

Update



Financial Report 3/2010



Group Interim Management Report

Business performance

update software AG's transformation process from a classic licence business to the new Software as a Service (SaaS) model continues to progress, with an increasing number of new customers opting for this new offering. Apart from the obvious advantages to customers, who no longer need to make high upfront investments, the model also offers a number of advantages for update itself. In the long run, thanks to monthly fees, update can generate recurring, continuously rising income as well as higher revenues over the entire life of the software. This contributes to a significant reduction in business risk. It also explains the temporary declines in sales revenue, since customers no longer pay one-off licence fees but monthly fees for usage.

In the third quarter just ended, the Company posted sales revenue of EUR 6.480 million (Q3 2009: EUR 7.764 million). This represents a decline in revenue of 16.5%. With operating earnings (EBIT) of EUR -0.235 million, the Company posted a decrease of 133.2% year-on-year (Q3 2009: EUR 0.707 million). Third quarter EBT was EUR -0.278 million (Q3 2009: EUR 0.715 million).

Aggregate year-to-date revenue for the 2010 financial year totals EUR 19.489 million, down 16.6% from EUR 23.372 million one year earlier. The group's aggregate EBIT for the same period decreased to EUR -2.006 million (compared to EUR -0.193 Mio. for the first nine months of 2009), which is largely attributable to the bad debt allowance of EUR 1.0 million recognized in the first quarter.

Cash on hand as of 30 September 2010 was EUR 11.563 million (compared to EUR 11.283 million one year earlier), a slight increase of 2.5% year-on-year.

As of the end of the third quarter, update's order backlog totaled EUR 0.565 million in licenses (compared to EUR 0.880 million in the second quarter), which, according to IFRS, cannot be booked as revenue as yet. It will, however, be recognized as the respective projects progress over the next 5 quarters.

Customers

In the quarter just ended, update continued to gain renowned new customers, such as Forstinger Handel und Service GmbH and emotion banking from Austria, Grupa Onet.pl SA from Poland, Legallais Bouchard S.A.S. from France, and Bouwhuis Enthoven B.V. from the Netherlands. Furthermore, the

German publishing house Chemnitzer Verlag und Druck GmbH & Co. KG has opted for the update solution as well as our distribution partner Sensix. Among the new customers of our Software as a Service offer are Pipelife Belgium n.v., Profils Systèmes, Arzneimittel ProStrakan GmbH and others. In addition, update's classic CRM solution was further rolled out within the Saint Gobain group to include Saint-Gobain Weber Portugal SA and Saint-Gobain Vetrotex U.S.A.

R & D at update software AG

In early August, update launched connector for Domino, a new product for update.revolution customers. It has been available since late September. By analogy to connector for Exchange, connector for Domino allows for server-side, rules-based synchronization between update.seven and Domino Server (Lotus Notes). Going beyond what was originally planned, connector for Domino does not only provide for bi-directional synchronization of appointments and synchronization of e-mails from Lotus Notes into the CRM system, but also allows users to import contacts from the CRM system into the Lotus Notes address book. In terms of architecture and adaptability, connector for Exchange and connector for Domino are almost identical. Except with regard to task synchronization, both products are also equivalent with regard to functionalities. Minimal functional differences are due to the groupware systems used (i.e. Exchange Server or Domino Server).

Another R & D focus throughout the third quarter was on development of Service Pack 7, which will include yet another array of new features. This Service Pack aims primarily at improving and enhancing adaptability. For one, this is important within the context of update.revolution as a software as a service application, on the other hand it also allows on-premise customers to adapt the software to changing business processes even faster than before. Apart from many usability enhancements, such as input support for tablet PCs, new graphic control features, and geo-coordinates, Service Pack 7 also offers a number of out-of-the-box business processes. An example of this is a completely new event management module within the campaign management functionality. Moreover, processes such as territory management and inventory management are now available to all industries.

Further highlights of Service Pack 7 include innovations in terms of mobile CRM, which have been optimized for use with the new tablet PC generation.

Release of the first components of Service Pack 7 has been planned for early 2011.

In the third quarter, the development team in Cologne also continued working on further technical enhancements to the update.financial consulting application. As a result, account and contract data have been further expanded to include even more details so that investment and old-age provisioning decisions can be taken on a thoroughly informed and thus optimum basis. With regard to documentation, a new data capturing sheet was developed to further complement documentation of the account manager's advisory process, recording all the essential details of customer meetings and recommendations. This helps the account manager in preparing his meetings and implementing adequate advisory strategies. In an initial project phase, rules for identifying specific product proposals with regard to the critical aspect of "protection against the risks of an accident" were developed together with an external partner. The additions to the current rules set as a result of this work will help develop even more precise recommendations for action in connection with closing specific product sales. Overall, these innovations will ensure that the account manager is shown and provided with better argumentation support for getting contracts concluded, and at the same time, such data can easily be made available to the customer as part of their advisory documentation.

In addition to the update.financial consulting development, a number of legally required changes were made to the financial planning applications in anticipation of the next release change in spring 2011, including implementation of functionalities such as support for the advisory process (e.g. old-age pension estimates).

At a price of EUR 2.09, update's share posted a minus of -1,9% in the third quarter of the year. The trading volume in this period was approximately 0.7 million shares (XETRA and Frankfurt).

update software AG's 2010 ordinary shareholders' meeting took place on 18 May on the premises of the Vienna "Wolke 19"/Ares Tower. Shareholders representing approximately 2.9 million voting shares were present and approved all agenda items either unanimously or with a majority. With regard to agenda item 8, "Elections to the Supervisory Board," the majority of the shareholders approved the appointment of Mr. Gerhard Auer as a new member of the Supervisory Board.

Miscellaneous

No significant transactions were conducted with related parties in the third quarter of 2010. Additional information regarding update software AG is presented in the notes to the financial statements. The risk report is presented in the notes to the financial statements.

Outlook

Overall, we are very satisfied with the market launch of update.revolution, the new Software as a Service offer. The additional investments in research and development are bringing about the desired results, and new customers increasingly opt for update.revolution. This shows us that, by shifting the focus to Software as a Service, update has chosen the best way for the future. According to the planning data, the current market penetration in the core markets still offers potential for further exploitation, which means that update will be below estimates toward the end of the year.

Consolidated Statement of Comprehensive Income	Q3/2010 EUR ('000)	Q3/2009 EUR ('000)	1-9/2010 EUR ('000)	1-9/2009 EUR ('000)
Sales revenue				
Sales revenue from licenses and maintenance agreements	4,359	4,814	12,485	14,089
Sales revenue from services ¹	2,111	2,936	6,982	9,208
Other sales revenue	10	14	22	75
Total sales revenue	6,480	7,764	19,489	23,372
Cost of goods sold				
Cost of license and maintenance agreements	275	327	945	984
Cost of services	2,404	2,711	7,439	9,260
Total cost of goods sold	2,679	3,038	8,384	10,244
Gross profit	3,801	4,726	11,105	13,128
Operating expenses				
Sales and marketing	1,965	1,847	6,117	6,244
Research and development	1,400	1,548	4,391	4,978
General and administrative costs	568	601	1,887	2,030
Other operating expenses	103	23	14	69
Total operating expenses	4,036	4,019	12,409	13,321
Earnings before interest and taxes (EBIT) before non-recurring item	-235	707	-1,304	-193
Non-recurring items	0	0	-702	0
Earnings before interest and taxes (EBIT) after non-recurring item	-235	707	-2,006	-193
Interest income	31	42	91	198
Interest expenses	0	0	-1	-9
Other financial income and expenses, net	-74	-34	-97	-25
Earnings before taxes (EBT)	-278	715	-2,013	-29
Income taxes	0	-109	0	-275
Net profit	-278	606	-2,013	-304
Other comprehensive income	94	53	129	55
Comprehensive income	-184	659	1,884	-249
Earnings per share (basic) in EUR	-0.02	0.05	-0.18	-0.03
Earnings per share (diluted) in EUR	-0.02	0.05	-0.18	-0.03
Average number of issued shares² (basic)	11,256,675	11,163,206	11,259,111	11,187,305
Average number of issued shares² (diluted)	11,256,675	11,163,206	11,259,111	11,187,305

¹ Including SaaS revenues

² Adjusted for the effect of the stock buyback program

Consolidated Balance Sheet	30/09/2010	31/06/2010	31/12/2009	30/09/2009
	EUR ('000)	EUR ('000)	EUR ('000)	EUR ('000)
ASSETS:				
A. NON-CURRENT ASSETS				
Intangible assets and goodwill	6,845	6,895	6,826	8,074
Property, plant and equipment	581	625	605	680
Investment securities	61	61	61	59
Deferred tax assets	3,421	3,421	3,421	3,379
Other non-current assets	272	382	1,106	791
Total non-current assets	11,180	11,384	12,019	12,984
B. CURRENT ASSETS				
Cash and cash equivalents	11,563	14,315	10,323	11,283
Trade receivables from production or service contracts	6,250	6,907	7,778	8,707
Unbilled work	451	434	2,149	2,848
Other current assets	1,695	1,577	1,141	1,204
Total current assets	19,959	23,233	21,391	24,042
Total assets	31,139	34,617	33,410	37,026
EQUITY AND LIABILITIES:				
A. SHAREHOLDERS' EQUITY				
Share capital	11,569	11,569	11,569	11,466
Additional paid-in capital	5,950	5,953	5,951	5,941
Other reserves	821	727	692	706
Treasury stock	-855	-849	-841	-835
Net unappropriated profit	5,730	6,009	7,743	9,070
Total shareholders' equity	23,215	23,409	25,114	26,348
B. NON-CURRENT LIABILITIES				
Provisions for non-current personnel liabilities	601	596	631	620
Total non-current liabilities	601	596	631	620
C. CURRENT LIABILITIES				
Provisions	169	200	1,300	0
Trade accounts payable	741	832	1,304	1,680
Other liabilities	6,413	9,580	5,061	8,379
Total current liabilities	7,323	10,612	7,665	10,059
Total liabilities and stockholders' equity	31,139	34,617	33,410	37,026

Consolidated Cash Flow Statement	Q3/2010 EUR ('000)	Q3/2009 EUR ('000)	1-9/2010 EUR ('000)	1-9/2009 EUR ('000)
Operating activities:				
Net profit	-278	606	-2,013	-304
Reconciliation of the net profit after tax to net cash flow from operating activities:				
Depreciation, amortization and write-downs	126	149	381	454
Asset disposals	4	1	8	6
Change in non-current provisions	5	0	-30	16
Change in deferred tax assets	0	0	0	0
Unrealized re-measurement gains/losses on currency differences	94	53	129	55
Other cash expenses	-4	0	-1	7
Changes in assets and liabilities:				
Change in trade accounts receivable	767	1,117	2,362	1,372
Change in other assets	-134	-556	1,145	-1,830
Change in trade accounts payable	-91	-255	-563	39
Change in provisions and other liabilities	-3,198	-2,446	221	1,065
Net cash flow from operating activities	-2,709	-1,331	1,639	880
Cash flow from investing activities:				
Expenditures for the acquisition of interests in businesses less cash and cash equivalents acquired	0	0	0	0
Capital expenditures for intangible assets	-2	-28	-170	-66
Capital expenditures for property, plant and equipment	-35	-39	-215	-122
Net cash flow from investing activities	-37	-68	-385	-188
Cash flow from financing activities:				
Change in loans	0	0	0	0
Dividend distribution	0	0	0	-1.117
Proceeds from capital increase	0	0	0	1
Change in treasury stock	-6	-6	-14	-357
Net cash flow from financing activities	-6	-6	-14	-1.473
Change in cash and cash equivalents	-2,752	-1,405	1,240	-781
Cash and cash equivalents at beginning of period	14,315	12,689	10,323	12,064
Cash and cash equivalents at end of period	11,563	11,283	11,563	11,283

Consolidated Statement of Changes in Equity (EUR '000)	Share capital	Additional paid-in capital	Other re- serves	Treasury stock	Net un- appropriat- ed profit	Total
Balance on 31 st December 2009	11,569	5,951	692	-841	7,743	25,114
Comprehensive income			129		-2,013	-1,884
Capital increase						
Options granted		-1				-1
Treasury stock				-14		-14
Balance on 30th September 2010	11,569	5,950	821	-855	5,730	23,215

2009 (EUR '000)	Share capital	Additional paid-in capital	Other re- serves	Treasury stock	Net un- appropriat- ed profit	Total
Balance on 31 st December 2008	11,464	5,937	646	-479	10,491	28,059
Comprehensive income			55		-304	-249
Capital increase						
Options granted	2	9				12
Treasury stock				-357		-357
Dividend 08					-1,117	-1,117
Balance on 30th September 2009	11,466	5,946	701	-836	9,070	26,348

Notes to the Consolidated Financial Statements as of 30 September 2010

Since 1 January 2005, update software AG has been preparing its accounts under IFRS/IAS principles. EU Regulation 1606/2002 requires publicly traded companies, with some exceptions, to prepare and publish their consolidated accounts in accordance with International Financial Reporting Standards (IFRS), formerly International Accounting Standards (IAS), for each financial year starting on or after 1 January 2005.

This financial report of update software AG for the first quarter of 2010 complies with International Accounting Standard No. 34 (IAS 34).

The same accounting policies were applied as were used in preparing the consolidated financial statements under IAS as per 31.12.2009. Out of this reason the balance sheet per 30.9.2009 has been adapted.

The average numbers of shares issued basic and diluted reported in Q3 2009 have been adjusted.

This report has not been audited.

Guarantees and other commitments: The aggregate amount of cash and cash equivalents pledged for rental deposits and payment guarantees as of 30 September 2010 is approximately EUR 0.507 million (31 December 2009: EUR 0.391 million).

Material events: There have not been any material events in the last quarter.

Segment reporting: Segment reporting is based on the respective location of assets or by regions (DACH = Germany, Austria, Switzerland; CEE = Central and Eastern Europe; ROW = Rest of World). The holding company is the Group headquarters, which is responsible for strategic activities such as planning, research & development, marketing, corporate finance, human resources, and investor relations.

Segment Reporting	Q3 2010 EUR ('000)	Q3 2009 EUR ('000)	1-9 2010 EUR ('000)	1-9 2009 EUR ('000)
Sales revenue				
Holding	0	0	0	0
DACH	4,814	6,405	15,318	19,077
CEE	388	275	1,139	1,360
ROW	1,278	1,083	3,032	3,002
Total sales revenue	6,480	7,763	19,489	23,371
Inter-segment sales revenue				
Holding	916	1,730	8,242	8,999
DACH	-21	41	58	170
CEE	37	34	95	48
ROW	0	0	0	0
Total inter-segment sales revenue	932	1,805	8,395	9,217
EBIT				
Holding	286	1,007	-156	145
DACH	-614	-42	-1,160	525
CEE	93	-80	156	48
ROW	0	-178	-846	-912
Total operating income (EBIT)	-235	707	-2,006	-193

The EUR 1.591 million decrease in sales revenue in the DACH region as well as the decrease in operating income in the third quarter of 2010 is mainly due to a drop in revenue from licences and services, caused by the continued difficult economic environment, the transition of update's business model to SaaS, and a high-volume customer in last year's Q3.

	Number of options	Weighted average exercise price in EUR
Options issued as of 1/1/2010	764,462	2.79
Options granted	-	-
Options exercised	-	-
Options expired	12,250	3.93
Options issued as of 31/3/2010	752,212	2.69
Options granted	10,000	2.11
Options exercised	-	-
Options expired	1,300	18.69
Options issued as of 30/06/2010	760,912	2.74
Options granted	-	-
Options exercised	-	-
Options expired	8,305	5.16
Options issued as of 30/09/2010	752,607	2.71
Exercisable as of the end of the quarter	733,732	2.70
Options available for granting	203,509	-
Total options exercised	420,382	-

The table entitled "Corporate board members" shows the number of update software AG securities held by board members as of 30th September 2010.

Corporate board members	Member of	Shares	Options
Frank Hurtmanns	Supervisory Board	4,278	-
Hans Strack-Zimmermann	Supervisory Board	65,715	-
Richard Roy	Supervisory Board	-	-
Josef Blazicek	Supervisory Board	-	-
Thomas Deutschmann	Management Board	100,000	300,000
Monika Fiala	Management Board	10,000	125,939
Arno Huber	Management Board	848,334	100,000
Frank Hurtmanns	Supervisory Board	4,278	-

Share buyback: Since July 2008, update software AG has been carrying out a share buyback program approved at the ordinary shareholders' meeting in June 2008. Specifically, the buyback began on 3 July 2008 and is going to end on 10 December 2010. Under this program, the company buys back ordinary bearer shares of update software AG to an extent of up to 10% of its share capital. If the approved volume is fully exploited, the number of treasury stock would rise to 1.142 million. The price spread for the buyback was fixed by the 11th ordinary shareholders' meeting on 11 June 2008 at EUR 2 to EUR 5. update software AG reserves the right to use the shares bought back, if need be, to service employee stock options and to finance the acquisition of companies in Austria and abroad.

Treasury stock	Date	Share	Share capital	Share
Balance	31/12/09	306,590	11,568,889	2.68 %
Balance	31/03/10	309,111	11,568,889	2.70 %
Balance	30/06/10	310,391	11,568,889	2.71 %
Balance	30/09/10	313,491	11,568,889	2.74 %

Headcount	Q3/2010	Q3/2009
R&D, Product Management, Help Desk	92	100
Sales, marketing & services	144	150
Administration	30	28
Total	266	278

The headcount (at the end of the period) also includes update's freelance workers. The decline in the number of employees is attributable to the restructuring measures carried out in the second half of 2009.

Risk Report

Within the scope of its business operations relating to the development, sale and implementation of software, update software AG is exposed to a number of risks that are inextricably linked with the Company's business conduct and activities.

Risk management is an integral component of the Company's development and comprises both operational and strategic risks, as well as financial, market and economic risks. The Company's risk management policy consists of the requirement for ongoing reporting by division and country heads to the Management Board, and comprises an advisory and monitoring function for Corporate Controlling and the internal legal department. In addition, the members of the Management Board hold regular meetings to discuss operational and strategic business development. The Supervisory Board is also informed about Company developments in regular meetings. Insurance has been taken out to minimize damage and liability risks. With regard to the following risk overview, it must be noted that it is not possible to list every single risk, but rather that the overview is intended as a disclosure of the most significant potential risks.

General and Industry Risks

Economic Risks

A prolonged deterioration of general macroeconomic conditions, particularly in Europe, our primary target market, could have a negative impact on update software AG's assets, liabilities, financial position and profitability. Such market conditions could delay or hinder the Company's potential customers from buying and implementing software products or their capital spending on such items. In view of the current macroeconomic situation, these economic risks remain a realistic threat. If the weak demand in the financial sector continues to persist on the revenue side, impairment losses may have to be considered in 2010. However, the Company is well prepared for the future as a result of its high equity ratio and large cash cushion.

Market Risks

Due to the persistence of difficult market conditions, competition among software providers has continued to intensify. In turn, this has further increased the pressure on prices, a situation that update, too, has been unable to elude. Another factor driving competition is the heightened commitment of American software and SaaS providers to the European market, a threat that update is attempting to counter with an innovative and competitive SaaS offering. Due to update's industry-specific focus, developments within the financial sector pose an addi-

tional risk. In 2009, update suffered its worst business downturn within the financial services segment and a trend reversal for 2010 is not yet in sight. update intends to counter this development with the new SaaS offering, which eliminates the need for a high upfront investment on the part of customers. In addition to the market and industry risks already described, it must also be added that update software AG is very strongly anchored in the German-speaking region. In turn, a negative market development in this region could negatively impact the Company in its overall development. However, update software AG is attempting to minimize this risk by positioning itself in other markets and regions.

Corporate Risks

Strategic Planning Risks

Strategic planning includes past, current and future factors and developments, from which risks may derive. These risks are subject to unforeseeable developments and events at the market and company level. In spite of the use of strategic control mechanisms, ongoing communication and dialog with market and industry experts, the close collaboration of the Management Board with the operating business units and departments, and the use of external specialists, update software AG cannot completely avoid these risks.

Risk stemming from transformation of the business model

Due to the transition of the business model from a classic licence business to SaaS, sales revenue decreases early on in the transformation phase due to lower one-off sales, shifting to monthly cash flows instead. In the short term this may have a negative impact on the revenue, liquidity, and earnings situation, however, in the long term, this transformation allows for constant, recurring cash flows as well as a reduction of business risk.

Customer Risks

update software AG is not materially dependent on any single customer since the Company has a broad customer base. As a result of the current macroeconomic situation, there is a risk that the number and size of customer orders could decline. The risk of more frequent pilot projects or an unforeseeable shift of orders to subsequent periods is also a threat scenario for the Company. The new SaaS business model – update.revolution – will significantly lower this risk by generating monthly recurring revenue and cash flows from customers. In the medium term, this will reduce the Company's quarterly dependence on large new customer projects.

Product and Project Risks

When developing new or enhancing existing software products, there is the risk that developmental goals will not be attained or only partially attained, which may result in delays in planned market rollouts. In addition, products already introduced on the market may contain unrecognized errors. Due to recent development of the new update.revolution product and the introduction of a new delivery model (Software as a Service), management will still need to pay heightened attention to these risks. As a matter of policy, update software AG counters these risks by closely cooperating with customers and applying a highly advanced quality management system. The Company relies on structured project management to counter risks that arise in connection with implementing software solutions. This applies in particular to risks during the installation process that may entail a protraction of projects, which can negatively impact project costs and customer satisfaction. On the other hand, the implementation of software solutions also requires customers to provide resources, upon which update software AG has only limited influence. The possibility of warranty and liability risks must also be mentioned in this connection.

IT Risks

These risks arise from the use of computer-based data processing, information and communications programs, through which damages may result due to breakdowns, user errors, viruses and hackers. update minimizes this risk by using state-of-the-art firewalls, encryption and authentication technologies, as well as back-up systems.

Hosting/Operations Risks

An integral part of the new SaaS business model is the hosting of the customer applications through update. The accompanying risks are infrastructure breakdowns, operating errors and potential data losses. update counters the risk of infrastructure breakdowns with the use of state-of-the-art technologies and high availability concepts, in addition to outsourcing the operation of the infrastructure to a professional data center operator who fulfills all current certifications and standards. All application and infrastructure changes are documented in detail to enable a fast response to arising problems, the use of continuous data mirroring and backup reduces the risk of data losses to a minimum. The use of firewalls, multiple network zones, regular network scans, upstream authentication and encrypted data transmission minimizes the risk of undesired outside access.

Personnel Risks

The software and services sector is very personnel-intensive. A company's success is therefore also dependent on access to highly qualified specialists and managers. update software AG attempts to gain and integrate qualified personnel and create long-time loyalty through various measures, such as the

employee stock option plan, attractive compensation systems and providing training and continuing education opportunities.

Legal Risks

update software AG is exposed to a variety of national legal standards, which give rise to risks for legal transactions. One means of minimizing these risks is by relying on standard contracts and agreements prepared by national legal advisers whenever possible. Any non-standard contract or agreement must be thoroughly verified as part of the strict approval process.

Financial Management Risks

Liquidity Risks

In order for update software AG to be able to fulfill its payment obligations at all times, appropriate liquidity must be available. Despite the ongoing negative earnings position for the fiscal year, liquidity risk remains limited due to the Company's continuing high level of cash on hand and high equity ratio. However, this risk may be exacerbated as a consequence of the current macroeconomic situation.

Default Risks

update software AG delivers its products on account. This can result in losses on outstanding receivables when customers default on payment. This risk is still significantly increased as a result of the current macroeconomic situation. Appropriate receivables and risk management on the part of the Company help to reduce this risk; as does conversion to the new business model, which can be used to apply pressure for payment under threat of suspending SaaS services. In addition, monthly receivables per customer are significantly lower with this model, and, in turn, so is the risk of losses on receivables.

Foreign Currency Risks

update software AG is an internationally active company and is therefore subject to foreign currency risks. In this regard, the most important currencies are the Swiss frank, Hungarian forint, Polish zloty, US dollar and Czech crown. However, the large majority of transactions are settled in euros.

Business Opportunities

The opportunities for companies to increase efficiency and effectiveness by using CRM systems are especially important in a difficult market environment – in fact significantly more important than in “good times,” since customers are a scarce resource during times of recession. If one considers the gains in effectiveness from the deployment of a CRM system, two achievable effects become apparent: on the one hand, caring for existing clients is of decisive signi-

ficance particularly in difficult times, and on the other, all options must be used to offer existing customers value-adding products and services. This gives rise to opportunities for greater use of CRM systems. Thus, the new Software-as-a-Service business model offers the Company greater opportunities for growth within a difficult economic environment. The new offering meets the needs of customers in terms of lowering their risk, maximum coverage of industry-specific requirements, fast use of the service and relatively low monthly costs without an upfront investment.

As for update, the Company will benefit from steady and stable growth of revenue and cash flows; which on the one hand minimizes planning uncertainty, and on the other reduces the dependence on large indi-

vidual orders and eliminates project risks. In summary, taking into account the applied risk management practiced by the Company, the total risk exposure faced by update software AG can be significantly reduced by a successful shift to the new SaaS model. At the same time, the level of risk remains elevated due to the current macroeconomic situation and crisis in the financial markets.

At the time of this report, there were no risks jeopardizing the continued existence of update software AG .

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the financial report gives a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities, risks and uncertainties associated with the expected development of the Group.

Vienna, 3rd November 2010

The Management Board



Thomas Deutschmann, CEO



Mag. Monika Fiala, MBA, CFO

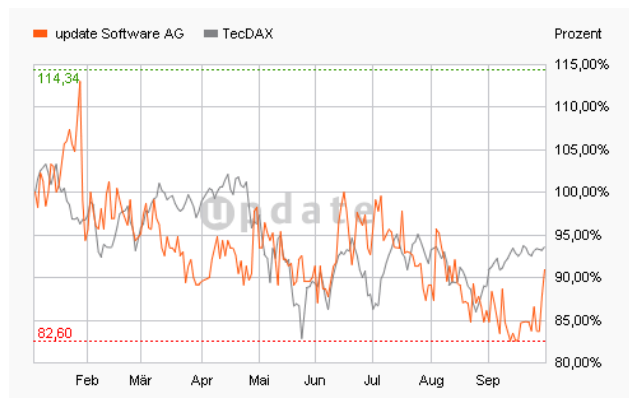


Dipl.-Ing. Arno Huber, CTO

Capital Market

update software AG is listed in the General Standard segment of the Deutsche Börse in Frankfurt am Main, Germany.

Share price performance (indexed)



Trading system:	XETRA + FFM
Period:	31/12/2009 – 30/09/2010
Price on 30/12/2009:	EUR 2,30
Price on 31/06/2010:	EUR 2,09
Price performance:	-9,1 %
Average total volume/day '10:	~ 13.566 shares
Average total volume/day '09:	~ 6.724 shares
Total volume 2010 (YTD):	2.604.721 shares
ISIN:	AT0000747555
WKN (German securities identification number):	934523

update software AG

update software AG is one of the leading international producers of systems for customer relationship management (CRM). The Company is headquartered in Vienna, Austria. It has subsidiaries in Germany, Switzerland, the Netherlands, France, Hungary, the Czech Republic, Poland and the U.S.A. In addition, update is represented by established partners throughout the world.

With its CRM solutions, update concentrates on the needs of companies in the following segments: Life Sciences, Financial Services, and Industry Solutions. In line with this focus, update has created three competence centers for each of these three industries to ensure customer service geared to actual needs.

The new business model – update.revolution based on SaaS – offers customers many advantages, such as eliminating high procurement costs for implementation. Customers only pay a monthly usage fee based on the number of users, the software modules used, and the service level selected. This ensures that costs are transparent and can be exactly calculated from the onset. The use of standardized processes for update's core industries combined with extensive ability for customization make the update.revolution model unique on the market.

The Company, founded in Vienna in 1988, concentrates on companies in vertically structured markets and offers up-to-date industry-specific solutions for the following segments: e.g. Industry Solutions, Financial Services and Life Sciences. Among our most renowned customer are ALK Abelló, Bawag P.S.K., BAM, betapharm, Biotronik, Boehringer Ingelheim, Canon, Daiichi-Sankyo, Danfoss, Demag Cranes & Components, Dresdner Bank Schweiz, DuPont, Ferring Arzneimittel, Hamburger Sparkasse, Hansgrohe, Hauck & Aufhäuser, Jenapharm, Alfred Kärcher, KSV 1870, Kuhnke Automation, Lafarge, LBS Nord, Leuze electronic, Liebherr, Magna Steyr, Mettler Toledo, Paul Hartmann, Pipelife, Pluradent, Probat Werke, Raiffeisen Schweiz, ratiopharm, Reis Robotics, Riemser Arzneimittel, Rockwool, Saint Gobain, Sandoz, Stahlton, Trumpf, UnicreditBank Hungary, Uzin Utz, Verla, Wala, ...

Key performance indicators I	Q3/10 EUR (‘000)	Q3/09 EUR (‘000)	Change in %
Total sales revenue	6.480	7.764	-16,5 %
EBIT ¹	-235	707	-133,2 %
EBITDA ²	-109	855	-112,7 %
EBT	-278	715	-138,9 %
EPS (basic)	-0,02	0,05	-140,0 %
Shareholders' equity	23.215	26.348	-11,9 %
Cash and cash equivalents	11.563	11.283	2,5 %
Number of employees	266	278	-4,3 %

Key performance indicators II	1-9/2010 TEUR	1-9/2010 TEUR	Change in %
Total sales revenue	19.489	23.372	-16,6%
EBIT ¹	-1.304	-193	-575,6%
EBIT ²	-2.013	-193	-943,0%
EBITDA ²	-1.633	261	-725,7%
EBT	-2.013	-29	-6841,4%
EPS (basic)	-0,18	-0,03	-500,0%

¹ Before non-recurring item

² After non-recurring item

Miscellaneous

Note on rounding: When adding up rounded amounts and data given as a percentage, rounding differences may occur due to the use of automatic calculation methods.

Rounding, typing or printing errors cannot be excluded.

No information contained herein constitutes or shall be construed as an offer or recommendation to subscribe to or buy securities or financial instruments in update software AG.

Further information

The investor relations objective of update software AG is to provide the financial community with comprehensive information based on openness and transparency, which is achieved through an ongoing dialog with analysts and investors.

Up-to-date corporate information is available to interested investors at www.update.com.

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2010 financial calendar

There are no further releases planned for 2010.