

Report for the First Quarter Ended March 31, 1999

- Total revenues up 24%, new license revenues up 63%
 - Significant contribution from new products
-

Dear Shareholders,

We would like to report on the performance of your company in the first quarter of 1999. Revenues totaled DM 16.4 million, an increase of DM 3.2 million, or 24.2% over the comparable 1998 period. Revenue growth resulted principally from higher license revenue, particular in the areas of CPU upgrades and new licenses. The revenue from Germany and our European subsidiaries was particularly gratifying. Revenues from new products, including new products purchased or distributed by means of acquisitions or cooperation agreements entered into in 1998 contributed to this positive development particularly in the area of storage management. Of note, sales of new licenses were up by 63.1% in the 1999 period, an important indicator of our future revenue potential. It is one of our foremost objectives to grow revenues from new licenses. Such a high growth rate, the first since the IPO, is a positive sign of the Company's new product focus even though in comparison to the first quarter of 1998 net loss increased as expected due to the consolidation of HARBOR Systems Management Ltd. ("HARBOR").

The Company's pre-tax loss was DM (5.0) million compared to a pre-tax loss of DM (3.3) million in the 1998 period. The Company's net loss was DM (2.8) million, or DM (0.76) per share, as compared to a net loss of DM (1.6) million, or DM (0.46) per share, in the 1998 period. Please remember that we operate in a highly seasonal business with our first quarter traditionally unprofitable and our weakest of the year.

In response to our fourth quarter 1998 performance, a number of important changes were undertaken by the Board in the first quarter in order to increase profitability for the balance of 1999 and thereafter. The changes included revised salesmen compensation arrangements in order to further incentivize new license revenue development with the extended product portfolio, and the adjustment of operating expenses to our forecasted revenue growth.

Subsequent to quarter end, proposed changes to the Company's Board of Management and Supervisory Board were announced. Mr. Alfred H. Tauchnitz, co-founder of BETA Systems, resigned from the Company's Board of Management, and announced his intention to stand for election to the Company's Supervisory Board at the General Meeting of Shareholders scheduled for May 31, 1999.

In addition, contingent on the outcome of the vote Dr. Wolfgang Rosener announced his intention to resign his position as member of the Supervisory Board effective as of the General Meeting of Shareholders. We would like to take this opportunity to thank both Mr. Tauchnitz and Dr. Rosener for their invaluable contributions to the development and growth of the Company. The responsibilities of Mr. Tauchnitz will be taken over by board members Christiane Hotz-Firlus and Dr. Oskar von Dungern. In connection with the termination of Mr. Tauchnitz's employment contract, the Company expects to record a one-time charge in the second quarter of 1999.

Revenue Development

The Company's revenues consist of license, maintenance and services revenues. Total revenues increased by DM 3.2 million, or 24.2% to DM 16.4 million in the first quarter of 1999 as compared to the prior year period primarily due to increased license revenues, and to a lesser extent, maintenance revenues.

Total license revenues increased by DM 2.1 million, or 44.4% to DM 6.8 million in comparison to the 1998 period. The most important component of the Company's license revenues is new license sales with version upgrades and CPU upgrades also major contributors. Strong license revenue growth during the quarter was due primarily to increased CPU upgrades (+61.7%) resulting from continued growth of our customers' mainframe capacity and sales of new licenses (+63.1%). It was our goal to increase the strategically important sales from new licenses; this has been successfully accomplished.

Maintenance revenues in the first quarter of 1999 aggregated DM 8.4 million, an increase of DM 1.3 million, or 18.9%, as compared to the 1998 period, primarily due to continued growth in the installed base, low contract cancellation rates and incremental maintenance revenues from HARBOR products.

Services revenues in the first quarter of 1999 decreased by DM 0.2 million, or 16.2% to DM 1.2 million as a result of shifting some internal projects to the second quarter. However, services revenues exceeded our internal expectations and should generate favorable quarterly revenue comparisons for the remainder of the year.

Important new customers added during the quarter included, among others, Norwich Union Insurance Group (Great Britain), CSIA Centre Ouest (France), Airborne Freight Corp. (USA), Intesa Sistemi e Serviui (Italy), St. Paul Fire & Marine Insurance (USA), Health Management Systems (USA)

and KPN Telecom (Netherlands). In addition, other orders were received from existing customers such as a DM 1.5 million service contract with Stadtsparkasse Munich.

Revenue Distribution by Region

Revenues from the sales regions Germany, Europe and North America were 46%, 33% and 21%, respectively, in the first quarter of 1999, as compared to 51%, 33% and 16% in the comparable 1998 period. Compared to the 1998 period, the Company achieved revenue growth of 13% in Germany, 23% in Europe and 61% in the sales region North America. The revenue development in our traditional markets in Germany and Europe was particularly pleasing. We were able to record sales of our newly acquired products to new as well as to existing customers. In addition, the royalties from distribution agreements with Hitachi and Comparex contributed significantly to our good results. The high growth rate in North America was mainly due to the addition of HARBOR, yet it was lower than expected due to ongoing restructuring measures in the USA that are focused on increasing sales productivity.

Gross Profit

Gross profit was DM 11.2 million in the first quarter of 1999, an increase of DM 1.7 million, or 17.8%, as compared to the first quarter of 1998. The Company's gross margin decreased from 72.1% in the 1998 period to 68.4% in the 1999 period due mainly to royalty payments and increased amortization of capitalized software costs related to the HARBOR acquisition.

Expense Development

Operating expenses (excluding goodwill amortization) in the first quarter of 1999 aggregated DM 16.5 million, an increase of DM 3.5 million, or 27.4%, as compared to the 1998 period. Operating expenses developed in accordance with expectations and were principally influenced by increase in R&D personnel (60 people) related to the HARBOR acquisition (around 70% of the total expense increase compared to the prior year). Excluding HARBOR, it reflects budgeted expense development in support of projected revenue growth and shows initial success in the implementation of cost control measures.

Amortization of goodwill and other intangible assets increased from DM 0.2 million in the first quarter of 1998 to DM 0.6 million in the 1999 due to goodwill capitalized in connection with the December acquisition of HARBOR. Other income increased from DM 33 thousand in the first quarter of 1998 to DM 464 thousand in the first quarter of 1999 primarily related to foreign currency gains related to exchange rate fluctuations between the Canadian dollar and the German mark.

The Company's loss before taxes increased from DM (3.3) million in the 1998 period to DM (5.0) million in the 1999 period mainly due to the HARBOR acquisition.

Tax rate development

The Company realized a tax benefit of DM 2.3 million in the 1999 period as compared to a tax benefit of DM 1.7 million in the 1998 period. The effective tax rate was 45.0% in the 1999 period as compared to 50.7% in the 1998 period mainly due to lower corporate tax rates for the German AG in the 1999 period.

Net Income and Earnings per Share

The Company's first quarter 1999 net loss was DM (2.8) million, or DM (0.76) per share, as compared to a net loss of DM (1.6) million, or DM (0.46) per share, in the 1998 period. The weighted average number of shares outstanding was 3,600,000 and 3,638,492 in the first quarters of 1998 and 1999, respectively.

Financial Position

At March 31, 1999, the Company had cash of DM 54.9 million, total debt of DM 0.8 million, and stockholders' equity of DM 62.9 million.

Outlook

We can report that the Company achieved its revenue and earnings targets for the first quarter. New license sales increased substantially in comparison to 1998 aided by sales of new products. As a result of acquisitions consummated last year, the Company has greatly enhanced its product portfolio and has excellent opportunities to market its products and services worldwide. The successful integration of our new subsidiary in Canada as well as success in marketing our new storage management product line is an important prerequisite to increase revenue and net income for this year. For the year 1999, we expect a profitable revenue growth of around 25%. The actions undertaken by the Management Board in the first quarter, namely an increased focus on sales productivity and operating expense efficiencies, will help us honor such commitments.

Berlin, May 20, 1999

Management Board

BETA Systems Software AG
Consolidated Statements of Income
(DM in thousands, except per share amounts)
(unaudited)

	Quarter Ended March 31,	
	1998	1999
Net revenues		
Product license	4,706	6,794
Maintenance	7,047	8,380
Services	1,426	1,195
	<u>13,179</u>	<u>16,369</u>
Cost of revenues:		
Product license	384	1,359
Maintenance	2,303	3,082
Services	993	737
	<u>3,680</u>	<u>5,178</u>
Gross profit	9,499	11,191
Operating expenses:		
Selling	7,804	10,116
General and administrative	3,221	3,298
Research and development	1,915	3,072
Amortization of intangible assets	233	561
	<u>13,173</u>	<u>17,047</u>
Operating loss	<u>(3,674)</u>	<u>(5,856)</u>
Other income, net	33	464
Interest income, net	319	368
	<u>352</u>	<u>832</u>
Loss before income taxes	(3,322)	(5,024)
Benefit for income taxes	(1,684)	(2,261)
Net loss	<u><u>(1,638)</u></u>	<u><u>(2,763)</u></u>
Weighted average number of shares outstanding		
Basic	3,600,000	3,638,492
Diluted	3,600,000	3,638,492
Net loss per ordinary share		
Basic	(0.46)	(0,76)
Diluted	(0.46)	(0,76)

BETA Systems Software AG
Consolidated Balance Sheet
(DM in thousands)
(unaudited)

	At December 31, 1998	At March 31, 1999
Current assets:		
Cash and cash equivalents	54,597	54,890
Accounts receivable, net	32,130	29,704
Other current assets	5,655	7,553
	92,382	92,147
Property and equipment, net	6,536	6,626
Intangible assets, net	10,996	11,611
Capitalized software development costs, net	19,060	19,797
Other assets	1,606	1,786
Total assets	130,580	131,967
Current liabilities:		
Short-term debt incl. current portion of long-term debt	3,823	231
Accounts payable	5,571	3,554
Deferred revenue	7,354	27,641
Other current liabilities	22,589	12,181
Total current liabilities	39,337	43,607
Long-term debt	296	606
Other liabilities	14,911	11,888
Total liabilities	54,544	56,101
Convertible preferred shares	13,000	13,000
Shareholders' equity	63,036	62,866
Total liabilities and shareholders' equity	130,580	131,967

BETA Systems Software AG
Condensed Statements of Cash Flows
(DM in thousands)
(unaudited)

	Quarter Ended March 31, 1998	1999
Operating activities		
Net loss	(1,638)	(2,763)
Adjustment to reconcile net loss to net cash		
Provided by operating activities:		
Depreciation and amortization	897	2,376
Deferred compensation cost	-	83
Change in working capital and other adjustments	16,123	15,313
Net cash provided by operating activities	15,382	15,009
Investing activities		
Purchase of property and equipment, net of sale proceeds	(406)	(647)
Capitalization of software development costs	(340)	(531)
Cash paid in combination with acquisition of BETA Canada	-	(11,803)
Net cash provided by investing activities	(746)	(12,981)
Financing activities		
Net change in short-term borrowings and long-term debt	(138)	(3,562)
Net cash provided by financing activities	(138)	(3,562)
Increase in cash and cash equivalents	14,498	(1,534)
Effect of exchange rate changes on cash	150	(1,827)
Cash and cash equivalents at beginning of period	55,594	54,597
Cash and cash equivalents at end of period	70,242	54,890