

Update



Financial Report 2/2011



Key performance indicators

Overview Q2	Q1/11 EUR ('000)	Q1/10 EUR ('000)	Änderung in %
Total sales revenue	8,055	6,233	29.2%
EBIT ¹	205	-881	123.3%
EBIT ²	205	-581	135.3%
EBITDA ²	331	-448	173.9%
EBT	229	-487	147.0%
EPS (basic)	0.01	-0.04	125.0%
Shareholders' equity	19,804	23,410	-15.4%
Cash and cash equivalents	12,764	14,315	-10.8%
Number of employees	289	268	7.8%

Overview YTD	1-6/2011 EUR ('000)	1-6/2010 EUR ('000)	Änderung in %
Total sales revenue	14,584	13,009	12.1%
EBIT ¹	-425	-1,069	60.2%
EBIT ²	-425	-1,771	76.0%
EBITDA ²	-170	-1,517	88.8%
EBT	-491	-1,735	71.7%
EPS (basic)	-0.07	-0.15	53.3%

¹ Before non-recurring item
² After non-recurring item

Group Interim Management Report

Business Performance

In the second quarter of 2011, after one and a half years of transformation to a Software-as-a-Service business model, entailing higher-than-usual investments, the company reported a strong increase in sales revenue of more than 29% compared to last year, and a positive EBIT of EUR 0.2 million. Also in the quarter just ended, the company launched a social CRM tool that is unique on the market, demonstrating update software's innovative strength.

With COSMIC (Comprehensive Observation of Social Media integrated with CRM), update is the first provider to implement the idea of an integrated social CRM tool. With this tool, which combines social media analyses and operational CRM processes into one social CRM system, update addresses a market that analysts consider as one of the fastest-growing segments in CRM. update will therefore continue to invest with a view to sustaining its market positioning as an innovative CRM provider.

New clients

The high number of new contracts that were entered into with well-known companies reflects the high level of confidence that the market has in the development of update. Among the company's new customers in the second quarter were Zumtobel AG, Böhler Welding Group GmbH, Fixit TM Holding GmbH, MEDA Pharma GmbH & Co KG, Index-Werke GmbH & Co KG Hahn & Tessky, Hahn+Kolb Werkzeuge GmbH, S. Siedle & Söhne Telefon- und Telegrafenerwerke OHG, Mobius Therapeutics LLC, Montu SP z.o.o., and others. In the Financial Services International unit, a major license contract for an international private banking project was made by update's Swiss office.

R & D at update software AG

In research and development, the second quarter of 2011 saw the completion of the Service Pack 7 product family. In addition to the technical "cockpit" modules – with extensive innovations to the core template support – and the integrative products for a wide variety of groupware systems, the latest version of update's mobile products were also released in May. A major R&D focus in this regard was on giving the application a completely new design and layout so as to enable dynamic adaptation to the respective end devices. Another focus was on implementing industry-specific processes. For example, thanks to

intelligent serial / fast data entries for processes such as "meeting report for key products" and "sample distribution," sales representatives in the pharmaceutical industry can make efficient use of idle time between visits to doctors. Integration of reports and geolocation are just some examples of the new functionalities that the service pack offers its users.

Furthermore, the browser-based solution "touch" was optimized for the mobile platforms of Apple iPhone and iPad as well as Google Android and RIM Blackberry end devices.

The official launch of COSMIC on 21 June got a lot of media attention. As a fully integrated add-on to the CRM solution of update.revolution, as well as a stand-alone product, it supplements the system with new communication channels, analytical views and links to business processes, enabling easy integration of data from social media platforms into the operational CRM. The social CRM tool integrates social media seamlessly into the update CRM system. Based on predefined rules, COSMIC automatically searches specific websites and forums for relevant content, analyzes the data and makes the processed information available to users within the CRM system.

R & D at update Financial Service International GmbH

In the second quarter of 2011, the advisory services related to "old-age insurance beyond statutory benefits," which include identifying gaps between expected benefits upon start of old-age pension payments and projected actual needs, as well as property insurance products for homeowners and owners of residential buildings were implemented in the update.financial consulting application. To ensure that, with adequate parameterization, the solution can also be used outside the German market, its components were conceived and implemented such that country-specific aspects were not included in the user interface nor in the relevant rules. The country-specific aspects for private old-age insurance will be developed as separate components in the third quarter and can then be activated in the respective country as needed, allowing flexible administration of the advisory processes.

In addition to implementing the above advisory topics in the second quarter, R&D also took another successful step toward integrating deal-closing aspects. For example, by linking up to an external insurance rate finder, the update.financial consulting

application now offers the user the convenience of identifying product-specific rates within the advisory session. Moreover, the financial planning applications were adapted to the changes made by the Finance IT to the administration of third-party products. These extensive measures had to be taken to ensure continued correct calculations within the applications, as third-party products often account for a significant part of a customer's asset and insurance portfolio.

Apart from the additional old-age insurance aspects set out above, further property insurance products (e.g. "personal liability insurance") will be implemented in the third quarter, with the aim of creating a truly holistic advisory approach.

Earnings, financial, and asset position

Earnings position

The company posted sales revenue of EUR 8.1 million in the second quarter, which represents an increase of 29.2% compared to the same period in 2010 (EUR 6.2 million). This substantial growth is mainly due to a strong performance in the license business and continued strong sales in the maintenance business. It also more than compensated the performance of the Services segment, where billings tended to be lower due to the transformation to the new SaaS business model. Aggregate revenue for the first half of 2011 thus totaled EUR 14.6 million, increasing 12.1% compared to the first six months of 2010 (EUR 13.0 million).

Operating expenses increased from EUR 8.4 million in H1 2010 to EUR 8.9 million in H1 2011. This is mainly due to higher personnel expenses caused by headcount growth in sales, marketing, and business services.

Compared to last year, there were no non-recurring items in the current reporting period affecting operating earnings (H1 2010: EUR -0.7 million).

The second quarter was closed with positive operating earnings (EBIT) of EUR 0.2 million, up EUR 0.8 million year-on-year (Q2 2010: EUR -0.6 million). Second-quarter EBT was EUR 0.2 million (Q2 2010: EUR -0.5 million). On a six-month basis, the group's EBIT thus improved from EUR -1.8 million in H1 2010 to EUR -0.4 million in H1 2011.

Financial position

Aggregate cash flow from operating activities as of 30 June 2011 was EUR 2.3 million, compared to EUR 4.3 million one year earlier.

While last year's trade accounts receivable had decreased by around EUR 1.6 million as of the end of the reporting period, they increased by around EUR 2.2 million in the current reporting period due to the strong increase in sales.

In addition, the full-year maintenance bills issued at the beginning of the year are a major driver of this cash flow position, which is reflected in the changes in provisions and other liabilities.

Cash flow from investing activities was EUR -0.2 million (as compared to EUR -0.3 million one year earlier) and is mainly due to investments into property, plant and equipment and other intangible assets.

Cash flow from financing activities includes the changes in treasury stock of EUR 1 thousand (compared to EUR -8 thousand one year earlier).

Cash and cash equivalents on 30 June 2011 were EUR 12.8 million compared to EUR 14.3 million on 30 June 2010.

Asset position

Current assets increased by EUR 5.2 million in the first six months of 2011. This is mainly due to the increase in receivables by EUR 2.6 million and the increase in cash by EUR 2.0 million as a result of a higher cash inflow from the annual maintenance bills issued in the first quarter.

Non-current assets as well as non-current liabilities changed only insignificantly in the reporting period.

Current liabilities increased by EUR 5.3 million in the first six months of 2011. This increase is mainly due to the fact that annual maintenance revenues were recognized as deferred income.

Total assets for the reporting period increased by EUR 4.8 million to EUR 31.4 million.

The group's equity ratio as of 30 June 2011 was around 63% (equity ratio on 31 December 2010: 77%).

Outlook

Going forward, update will continue to focus on the transformation of the business model to Software-as-a-Service (SaaS). The aim of this strategy is to offer customers the best solution on the market while at the same time increase the share of recurring sales revenues for the company. The offering update.revolution has demonstrated that the company is on the right track. Further investments will be made to create a sustainable foundation for the company's aspired growth.

The overall economic recovery has already had very positive effects on update's revenues in the first half of 2011. The company expects this trend to continue for the second half of the year. In view of the continued strong pipeline for the second half of 2011, update confirms its guidance for the 2011 financial year with sales revenue of EUR 31 million and EBIT at break-even.

Opportunities and 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.

Material transactions with related parties

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

The increase in sales revenue in the DACH region by EUR 1.6 million as well as the improved operating earnings in the second quarter of 2011 are mainly due to a significant growth in the license business and continuously high maintenance revenue. The slowdown in sales revenue and EBIT for the ROW segment is attributable to start-up losses in the USA and the substitution of license revenue by SaaS revenue.

Segment Reporting	Q2 2011 EUR ('000)	Q2 2010 EUR ('000)	1-6 2011 EUR ('000)	1-6 2010 EUR ('000)
Sales revenue				
Holding	0	0	0	0
DACH	7,029	4,900	12,399	10,504
CEE	370	361	795	751
ROW	656	972	1,391	1,754
Total sales revenue	8,055	6,233	14,584	13,009
Inter-segment sales revenue				
Holding	2,438	1,200	4,876	7,326
DACH	2	41	2	79
CEE	9	20	64	58
ROW	39	0	55	0
Total inter-segment sales revenue	2,488	1,261	4,997	7,463
EBIT				
Holding	110	463	306	-442
DACH	839	-521	384	-546
CEE	-11	16	132	63
ROW	-733	-539	-1,247	-846
Total operating income (EBIT)	205	-581	-425	-1,771

Consolidated Statement of Comprehensive Income	Q2/2011 EUR ('000)	Q2/2010 EUR ('000)	1-6/2011 EUR ('000)	1-6/2010 EUR ('000)
Sales revenue				
Sales revenue from licenses and maintenance agreements	5,487	3,661	9,924	8,126
Sales revenue from services ¹	2,568	2,560	4,660	4,871
Other sales revenue	-	12	-	12
Total sales revenue	8,055	6,233	14,584	13,009
Cost of goods sold				
Cost of license and maintenance agreements	-328	-340	-671	-670
Cost of services	-2,887	-2,684	-5,425	-5,035
Total cost of goods sold	-3,215	-3,024	-6,096	-5,705
Gross profit	4,840	3,209	8,448	7,304
Operating expenses				
Sales and marketing	-2,384	-2,077	-4,461	-4,152
Research and development	-1,599	-1,484	-3,166	-2,991
General and administrative costs	-704	-626	-1,319	-1,319
Other operating expenses	52	97	33	89
Total operating expenses	-4,635	-4,090	-8,913	-8,373
Earnings before interest and taxes (EBIT) before non-recurring item	205	-881	-425	-1,069
One time effects	-	300	-	-702
Earnings before interest and taxes (EBIT) after non-recurring item	205	-581	-425	-1,771
Interest income	46	34	82	61
Interest expenses	0	0	0	0
Other income and expenses, net	-22	60	-148	-24
Earnings before taxes (EBT)	229	-487	-491	-1,734
Income taxes	-134	0	-249	0
Net result	95	-487	-740	-1,734
Other comprehensive income	52	-88	159	35
Comprehensive income	147	-575	-581	-1,699
Earnings per share (basic) in EUR	0.01	-0.04	-0.07	-0.15
Earnings per share (diluted) in EUR	0.01	-0.04	-0.07	-0.15
Average number of issued shares² (basic)	11,276,115	11,259,282	11,274,809	11,260,355
Average number of issued shares² (diluted)	11,276,115	11,259,282	11,274,809	11,260,355

¹ Including SaaS revenues

² Adjusted for the effect of the share buyback program

Consolidated Balance Sheet	30/06/2011	31/12/2010
	EUR ('000)	EUR ('000)
ASSETS:		
A. NON-CURRENT ASSETS		
Intangible assets and goodwill	5,403	5,485
Property, plant and equipment	615	573
Investment securities	63	63
Deferred tax assets	1,479	1,479
Other non-current assets	415	768
Total non-current assets	7,975	8,368
B. CURRENT ASSETS		
Cash and cash equivalents	12,764	10,713
Trade accounts receivable	8,819	6,220
Trade receivables from production or service contracts	788	406
Other current assets	1,032	895
Total current assets	23,403	18,234
Total assets	31,378	26,602
EQUITY AND LIABILITIES:		
A. SHAREHOLDERS' EQUITY		
Share capital	11,569	11,569
Additional paid-in capital	5,587	5,585
Other reserves	979	820
Treasury stock	-842	-843
Net unappropriated profit	2,511	3,252
Total shareholders' equity	19,804	20,383
B. NON-CURRENT LIABILITIES		
Provisions for non-current personnel liabilities	680	596
Deferred tax liabilities	44	44
Total non-current liabilities	724	640
C. CURRENT LIABILITIES		
Provisions	30	46
Trade accounts payable	779	981
Tax liabilities	160	196
Other liabilities	9,881	4,356
Total current liabilities	10,850	5,579
Total liabilities and shareholders' equity	31,378	26,602

Consolidated Cash Flow Statement	Q2/2011 EUR ('000)	Q2/2010 EUR ('000)	1-6/2011 EUR ('000)	1-6/2010 EUR ('000)
Operating activities:				
Net result	95	-487	-741	-1,734
Reconciliation of the net profit for the year to net cash flow from operating activities:				
Depreciation, amortization and write-downs	126	135	255	254
Asset disposals	1	4	1	5
Change in non-current provisions	58	-32	84	-36
Unrealized re-measurement gains/losses on currency differences	53	-88	160	35
Other cash expenses	1	1	2	2
Changes in assets and liabilities:				
Change in trade accounts receivable	-1,229	1,130	-2,246	1,596
Change in other assets	47	173	-519	1,278
Change in trade accounts payable	1	-86	-203	-472
Change in provisions and other liabilities	-1,962	-2,782	5,473	3,420
Net cash flow from operating activities	-2,809	-2,032	2,266	4,348
Cash flow from investing activities:				
Expenditures for the acquisition of interests in businesses less cash and cash equivalents acquired	-9	-42	-14	-168
Investments for intangible assets	-80	-155	-202	-180
Net cash flow from investing activities	-89	-197	-216	-348
Cash flow from financing activities:				
Change in treasury stock	1	-3	1	-8
Net cash flow from financing activities	1	-3	1	-8
Change in cash and cash equivalents	-2,897	-2,233	2,051	3,992
Cash and cash equivalents at beginning of period	15,662	16,548	10,713	10,323
Cash and cash equivalents at end of period	12,764	14,315	12,764	14,315

Consolidated Statement of Changes in Equity (EUR '000)	Share capital	Additional paid-in capital	Other re- serves	Treasury stock	Net un- appropriated result	Total
As of 31 December 2010	11,569	5,585	820	-843	3,252	20,383
Net income / loss			159		-741	-582
Capital increase						
Options granted		2				2
Treasury stock				1		1
As of 30 June 2011	11,569	5,587	979	-842	2,511	19,804

2010 (TEUR)	Share capital	Additional paid-in capital	Other re- serves	Treasury stock	Net un- appropriated result	Total
As of 31 December 2009	11,569	5,951	692	-841	7,743	25,114
Net income / loss			35		-1,734	-1,699
Capital increase						
Options granted		2				2
Treasury stock				-8		-8
As of 30 June 2010	11,569	5,953	727	-849	6,009	23,409

Notes to the consolidated financial statements as of 30 June 2011

Accounting Rules

This half-year report of update software AG has been prepared in EUR, the company's corporate currency, as per IAS 34 "Interim Financial Reporting" in accordance with the International Financial Reporting Standards (IFRS) to be applied as of the end of the reporting period. The accounting principles and calculation methods used in the consolidated financial statements for the year ended 31 December 2010 have not changed. For further details see the consolidated financial statements of update software AG as of 31 December 2010.

Auditor review

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 30 June 2011 is approximately EUR 0.4 million (30 June 2010: EUR 0.4 million).

Material events after closing date

As per a duly notarized merger agreement dated 11 July 2011, the three German subsidiaries of the update group – update software Germany GmbH (registered office: Frankfurt), update Life Sciences International GmbH (registered office: Munich) and update Financial Services International GmbH (registered office: Cologne) – were merged by way of amalgamation by absorption. The absorbing company, update Financial Services International GmbH, will continue to exist as such. It will, however, change its registered name to update software Deutschland GmbH and move its registered office to Munich. The locations in Cologne, Frankfurt, and Munich will remain in operation, and no changes in headcount have been envisaged. Once registered in the Commercial Register, the tax effect of the changes will be effective retroactively as of 1 January 2011.

Stock Option Program

	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
Options granted		
Options exercised	2,520	1.99
Options expired		
Options issued as of 30/06/2011	721,548	2.77
Exercisable as of the end of the quarter	704,673	
Options available for granting	214,414	
Total options exercised	448,841	

Overview Corporate board members

The table entitled "Corporate board members" shows the number of update software AG securities held by board members as of 30 June 2011.

Corporate board members	Member of	Shares	Options
Frank Hurtmanns	Supervisory Board	4,278	0
Hans Strack-Zimmermann	Supervisory Board	65,715	0
Richard Roy	Supervisory Board	0	0
Josef Blazicek	Supervisory Board	0	0
Gerhard Auer	Supervisory Board	0	0
Helmut Fink	Management Board	0	0
Thomas Deutschmann	Management Board	100,000	300,000
Uwe Reumuth	Management Board	0	0
Arno Huber	Supervisory Board	848,334	100,000

Share buyback

At the ordinary shareholders' meeting on 18 May 2011, the company's board of management was authorized to implement another share buyback program. The buyback program began on 28 June and is expected to end on 18 November 2013. Under this program, the company can buy back ordinary bearer shares of update software AG to an extent of up to 10% of its share capital, including own shares already acquired. If the approved volume is fully exploited, the number of treasury stock would rise to 1.156 million. The price range for the buyback was fixed by the 14th ordinary shareholders' meeting on 18 May 2011 at EUR 1 to EUR 10. 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. Further details will be published on the company's website at www.update.com

Trea- sury stock	Date	Shares	Share capital	Capital share
Balance	31/03/2011	294,405	294,405	2.5 %
Balance	30/06/2011	293,423	293,423	2.5 %

Headcount HC	Q2/2010	Q2/2011
R&D	92	94
Sales, marketing & business solutions	145	164
Administration	31	31
Total	268	289

The headcount (at the end of the period) also includes update's freelance workers. The increase is mainly due to the need for more capacity in the sales, marketing and business services units.

Annual general meeting

update software AG's ordinary shareholders' meeting took place on 18 May in Vienna, Austria, on the premises of "Wolke 19". Shareholders representing approximately 4.6 million voting shares were present and approved all agenda items either unanimously or with a majority. With regard to agenda item 5, "Elections to the Supervisory Board," the majority of the shareholders approved the re-election of Mr. Josef Blazicek, Mr. Frank Hurtmanns, Mr. Richard Roy, and Mr. Hans Strack Zimmerman as members of the Supervisory Board. Furthermore, the motion made by Shareholder Value Beteiligungen AG to expand the Supervisory Board to six members was approved and Mr. Helmut Fink appointed as an additional member. The ordinary shareholders' meeting also gave their consent to the execution of another share buyback program, details of which have been set out above.

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the half-year financial report give 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, 4th August 2011

The Management Board



Thomas Deutschmann, CEO



Dipl.-Wirtsch.-Ing. Uwe Reumuth, 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.

At a price of EUR 2.87, update's share posted a 30.1% plus in the second quarter of the year. The trading volume in this period was approximately 0.4 million shares (XETRA and Frankfurt).

Share price performance YTD (indexed)



Trading system:	XETRA + Frankfurt
Period:	31/12/2010 – 30/06/2011
Price on 30/12/2010:	2.40 EUR
Price on 30/06/2011:	2.87 EUR
Price performance:	19.6 %
Average total volume/day '11:	~ 5,745 shares
Average total volume/day '10:	~ 11,994 shares
Total volume 2011 (YTD):	729,720 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 calcu-

lated 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, ...

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. 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

Q3 2011 results

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