (IAS 36) | 9.0 % | 3.0 % | 0.0 % |
| DETEC companies | Impairment (IAS 36) | 9.0 % | 3.0 % | 0.0 % |
| **Key assumptions for the forecast 2010<br>Budget period 2010 – 2012** | | | | |
| | | | | |
| **Acquired business** | **Valuation** | **Capital interest rate** | **Revenue increase** | **Growth rate*** |
| Kleindienst Datentechnik AG | Impairment (IAS 36) | 9.5 % | (1.0) – 5.0 % | 0.0 % |
| SI Software Innovation GmbH | Impairment (IAS 36) | 9.5 % | 3.0 % | 0.0 % |
| DETEC companies | Initial recognition | 9.5 % | 3.0 % | 0.0 % |

*) after budget period

The assumptions are based on the expectations of the Company's management in reference to the future development of the Company's business. These expectations draw on empirical values for the fiscal year 2010, on external market studies and on the expected general developments of future economic conditions.

Impairment testing as on December 31, 2010 did not result in a requirement to recognize any impairment loss in respect of goodwill.

The development of the carrying amounts from the beginning to the end of the reporting period is presented in the table »Development of the Group's Fixed and Intangible Assets«.

## 15. OTHER INTANGIBLE ASSETS

| Other intangible assets (net) | 12/31/2010 | 12/31/2009* |
|---|---|---|
| | | |
| Customer base and license rights | | |
| Acquisition costs | 5,470 | 5,469 |
| Accumulated amortisation | (3,739) | (2,887) |
| **Total** | **1,731** | **2,582** |

*) Balances as at December 31, 2009 include amounts of discontinued operations ECM, please refer to Note 2 »Discontinued Operations Enterprise Content Management (ECM)«.

The acquisition costs comprise as follows:

| Acquisition costs of other intangible assets | | | | 12/31/2010 | 12/31/2009* |
|---|---|---|---|---|---|
| | | | | | |
| **Acquired business** | **Business segment** | **Type of acquisition** | **Year** | | |
| SYSTOR Security Solutions GmbH | IdM | Asset Deal | 2003 | 735 | 735 |
| Kleindienst Datentechnik AG* | ECM | Share Deal | 2004 | 0 | 22 |
| Okiok Data | IdM | Asset Deal | 2005 | 1,293 | 1,293 |
| SI Software Innovation GmbH | DCI | Share Deal | 2008 | 2,123 | 2,123 |
| Proginet Corporation | IdM | Asset Swap | 2008 | 325 | 302 |
| DETEC companies | DCI | Share Deal | 2009 | 994 | 994 |
| **Total** | | | | **5,470** | **5,469** |

*) Balances as at December 31, 2009 include amounts of discontinued operations ECM, please refer to Note 2 »Discontinued Operations Enterprise Content Management (ECM)«.

Please also refer to Point 1 of the Notes, »Acquisition of DETEC companies, Ruesselsheim«.

The difference in the acquisition costs of the other intangible assets (acquired operation: Proginet Corporation, USA) in comparison to the previous year is based on a currency conversion difference in the amount of k€ 23 (2009: k€ -9).

The scheduled depreciation for the fiscal year 2010 included under operational expenses in the »Cost of revenues« for the other intangible assets consisted in total of k€ 868 (2009: k€ 887 incl. depreciations for the discontinued operations ECM).

The Company did not perform an impairment test of the existing other intangible assets as there was no indication of any possible impairment loss.

The expected regular depreciations for the other intangible assets for the next few years arise as follows:

| Scheduled amortization | |
|---|---|
| | |
| 2011 | 630 |
| 2012 | 630 |
| 2013 | 189 |
| 2014 | 140 |
| 2015 | 140 |
| **Total** | **1,730** |

The development of the carrying amounts from the beginning to the end of the reporting period is presented in the table »Development of the Group's Fixed and Intangible Assets«.

## 16. ACQUIRED SOFTWARE PRODUCT RIGHTS

| Acquired software product rights (net) | 12/31/2010 | 12/31/2009* |
|---|---|---|
| | | |
| Acquisition costs | 6,526 | 9,580 |
| Accumulated amortization | (4,203) | (7,006) |
| **Total** | **2,323** | **2,574** |

*) Balances as at December 31, 2009 include amounts of discontinued operations ECM, please refer to Note 2 »Discontinued Operations Enterprise Content Management (ECM)«.

The acquisition costs comprise as follows:

| Acquisition costs software product rights | | | | 12/31/2010 | 12/31/2009* |
|---|---|---|---|---|---|
| | | | | | |
| **Acquired rights of** | **Business segment** | **Type of acquisition** | **Year** | | |
| Existing Acquired Software Product Rights | IdM | | before 2003 | 240 | 240 |
| SYSTOR Security Solutions GmbH | IdM | Asset Deal | 2003 | 2,164 | 2,164 |
| Kleindienst Datentechnik AG* | ECM | Share Deal | 2004 | 0 | 3,700 |
| SI Software Innovation GmbH | DCI | Share Deal | 2008 | 1,941 | 1,941 |
| Proginet Corporation | IdM | Asset Swap | 2008 | 400 | 354 |
| DETEC-Companies | DCI | Share Deal | 2009 | 1,181 | 1,181 |
| IPG rolmine | IdM | Asset Deal | 2010 | 600 | 0 |
| **Total** | | | | **6,526** | **9,580** |

*) Balances as at December 31, 2009 include amounts of discontinued operations ECM, please refer to Note 2 »Discontinued Operations Enterprise Content Management (ECM)«.

Please also refer to Point 1 of the Notes, »Acquisition of DETEC companies, Ruesselsheim«.

At the start of 2010, Beta Systems Software AG made a strategic investment in future-oriented Identity Access Management (IAM) through the takeover of all rights to the ownership of rolmine, a software product of Swiss partner ipg AG. Rolmine synchronizes existing authorization information from systems and applications with a company's constantly evolving organization structures. In this process, rolmine creates, analyzes and maintains clusters of similar access rights, so-called roles, within a company and is thus an important fundament underpinning innovative and audit-compliant Identity Access Management in large enterprises.

The difference in the acquisition costs of the software product rights acquired from Proginet Corporation in comparison to the previous year is based on a currency conversion difference in the amount of k€ 46 (2009: k€ 43).

Amortization expenses related to the acquired software product rights amounted to k€ 884 in fiscal year 2010, included in total in the cost of revenues (2009: k€ 1,052 including amortization expenses of the discontinued operation ECM).

The Company did not perform an impairment test of the existing software product rights as there was no indication of any possible impairment loss. The regular depreciation expenditure expected for the next few years for the acquired software product rights arises as follows:

| Scheduled amortization | |
|---|---|
| | |
| 2011 | 760 |
| 2012 | 757 |
| 2013 | 349 |
| 2014 | 289 |
| 2015 | 169 |
| **Total** | **2,323** |

The development of the carrying amounts from the beginning to the end of the reporting period is presented in the table »Development of the Group's Fixed and Intangible Assets«.

## 17. OTHER NON-CURRENT ASSETS

| Other non-current assets | 12/31/2010 | 12/31/2009* |
|---|---|---|
| | | |
| Cash surrender value of insurance policies | 757 | 730 |
| Guarantee deposits and other non-current assets | 151 | 116 |
| **Total** | **909** | **846** |

*) Balances as at December 31, 2009 include amounts of discontinued operations ECM, please refer to Note 2 »Discontinued Operations Enterprise Content Management (ECM)«.

The cash surrender value of the insurance policies was confirmed by the particular insurance companies. In the fiscal year 2010, the Company received payments in the amount of k€ 5; the same amounts are expected for the fiscal year 2011.

## 18. FINANCE LEASING

The finance leasing belongs to computer equipment.

The total of the finance leases are scheduled as follows:

| Net present value of finance lease payments | 12/31/2010 | 12/31/2009 |
|---|---|---|
| | | |
| current payments | 304 | 190 |
| non-current payments | 934 | 235 |
| **Total** | **1,238** | **425** |

The most significant finance lease obligations exist with IBM for new purchases of a host computer in the fiscal year 2010. The finance lease contract for updating the old host computer was ended ahead of time. The finance lease agreement is based on an average interest rate of 4.50% p.a. and ends in 2014.

On December 31, 2010 the carrying value of the leased assets amounted to k€ 1,220 (2009: k€ 358). The regular depreciation of the assets amounted to k€ 311 in 2010 (2009: k€ 185).

The repayment dates of the finance leases are scheduled as follows:

| Future lease payments | |
|---|---|
| | |
| 2011 | 352 |
| 2012 | 352 |
| 2013 | 326 |
| 2014 | 324 |
| **Total** | **1,355** |
| | |
| Less interest in 2011 | (50) |
| Less interest in 2012 - 2014 | (66) |
| **Total present value of finance lease payments** | **1,238** |
| | |
| Present value due ≤ 12 months | 304 |
| Present value due > 12 months | 934 |

Accounting estimates used in the measurement of finance leasing are based on prospective assumptions regarding the expected economic useful life of the property, plant and equipment. These are described in detail under the heading »Property, Plant and Equipment« in the »Accounting Policies and Valuation Methods«.

## 19. SHORT-TERM DEBT

During fiscal year 2010, the Company made use of the following operating credit facilities provided by external parties:

| Short-term debt | 12/31/2010 | 12/31/2009 |
|---|---|---|
| | | |
| Advance Deutsche Bank AG | 3,978 | 2,204 |
| Advance Landesbank Berlin AG | 2,421 | 3,643 |
| Advance Berliner Volksbank eG | 2,274 | 4,020 |
| Advance Dresdner Bank AG | 0 | 2,381 |
| Current maturities of long-term debt | 750 | 750 |
| **Short-term debt due to banks** | **9,422** | **12,998** |
| | | |
| Current finance lease obligations | 304 | 190 |
| **Total** | **9,725** | **13,188** |

On December 31, 2010, the Company had short-term credit lines to a total amount of k€ 12,000 at its disposal (2009: k€ 14,500). These business lines of credit are approved for unlimited periods by credit institutes. The short-term portion of the financial debts is payable within the next 12 months. The interest rates for short-term financing range between 2.85% p.a. and 8.00% p.a.

The business lines of credit are secured by the general assignment of the subordinated part of the trade receivables at the Deutsche Bank AG, Landesbank Berlin AG and the Berliner Volksbank eG.

Details regarding short-term finance lease obligations are explained under Note 18 »Finance Leasing«.

## 20. DEFERRED INCOME

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.

## 21. PROVISIONS

The provisions in the amount of k€ 4,558 (2009: k€ 0) are entirely the result of including the restructuring costs in the 2010 fiscal year. They are mainly related to obligations pertaining to employment termination benefits and severance payments for employees. None of the provisions was used, released or otherwise changed. The outflow of payments is expected for the fiscal year 2011.

Accounting estimates exist to calculate the amount for the measurement of this provision, taking into account the social factors involved, the average salary structures and the average job tenure in the Company.

## 22. OTHER CURRENT LIABILITIES

| Other current liabilities | 12/31/2010 | 12/31/2009* |
|---|---|---|
| | | |
| Other taxes and social security payables | 1,353 | 1,937 |
| Deferred payroll and personnel expenses | 3,319 | 4,592 |
| Sundry current liabilities | 584 | 2,090 |
| **Total** | **5,256** | **8,619** |

*) Balances as at December 31, 2009 include amounts of discontinued operations ECM, please refer to Note 2 »Discontinued Operations Enterprise Content Management (ECM)«.

**Other 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 holiday entitlements, overtime and flexi-time as well as accrued liabilities for sales commissions and incentive payments. Refunds due from travel expenses are also contained herein.

## 23. LONG-TERM DEBT

On the reporting due date, the Company used long-term credit instruments described as follows:

| Long-term debt | 12/31/2010 | 12/31/2009 |
|---|---|---|
| | | |
| Loan Deutsche Bank AG | 500 | 750 |
| Loan Landesbank Berlin AG | 500 | 750 |
| Loan Berliner Volksbank eG | 500 | 750 |
| **Long-term debt (gross)** | **1,500** | **2,250** |
| | | |
| Current maturities of long-term debt | (750) | (750) |
| **Long-term debt due to banks** | **750** | **1,500** |
| | | |
| Non-current finance lease obligations | 934 | 235 |
| **Total** | **1,684** | **1,735** |

The maturities of all loans mentioned end on December 31, 2012. The interest rate for this debts ranges between 6,00% p.a. and 6,90% p.a. The part of the loans with a maturity < 12 months is presented under position »Short term debt«.

The following reductions are scheduled on the reporting date, the consistent repayments are due quarterly.

| Scheduled redemption of loans | | 2011 | 2012 |
|---|---|---|---|
| | | | |
| Bank | Balance of loan December 31, 2010 | | |
| Loan Deutsche Bank AG | 500 | 250 | 250 |
| Loan Landesbank Berlin AG | 500 | 250 | 250 |
| Loan Berliner Volksbank eG | 500 | 250 | 250 |
| **Total redemption per annum** | | **750** | **750** |
| | | | |
| **Balance of loans** | **1,500** | **750** | **0** |

The loans are secured by the unsubordinated part of the trade receivables at the Deutsche Bank AG, Landesbank Berlin AG and the Berliner Volksbank eG.

No other loan credit lines existed on the reporting date.

Please refer to the explanations under Note 18 »Finance Leasing« with regard to the finance lease obligations.

## 24. RETIREMENT BENEFITS

Pension obligations exist at Beta Systems Software AG on the basis of individual formal agreements and a general pension scheme. These are included in the position »Employee Benefits«.

The Company provides limited defined benefit pension benefits to 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 partially cover its pension obligations. The cash surrender value of these policies, k€ 757 (2009: k€ 730), is included under the position »Other non-current assets«. The Company paid premiums of k€ 21 in the 2010 fiscal year (2009: k€ 21), and intends to pay similar premiums in 2011, in order to cover future obligations.

A general pension scheme exists for several former employees of the former 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 and following the attainment of the age of 65 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. With the sale of ECM, the purchaser assumed all pension obligations of active employees at the closing date, which fall under the pension schemes. These pension obligations are therefore a part of the liabilities of the discontinued operations and have been deducted from the 2010 fiscal year. The pension obligations and the explanatory notes following it that appear on the balance sheet thus relate to individual arrangements and pension schemes for retired persons and otherwise terminated former employees of Beta Systems/Kleindienst.

The calculations as on December 31, 2010 are based on the following assumptions:

| Actuarial assumptions | 12/31/2010 | 12/31/2009 |
|---|---|---|
| | | |
| Interest rate | 4.81 % | 5.25 % |
| 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 | none | 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 arise from employees left the Company. Salary increases are therefore not relevant.

Also salary increases are not relevantand consequently 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 € 2.76 for each year of service after the completed age of 30 years.

A reconciliation of the balances of the net present value of the defined benefit obligations in respect of post-employment benefits, showing the effects during the fiscal year for the applicable positions, follows:

| Projected benefit obligations | 12/31/2010 | 12/31/2009* |
|---|---|---|
| | | |
| Projected benefit obligations at the beginning of the year | 1,871 | 1,626 |
| Periodic pension costs | | |
| Interest cost on projected benefit obligations | 67 | 97 |
| Actuarial (gains) losses | 23 | 152 |
| Current service cost for the fiscal year | 0 | 21 |
| Actual pension payments during the fiscal year | (27) | (25) |
| Disposal discontinued operations ECM | (567) | 0 |
| **Total** | **1,367** | **1,871** |

*) Balances as at December 31, 2009 include amounts of discontinued operations ECM, please refer to Note 2 »Discontinued Operations Enterprise Content Management (ECM)«.

The interest expenses are contained in the finance result. During fiscal year 2010 actuarial gains or losses were recognized through profit or loss in total of k€ 233 (2009: k€ 40).

The development of the present value of the defined benefit obligation for the current and the previous reporting period is as follows:

| Projected benefit obligations | |
|---|---|
| | |
| 2006* | 1,890 |
| 2007* | 1,666 |
| 2008* | 1,626 |
| 2009* | 1,871 |
| 2010 | 1,367 |

*) Balances include amounts of discontinued operations ECM, please refer to Note 2 »Discontinued Operations Enterprise Content Management (ECM)«.

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

| Provision for pension obligations | 12/31/2010 | 12/31/2009* |
|---|---|---|
| | | |
| Projected benefit obligations at the end of the year | 1,367 | 1,871 |
| Unrecognized actuarial gains | 136 | 369 |
| **Total** | **1,503** | **2,240** |

*) Balances as at December 31, 2009 include amounts of discontinued operations ECM, please refer to Note 2 »Discontinued Operations Enterprise Content Management (ECM)«.

Unrecognized actuarial gains are caused by differences between actuarial assumptions and the effective development.

The valuation of the obligations as on December 31, 2010 was determined by an independent actuarial expert.

In the 2010 fiscal year, k€ 1,100 (2009: k€ 2,395 including corresponding expenses for the discontinued operations ECM) was recognized as an expense for defined contribution provision expenses for the legal pension insurance fund.

The prospective assumptions on which the accounting estimates used in the measurement of the retirement benefits are based are described in detail above.

## 25. TERMINATION BENEFITS

Furthermore, termination benefits in the amount of k€ 39 (2009: k€ 790 including amounts of discontinued operations ECM) are included in »Employee benefits«. With the sale of ECM, the purchaser assumed all partial retirement agreements that arise from ECM employee claims. These obligations of the commitment legally come into force with the conclusion of a partial retirement agreement which results of the aftermath of collective labor agreements. These obligations are reclassified for the sale in the previous year's figures in the debts and were deducted from the 2010 fiscal year. The partial retirement agreements in the balance sheet and the following explanatory notes thus relate to individual agreements. The Company has no voluntary internal agreement for partial retirement. As a result, employees have no additional legal direct rights of action for an employee pension plan against the employer arising from prospective entitlements.

Obligations resulting from the possibility of the claiming of partial retirement benefits by employees in the future are determined at each reporting date in accordance with IAS 19.140 on the basis of their present value (Defined Benefit Obligation – DBO), and under recognition of the respective extent of future probable claims. 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. Obligations for the payment of future top-up amounts constitute so-called termination benefits in terms of IAS 19.7.

As a result of the definition and form of the partial retirement agreement settlement arrears accrue on the employer's side according to the block model during the employment phase 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. When compensation of the employee occurs in accordance with the partial employment agreement, without the employee actually delivering corresponding performance, the utilization of the accrued liability is effected.

The following assumed discount rates and rates of increase in remuneration were used in calculating the present values of settlement arrears and top-up payments as on December 31, 2010:

| Actuarial assumptions | 12/31/2010 | 12/31/2009 |
|---|---|---|
| | | |
| Interest rate | 3.60 % | 3.44 % |
| Salary increases | 0.00 % | 2.00 % |

The biometrical decrements applied are based on the »Richttafeln 2005 G von Klaus Heubeck«.

A reconciliation of the balances of the net present value of the defined benefit obligations in respect of termination benefits, showing the effects during the fiscal year for the applicable positions, follows:

| Defined benefit obligations i.r.o. termination benefits | 12/31/2010 | 12/31/2009* |
|---|---|---|
| | | |
| Defined benefit obligations i.r.o. termination benefits at the beginning of the year | 790 | 735 |
| Allocation of top-up amounts and settlement arrears | 39 | 303 |
| Benefits paid | (151) | (241) |
| Releases | 0 | (7) |
| Disposal discontinued operations ECM | (639) | 0 |
| **Total** | **39** | **790** |

*) Balances as at December 31, 2009 include amounts of discontinued operations ECM, please refer to Note 2 »Discontinued Operations Enterprise Content Management (ECM)«.

The Company does not maintain separate plan assets to cover its obligations arising from partial retirement agreements. A claim for repayment by the Federal Agency in respect of the top-up amounts paid is due to the employer only when all conditions itemized under §§ 2,3 AltTZG are met. As these requirements are not satisfied as on reporting date, the Company could not recognize any claim for reimbursement.

The prospective assumptions, on which the accounting estimates used in the measurement of the termination benefits are based, are discribed in detail above.

## 26. SHAREHOLDERS' EQUITY

The ***Share Capital*** of the Company on December 31, 2010 amounted to k€ 17,276 with a total of 13,288,914 no-par ordinary shares issued, including 120,610 Treasury shares. The calculated proportional share capital for each share of the Company is thus € 1.30 per ordinary share. This also corresponds to the status on December 31, 2009. All ordinary shares issued were paid at full value.

The amount of k€ 10,709 (2009: k€ 10.709) listed under ***Capital Reserve*** includes the amounts from transactions with shareholders accrued above the calculated par value.

The capital reserve may not be used for dividends according to national regulations.

The cumulated results listed under ***Retained Earnings (Losses)*** include the profits and losses accumulated by the Group at the reporting date. The result for the period includes k€ 814 (2009: k€ 1,241).

The accumulated amounts under ***Other Comprehensive Income*** are net values after deductions where necessary from applicable income taxes. In the current fiscal year, the Company only recognized amounts from currency conversions of the subsidiaries as well as from the Company's net investments in foreign business operations.

The company held 120,610 ***Treasury Shares*** on December 31, 2010. These are valued at their acquisition cost, i.e. k€ 419 (2009: 120,610 own shares or k€ 419).

The composition and the changes to the equity capital are presented in the »Combined Statements of Changes in Shareholders' Equity«.

# OTHER DISCLOSURES

## 27. FINANCIAL INSTRUMENTS

Within the scope of its operating business activity, the Company is subject to various risks, in particular the risks associated with credit or default and changes in liquidity, exchange rates and interest rates.

The implications of these risks on the Company's financial assets and liabilities for the fiscal year 2010 are quantified in the following sections, and relevant information for risk management is provided in Point 7, »Opportunities and Risk Report« of the »Combined Management Report on the Group and on the Parent Company«.

The overview that follows contains the financial assets and liabilities of the Company on the closing date. The fair values correspond to the carrying values of the financial instruments.

| Financial instruments (carrying amounts) | 12/31/2010 | 12/31/2009* |
|---|---|---|
| | | |
| Loans and receivables (IFRS 7.8 c) | | |
| Trade receivables | 39,425 | 41,661 |
| Cash and cash equivalents | 1,223 | 1,986 |
| Financial instruments held for trading (IFRS 7.8 c(ii)) | | |
| Derivative financial instruments without hedge accounting | 37 | 0 |
| **Financial assets** | **40,684** | **43,647** |
| | | |
| Financial liabilities (IFRS 7.8 f) | | |
| Short-term finance | (8,672) | (12,247) |
| Trade payables | (2,809) | (3,206) |
| Financial liabilities | (1,500) | (2,250) |
| Financial liabilities (IFRS 7.8 e(i)) | | |
| Finance leasing | (1,238) | (425) |
| **Financial liabilities** | **(14,219)** | **(18,128)** |
| | | |
| **Total** | **26,466** | **25,518** |

*) Balances as at December 31, 2009 include amounts of discontinued operations ECM, please refer to Note 2 »Discontinued Operations Enterprise Content Management (ECM)«.

In the assessment of the financial instruments according to IAS 39, the Company differentiates between the following classes: financial instruments that are valued at historical costs and amortized costs (loans and receivables in accordance with IFRS 7.8 c, financial liabilities in accordance with IFRS 7.8 f and IFRS 7.8 e(i)) as well as financial instruments, that are carried at market prices affecting net income (assets held for commercial purposes in accordance with IFRS 7.8 a(ii). The latter refer exclusively to Level I assets that are contained within Other Short-term Assets on the balance sheet. These Level I assets are actively traded on the market. For the valuation assumptions of the individual classes of financial instruments please refer to the explanatory notes on the accounting policies and valuation methods applied and to the explanatory notes on the individual items in the Notes.

The ***risk of credit or default*** is the risk of financial loss to the Company if a customer is not able to meet its contractual payment obligations. The maximum risk of default is equal to the carrying values of the financial assets as on reporting date an amount in total to k€ 40,684 (2009: k€ 43,647 including amounts of discontinued operations ECM).

Possible credit risk results primarily from the Group's trade receivables. The exposure is influenced predominantly by the Company's dependency on key accounts and their credit rating; the business sector and the country in which customers operate also have an influence.

The distribution of trade receivables as on reporting date was, by geographic regions, as follows:

| Trade receivables | 12/31/2010 | 12/31/2009* |
|---|---|---|
| | | |
| Domestic | 22,330 | 26,239 |
| Europe, excluding Germany | 13,320 | 11,785 |
| USA and Canada | 2,420 | 1,976 |
| Africa and the rest of the world | 1,354 | 1,661 |
| **Total** | **39,425** | **41,661** |

*) Balances as at December 31, 2009 include amounts of discontinued operations ECM, please refer to Note 2 »Discontinued Operations Enterprise Content Management (ECM)«.

The Company serves mainly key accounts from the banking, insurance and IT sectors and currently realizes 50% (2009: 60%) of its corporate revenues from business with domestic customers. With the overriding number of its key customers Beta Systems looks back on uninterrupted business relations for more than five years. Our customers continue to dispose of solid capitalization and immaculate credit rating. Therefore the Company's loss of receivables is, based on experience and when measured against its corporate revenues, rather insignificant. In some individual cases losses of receivables result from uncollectibility of amounts from individual sales with small revenue volumes.

Facing the current economic conditions, creditworthiness checks, purchase limits and deliveries against prepayment are extensively conducted. Suspension of further deliveries to customers finds application on a limited scale with middle-sized customers, mainly abroad. Retirement of one or more of these key accounts from the market, with resulting uncollectibility of due receivables could have a substantial negative effect on the short-term liquidity and the development of the future performance of the Company.

Beta Systems monitors the credit risk for all group companies within the scope of the centralized group-wide Cash-Management. Weekly conducted overdue analysis of all trade receivables and a process of collection consistently implemented, progressing swiftly from payment reminder notices via establishment of personal contact by the sales representative with the customer, through to the point of escalation and the possible use of legal means are the methods employed in managing this risk. Valuation allowances were made for trade receivables which are expected uncollectible.

Details on the aging structure of trade receivables as well as information on the valuation allowances made within the fiscal year are explained under Point 9, »Trade receivables«.

***Liquidity risk*** is the risk that the Company will not be in the position to meet its financial obligations on schedule. The purpose and responsibility of liquidity management is the consistently sufficient provisioning of borrowed and equity funds.

Liquidity planning and the monitoring of its inherent risks are performed within the scope of the centralized group-wide cash management by means of employing a number of complementary measures. The consistently pursued management of receivables, regularly updated cash requirement planning, a centrally administered cash pool, efficient control of payments to creditors by making use of advantageous payment targets and discounts, and not least an effective controlling to ensure adherence to budgeted costs form the basis in determining the financing requirements from own resources and external funds, and the planned optimization of the cash return. Typically, the Company's principal aim is to insure that it always has sufficient readily available cash resources at its disposal to meet its operative expenses and short-term liabilities for up to 60 days in advance. The cash flow monitoring described above serves towards the continuous monitoring. Surplus cash balances are deposited in interest-bearing deposits in the financial market.

The following are the financial liabilities and their repayment terms:

| | December 31, 2010 | | | |
|---|---|---|---|---|
| **Financial liabilities** | **Advances due to banks** | **Loans due to banks** | **Finance leasing** | **Trade payables** |
| | | | | |
| **Carrying amount** | 8,672 | 1,500 | 1,238 | 2,809 |
| **Contractual cash flow** | 8,672 | 1,607 | 1,354 | 2,809 |
| | | | | |
| **Maturity** | | | | |
| Due within 0 – 30 days | 8,672 | 0 | 27 | 2,755 |
| Due within 31 – 90 days | 0 | 211 | 61 | 49 |
| Due within 91 – 180 days | 0 | 208 | 88 | 0 |
| Due within 181 – 365 days | 0 | 408 | 176 | 5 |
| Due after more than 365 days | 0 | 780 | 1,002 | 0 |
| **Contractual cash flow** | **8,672** | **1,607** | **1,354** | **2,809** |

| | December 31, 2009* | | | |
|---|---|---|---|---|
| **Financial liabilities** | **Advances due to banks** | **Loans due to banks** | **Finance leasing** | **Trade payables** |
| | | | | |
| **Carrying amount** | 12,247 | 2,250 | 425 | 3,206 |
| **Contractual cash flow** | 12,247 | 2,483 | 451 | 3,206 |
| | | | | |
| **Maturity** | | | | |
| Due within 0 – 30 days | 12,247 | 0 | 17 | 3,166 |
| Due within 31 – 90 days | 0 | 223 | 35 | 4 |
| Due within 91 – 180 days | 0 | 220 | 52 | 7 |
| Due within 181 – 365 days | 0 | 432 | 104 | 29 |
| Due after more than 365 days | 0 | 1,607 | 243 | 0 |
| **Contractual cash flow** | **12,247** | **2,483** | **451** | **3,206** |

*) Balances as at December 31, 2009 include amounts of discontinued operations ECM, please refer to Note 2 »Discontinued Operations Enterprise Content Management (ECM)«.

Details on short-term financing as well as the financial debts are explained in Points 19, »Short-term debts« and 23, »Long-term debts«.

From its international business activity, the Company is subject to currency risks resulting from the influence which currency fluctuations have on its cash flows and on the measurement of assets and liabilities recorded in foreign currencies. The maximum currency risk emerges from the following financial instruments and liquidity flows in foreign currency:

| | December 31, 2010 | | | | |
|---|---|---|---|---|---|
| **Financial instruments** | **USD** | **CAD** | **GBP** | **CHF** | **SEK** |
| | | | | | |
| Cash | 82 | 133 | 5 | 372 | 1,493 |
| Trade receivables | 3,349 | 0 | 807 | 1,258 | 28,200 |
| Short-term finance and finance leasing | (88) | (348) | 0 | (41) | (2) |
| Trade payables | (366) | (34) | (22) | (75) | (985) |
| Derivative financial instruments | (2,000) | 0 | 0 | 0 | 0 |
| **Balance sheet exposure** | **976** | **(250)** | **790** | **1,515** | **28,706** |
| | | | | | |
| Planned revenues 2011 | 6,399 | 85 | 997 | 1,887 | 21,741 |
| Planned expenditures 2011 | (2,287) | (3,763) | (471) | (545) | (8,874) |
| **Net exposure** | **5,088** | **(3,928)** | **1,316** | **2,857** | **41,573** |
| | | | | | |
| | December 31, 2009 | | | | |
| **Financial instruments** | **USD** | **CAD** | **GBP** | **CHF** | **SEK** |
| | | | | | |
| Cash | 373 | 82 | (2) | 437 | 4,700 |
| Trade receivables | 3,044 | 0 | 922 | 873 | 27,289 |
| Short-term finance and finance leasing | (10) | (116) | (72) | (163) | (46) |
| Trade payables | (272) | (33) | (22) | (37) | (1,644) |
| Derivative financial instruments | (2,050) | 1,500 | 0 | 0 | 0 |
| **Balance sheet exposure** | **1,086** | **1,434** | **826** | **1,111** | **30,300** |
| | | | | | |
| Planned revenues 2010 | 6,801 | 46 | 1,152 | 2,470 | 24,616 |
| Planned expenditures 2010 | (4,072) | (3,784) | (592) | (498) | (9,814) |
| **Net exposure** | **3,815** | **(2,304)** | **1,386** | **3,083** | **45,102** |

The table shows the exposition in thousand units of the respective foreign currencies.

From the Group's point of view, fundamental risks arise mainly from the business activities and transactions taking place in the currency units of the US and Canadian dollars by the respective foreign subsidiary companies. Primarily this means deposit surpluses in US dollars and payment surpluses for the Canadian dollar. With the goal to control these currency risks and their effects on the Group's performance within predictable and acceptable limits, the Company buys and sells derivative financial instruments in the form of forward exchange contracts. These transactions are deliberately established, planned and implemented. A direct allocation of maturities in terms of specific receivables and liabilities in foreign currencies does not take place.

All eighteen forward exchange contracts completed in the previous year were transacted in the 2010 fiscal year. To secure expected 2011 and 2012 payments in US dollars, four forward exchange contracts were completed in 2010 with a total value of kUSD 2.000. At each respective due date, the Company sold US dollars for euros. The market value of these transactions on the reference date was k€ 37. Under normal market conditions with a holding period of 21 business days (equivalent to one month), the potential future loss risk from these transactions amounts with a very high probability (95%) to not more than k€ 73 (Value at Risk). Thus the earnings effects of the forward exchange contracts take effect in opposition to the trends of the underlyings (hedging).

Accounting estimates used in the measurement of these derivative financial instruments are based on forward-looking assumptions with respect to the trends in foreign currency rates. The measurements result from market-based actuarial valuation methods; the basic assumptions are valuations in terms of interest rate trends in the US and German currency regions, from which the market-based swap rates are determined.

A rise in the Euro of 10% at the closing date compared to the following currencies would have led to the following above-named increases (decreases) in the net assets and annual net profit – provided that assumptions are unchanged:

| | December 31, 2010 | | | | |
|---|---|---|---|---|---|
| Effect in k€ | USD | CAD | GBP | CHF | SEK |
| | | | | | |
| Equity | (73) | 19 | (92) | (121) | (320) |
| Profit or Loss | (310) | 269 | (61) | (97) | (135) |

| | December 31, 2009 | | | | |
|---|---|---|---|---|---|
| Effect in k€ | USD | CAD | GBP | CHF | SEK |
| | | | | | |
| Equity | (75) | (95) | (93) | (75) | (295) |
| Profit or Loss | (196) | 236 | (63) | (131) | (139) |

A fall in the Euro of 10% at the closing date compared to the following currencies would have had an equal but opposite effect on the above-named currencies.

The currency exchange rates used in the sensitivity analysis with respect to the balance sheet development and the planned turnover revenue and costs are the foreign exchange reference rates and average rates under »Currency Conversion« in the »Accounting Policies«.

The monitoring of the interest risk also occurs within the framework of the Group-wide Cash Management. Payment surpluses from the central cash pool are invested short to mid-term in the market as interest bearing and in consideration of the expected short-term provisioning requirements. Similarly, short-term operational payment deficits are appropriated on overdraft to standard market interest rates. Overall, the Company's resulting interest risk is marginal.

Significant interest risks can arise for the Group primarily from the use of variable interest-bearing debt financing. If necessary, interest rate caps are applied for the financial limitation of the risks related to potential variable interest-bearing portions.

The Company shows the following interest-bearing financial instruments on the closing date:

| Financial instruments | 12/31/2010 | 12/31/2009* |
|---|---|---|
| | | |
| Financial assets under fixed interest rates | 39,462 | 41,661 |
| Financial liabilities under fixed interest rates | (5,547) | (5,882) |
| Financial instruments under variable interest rates | (7,449) | (10,261) |
| **Total** | **26,466** | **25,518** |

*) Balances as at December 31, 2009 include amounts of discontinued operations ECM, please refer to Note 2 »Discontinued Operations Enterprise Content Management (ECM)«.

An interest rate level in that was steadily around 100 basis points higher during the 2010 fiscal year - provided that assumptions remain unchanged – would have led to a decrease in the annual net profit of k€ 32 (2009: k€ 31).

The purpose of capital management is a provisioning of the Company with equity capital that is adequate and meets the legal requirements. The coverage to be provided is derived on the one hand from the compliance with the stock corporation law regulations and on the other hand from the requirements and expectations of the banks for the granting of credit lines.

The Company met these requirements for equity capital in the 2010 and 2009 fiscal years.

## 28. DIVIDEND DISTRIBUTION

The amounts available for distribution to the shareholders comply with the regulations for stock corporation law and the retained earnings in the individual financial statements of Beta Systems Software AG (the Parent Company). The individual financial statement is prepared in compliance with the regulations of the German Commercial Code (HGB).

There was no distribution of dividends to shareholders in the 2010 fiscal year for the 2009 fiscal year (no dividend distribution in the 2009 fiscal year for the 2008 fiscal year).

The individual net income according to the German Commercial Code (HGB) as at December 31, 2010 amounted to k€ 1,158 (2009: annual net profit k€ 539). For the 2010 fiscal year, no dividend distribution was proposed up to now.

## 29. STOCK OPTION PLANS

In connection with the establishment of the subsidiary company Tantia Technologies, Inc., today known as Beta Systems Software of North America, Inc., Herndon, USA, on May 11, 2000, the Company introduced the Tantia Technologies Stock Option Plan 2000 (»Tantia Plan«) for its employees and the members of the executive board of the Beta Group. 2,500,000 options to purchase ordinary shares were granted for allocation according to the plan, of which 985,000 were for recipients in Europe. The allocation of the options was made by the Company's Management Board and allocations to members of the Management Board were made by the Company's Supervisory Board. All of the 112,372 options held as on December 31, 2009 expired in 2010 (exercise price of US $1.00 per option).

No current stock option plans existed on December 31, 2010.

## 30. RELATED PARTY DISCLOSURES

On the basis of their direct (and indirect) equity investment, the attribution of voting rights and assumed personnel integration the Deutsche Balaton Aktiengesellschaft, Heidelberg, Heidelberger Beteiligungsholding AG, Heidelberg, and ABC Beteiligungen AG, Heidelberg, had significant influence on the Company during the fiscal year 2010 and were also related parties of Beta Systems Software AG. No business relations existed with these companies in the reporting year.

Also not any other related party business relationship existed in 2010.

Comprehensive disclosures regarding the business relationship and remuneration of the Members of the Management Board and the Supervisory Board can be found in the »Remuneration Report« within the »Combined Management Report on the Group and the Parent Company«.

## 31. GUARANTEES

On the reporting date no guarantees to other parties existed.

## 32. CONTINGENT LIABILITIES

On the reporting date no contingent liabilities existed.

## 33. OPERATING LEASES

The Company has payment commitments from non-cancellable operating leases for its data processing and office equipment, vehicle fleet, for other business plant and equipment as well as for long-term rental agreements for its office facilities. The lease terms are shown in the following presentation of the future office rentals and operating leasing payments. Options for extensions do not exist.

The minimum future rental and leasing payments as on December 31, 2010 are as follows:

| Commitments from operating leases as on 12/31/2010 | Office rentals | Other operating leasing |
|---|---|---|
| | | |
| 2011 | 2,362 | 912 |
| 2012 | 2,351 | 689 |
| 2013 | 2,273 | 454 |
| 2014 | 1,996 | 174 |
| 2015 | 832 | 57 |
| **Total** | **9,813** | **2,285** |

Total costs for office rentals and operating leasing expensed through profit or loss during the fiscal year ended on December 31, 2010 amounted to k€ 3,874 (2009: k€ 4,548).

In the year 2009, a total of k€ 1,068 was allocated to the discontinued operations ECM for expenses on office rentals and other operating leases, and hence the total amount for the Group operating leases was k€ 5,616.

## 34. EVENTS AFTER THE BALANCE SHEET DATE

**Switch to another stock exchange segment**

Beta Systems intends to switch stock exchange segment and aims in future to be listed in the General Standard of the Frankfurt Stock Exchange. To this end, an application was submitted the Admission Board on March 4, 2011 to rescind admission of the shares to the segment of the regulated market with post-admission obligations (Prime Standard). The management of Frankfurt Stock Exchange gave its approval on March 10, 2011. The withdrawal of the admission was published on the same day on the Internet under www.deutsche-boerse.com and will become effective at midnight on June 10, 2011. The shares will be admitted to trading (introduction) in the Regulated Market (General Standard) from June 13, 2011, onwards. The withdrawal does not affect the admission of the shares of Beta Systems Software AG to the Regulated Market.

The reason for the switch is that companies listed on Prime Standard are first and foremost those targeting international investors. As, alongside the major shareholders, almost exclusively national investors and private investors currently hold shares in the company, the Management Board and the Supervisory Board have come to the conclusion that the financial and organizational effort involved in being listed on Prime Standard is not commensurate in terms of the benefit for the Company and its shareholders and that these expenses could therefore be saved in future.

## DEVELOPMENT OF THE GROUP'S FIXED AND INTANGIBLE ASSETS

| | Property, Plant & Equipment | | | | Intangible Assets | | | | Total |
|---|---|---|---|---|---|---|---|---|---|
| Thousand € | Computer Equipment | Leasehold Improvements | Facilities and Office Equipment | Property, Plant & Equipment | Goodwill | Other intangible Assets | Acquired Software Product Rights | Intangible Assets | Fixed and intangible Assets |
| | | | | | | | | | |
| **Acquisition costs*** | | | | | | | | | |
| **as of January 1, 2009** | 17,224 | 1,916 | 3,696 | 22,835 | 2,029 | 4,483 | 8,356 | 14,869 | 37,704 |
| Additions | 506 | 2 | 46 | 554 | 509 | 0 | 0 | 509 | 1,063 |
| Translation differences | 113 | 1 | (13) | 100 | 0 | (9) | 43 | 33 | 134 |
| Acquisitions through business combinations | 552 | 10 | 326 | 888 | 2,864 | 994 | 1,181 | 5,039 | 5,927 |
| Disposals | (869) | 0 | (198) | (1,068) | 0 | 0 | 0 | 0 | (1,068) |
| **as of December 31, 2009** | 17,525 | 1,929 | 3,856 | 23,310 | 5,403 | 5,468 | 9,580 | 20,451 | 43,761 |
| | | | | | | | | | |
| **Accumulated Depreciation*** | | | | | | | | | |
| **as of January 1, 2009** | 15,127 | 1,255 | 3,257 | 19,638 | 0 | 1,994 | 5,949 | 7,942 | 27,581 |
| Additions | 1,078 | 253 | 214 | 1,545 | 0 | 886 | 1,052 | 1,938 | 3,483 |
| Translation differences | 112 | 1 | (16) | 97 | 0 | (3) | 5 | 3 | 100 |
| Acquisitions through business combinations | 521 | 5 | 219 | 744 | 0 | 9 | 0 | 9 | 754 |
| Disposals | (864) | 0 | (165) | (1,029) | 0 | 0 | 0 | 0 | (1,029) |
| **as of December 31, 2009** | 15,974 | 1,513 | 3,508 | 20,995 | 0 | 2,887 | 7,006 | 9,893 | 30,888 |
| | | | | | | | | | |
| Carrying Amount as of December 31, 2009* | 1,550 | 416 | 348 | 2,315 | 5,403 | 2,582 | 2,574 | 10,558 | 12,873 |
| | | | | | | | | | |
| **Acquisition costs** | | | | | | | | | |
| **as of January 1, 2010*** | 17,525 | 1,929 | 3,856 | 23,310 | 5,403 | 5,468 | 9,580 | 20,451 | 43,761 |
| Additions | 1,889 | 5 | 134 | 2,028 | 0 | 0 | 600 | 600 | 2,628 |
| Translation differences | 137 | 1 | 44 | 182 | 0 | 23 | 46 | 69 | 251 |
| Disposals | (1,283) | (2) | (485) | (1,769) | 0 | 0 | 0 | 0 | (1,769) |
| Disposals of ECM Business | (5,841) | (525) | (2,278) | (8,644) | (2,031) | (22) | (3,700) | (5,753) | (14,396) |
| **as of December 31, 2010** | 12,427 | 1,409 | 1,271 | 15,106 | 3,372 | 5,470 | 6,526 | 15,368 | 30,474 |
| | | | | | | | | | |
| **Accumulated Depreciation** | | | | | | | | | |
| **as of January 1, 2010*** | 15,974 | 1,513 | 3,508 | 20,995 | 0 | 2,887 | 7,006 | 9,893 | 30,888 |
| Additions | 902 | 138 | 64 | 1,104 | 0 | 868 | 884 | 1,752 | 2,855 |
| Translation differences | 128 | 1 | 48 | 177 | 0 | 5 | 13 | 18 | 196 |
| Disposals | (790) | (1) | (465) | (1,256) | 0 | 0 | 0 | 0 | (1,256) |
| Disposals of ECM Business | (5,608) | (356) | (2,199) | (8,164) | 0 | (22) | (3,700) | (3,722) | (11,886) |
| **as of December 31, 2010** | 10,606 | 1,295 | 956 | 12,857 | 0 | 3,739 | 4,203 | 7,941 | 20,798 |
| | | | | | | | | | |
| Carrying Amount as of December 31, 2010 | 1,821 | 114 | 315 | 2,250 | 3,372 | 1,731 | 2,323 | 7,426 | 9,676 |

*) Balances as at December 31, 2009 and as at January 1, 2010 include amounts of discontinued operations ECM, please refer to Note 2 »Discontinued Operations Enterprise Content Management (ECM)«.

## SUPPLEMENTARY DISCLOSURES ON THE COMBINED FINANCIAL STATEMENTS

### Performance related to other Reporting Periods

Operating income from other reporting periods in the amount of k€ 692 and operating expenditures from other reporting periods in the amount of k€ 383 are included within the cost of revenues and the operating expenses for the fiscal year (2009: k€ 527 operating income from other reporting periods and k€ 410 operating expenses from other reporting periods).

### Personnel Expenses

The personnel expenses for the 2010 fiscal year are summarized as follows:

| Personnel expenses | 2010 | 2009 |
|---|---|---|
| | | |
| Wages and salaries | 22,410 | 24,116 |
| Social security contributions | 3,988 | 3,880 |
| **Total continued operations** | **26,398** | **27,996** |

In 2009, personnel expenses in the amount of k€ 16,699 were allocated to the discontinued operations ECM. Hence, the Group's personnel expenses amounted to k€ 44,695.

### Number of Employees

The average numbers of employed staff in continued business operations in 2010 are distributed as follows:

| Total average number of employees | 2010 | 2009 |
|---|---|---|
| | | |
| Sales and service | 177 | 173 |
| Development | 116 | 121 |
| Administration | 59 | 72 |
| **Total continued operations** | **352** | **366** |

In 2009, 286 staff were employed in the discontinued operation ECM. The average number of employees for the Group was thus 652.

### Auditor's Fees

Expenditures in the 2010 fiscal year to the KPMG AG Wirtschaftsprüfungsgesellschaft [audit firm], Berlin, in fees for the audit of the Group's annual accounts amounted to k€ 85 for the audit of the Annual Financial Statement and the Group's accounts as well as the IFRS Consolidated Annual Report, as well as k€ 10 for audit services of the previous year's Annual Report, k€ 18 for tax accountancy and k€ 56 for other reporting services (2009: k€ 161 for account audit services, k€ 17 for tax accountancy and k€ 41 for other reporting services).

### Declaration of Conformity and reporting on Corporate Governance

It is mandatory for German companies to apply the provisions prescribed under the law. In respect of the recommendations, Section 161 of the German Stock Corporation Act (AktG) requires listed companies to make an annual declaration on the extent to which each individual company complies with the German Corporate Governance Code and where it diverges from it. This also includes a description of any divergences from the recommendations of the Code.

On December 14, 2010, the Management Board and Supervisory Board of Beta Systems Software AG jointly issued an updated 2010 Declaration of Conformity in accordance with Section 161 of the German Stock Corporation Act (AktG).

## DIRECTORS' BOARD

### Management Board

Members of the Company's Management Board in the 2010 fiscal year included:

- Mr Jürgen Herbott
  Chief Executive Officer since July 19, 2010
- Mr Gernot Sagl
  Chief Financial Officer since July 19, 2010; sole director until July 18, 2010

The salaries for management in key Group positions that are taxable according to IAS 24 include the salaries for management board and supervisory board members. The total salaries for management board members for short-term salaried services in the 2010 fiscal year amounted to k€ 553 (2009: k€ 466). The total salaries consist of various remuneration components. The individualization and all details are presented under the heading of the audited »Remuneration Report« within the »Combined Management Report on the Group and the Parent Company«.

For former management board members, k€ 30 (2009: k€ 51) were directed to provisions for pension entitlements. The status as of December 31, 2010 amounted to k€ 822 (2009: k€ 1,005) according to the rules for valuation of the IAS 19.

### Supervisory Board

The Annual General Meeting of Beta Systems Software AG, that took place on August 17, 2010 in Berlin, overwhelmingly accepted the election of the following new members to the Supervisory Board:

- Dr. Günter Lewald, Köln
  Spokesman for the agency group bplusd, Cologne
  Executive partner bplusd marketing & sales GmbH, Cologne
  Executive partner Pauli-Bach und Lewald GmbH, Cologne
  Chairman of the Supervisory Board,
- Mr Stephan Helmstädter, Dipl.-Kfm., Frankfurt
  Member of the Management Board, CornerstoneCapital Verwaltungs AG, Heidelberg
  Member of the Management Board CornerstoneCapital AG, Frankfurt/Main
  Executive Director, CornerstoneCapital Beteiligungen GmbH, Frankfurt/Main
  Deputy Chairman of the Supervisory Board,
- Mr Herbert Werle, lic.oec. HSG, Zurich
  Managing Director goetzpartners (Schweiz) AG, Freienbach/Pfäffikon
  Executive partner Werle Consulting GmbH, Zurich,
- Dr. Carsten Bräutigam, Stockholm
  Manager Premium Services Wall Street Systems, Stockholm.

Prior to the Annual General Meeting, the following members were already elected by the employees to act as their representatives:

- Mr Stefan Hillenbach, Berlin
  Senior Software Architect
  Employee representative,
- Mr Peter Becker, Cologne
  Manager Training
  Employee representative.

Dr. Günter Lewald holds another supervisory board position as chairman of the supervisory board with Synaxon AG, Bielefeld. Mr Stephan Helmstädter holds another supervisory board position in the Administration Intelligence AG, Würzburg. The supervisory board members, Mr Herbert Werle, Dr. Carsten Bräutigam, Mr Stefan Hillenbach and Mr Peter Becker do not hold any other supervisory board position.

Following the 2010 Annual General Meeting, the newly elected Supervisory Board commenced their activities. The term of office ended according to schedule at the same time for the following members:

- Mr Sebastian Leser, Dipl.-Kfm., MBA – Dipl. de l'ESSEC, Karlsruhe
  Chairman of the Manangement Board, Heidelberger Beteiligungsholding AG, Heidelberg, up to August 31, 2010
  Chairman of the Manangement Board, ABC Beteiligungen AG, Heidelberg
  Member of the Manangement Board, Fidelitas Deutsche Industrie Holding AG, Heidelberg
  Chairman of the Supervisory Board,
- Dr. Arun Nagwaney, London
  Director Zendegii Limited, London
  Director Plastics Capital Plc, London
  Member of the Manangement Board, Papierwerke Lenk AG, Kappelrodeck
  Deputy Chairman of the Supervisory Board,
- Mr Volker Wöhrle, Dipl.-Kfm., Rheinstetten
  Member of the Manangement Board, Fortuna Maschinenbau Holding AG, Bad Staffelstein,
- Mr Jürgen Dickemann, Dipl.-Kfm., Berlin
  Member of the Manangement Board, Dickemann Capital AG, Berlin.

Mr Wilhelm Terhaag (Augsburg employee representative) was already retired from the Supervisory Board at the time of the sale (June 3, 2010) of the ECM business unit.

Dr. Arun Nagwaney was in 2010 a member of the Board of Directors of the following companies:

- Plastics Capital Trading Limited, London,
  Bell Plastics Limited, London,
  BNL (UK) Limited, London,
  Palagan Limited, London
  C & T Matrix, London,

Inactive:

- Howper 136 Limited, London,
  Trimplex Safety Tread Limited, London,
  Sabreplas Limited, London,
  Plastics Capital Bearings Limited, London,
  Cobb Slater Limited, London,
  Bell Holdings Limited, London,
  Channel Matrix Distribution Limited, London.

Mr Volker Wöhrle assumed additional supervisory board positions in 2010 with:

- Heidelberger Beteiligungsholding AG, Heidelberg, Deputy Chairman of the Supervisory Board up to August 30, 2010,
  Papierwerke Lenk AG, Kappelrodeck, Deputy Chairman of the Supervisory Board.

The supervisory board members Mr Sebastian Leser, Mr Jürgen Dickemann and Mr Wilhelm Terhaag do not hold any other supervisory board position.

In the 2010 fiscal year, the total remuneration for supervisory board members for short-term salaried services amounted to k€ 100 (2009: k€ 58). Details are presented under the heading of the audited »Remuneration Report« within the »Combined Management Report on the Group and the Parent Company«.

## GROUP'S ENTITIES

**Summary of holdings as on December 31, 2010 (unconsolidated)**

| Entity | Local currency | Capital stock at 12/31/2010 in local currency | Equity at 12/31/2010 in local currency | Net income (loss) at 12/31/2010 in local currency | Investment | Capital stock at 12/31/2010 in k€ | Equity at 12/31/2010 in k€ | Net income (loss) at 12/31/2010 in k€ |
|---|---|---|---|---|---|---|---|---|
| Beta Systems EDV-Software GmbH, Vienna, Austria | | | | | 100% | 36 | 768 | 127 |
| Beta Systems Software SPRL, Waterloo, Belgium | | | | | 100% | 50 | 365 | 304 |
| Beta Systems Software France SARL, Saint Thibault des Vignes, France | | | | | 100% | 763 | 2,406 | 477 |
| Beta Systems Software Ltd, Reading, Great Britain | TGBP | 400 | (1,501) | (95) | 100% | 601 | (1,741) | (107) |
| Beta Systems Software SRL, Milan, Italy | | | | | 100% | 52 | 654 | 254 |
| Beta Systems Software BV, Nieuwegein, Netherlands | | | | | 100% | 23 | 298 | 272 |
| Betann Systems AB, Sundbyberg, Sweden | TSEK | 100 | 17,939 | 3,545 | 100% | 11 | 1,998 | 397 |
| Beta Systems Software AG, Wallisellen, Switzerland | TCHF | 100 | 967 | 83 | 100% | 63 | 772 | 61 |
| Beta Systems Software Espana SL, Madrid, Spain | | | | | 100% | 1,553 | 226 | 166 |
| Beta Systems Software of North America, Inc., Herndon, USA | TUSD | 401 | 13,451 | (366) | 100% | 383 | 9,309 | (299) |
| SI Software Innovation GmbH, Neustadt an der Weinstraße, Germany *) | | | | | 100% | 511 | 3,261 | (579) |
| DETEC Software GmbH, Rüsselsheim, Germany *) | | | | | 100% | 103 | 4,602 | (226) |
| Beta Systems Marketing GmbH, Berlin, Germany *) | | | | | 100% | 26 | 26 | - |

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

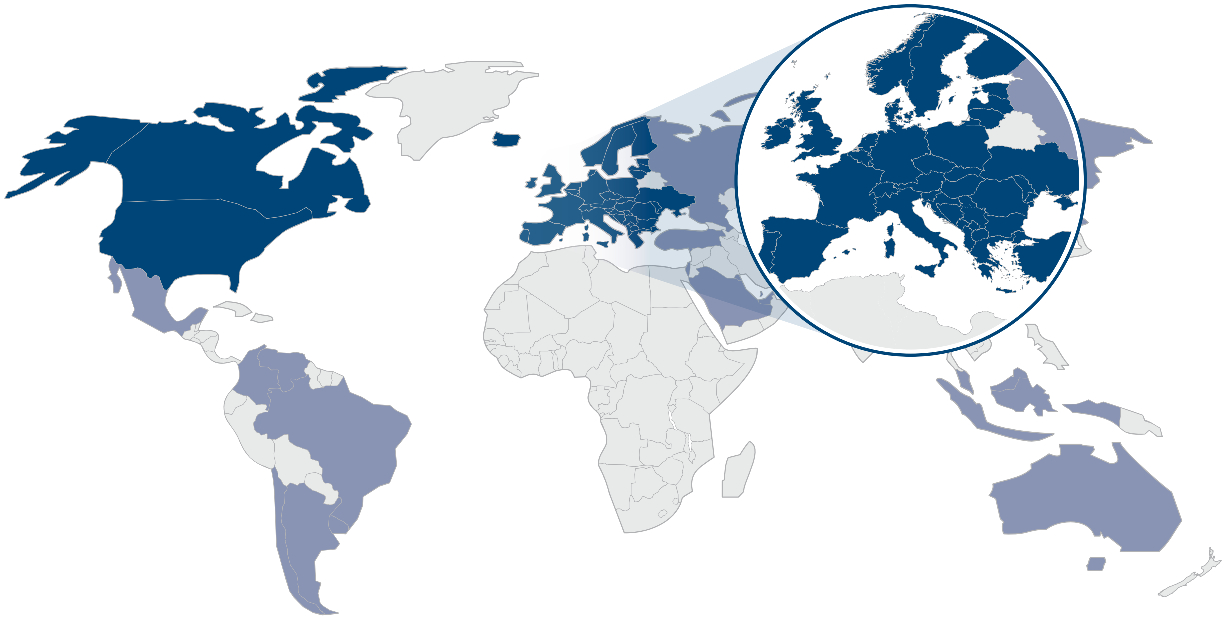
| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Beta Systems Software of Canada Inc., Calgary, Canada | TCAD | 31,356 | (108) | (715) | 100% | 17,266 | (81) | (519) |

*) A domination and profit transfer agreement exists. There are only shown equity and performance balances which are not to include under local GAAP.

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

The values of the equity and the operating results for the fiscal year 2010 are those resulting from the financial statements of the individual entities prepared in accordance with IFRS (unconsolidated). The Statement of Financial Positions of foreign subsidiaries were converted from the national currency to euro at the foreign exchange benchmark rate at the reporting date while the Statement of Income was translated at the average monthly foreign exchange benchmark rate during the period.

## BETA SYSTEMS GROUP WORLDWIDE



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# GLOSSARY

**Access Management**
The administration of all protection and precautionary measures regulating access in any form to resources.

**Add-ons**
Programs which supplement existing software.

**Application Program Interfaces (API)**
Program interfaces which allow information and requests to be exchanged.

**Archiving**
Replication of (back-up) data and storage on a medium other than primary storage.

**Audit**
Process of examination carried out by professional auditors in order to assess processes in respect of their compliance with requirements and guidelines.

**Automated User Management**
Automated process of granting access rights which equips users with the basic prerequisites for fulfilling their tasks based on their roles/tasks within the organization.

**Backup**
Securing data from a computer system on an external medium.

**Batch Jobs**
Programs executed on any computer without further user interaction.

**Business Process Management (BPM)**
Engineering, documentation, control and improvement of business processes.

**Classification**
Methodology for classifying and combining objects and information into categories.

**Client**
Software which requests services from another computer (the server) and uses its resources.

**Cloud Computing**
The term for the outsourcing of applications and data to a service provider who makes them available via Internet.

**Compliance**
Compliance with legal provisions and other directives and guidelines in companies and organizations for the protection of owners, customers and investors against loss or damage from illegal entrepreneurial activity.

**DACH**
Abbreviation for Germany, Austria and Switzerland.

**Data Centers**
Both the buildings which house the core computer technology of a company and the organization which services these centers.

**Data Processing**
Secure and efficient information management in data centers.

**DCI (Data Center Infrastructure)**
Infrastructure solutions for data centers.

**Document Processing**
Capturing, processing, provision and archiving of electronic and paper-based incoming data, as well as the targeted distribution of electronic documents.

**DoXite**
Solution for Windows, Linux and Unix systems, which automatically transforms source data from various applications into professional-looking documents which are easy to read in the individual layout defined by the company, and which offers a wide range of output drivers and interfaces for printers and electronic media.

**Enterprise Application Management**
IT infrastructure which enables the companywide integration of business functions by linking up various applications and different platforms.

**ECM (Enterprise Content Management)**
Technologies for capturing, managing, storing, archiving and transmitting content and documents relating to organizational processes.

**E-mail Management**
Processing, administration and archiving of all incoming and outgoing e-mails.

**IdM (Identity (Access) Management)**
Measures ensuring secure access by people and computers to the network and to applications, for instance access management, authentication, password management and provisioning.

**Industrialization of IT**
Term for strategic in- and outsourcing, the aim of which is to enhance the flexibility of a company's own IT, to optimize processes and lower costs.

**Information Management**
Administration, provision and securing of data and information in corporate networks.

**IT Agility**
The ability of IT to respond flexibly and swiftly to changing capacity requirements and changes in functional requirements and of seeking out future IT-based innovations and supporting them.

**IT Infrastructure**
Sum total of all technical resources, networks, hardware and software in a company.

**IT Security**
Information processing systems which secure the confidentiality, availability and integrity for the protection of IT systems and data against hazard and threats.

**Job Scheduling**
Management, automation, monitoring and planning of IT processes.

**Large Documents Management System (LDMS)**
Solution for the archiving and mass processing of a wide variety of electronic documents.

**Linux**
Unix family operating system on an open source basis.

**Mainframe**
Complex, powerful computer system optimized in terms of reliability and bulk data processing.

**Maintenance**
Measures to ensure the steady status of operating resources as well as the elimination of errors and defects which occur after a system has gone live.

**Migration**
Term in information technology for the transferring of data stock of a company to another hardware or software platform.

**Multi-Client System**
System in which a number of different, hierarchical client structures can be defined with the respective permissions and where netting can be carried out between these clients.

**Open Systems Environment**
Operating environment which secures the interoperability and portability through open, freely accessible interfaces and specifications.

**Operating System**
Software which enables a computer to operate and manage resources such as storage, input and output devices and the execution of programs.

**Output Management**
Preparation, generating, control and distribution of electronic or physically accessible documents to all recipients defined within or external to a company.

**Outsourcing**
The entrusting of corporate services formerly carried out within the company to external companies.

**Provisioning**
Part and process of IT operating management which equips users of an IT system with the basic pre-requisite for fulfilling their tasks.

**SAM Enterprise Identity Manager**
Companywide applicable security solution for the administration of identity and access rights (user administration).

**Scheduler**
Program which manages read and write access to database objects and the scheduled execution of a number of processes in operating systems.

**Scheduling**
Process administration and the resource allocation which regulates the scheduled execution of a number of processes in operating systems.

**Security Management**
Process for the management and control of security levels defined for services and information within the company.

**Service Level Agreement**
Internal quality standards which specify the outcome of certain activities binding on all involved.

**Shared Service Center**
Consolidation and a centralization of service processes from different areas of an organization which are then combined under a central unit or department.

**SOA (Service Oriented Architecture)**
A concept organizing the business and the IT of a company into services based on a modular structure which can be used flexibly to implement business processes.

**Standardization degree**
The proportion of standardized products and solutions which can be used in a company.

**Suite**
An organized, consistent collection of software programs which carry out a number of associated responsibilities.

**Synchronization**
Synchronized processes which ensure that resources are deployed efficiently and data kept at a consistent level.

**UNIX**
Open standard operating system, available since 1969, which can be freely improved on or added to.

**Update**
Updating of existing products and solutions which correct program defects or include smaller program improvements.

**Upgrade**
New version of a basic software which comprises additional functions.

**User Interface**
User interfaces which enable users to exchange data through a program or computer such as a web form or input screen, for example.

**User Management**
Administration of access rights and permissions.

**User Role**
Definition of tasks, characteristics and rights of the user in a software or operating system.

**Web Services**
Software component which links up programs running on different network computers via the Internet and combines them into one application.

**Workflow**
Individual integrated steps of a process which enable a swift, targeted and efficient succession of activities in an organization.

**Workflow XPert.NET**
Workflow management system for the automated processing of individual business processes of all types.

**Workload**
Term designating the amount of work calculated for successfully completing work processes.

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