

BasWare Annual Report 2004

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BasWare in Brief

BasWare in 2004

Net sales of BasWare Group grew 27.5 percent during the year and totaled EUR 32,640 thousand. Consulting revenue rose considerably, resulting in a growth of 38.7 percent. International operations grew 31.4 percent, reaching over EUR 14,125 thousand.

Operating profit grew 311.4 percent to EUR 4,663 thousand. Operating profit represented 14.3 percent of net sales.

Compared with the previous year, the number of personnel grew significantly. At year-end, the total number of employees was 302, of which 31.5 percent worked outside of Finland.

The Company's earnings per share were EUR 0.33. BasWare's Board of Directors proposes to the Annual General Meeting that, from the financial year 2004, a dividend of EUR 0.12 per share be paid.

An international 20 year-old software company

BasWare Corporation is a profitably growing international software company whose leading-edge software enables companies to automate and streamline their financial processes.

BasWare's headquarters are located in Finland and the Company has five subsidiaries in Europe and one in the United States. The Company was founded in 1985.

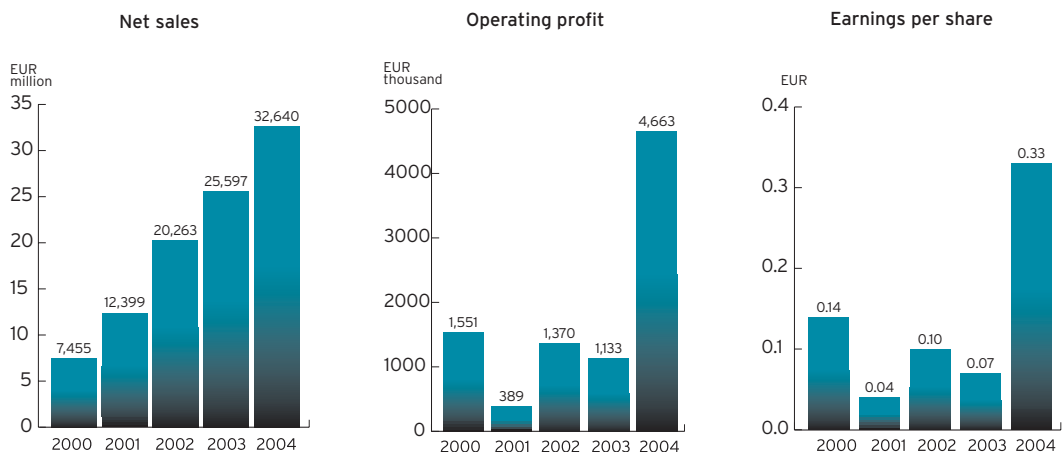
BasWare's shares have been quoted on the Helsinki Stock Exchange since 2000. BasWare transferred from the NM List to the Main List on October 19, 2004. The company has approximately 24,000 shareholders.

Software for Electronic Business and Financial Management

BasWare operates in a business-to-business market and its target groups include large and medium-sized enterprises. The company develops products for two key financial processes. Electronic Business products focus on the procure-to-pay process including automatic processing of purchase invoices; Financial Management products provide solutions for planning and reporting.

The Electronic Business products provide support to the user's entire financial value chain from purchase requisition through to invoice approval and payment. These business operations are provided by all of BasWare's subsidiaries. In Finland, an integral part of the electronic business solution offering is the electronic invoicing service which is currently being extended into other Nordic countries.

The Financial Management products enable customers to manage their organizations' budgeting and financial reporting at the group and business unit levels. Financial Management products have been sold in Finland for almost 15 years and the preparations for the internationalization of the operations were initiated in 2004.



BasWare products have over 250,000 users in about a thousand organizations in both the private and public sector. Software installations have been carried out in over 20 countries on three continents. In addition to software, BasWare offers installation, implementation and upgrade services as well as training, maintenance and support services.

Highlights of 2004

- The full roll-out of the “From Need to Payment” product concept for purchase to pay process was completed in all market areas
- BasWare’s invoice automation solution taken into use by large corporations, such as Metso, the S Group, Stora Enso and Elisa
- The demand for BasWare Purchase Management grew and new clients include Panasonic, SITA and If P&C Insurance Company
- The United States market was opened with American Eagle Outfitters and Synopsys as the first large local customers
- BasWare’s strategy was updated in the summer: investments in the strategic markets were increased
- The internationalization of Financial Management and Business Transactions was commenced
- BasWare’s share was moved to the Main List of the Helsinki Stock Exchange in October 2004
- The CEO and the Chairman of the Board switched their positions on January 1, 2005

Financial Objectives and Key Figures in 2004

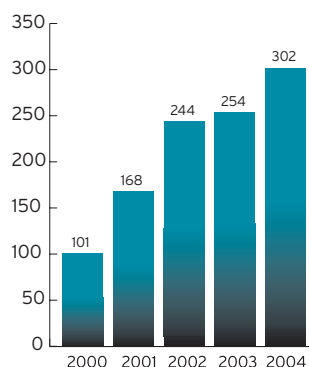
BasWare’s financial objectives are defined in the Company’s strategy. The objectives to be reached by 2007 are:

- annual growth of net sales 40%
- operating profit margin of 15%

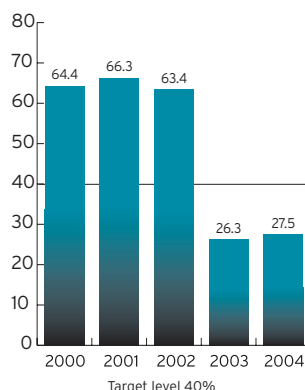
In 2004, the Group key figures were:

EUR thousand	2004	2003
Net sales	32,640	25,597
Growth of net sales	27.5%	26.3%
Operating profit	4,663	1,133
% of net sales	14.3%	4.4%
Profit before extraordinary items, reserves and taxes	4,526	1,031
Profit for the period	2,801	564
Return on equity, %	25.2%	5.6%
Return on investment, %	36.3%	10.2%
Securities, cash and bank balances	5,789	3,633
Gearing, %	-34.0%	-15.4%
Equity ratio, %	58.6%	63.0%
Research and development costs	4,604	4,113
% of net sales	14.1%	16.1%
Personnel in the end of period	302	254
Earnings per share, EUR	0.33	0.07
Equity per share, EUR	1.41	1.18

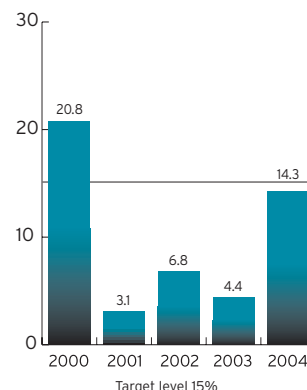
Personnel, year end



Growth of net sales, %



Operating profit, % of net sales



Dear Shareholder,

BasWare was a Finnish company with merely 50 employees when I began my term as CEO in the fall of 1999. This was when the cornerstones of the company's strategy were laid - cornerstones according to which we have been steering our operations for the past five years. Our vision was an ambitious one: to turn the small Finnish company into a rapidly growing, profitable, international software company.

IPO promises: growth, internationalization and profitability

In order to realize the strategy, additional capital was needed, so BasWare was listed on the Helsinki Stock Exchange in February 2000. During the listing process, three key words were brought forward to capsule the strategy of the Company: growth, internationalization and profitability.

Now, five years later, I can say that we have kept the promises then made to shareholders. The share of international operations has grown from zero to about 43 percent of net sales - over 14 million EUR. As were our intentions, we broke into new markets and now have over 250,000 users in over 20 countries. The success in internationalizing our Company was formally recognized in March 2004 when we were awarded the Internationalization Award of the President of the Republic of Finland, of which we are particularly proud.

The compound annual growth rate of net sales after the IPO clearly exceeds the 40 percent objective. In 2004, we also reached our strategic objective regarding operating profit: a near EUR 4.7 million was the largest operating profit in the history of BasWare.

Success factors: customer-oriented products and the strive forward

There are many reasons behind the successful implementation of BasWare's long-term strategy. I would particularly like to address two of these factors.

Firstly, the attractiveness and competitiveness of our products have a key role in our success. Our product development is very customer driven; instead of laboratory work, the customers' practical needs in streamlining financial processes guide the whole development. I would like to take this opportunity to **thank all of our customers for their trust in us and for their courage** to act as forerunners of electronic solutions.

Secondly, it may appear that BasWare is not the same company today as it was five years ago, but our company culture has remained the same. Orderliness and realism, combined with an insistence to always strive ahead, have continued to be the benchmarks of our activities. Without team oriented personnel and a strong company culture, our company's success would not have been possible. I am extremely grateful to have had the opportunity to work together with **great BasWareans**, and together, create the growth story of the company. **Thank you for a job well done** in 2004 as well as during the previous years.

Hannu Vaajoensuu
CEO 1999-2004
Chairman of the Board from January 1, 2005



Full Speed Ahead with Internationalization

The second phase of BasWare's internationalization is about to begin. The foundations are set: BasWare is already an international player that has satisfied customers all over the world.

The personnel are well motivated and, according to our value, aiming for achievements.

Objective: 40 percent annual growth of net sales

When renewing our strategy in 2004, we kept the objective of annual net sales growth to 40 percent although the past few years' growth had been less than 30 percent. Although the objective is a tough one, I firmly believe it is attainable in the coming years: the largest international markets in the United States and Western Europe are just beginning to open. The research company META Group believes that the market for the financial value chain software that BasWare develops is expected to grow over 30 percent, annually, until 2008.

Focus areas: strategic markets, indirect sales and product development

What is the keyword with which we guarantee an even stronger growth of net sales in the coming years? During the strategy process in 2004, product sales became the clear answer to this question. We will focus even more on securing the growth of product sales particularly in our strategic markets in the United States, the United Kingdom and Germany.

We have increased the number of our own sales personnel in these areas. In addition to direct sales, we will reinforce indirect sales by, for example, acquiring more strong partners that

know our target group in all important market areas. We will continue expansion in France and, a little later, in Italy and Spain. Strong product sales also guarantee the growth of maintenance and support services.

However, investing in product sales does not mean cutting down on product development costs. Strong products are the base of rapidly growing product sales and distribution volumes and, therefore, investments in research and development will remain significant also in the future. At the beginning of 2005, a new Software Production function was founded that includes both the Research and Development and the Products and Technology units. The latter unit ensures the high quality of our products and the correspondence with the expectations of both our current customers and channel partners. We want to continue to be known as a high-quality software company.

With these tools, I am confident that we can reach the challenging growth objective in the next couple of years. However, strong investments mean that achieving the long-term operating profit objective may not necessarily be reached in 2005. When the sales growth objective is accomplished, at the latest, the operating profit margin can be achieved at the end of the strategy period.

Ever since the listing, several thousands of shareholders have trusted in BasWare and **I would like to thank them for the past years.** We hope to be worthy of the trust in the coming years when the new phase of internationalization is realized.

Ilkka Sihvo
Chairman of the Board 1999-2004
CEO from January 1, 2005



Strategy

Profitable Growth Strategy for the Years 2004-2007

The BasWare strategy was redefined in 2004. At the same time, the company vision, mission and strategic objectives for 2007 were updated. The business strategy has been divided into six sub-strategies that lay-out the vision and objectives.

Channel Strategy aims at the global expansion of BasWare and acquisition of new customers globally. Part of the Channel Strategy are separately defined strategic market areas of the Company.

Customer Relationship Strategy strives at creating continuous value to customers with software products that add value to customers' financial processes, high quality service and continuous customer relationship management. Target customers for BasWare products are large and medium-sized organizations.

Product Strategy builds product leadership which is based on comprehensive product portfolio, timely development and delivery to the market, and utilization of the latest, prudent technology.

Brand Strategy creates global awareness to BasWare with e.g. strategic networking and communications to all stakeholders. All the products of the company are being marketed with the BasWare brand.

Human Resources Strategy's focuses on motivated professionals. This strategy is divided into four areas: great place to work, excellent leadership, professional people and innovative atmosphere.

Business Support Strategy aims for operational excellence. Business driven management model, quality system and process development as well as financial and IT administration centralized in a shared service center are key factors in finding best practices and uniform models for operations.

How do we realize our vision?



Mission

Why do we exist?

Value for Financial Processes

BasWare develops leading-edge software that automates financial processes of large organizations. We are a forerunner, constantly following the needs of our customers.

Vision

What kind of position do we aim at?

BasWare aims at the following market positions in its business areas:

In Invoice Automation

- to sustain the global leadership

In Purchase Management

- to become the leading global provider by integrating the offering with Invoice Automation solutions

In IFRS* based Financial Management

- to expand the leadership into the European market and become a global forerunner.

*IFRS = International Financial Reporting Standards

Leading refers to market share, product competitiveness and expertise.

Objectives

What are our objectives by the year 2007?

Rapid profitable growth is BasWare's strategic objective. The financial targets are:

- annual growth of net sales by 40%
 - growth is mainly organic
 - may be supported by acquisitions extending the global sales channel or product portfolio
- operating profit margin of 15%

In addition, we aim at providing continuous value to our customers, partners, employees and shareholders.

Values

What kind of behaviour do we encourage?

BasWare company culture bases on high business ethics and company values that guide the operations. These values are the very heart of our culture everywhere we operate.

- Aim for achievement
 - Be professional
 - Build on respect
 - Act with courage

Operating Environment

Markets

In the largest market areas of the world, electronic solutions for invoice processing and procurement remain in their early stages while being estimated to have significant market potential. In 2004, the market for products that support the Financial Value Chain, such as those of BasWare's electronic business solutions, totaled 1.4 billion dollars according to the research institute META Group. META estimates that the market for these products will increase by 33-42 percent annually until 2008.

On the other hand, this rapid growth may create more competition in BasWare's electronic business market segment. At the moment, the market is relatively heterogeneous. Many of the competing solutions are tailor-made solutions, built especially on top of enterprise resource planning (ERP) systems and require heavy customer made-to-order project work. BasWare's strengths in this competitive situation are the long experience in developing ready-made software as well as global distribution and support services.

BasWare's direct competitors operate mainly in local markets and are often smaller businesses. Document management, scanning and workflow system vendors cause increasing local competition, especially in invoice processing for small and medium sized companies. However, BasWare estimates that the expansion of its product suite with new value-added products, as well as the integrated product offering, will continue to have a positive impact on the competitiveness of the products.

The competitive situation for BasWare's financial management products is more stabilized. These BasWare products are primarily sold on the domestic market in Finland. BasWare is set apart from the most significant, globally operating competitors due to the comprehensive IFRS solution built around the consolidation software. In addition, many companies still prefer spreadsheets for business operation planning and reporting.

Customers

BasWare's customers are large and medium-sized companies that want to streamline and automate their financial processes. Due to globalization, companies are becoming increasingly international and have operations in several different countries. This poses a challenge, especially with regard to the multi-company and multi-currency handling required of the solutions.

Despite internationalization, decision-making in the large corporations can be more centralized in the headquarters. The tendency towards centralization is clearly visible also within the finance and accounting units. Several BasWare's customer organizations are planning to establish, or have already established, financial Shared Service Centers (SSC), where the financial operations of several units are centralized, some even across borders. Electronic information systems, including electronic invoice processing, are a prerequisite for shared service centers' functions.

Legislation

Several regulations regarding accounting and financial reporting are currently changing. From 2005 onwards, all stock listed companies have to publish their financial statements according to the International Financial Reporting Standards (IFRS). At BasWare, this particularly affects the financial management business as the IFRS based group consolidation gains significance in the product offering.

With the growing number of international scandals related to financial reporting, corporate governance and transparency of actions become increasingly important. In the United States, for example, the Sarbanes-Oxley Act (SOX) is already in effect and includes stricter regulations on e.g. companies' cash flow management and internal control. All companies listed in the United States have to abide by the act and thus it has direct influence on European corporations as well. The act has an influence on the demand for BasWare's electronic business products because the products enable compliance with the requirements of SOX regarding, for example, the complete audit trail and archiving of documents.

In addition, legislation regarding electronic business has been renewed. The EU directive allowing electronic invoicing and archiving came into force in 2004.

Market Areas

How do we expand globally?

As part of the strategy, BasWare's key strategic market areas were defined: Nordic, Europe, North America and Asia Pacific. According to the strategy, in the turn of 2004-2005 operations in Germany, United Kingdom and the United States were strengthened, among other measures, by doubling the size of the marketing and sales organizations in these subsidiaries.

Nordic

BasWare's whole product range is in Nordic distribution. This is also the pilot market for new products. The sales are mainly based on direct operations.

Europe

Direct sales through the own subsidiaries is the main revenue source in Europe in the short term. Transition from direct to indirect sales with multiple strong channel partners in all markets is a mid-term goal. Strategic markets in Europe in 2005 are the UK and Germany. During the strategy period 2004-2007 also operations in France, Italy and Spain will be strengthened. The company will also continuously follow market development in the new EU countries.

North America

The United States is one of BasWare's key strategic markets. In North America, the short term focus is on direct sales. The goal is to build a channel network and carry out co-marketing activities with various business partners. In the long term, the objective is to shift from direct to indirect sales.

Asia Pacific

In 2005, the main focus will be on strengthening the position on the Australian market. The company follows continuously up other markets in the area. New market openings will be driven by global roll-outs of existing customers.

Product Strategy

Aiming for product leadership

BasWare's product strategy was defined in 2004, as part of the renewal of the business strategy. Strong emphasis is laid on research and development, so that product leadership based on an extensive, integrated product portfolio can be achieved and maintained in the main business areas.

Product development is based on the customer needs, aiming at producing visible benefits to customers. Professional requirements management and timely product launches form the base of the development work. The product development processes focus on product quality, fast and agile development cycles and the use of latest, prudent technology.

Invoice automation

BasWare's objective in the purchase invoice processing is to develop solutions from electronic processing to full automation of processes.

The invoice automation solutions cover, in addition to the traditional Invoice Processing software, the electronic invoicing service and value-added products for matching of recurring invoices and invoices with purchase orders. The objective in invoice automation is to maintain the market leadership. Regarding the electronic invoicing service, the objective is to offer the solution globally to all BasWare customers, starting the operations in Scandinavia.

Purchase management

In the purchase management market, the objective is to become a global leader.

Purchase management offering can be integrated with the invoice automation solutions and thus extend the BasWare product concept to cover the entire purchase to pay process.

In addition, access to relevant sell-side market places and integration with supplier systems will be offered.

IFRS based Financial Management

In Financial Management, the objective is to expand the leadership from Finland to other Nordic countries and become a global forerunner.

In addition to the traditional group consolidation software, the offering includes customized models and applications that facilitate compliance with the International Financial Reporting Standards (IFRS).

The objective is to integrate the Financial Management products to the Invoice Processing solution as well as to other BasWare Electronic Business products for the purchase to pay process.

Business Operations

Steady Growth in Finland and Abroad

The international share of BasWare net sales was 43.3 percent and international operations grew by 31.4 percent. The Company has subsidiaries in seven countries and value-added resellers in 16 countries, as well as software installations in 21 countries.

In 2004, the international operations were based on Electronic Business products. The Company prepared for the internationalization of Financial Management and resolved to start the expansion to other Nordic countries in the beginning of 2005.

Electronic Business operations grew 27.7 percent in the financial year and represented 82.7 percent of the total net sales. 52.1 percent of the operations were international. Financial Management business operations grew 26.7 percent.

In 2004, new versions of BasWare's main products - BasWare Invoice Processing, BasWare Purchase Management, BasWare Group Consolidation and BasWare Business Planning - as well as the value-added products were launched. Software product sales grew 12.1 percent during the financial period and maintenance revenue 40.6 percent. Services related revenue grew 38.7.

Sales and Channel

In 2004, BasWare marketed and sold its products through the Finnish parent company and seven subsidiaries in Europe and the United States. In addition, the Company had sales operations through partners in six other European

countries and in Australia. Software installations were made in 21 countries, of which in Canada, Estonia and Russia the first installations were made during 2004.

BasWare's international operations grew 31.4 percent and totaled EUR 14,125 thousand in 2004. Partner sales represented a net share of 10.6 percent of product net sales that is 9.4 percent of the total net sales of international operations.

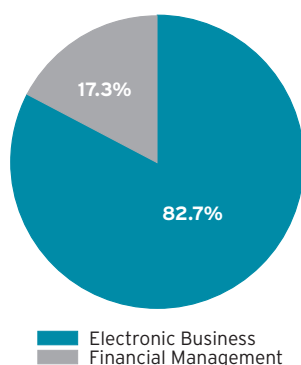
International operations are based on the BasWare Electronic Business operations of which the operations outside of Finland represented a share of 52.1 percent. The internationalization of Financial Management was prepared in 2004 and the company resolved to begin expansion to Sweden and Norway in the beginning of 2005 and later in the year to Denmark. It was also decided to start the sale of the electronic invoice service outside of Finland, primarily to existing BasWare Invoice Processing customers.

Finland

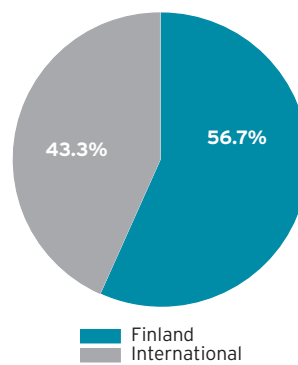
BasWare's domestic Electronic Business operations exceeded their objective in 2004. Net sales grew 23.9 percent during the period. Especially service operations developed significantly during the year and achieved an excellent operating profit.

A significant part of net sales in Finland comes from existing customers who extend the usage of their solution to new users, also in other European countries and North America, or to new products that automate invoice processing and expand the solution to cover also purchase management. The demand for value-added

Net sales by business area, %, 2004



Net sales by market area, %, 2004



products, especially for BasWare Recurring Invoice Matching and Document Archiving software, remained strong throughout the financial period.

BasWare has a strong market position in Finland among large and medium-sized companies, in most of the business sectors. BasWare's strengths in the target group are the integrated product portfolio for the whole purchase to pay process, global support and implementation services as well as rich functionalities like the multi-company and multi-currency handling and interfaces to several Enterprise Resource Planning systems. These were the most important criteria when BasWare was chosen for the delivery of the solution to several shared service centers, including those of Stora Enso, Elisa and the S Group.

The electronic invoice volume of the BasWare Business Transactions service grew significantly in 2004. The transaction volumes were almost 1.4 million invoices, which is an increase of 160.6 percent compared with 2003. In the end of 2004, the service had over 650 registered customers according to the Finnish Information Society Development Centre's register. BasWare has made agreements with several banks and other electronic invoice operators regarding the transmission of invoices between the services.

In 2004, also the Financial Management operations reached its objectives in Finland. Net sales, which were almost wholly domestic, grew 26.7 percent compared with 2003. As in the Electronic Business unit, also in the Financial Management unit the service operations grew strongly as a result of several implementation projects of IFRS based products during 2004.

The BasWare Group Consolidation solution contains, in addition to the traditional consolidation software, ready-made models and tools complying with the International Financial Reporting Standards (IFRS). This complete solution offering differs from the other consolidation products in the market, giving BasWare competitive edge. The demand for the products remained strong in 2004. The products were bought by stock-listed companies that are obliged to report according to IFRS in 2005 but the demand has also expanded into other companies.

In planning and budgeting solutions BasWare's market position is particularly strong among medium-sized companies. It is typical that BasWare's solution is increasingly utilized for planning business units' operations and preparing

rolling estimates. The traditional cost budgeting, however, remains alongside in a significant position. The demand for the products remained strong throughout the financial period and market position was also strengthened among the public sector and state-owned companies.

Scandinavia

In Scandinavia, BasWare has subsidiaries in Sweden and Denmark as well as partner operations in Norway. Net sales of the Scandinavian units were slightly behind their objective and growth in 2004 was 6.6 percent.

Net sales of the Swedish subsidiary grew especially because of service operations. As in Finland, also in Sweden existing customers expand their solutions by purchasing additional licenses. For example, Scania AB extended their invoice processing solution to cover 6,000 new users, an additional order worth over EUR 300 thousand for BasWare. In addition, several new BasWare Purchase Management agreements were signed in Sweden during the year with, for example, Warner Music AB and If P&C Insurance Company.

The Danish unit did not reach its sales objective. As a result, the unit was strengthened in the end of the summer by recruiting a new country manager. At the same time, the sales and marketing activities were reinforced.

In Norway, business operations have already since 1999 been carried out by a partner, locore AS. The partner agreement with locore was extended from Electronic Business products to cover also Financial Management products starting in the beginning of 2005. In Sweden and Denmark, marketing and sales will continue to be conducted by own subsidiaries, also regarding Financial Management products.

Europe

The European market area consists of BasWare's subsidiaries in the United Kingdom, Germany, The Netherlands and France. Net sales of the European subsidiaries grew 45.1 percent during 2004 but were still slightly behind their objective.

During 2004, channel sales units were established in the European subsidiaries to account for the partner activities in the area by supporting existing partners and further developing the indirect sales channel. The goal is to find more

strong partners for each market area: partners that, in addition to sales, are responsible for the installation and support services for their customers. Of the existing partners, Xerox markets and sells BasWare Electronic Business products in 12 European countries.

The Dutch unit exceeded its objectives during the year. The sales channel status in the Benelux countries is excellent and BasWare has altogether seven partners in the area. Agreements signed during the year include, for example, reseller Xerox's agreement for the delivery of BasWare Invoice Processing to Roularta Media Group in Belgium, and in the Netherlands Canon's agreement with Miss Etam Retail Services, i-Creative's agreement with the pipe and tube company Van Leeuwen Buizen and Swets-Farrington's agreement with the Netherlands' largest public transportation company Connexion. Agreements signed through direct sales include, for example, the agreement with SITA Netherlands for the BasWare Invoice Processing and Purchase Management solution.

The German unit's performance was weak. A new country manager was recruited in the fall, and sales and marketing activities were strengthened. The most significant agreement signed in Germany during 2004 was with Europcar. BasWare delivered the invoice automation solution to the company headquarters as well as to approximately 450 rental offices in Germany. The German unit accounts for partners in all the German speaking Europe. Germany is one of the strategic market areas for BasWare in 2005.

In 2004, the most of net sales in the United Kingdom came from direct sales. At the moment, Xerox is BasWare's only partner in the UK and Ireland. During the year, BasWare signed agreements with Panasonic UK and Honda Motor Europe, for example. Alongside Germany, United Kingdom is a strategic market area in 2005.

A new subsidiary was founded in France in January 2004 to replace the previous sales office. Indirect channels account for almost all sales in the area. During the year, first deals with local large enterprises, such as Renault, were signed. Through the Xerox partnership, the first agreement was signed. There are also other smaller partners in the area that support the French subsidiary in all sales and installation projects.

Other areas

Outside of Europe, BasWare has currently operations in North America and Australia. The area reached its net sales objective in 2004 with a growth of 789.8 percent.

The year 2004 was the second operating year for the United States' subsidiary. During the year, BasWare succeeded in securing a foothold in the market by acquiring new customers among large local companies such as the clothing retailer American Eagle Outfitters, Inc and the software company Synopsys, Inc. Also the US is one of BasWare's strategic market areas in 2005. In the turn of 2004-2005, new recruitments for the sales and marketing organization were made and sales force has been expanded across the US to cover all key areas. At the same time, a new local country manager took over the the management of the operations.

In Australia, TAG Services Pty. has been BasWare's partner since 2002. In the end of 2004, a new partner agreement was signed with Canon Australia, covering both Australia and New Zealand. In addition to acquiring new customers, the new partnership improves the availability of consulting and support services in the area.

Customers

According to its Customer Relationship Strategy, BasWare strives for creating continuous value to its customers. This can be observed in customer-oriented product development as well as in customer care. In 2004, BasWare organized its first international customer event, where key customers from each country were invited.

BasWare monitors regularly its customers' contentment in BasWare's products and services. In 2004, an extensive customer satisfaction survey was realized twice in Finland. In addition, the survey was conducted once in Sweden, Denmark, Norway, Germany, The Netherlands and United Kingdom. Altogether 529 respondents evaluated BasWare's operations, 62.7 percent of these were Finnish customers. In addition to the customer satisfaction survey, BasWare collects customer feedback in each delivery project.

In the November 2004 survey, the customers gave good grades to BasWare's products in general. On a scale of 1-5, benefits to the customer organizations regarding Electronic Business products received 3.9 (3.8 in 2003) and benefits regarding Financial Management products

3.6 (3.9). Especially operations related to the electronic invoice service have improved significantly compared with the previous year. Customer support services and product communications were regarded as areas of development according to the survey.

Electronic Business unit signed 170 new agreements during 2004 whereas in 2003 a total of 145 agreements were signed. BasWare Invoice Processing, BasWare Purchase Management or both of these main products were included in 120 of the agreements. Financial Management unit signed altogether 43 agreements in 2004 which is the equivalent of 2003.

Products and Services

BasWare's net sales comprise of three core functions: product license sales, maintenance and services. A local BasWare subsidiary is responsible for all these operations in each market area and supports also the marketing, sales, service and support functions of business partners in the area.

The Finnish Electronic Business and Financial Management units that are legally part of the parent company, operate independently and are responsible for all functions in their own business areas. As part of the parent company, the global sales, marketing and product marketing as well as professional services functions support the operations of the subsidiaries and those of the Finnish units.

Products

The user rights for BasWare's software are based on licenses that are sold to customers. The license price is dependent on the number

of end-users as well as the chosen functionalities of the product.

In 2004, BasWare's net sales from product licenses were EUR 12,501 thousand. Product sales grew 12.1 percent compared with the previous year. With the accounting principle used in 2003, the growth would have been 15.9 percent. According to license data, BasWare's products had over 250,000 users in approximately thousand organizations at the end of 2004.

Electronic Business products

The BasWare Electronic Business products cover the entire purchase to pay process of an organization. The integrated product portfolio, based on the "From Need to Payment" product concept, includes the BasWare Invoice Processing and BasWare Purchase Management software and the BasWare Business Transactions service.

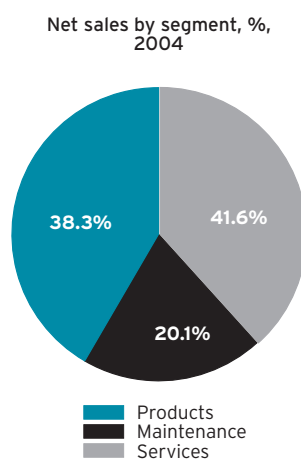
The value-added products BasWare Recurring Invoice Matching, Order Matching and Document Archiving complete the offering. In 2004, a new value-added product, BasWare Supplier Portal, was launched. It integrates the customers using BasWare's solutions with their selected suppliers and other partners through a web portal. The full launch of the integrated product concept was carried out in all of BasWare's market areas by the end of 2004.

The Electronic Business products enable automation of procurement and financial processes, thus improving process accuracy, transparency and control. The products provide time and cost savings to customers and enhance the business performance.

Financial Management products

The BasWare Financial Management products support the finance and accounting functions of an organization from planning to reporting. Financial Management's main products are the BasWare Business Planning software for planning and budgeting and the BasWare Group Consolidation software that can be integrated with IFRS Models complying with the International Financial Reporting Standards (IFRS). The ready-made models contain, for example, a general group chart of accounts, input sheets, reports and documentation.

In the beginning of 2004, the BasWare Cash Flow application that completes the group consolidation offering was launched. The software enables reporting both direct and indirect cash



flow statements according to the IFRS requirements.

Financial Management products respond to the customers' challenges in financial reporting, primarily caused by the constantly changing accounting principles. The products enable financial management to concentrate on the data analysis instead of accounting routines. They also support more effective business operations as a result of faster reporting and more accurate forecasts.

Maintenance

The maintenance covers product support and the rights to new versions of the product. It is based on continuous agreements and so they guarantee steady and predictable revenue to the company. Maintenance revenue grew 40.6 percent and totaled EUR 6,560 thousand in 2004.

The annual maintenance fee is 18-20 percent of the purchased product license fees. In addition to standard maintenance, the customer can also acquire a more comprehensive, Premium maintenance agreement that includes for example faster response periods to support enquiries and a named contact person for the support.

At local customer support units all the support requests are entered in a group wide support system that was taken in to full use in 2004. With the help of the new system, response times have shortened, development ideas can be found in one place and the follow-up of the product development process occurs in real time.

Altogether 27 persons worked at the local and global customer support units at the end of 2004, and this represents 8.9 percent of the total amount of personnel.

Services

BasWare's service operations include services related to software installations, implementation and updates as well as training, maintenance and support services. The services are mainly invoiced according to hourly fees based on actual working time. In 2004, the net sales from services grew by a record breaking 38.7 percent and totaled in EUR 13,578 thousand.

Altogether 34.4 percent of BasWare's personnel worked at the service units at the end of 2004.

This is an increase of 1.7 percent compared with the end of 2003. The relative growth of services revenue per person is explained by more efficient, well-established working methods and the increased knowledge of the consultants.

Local consulting units are responsible for the delivery projects that cover for example the planning and consulting of the customer's solution, technical implementation and project management. A total of about 200 delivery projects were on-going during 2004. The number covers both the projects related to deliveries of new products as well as projects related to product updates. In 2004 a special task force unit was established as part of the Global Professional Services. This new unit supported the local units with demanding delivery projects of the complete purchase to pay solution.

Courses on BasWare's products that are open to all end users, are mainly organized in the Finnish units. The courses have received good feedback and according to the customer surveys, out of all the services offered by BasWare customers are most satisfied in the trainings.

Fees from the electronic invoice service and revenue from selling third party products have been included in the net sales of the services operations in the BasWare Financial Statements.

Research and Development

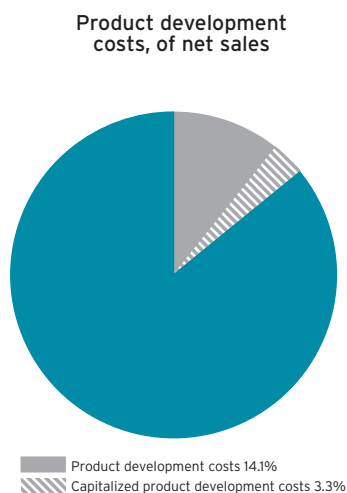
Innovative development the key to product leadership

BasWare's research and development work has two main objectives: development related to new products and versions and long-term development of the technological platform. Significant investments in product development continued through 2004.

In 2004 BasWare's product development costs totaled EUR 4,604 thousand, an increase of 11.9% over 2003. The company changed the accounting principle for product development costs at the start of 2004. As a result, 23.1%, or EUR 1,062 thousand in product development costs were capitalized. Previously, all product development costs had been booked as expenses.

At the end of 2004, there were 65 persons working in research and development, an increase of 6 persons over 2003. Of the total number of personnel, 21.5% work in research

and development. The company's research and development operations are carried out in Espoo and Tampere, Finland. In addition, long-term subcontractors are used in development work when needed.



New products and product launches

As planned, new versions of the main products in the Electronic Business portfolio were released in fall 2004. BasWare Invoice Processing version 3.1 includes a ProClient application for advanced users as well as over 200 new and improved product features. BasWare Purchase Management version 3.0 enables the use of product catalogues to facilitate purchase requisitions. In the future, the goal is to release new product versions more often, i.e. two to four per year, but with less extensive updates. BasWare Business Transactions, the electronic invoicing service, also had several product upgrades this year.

During 2004, there was significant development to the value-added modules, which complete the Electronic Business product suite. New versions of BasWare Recurring Invoice Matching and BasWare Order Matching were released in the fall. At the same time, the newest value-added module, BasWare Supplier Portal, was launched.

Financial Management product development focused mainly on the development of the BasWare Group Consolidation software and the IFRS models that complement the software. Four new software and model versions were released in 2004. A new value-added module, BasWare Cash Flow solution, which completes

the Group Consolidation solution offering, was released at the beginning of 2004. A new version of BasWare Business Planning was released in 2004 and the next version will be released in the first quarter of 2005.

The development of technology

The main direction in BasWare product development is the shift from Visual Basic programming to Microsoft's .NET Architecture. The shift has been initiated with a project which develops a common Microsoft .NET based software platform for Electronic Business products. With the help of a common platform, it is possible to speed up and strengthen the development of individual products and projects. The National Technology Agency in Finland, Tekes, funded the project throughout 2003-2004. In addition, .NET technology has been used to initiate the development of the invoice processing software and the related interface gateway.

It has been planned that in the long run, Financial Management products would also be developed using .NET architecture. The development of the electronic invoicing service, on the other hand, will continue using J2EE (Java 2 Enterprise Edition) architecture.

Using the project model for better quality development work

One of the three core processes of BasWare's operations regards the product lifecycle, starting with the definition of the product requirements through to the end when the product is ready for delivery. The Process Model was renewed in 2004 and the product development unit was also reorganized to correspond with the model. The R&D organization is now project oriented, which provides a more efficient way of working while improving the planning and execution of product development. Examples of the strengths of a project oriented organization can be recognized in the frequent releases of new product versions and in the predictability of development work.

Much attention has been placed on improving the quality of products in 2004. Most importantly, focus was centered on product requirements' management, documentation and testing practices. In June 2004, the National Technology Agency, Tekes, resolved to support BasWare's testing and component practices with its donation of a product development grant, part of the Software Engineering and Tools (SWENG) technology program.

The Professional way of working campaign, organized for the entire product management group focused on developing product management practices and on assisting employees become more conscious of customers' needs. Attention has also been placed on ensuring easy installment of the products, making them better suited for indirect sales.

Future Outlook

The economic situation has improved to some extent in the end of 2004 which can also be observed in the slight revival of software market. BasWare's solutions provide savings to customers and thus, the demand for the solutions has not been strongly dependent on the prevailing economic trend. Also the new regulations on financial reporting and corporate governance may strengthen the demand for the Company's products. According to several research institutes, the market for the Company's products is growing faster than the general economic growth.

The competitiveness of BasWare's software is still good and positively influenced by the expansion of the product portfolio and the solution concept that the products form together. Although no substantial changes in the competitive situation have occurred, increasing local competition can be observed in some market areas especially regarding small and medium-sized organizations acquiring invoice processing solutions.

Investments in growth continue

In 2005 the Company aims to continue its growth which is based on continuous investments in sales and marketing activities. The investments will mainly focus on existing market areas. In the turn of 2004-2005, the Company's

sales and marketing organization was more than doubled in the strategic markets of the United States, Germany and United Kingdom.

The development of the indirect sales channel will continue in Europe and channel operations will also be launched in the North American market. In addition to the partners' channel activities, new business will be generated through Purchase Management and value-added products. The international launch of these products was finalized during 2004.

BasWare will also start reviewing possible acquisitions targets in the Nordic countries. With the acquisitions, the Company can extend the international sales channel and product portfolio. They may also strengthen the Company's position in the Nordic electronic invoicing market.

The marketing and sales activities for Financial Management's products were started in Sweden and Norway in the beginning of 2005 in order to assure the growth of the business operations. The domestic growth of Electronic Business and Financial Management which is based on the development of services and new products is slower than that of the international operations but still faster than in the Finnish software markets in general.

Outlook for 2005

BasWare expects that the organic growth of net sales will be over 20 percent in 2005. Operating profit is expected to be greater than in the previous year, i.e. EUR 4,663 thousand. The operating profit for the first quarter of the year is expected to be lower than that of the same period last year since the investments in sales made in the end of 2004 elevate the cost level.

Corporate Responsibility

Corporate responsibility is based on legislation, high business ethics and BasWare's values. For BasWare, corporate responsibility means responsible business operations as part of the entire society. The Company is responsible for its operations not only to its shareholders but also to its personnel and other interest groups. BasWare is committed to responsible actions in all of its operations be it in economic, social or environmental responsibility.

Operational excellence is an important part of BasWare's operations. It is supported by common working methods and IT systems and the continuous development of both of these areas. As part of the Quality Management System, BasWare has defined its operations' three core processes. Operational excellence of the processes is monitored, for example, by internal process audits as well as by customer and personnel surveys.

Economic responsibility

According to the Company strategy, BasWare's objective is to continuously create value to its customers, partners, employees and shareholders. BasWare's aim is profitable economic growth and this objective forms a base for the two other areas of corporate responsibility.

BasWare has successfully distributed profit to its shareholders every year since it was listed on the Helsinki Stock Exchange in 2000. In 2004, the company paid a total of EUR 1,026,072 as dividends to its shareholders of the profit for 2003. The Board of Directors proposes that a dividend of EUR 0.12 be paid for 2004, a total of EUR 1,032,876 with the number of shares on December 31, 2004.

Not only the shareholders but also the personnel benefit from the Company's capability of generating profit. In 2004, the salaries and bonuses paid to the personnel and management amounted EUR 13,508 thousand. All employees are included in the BasWare bonus program. The Company paid a total of EUR 2,970 thousand in pension and social security expenses. Income taxes on actual business in 2004 were EUR 2,275 thousand or 7.0 percent of net sales.

Environmental responsibility

The direct environmental impacts of BasWare's solutions are fairly minimal. BasWare's solutions promote paperless operations and financial management in the customer organizations which in part can contribute to the decrease of office waste.

The corporate headquarters in Espoo, Finland, follow an environmental management system which was granted a WWF Green Office Certificate in December 2003. The Green Office system aims at supporting everyday actions that save energy and raw material.

In 2004, the electricity consumption at the headquarters increased 6.9 percent compared with 2003. However, the consumption per person decreased 2.8 percent and was 1,297.6 kWh.

Social responsibility

The motivated personnel are the cornerstone of BasWare's social responsibility. BasWare is a responsible employer that offers its personnel the chance for career development and personal growth at work. Thanks to profitable growth, the Company has not been forced to lay off personnel due to productional or economical reasons.

BasWare takes responsibility of the surrounding environment by supporting non-profit organizations. Since 2002 BasWare has been actively in cooperation with the welfare organization Plan that supports children in developing countries. The Company sponsors altogether 12 children around the world. BasWare supports the children's living conditions and education in developing countries. BasWare takes also part in Plan's "Cameroon Little Lions" project by sponsoring children's sports teams of a village in Cameroon and at the same time supporting development projects realized in the village.

As in previous years, in 2004 BasWare donated a part of its Christmas funds to Plan. In addition, BasWare made a donation to the Plan catastrophe fund that helps the victims of the tsunami disaster in Asia.

Personnel

Motivated professionals aiming for achievements

BasWare's human resources management is guided by the HR strategy, which was approved in December 2003. The strategy is divided into four areas: great place to work, professional people, excellent leadership and innovative atmosphere. The implementation of the HR strategy began in 2004. In 2004, BasWare had an average of 280 employees. 302 people were employed at the end of the year, increasing the number of employees by 18.9 percent compared with the number of employees working at the end of 2003. Approximately 31.5 percent of personnel work outside of Finland. The average age of the personnel is 33.9 years. 69.5 percent of employees are men and 30.5 percent are women. On average, the personnel is highly educated: 72.5 percent hold a Master's or Bachelor's degree.

Great place to work

BasWare's personnel enjoy their work - the employee satisfaction survey, conducted in October 2004, attests to this. The survey was conducted for the eighth time with over 81.4 percent of the personnel responding. Results were, once again, excellent. The questions regarding the work performance of the own supervisor received the highest scores while the questions on remuneration and career development received the lowest scores. The personnel have stronger trust than before in BasWare's long term success and in the management's capability to give clear direction to the company operations.

The employee satisfaction survey also demonstrated that BasWare's business operations and values - aim for achievement, be professional, build on respect and act with courage - are well applied in practice and balanced with business operations. Compared to the 2003 survey, the employees show more trust in the top level management's ability to act according to these values. BasWare rewards annually Employees of the Year who have exemplarily represented BasWare values. In January 2005, six employees from different business units were rewarded as Employees of 2004.

BasWare supports the personnel's leisure activities by contributing to part of the costs. BasWare's teams also participate in diverse sporting events. The BasWare personnel in Finland and abroad also celebrated the 2003 Internationalization Award that the President of Finland awarded to BasWare. The leisure commit-

tees of the parent company and its subsidiaries organized summer and Christmas parties and other personnel events during the year.

Professional people

The competitiveness of BasWare's operations and its personnel is guaranteed by developing strategic competencies. BasWare's strategic competencies were identified during the redefinition of the business strategy in 2004. Based on the definition of the competencies, a development program was outlined. This program will be initiated in 2005.

The Professional Way of Working campaign began in the fall of 2004. Intended for all product management personnel in research and development, product marketing and customer support, this campaign will continue through to the spring of 2005. As part of the campaign, training sessions were held for the development of working methods of product management, product quality and for raising awareness of customers' and stakeholders' needs. In addition, several technical training sessions were conducted and management and project leadership competencies were developed for example by mentoring.

Excellent leadership

Excellent leadership encourages and guides the actions of BasWare's personnel according to the strategy and core values of the company. Each BasWarean has a personal balanced scorecard that is scored according to the results of their working unit, as well as on the results of the entire company. The goals of the balanced scorecard are agreed on at biannual goal and development discussions. All personnel are included in the bonus program and its goals depend on those of the personal scorecard and on the overall performance of the company. In 2005, a more diversified compensation model will be introduced based on the wishes expressed and gathered from the personnel in a survey conducted in the fall of 2004.

Innovative atmosphere

BasWare's business operations develop further through active participation and learning from the personnel's part. In 2004, senior and middle management actively participated in the strategy process, redefining BasWare's business strategy and renewing the product strategy. In August 2004, a significant part of the personnel participated in coming up with ideas for enhancing strategy implementation.

Corporate Governance

BasWare Corporate Governance Statement

BasWare Corporation is a publicly listed company which, in its decision-making and administration, complies with the Company's Articles of Association, the Finnish Companies Act, and other legislation concerning public companies. In addition, BasWare complies with the Recommendation on Corporate Governance with the exceptions explained in this statement, as well as the Helsinki Stock Exchange Guidelines for Insiders.

BasWare Group comprises of the parent company BasWare Corp., and of its seven foreign subsidiaries. BasWare Corp. is a public company registered in Finland and has its domicile in Espoo. BasWare Corporation's administrative bodies and officers with the greatest decision-making power are the General Meeting of Shareholders, Board of Directors and CEO (managing director).

General Meeting

The General Meeting is the highest decision-making body of BasWare Corporation. The Annual General Meeting is summoned once a year, within six months following the end of the financial period, on a date set by the Board of Directors. Extraordinary General Meetings are arranged if necessary during the year. According to the Articles of Association, the General Meeting is held in Espoo (the company domicile), Helsinki, or Vantaa in Finland. The notice of the General Meeting and advance information on matters to be dealt with at the meeting are published in at least one Finnish-language daily newspaper published in Finland, disclosed as a stock exchange release and made available on the Company website.

The Annual General Meeting decides on the following matters:

- approving of the Income Statement and the Balance Sheet
- measures occasioned by the profit or loss according to the approved Balance Sheet
- discharge from liability to the members of the Board and the CEO
- number of members of the Board and election of the members
- election of regular Auditors and the deputy auditors
- remunerations to the members of the Board and the Auditors
- other matters mentioned in the notice to the General Meeting

Year 2004

The Annual General Meeting was held on February 24, 2004. The AGM handled the matters pursuant to Article 13 of the Articles of Association. In addition, the AGM authorized the Board of Directors to increase the share capital in one or more issues by issuing new shares and/or convertible bonds and/or by warrants in such a way that the new share issues or convertible bonds or warrants authorize to subscribe a maximum of 1,710,120 new shares. According to the authorization, the share capital can be increased with a maximum of EUR 513,036.00.

Board of Directors

Duties and Responsibilities

The Board of Directors is responsible for the Company's management and the appropriate arrangement of its operations. The Board supervises the Company's operations and management and decides on significant matters concerning Company strategy, organization, financing and investments. The essential duties and responsibilities of the Board are defined primarily by the Articles of Association and the Finnish Companies Act. The Board confirms annually a working order that records the Board meeting procedure and the tasks of the Board.

The tasks of the Board as defined in the working order are to:

- assume responsibility for the tasks defined in the Companies Act, Articles of Association or elsewhere so stipulated
- confirm the Company strategy and objectives
- confirm the Company values and ethical principles
- approve the Company's management system and organizational structure
- approve the Company's operating plan and significant alterations thereof
- approve the Company's internal control and risk management practices and monitor their compliance
- approve the interim reports, financial statements and report of the Board
- assume responsibility for the disclosure of stock market profit guidance
- approve the Company's financing policy
- assume responsibility for the development of share value and define the dividend policy
- approve company acquisitions and sells as well as significant individual investments and contingent liabilities

- approve the remuneration systems
- appoint and discharge the executive management as well as decide on their terms of contract and remuneration
- decide on the founding of subsidiaries
- assume responsibility for the development of the Corporate Governance
- evaluate own activities annually
- assess the performance of the CEO and give feedback

The BasWare Board of Directors includes in accordance to the Articles of Association a minimum of four and a maximum of eight regular members. The Board members are chosen by the Annual General Meeting for a term of office that expires at the end of the first Annual General Meeting following the election. The Articles of Association does not include any specific orders for appointing members to the Board of Directors. The Board of Directors will select a chairman and vice chairman amongst the members. The Board has a quorum if more than half of the members is present.

Year 2004

The Annual General Meeting on February 24, 2004 elected seven members to the Board of Directors. Their term will last until the closing of the following AGM. Kirsi Eräkangas, Sakari Perttunen, Antti Pöllänen, Ilkka Sihvo and Hannu Vaajoensuu were re-elected and Esa Korvenmaa and Ossi Pohjola were elected as new members. Ilkka Sihvo continued as the Chairman of the Board.

Five members of the Board hold a position in the Company and each of them own over 10 percent of all the shares of the Company when the ownership of persons under guardianship or in companies under control is taken into account. Two of the members are independent of the Company and its significant shareholders.

Ilkka Sihvo resigned from the Board on January 1, 2005 when he was appointed as the CEO of the Company. The Board elected Hannu Vaajoensuu as the new chairman.

The Board had 19 meetings during the year 2004. The average attendance of the directors at the Board meetings was 92 percent. The Board members were paid a fee of EUR 700 per meeting. The meeting fees totaled EUR 17,600 in 2004. In addition to meeting fees the Board members were given 6,000 Series C warrants of BasWare Finland

II Warrant Program. Meeting fees and warrants are not paid to those members of the Board who work full-time in the Company.

Board Committees

Compensation and Nomination Committee

The Board has nominated among its members a Compensation and Nomination Committee to handle the remuneration and benefits of the executive management, to identify persons suitable for the Board and to prepare recommendations to the Annual General Meeting on the composition of the Board and the compensation to the Board members. The task of the Committee is also to review the Company's remuneration system and its development. The term of office of the Compensation and Nomination Committee is the same as the term of the Board of Directors.

Year 2004

The members of the Committee in 2004 are Board members Esa Korvenmaa, Sakari Perttunen and Ossi Pohjola who acts as the Chairman of the Committee. In 2004, the committee had in total five meetings with attendance percentage of 100. The compensation for the meetings was EUR 200 per hour. However, compensation was not paid to those working full-time in the Company. The fees paid to the Committee totaled EUR 1,600.

Audit Committee

The Board of Directors has not nominated an Audit Committee as the extent of the Company's business operations does not require preparation of matters relating to financial reporting and control in a smaller group of directors than the Board.

CEO and Other Management

CEO

The Board appoints the CEO (Managing Director) of BasWare Corporation. The CEO is in charge of the day-to-day management of the Company in accordance with the instructions and orders given by the Board as well as the Companies Act.

The Board decides and approves on the service terms and conditions of the CEO, specified in writing. Currently the CEO has:

- 6 months' period of notice and salary for the period of notice and is in addition entitled to a severance payment equivalent of a 12-month salary if the Company terminates the service
- 6 months' period of notice and salary for the period of notice if the person terminates the service himself in which case the person is not entitled to a severance payment
- 12-month exclusion of competition starting from the end of the service
- bonus system in which the bonus is capped at 50 percent of the salary
- retirement age and pension benefits pursuant to the Employees' Pensions Act (TEL)

Full-time Chairman of the Board holds a position in the Company. The period of notice and the severance payment are equivalent to those of the CEO. However, the Chairman is not a member of the Company's bonus program.

Year 2004

Hannu Vaajoensuu acted as the CEO of the Company. The CEO's salary and other benefits totaled EUR 116,398 in 2004. Salary in money was EUR 105,718 and fringe benefits totaled EUR 10,680. The CEO was not paid bonus from 2003. In addition, he was given 11,000 Series A warrants of the BasWare Finland II Warrant Program.

President Ilkka Sihvo was responsible for finance and Scandinavian operations of the Company. His salary including benefits totaled EUR 112,471 in 2004. Salary in money was EUR 99,612 and fringe benefits totaled EUR 12,859. No bonus from 2003 was paid. In addition, the remuneration included 9,000 Series A warrants of the BasWare Finland II Warrant Program in 2004.

On October 11, 2004 the Board of Directors of the BasWare Corp. appointed Ilkka Sihvo as the CEO of the Company as of January 1, 2005. Hannu Vaajoensuu was then appointed full-time Chairman of the Board.

Executive Team

BasWare Group's Executive Team (management team) assists the CEO in the operative management of the Company, prepares matters handled by the Board and the CEO as well as plans and monitors business unit operations. The Executive Team convenes once a month. The CEO acts as chairman of the Executive Team.

The compensation principles of the Executive Team members are decided by the Board.

The compensation system consists of a base monthly salary, warrants and annual bonus based on performance.

Year 2004

Members of the Executive Team in 2004 were Hannu Vaajoensuu (CEO, Chairman of the Board), Kirsi Eräkangas, Juha Heiskanen, Olli Hyppänen, Petri Karjalainen, Ulla Martola, Antti Pöllänen, Ilkka Sihvo (President), Jukka Tapaninen, Jari Tavi and, as of November 2004, Esa Tihilä. The members of the Executive Team, excluding the CEO and President, were paid a total of EUR 524,338 in salaries, EUR 60,984 in fringe benefits and EUR 13,095 in bonuses of which EUR 10,460 were based on performance in 2003.

In the beginning of 2005, members of the Executive Team were Ilkka Sihvo (CEO, Chairman of the Executive Team), Juha Heiskanen, Olli Hyppänen, Petri Karjalainen, Ulla Martola, Sakari Perttunen, Jukka Tapaninen, Jari Tavi and Esa Tihilä.

The members of the Executive Team and their holdings are presented on page 24.

Internal Control, Risk Management and Internal Audit

The main responsibility for the bookkeeping and financial administration lies with the BasWare Corporation's Board of Directors. The Board is responsible for internal control, and the CEO is responsible for the practical arrangements and monitoring of the control system. The steering and monitoring of the business operations is based on the reporting and business planning system covering the total Group. Actual figures are monitored monthly by business area and subsidiary. These figures cover i.e. the net sales and profit, order base, receivables and cash flows. The rolling estimate is always prepared for a period of at least three months. The CEO will deliver an overview of Group performance and development to both the Board and Executive Team meetings.

The Group risk management framework has been confirmed as a part of the monitoring system at BasWare. The purpose of risk management is to ensure that the essential uncertainties affecting business operations are identified and are monitored appropriately. The Company operational and financial risks are centrally managed in the Group financial management,

and risks are reported monthly to the Board. Risks arising from the Company's operations and related to property, occupational safety and liability for damage are covered by means of appropriate insurance policies.

The Company's internal audit functions in cooperation with the Group financial management and the Auditors. The function performs a regular audit in the different business units as well as in the subsidiaries. The purpose is to ensure the compliance to the consistent administration and accounting practices in the Group, and the distribution of information between the Group management and the business units. Internal audit function reports directly to the Board of Directors, and the Board approves the annual internal audit plan.

Insider Administration

BasWare has approved insider guidelines which follow Guidelines for Insiders adopted by the Helsinki Stock Exchange. The guidelines forbid insiders, including persons under their guardianship and companies where they exercise control, to trade in shares or warrants issued by the company prior to the publication of an interim report or a financial statements bulletin.

The Company statutory insiders include members of the Board, CEO, Auditors and the employee of an audit firm having the main responsibility for the audit. In addition, the permanent insider register includes the following persons by definition: Executive Team members, named persons from the financial management, communications manager, executive assistant and lawyer, who also acts as Board secretary. Persons who take part in acquisitions or other projects that are likely to have a material effect on the value of a security issued by the company are project-specific insiders and they are subject to temporary restriction on trading.

The Company lawyer is in charge of informing and supervising insider issues. The communications manager takes care of the register of permanent insiders and, when needed, temporary insiders. The insider register of BasWare Corporation is maintained by the Finnish Central Securities Depository Ltd. Up-to-date ownership data on insiders can be viewed at its office in Helsinki, at the address Unioninkatu 32 B, 6th floor.

External Audit

The auditing function required by law is to verify that the Financial Statements give accurate

and adequate information about the Group result and financial position for the year under review. In addition, the Auditors report to the Board of Directors on the ongoing auditing of administration and operations.

According to the Articles of Association, BasWare Corporation has at minimum one and at maximum two regular Auditors appointed by the Annual General Meeting, at least one of which is an auditing firm approved by the Central Chamber of Commerce. Additionally, the company has at minimum one and at maximum two deputy Auditors. A proposal for the election of Auditor prepared by the Board is disclosed in the notice to the General Meeting.

Year 2004

The Auditor of BasWare is currently PricewaterhouseCoopers Oy, Authorized Public Accountants, with APA Juha Väisänen in charge and APA Markku Marjomaa as his deputy. The Company paid PricewaterhouseCoopers Oy EUR 34,265 as fees for audit. Fees for non-audit services, relating for example to the Company's shift to the Main List and to IFRS reporting, paid to PricewaterhouseCoopers Oy totaled EUR 35,612. Non-audit fees for companies of the same member firm offices outside of Finland totaled EUR 71,055 in 2004 and included accounting and payroll administration of certain subsidiaries.

Communication and Disclosure

The purpose of BasWare investor relations and communications is to provide reliable, transparent and up-to-date information about the Company to the markets so that the shareholders can evaluate the Company as an investment target and decide on their holdings. Before publishing information on the financial results, a two-week period of silence is observed during which no questions regarding the performance of the Company are answered.

The company publishes all stock exchange releases and other disclosures, within the framework of obligation to provide information continuously, in both Finnish and English on the company website. Stock exchange releases can also be ordered by email through the website. BasWare publishes the Annual Report on its website where it is impartially available to all shareholders. Also the BasWare Corporate Governance Statement is available on the website.

BasWare Board of Directors January 1, 2005

Hannu Vaajoensuu, born 1961
Chairman of the Board, BasWare Corp.
MSc (Econ)

Board member since: 1990
Primary working experience:
Specialist and managerial positions at BasWare since 1987. CEO of BasWare Corp. 1999-2004
BasWare's shares: 1,155,800
BasWare's warrants: 29,080

Kirsi Eräkangas, born 1965
Senior Vice President, BasWare Corp.
MSc (Econ), EMBA

Board member since: 1993
Primary working experience:
Specialist and managerial positions at BasWare since 1988, currently Senior Vice President of Global Professional Services
BasWare's shares: 1,141,800
BasWare's warrants: 11,080

Esa Korvenmaa, born 1954
Senior Vice President, TeliaSonera Finland Oy
MSc (Tech)

Board member since: 2004
Primary working experience:
Managerial positions in the IT industry, previously acted as CEO of Stonesoft Corp. and Hewlett-Packard Finland as well as Manager of Wireless Transmission Products at Nokia Corp.
Other simultaneous positions of trust:
Datainfo Oy, Member of the Board
Infonet Finland Oy, Member of the Board
Telering Oy, Member of the Board
BasWare's shares: none
BasWare's warrants: 6,000

Sakari Perttunen, born 1957
CFO (act.), BasWare Corp.
MSc (Econ)

Board member since: 1987
Primary working experience:
Specialist and management positions at BasWare since 1987, currently responsible for financial and other corporate functions
BasWare's shares: 830,400
BasWare's warrants: 13,350

Ossi Pohjola, born 1957
Management Consultant
BSc

Board member since: 2004
Primary working experience:
Previously worked as Managing Director of Andersen Consulting in Finland and Senior Vice President at Oracle
Other simultaneous positions of trust:
AffectoGenimap Group plc., Member of the Board
Insta Visual Solutions Oy, Member of the Board
Instrumentointi Oy, Member of the Board
BasWare's shares: none
BasWare's warrants: 6,000

Antti Pöllänen, born 1966
CTO, BasWare Corp.
MSc (Econ)

Board member since: 1993
Primary working experience:
Consulting and specialist positions at BasWare since 1989, currently responsible for the technologies used in products
BasWare's shares: 1,144,900
BasWare's warrants: 11,080

The number of shares includes also the holdings of organizations under control and those of children under guardianship. The distribution of holdings can be seen in the table on page 45.

BasWare Executive Team January 1, 2005

Ilkka Sihvo, born 1962
CEO
MSc (Econ), MSc (Tech)
At BasWare since 1989
Previous work experience:
Expert and management positions at
BasWare
BasWare's shares: 1,155,800
BasWare's warrants: 24,080

Juha Heiskanen, born 1956
Senior Vice President, Financial Management
MSc (Econ)
At BasWare since 1989
Previous work experience:
Financial management positions e.g. at
SanomaWSOY and ABB Service
BasWare's shares: 300
BasWare's warrants: 11,360

Olli Hyppänen, born 1966
Senior Vice President, Research & Development
MSc (Tech)
At BasWare since 2003
Previous work experience:
Product development and project management
positions e.g. at Tellabs and Tecnomen Corp.,
lastly as Director, Supply Chain Engineering at
Tellabs
BasWare's shares: none
BasWare's warrants: 10,000

Petri Karjalainen, born 1963
General Manager, Nordic
At BasWare since 2002
Previous work experience:
Managerial positions in the IT and telecommu-
nications industry e.g. worked at Sonera Zed UK
as Vice President of Business Development
BasWare's shares: none
BasWare's warrants: 5,850

Ulla Martola, born 1962
Senior Vice President,
Human Resources & Development
MSc (Econ)
At BasWare since 2002
Previous work experience:
Managerial positions in consulting and human
resources management e.g. at Talent Partners
Corp. as well as at KPMG Wideri Oy Ab and
KPMG Consulting Oy Ab
BasWare's shares: none
BasWare's warrants: 6,000

Sakari Perttunen, born 1957
CFO (act.)
MSc (Econ)
At BasWare since 1987
Previous work experience:
Expert and managerial positions at BasWare,
lastly as CTO
BasWare's shares: 830,400
BasWare's warrants: 13,350

Jukka Tapaninen, born 1963
General Manager, Europe
MSc (Econ)
At BasWare since 2002
Previous work experience:
Managerial positions in IT companies, e.g. as
CEO of Stonesoft Inc. in the US, international
managerial positions at Hewlett-Packard
Company in Finland, Spain and Singapore
BasWare's shares: none
BasWare's warrants: 3,000

Jari Tavi, born 1963
Senior Vice President, Products & Technology
Engineer
At BasWare since 2002
Previous work experience:
Solid Information Technology, Product Strategy
Director
Ztango.com Ltd., CTO
BasWare's shares: none
BasWare's warrants: 9,000

Esa Tihilä, born 1964
Senior Vice President, Global Sales
College Graduate (Econ)
At BasWare since 2004
Previous work experience:
Managerial positions in the IT industry, e.g. as
CEO of Meridea Financial Software, as Group
Executive Director at ICL Europe and as Global
Director of e-Business at ICL PLC
BasWare's shares: none
BasWare's warrants: none

The number of shares includes also the hold-
ings of organizations under control and those
of children under guardianship.

Board of Directors' Report January 1-December 31, 2004

Summary of the financial year 2004:

- Net sales EUR 32,640 thousand - growth by 27.5%
- Operating profit EUR 4,663 thousand - growth by 311.4%
- Operating profit 14.3% of net sales (4.4%)
- International business operations grew by 31.4% (63.6%)
- Share of international operations of net sales 43.3% (42.0%)
- Earnings per share EUR 0.33 (EUR 0.07)
- Board's dividend proposal EUR 0.12 per share (EUR 0.12)

Numbers are compared with those of the financial year 2003.

Net sales

BasWare Group's (later referred to as the Company) net sales grew by 27.5 percent (26.3%) during the financial year and were EUR 32,640 thousand (EUR 25,597 thousand). The growth of net sales was completely organic. The parent company's net sales grew by 25.8 percent (11.1%) and were EUR 23,588 thousand (EUR 18,757 thousand).

In the financial year, 38.3 percent (43.5%) of net sales consisted of own software product sales and 20.1 percent (18.2%) of product related maintenance revenue. Product sales grew by 12.1 percent (13.2%) and maintenance revenue by 40.6 percent (47.3%) compared with the previous financial year. Services related revenue grew by 38.7 percent (35.0%) and represented 41.6 percent (38.3%) of net sales.

The international share of the Company's net sales was 43.3 percent (42.0%) in the financial year. International business operations grew by 31.4 percent (63.6%). Domestic operations grew by 24.7 percent (8.4%).

In the financial year the Company's Electronic Business operations grew by 27.7 percent (25.8%) and business operations represent 82.7 percent (82.6%) of net sales. The international share of electronic business operations was 52.1 percent (50.7%).

The Financial Management operations grew by 26.7 percent (29.1%) and represented 17.3 percent (17.4%) of net sales in the financial year. Business operations during the period were still almost wholly domestic.

The Company changed its revenue recognition principle at the start of 2004 in transition to the IFRS. With the earlier practice, the net sales of the financial year would have been EUR 33,053 thousand, growth of net sales 29.1 percent and growth of product sales 15.9 percent.

Financial performance

In 2004 BasWare Group's operating profit grew by 311.4 percent (-17.3%) and were EUR 4,663 thousand (EUR 1,133 thousand). Operating profit represented 14.3 percent (4.4%) of net sales. The parent company's operating profit grew by 165.8 percent (-6.4%) and was EUR 7,586 thousand (EUR 2,853 thousand).

The Company's fixed costs were EUR 24,703 thousand (EUR 21,291 thousand). The growth compared with the previous year was 16.0 percent (23.4%). The accounting principle regarding product development costs was changed at the start of 2004 to comply with the IFRS practice. During the financial year, EUR 1,062 thousand of development costs have been capitalized. Before 2004 all product development costs were recognized as expenses.

The Company's profit before extraordinary items and taxes was EUR 4,526 thousand (EUR 1,031 thousand). The profit for the financial period grew by 397.1 percent (-36.4%) and was EUR 2,801 thousand (EUR 564 thousand). The parent company's profit for the period grew by 180.5 percent (-16.5%) and was EUR 5,196 thousand (EUR 1,852 thousand).

The Company's earnings per share were EUR 0.33 (EUR 0.07).

Financing and investments

BasWare Group's total assets of the balance sheet at the end of the financial period were EUR 20,779 thousand (EUR 16,003 thousand). The Company has changed its accounting principle regarding capital lease contracts to comply with the IFRS practice. Capital lease contracts have been booked in fixed assets of the balance sheet. As a result, the total assets of the balance sheet have grown by EUR 77 thousand during the financial year.

The Company's cash and bank balances grew by 59.4 percent (43.1%) during the financial year and were EUR 5,789 thousand (EUR 3,633 thousand). Cash flows from operating activities were EUR 5,015 thousand (EUR -108 thousand) during the year.

Equity ratio was 58.6 percent (63.0%) in the end of the financial year and gearing was -34.0 percent (-15.4%). The Company had a total of EUR 1,645 thousand (EUR 2,075 thousand) interest-bearing liabilities, of which current liabilities accounted for EUR 510 thousand (EUR 505 thousand).

The Company's capital expenditure in the financial period was EUR 626 thousand (EUR 489 thousand). This consisted of regular new and replacement investments resulting from growth.

Research and development

BasWare's research and development costs grew by 11.9 percent (16.4%) in the financial year and were EUR 4,604 (EUR 4,113 thousand). The costs made up 14.1 percent (16.1%) of net sales.

The accounting principle regarding product development costs was changed at the start of 2004 to comply with the IFRS practice. During the financial year, EUR 1,062 thousand of product costs were capitalized. Before 2004 all product development costs were recognized as expenses.

The Company's research and development work has two main goals: development related to new products and versions as well as long-term development of the technological platform. A project to develop the technology platform which was supported by Tekes, The National Technology Agency of Finland, in 2003, was completed in 2004. In June 2004, Tekes resolved to award a EUR 48 thousand new product development grant as a part of the Software Engineering and Tools (SWENG) technology program. The grant is used to develop the Company's testing and component practices.

The Company employed 65 (59) persons in the research and development at the year-end which makes 21.5 percent (23.2%) of the whole personnel. R & D was wholly centralized in Finland in the beginning of 2004. At the same time, the unit was reorganized to a project oriented structure instead of the previous product oriented organizational structure.

Personnel

During the financial year the number of employees of the BasWare Group was 280 (256) on average and in year-end 302 (254). The number of personnel grew by 18.9 percent (4.1%) compared with the end of the previous year. The growth was strongest among sales personnel.

Altogether 31.5 percent (29.1%) of personnel worked outside of Finland in year-end. The growth of the personnel was strongest in the subsidiaries in Germany and the United States. The departure turnover of personnel during the financial period was 10.6 percent (17.2%).

BasWare's human resources operations are guided by the HR strategy, which was approved in December 2003. The implementation of the strategy began in 2004. For incentive purposes, the Company has a bonus program that covers the whole personnel as well as two warrant programs.

Business operations

Internationalization and distribution network

The international share of BasWare's net sales during the financial year was 43.3 percent (42.0%) and international operations grew by 31.4 percent (63.6%). In the beginning of 2004 a subsidiary was founded in France to replace the previous sales office. In addition, the Company has subsidiaries in Sweden, Denmark, Germany, The Netherlands, United Kingdom and United States. The Company launched market operations in Canada, Estonia and Russia during 2004. In the end of the financial period the Company had software installations in 21 countries.

BasWare's international operations currently base on the Electronic Business products. In 2004 the Company prepared for the internationalization of Financial Management and resolved to begin the expansion in the beginning of 2005 to other Nordic countries which according to market researches demonstrate clear market potential for financial management solutions. Marketing and sales activities will be started in Sweden and later in the year

in Denmark through the Company's own subsidiaries and in Norway through a partner.

According to its Channel strategy, the Company aims to build a strong partner network to support its own sales channel. This is done to ensure extensive market coverage and distribution channel for products. The Company's subsidiaries in Germany, The Netherlands, France and United Kingdom have channel sales units in order to support the existing partners and further develop the indirect sales channel. The goal is to find several strong partners for each market area that in addition to sales can account for the installation and support services needed for their customers. In the home markets in Finland, Sweden and Denmark marketing and sales will mainly continue to be conducted by the own organization.

BasWare signed two new partner agreements during the year. The agreements with Perfect Extensions B.V. in The Netherlands and Canon Australia in Australia and New Zealand cover the sales of Electronic Business products as well as installation and support services. In Norway, the partner agreement with Icore AS was extended from Electronic Business products to cover also the Financial Management products.

The most extensive partner agreement is signed with Xerox that sells BasWare's Electronic Business products through its subsidiaries in 12 European countries. Altogether the Company has 11 Value Added Resellers operating in 16 countries. The reseller partners provided a net share of 10.6 percent of the product sales in 2004.

Electronic Business operations

The BasWare Electronic Business operations grew by 27.7 percent (25.8%) during the financial period and were EUR 26,998 thousand. Domestic operations' share was 47.9 percent (49.4%) and international operations made up 52.1 percent (50.6%) of net sales. Domestic operations grew by 23.9 percent (1.9%) and international operations by 31.4 percent (63.0%). Electronic Business product sales grew by 13.4 percent (4.2%) and service revenue by 35.9 percent (46.3%).

The Electronic Business unit in Finland exceeded its net sales target in 2004. Scandinavian units (Sweden, Denmark, Norway) were slightly behind their net sales target because of the performance of the Danish unit. The net sales grew by 6.6 percent in Scandinavia. The net sales of the European units (The Netherlands, Germany, United Kingdom, France) grew by 45.1 percent but were slightly behind the target. The Dutch unit succeeded very well in its operations whereas especially the German unit did

not reach its objectives. The areas outside of Europe (The United States, Australia) reached their target and their net sales grew by 789.8 percent.

In the end of summer, measures were taken regarding the units with the weakest performance (Germany, Denmark). The units' marketing and sales activities were strengthened and new country managers were recruited.

In 2004, the Electronic Business' product portfolio based on the "From Need to Payment" concept for the purchase to pay process was launched in all market areas. The product portfolio includes BasWare Invoice Processing that can be completed with value-added products Recurring Invoice Matching and Order Matching to automate the processing, as well as BasWare Purchase Management. In addition, BasWare Document Archiving and BasWare Business Transactions, the electronic invoicing service currently available in the Nordic countries, are included in the product portfolio. During the second half of the year, a new value-added product BasWare Supplier Portal was launched. It integrates the customers using BasWare's solutions with its selected suppliers and other partners.

The demand for the Invoice Processing solution and for the more extensive invoice automation solution was strong during the whole financial period. Especially large enterprises that are centralizing their financial operations into shared service centers (SSCs) were interested in BasWare's invoice automation solution. New SSC customers include, for example, Metso in North America and Stora Enso, Elisa Corporation and the S Group in Finland.

In 2004, BasWare also made the first agreements where the customers were delivered the entire solution based on the "From Need to Payment" concept. For example Panasonic UK, SITA Netherlands and If P&C Insurance Company are new customers of the combined purchase management and invoice automation solution. The integrated product portfolio has given BasWare competitive advantage and strengthened its market position during 2004.

Altogether 120 new Invoice Processing and Purchase Management agreements were signed in 12 countries in 2004. Significant development steps were taken in the newest market areas where large local customers such as American Eagle Outfitters in the United States and Renault Administrative Center in France were acquired as new customers.

The electronic invoice volumes of the BasWare Business Transactions service grew significantly during 2004. The transaction volume of the

service was almost 1,400,000 invoices which is an increase of 160.6 percent compared with 2003.

In Finland, new electronic invoicing service agreements were signed with 50 organizations. The sales of the electronic invoicing solution have also started in other Nordic countries. The first agreement in Sweden was signed in the first quarter of the year and in Iceland in the second quarter of the year. According to BasWare's updated strategy, the aim is to develop the electronic invoicing solution so that it could be offered internationally to the entire BasWare customer base.

Financial Management operations

The Company's Financial Management operations grew by 26.7 percent (29.1%) and were EUR 5,643 thousand during the financial year 2004. The product license sales grew by 5.2 percent (117.4%) and service revenue grew by 53.2 percent (-3.6%). The products were only marketed in Finland: international share of net sales was 1.0 percent.

The main products of Financial Management include the BasWare Group Consolidation and BasWare Business Planning software. The group consolidation software can be combined with readymade IFRS consolidation models that take into account both the Finnish and international accounting standards and with the Cash Flow application launched in the beginning of 2004. The software and value-added products based on the accounting expertise form a complete solution that maintained strong competitiveness in 2004 compared with the traditional group consolidation software offered by the competitors.

BasWare's new IFRS Model customers of stock-listed companies that are obliged to start reporting according to IFRS in 2005 include Efore Plc, Citycon Oy, Fiskars Corp. and Perlos Corp., among others. The demand of the solution has, however, also expanded into companies that are not obliged to report according to IFRS. For example, GNT Finland Oy, Oy Karl Fazer Ab, Setec Oy and Finland Post Corp., have purchased BasWare IFRS models.

The demand for the planning and budgeting solution remained also strong throughout the financial year. New BasWare Business Planning customers in 2004 include Spar Finland plc, Otava Books and Magazines Group, the Finnish Police, Senate Properties, and the City of Helsinki with which a frame agreement was signed to cover the financial planning of all units using BasWare's solution.

A total of 43 new agreements were signed in the Financial Management unit during 2004. Over a half of the agreements included BasWare IFRS models, BasWare Cash Flow or both value-added products.

Other events of the financial period

BasWare Corporation's Annual General Meeting (AGM) on February 24, 2004 adopted the Financial Statements of 2003 and discharged the members of the Board of Directors and the CEO from liability. The AGM resolved, according to the Board's proposition, to distribute a dividend of EUR 0.12 per share, a total of EUR 1,026,072 for 2003. The AGM also resolved to continue the Board of Director's authorization to increase the share capital by issuing new shares and/or convertible bonds and/or warrants.

In March 2004, the company received the Internationalization Award of the President of the Republic of Finland as recognition of the successful achievements in international business operations.

BasWare's strategy was updated in the strategy process conducted during the spring and summer. The renewed strategy for 2004-2007 was approved by the Board of Directors on August 17, 2004. Strategic objectives remained the same as before: by 2007, the Company aims at a 40 percent annual growth in net sales and a 15 percent operating profit margin. The growth is to be mainly organic and it can be supported by acquisitions extending the international sales channel and/or product portfolio. In order to accelerate the growth, emphasis on the markets in the United States, Germany and United Kingdom was increased in the turn of 2004-2005 by strengthening for example the marketing and sales organizations of the subsidiaries.

BasWare transferred from the NM List of the Helsinki Stock Exchange to the Main List in October 2004. Trading of the BasWare share on the Main List commenced on October 19, 2004. In connection with the change of the list, the possibility of a share issue was reviewed but the project was not realized during fall 2004.

As a part of its corporate responsibility program, the Company continued the cooperation with Plan Finland initiated in 2002. The Company sponsors the living conditions and education of 12 children in developing countries. The Company also made a donation to the Plan catastrophe fund that helps the children affected by the tsunami wave in Asia.

The Company applies the Guidelines for Insiders issued by the Board of Directors of the Helsinki Stock Exchange as well as the Recom-

mendation on Corporate Governance with the exceptions mentioned in the Company's Corporate Governance Statement. The statement can be found in the Investors section of the Company's website.

Management and auditor

On February 24, 2004 the Annual General Meeting elected Kirsi Eräkangas, Sakari Perttunen, Antti Pöllänen, Ilkka Sihvo and Hannu Vaajoensuu to continue as members of the Board of Directors of BasWare Corp. In addition, Esa Korvenmaa and Ossi Pohjola were elected as new members of the Board. The Board elected Ilkka Sihvo to act as Chairman of the Board.

The CEO of the Company was Hannu Vaajoensuu in 2004.

In October 2004, the Board elected Ilkka Sihvo as the new CEO as of January 1, 2005. Sihvo acted as the Chairman of the Board and President of the Company until the end of 2004 with operative responsibility of the Company's finance as well as Scandinavian operations. Sihvo resigned from the Board as of January 1, 2005. The Board appointed Hannu Vaajoensuu, who acted as the CEO until the end of 2004, as the new Chairman of the Board. Vaajoensuu's tasks include also the Company's strategic projects such as company acquisitions, strategic partnerships and new business operations.

The Company's auditor has been PricewaterhouseCoopers Oy, Authorized Public Accountants, with APA Juha Väisänen in charge.

Share and share capital

During 2004, BasWare's share capital was increased by EUR 17,010 due to the share subscriptions based on warrants. The increase in share capital was entered in the Finnish Trade Register on October 28, 2004. The Company's share capital on December 31, 2004 was EUR 2,582,190 and the number of shares 8,607,300.

The Company has two warrant programs which give the right to subscribe for a maximum of 631,000 new shares. Based on the subscriptions the share capital can be increased by a maximum of EUR 189,300. The subscription periods for shares in the warrant program Finland I started gradually on October 1, 2001; October 1, 2002; October 1, 2003 and October 1, 2004. In the warrant program Finland II the subscription periods begin gradually on July 1, 2003; July 1, 2004 and July 1, 2005. A total of 56,700 share subscriptions based on the warrants have been accepted by the Board by the end of 2004.

According to the resolution of the Annual General Meeting, the Company's Board of Director's authorization for an issue is valid until February 24, 2005. The share capital may be increased with maximum EUR 513,036 and 1,710,120 new shares based on the authorization. The Company does not own its own shares, and the Board of Directors does not have an authorization to purchase BasWare's shares.

In the end of 2004 the Company had 24,103 shareholders (26,358 in the end of 2003). During the financial period there were no notices of change in ownership.

During the financial period the highest price of the Company's share on the Helsinki Stock Exchange was EUR 10.10 (EUR 6.42) and the lowest price EUR 6.10 (EUR 3.63). The average price of the share was EUR 7.83 (EUR 4.83). On the last day of trading on December 30, 2004 the closing rate was EUR 7.78 (EUR 6.10 in 2003). Market capitalization with the closing price was EUR 66,964,794 (EUR 52,158,660). A total of 1,981,098 (658,514) shares were traded during the financial period which is the equivalent of 23.1 percent (7.7%) of the average number of shares.

IFRS reporting

BasWare will publish its interim reports and Financial Statements for the financial year 2005 in accordance with the International Financial Reporting Standards (IFRS). During the financial period of 2004, in addition to the accounting according to Finnish Accounting Standards, the Company has been conducting simultaneous accounting according to IFRS to prepare the comparison data for 2005. The comparison data for the three first quarters of 2004 was published in December 2004 and data for the whole year will be published in March 2005.

At BasWare, the most significant effects of the transition to IFRS relate to revenue recognition, capitalization of certain product development costs as well as treatment of capital lease contracts and goodwill. The company has changed its accounting principles in the first three named areas already in 2004 as the changes also were possible under the Finnish Accounting Standards.

According to the earlier revenue recognition principle the net sales for the financial period of 2004 would have been EUR 33,053 or 1.2 percent higher than according to the current standards. EUR 1,062 thousand of research and development costs were capitalized in 2004. Total assets of the balance sheet grew by EUR

77 thousand during the financial period when capital lease contracts were booked in the fixed assets of the balance sheet. The change in accounting principle regarding goodwill in the beginning of 2005 has a positive effect on BasWare's operating profit; in 2004 the ceased goodwill amortizations increase the operating profit according to IFRS with EUR 240 thousand.

Future outlook

The economic situation has improved to some extent in the end of 2004 which can also be observed in the slight revival of software market. BasWare's solutions provide savings to customers and thus, the demand for the solutions has not been strongly dependent on the prevailing economic trend. Also the new regulations on financial reporting and corporate governance may strengthen the demand for the Company's products. According to several research institutes, the market for the Company's products is growing faster than the general economic growth.

The competitiveness of BasWare's software is still good and positively influenced by the expansion of the product portfolio and the solution concept that the products form together. Although no substantial changes in the competitive situation have occurred, increasing local competition can be observed in some market areas especially regarding small and medium-sized organizations acquiring invoice processing solutions.

In 2005 the Company aims to continue its growth which is based on continuous investments in sales and marketing activities. The investments will mainly focus on existing market areas. In the turn of 2004-2005, the Company's sales and marketing organization was more than doubled in the strategic markets of the United States, Germany and United Kingdom.

The development of the indirect sales channel will continue in Europe and channel operations will also be launched in the North American market. In addition to the partners' channel activities, new business will be generated through Purchase Management and value-added products. The international launch of these products was finalized during 2004.

BasWare will also start reviewing possible acquisitions targets in the Nordic countries. With the acquisitions, the Company can extend the international sales channel and product portfolio. They may also strengthen the Company's position in the Nordic electronic invoicing market.

The marketing and sales activities for Financial Management's products were started in Sweden and Norway in the beginning of 2005 in order to assure the growth of the business operations. The domestic growth of Electronic Business and Financial Management which is based on the development of services and new products is slower than that of the international operations but still faster than in the Finnish software markets in general.

BasWare expects that the organic growth of net sales will be over 20 percent in 2005. Operating profit is expected to be greater than in the previous year, i.e. EUR 4,663 thousand. The operating profit for the first quarter of the year is expected to be lower than that of the same period last year since the investments in sales made in the end of 2004 elevate the cost level.

Board's dividend proposal

The Group's distributable funds according to the balance sheet are EUR 3,589,879.11 and the parent company's distributable funds are EUR 9,957,834.00.

BasWare's Board of Directors proposes to the Annual General Meeting that from the financial year 2004, a dividend of EUR 0.12 per share be paid.

In Espoo, Finland, January 18, 2005

Board of Directors of BasWare Corporation

Hannu Vaajoensuu, Chairman of the Board
Kirsi Eräkangas
Esa Korvenmaa
Sakari Perttunen
Ossi Pohjola
Antti Pöllänen

Ilkka Sihvo, CEO

Income Statement

EUR thousand		Group		Parent company	
		1.1.-31.12.2004	1.1.-31.12.2003	1.1.-31.12.2004	1.1.-31.12.2003
Net sales	1	32,640	25,597	23,588	18,757
Other operating income	2	89	212	39	181
Materials and services	3	2,391	2,414	817	894
Personnel expenses	4	16,478	14,322	10,249	9,102
Depreciations and write-offs	5	973	970	528	582
Other operating expenses		8,225	6,969	4,448	5,507
Operating profit		4,663	1,133	7,586	2,853
Financial income and expenses	6	-137	-103	-146	-234
Profit before taxes		4,526	1,031	7,440	2,620
Direct taxes	7	1,725	467	2,244	768
Profit for the period		2,801	564	5,196	1,852

Balance Sheet

EUR thousand	Group		Parent company	
	31.12.2004	31.12.2003	31.12.2004	31.12.2003
Assets				
Fixed assets				
Intangible assets	8			
Intangible rights		1,763	669	1,680
Goodwill		753	986	625
Tangible assets	9	695	756	415
Investments	10			453
Shares in subsidiaries			421	384
Shares in participating interests		3	3	3
Other receivables			9,320	7,180
		3,213	2,413	11,839
				8,645
Current assets				
Inventories	11	32	1	32
Long-term receivables	12	838	301	1
Short-term receivables	13	10,907	9,655	10,165
Cash and bank balances		5,789	3,633	8,719
		17,566	13,590	13,778
				11,470
Total assets		20,779	16,003	25,618
				20,116
Equity and liabilities				
Capital and reserves				
	14			
Share capital		2,582	2,565	2,582
Share premium account		6,000	5,712	2,565
Retained earnings		789	1,247	6,000
Profit for the financial period		2,801	564	4,762
		12,172	10,088	18,540
				14,065
Liabilities				
Long-term liabilities	15	1,136	1,570	1,277
Current liabilities	16	7,471	4,345	5,801
		8,607	5,915	7,078
				6,050
Total equity and liabilities		20,779	16,003	25,618
				20,116

Cash Flow Statement

EUR thousand	Group		Parent company	
	1.1.-31.12.2004	1.1.-31.12.2003	1.1.-31.12.2004	1.1.-31.12.2003
Cash flows from operating activities				
Profit for the period	2,801	564	5,196	1,852
Adjustments for profit	2,796	1,479	2,882	1,523
Working capital changes	920	-1,560	-781	-1,212
Cash flows from operating activities before financial items and taxes	6,517	483	7,297	2,163
Interest paid	-71	-29	-70	27
Interest received	49	12	83	13
Other financial items in operating activities	-115	-74	-114	-73
Income taxes paid	-1,366	-500	-1,364	-500
Net cash from operating activities	5,015	-108	5,833	1,630
Cash flows from investing activities				
Purchase of tangible and intangible assets	-1,660	-382	-1,551	-215
Proceeds from sale of tangible and intangible assets	69	219	58	219
Interest paid	-1			
Acquisition of subsidiaries			-37	-50
Long-term loans granted			-2,245	-2,292
Net cash used in investing activities	-1,592	-163	-3,774	-2,337
Cash flows from financing activities				
Proceeds from used employee warrants	305		305	
Proceeds from long-term borrowings		2,000		2,177
Repayments of long-term borrowings	-507	-207	-507	-207
Repayments of financial lease borrowings	-39			
Dividends paid	-1,026	-428	-1,026	-428
Net cash used in financing activities	-1,267	1,366	-1,228	1,543
Net increase in cash and cash equivalents	2,156	1,094	830	835
Cash and cash equivalents at beginning of period	3,633	2,538	2,750	1,915
Cash and cash equivalents at the end of period	5,789	3,633	3,581	2,750
Net increase in cash and cash equivalents	2,156	1,094	830	835

Notes to the Financial Statements

NOTES TO THE INCOME STATEMENT

EUR thousand

1 Net sales

	Group		Parent company	
	2004	2003	2004	2003
Net sales by business operation				
Product sales and maintenance	19,045	15,797	15,090	12,620
Services	13,595	9,800	8,498	6,137
Total	32,640	25,597	23,588	18,757
Net sales by business area				
Electronic Business	26,998	21,142	17,946	14,302
Financial Management	5,643	4,455	5,643	4,455
Total	32,640	25,597	23,588	18,757
Net sales by market area				
Domestic (Finland)	18,515	14,847	18,515	14,985
Foreign (other countries)	14,125	10,750	5,073	3,772
Total	32,640	25,597	23,588	18,757
2 Other operating income				
Gain on sale of non-current assets	43	61	39	61
Grants		120		120
Other	46	31		
Total	89	212	39	181
3 Materials and services				
Purchases during the financial period	1,074	907	392	217
Change in stock	-31	2	-31	2
Services purchased	1,348	1,506	455	675
Total	2,391	2,414	817	894
4 Notes to personnel and corporate governance				
Personnel expenses				
Salaries paid to CEO and the Board of Directors	1,101	1,006	416	371
Salaries paid to other personnel	12,407	10,396	8,066	6,960
Pension expenses	1,679	1,461	1,306	1,137
Other personnel expenses	1,291	1,460	461	633
Total	16,478	14,322	10,249	9,102

	Group		Parent company	
	2004	2003	2004	2003
Number of personnel				
Personnel average for the period	280	256	196	178
Personnel at the end of the period	302	254	207	180

The pension arrangements of the CEO and the Board of Directors comply with the local rules. In addition, one member of the Board has a voluntary pension insurance that defines the retirement age for 58 years.

5 Depreciation and write-offs

Intangible assets	530	472	254	224
Tangible assets	443	498	274	358
Total	973	970	528	582

6 Financial income and expenses

Interest and other financial income	49	13	144	73
Interest and other financial expenses	186	115	290	306
Total	-137	-103	-146	-234

7 Direct taxes

Income taxes on the financial period				
Income taxes on actual business	2,229	768	2,199	768
Change in deferred tax receivables	550	301		
Income taxes from previous financial periods	45		45	
Total	1,725	467	2,244	768

NOTES TO THE BALANCE SHEET EUR thousand

8 Intangible assets

Intangible rights

Book value 1.1.	1,207	1,129	1,144	1,085
Increase for the financial period	1,385	86	1,310	59
Transfer between items		19		
Book value 31.12.	2,592	1,197	2,454	1,144
Accumulated depreciation 1.1.	538	297	519	301
Depreciation for the financial period	291	231	254	218
Accumulated depreciation 31.12.	829	528	774	519
Balance sheet value 31.12.	1,763	669	1,680	625

Goodwill

Book value 1.1.	1,464	1,467		29
Book value 31.12.	1,464	1,467		29
Accumulated depreciation 1.1.	467	240		22
Depreciation for the financial period	244	241		6
Accumulated depreciation 31.12.	711	481		29
Balance sheet value 31.12.	753	986		0

	Group		Parent company	
	2004	2003	2004	2003
9 Tangible assets				
Book value 1.1.	2,577	2,440	2,019	2,021
Increase for the financial period	410	296	260	155
Decrease for the financial period	38	158	108	158
Book value 31.12.	2,949	2,578	2,171	2,019
Accumulated depreciation 1.1.	1,822	1,324	1,566	1,208
Depreciation for the financial period	433	498	190	358
Accumulated depreciation 31.12.	2,255	1,822	1,755	1,566
Balance sheet value 31.12.	695	756	415	453
Total fixed assets	3,210	2,410	2,096	1,078
10 Investments				
Shares in group companies				
Book value 1.1.			384	335
Increase for the financial period			37	50
Book value 31.12.			421	384
Shares in affiliated companies				
Book value 1.1.	3	3	3	3
Book value 31.12.	3	3	3	3
Other receivables				
Receivables from group companies			9,320	7,180
Shares in subsidiaries				
	Group holding, %		Parent company holding, %	
NextWare Oy, Espoo	100.0		100.0	
BasWare GmbH, Düsseldorf	100.0		100.0	
BasWare UK Ltd., Guildford	100.0		100.0	
BasWare AB, Tukholma	100.0		100.0	
BasWare B.V., Amsterdam	100.0		100.0	
BasWare A/S, Fredensborg	100.0		100.0	
BasWare, Inc., Boston	100.0		100.0	
BasWare SAS, Paris	100.0		100.0	
Shares in associated companies				
	Group holding, %		Parent company holding, %	
Agentum Technologies Oy Inc., Turku	19.3		19.3	

	Group		Parent company	
	2004	2003	2004	2003
11 Inventories				
Raw materials and consumables	32	1	32	1
Total	32	1	32	1
12 Long-term receivables				
Deferred tax receivables	829	301		
Receivables from others	9			
Total	838	301		
13 Short-term receivables				
Accounts receivable	9,272	8,323	4,956	4,215
Accounts receivable from group companies			4,588	3,873
Prepaid expenses and accrued income	678	546	446	571
Other receivables	256	101	175	61
Deferred tax receivables	701	685		
Total	10,907	9,655	10,165	8,719
14 Shareholders' equity				
Share capital 1.1.	2,565	257	2,565	257
Increase for the financial period	17	2,309	17	2,309
Share capital 31.12.	2,582	2,565	2,582	2,565
Share premium account 1.1.	5,712	8,021	5,712	8,021
Increase for the financial period	288		288	
Decrease for the financial period		2,309		2,309
Share premium account 31.12.	6,000	5,712	6,000	5,712
Retained earnings 1.1.	1,811	1,675	5,788	4,363
Dividend payment	-1,026	-428	-1,026	-428
Translation difference change	4			
Profit for the period	2,801	564	5,196	1,852
Retained earnings 31.12.	3,590	1,811	9,958	5,788
Shareholders' equity 31.12.	12,172	10,088	18,540	14,065
Specification of distributable funds				
Profit for the period	2,801	564	5,196	1,852
Retained earnings	789	1,247	4,762	3,936
Distributable funds	3,590	1,811	9,958	5,788
15 Long-term liabilities				
Long-term debts	1,136	1,570	1,100	1,570
Long-term debts to group companies			177	177
Total	1,136	1,570	1,277	1,747

	Group		Parent company	
	2004	2003	2004	2003
16 Short-term liabilities				
Accounts payable	889	620	330	139
Accounts payable to group companies			47	1,384
Other debts	1,583	1,339	1,026	830
Amortization of long-term debts	468	505	468	505
Accrued expenses and deferred income	4,530	1,882	3,930	1,446
Total	7,471	4,345	5,801	4,304
17 Provided pledges, contractual liabilities and other liabilities				
Guarantees on behalf of subsidiaries	652	81	652	81
Other contingent liabilities				
Leasing commitments				
To be paid during the next financial period	359	656	150	183
To be paid during the following financial periods	437	698	226	132
Other rent commitments				
To be paid during the next financial period	1,101	831	814	797
To be paid during the following financial periods	2,288	2,523	1,744	2,488
Check account credit line 1,000 (unused)				
Floating charge given as collateral				

The group does not have pledges, mortgages or guarantees on behalf of external parties.

Accounting Principles of the Financial Statements

BasWare Group's financial statements for the financial year 2004 have been prepared according to the Finnish Accounting Act. The Group will start reporting according to International Financial Reporting Standards (IFRS) as of January 1, 2005.

Principles of consolidation

Group financial statements include the financial statements of BasWare Corporation (the parent company) and its subsidiaries NextWare Oy, BasWare AB, BasWare GmbH, BasWare B.V., BasWare UK Ltd., BasWare A/S, BasWare, Inc. and BasWare SAS.

Financial statements of the foreign subsidiaries have been changed to correspond to the Group's accounting principles. The Group's financial statements were prepared using the acquisition cost method. Transactions, receivables and debts within the group have been eliminated. The income statements of foreign subsidiaries are translated at the average exchange rate for the accounting period, and the balance sheets at the closing rate on the balance sheet date.

Transactions in foreign currencies

Transactions in foreign currencies are recorded at the rates of exchange prevailing at the dates of the individual transactions. At the end of the accounting period, the unsettled balances on foreign currency receivables and liabilities are valued at the rates of exchange prevailing at the end of the accounting period. Foreign exchange differences for operating business items are entered in the appropriate income statement account before operating profit, and, for financial assets and liabilities, are entered as a net amount in the financial items of the income statement.

Revenue recognition

The sale of licenses is recognized in phases with relation to when the usage rights for the software have been granted, installation has occurred and the delivery has been accepted. The sales are recorded when the sales can be defined as reliable and the financial impact relating to the business operation is expected to benefit the company. Maintenance revenue is allocated to a contract period and service revenue is recognised at the time of delivery.

Other operating income

Other operating income includes proceeds from the sale of fixed assets and rental revenue.

Research and development

Research expenses are booked as an expense as they are incurred. Product development expenses are booked so that development costs of totally new products and product versions

with significant new features are capitalized and amortized. Maintenance of existing products and their minor development are booked as an expense as they are incurred. Public subsidies related to capitalized development expenses are deducted from the acquisition cost of the asset. Development costs before the year 2004 were booked as expenses in the year they were incurred.

Pensions

The compulsory pension coverage of personnel employed by BasWare Corporation (parent company) is provided through insurance policies taken out with a pension institution. Pension coverage for personnel employed by units outside Finland is arranged in line with the requirements of local legislation and social security provisions. Compulsory pension expenses are expensed in the year they are incurred.

Intangible assets

Intangible assets include software licenses, goodwill and capitalized development expenses. The balance sheet value of intangible assets is stated at acquisition costs, less accumulated depreciation. Public subsidies related to development expenses are deducted from the acquisition cost of the asset and recognized as income by reducing the depreciation charge of the asset they related to. The useful lives for intangible assets are 3 to 6 years.

Tangible assets

The balance sheet value of tangible assets is stated at acquisition costs, less accumulated depreciation. The useful lives for tangible assets are 3 to 5 years.

Leases

In group financial statements, the finance leases are capitalized and booked as liabilities and assets for fair value at acquisition date. Assets acquired under finance leases are depreciated and booked as a financial expense. In parent company financial statements, the lease payments are recorded as annual expenses according to the Finnish Accounting Act.

Securities, cash and bank balances

Cash and cash equivalents include cash, funds held on call accounts and marketable securities.

Taxation

Income taxes include taxes based on the results of the Group companies and are calculated according to the local tax rules of each country. The requirements of the Finnish Accounting Act have been observed in stating deferred taxes. The balance sheet includes deferred taxes in their entirety and deferred tax assets in the estimated probable amount of the tax benefit.

Group Quarterly Income Statement

EUR thousand	1-3/ 2004	1-3/ 2003	4-6/ 2004	4-6/ 2003	7-9/ 2004	7-9/ 2003	10-12/ 2004	10-12/ 2003
Net sales	7,128	5,434	8,646	6,546	6,717	5,668	10,150	7,949
Other operating income	24	29	38	60	13	70	15	54
Materials and services	589	606	593	492	453	559	756	757
Personnel expenses	3,590	3,629	4,380	3,802	3,139	3,015	5,368	3,877
Depreciation and write-offs	248	248	242	246	237	239	247	236
Other operating expenses	1,724	1,988	2,028	1,748	2,017	1,467	2,457	1,765
Operating profit	1,001	-1,009	1,441	317	885	457	1,336	1,368
Financial income and expenses	-16	-54	-13	-9	-22	-5	-86	-34
Profit (loss) before taxes	985	-1,062	1,428	308	863	452	1,250	1,334
Direct taxes	542	-285	523	153	504	308	155	291
Profit (loss) for the period	443	-777	905	154	359	144	1,095	1,043

Key Indicators

Group Key Financial Performance Indicators

EUR thousand	2004	2003	2002	2001	2000
Net sales	32,640	25,597	20,263	12,399	7,455
Growth in net sales, %	27.5%	26.3%	63.4%	66.3%	64.4%
Operating profit	4,663	1,133	1,370	389	1,551
% of net sales	14.3%	4.4%	6.8%	3.1%	20.8%
Profit before extraordinary items, reserves and taxes	4,526	1,031	1,505	611	1,785
% of net sales	13.9%	4.0%	7.4%	4.9%	23.9%
Profit before taxes	4,526	1,031	1,505	611	1,669
% of net sales	13.9%	4.0%	7.4%	4.9%	22.4%
Profit for the period	2,801	564	886	337	1,115
Return on equity, %	25.2%	5.6%	9.2%	3.4%	19.5%
Return on investment, %	36.3%	10.2%	15.2%	6.1%	28.1%
Liabilities, interest bearing	1,645	2,075	282	321	314
Securities, cash and bank balances	5,789	3,633	2,538	5,293	8,106
Gearing, %	-34.0%	-15.4%	-22.7%	-53.3%	-75.4%
Equity ratio, %	58.6%	63.0%	74.3%	76.9%	85.9%
Total Assets	20,779	16,003	13,392	13,474	12,036
Capital expenditure	626	489	2,163	1,200	1,139
% of net sales	1.9%	1.5%	10.7%	9.7%	15.3%
Gross investments *	1,688	489	2,163	1,200	1,139
% of net sales	5.2%	1.5%	10.7%	9.7%	15.3%
Research and development costs	4,604	4,113	3,535	2,403	1,709
% of net sales	14.1%	16.1%	17.5%	19.4%	22.9%
Personnel average for the period	280	256	205	137	81
Personnel at the end of the period	302	254	244	168	101

* includes capitalized development costs since the beginning of 2004

Group Share Indicators

	2004	2003	2002	2001	2000
Earnings per share, EUR	0.33	0.07	0.10	0.04	0.14
Earnings per share, EUR (diluted)	0.32	0.07	0.10	0.04	0.14
Equity per share, EUR	1.41	1.18	1.16	1.09	1.21
Dividend per share, EUR	0.12	0.12	0.05	0.04	0.15
Dividend per profit, %	36.9%	182.1%	48.3%	88.9%	106.8%
Effective dividends, %	1.5%	2.0%	1.1%	0.7%	3.4%
P/E ratio	23.78	92.55	43.44	123.40	31.75
Share price performance, share issue adjusted					
lowest share price, EUR	6.10	3.63	3.50	4.30	4.30
highest share price, EUR	10.10	6.42	6.10	8.20	26.90
average share price, EUR	7.83	4.83	5.14	5.85	14.66
closing share price, EUR	7.78	6.10	4.50	4.86	4.55
Market value of shares on 31.12., EUR	66,964,794	52,158,660	38,477,700	41,555,916	38,905,230
Number of traded shares	1,981,098	658,514	701,223	1,263,696	3,345,952
% of average share number	23.1%	7.7%	8.2%	14.8%	40.1%
Share issue adjusted average share number during the period	8,560,967	8,550,600	8,550,600	8,550,600	8,353,980
Share issue adjusted share number at the end of the period	8,607,300	8,550,600	8,550,600	8,550,600	8,550,600

Calculation of Key Indicators

Return on equity (ROE), %

$$\frac{\text{Profit before extraordinary items, reserves and taxes - taxes}}{\text{Shareholders' equity + minority interest + voluntary provisions and depreciation difference less deferred tax liability (average)}} \times 100$$

Return on investment (ROI), %

$$\frac{\text{Profit before extraordinary items, reserves and taxes} + \text{interest and other financial expenses}}{\text{Balance sheet total - non-interest bearing liabilities (average)}} \times 100$$

Gearing, %

$$\frac{\text{Interest bearing liabilities - cash and bank balances}}{\text{Shareholders' equity + minority interest + voluntary provisions and depreciation difference less deferred tax liability (average)}} \times 100$$

Equity ratio, %

$$\frac{\text{Shareholders' equity + minority interest + voluntary provisions and depreciation difference less deferred tax liability}}{\text{Balance sheet total - advances received}} \times 100$$

Earnings per share

$$\frac{\text{Profit before extraordinary items, reserves and taxes - taxes +/- minority interest}}{\text{Adjusted number of shares over the financial year (average)}}$$

Equity per share

$$\frac{\text{Shareholders' equity including voluntary provisions and depreciation difference less deferred tax liability}}{\text{Adjusted number of shares at the end of the financial period}}$$

Dividend per share

$$\frac{\text{Total dividend}}{\text{Adjusted number of shares at the end of the financial period}}$$

Dividend/profit, %

$$\frac{\text{Dividend per share}}{\text{Earnings per share}} \times 100$$

Effective dividend yield, %

$$\frac{\text{Dividend per share}}{\text{Adjusted share price at the end of the financial period}} \times 100$$

Price-earnings ratio (P/E)

$$\frac{\text{Adjusted share price at the end of the financial period}}{\text{Earnings per share}}$$

Share and Shareholders

Shares and share capital

BasWare shares have been quoted on the Main List of the Helsinki Stock Exchange since October 19, 2004, and previously on the NM List since March 1, 2000. The listing price of the share was EUR 5.70. The company code on the Helsinki Stock Exchange is BAS, and the company is listed in the Telecommunications and Electronics business sector. The company has one series of shares and the trading code for the share is BASIV.

At the end of 2004, the total number of shares was 8,607,300. The book counter value is EUR 0.30 per share. All shares carry one vote and an equal right to dividend. In 2004, the taxation value of the share was EUR 5.46.

According to the current Articles of Association, BasWare's minimum share capital is EUR 2,000,000 and its maximum share capital is EUR 8,000,000. Within these limits, the share capital can be increased or decreased without amending the Articles of Association. In the beginning of 2004, the share capital was EUR 2,565,180 and at the end of the year EUR 2,582,190. During 2004, the share capital was increased by EUR 17,010 based on the share subscriptions with BasWare warrants. The share capital increase was entered in the Finnish Trade Register on October 28, 2004.

Share price performance and volume

On the last day of trading in 2004, BasWare's closing rate was EUR 7.78 (EUR 6.10 in 2003). Market capitalization with the period's closing price was EUR 66,964,794 (EUR 52,158,660).

The average price of the share in 2004 was EUR 7.83 (EUR 4.83). During 2004 the highest price of the share on the Helsinki Stock Exchange was EUR 10.10 and the lowest price EUR 6.10.

A total number of 1,981,022 shares were traded during 2004 (658,514 in 2003) which is the equivalent of 23.1% (7.7%) of the average number of shares.

Board's authorizations

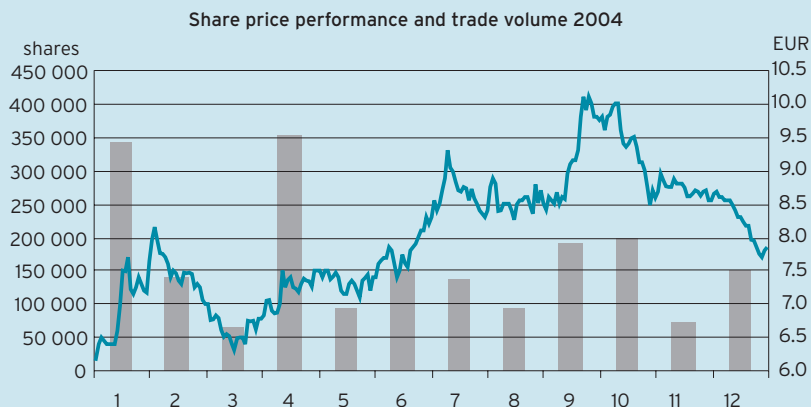
On February 24, 2004, the Annual General Meeting authorized the Board of Directors to increase the share capital in one or more issues, by issuing new shares and/or convertible bonds and/or by warrants, in such a way that the new share issues or convertible bonds or warrants authorize to subscribe a maximum of 1,710,120 new shares. According to the authorization, the share capital can be increased with a maximum of EUR 513,036 and 1,710,210 new shares. The authorization is effective until February 24, 2005.

BasWare Corporation does not own BasWare shares and the Board does not have the authorization to purchase BasWare's shares.

Warrant programs

BasWare has two warrant programs that were launched in 2000 and 2002. The programs give the rights to the subscription of up to a maximum of 631,000 new shares. Based on the subscriptions, the share capital can be increased by no more than EUR 189,300.

During 2004, a total of 56,700 shares were subscribed with the warrant programs. Correspondingly, BasWare share capital was increased by EUR 17,010. After the increase, share capital of BasWare Corp. is EUR 2,582,190. The increase in share capital was entered in the Finnish Trade Register on October 28, 2004 and trade with the new shares commenced on the Helsinki Stock Exchange on October 29, 2004.



Warrant Program Finland I 2000-2005

The extraordinary general meeting on February 17, 2000 resolved to issue warrants to BasWare Group's personnel. The number of warrants issued shall be 421,000 and they entitle to subscribe a total of 421,000 BasWare Corporation's shares. With warrants the share capital can be increased by no more than EUR 126,300.

The warrants are divided as follows:

	Number	Subscription price	Subscription period starts	Subscription period ends	Subscriptions in 2004
Series A	105,000	5.70	1.10.2001	31.10.2005	31,150
Series B	105,000	8.32	1.10.2002	31.10.2005	
Series C	105,000	4.96	1.10.2003	31.10.2005	19,550
Series D	106,000	4.74	1.10.2004	31.10.2005	

Warrant Program Finland II 2002-2006

On July 11, 2002 based on the Annual General Meeting's authorization, the BasWare Board of Directors resolved to grant warrants for the employees of BasWare Corporation and its subsidiaries. The number of warrants issued shall be 210,000 and they entitle to subscribe a total of 210,000 BasWare Corporation's shares. By warrants the share capital can be increased by no more than EUR 63,000.

The warrants are divided as follows:

	Number	Subscription price	Subscription period starts	Subscription period ends	Subscriptions in 2004
Series A	60,000	5.51	1.7.2003	30.6.2006	3,000
Series B	70,000	4.67	1.7.2004	30.6.2006	
Series C	80,000	6.79	1.7.2005	30.6.2006	3,000

Shareholders

At the end of 2004, BasWare had a total of 24,103 shareholders (26,358 at the end of 2003) of which four were nominee registered possessions. During 2004, there were no notices of change in ownership. The tables below present the distribution of ownership and the largest shareholders. The information is based on the shareholders' register maintained by the Finnish Central Securities Depository Ltd.

Distribution of holdings, December 31, 2004

Number of shares	Holdings number	%	Shares and voting rights	
			number	
1-100	20,319	5.3	454,004	
101-1,000	3,470	12.2	1,052,773	
1,001-10,000	287	7.4	636,503	
10,001-100,000	13	4.1	356,680	
100,001 +	14	71.0	6,107,340	
Total	24,103	100	8,607,300	

Distribution by sector, December 31, 2004

	Holdings number	%	Shares and voting rights	
			number	
Private companies	902	8.5	731,949	
Financial and insurance institutions	21	1.7	148,855	
Public-sector organizations	6	0.7	63,600	
Non-profit organizations	23	0.3	22,265	
Households	23,098	85.7	7,373,441	
Foreigners	49	0.1	8,250	
	24,099	97.0	8,348,360	
Nominee registered	4	3.0	258,940	
Total	24,103	100	8,607,300	

Major shareholders, December 31, 2004

	Number	Shares and voting rights	%
Sihvo Ilkka	1,155,800		13.43
Vaajoensuu Hannu	1,155,800		13.43
Vaajoensuu Hannu	528,000	6.13	
Havacment Oy	311,000	3.61	
Vaajoensuu Sara	105,600	1.23	
Vaajoensuu Matias	105,600	1.23	
Vaajoensuu Petra	105,600	1.23	
Pöllänen Antti	1,144,900		13.30
Pöllänen Antti	684,100	7.95	
Launimo Essi	460,800	5.35	
Eräkangas Kirsi	1,141,800		13.26
Eräkangas Kirsi	791,400	9.19	
Eräkangas Lotta	350,400	4.07	
Perttunen Sakari	830,400		9.65
Perttunen Meimi	325,400		3.78
Sijoitusrahasto Mandatum Suomi kasvuosake	100,300		1.17
Placeringsfonden Aktia Secura	70,000		0.81
Tietoklusteri Oy	55,100		0.64
Oy Fincorp Ab	43,200		0.50
Total of nominee registered	258,940		3.01
Others	2,325,660		27.02
Total	8,607,300		100

Shares and warrants held by the members of the Board, December 31, 2004

On December 31, 2004 the members of the Board of Directors, the Chief Executive Officer and the companies under their control and under-aged children owned altogether 5,428,700 BasWare's shares which is the equivalent of 63.1 percent of the Company's shares and votes. In addition, they owned 100,670 BasWare warrants which entitle to subscribe 100,670 shares of the Company.

	Shares	Warrants	Shares under guardianship & in organizations under control
Sihvo Ilkka	1,155,800	24,080	0
Eräkangas Kirsi	791,400	11,080	350,400
Korvenmaa Esa	0	6,000	0
Perttunen Sakari	830,400	13,350	0
Pöllänen Antti	684,100	11,080	460,800
Pohjola Ossi	0	6,000	0
Vaajoensuu Hannu	528,000	29,080	627,800
Total	3,989,700	100,670	1,439,000

Board's Dividend Proposal

The Group's distributable funds according to the Group Balance Sheet on December 31, 2004 amount to EUR 3,589,879.11

The parent company's distributable funds according to the Financial Statements on December 31, 2004 are:

Retained earnings	4,761,819.68
Profit for the period	<u>5,196,014.32</u>
	9,957,834.00

The Board of Directors proposes that a dividend of 0.12 euro per share be paid to shareholders, total of EUR 1,032,876.00 with the number of shares at the end of the financial period and that the remainder EUR 8,924,958.00 is carried forward to the retained earnings account.

According to the Board of Director's decision, the balancing date for the dividend is March 8, 2005. The Board of Directors proposes to the Annual General Meeting that a dividend is paid after the balancing time ends on March 15, 2005.

In Espoo, January 18, 2005

The Board of Directors of BasWare Corporation

Hannu Vaajoensuu, Chairman of the Board
Kirsi Eräkangas
Esa Korvenmaa
Sakari Perttunen
Ossi Pohjola
Antti Pöllänen

Ilkka Sihvo, CEO

To the Shareholders of BasWare Corporation

The financial statements have been prepared in accordance with the Accounting Act and other rules and regulations governing the preparation of financial statements. Based on an audit, an opinion is expressed on these financial statements and on corporate governance on this date.

In Espoo, January 19, 2005

PricewaterhouseCoopers Oy
Authorized Public Accountants

Juha Väisänen
Authorized Public Accountant

Auditor's Report

To the shareholders of BasWare Corporation

We have audited the accounting, the financial statements and the corporate governance of BasWare Corporation for the period 1.1.-31.12.2004. The financial statements, which include the report of the Board of Directors, consolidated and parent company income statements, balance sheets and notes to the financial statements, have been prepared by the Board of Directors and the Managing Director. Based on our audit we express an opinion on these financial statements and on corporate governance.

We have conducted the audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the management as well as evaluating the overall financial statement presentation. The purpose of our audit of corporate governance is to examine that the members of the Board of Directors and the Managing Director have legally complied with the rules of the Companies' Act.

In our opinion the financial statements have been prepared in accordance with the Accounting Act and other rules and regulations governing the preparation of financial statements. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and parent company's result of operations as well as of the financial position. The financial statements with the consolidated financial statements can be adopted and the members of the Board of Directors and the Managing Director of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the distributable assets is in compliance with the Companies' Act.

In Espoo, January 19, 2005

PricewaterhouseCoopers Oy
Authorised Public Accountants

Juha Väisänen
Authorised Public Accountant

For Shareholders

Share

BasWare shares are quoted on the Main List of the Helsinki Stock Exchange, in the Telecommunications & Electronics business sector as of October 19, 2004. Earlier, BasWare shares were traded on the NM List of the stock exchange.

Trading code	BAS1V
ISIN code	F10009008403
Lot size	100 shares
Book-counter value	EUR 0.30
Listing price on Feb. 29, 2000	EUR 5.70
Price in taxation in 2004	EUR 5.46
Closing price on Dec. 31, 2004	EUR 7.78

Annual General Meeting

BasWare's Annual General Meeting will be held at the Quartetto Business Park Auditorium, at Linnoitustie 4, 02600 Espoo, Finland on Thursday March 3, 2005 starting at 09:00.

In order to take part in the Annual General Meeting, shareholders must be registered by February 21, 2005, in the shareholders' register maintained by the Finnish Central Securities Depository Ltd.

Shareholders who wish to participate in the meeting should notify BasWare of their intention to participate by 16:00 on Thursday, February 24, 2005 either

- by post to the address BasWare Corporation, P. O. Box 97, 02601 Espoo, Finland
- by telephone to +358 (0)9 8791 7316/
Hanne Grönlund
- by fax to +358 (0)9 8791 7297
- by e-mail to IR@basware.com

When registering by mail, fax or e-mail, notices of participation must be received by the above-mentioned deadline. Any powers-of-attorney should be sent with the notice.

The matters to be handled in the Annual General Meeting will be disclosed in the Notice of the meeting that will be published as a stock exchange release and on BasWare investor pages on the Internet at www.basware.com.

Dividend

The Board of Directors of BasWare proposes to the Annual General Meeting that a dividend of EUR 0.12 per share be paid for 2004. If the Board's proposal is accepted, the dividend will be paid to those shareholders who are entered in the shareholders' register maintained by the Finnish Central Securities Depository Ltd. on the dividend record date March 8, 2005. The actual payment of dividends will take place on March 15, 2005.

Financial Reporting in 2005

During 2005, BasWare will publish the interim reports as follows:

- January-March on April 12, 2005
- January-June on July 12, 2005
- January-September on October 11, 2005

The reports will be prepared according to the International Financial Reporting Standards (IFRS). Comparative IFRS data for the three first quarters of 2004 were published in December 2004. Comparative IFRS data for the whole financial year 2004 will be published in March 2005.

Interim reports and stock exchange releases are available on the BasWare investor relations pages on the Internet at www.basware.com. The BasWare e-mail list for the stock exchange releases can be subscribed to through the pages.

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Postal address: P.O. Box 97, 02601 Espoo

Changes of address

If your address changes, please send a written notification of this to the bank where your book-entry account is held.