

Update



Financial Report 1/2011



Group Interim Management Report

Business Performance

2011 marks the beginning of the second year of update's business model transformation to software as a service, which continues to entail higher-than-usual investments.

Sales revenue for the first quarter of the year was EUR 6.5 million, down 3.6% compared to last year's first quarter (EUR 6.8 million). This decrease is mostly due the changeover to the SaaS offering of update.revolution, where, amongst others, non-recurring license revenues are substituted by recurring usage fees.

Earnings before interest and taxes (EBIT) were up 47.1% year-on-year, from EUR -1.2 million last year to EUR -0.6 million for Q1 2011. Given the planned new orders and the current sales pipeline, the Company expects a significant increase in revenue for the next quarter. The Board of Management has confirmed its previously issued guidance of EUR 31 million in sales revenue, with EBIT at break-even, for the 2011 financial year.

Cash and cash equivalents was EUR 15.7 million. Although this represents a decrease of 5.4% year-on-year (Q1 2010: EUR 16.6 million), the cash position remains strong.

Customers

New customers in the first quarter of 2011 include centrotherm photovoltaics AG, max.xs financial services AG, and Sparkasse Kulmbach-Kronach in Germany, as well as Hersenstichting Nederland and Frans van Zaal BV from the Netherlands. Further customers who opted for update's CRM solution include Polskie Centrum Marketingowe Sp. z o.o. from Poland and SGPC Saint-Gobain Product Construction Competences Center.

R & D at update software AG

In research & development, the first quarter of 2011 was dominated by the completion of Service Pack 7, with the main focus being on a series of technical functionalities and requirements related to the SaaS offering of update.revolution. The service pack also offers on-premise customers new ways to easily adapt their software and hence, to further reduce the cost of deployment and operation of the solution. Service Pack 7 also includes interesting additions to the business logic. One example of this is the new event management process as part of the campaign management module. Moreover, the new release now provides processes such as territory

management and inventory management for all industries.

Another R&D focus was on new developments for mobile CRM. As a result, the new version of update.seven touch has been optimized for the Apple iPad, and is also compatible with the new tablet PC generation to be launched in the next few months. The new version has a fluid-width design, meaning that the application automatically adapts to the size of the device, and has been developed as a full-fledged CRM device with built-in pharmaceutical processes such as sample distribution and product reviews. Also, the release has functionalities such as "around me" integrated into the CRM application.

The first products of the Service Pack 7 generation were released in March 2011, further products of the suite will follow in April and May 2011.

R & D at update Financial Service International GmbH

The first quarter of 2011 saw the start of production of the update.financial consulting application u.fc in the Revolution model on the IBM platform. The rationale behind this was the significant increase of advisory topics related to personal risk insurance products. As a result, rules on advisory aspects focusing on loss-of-income insurance, including coverage in case of temporary and permanent disability as well as accident, survivors', supplemental health, and nursing care insurance were added to the rules set, all with a strong focus on practical use. Consequently, the rules set is geared toward identifying gaps between actual needs and current benefits as well as toward generating relevant recommendations for action. In the current version, the advisory documentation process used so far has been transformed so as to allow for usage of a template technology, which ensures that the documentation can be customized even further according to specific customer needs.

An initial version of the application, launched on the Hungarian market, proves the flexibility of the application in international use. Moreover, the IBM platform was prepared such that demo versions for prospective customers can be readily deployed in a very short time. As part of the enhancement of the "asset allocation" application for use in financial planning, the latest version now allows re-allocation recommendations to be given together with specific, relevant products. As an added bonus, the related product data sheets are automatically added to the customer folder. In addition, improvements have been made to the presentation of a customer's

financial situation, of the financial implications of permanent disability, and of changing the start of old-age pension payments.

In the second quarter, the emphasis will be on adding rules for the u.fc advisory topics related to "old-age insurance coverage beyond statutory benefits" as well as property insurance products.

Capital Market

At a price of EUR 2.19, update's share posted an 8.75% downward correction in the first quarter of the year. The trading volume in this period was around 0.3 million shares (XETRA and Frankfurt).

Other Disclosures

There were no material transactions with related parties in the first quarter of 2011.

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

After two difficult years – one overshadowed by the global economic crisis (2009), the other (2010) dominated by the transformation of the business model and very high investments into innovation and technology – update is now entering its second year of what is ultimately expected to be a three-year transformation process. This transformation will continue to require major technology investments in 2011, and has affected the Company's earnings in the first quarter.

The transformation of the business model calls for fast, decisive, and adaptive action. However, the first step, at the same time the hardest, has already been taken successfully, and the positive response by the market to the new business model shows that update is on the right track. The Company has seized the opportunities resulting from the changes in the market to strengthen its position on the market with innovations such as the SaaS offering and further product developments. While these investments represent an initial drain on update's earnings, they enable the Company to create a sustainable foundation for profitable growth in the years to come and to maintain a leading position in the CRM market.

The Board of Management confirms its guidance of EUR 31 million in sales revenue and EBIT at break-even for the 2011 financial year.

Consolidated Statement of Comprehensive Income	Q1/2010 EUR ('000)	Q1/2011 EUR ('000)
Sales revenue		
Sales revenue from licenses and maintenance agreements	4,465	4,436
Sales revenue from services ¹	2,311	2,093
Other sales revenue	-	-
Total sales revenue	6,776	6,529
Cost of goods sold		
Cost of license and maintenance agreements	-330	-343
Cost of services	-2,351	-2,538
Total cost of goods sold	-2,681	-2,881
Gross profit	4,095	3,648
Operating expenses		
Sales and marketing	-2,076	-2,077
Research and development	-1,507	-1,566
General and administrative costs	-693	-615
Other operating expenses	-7	-20
Total operating expenses	-4,283	-4,278
Earnings before interest and taxes (EBIT) before non-recurring item	-188	-630
Bad debt allowance	-1,002	-
Earnings before interest and taxes (EBIT) after non-recurring item	-1,190	-630
Interest income	26	36
Interest expenses	-	-
Other income and expenses, net	-83	-126
Earnings before taxes (EBT)	-1,247	-720
Income taxes	-	-116
Net profit	-1,247	-836
Other comprehensive income	123	107
Comprehensive income	-1,124	-729
Earnings per share (basic) in EUR	-0.11	-0.06
Earnings per share (diluted) in EUR	-0.11	-0.06
Average number of issued shares² (basic)	11,261,453	11,274,484
Average number of issued shares² (diluted)	11,261,453	11,274,484

¹ Including SaaS revenues

² Adjusted for the effect of the share buyback program

Consolidated Balance Sheet	31/12/2010	31/03/2011
	EUR ('000)	EUR ('000)
ASSETS:		
A. NON-CURRENT ASSETS		
Intangible assets and goodwill	5,485	5,444
Property, plant and equipment	573	613
Investment securities	63	63
Deferred tax assets	1,479	1,479
Other non-current assets	768	415
Total non-current assets	8,368	8,014
B. CURRENT ASSETS		
Cash and cash equivalents	10,713	15,662
Trade accounts receivable	6,220	7,590
Unbilled work	406	675
Other current assets	895	1,191
Total current assets	18,234	25,118
Total assets	26,602	33,132
EQUITY AND LIABILITIES:		
A. SHAREHOLDERS' EQUITY		
Share capital	11,569	11,569
Additional paid-in capital	5,585	5,586
Other reserves	820	927
Treasury stock	-843	-843
Net unappropriated profit	3,252	2,416
Total shareholders' equity	20,383	19,655
B. NON-CURRENT LIABILITIES		
Provisions for non-current personnel liabilities	596	621
Deferred tax liabilities	44	44
Total non-current liabilities	640	665
C. CURRENT LIABILITIES		
Provisions	46	46
Trade accounts payable	981	777
Tax liabilities	196	196
Other liabilities	4,356	11,793
Total current liabilities	5,579	12,812
Total liabilities and shareholders' equity	26,602	33,132

Consolidated Cash Flow Statement	Q1/2010 EUR ('000)	Q1/2011 EUR ('000)
Operating activities:		
Net profit	-1,247	-836
Reconciliation of the net profit for the year to net cash flow from operating activities:		
Depreciation, amortization and write-downs	118	129
Asset disposals	1	-
Change in non-current provisions	-4	26
Unrealized re-measurement gains/losses on currency differences	123	108
Other cash expenses	1	1
Changes in assets and liabilities:		
Change in trade accounts receivable	465	-1,017
Change in other assets	1,105	-566
Change in trade accounts payable	-386	-204
Change in provisions and other liabilities	6,204	7,436
Net cash flow from operating activities	6,380	5,077
Cash flow from investing activities:		
Expenditures for the acquisition of interests in businesses less cash and cash equivalents acquired	-126	-5
Capital expenditures for intangible assets	-24	-123
Net cash flow from investing activities	-150	-128
Cash flow from financing activities:		
Change in treasury stock	-5	-
Net cash flow from financing activities	-5	-
Change in cash and cash equivalents	6,225	4,949
Cash and cash equivalents at beginning of period	10,323	10,713
Cash and cash equivalents at end of period	16,548	15,662

Consolidated Statement of Changes in Equity (EUR '000)	Share capital	Additional paid-in capital	Net un- appropriated profit	Treasury stock	Other reserves	Total
Balance on 31 December 2010	11,569	5,585	820	-843	3,252	20,383
Net income for 3 months including currency translation adjustments	-	-	107	-	-836	-729
Currency translation adjustments	-	-	-	-	-	-
Options granted	-	1	-	-	-	1
Treasury stock						
Balance on 31 March 2011	11,569	5,586	927	-843	2,416	19,655

2010 (EUR '000)	Share capital	Additional paid-in capital	Net un- appropriated profit	Treasury stock	Other reserves	Total
Balance on 31 December 2009	11,569	5,951	7,743	-841	692	25,114
Net income for 3 months including currency translation adjustments	-	-	-1,247	-	123	-1,124
Currency translation adjustments	-	-	-	-	-	-
Options granted	-	1	-	-	-	1
Treasury stock	-	-	-	-5	-	-5
Balance on 31 March 2010	11,569	5,952	6,496	-846	815	23,986

Notes to the Consolidated Financial Statements as of 31 March 2011

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 2011 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 for the 2010 financial year.

This report has not been audited nor reviewed by independent auditors.

Guarantees and other commitments: The aggregate amount of cash and cash equivalents pledged for rental deposits and payment guarantees as of 31 March 2011 is approximately EUR 0.503 million (31 December 2010: EUR 0.391 million).

Material events: No reportable dealings of significant importance have occurred since 31 March 2011.

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	Q1 2010 EUR ('000)	Q1 2011 EUR ('000)
Sales revenue		
Holding	-	-
DACH	5,603	5,370
CEE	390	425
ROW	782	735
Total sales revenue	6,775	6,529
Inter-segment sales revenue		
Holding	6,126	2,438
DACH	38	-
CEE	38	55
ROW	-	16
Total inter-segment sales revenue	6,202	2,509
EBIT		
Holding	-905	196
DACH	-25	-455
CEE	47	143
ROW	-307	-514
Total operating income (EBIT)	-1,190	-630

The decline in sales revenue in the DACH region by EUR 0.233 million in Q1 2011 compared to the prior-year quarter was due to the drop in licensing revenue as a result of the Company's business model transformation.

In the CEE-Region, the increase in operating earnings (EBIT) by EUR 0.096 million to EUR 0.143 million is due to higher sales revenue and lower personnel expenses.

The decline in operating earnings (EBIT) by EUR -0.430 million in the DACH segments as well as EUR -0.207 million for ROW in the first quarter of 2011 is attributable to increased personnel expenses. The increase in the holding company's earnings by EUR 1.1 million year-on-year is mainly due to the bad debt allowance recognized because of a partner company's insolvency in the first quarter of 2010.

	Number of options	Weighted average exercise price in EUR
Options issued as of 1/1/2011	724,068	2.77
Options granted	-	
Options exercised	-	
Options expired	-	
Options issued as of 31/03/2011	724,068	2.77
Exercisable as of the end of the quarter	705,193	2.77
Options available for granting	214,414	
Total options exercised	446,321	

The table entitled "Corporate board members" shows the number of update software AG securities held by board members as of 31 March 2011.

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	-	-
Gerhard Auer	Supervisory Board	-	-
Thomas Deutschmann	Management Board	100,000	300,000
Uwe Reumuth	Management Board	-	-
Arno Huber	Management Board	848,334	100,000

Share buyback: Between 3 July 2008 and 10 December 2010, update software AG executed a share buyback program approved in June 2008 by the ordinary shareholders' meeting. Under this program, the Company could have bought back ordinary bearer shares of update software AG to an extent of up to 10% of its share capital. If the approved volume had been fully exploited, the number of treasury stock would have risen to 1.142 million. The price range 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 so bought back, if need be, to serve employee stock options and to finance the acquisition of companies in Austria and abroad.

Treasury stock	Date	Shares	Share capital	Capital share
Balance	31/03/11	294,405	294,405	2.5%

Headcount	Q1/2010	Q1/2011
R&D, Product Management, Help Desk	93	95
Sales, marketing & services	143	152
Administration	29	29
Total	265	276

The headcount (at the end of the period) also includes update's freelance workers. The increase in headcount is attributable to increased investments due to the new SaaS offering.

Risk Report

With respect to further opportunities and risks please refer to the corresponding parts of the management report and group management report for the 2010 financial year, since in our current estimation, no material changes have occurred since then.

Vienna, 5 Mai 2011



Thomas Deutschmann, CEO



Uwe Reumuth, CFO

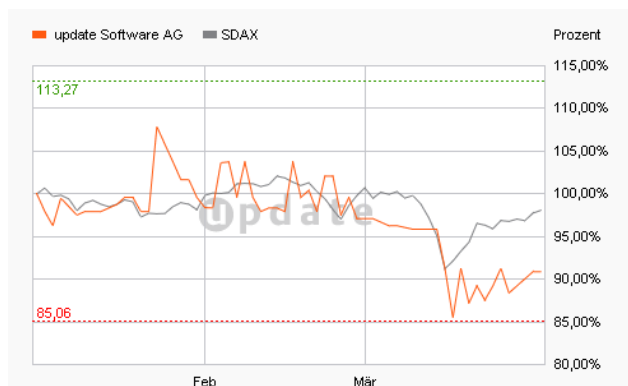


Arno Huber, CTO

Capital Market

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

Share price performance Q1 (indexed)



Trading system:	XETRA
Period:	31/12/2010 – 31/03/2011
Price on 30/12/2010:	2.40 EUR
Price on 31/03/2011:	2.19 EUR
Price performance:	-8,75%
Average total volume/day '11:	~ 3.531 Shares
Average total volume/day '10:	~ 23.679 Shares
Total volume 2011 (YTD):	~ 336.554 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	Q1/10 EUR ('000)	Q1/11 EUR ('000)	Change in %
Total sales revenue	6,776	6,529	-3.6%
EBIT ¹	-188	-630	-235.1%
EBIT ²	-1,190	-630	47.1%
EBITDA	-70 ¹	-501	-615.7%
EBT	-1,247 ²	-720	42.3%
EPS (basic)	-0.11 ²	-0.06	45.5%
Shareholders' equity	23,987	19,655	-18.1%
Cash and cash equivalents	16,548	15,662	-5.4%
Number of employees	265	276	4.2%

¹ Before non-recurring item

² After non-recurring item

Miscellaneous

Given the short period of time between order placement and invoicing, the quarterly report does not contain any order lists.

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. The ordinary shareholders' meeting will take place on 18 May 2011 in Vienna, Austria.

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

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2011 financial calendar

14th ordinary shareholders' meeting	18 May 2011
Q2 2011 results	4 Aug. 2011
Q3 2011 results	4 Nov. 2011