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SEMI ANNUAL REPORT

2004

AT A GLANCE://

+++ +++ at June 30, 2004 +++ +++

► Ratios by segment

	Professional Services	Communication Networks	Financial Solutions	Unallocated	Total
	EUR	EUR	EUR	EUR	EUR
Segment net sales (consolidated)	25,579,039.48	2,737,934.09	3,485,405.58	0.00	31,802,379.15
Segment operating result	984,890.56	374,047.88	358,095.20	-691,191.51	1,025,842.13
Financial result					-10,839.79
Share of profit of associates			212,845.31		212,845.31
Profit before taxes					1,227,847.65
Income taxes					-810,693.64
Net profit for the period					417,154.01
Segment assets	20,891,184.58	4,724,386.39	8,417,297.32	16,008,300.51	50,041,168.80
Segment liabilities	15,810,268.53	1,090,569.01	4,113,457.66	455,294.65	21,469,589.85
Segment investments	152,500.87	267,254.31	747,189.15	0.00	1,166,944.33
Segment writedowns	246,713.64	256,144.87	295,670.66	0.00	798,529.17

Earnings per share EUR 0.05

► Geographical segments Q2/2004

	Segment Sales	Segment assets	Segment investments
	EUR	EUR	EUR
Austria	5,886,338.93	19,485,259.42	22,441.80
Germany	16,681,930.44	16,983,008.81	1,035,391.71
Italy	8,188,996.53	12,086,212.69	100,121.36
Other regions	1,045,113.25	1,486,687.88	8,989.46
	31,802,379.15	50,041,168.80	1,166,944.33



BRAIN FORCE SOFTWARE AG

We are pleased to present our latest semi annual report for 2004.
Thank you for your trust and your interest.



QUARTER 02/2004//:

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► **Economic climate**

During the first quarter of 2004, the eurozone experienced unexpectedly robust economic growth of 2.4 percent. The upturn was driven by strong foreign demand and, encouragingly, a rise in private consumption. However, the investment levels critical to the growth of the Brain Force Software group were virtually unchanged.

The downturn in global economic activity will have a further dampening effect on eurozone rates of growth. Despite this, the Ifo Institute has revised upwards its growth forecast for gross domestic product from 1.6 to 1.8 percent since we published our report on first quarter 2004. The Ifo Institute is predicting that slowly diminishing foreign demand will be offset at least partially by an upturn in private consumption and capital expenditure activity. We believe that rising investment in the eurozone will also produce a growth stimulus for the Brain Force Software group.

However, developments on the stock market were disappointing throughout second quarter 2004 and into the third quarter. After reaching a high for the year of 653 points in March, the TecDAX lost 76 points, equivalent to 11.6 percent. The index had dropped a further 111 points by 6th August 2004, bringing it to 467 points, the lowest point so far this year.

► **Business developments**

For the group, the first half of the year was notable for an increase in profitability and preparations for the planned expansion. Since 2001, we have been forced to introduce consolidation measures and take steps to re-structure our acquired companies. Having come through this difficult time, we succeeded in converting sales increases into improved margins during the first six months of this year.

This increase in the margins was achieved in spite of significant investment in our sales structures during the same period. The aim of this was to establish structures spanning all business areas; this would enable us to ensure the maximum customer access to all products and services supplied by the group.

The responsibilities of the Business Development unit start with lead generation and qualification. This will be carried out by a group within the new department specialising in telesales. Needless to say, the Business Development department also incorporates a sales team which has the express aim of attracting new customers and maximising cross selling potential.

Now that the FINAS web Customer Relationship Management system has been implemented across the group by our subsidiary Brain Force Financial Solutions AG, we also possess the system facilities needed to

For the group, the first half of the year was notable for an increase in profitability and the preparations for the planned expansion.

reproduce and coordinate our sales processes across all business areas.

In terms of sales, the group's best-performing business area continues to be Professional Services with an 80.4 percent share of group turnover. In the Technology Integration Services (TIS) area, we succeeded in recording sales growth comparable to that achieved in the first half of 2003. The TIS share in the sales of Professional Services, which stood at 44.1 percent in 2003, increased to 49.7 percent in the first six months of 2004.

The Professional Services team in Germany recorded a very strong growth rate of 18.0 percent. Existing project teams expanded and new customers were gained, especially at the Munich and Cologne locations. Without doubt, our nomination as a premium partner by the HypoVereinsbank was a particular highlight; we can expect preferential contract awards in future. Unfortunately, the result was significantly affected by the cancellation of a project with a customer in the printing and publishing sector. However, no such financial burden is expected to arise in the second half of 2004, and margins should therefore continue to improve.

Our international subsidiary in Italy once again succeeded in attracting new business at the Rome location, in spite of the fact that the most important customer for this location severely curtailed its business activities early in the year for financial reasons. The loss of this active customer placed considerable pressure to succeed on our team in Rome during the first six months. We remain proud of the success achieved in the Enterprise Business Solutions (EBS) service area, which has made us the leading Microsoft Business Partner for projects in the NAVISION and Microsoft CRM field in Italy.

In contrast to the first half of 2003, the Austrian subsidiary experienced a slight drop in sales. However, it still managed to increase contribution margins significantly.

During second quarter 2004, the Communication Networks (CN) business area built on the positive trend initiated in the first quarter, thereby demonstrating the sustainability of the turnaround achieved in the previous quarter. This highly satisfactory progress was based on three major orders from Switzerland and Germany along with stable business with the Siemens group in the Intelligent Networks area.

Business for the Financial Solutions segment remains stable. The first half of the year was characterised by a major order from Baden-Württembergische Bank for FINAS web CRM and Construction Financing, current projects for our major customer Gothaer and the aforementioned implementation of FINAS web CRM within the Brain Force group.



► **Orders**

The development of incoming orders was patchy. The order balance stood at EUR 17.26 million on 30th June 2004, equivalent to a decrease of 10.0 percent compared with 30th June 2003 but a 39.0 percent improvement against the end of 2003.

In year-on-year comparison, the Professional Services business area returned a virtually unchanged order balance of EUR 13.59 million (minus 1.3 percent). This value represented a rise of 60.8 percent compared with 31st December 2003.

Although the Communication Networks business area finished 10.7 percent below the previous year's value with an order balance of EUR 1.26 million, this figure was a healthy 79.1 percent above the year-end value.

As of 30th June 2004, the Financial Solutions business area had an order balance of EUR 2.41 million, 39.6 percent below the 2003 mid-year value and 26.2 percent down on 31st December 2003.

The reduction in the order balance for both of these product areas is the result of a number of major projects reaching an advanced stage of processing. The rationalisation measures in the second half of 2003, which involved breaking off a number of unprofitable customer ties, also had a bearing on the more pronounced downturn in the level of orders for the Financial Solutions area.

In overall terms, the level of the order balance remained at around one quarter's turnover, the average value for the Brain Force Software group.

► **Net sales and earnings**

During the first half of 2004, the Brain Force Software group recorded sales of EUR 31.80 million, thereby exceeding the value for the first half of the previous year (EUR 28.46 million) by 11.7 percent. Turnover of EUR 16.35 million for second quarter 2004 exceeded the outstanding turnover figure of fourth quarter 2003 and was also 5.8 percent above that of first quarter 2004.

The much improved profitability of the group was also highly satisfactory. Compared to the same period last year, the EBITDA more than doubled, rising by EUR 1.28 million to EUR 1.82 million.

Although the group had to concede a loss before taxes and interest in the first six months of 2003, the EBIT was once again positive in the first half of 2004 at EUR 1.03 million.

The profit for the period after minorities stood at TEUR 337, EUR 1.49 million above the loss for the first half of 2003. This resulted in a profit per share of EUR 0.05.

During the first half of 2004, the Brain Force Software group recorded sales of EUR 31.80 million, thereby exceeding the value for the first half of the previous year (EUR 28.46 million) by 11.7 percent.

In the first six months, the Professional Services (PS) business area once again demonstrated its stability with turnover of EUR 25.58 million and a segment EBIT of TEUR 985. The Business Solution Services (BSS) service area accounted for a turnover share of 50.4 percent with sales of EUR 12.88 million. The service area Technology Integration Services (TIS) achieved sales of EUR 12.70 million, a 49.6 percent proportion of the turnover for the Professional Services (PS) segment. As of the mid-year point, the EBIT margin for the segment stood at 3.9 percent.

Compared to first quarter 2004, the Communication Networks (CN) business area once again delivered a significantly improved result. Segmental turnover for the first half of the year stood at EUR 2.74 million, with a segmental result of TEUR 374. The CN area was therefore the segment of the Brain Force Software group with the strongest margin, recording an EBIT margin of 13.7 percent in the first six months.

During the first half of 2004, the Financial Solutions (FS) business area recorded turnover of EUR 3.49 million. The segmental result was TEUR 358, producing an EBIT margin of 10.3 percent.

Group costs of TEUR 691 are not contained in the results for the business areas.

The group companies in Germany achieved an EBITDA of EUR 1.17 million and an EBIT of TEUR 592 during the first six months with a sales volume of EUR 16.68 million. Compared to the first half of 2003, this equates to a 22.4 percent increase in sales, a rise of 160 percent in the EBITDA and an improvement in the EBIT of fully 1,372 percent. Note that prior year comparisons are of limited applicability since Brain Force Financial Solutions AG was not included in the consolidation group until 1st May 2003.

During the first half of the year in Italy, turnover was EUR 8.19 million, the EBITDA stood at TEUR 612 and the EBIT amounted to TEUR 472. The turnover figure exceeded that of the same period last year by 3.92 percent. The figures for the EBITDA and EBIT in the first six months fell short of the prior year's values by 7.9 percent and 10.6 percent respectively.

Brain Force Software AG in Austria largely offset losses compared with the previous year with sales of EUR 5.89 million. The EBITDA and the EBIT were up by TEUR 515 and TEUR 512 respectively. Losses for the company, which was adversely affected by group costs, consequently stood at TEUR 86 as regards the EBITDA and TEUR 142 in respect of the EBIT.

Compared with the previous year, the subsidiaries in Switzerland, the Czech Republic, Slovakia and the Netherlands concluded the first half of the year with significant improvements. Turnover rose by 36.8 percent to EUR 1.05 million. The EBITDA stood at TEUR 141 and the EBIT was TEUR 116; both prior year values were



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therefore exceeded by around TEUR 270.

▶ **Research and development**

The research and development activities of the Brain Force Software group are concentrated in the business areas CN (Communication Networks) and FS (Financial Solutions).

▶ **Product and process innovations**

During the first half of this fiscal year, the business area CN (Communication Networks) integrated the following new functions into the current releases, and published new releases upgraded to include these functions:

Cable Management (KNV)

- ▶ Development and enhancement of visualisation components for the simplified graphical processing and documentation of network nodes
- ▶ Expansion of network planning functionality as regards reservation of existing lines, capacity planning and automatic route search

INKAS

- ▶ Integration of Cisco Call Manager into the INKAS PBX Management System

Development of the next product generation for the Cable Management tool KNV got under way in the second quarter.

The business area FS (Financial Solutions) focused on the following points during the first six months:

- ▶ Enhancement of the Web CRM, Web Provision and Web Construction Financing solutions
- ▶ Integration of the Web CRM, Web Provision and Web Construction Financing solutions via interfaces within the context of currently accepted sales and marketing processes: from definition of action to individual offers
- ▶ Quality assurance, especially in terms of stability, operation and maintainability
- ▶ Customer-specific functional enhancements to the Web CRM and Web Construction Financing solutions

As of key date 30th June 2004, the staffing level stood at 863 employees, slightly above the figure for the end of 2003.

▶ Customer-specific functional enhancements to the web CRM and web Construction Financing solutions

▶ **Human Resources**

As of key date 30th June 2004, the staffing level stood at 863 employees, slightly above the figure for the end of 2003. The number of employees was virtually unchanged from the mid-year point in 2003 (864 employees). The ratio of salaried staff to freelance employees remained stable at around 75:25.

Development for the various business areas was highly uneven. The Professional Services segment recorded an increase in the staffing level from 664 at the mid-year point in 2003 to 669 as of 31st December 2003 and subsequently to 716 as of key date 30th June 2004. This rise was the result of an increase in staff assigned to projects as well as an indication of anticipated and accomplished upturns in sales.

The trend is reversed in the two product units created as a result of the acquisitions of the past two years (Communication Networks and Financial Solutions). In these areas, we succeeded in raising profitability sharply through personnel cutback measures.

On the key date, the Communication Networks business area had 52 employees, reflecting a personnel reduction of 17 over the past year.

The Financial Solutions business area currently has 95 staff members, which shows a reduction of 36 employees over the past 12 months.

▶ **Outlook**

In terms of target quotas, if we compare the EBITDA level for 30th June 2004 against the first six months of the two previous years, we can see that so far this year, we have achieved 40.5 percent of the EUR 4.50 million planned for the year as a whole. At the midway point in 2003, the EBITDA was only 18.2 percent of the result for the year; the comparable figure in 2002 was 32.1 percent. In terms of the EBIT, such comparisons do not apply, as the EBIT was negative at the midway point of the two previous years.

Once again, we anticipate a strong second half of the year; on the basis of healthy half-yearly figures, we should achieve our yearly targets of EUR 66.10 million turnover with an EBITDA of EUR 4.50 million and an EBIT of EUR 2.82 million.

With combined liquid funds and short-term financial assets of EUR 16.11 million and authorised capital of 5.13 million shares, we have the necessary means at our disposal to achieve our ambitious growth targets with the planned acquisitions.

FINANCIAL STATEMENTS://

+++ +++ at June 30, 2004 +++ +++

► **Brain Force Software AG – Group**
Consolidated balance sheet at June 30, 2004

	30.06.2004	31.12.2003
Assets	EUR	EUR
Non-current assets		
Property, plant and equipment	1,039,212.08	1,204,751.33
Goodwill	4,708,146.79	4,721,141.78
Other intangible assets	4,020,896.58	3,507,564.64
Investments in associates	420,896.82	510,154.30
Other financial assets	3,166,463.46	184,178.23
Other receivables and other assets	167,271.71	125,786.95
Deferred tax assets	528,392.82	683,271.20
	14,051,280.26	10,936,848.43
Current assets		
Inventories	149,708.51	147,735.22
Trade receivables	18,235,132.77	14,777,505.53
Other receivables and other assets	1,495,561.45	1,242,882.19
short-term investments	3,918,598.32	0.00
Cash and cash equivalents	12,190,887.49	4,345,280.20
	35,989,888.54	20,513,403.14
	50,041,168.80	31,450,251.57

	30.06.2004	31.12.2003
Equity and liabilities	EUR	EUR
Equity		
Equity attributable to equity holders of the parent		
Share capital	10,257,828.00	4,834,789.00
Reserves	15,453,770.28	5,446,985.64
Retained earnings	2,068,344.95	1,731,178.51
Minority interest	791,635.72	687,292.30
	28,571,578.95	12,700,245.45
Non-current liabilities		
Financial liabilities	38,858.40	41,926.14
Other liabilities	25,607.94	40,786.71
Provisions for post-employment benefits	2,000,401.35	1,892,606.84
Deferred tax liabilities	455,294.65	332,246.34
Other provisions	36,700.00	62,600.00
	2,556,862.34	2,370,166.03
Current liabilities		
Financial liabilities	2,722,138.51	2,900,150.19
Trade payables	6,525,493.10	5,297,856.63
Other liabilities	9,014,461.37	7,631,273.87
Tax provisions	441,034.09	3,311.36
Other provisions	209,600.44	547,248.04
	18,912,727.51	16,379,840.09
	50,041,168.80	31,450,251.57

+++ +++ at June 30, 2004 +++ +++

► **Brain Force Software AG – Group**
Consolidated income statement

	Quarterly report 01.04.2004 – 30.06.2004	Quarterly report 01.04.2003 – 30.06.2003	Semi annual report 01.01.2004 – 30.06.2004	Semi annual report 01.01.2003 – 30.06.2003
	EUR	EUR	EUR	EUR
1. Net sales	16,347,168.71	14,790,069.42	31,802,379.15	28,464,422.71
2. Changes in work in progress	-37,311.65	-139,112.53	-693.13	-139,112.53
3. Other own work capitalised	595,010.00	185,480.75	985,712.00	307,987.75
4. Other operating income	307,457.34	278,789.62	593,563.06	422,840.70
5. Material and production costs	-12,145,148.32	-10,599,352.97	23,392,519.77	-20,549,614.33
6. Employee benefits costs	-2,464,920.76	-2,879,574.75	-5,156,092.93	-5,413,120.36
7. Depreciation and amortisation expense	-438,470.64	-688,649.46	-798,529.17	-1,236,126.67
8. Other operating expenses	-1,543,873.09	-1,451,499.28	-3,007,977.08	-2,547,560.48
9. Operating result	619,911.59	-503,849.20	1,025,842.13	-690,283.21
10. Financial result	23,752.44	-33,284.84	-10,839.79	-88,212.68
11. Share of profit of associates	226,168.57	11,478.88	212,845.31	11,478.88
12. Profit/loss before taxes	869,832.60	-525,655.16	1,227,847.65	-767,017.01
13. Income taxes	-605,582.54	-325,207.14	-810,693.64	-507,412.88
14. Profit/loss for the period	264,250.06	-850,862.30	417,154.01	-1,274,429.89
Profit/loss for the period attributable to:				
Equity holders of the parent	201,345.43	-724,930.08	337,166.44	-1,148,497.67
Minority interest	62,904.63	-125,932.22	79,987.57	-125,932.22
	264,250.06	-850,862.30	417,154.01	-1,274,429.89

Earnings per share EUR 0.05

Brain Force Software AG – Group	01.01.2004 – 30.06.2004	01.01.2003 – 30.06.2003
▶ Consolidated cash flow statement	EUR	EUR
Cash flow from operating activities		
Profit / loss before taxes	1,227,847.65	-767,017.01
Adjustments for		
+ Depreciation	798,529.17	1,236,126.67
+ Financial result	41,901.50	88,212.68
- Share of profit of associates	-212,845.31	-11,478.88
+/- Gain/loss on disposal of property, plant and equipment and other intangible assets	-78,765.93	9,007.84
+/- Changes in provisions for post-employment benefits	-255,753.09	182,216.14
+/- Changes in inventories	-1,973.29	119,112.31
+/- Changes in receivables	-3,453,679.05	1,231,251.20
+/- Changes in payables	2,486,374.24	-865,767.13
+/- Currency translation differences	2,409.97	-17,356.53
	554,045.86	1,204,307.29
- Interest paid	-73,436.18	-88,212.68
- Taxes on income paid	-46,904.50	-84,013.18
Net cash flow from operating activities	433,705.18	1,032,081.43
Cash flow from investing activities		
- Acquisition of subsidiaries	-81,964.50	1,072,704.65
+ Sale of share in subsidiaries	129,603.24	0.00
- Cash outflow for investments in property, plant and equipment and other intangible assets	-1,166,944.33	-388,055.41
- Cash outflow for short-term investments	-6,843,267.52	0.00
+ Cash inflow from the disposal of property, plant and equipment and other intangible assets	7,946.20	1,481.84
Net cash flow from investing activities	-7,954,626.91	686,131.08
Cash flow from financing activities		
+ Proceeds from issue of ordinary shares	15,304,334.90	0.00
+/- Cash outflow from financial liabilities	-181,079.42	-1,555,318.50
+ Dividend income	243,273.54	0.00
Net cash flow from financing activities	15,366,529.02	-1,555,318.50
Increase / decrease in cash and cash equivalents	7,845,607.29	162,894.01
Cash and cash equivalents at beginning of year	4,345,280.20	2,540,771.75
+ Increase / decrease	7,845,607.29	162,894.01
Cash and cash equivalents at end of period	12,190,887.49	2,703,665.76

► **Consolidated statement of changes in equity**

Balance at January 1, 2003

Fair value adjustments of securities

Currency translation differences

Loss for the period January 1 to June 30, 2003
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Initial consolidation of subsidiaries

Balance at June 30, 2003

Fair value adjustments of securities

Currency translation differences

Revaluation of assets

Loss for the period April 1 to December 31, 2003
--

Issue of share capital in kind

Transaction costs related to issue of share capital

Transfer to cover losses

Initial consolidation of subsidiaries

Balance at December 31, 2003

Fair value adjustments of securities

Currency translation differences

Profit for the period January 1 to June 30, 2004
--

Increase in share capital

Transaction costs related to issue of share capital

Disposal of minority interest

Balance at June 30, 2004

	Attributable to equity holders of the parent					Minority interest	Total equity
	Share capital	Share-premium	Other reserves	Retained earnings	Total		Total
	EUR	EUR	EUR	EUR	EUR		EUR
	3.785.143,00	4.696.973,57	-288.330,90	2.854.265,06	11.048.050,73	0,00	11.048.050,73
			7.338,66		7.338,66		7.338,66
			-23.222,18		-23.222,18		-23.222,18
				-1.148.497,67	-1.148.497,67	-125.932,22	-1.274.429,89
						781.476,34	781.476,34
	3.785.143,00	4.696.973,57	-304.214,42	1.705.767,39	9.883.669,54	655.544,12	10.539.213,66
	0,00	0,00	-7.069,22	0,00	-7.069,22	0,00	-7.069,22
	0,00	0,00	-25.431,23	0,00	-25.431,23	0,00	-25.431,23
			110.262,00		110.262,00		110.262,00
	0,00	0,00	0,00	-938.743,25	-938.743,25	261.172,10	-677.571,15
	1.049.646,00	2.060.095,14	0,00	0,00	3.109.741,14	0,00	3.109.741,14
	0,00	-119.475,73	0,00	0,00	-119.475,73	0,00	-119.475,73
	0,00	-964.154,47	0,00	964.154,47	0,00	0,00	0,00
	0,00	0,00	0,00	0,00	0,00	-229.423,92	-229.423,92
	4.834.789,00	5.673.438,51	-226.452,87	1.731.178,61	12.012.953,25	687.292,30	12.700.245,55
	0,00	0,00	-63.544,85	0,00	-63.544,85	0,00	-63.544,85
	0,00	0,00	3.220,07	0,00	3.220,07	1.548,17	4.768,24
	0,00	0,00	0,00	337.166,44	337.166,44	79.987,57	417.154,01
	5.423.039,00	10.846.078,00	0,00	0,00	16.269.117,00	0,00	16.269.117,00
	0,00	-778.968,68	0,00	0,00	-778.968,68	0,00	-778.968,68
	0,00	0,00	0,00	0,00	0,00	22.807,68	22.807,68
	10.257.828,00	15.740.547,83	-286.777,65	2.068.345,05	27.779.943,23	791.635,72	28.571.578,95

Consolidated notes to financial statements June 30, 2004

▶ The company

BRAIN FORCE SOFTWARE AG, Vienna, operates internationally in the design of concepts for strategic integration of hardware and software systems. The company's head office is located at Gumpendorfer Strasse 83, 1060 Vienna, Austria.

▶ Accounting principles

The Consolidated Interim Financial Statements at June 30, 2004 were compiled in accordance with International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB).

All subsidiaries, i.e. those firms in which the group holds more than half of the voting rights either directly or indirectly, or is in another way able to exercise control, were consolidated. The interim financial statements included in consolidation were all drawn up with a uniform consolidated balance sheet date at June 30, 2004 and all adhere to IFRS principles.

The classification of the consolidated balance sheet, the consolidated income statement and the statement of changes in shareholders' equity correspond to that used in the annual accounts at December 31, 2003, in which the BRAIN FORCE SOFTWARE group applied IAS 1 (revised 2003) at early stage.

The IASB published the standard IFRS 3 ("Business combinations") on March 31, 2004. It is compulsory to apply the new regulations for fiscal years commencing after March 31, 2004. The group applied IFRS 3 early. One significant amendment is the fact that in future, goodwill will not be depreciated according to schedule; instead, it must be assessed for impairment once per year (or possibly several times where events or circumstances arise that could cause a decrease in value). The other IAS amended by the improvements project will not be applied. Description of the items balance sheet, profit and loss statement, flow of funds analysis and changes to equity will be performed in accordance with the German version of the Commission Ordinance dated September 29, 2003 as published in the Official Journal of the European Union.

We have deviated accordingly from the representation defined in the structured quarterly reporting

(SQR) proposed by Deutsche Börse as well as from the regulations proposed by the Wiener Börse. However, we have complied with the sub-classification also required under structured reporting in the consolidated notes.

► **Consolidated group**

The consolidated interim accounts dated June 30, 2004 incorporate BRAIN FORCE SOFTWARE AG, Vienna, and all subsidiaries and associated companies shown below:

Company	Share in %
Brain Force Software GmbH, Unterschleissheim, Munich, Germany	100
Brain Force Software S.p.A., Milan, Italy	100
TEMA Consulting S.r.l., Milan, Italy ¹⁾	100
Brain Force Software B.V., Amsterdam, Netherlands	100
BFS Brain Force Software AG, Zurich, Switzerland	100
Brain Force Financial Solutions AG, Munich, Germany	76.21
Brain Force Software Ltd., Cambridge, United Kingdom	100
SBT s.a., Prague, Czech Republic ²⁾	85
SBT s.r.l., Bratislava, Slovakia ³⁾	100
NSE Capital Venture GmbH, Munich, Germany ⁴⁾	100
SFP Software für FinanzPartner GmbH, Munich, Germany ⁴⁾	49

¹⁾ Investment is held by Brain Force Software S.p.A.

²⁾ Investment is indirectly held by Brain Force Financial Solutions AG.

³⁾ Investment is held by SBT s.a.

⁴⁾ Investment is held by Brain Force Financial Solutions AG.

A total of 11 companies (31.12.2003: 11) are fully consolidated and one associated company (31.12.2003: 1) at equity is incorporated in the consolidated interim accounts as of June 30, 2004.

▶ **Methods of consolidation**

Capital consolidation was carried out in accordance with the principles of IAS 22 (revised 1998) for acquisitions up to December 31, 2003. The historical costs of investments in the incorporated companies plus the costs directly assignable to the acquisition were offset against the respective proportional net worth based on the current values of the acquired assets and liabilities of these companies at the time of the acquisition or transfer of power of control. The positive difference between the book value of the participations in the subsidiaries and the appropriate equity capital displayed is shown as goodwill.

According to IFRS 3, comprehensive purchase price allocations must be carried out on the day of acquisition, which could result in an increased application of other intangible assets in contrast to IAS 22.

Intragroup receivables and liabilities, income, expenses and any interim results are netted.

▶ **Net worth and capital structure**

Compared to key date 31st December 2003, the balance sheet total of EUR 50.04 million increased by 59.1 percent (EUR 18.59 million in absolute terms).

Long-term assets of EUR 14.05 million (31.12.2003: EUR 10.94 million) displayed a rise of EUR 3.11 million, and other intangible assets were up by TEUR 513. The increase in other financial assets to EUR 3.17 million (31.12.2003: TEUR 184) reflects the acquisition of shares in Topcall International AG. Financial assets capitalised under the equity method stood at TEUR 421 (31.12.2003: TEUR 510).

The EUR 15.48 million increase in short-term assets to EUR 35.99 million (31.12.2003: EUR 20.51 million) was mainly the result of the rise in trade debtors (+ EUR 3.46 million), the acquisition of financial assets (+ EUR 3.92 million) and the increase in liquid funds (+ EUR 7.85 million).

The item trade debtors contains accounts receivable from affiliated companies of TEUR 107 (31.12.2003: TEUR 36). Financial assets relate to short-term assessments in securities held for trading purposes; any rate fluctuations are posted during the current period.

The rise in the balance sheet total on the liabilities side was mainly the result of successfully implemented capital increases. The capital stock expanded by EUR 5,423,039 to EUR 10,257,828. Reserves were up by EUR 10.00 million to EUR 15.45 million. Accumulated earnings increased according to the profit for the period assignable to shareholders of the parent company (by TEUR 377 to EUR 2.07 million).

As of key date 30th June 2004, the authorised capital stood at EUR 3,620,446. On the same date, the proportion of equity due to minority shareholders stood at TEUR 792.

Long-term liabilities increased by TEUR 190 to EUR 2.56 million (31.12.2003: EUR 2.37 million); provisions for long-term personnel obligations rose by TEUR 107 and liabilities-side deferred taxes were up by TEUR 123.

As of 30th June 2004, short-term liabilities stood at EUR 18.91 million, an increase of EUR 2.53 million compared to the value at the end of 2003 of EUR 16.38 million. This item shows a reduction in short-term financial payables of TEUR 178 to EUR 2.72 million (31.12.2003: EUR 2.90 million) as well as a TEUR 337 fall in other provisions to TEUR 210 (31.12.2003: TEUR 547).

Trade creditors stood at EUR 6.53 million (31.12.2003: EUR 5.30 million); this item contains payments received of EUR 1.00 million (31.12.2003: TEUR 170). Other short-term payables increased by 1.38 million to EUR 9.01 million (31.12.2003: EUR 7.63 million); this item contains deferred income of EUR 2.16 million (31.12.2003: EUR 1.37 million).

Tax provisions stood at TEUR 441 on 30th June 2004 (31.12.2003: TEUR 3).

► **Financial position**

The equity in accordance with IFRS amounted to EUR 28.57 million on key date June 30, 2004 (31.12.2003: EUR 12.70 million). This corresponds to an increase in the equity ratio to 57.10 percent (31.12.2003: 40.38 percent).

The working capital displayed an increase to EUR 17.08 million (31.12.2003: EUR 4.13 million).

► **Notes on the consolidated income statement**

The group profit and loss statement was compiled in compliance with the type-of-expenditure format. Sales revenue for the reporting period 1st January to 30th June 2004 was EUR 31.80 million (previous year: EUR 28.46 million). Internal expenditure capitalised was TEUR 986 (previous year: TEUR 308) in the period under review.

The item cost of materials and purchased services stood at EUR 23.39 million (previous year: EUR 20.55 million).

Staff costs in the areas of administration and sales fell by 4.75 percent to EUR 5.16 million (previous year: EUR 5.41 million).

The cost of scheduled depreciation was TEUR 799 (previous year: EUR 1.24 million); owing to the early application of IFRS 3, no scheduled or non-scheduled depreciation of goodwill was performed in the period under review (previous year: TEUR 613).

Financial results were debited at TEUR 11 (previous year: TEUR -88); the share of profit for associated companies capitalised under the equity method stood at TEUR 213 (previous year: TEUR 11).

Profit before taxes during the reporting period stood at EUR 1.23 million (previous year: TEUR -767). Taxes on earnings amounted to TEUR 811 (previous year: TEUR 507).

► **Segment information**

The BRAIN FORCE SOFTWARE group comprises three business segments:

- **Professional Services**
- **Communication Networks**
- **Financial Solutions**

Key figures are as follows for the reporting period:

	Professional Services	Communication Networks	Financial Solutions	nicht zuteilbar	Summe
	EUR	EUR	EUR	EUR	EUR
Segment net sales (consolidated)	25,579,039.48	2,737,934.09	3,485,405.58	0.00	31,802,379.15
Segment operating result	984,890.56	374,047.88	358,095.20	-691,191.51	1,025,842.13
Financial result					-10,839.79
Share of profit of associates			212,845.31		212,845.31
Profit before taxes					1,227,847.65
Income taxes					-810,693.64
Net profit for the period					417,154.01
Segment assets	20,891,184.58	4,724,386.39	8,417,297.32	16,008,300.51	50,041,168.80
Segment liabilities	15,810,268.53	1,090,569.01	4,113,457.66	455,294.65	21,469,589.85
Segment investments	152,500.87	267,254.31	747,189.15	0.00	1,166,944.33
Segment writedowns	246,713.64	256,144.87	295,670.66	0.00	798,529.17

The geographical segments are as follows:

	Segment sales	Segment assets	Segment investments
	EUR	EUR	EUR
Austria	5,886,338.93	19,485,259.42	22,441.80
Germany	16,681,930.44	16,983,008.81	1,035,391.71
Italy	8,188,996.53	12,086,212.69	100,121.36
Other regions	1,045,113.25	1,486,687.88	8,989.46
	31,802,379.15	50,041,168.80	1,166,944.33

► **Other entries**

BRAIN FORCE SOFTWARE AG held its sixth ordinary shareholders' meeting on 18th June 2004. Amongst other things, the decision was taken to authorise the Executive Board to acquire its own shares in accordance with § 65 subsection 1 line 8 of the Public Limited Companies Act, whereby the shares to be acquired may not exceed 10 percent of the capital stock, the authorisation applies for a period of 18 months from the time of the resolution and the equivalent value must be between EUR 1.00 and EUR 15.00. This authorisation may be exercised in full or in several parts and in pursuance of one or more objectives by the company, its group companies or by third parties on their account.

With its publication of 30th July 2004, the Executive Board of BRAIN FORCE SOFTWARE AG has decided to exercise this authorisation in view of a partial amount. The repurchase programme starts on 4th August 2004 and is expected to end on 30th June 2005. The repurchase programme relates to ordinary shares of BRAIN FORCE SOFTWARE AG (ISIN AT0000820659); it is intended to provide for the repurchase of up to 250,000 ordinary shares, equivalent to around 2.44% of the capital stock. The buying-in price for the repurchase must be a minimum of EUR 2.50 and a maximum of EUR 4.00. The repurchase of shares may be performed through the stock exchange or outside of the stock exchange. The measure is being carried out to extend the option of utilising own shares in the case of acquisitions, i.e. as consideration in the acquisition of companies, plants, sub-undertakings or shares in one or more companies at home or abroad.

As of key date 30th June 2004, the staffing level (salaried staff and subcontractors) stood at 863 employees (864 on 30.06.2003); orders on hand amounted to EUR 17.26 million (EUR 19.18 million on 30.06.2003).

► **Notes on the consolidated cash flow statement**

In accordance with the regulations of IAS 7, the flow of funds analysis was compiled under the indirect method and is divided according to cash flow from operating activities, capital expenditure activity and financing activity. Liquid funds incorporating cash on hand and credit at financial institutions are specified as funds for payment means.

Taking profit before taxes of EUR 1.23 million, net payment means from operating activities displayed an inflow of TEUR 434 (previous year: +1.03 million); the main reason for the reduction in year-on-year comparison was the utilisation of the provision for restructuring costs and the increase in trade debtors.

Cash flow from capital expenditure activity was EUR -7.95 million (previous year: TEUR +686). This includes payment means outflows linked to acquisitions of subsidiaries in earlier periods of TEUR -82 (previous year: EUR +1.07 million) and investment in tangible and other intangible assets of EUR -1.17 million (previous year: TEUR -388). The acquisition of other financial assets and short-term financial assets was counterbalanced by a payment means outflow of EUR -6.84 million.

Cash flow from financing activity of EUR 15.37 million (previous year: EUR -1.56 million) displays proceeds resulting from capital increases of EUR 15.30 million and the redemption of financial payables of TEUR -181 (previous year: EUR -1.56 million). Dividends received of TEUR 243 relate to distributions performed in respect of the associated company as well as Topcall AG. Cash flow for the reporting period consequently stood at EUR 7.85 million (previous year: TEUR 163).

As of key date 30th June 2004, payment means of EUR 12.19 million (31.12.2003: EUR 4.35 million) and short-term assessed financial assets of EUR 3.92 million were available to the BRAIN FORCE SOFTWARE group.

▶ **Options**

BRAIN FORCE SOFTWARE AG granted share options to Management Board members and top-tier management. The option rights entitled the holders to shares in BRAIN FORCE SOFTWARE AG at no charge subject to the development of the share price.

In accordance with the programme, the maximum option entitlement was dependent on the number of shares purchased when the company went public. Employees were entitled to one option for every six shares purchased. The number of options was limited to 100. Option rights could be exercised within the exercise period. The exercise period began on June 10, 2002 (blocking period of three years from flotation) and ended on January 31, 2004. Option rights were not transferable. There was no holding period for shares acquired. For each full percentage point by which the BRAIN FORCE share outperformed the Neue Markt during the option's term up to the exercise period, option holders were entitled to one share per option. The number of maximum shares that could be acquired per option was limited to 30. Holders had no rights to shares if BRAIN FORCE share's performance was equal to or worse than the performance of the Neue Markt.

No shares had been exercised by the end of the exercise period. No options were held by the Management Board and the Supervisory Board as of key date June 30, 2004.

TIMETABLE//:

+++ +++ at June 30, 2004 +++ +++

▶ **Corporate timetable**

2004

Date	Event
30.08.04	Analysts conference
30.08.04	Report on the first six months
29.11.04	Report on the third quarter

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Responsible for content:
Brain Force Software AG
Gumpendorfer Strasse 83
A-1060 Vienna

Compiled by:
Brain Force Software GmbH
Carl-von-Linde-Strasse 38
D-85716 Unterschleissheim

www.brainforce.com

Concept/layout:
Paul Lauer

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Martin Koegel

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Uwe Koehler

Printing:
Mediahaus Biering GmbH

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Brain Force Software AG
Gumpendorfer Strasse 83
A-1060 Vienna

Phone: +43 1 5 99 51 0
Fax: +43 1 5 99 51 13
info@brainforce.co.at

www.brainforce.com