

Report for the Fourth Quarter and Full Year Ended December 31, 1999

- **Sales increase 17.8% to DM 89.6 million with new license revenue growth at 37%**
- **Significant steps taken to improve profitability**
- **Reorganization of North American operations consolidates Storage Management business under new management**

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Berlin, March 16, 2000 – BETA Systems Software AG (Neuer Markt: BSS), a leading provider of innovative systems management software, announced today its audited results for the fourth quarter and year ended December 31, 1999. More complete details of 1999 results are contained in the Company's annual report which will be available in April.

Revenues in 1999 were DM 89.6 million, up DM 13.5 million, or 17.8%, over 1998. For the fourth quarter of 1999 revenues were up 8.4% to DM 28.8 million over the fourth quarter of 1998. The Company's pre-tax loss in 1999 was DM 4.8 million versus a pre-tax loss of DM 15.5 million in 1998, which included a nonrecurring charge of DM 19.6 million. The net loss for 1999, after the application of an income tax benefit of DM 1.9 million, was DM (2.9) million or DM (0.75) per ordinary share versus net income before nonrecurring items in 1998 of DM 1.5 million or DM 0.43 per ordinary share. After nonrecurring items of DM 19.6 million related to the write-off of acquired in-process research and development expense from the acquisition of HARBOR Systems, the net loss for 1998 was DM (18.6) million or DM (5.15) per ordinary share. Net income in the fourth quarter of 1999 was DM 0.8 million or DM 0.21 per ordinary share versus net income before nonrecurring items in 1998 of DM 1.9 million or DM 0.53 per ordinary share. After nonrecurring items, the net loss in the fourth quarter of 1998 was DM (17.6) million or DM (4.85) per ordinary share.

Lower than expected revenues and high overhead cost levels in the Company's North American operations, which were incurred to build an infrastructure for future revenue growth, combined to produce the loss for the year. The Company has taken significant steps to increase the revenue growth and profitability of its operations in the US and Canada. In January 2000, the Company sold the assets of its US subsidiaries (sales and development), including its workload product suite which it will continue to distribute in Europe. The majority of the workforce was transferred to the purchaser, Allen Systems Group ("ASG"). Simultaneously, the Company entered into a distribution partnership with ASG whereby it will offer ASG's products in Europe, and ASG will distribute the Company's products in North America. In a separate action, the Company moved its storage management business unit, acquired through the acquisition of HARBOR Systems, into a new subsidiary based in Boulder, Colorado and hired new management to run its operations. The new company will focus on the development, sales and marketing of complete solutions for storage management worldwide.

The Company also made significant inroads in 1999 in implementing its strategy to expand the market reach and depth of its product portfolio for cross-platform solutions to secure future revenue growth. In August, the Company concluded an agreement with e-Security, Inc., of Naples, Florida whereby it will market in Europe its unique enterprise

security software solution. In November, the Company acquired the rights to distribute Sysclone, which extends the Company's product line of administration tools for OS/390. Also in 1999, the Company expanded its capability in the market of cross-platform solutions with the introduction of BETA 52 Network Storage Manager for NT, a software solution for storage management in distributed environments and BETA 99 Distributed Document Library, both developed in house.

Revenue Development

The Company's revenues consist of license, maintenance and services revenues which in 1999 totaled DM 89.6 million.

Total license revenue increased 13.4% led by an increase in new license revenue of 37.5% to DM 23.0 million due in large part to the contribution of the storage management solutions of BETA Systems of Canada (formerly HARBOR Systems, which was acquired in December 1998). Revenues from version upgrades, the second component of license revenue, decreased as expected, since the majority of Y2K-compliant product versions were delivered in 1998. The third component of license revenue, CPU upgrades, increased by a modest 9.2% and was less than expected due to a significant slowdown in hardware purchases related to customers' Y2K concerns.

Maintenance revenue was up 27.9% over 1998 reaching DM 36.9 million primarily as a result of continuing growth in the Company's installed base and the inclusion of a full year of maintenance revenues from BETA Systems of Canada.

As expected, Services revenues continued to come under pressure in the fourth quarter due to a decrease in work related to customer product implementation projects as a result of Y2K concerns. For the year, Services revenues remained at the 1998 level of DM 6.3 million.

During the fourth quarter of 1999, the Company acquired important new customers which include, among others: ABN-AMRO Bank (Switzerland), Agencia Estatal de Administración Tributaria (Spain), New York State Electric & Gas (USA) and Readers Digest Association (USA).

Growth by Region

Revenues from the sales regions Germany, Europe and North America represented 44%, 35% and 21%, respectively, of 1999 revenues, as compared to 53%, 31% and 16% in 1998.

Revenues in 1999 declined in Germany by 2% while rising 35% in Europe and 48% in North America as compared to 1998. German revenues declined primarily as a result of significantly lower CPU upgrade revenues and lower services revenues partially offset by higher new license and maintenance revenues. European revenues benefited in particular from high levels of CPU upgrades and new license revenues. North American revenues benefited primarily from sales of new licenses, particularly storage products.

Gross Profit

Gross profit was DM 67.1 million in 1999, an increase of 10.5% as compared to 1998. The Company's gross margin decreased from 79.7% in 1998 to 74.8% in 1999. The decrease was due primarily to increased amortization of capitalized costs related to the acquisition of HARBOR Systems and higher personnel costs related to increased

maintenance and hotline support, partially offset by an increase in high margin new license revenues as a percentage of total revenues.

Gross profit in the fourth quarter of 1999 was DM 22.4 million, the same as in the fourth quarter of 1998. Gross margin for the quarter decreased to 77.9% from 84.7% in 1998.

Cost and Expense Development

Operating expenses before nonrecurring items aggregated DM 73.5 million in 1999 as opposed to DM 56.2 million in 1998, an increase of 30.9%. As a percentage of total revenues, operating expenses increased from 73.8% in 1998 to 82.0% in 1999 reflecting lower than anticipated revenues and higher operating expenses which were due in part to severance costs arising from initial steps taken to reorganize North American operations and to costs related to the establishment of new distribution agreements.

For the fourth quarter of 1999, operating expenses aggregated DM 21.1 million, a 29.1% increase over operating expenses of DM 16.4 million in the fourth quarter of 1998.

Due to lower than anticipated revenue growth and high operating expenses in North America, the Company reported an operating loss before nonrecurring items in 1999 of DM (6.4) million versus operating income of DM 4.5 million in 1998.

Financial Position

At December 31, 1999, the Company had cash and investments of DM 38.6 million (DM 54.6 million at December 31, 1998), total debt of DM 0.3 million (DM 4.1 million at December 31, 1998) and shareholders' equity of DM 77.2 million (DM 63.0 million at December 31, 1998). The decrease in cash and debt and the increase in shareholders' equity were primarily the result of consideration paid in 1999 for the acquisition of HARBOR Systems in December 1998.

Outlook

As discussed above, the Company has taken significant steps both to increase the profitability of its operations and expand the market reach and depth of its product portfolio of cross-platform solutions. "At the recent CeBIT trade show, we received positive feedback on our cross-platform solution focus both from analysts and from existing and potential customers," noted Christiane Hotz-Firlus, member of the management board. Ms. Hotz-Firlus went on to add, "We are cautiously optimistic that the groundwork we have laid with the initiatives begun last year will help to insure our return to profitability this year

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

	Three months ended December 31,		Twelve months ended December 31,	
	1998	1999	1998	1999
Revenues:				
Product license	17,105	16,691	41,026	46,473
Maintenance	7,238	9,833	28,819	36,868
Service	2,182	2,243	6,290	6,305
Total revenues	<u>26,525</u>	<u>28,768</u>	<u>76,135</u>	<u>89,646</u>
Cost of revenues:				
Product license	828	1,700	2,296	5,991
Maintenance	2,506	3,708	9,752	13,108
Service	736	950	3,407	3,472
	<u>4,070</u>	<u>6,358</u>	<u>15,455</u>	<u>22,571</u>
Gross profit	22,455	22,410	60,680	67,075
Operating expenses:				
Selling	9,221	11,445	32,251	39,383
General and administrative	5,035	6,351	15,555	18,943
Research and development	1,925	2,948	7,444	13,157
Write-off of in-process research and development	19,573	-	19,573	-
Amortization of intangible assets	226	434	920	2,022
Severance Payment	-	-	1,425	790
	<u>35,980</u>	<u>21,177</u>	<u>77,168</u>	<u>74,295</u>
Operating income (loss)	<u>(13,525)</u>	<u>1,233</u>	<u>(16,488)</u>	<u>(7,220)</u>
Other income (expense)	(185)	400	(431)	941
Interest income (expense)	357	304	1,404	1,493
Income (loss) before income taxes	(13,353)	1,937	(15,515)	(4,786)
Provision (benefit) for income taxes	4,290	1,125	3,136	(1,902)
Net income (loss)	<u><u>(17,643)</u></u>	<u><u>812</u></u>	<u><u>(18,651)</u></u>	<u><u>(2,884)</u></u>
Weighted average number of shares outstanding during the period				
Basic	3,638,492	3,950,950	3,619,026	3,848,184
Diluted	3,638,492	3,950,950	3,619,026	3,848,184
Net income (loss) per ordinary share				
Basic	(4.85)	0.21	(5.15)	(0.75)
Diluted	(4.85)	0.21	(5.15)	(0.75)

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

	At December 31, 1998	At December 31, 1999
Current assets:		
Cash and cash equivalents	54,597	38,576
Accounts receivable, net	32,130	32,206
Other current assets	5,655	4,283
Total current assets	92,382	75,065
Property and equipment, net	6,536	5,673
Capitalized software development costs, net	19,060	18,184
Other intangible assets, net	10,996	8,600
Net assets held for sale	–	2,699
Other assets	1,606	6,361
Total assets	130,580	116,582
Current liabilities:		
Short-term debt incl. current portion of long-term debt	3,823	315
Accounts payable	5,571	2,782
Deferred revenue	7,354	9,332
Other current liabilities	22,589	16,674
Total current liabilities	39,337	29,103
Long-term debt	296	–
Other liabilities	14,911	10,275
Total liabilities	54,544	39,378
Subsidiary convertible preferred shares	13,000	–
Shareholders' equity	63,036	77,204
Total liabilities and shareholders' equity	130,580	116,582

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

	<u>At December 31,</u> <u>1998</u>	<u>At December 31,</u> <u>1999</u>
Operating activities		
Net loss	(18,651)	(2,884)
Adjustment to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	4,114	9,605
Change in working capital and other adjustments	23,068	(3,885)
Net cash provided by operating activities	<u>8,531</u>	<u>2,836</u>
Investing activities		
Purchase of property and equipment, net of disposals	(2,695)	(1,889)
Capitalization of software development costs	(1,588)	(2,884)
Cash paid for acquisitions	(6,244)	(11,791)
Net cash provided by investing activities	<u>(10,507)</u>	<u>(16,564)</u>
Financing activities		
Net change in short-term borrowings and long term-debt	(2)	69
Proceeds from issuance of shares, net of costs	674	-
Repurchase of shares	-	(499)
Proceeds from exercise of stock options	1,636	-
Repayment of long-term debt	(539)	(3,984)
Net cash provided by financing activities	<u>1,769</u>	<u>(4,414)</u>
Effect of exchange rate changes on cash	(790)	2,121
Increase in cash and cash equivalents	<u>(997)</u>	<u>(16,021)</u>
Cash and cash equivalents at beginning of period	<u>55,594</u>	<u>54,597</u>
Cash and cash equivalents at end of period	<u><u>54,597</u></u>	<u><u>38,576</u></u>
Non-cash transactions		
Acquisition of software development through the incurrence of accrued liabilities	1,676	
Acquisition of business through preferred shares	31,564	
Conversion of subsidiary convertible preferred shares to ordinary shares	-	12,998