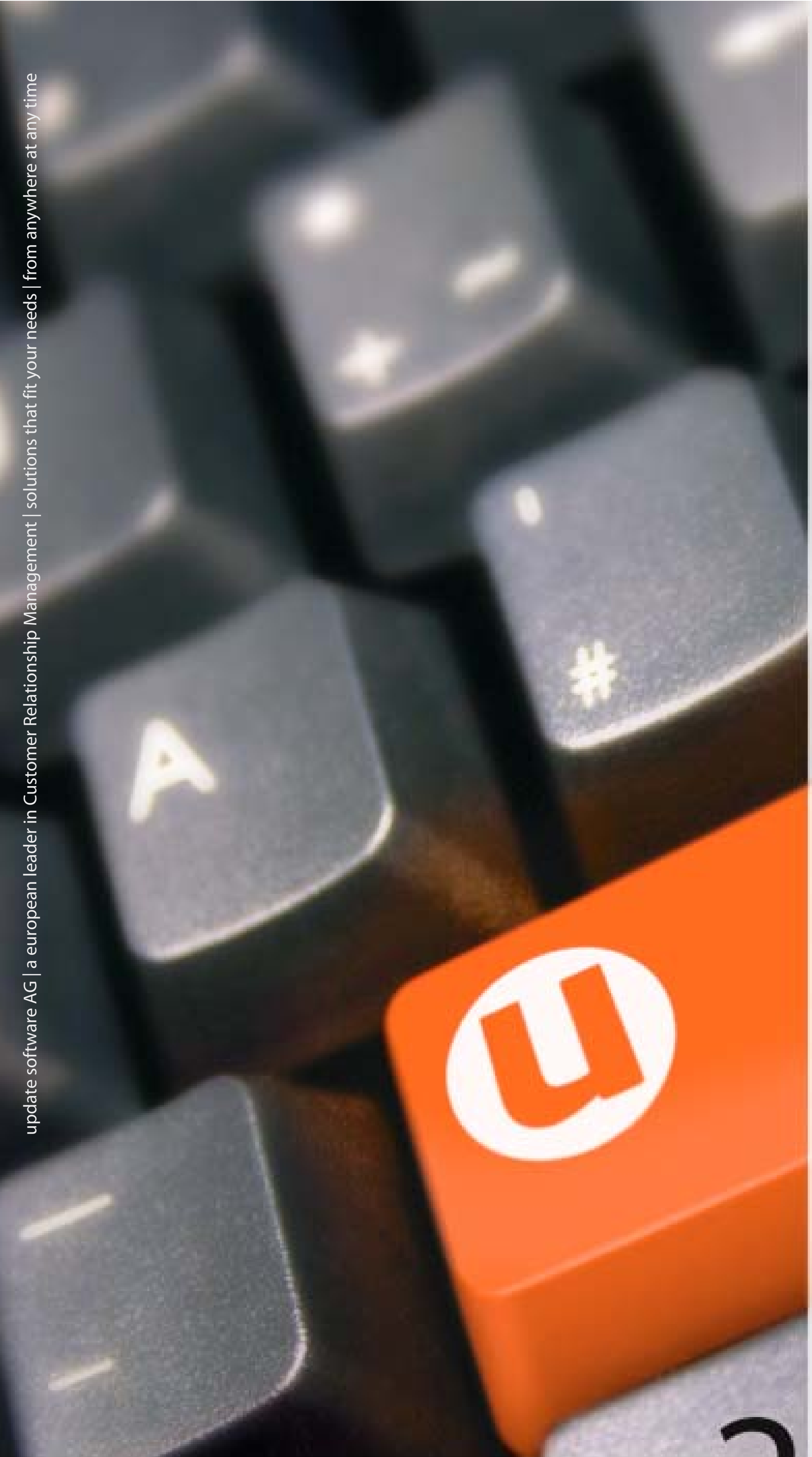



update software AG | a european leader in Customer Relationship Management | solutions that fit your needs | from anywhere at any time

update
go relate™

# 2004
# Annual Report

Ready, steady, »***go***relate«! Sounds good. Feels good.
Because relationships determine our lives. And our actions. Both professionally and personally. The world turns around them. We do too. We live relationships. »***go***relate«

# Relationship 1

When we promise our clients »***go***relate«, we keep that promise by listening closely to their needs. We understand their goals and think ahead. To simple and better solutions. So they work in the long term. We also rise immediately to new challenges – focused on the client, ready for action.

»***go***relate«
***our approach is the passion to understand***

# Relationship 2

»***go***relate« is our clients keeping promises to their clients. Because they are inspired. Because they have an individually tailored relationship management solution. Because they utilise all available information to surprise their clients again and again.

»***go***relate«
***when data turns into real touch points***

# Relationship 3

For our staff and partners, »***go***relate« means commitment and open communication. Valuing everyone's individual contributions. Pursuing and achieving common goals. An active exchange for motivational drive.

»***go***relate«
***the driving force for mutual advantage***

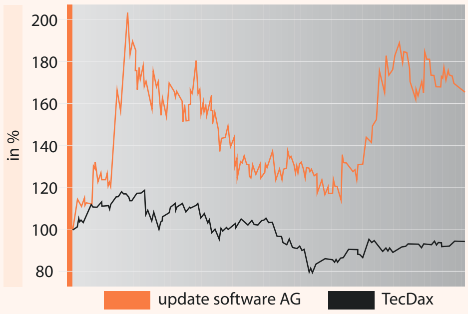
Can we really make things so simple? We are convinced we can. In fact no other option - the quantity of our daily contacts is rising and the quality must keep pace. Without using complicated systems but rather with solutions which simplify – and multiply – excellent relationships. Close to people. Living relationships. »***go***relate«

# Contents

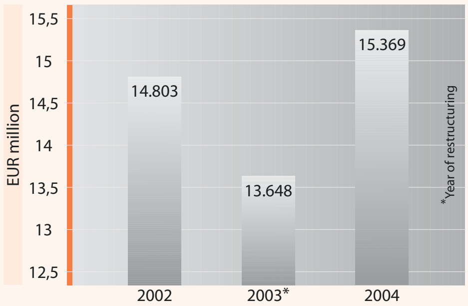


Imprint
Editor: update software AG, Operngasse 17-21, 1040 Vienna,
Concept, photos, layout & producing: Merlin Medienproduktion, Vienna • Print: Raser, Vienna

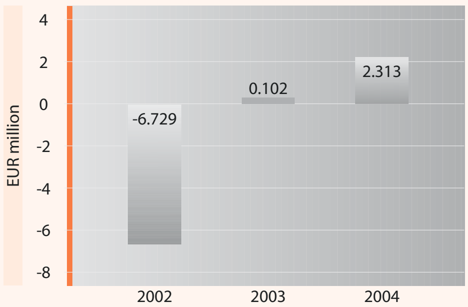
Share Performance 2004 XETRA



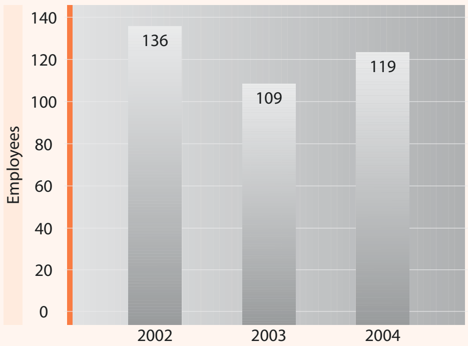

Sales Revenue




Operating Income




Employees



# Letter of the CEO

**Dear Shareholders, Customers and Colleagues,**

2004 was a year with conflicting signals from the markets in which update software AG operates. On the one hand, it was marked by very slow economic growth, accompanied by the continuing difficult macroeconomic situation in Germany. On the other hand, there was a cautiously optimistic stabilisation in countries such as Austria or the Netherlands and – in spite of all difficulties – a positive upbeat mood in the new EU countries.

update was able to meet the challenges equally well in all of these markets, regardless of their different stages of development or macroeconomic trends and specific structures. For example, we succeeded in doubling the new license business in Germany compared to the previous year and expanding our market leadership in Austria. In the new EU countries, after a successful project, we confirmed our leadership by opening a branch in Hungary.

In view of these successes, the 2004 fiscal year was the most successful in the company's history to date.

With an EBIT margin of 15 %, update software AG markedly outperforms many competitors of comparable size and business activities in the relevant performance indicators. After restructuring in 2003, revenue was increased significantly in 2004. With revenue growth in excess of 12 % compared to 2003 we have achieved a visibly stronger momentum than most of our competitors as well as the large market leaders in our segment. This expansion in business volume is particularly notable in that it is based almost solely on new license business. The extent to which the new license business increases is one of the significant, if not the most significant, indicator of a software company's capability and agility. By increasing new license revenue by more than 25 % compared to the previous year, update has impressively proven its ability to contend in the markets it serves.

Our operating performance was met by such a positive response on the market that the share price rose about 68 % during the year from EUR 1.52 to EUR 2.55 (also see chart "Share Performance 2004 XETRA").

Although concentration in the software industry continued to follow the motto "big is beautiful" – and is likely to continue further – (the most striking example was certainly the take-over of Peoplesoft by Oracle) update was able to play off its strengths. As a medium-sized software company we maintain a more direct relationship with our customers and partners and are thus able to meet our customers' needs on a more individual basis. This criterion represents a competitive advantage that should not be underestimated. We have linked this "character" of our company with the actual purpose of our CRM software, namely improving customer relationships, and also expressed this in the international "gorelate" campaign that we very successfully conducted in the year just ended. You are thus seeing update in a fresher, more modern appearance, and with an even stronger emphasis on our traditional values - uncompromising customer focus, specific industry expertise and technological leadership.

At more than 22 % of our budget, we invested a comparatively high amount in our research and development in 2004. And once again it showed that the continuous enhancement of our software is a necessary and good investment. Once again, our product was selected by international, independent analysts such as ISM as among the 15 best CRM solutions world-wide. In addition, Microsoft, which supplies our base technology, lists our implementation in the highest possible quality ranking. It is significant that, after intensive research and careful comparison, another 6,000 professionals in more than 50 companies decided to deploy marketing.manager, our core product, to improve customer relationships. At the end of the year we launched a new version of marketing.manager (also see section "Research and Development"), which was extremely well received. In this manner, we want to ensure that we continue to rank among the leading providers of CRM solutions.

As part of our corporate focus program introduced in 2003 we announced an intensification of our activities in Eastern Europe, in particular the new EU accession countries. In 2004, we strengthened our sales and marketing activities, gained representative customers and forged important strategic alliances in the region. Towards the end of the year, the branch in Budapest, Hungary, was opened, and in the first quarter of 2005 we significantly strengthened our presence in these countries by acquiring a Polish competitor. This bundle of actions has given update an excellent position for assuming a market leading position, initially in the new EU countries, and over the mid-term, in Eastern Europe as well. Part of the capital required for this expansion was provided by a capital increase in February 2005. As update was able to distinguish itself through country-specific versions, we thus created the foundation for long-term success during 2004.

The German-speaking countries were the most important markets for update in Western Europe. These countries were also marked by heavy competition combined with flat market growth in the year under review. However, thanks to our focus on industries that appreciate the quality of our product and the customer centricity that typifies update, we significantly increased revenue over the previous year in Austria and Germany, clearly improved profitability, and visibly gained market shares. Even though we cannot assume that the market conditions here will improve substantially, we have proved that we can use our offering in our target markets to decouple from the economic trends at least in part. This has enabled us to post significant profitable growth in spite of generally declining or stagnating growth. Having said that, we expect a continuation of difficult market conditions in Western Europe in 2005, but also an update software AG that will significantly outperform the market average.

Overall, we view 2005 somewhat more confidently, but with the necessary strong focus. We do not expect that the markets will come to us, but believe that we can successfully go to them. We expect competition to intensify and assume that we can adjust to this development successfully. We do not believe that customers' trust will be easily gained, but we are convinced that we can build and justify this trust.

As shareholders or customers, you have given us this trust in 2004. I hope that we have not disappointed you and would like to expressly thank you for this trust.

Thomas Deutschmann

# Report of the Supervisory Board

**Dear Shareholders,**

Following restructuring in 2003, 2004 was update software AG's most successful financial year to date. Our chosen growth strategy has been systematically implemented, while keeping an eye on profitability at the same time. As a result, update posted not only an increase in revenue of approximately 12 %, but also a positive net income for the year. At the same time, further milestones in the development of the Eastern European markets were achieved, among others, the opening of a branch in Hungary in December 2004, and the acquisition of Process4E S.A. in Poland in March 2005.

The successful execution of the capital increase in the first quarter of 2005 provided additional important momentum for the company.

Against this background, the Supervisory Board would like to thank the Board of Management and all employees for their hard work and loyal co-operation. The Supervisory Board was kept informed on company developments by the Board of Management during regular meetings and performed the duties entrusted to it under the law and the Articles of Association. These annual financial statements have been audited by Deloitte Wirtschaftsprüfungs GmbH, Vienna, Austria. The audit gave no grounds for objection and an unqualified audit opinion has been issued.

The Supervisory Board is in agreement with the annual report submitted by the Board of Management for the 2004 financial year and the proposed distribution of profits. The annual financial statements are thus adopted pursuant to Section 125(2) of the Austrian Stock Corporation Act (Aktiengesetz – AktG).

In the light of the steps taken over the last two financial years and based on the current development of business, the Supervisory Board is very confident that update will be able to continue its successful strategy.

Frank Hurtmanns
Gilbert Hödl
Hans Strack-Zimmermann

## Company Profile

With over 750 customers and 81,000 users, update software AG is a leading European provider of Customer Relationship Management (CRM) software solutions. Based in Vienna, the company has subsidiaries in Germany, Switzerland, the Netherlands, France, Hungary, Poland and the Czech Republic, and is represented throughout Europe by a number of established partners. update is focused on improving customer-related business processes in sales, marketing and services.

The marketing.manager product suite comprises a variety of applications, and offers a flexible standard solution for operative, collaborative and analytical CRM. marketing.manager is available in 21 languages.

Founded in Vienna in 1988, the company has concentrated on businesses in vertically structured markets (construction, financial services, manufacturing, energy utilities, capital goods and pharmaceuticals). Renowned customers include 3M, AstraZeneca, Axel Springer, Beiersdorf, Canon, DuPont, ESTAG, Imperial Tobacco, Landesbank Rheinland-Pfalz International S.A., LBS Nord, Magna Steyr and Pernod Ricard. Successful system implementation is guaranteed through the internal Professional Services Group, as well as via a network of experienced system integrators (amongst others Atos Origin, Dendrite International, EDS, IDS-Scheer Austria, Sensix, Siemens Business Services and Softlab).

# Market and Industry Sector

## Overview

Between 2001 and 2003, the world-wide software industry was characterised by a continual process of contraction and consolidation. The first indications of a positive development were seen toward the end of 2003. This trend continued throughout 2004. The growth rate stayed within the single-digit range. Regional development continued to vary, with Eastern Europe, Asia and Latin America showing a sustained upswing. In contrast, the investment climate is far more reserved in the US and Western Europe. In Western Europe in particular, the home-made problems of the two largest national economies – Germany and France – continue to slow the urgently required reduction in the corporate investment backlog. These developments also affect the CRM sector as a subsegment of the global software industry. Analysts estimate Customer Relationship Management software will post cumulative growth of 4 % in Europe.

## Competitive Environment

The market for CRM solutions was also strongly characterised in the past year by consolidation and shake-out, which appears to be continuing. Smaller local companies in the German-speaking area are among those most affected by this trend. A number of providers proved incapable of surviving the slowdown in the investment climate and the continuing dominance of strong price pressures in what is essentially a "buyer's market". They had to discontinue operations or were taken over by competitors or private equity investors. Above all, this phenomenon was seen in the hard-fought market in Germany. US providers chose another path: They increasingly pulled back from the European market, which is less lucrative from their perspective, in order to make a greater commitment in the expanding Asian markets. Overall, the number of active providers in the European CRM market, especially in the German-speaking area, fell significantly.

## Market Trends

Fortunately, after several years of a climate in which capital expenditures were anathema, followed by cost reductions, a clear reversal of the trend is now apparent: Companies are continually reducing the backlog in capital spending and once again are positioning themselves explicitly on growth. This favours the implementation or expansion of CRM-supported business processes for sales, marketing and services. Because only by implementing a consistent CRM philosophy is it possible to optimise and increase a company's customer focus and the resultant increases in revenues.

**Industry-specific CRM Solutions**

In addition, the sophisticated market for customer relationship solutions demands consistent verticalisation to be able to meet the needs of individual industries better, faster and more consistently. Only CRM solutions reflecting extensive knowledge of an industry ensure that the initial investment costs will pay back quickly. Protracted implementations of universal frameworks that require extensive adaptations is more and more a thing of the past and is finding less and less acceptance by the market.

**Mid-sized Companies as Growth Engine**

After the relative saturation of the Top-500 market, CRM providers are focusing increasingly on the lucrative segment of medium-sized enterprises, which had previously been mostly disregarded by the major CRM providers. Due primarily to their often changing business processes, medium-sized companies, which are strongly represented in the German-speaking corporate landscape, are showing an increased demand for CRM solutions that can be implemented rapidly and are easily maintained. While CRM projects for mid-sized companies are just as demanding as major projects in terms of requirements and complexity, they have a higher price sensitivity.

**On-demand CRM Solutions**

Medium-sized enterprises in particular shrink from unnecessary risk when implementing new software solutions, such as Customer Relationship Management. Hosting solutions or ASP models (application service providers who make computer applications available to other companies over the Internet) can remedy this and help lower the investment barrier significantly. With these models, instead of having to invest in an internal CRM infrastructure, a CRM solution that is already operated by the service provider can be leased, at a transparent cost that can be calculated exactly. Companies with a high proportion of standardised and a rather small proportion of custom business processes in particular are using this approach. After the CRM solution is adapted and established, the customer can decide whether he wants to continue to operate the software as an ASP model or prefers a smooth transition to an in-house solution. Given the success in Anglo-Saxon markets, more and more Central European companies are asking for this type of solution.

To summarise, the following market trends can currently be identified:

- Verticalised CRM solutions with a focused adaptation to industry-specific processes are showing the strongest growth.

- Strong demand by medium-sized companies for CRM solutions. With high demands on complexity and scope, this growth segment is marked by high price sensitivity.

- Hosted CRM solutions are especially suitable for smaller companies with a high proportion of standard processes.

# Business Performance

- Sales revenue increased by 12.6 %
- License revenue increased by 25.6 %
- First positive annual net income since the IPO
- Increase in operating profit by more than 2,000 %
- Successful expansion strategy

## update software AG

The company is the group headquarters and is responsible for strategic activities such as planning, research and development, marketing, corporate finance and investor relations.

Sales revenue totalled around EUR 7.145 million and consisted essentially of royalties and service charges with subsidiaries, which corresponds to an increase of 70.6 % compared to 2003 (EUR 4.188 million). The result from ordinary business activities increased from EUR 1.031 million in 2003 to EUR 2.631 million in 2004.

The net loss for the year, movements of reserves and the loss carried forward from the previous year resulted in an accumulated deficit of EUR 3.563 million, compared to an accumulated deficit of EUR 6.051 million in 2003.

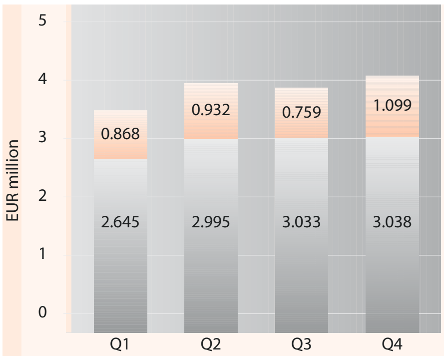
As of 31 December 2004, equity capital totalled EUR 6.022 million (2003: EUR 3.438 million) and thus represents an improvement of around 75.2 % year-on-year.

## Group

**Sales Revenue**

The company earned total revenue of EUR 15.369 million in the 2004 financial year and was thus able to increase year-on-year revenues for the first time since going public (2003: EUR 13.648 million). This increase corresponds to around 12.6 %. Broken down by individual sales segment (licenses, services and maintenance), the sharp rise in pure license revenue of around 25.6 % is especially notable. Year-on-year, maintenance revenue rose by 6.0 % and service revenue by around 5.3 %.

Sales revenue also increased when compared to the corresponding previous year's quarters. Total sales revenue was EUR 3.513 million in the first quarter, an increase of around 12.3 %. In the second quarter, sales reached EUR 3.927 million, up 21.5 %. In the third quarter, revenue increased by 10.1 % to EUR 3.792 million, and by 7.6 % to EUR 4.137 million in the fourth quarter.




**Sales revenue 2004**

The sales revenue was increased by 12.6 % compared to 2003.

**Costs**

Costs were reduced in 2004 by almost 3.6 % to EUR 13.056 million, from EUR 13.546 million in the 2003 financial year. Marketing and sales expenditures fell by 8.5 % from EUR 5.213 million to EUR 4.770 million. Administrative costs were reduced by 7.4 % in the year under review to EUR 1.940 million. In spite of widespread cost savings, research and development costs were increased by 6.8 % to EUR 2.887 million. This ensures the further development of update products at the highest technological level.

| **2004 cost structure (EUR million)** | Portion of costs | Q1 | Q2 | Q3 | Q4 |
|---|---|---|---|---|---|
| Cost of goods sold | 26.5 % | 0.861 | 0.786 | 0.747 | 1.065 |
| Sales and marketing | 36.5 % | 1.106 | 1.222 | 1.097 | 1.345 |
| Research and development | 22.1 % | 0.675 | 0.706 | 0.711 | 0.795 |
| Administration | 14.9 % | 0.424 | 0.492 | 0.470 | 0.554 |
| **Total costs** | **13.056** | **3.066** | **3.206** | **3.025** | **3.759** |

Due to a strict cost management, the total costs were reduced by barely 3.6 % compared with 2003.

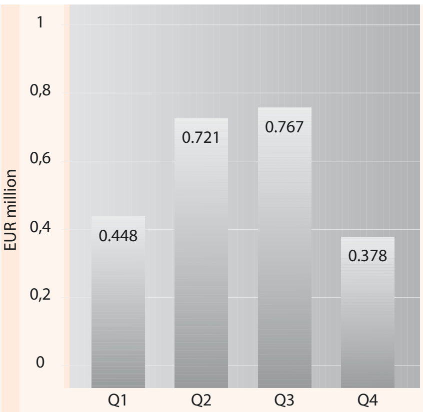
In addition, cost of goods sold were reduced by 2.1 % from EUR 3.535 million to EUR 3.459 million in the

2004 financial year. These measures increased the gross margin to 77 % . This corresponds to an increase of three percentage points compared to 2003.

The higher costs in the fourth quarter of 2004 as compared to the first three quarters of the year under review are attributable to investments and activities related to growth and expansion, among them the founding of the branch in Hungary as well as preparation for the acquisition in Poland.

### Earnings

For the first time since the initial public offering the company generated a net annual profit. Net annual income was turned around from a loss of EUR 0.419 million in 2003 to a profit of EUR 2.605 million in 2004. This corresponds to earnings per share of EUR 0.28 (2004 average number of shares issued: 9,381,967). Operating profit was increased from EUR 0.1 million in 2003 to EUR 2.313 million in 2004.




**Operating income**

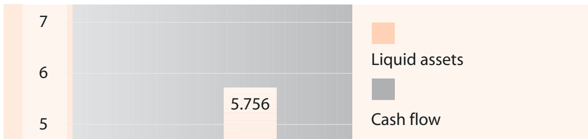
The lower EBIT in the fourth quarter of 2004 as compared to the first three quarters of the year under review are attributable to investments and activities related to growth and expansion.

### Balance Sheet

Total assets as of 31 December 2004 were EUR 11.610 million, compared to EUR 8.746 million as of 31 December 2003.

Liquid assets were increased in 2004 by EUR 1.637 million to EUR 5.756 million, while cash inflow was just EUR 0.634 million in 2003. As of 31 December 2003, the balance of liquid assets totalled EUR 4.119 million.

Shareholders` equity also increased as a result of the positive earnings. Equity rose 63.2 % to EUR 6.849 million as of 31 December 2004 (shareholders` equity as of 31 December 2003: EUR 4.197 million). An additional inflow of capital occurred in February 2005 by way of a 10 % increase in capitalisation from the issuance of 938,196 new shares at a subscription price of EUR 2.61 per share. The issue proceeds totalled around EUR 2.449 million. The total number of shares thus increased to 10,320,163 with a nominal value of EUR 10.320 million. The proceeds from the capital increase are intended in particular to finance the expansion strategy in the new EU accession countries that is already underway. In this context, the acquisition of Process4E S.A., a Polish CRM company, at a purchase price of PLN 6.6 million (around EUR 1.6 million), in the first quarter of 2005 should also be mentioned.

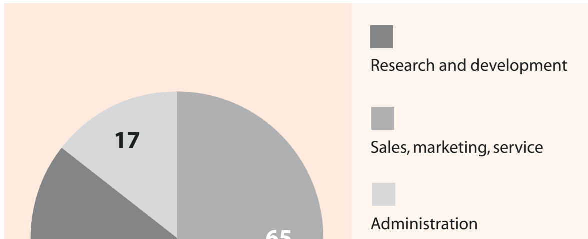



**Liquid assets and cash flow**

Liquid assets and cash flow: The liquid assets were increased by 39.7 % compared with 2003.

### Employees

The number of employees in 2004 increased from 109 to 119 (as of the end of December 2004). This corresponds to an increase of around 9.2 %. The number of employees in sales, marketing and service increased from 60 to 65 individuals (+ 8.3 %) and in research and development from 32 to 37 individuals (+ 15.6 %). The number of employees in administration remained unchanged at 17. The increase in staff was a result of the growth course we have taken, which is set to continue in 2005.




**Employees 2004**

As of 31 December 2004 the number of employees was 119.

The number of employees rose by another 11 individuals due to the acquisition of Process4E S.A. in Poland in the first quarter of 2005.

**Customers and Partners**

In 2004, update once again succeeded in making its mark and standing out from the competition. Long-term proof of this are renowned new customers such as Pernod Ricard Europe, the largest producer of distilled spirits in the euro zone. This company, which has more than 12,000 employees and generates revenues of around EUR 3.5 billion, includes such well known brands as Chivas Regal, Martell, Havana Club and Ramazotti.

Edelstahl Witten Krefeld, a subsidiary of Thyssen Krupp Steel, was also gained as a customer in 2004. This global company generates revenues of around EUR 630 million and is the German market leader for long products from stainless steel.

In Austria for example, in addition to Austria Presse Agentur (APA), bauMax also chose the marketing.manager CRM suite. With revenue in excess of EUR 900 million, bauMax is Austria's leading do-it-yourself chain as well as one of the leading chains in Eastern Europe.

In addition, existing marketing.manager installations were optimised and expanded at a number of satisfied existing customers in the financial year just ended, for example, at Roche in the Middle East and Hypovereinsbank in Hungary.

Co-operations with our partners also made an important contribution to the successful 2004 financial year. Existing partnerships were expanded or intensified and new partnerships were entered into. Of particular interest perhaps are the local partners in the new EU countries and Eastern Europe: For example, we won over SRC, which is one of the largest IT service providers in Slovenia, with more than 200 employees. SRC chose marketing.manager as its exclusive CRM solution for its customers. Other local partners in Eastern Europe include ATK Consulting Group in Russia, as well as Binta, an IT service provider specialising in financial services in the Czech, Slovakian and Bulgarian sales regions.

**Research and Development**

Due to the further increase in investments in research and development from the already high level in the previous year, the development and quality assurance sections of the research and development team were cautiously expanded. Research and development's main activities focused on completing the marketing.manager 6 product suite and preparing the "X-Pack", a feature pack for update.win emphasising process visualisation and analysis. A total of 15 software releases were prepared and delivered in 2004 for the marketing.manager 5.0 and 6.0 product generations.

The successful launch of the general version of marketing.manager 6.0 in October 2003 was followed in the beginning of 2004 by the release of Service Pack 1 of marketing.manager 6.0 as well as industry-specific solutions for pharmaceuticals and financial services, including the related migration packets.

Thus, as of spring 2004, the entire product family of the 6$^{th}$ generation of marketing.manager was available for new and existing customers in all industries.

By supplying the product suite with three different client layouts, update not only supports the CRM multi-channel approach, but also fully takes into account its clients' differing infrastructural situations and requirements. Depending on the client's needs, the three applications, update.win, update.web and the mobile client update.pda, can be deployed either individually or in any desired combination.

update.win is update's classic, highly functional, Windows-based solution for professional operational CRM in marketing, sales, service and management. update implemented extensive functional enhancements for version 6.0 with the release of "X-Pack" (extended service pack) for update.win. This service pack was presented at the CRM-expo in the autumn of 2004 and has been available since December 2004. It can be fully deployed by existing customers with no migration required. The substantive focus of this feature pack lies on process visualisation and information compression.

By completely and seamlessly integrating the analysis and reporting functions in the application, making their use intuitive and thus usable by every user in their daily work processes, update.win now provides even better support to users. Each individual user can now summarise information themselves directly in the application, create graphs or access prepared reports.

update.web is the web-based client for professional operational CRM in marketing, sales, service and management in the familiar browser environment. The application is based on the future-oriented Microsoft .NET technology, is highly interactive, simple to use and offers wide-ranging functionality. Thanks to its modern architecture and the technologies employed, the application is highly scaleable. Just as the complementary Windows client update.win, update.web offers a high degree of adaptability and configurability. In addition to the options provided by update.webdesigner, the web-based configuration tool, update.web can be expanded and adapted using the API (application programming interface) published in the course of the year.

In addition to the many functions available offline, the new version of update.pda also offers an online area that gives the user online read and write access to the central CRM database at any time. The application excels in its intuitive operability and is highly adaptable and configurable. update.pda is suitable for any Windows Mobile-based pocket PC (Pocket PC 2002 or higher) and is available with functions tailored to different industry segments.

***Support for 21 Languages***

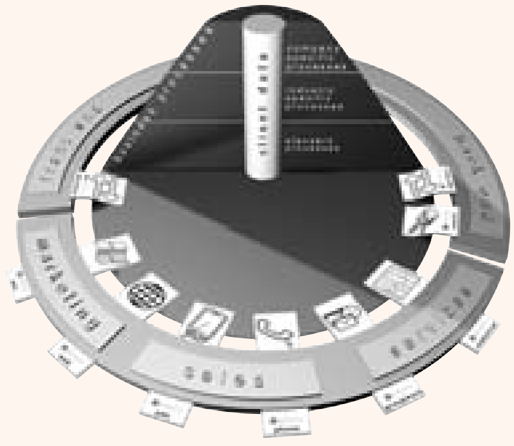
In view of its pan-European approach, update has always been concerned with the multilingual nature of its products, which represents an important competitive edge. With the newly-added languages, Croatian, Slovenian and Serbian, marketing.manager 6.0 can now be operated in as many as 21 languages.

***Integration***

Integration of marketing.manager in existing systems and applications is yet another focal point. For example, update.groupware supports the bi-directional exchange of data between marketing.manager and Outlook or Lotus Notes. Based on industry standards, update.phone allows the intelligent linking of CRM and telephony. Using the integration hub, update.interface, any desired integration scenarios can be implemented, for instance with ERP systems such as SAP/R3, Internet applications or other business applications using a wide variety of technologies (XML via HTTP, (D)COM, etc.).

***Intensive Co-operation with Customers***

In order to be able to adjust to rapidly changing customer needs the company develops its products in close co-operation with its customers. Among other measures, update organised another "Architects Council" in 2004 (this time on "mobile CRM"), which provides for an exchange of experience with selected customers.



**marketing.manager**
The product suite of update software AG.

***Market Successes and Innovations***

The 6th generation of marketing.manager was very well received by the market. One example of this is the fact that another 50 new customers selected update products in 2004. Winning trade awards also confirms the acceptance and quality of the solutions offered by update. Again as in past years, two update customers (Watt Deutschland and Schülke & Mayr) won the coveted "Best Practice Awards" for outstanding CRM projects. And for the seventh time in a row, update's marketing.manager won the much sought-after "ISM CRM Award" in the "ISM Top 15 CRM SMB Winners" category.

# Outlook

The outlook for 2005 is characterised by several, to some extent contradictory market trends. These result in a mixed picture, making it difficult to provide a reliable forecast.

The macroeconomic forecasts for 2005 in Western Europe are generally less than encouraging. In a similar vein, the specific forecasts by analysts for the IT and software market assume only weak growth. However, in an industry that has had to battle with declining customer budgets for the last four years, this is already viewed as a positive signal. It must be emphasised in this connection that a high absolute level of IT and software expenditures can be taken as a basis, which, given a barely changing market volume, permits growth by crowding out the competition. In Eastern Europe, the situation is reversed to a certain extent. Here, the IT market's attractive growth figures need to be seen in light of the comparatively low absolute level.

The outlook for the CRM market must be considered somewhat more specifically, as it has recently suffered from particularly restrained investments. This can be explained by the fact that CRM software is implemented primarily from a desire to improve or start customer relationships or tap into markets in general. As the majority of companies has recently focused more on cost reduction than on increasing revenue, CRM projects were often not given adequate priority and thus not implemented. This picture appears to be changing as many companies have now "done their homework" and realise that increasing earnings by reducing cost is unreasonable in economic terms and hardly a long-term solution. So companies are again increasing their focus on improving earnings by maximising revenues with a view to expected economies of scale. As a consequence, the combination of the backlog in technological spending and the economic necessity of optimising customer interaction processes can result in a more positive market situation for update.

Getting somewhat more granular on the CRM market, analysing update's target market, one can still assume comparatively low saturation of the market. update's product range addresses neither small nor extremely small companies nor major groups. In this middle segment, there are comparatively few professional, economic solutions, yet the market is comparatively receptive. If one also considers that this target market in Western Europe, the "upper mid-range segment", traditionally looks for quality and acts dynamically, these requirements favour update as a provider of a high-quality, industry-based, rapidly implementable solution.

The size and structure of almost all companies in the new EU accession countries also work in update's favour. If they are subsidiaries of international groups, they mostly operate in magnitudes and process structures that are ideally served by update solutions. In addition, update's international orientation is preferred over suppliers operating at a purely local level. These companies also view the advanced technology and the availability of localised versions as clear advantages.

In this connection, our increased activities in the new EU countries must be emphasised yet again. We have implemented important milestones in our Eastern European strategy with our subsidiary in the Czech Republic, which has been in existence since 1994, the founding of a branch in Hungary in December 2004, as well as the take-over in 2005 of Process4E S.A. in Poland. In the coming years, update is quite clearly striving for market leadership in these countries. Preparations are underway for market entry into other Eastern European and new EU countries as well. This expansion strategy will be flanked on the one hand by targeted marketing activities, and on the other hand by the expansion of existing partnerships (e.g. Dendrite Hungary) or by gaining new strategic partners such as SRC in Slovenia (also see section "Customers and Partners").

Overall, update is entering 2005 as a well positioned, clearly focused company with a number of advantages that its competitors cannot soon surpass. That is why update, in spite of economically difficult conditions, is planning on profitable growth from internal resources above the market average.

update will expand its role as a technology leader in 2005. Again this year we will make higher investments in research and development compared to our competitors. This is not only necessary to account for the dynamic and permanent change in business processes at our customers, but also to be able to support them with our software as efficiently as possible. Above all it is indispensable for strategic reasons. While some software companies attempted to compensate for earnings problems resulting from sales declines by savings in research and development in the past two to three years, we have at least maintained our level of expenditures and actually planned an increase in the near term. This allows update to use state-of-the-art development tools and methods intended to make our products substantially easier to integrate in the IT environments on the one hand, and to increase our products' investment safety and hence their future deployability on the other hand. These modern development platforms enable us to use substantially more effective and more efficient forms of software development, resulting in faster and lower-cost production of our software. We can pass this advantage on to our customers and thus enhance our competitiveness. Again in 2005, update will set great store on the permanent improvement in the quality of our products.

In 2004, update's big plus was our extensive product range, which gives our customers the choice of how they want to work with our solutions. marketing.manager can be used on a wide variety of devices such as laptops, desktops, PDAs or even mobile phones. It doesn't matter whether this is done using Internet technology or in a Windows client-server environment. Data may be saved centrally or decentrally – and all of these possibilities can be combined. Some CRM solutions providers fiercely preach one specific way or the other of using a solution (e.g. ASP). In contrast, update is able to give its customers the choice and to advise them completely unibased. update is well prepared for all technological developments and will continue to offer its customers the choice between proven traditional and newly-developed forms and ways to use its solution.

update software AG has a clear-cut focus on markets with low saturation and a favourable competitive environment. In its various possible uses, the software we have developed is proving to be highly attractive for the respective target groups.

The company is economically stable and acts with an exceedingly strong customer orientation. Our proactive risk management helps us react to any economic risks appropriately and in a timely fashion. update software AG is thus meeting the challenges of 2005 with a high degree of concentration, but also with a high level of confidence.

## Consolidated Balance Sheet as of 31 December 2004 pursuant to US-GAAP

| | 31/12/2004<br>EUR (000) | 31/12/2003<br>EUR (000) |
|---|---|---|
| **Assets:** | | |
| **Current assets** | | |
| Cash and cash equivalents (Note 3) | 5,756 | 4,119 |
| | | |
| Trade accounts receivable | 5,555 | 4,743 |
| **Less:** Allowance for doubtful accounts (Note 4) | -1,078 | -1,193 |
| Net total trade accounts receivable | 4,477 | 3,550 |
| | | |
| Deferred tax assets | 451 | 0 |
| Inventories | 0 | 51 |
| Prepaid expenses | 207 | 98 |
| Other current assets (Note 5) | 206 | 144 |
| **Total current assets** | **11,097** | **7,962** |
| | | |
| Tangible fixed assets, net (Note 6) | 447 | 697 |
| Investment securities (Note 7) | 66 | 88 |
| **Total assets** | **11,610** | **8,746** |
| | | |
| **Equity and liabilities:** | | |
| **Current liabilities** | | |
| Current instalments on long-term liabilities | 242 | 242 |
| Trade accounts payable | 779 | 573 |
| Accruals and other liabilities (Note 8) | 2,745 | 2,277 |
| Deferred income | 312 | 606 |
| **Total current liabilities** | **4,078** | **3,698** |
| | | |
| Long-term liabilities (Note 9) | 364 | 606 |
| Accrued liabilities for severance pay (Note 10) | 316 | 239 |
| Liabilities from capital leases, excluding current instalments (Note 11) | 3 | 6 |
| **Total liabilities** | **4,761** | **4,549** |
| | | |
| **Shareholders' equity** | | |
| Share capital (authorised capital EUR 4,690,983) | 9,382 | 9,382 |
| No-par value shares issued and outstanding 2004: 9,381,967 (2003: 9,381,967) | | |
| Additional paid-in capital | 222 | 222 |
| Accumulated deficit | -3,184 | -5,789 |
| Other reserves | 429 | 382 |
| **Total shareholders' equity** | **6,849** | **4,197** |
| **Total liabilities and shareholders' equity** | **11,610** | **8,746** |

The accompanying notes to the consolidated financial statements are an integral part of this consolidated balance sheet.

## Consolidated Income Statement for the 2004 Financial Year pursuant to US-GAAP

| | 2004<br>EUR (000) | 2003<br>EUR (000) |
|---|---|---|
| **Sales revenue** | | |
| Revenues from licenses and maintenance agreements | 11,711 | 10,175 |
| Revenues from implementation and services | 3,658 | 3,473 |
| **Total sales revenue** | **15,369** | **13,648** |
| **Cost of goods sold** | | |
| Cost of licenses and maintenance agreements | 853 | 849 |
| Implementation and service costs | 2,606 | 2,686 |
| **Total cost of goods sold** | **3,459** | **3,535** |
| **Gross profit** | **11,910** | **10,113** |
| **Operating expenses** | | |
| Sales and marketing | 4,770 | 5,213 |
| Research and development | 2,887 | 2,702 |
| General and administrative expenses | 1,940 | 2,096 |
| **Total operating expenses** | **9,597** | **10,011** |
| **Operating income** | **2,313** | **102** |
| Interest income | 102 | 84 |
| Interest expenses | -53 | -76 |
| Other income and expenses, net (Note 14) | 0 | -523 |
| **Earnings before taxes** | **2,362** | **-413** |
| Income taxes (Note 13) | 243 | -6 |
| **Net profit / loss for the year** | **2,605** | **-419** |
| **Earnings (loss) per share (basic and diluted)** | **0.28** | **-0.04** |
| Average number of shares issued | 9,381,967 | 9,381,967 |

The accompanying notes to the consolidated financial statements are an integral part of this consolidated income statement.

## Consolidated Statement of Changes in Equity and Comprehensive Income for the 2004 Financial Year

| | Share capital<br>EUR (000) | Additional paid-in capital<br>EUR (000) | Accumulated deficit<br>EUR (000) | Other reserves<br>EUR (000) | Total<br>EUR (000) |
|---|---|---|---|---|---|
| **Balance as of 31/12/2002** | **9,382** | **57,728** | **-62,876** | **15** | **4,249** |
| Net loss for the year | | | -419 | | -419 |
| Remeasurement gains/losses on financial instruments | | | | -1 | -1 |
| Currency translation adjustments | | | | 368 | 368 |
| Reversal of additional paid-in capital | | -57,506 | 57,506 | | |
| **Balance as of 31/12/2003** | **9,382** | **222** | **-5,789** | **382** | **4,197** |
| Net income for the year | | | 2,605 | | 2,605 |
| Remeasurement gains/losses on financial instruments | | | | 2 | 2 |
| Currency translation adjustments | | | | 45 | 45 |
| **Balance as of 31/12/2004** | **9,382** | **222** | **-3,184** | **429** | **6,849** |

The accompanying notes to the consolidated financial statements are an integral part of this consolidated statement of changes in equity.

## Consolidated Cash Flow Statement for the 2004 Financial Year pursuant to US- GAAP

| | 2004<br>EUR (000) | 2003<br>EUR (000) |
|---|---|---|
| **Operating activities:** | | |
| **Net profit / loss for the year** | **2,605** | **-419** |
| | | |
| **Reconciliation of the net profit / loss for the year to net cash flow from operating activities** | | |
| Depreciation and amortisation | 373 | 644 |
| Changes in accrued pension and other employee benefits | 77 | 20 |
| Unrealised remeasurement gains/losses on currency differences | 47 | 368 |
| | | |
| **Changes in assets and liabilities** | | |
| Change in trade accounts receivable | -927 | 587 |
| Change in inventories | 51 | 62 |
| Change in trade accounts payable | 206 | -386 |
| Change in deferred revenue | -294 | 144 |
| Change in accruals and other liabilities | 468 | -278 |
| Change in other assets and liabilities | -622 | 234 |
| **Net cash flow from operating activities** | **1,984** | **976** |
| | | |
| **Cash flow from investing activities:** | | |
| Capital expenditures for fixed assets | -186 | -47 |
| Proceeds from disposal of fixed assets | 62 | 64 |
| Proceeds from disposal of financial assets | 22 | 4 |
| **Net cash flow from investing activities** | **-102** | **21** |
| | | |
| **Cash flow from financing activities:** | | |
| Change in long-term liabilities from capital leases | -3 | 0 |
| Change in liabilities to banks | 0 | -121 |
| Change in long-term loans | -242 | -242 |
| **Net cash flow from financing activities** | **-245** | **-363** |
| | | |
| Change in cash and cash equivalents | 1,637 | 634 |
| Cash and cash equivalents at beginning of year | 4,119 | 3,485 |
| **Cash and cash equivalents at end of year** | **5,756** | **4,119** |
| | | |
| **Supplemental disclosures:** | | |
| Cash expenditures during reporting period for: | | |
| Interest | 52 | 76 |
| Income taxes | 40 | 6 |

The accompanying notes to the consolidated financial statements are an integral part of this consolidated cash flow statement.

# Notes to the Financial Statements as of 31 December 2004 pursuant to US-GAAP

## 1. Organisation and Operations of the company

update software AG (the Company or "update") was founded in 1988 as "Marketing Informationssysteme Gesellschaft m.b.H.". In October 1989, the Company was renamed "Update Marketing Service Gesellschaft m.b.H.". On 29 April 1997, the Company was converted to a stock corporation (Aktiengesellschaft) and changed its name to "Update Marketing Service AG". On 19 October 1999, the Company was renamed "update.com software AG". On 22 May 2002, the name was changed yet again to the company's current name, update software AG. The Company's registered office is in Vienna, Austria. Unless otherwise noted, all information relates to update software AG and its predecessors.

update is active in the development and implementation of Customer Relationship Management (CRM) software solutions. By automating key functions, these solutions enable enterprises to more effectively acquire, manage and retain customers, partners and other business relationships.

The Company is subject to various risks, including, but not limited to, operating in a rapidly evolving market, competition from larger companies, dependence upon new products, dependence on skilled personnel, uncertain profitability, and concentration on a single core product.

Effective 1 February 2003, the Company was moved to the General Standard segment of Deutsche Börse, the German stock exchange.

## 2. Summary of Accounting Principles

### a. Consolidation Principles

The consolidated financial statements include the financial statements of the parent company and its subsidiaries ("the Company"). All intercompany transactions and balances have been eliminated during consolidation.

### b. Use of Estimates

The financial statements have been prepared in accordance with US-GAAP and include amounts based on estimates and assumptions by management. Actual amounts could differ from these estimated values. Among the most significant estimates are adjustments for uncollectible trade accounts receivable and estimated useful lives for fixed assets.

### c. Cash and Cash Equivalents

Cash and cash equivalents comprise cash and short-term investments with residual maturities of three months or less when acquired and which are readily convertible to cash. The Company's cash investments consist of time deposits with residual maturities of three months or less, fixed term deposit accounts and money market funds.

### d. Investment Securities

The Company holds shares in various investment funds in Austria, as provided by Austrian law to cover taxable severance payment claims.

### e. Fixed Assets

Property and equipment are stated at cost less accumulated depreciation. Equipment held under capital leases is stated at the present value of minimum lease payments at the inception of the lease less accumulated depreciation. Depreciation of property and equipment is calculated using the straight-line method.

The useful lives of the assets are estimated as follows:

| | Depreciation period in years |
|---|---|
| IT hardware | 3 – 4 |
| Software | 2 – 4 |
| Office equipment | 7 |
| Office furniture | 5 – 7 |

Assets held under capital leases are depreciated over the shorter of the lease term and estimated useful life of the asset.

**f. Inventories**

The inventories from software licenses purchased for resale on hand as of 31 December 2003 in the amount of EUR 51,000 were written off in the 2004 financial year. Given the development of the first release of update.pda version 3.5, the use of these licenses became unlikely as an interface was developed which took over the function of the acquired software.

**g. Measurement of Long-term Assets**

The Company conducts impairment tests on its long-term assets if events or circumstances indicate that the value of such assets may have fallen below their carrying value. This impairment test compares the estimated future undiscounted cash flows from the asset with its carrying value. If this test indicates a deficit, the asset is written down to its market value.

**h. Revenue Recognition and Deferred Revenue**

Revenues from the sale of software licenses are recognised in accordance with Statement of Position (SOP) 97-2, "Software Revenue Recognition", issued by the American Institute of Certified Public Accountants. The prerequisite for revenue recognition is the existence of a valid contract, completed delivery of the software, a fixed or determinable license fee, and probable collectability of the receivable. All of these prerequisites must be fulfilled.

Revenues from support and maintenance agreements are posted as deferred revenues when invoiced and recognised pro rata over the period of the agreement. Revenues from services comprise training, consultancy and implementation services and are recognised in accordance with SOP 97-2 and SOP 81-1 "Accounting for Performance of Construction-Type and certain Construction-Type Contracts". That means that, for long-term projects, recognition is made pursuant to the percentage of completion method based on milestones. Earnings from other services are recognised when performed.

A project is deemed concluded upon acceptance by the customer.

Customers may have a contractual right of withdrawal in individual cases. In these cases, revenues are realised pursuant to SFAS 48 "Revenue Recognition When Right of Return Exists" taking into account an estimated probability of the exercise of any such right of withdrawal.

**i. Cost of Goods Sold**

Costs of revenues from licences and maintenance agreements include the costs of data media, product packaging, documentation and other production costs as well as licence fees to third parties. Also included in this category are the costs of salaries, other payroll costs and premiums for maintenance and hotline support personnel.

Costs of revenues from services consist primarily of salaries, other payroll costs and premiums as well as allocated overhead costs related to staff who provide consulting, training and implementation services.

**j. Research and Development**

Research and development costs, which consist primarily of software development costs, are recognised as incurred. Accounting standards provide for the capitalisation of certain software development costs after technological feasibility of the software has been established. Under the Company's current practice of developing new products and enhancements, technological feasibility of the underlying software is not established until substantially all product development is complete, including the development of a functioning prototype. Accordingly, the Company has no capitalised software development costs.

**k. Advertising Costs**

Advertising costs are expensed as incurred. Advertising costs for the financial year ended 31 December 2004 were EUR 162,000 and EUR 174,000 for the financial year ended 31 December 2003.

**l. Income Taxes**

Income taxes are determined using the liability method in accordance with Statement of Financial Accounting Standard (SFAS) 109, "Accounting for Income Taxes". Under this method, deferred tax assets and liabilities are recognised for estimated future tax consequences that are attributable to differences between the carrying amounts on the consolidated balance sheet and amounts on the tax balance sheet. Taxation is measured using the tax rates to be in effect for taxable income in the years in which those temporary differences are expected to be settled. Under SFAS 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognised in the period in which the new tax rate takes effect.

As part of the tax reform package starting 1 January 2005, the corporate tax rate was reduced from the previous 34 % to 25 %. Due to the improved earnings forecast, a deferred tax asset totalling EUR 451,000 was recognised for the first time in 2005.

**m. Calculation of Earnings per Share**

Earnings per share is calculated by dividing consolidated net income (loss) by the weighted average number of ordinary shares outstanding for the period. Diluted earnings per share takes into account not only outstanding shares, but also shares receivable due to options (employee share participation, warrants) if these have a dilutive effect.

Pro forma earnings per share is calculated by dividing net income (loss) including pro forma expenses pursuant to SFAS 123 "Accounting for Stock Based Compensation" by the weighted average number of ordinary shares outstanding for the period.

**n. Currency Translation Adjustments**

The functional currency of the Company's foreign subsidiaries is the local currency in the country in which the subsidiary is domiciled. Assets and liabilities denominated in foreign currencies are translated into Euros using average exchange rates as of the balance sheet closing date. Equity is translated using historical rates. Income statements are translated using the monthly average exchange rates during the respective financial year. The resulting currency translation adjustments, as well as those from long-term Group loans, are recognised directly in equity in the consolidated statement of changes in shareholders' equity under "Currency translation". Other gains and losses on currency translation adjustments are recognised in the consolidated income statement when incurred.

**o. Employee Share Option Plan**

The Company accounts for its employee share option plan in accordance with SFAS 123, "Accounting for Stock-based Compensation". As permitted under SFAS 123, the Company continues to measure compensation expense for share options granted to employees and senior executives under the provisions of Accounting Principles Board Opinion (APB) 25, "Accounting for Stock Issued to Employees", and its related interpretations. The exercise price of options granted under the Company's 1999 share option plan (the "1999 Plan") is equal to the market price of the Company's share on the grant date, and accordingly, pursuant to APB 25, no compensation cost has been recognised. The 2000 plan is treated as a fixed plan under APB 25, due to fixed exercise prices and service periods. The excess of the market price as of the balance sheet closing date over the exercise price is recognised as deferred compensation expense over the service period. No compensation expense from options was recognised in 2004.

Pursuant to SFAS 123, companies that continue to follow APB 25 are required to provide pro forma disclosures showing the effects of application of the fair value method under SFAS 123 (see Note 15).

**p. Other Comprehensive Income/Losses**

The only items of other comprehensive income (loss) which the Company currently reports are currency translation adjustments and unrealised gains/losses from investment securities.

**q. Accrued Liabilities for Severance Pay**

Austrian labour law requires the Company to pay employees certain severance payments upon termination or retirement. Employees leaving voluntarily or dismissed for good cause are not entitled to such severance pay.

The company uses the projected unit credit method to determine severance pay expenses and the related accruals for financial reporting purposes. The calculation is based on the following assumptions: interest rate: 6 %, future salary increases: 3 %.

**r. Lease Agreements**

The Company leases office and operating equipment, principally vehicles. All lease agreements that meet certain specified criteria and cover situations in which substantial benefits and risks have been transferred to the lessee with the leased asset, are accounted for as capital leases. All other lease agreements are accounted for as operating leases.

## 3. Cash and Cash Equivalents

The Company's cash investments consist of time deposits with maturities of three months or less, fixed term deposit accounts and money market funds.

As of 31 December 2004, the Company's cash and cash equivalents totalled EUR 5,756,000, of which EUR 190,000 were pledged to secure granted bank guarantees. The Dutch subsidiary has established a restricted account in the amount of EUR 130,000 in connection with pending ABASE proceedings against update Benelux B.V. The attorney for update Benelux B.V. estimates that this account will not be accessible prior to 2005.

## 4. Trade Accounts Receivable

The allowance for doubtful accounts developed as follows:

| | 31/12/2004 EUR (000) | 31/12/2003 EUR (000) |
|---|---|---|
| Allowance for doubtful accounts at beginning of year | 1,193 | 1,263 |
| Additions | 393 | 498 |
| Usage | -97 | -295 |
| Reversal of unused allowances | -411 | -273 |
| Allowance for doubtful accounts at end of year | **1,078** | **1,193** |

As of 31 December 2004, the trade accounts receivable contained no intercompany accounts receivable.

## 5. Other Current Assets

| | 31/12/2004 EUR (000) | 31/12/2003 EUR (000) |
|---|---|---|
| Receivables from tax authorities | 142 | 99 |
| Receivables from senior executives and employees | 17 | 17 |
| Rental and leasing deposits | 30 | 21 |
| Other assets | 17 | 7 |
| | **206** | **144** |

Other current assets include VAT credits and other tax prepayments, rental deposits, other deposits and other advance payments.

## 6. Fixed Assets

Depreciation expense for the financial years ended 31 December 2004 and 2003 totalled EUR 373,000 and EUR 642,000, respectively.

| | 31/12/2004 EUR (000) | 31/12/2003 EUR (000) |
|---|---|---|
| **Costs** | | |
| IT hardware | 1,083 | 1,786 |
| Software | 757 | 746 |
| Office equipment | 702 | 733 |
| Office furniture | 131 | 128 |
| Other fixed assets | 349 | 375 |
| | 3,022 | 3,768 |
| **Less:** Accumulated depreciation | -2,575 | -3,071 |
| **Carrying value** | **447** | **697** |

## 7. Investment Securities

Historical costs, unrealised gains, unrealised losses and fair value as of 31 December 2004 and 2003 were as follows:

| | Historical costs EUR (000) | Unrealised gain EUR (000) | Unrealised loss EUR (000) | Fair value EUR (000) |
|---|---|---|---|---|
| **Available-for-sale securities (investment funds)** | | | | |
| 31/12/2003 | 95 | 0 | 7 | 88 |
| 31/12/2004 | 71 | 0 | 5 | 66 |

Securities totalling EUR 24,000 were sold in 2004.

Financial instruments were utilised only to a negligible extent.

## 8. Accruals and Other Liabilities

| | 31/12/2004 EUR (000) | 31/12/2003 EUR (000) |
|---|---|---|
| VAT, payroll taxes and social security | 491 | 518 |
| Payroll and travel expenses | 474 | 433 |
| Other accruals | 1,780 | 1,326 |
| | **2,745** | **2,277** |

Other accrued liabilities include primarily accruals for consulting and legal expenses, accrued taxes, accruals for unused holidays and employee commissions.

## 9. Long-term Liabilities

| | Carrying value | Fair value |
|---|---|---|
| | EUR (000) | EUR (000) |
| 31/12/2003 | 606 | 617 |
| 31/12/2004 | 364 | 368 |

In 1998, the Company entered into a loan agreement with Bank Austria Creditanstalt AG. Proceeds from the loan were EUR 1,453,000. The interest rate on the loan is 6.25 % per annum. Interest is payable on 30 June and 31 December each year. The loan is secured by a payment guarantee from Austria Wirtschaftsservice GmbH (AWS) pursuant to the guidelines of the Austrian Technology Financing Program [Technologie-Finanzierungsprogramm (TFP)]. The loan must be repaid either in eleven semi-annual instalments of EUR 121,000, where the first instalment is due on 31 December 2001, and the final instalment on 30 June 2007, or earlier as applicable if the venture capitalists of the 1997 first financing round sell all of their shares. The fair value of the Company's long-term liabilities is calculated by discounting the future cash flows using the rate currently offered to the Company by its banks for similar debt securities of comparable maturity.

## 10. Accrued Liabilities for Severance Pay

| | EUR (000) |
|---|---|
| **Accruals as of 31/12/2002** | **218** |
| | |
| Interest expense | 11 |
| Service cost | 134 |
| Severance pay | -124 |
| **Accruals as of 31/12/2003** | **239** |
| | |
| Interest expense | 12 |
| Service cost | 79 |
| Severance pay | -14 |
| **Accruals as of 31/12/ 2004** | **316** |

Accrued liabilities for severance pay are related to severance payments to be made upon termination.

## 11. Leases

The Company has liabilities arising from capital leases for IT software and other operating assets. As of 31 December 2004 and 2003, the following amounts were treated as capital leases:

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| | EUR (000) | EUR (000) |
| Vehicles | 36 | 53 |
| **Less:** Accumulated depreciation | -25 | -17 |
| | **11** | **36** |

Depreciation of assets held under capital leases is included in depreciation expense. In December 2000, the company concluded a 5-year non-terminable lease agreement for offices. The annual rental lease payments incurred under this lease are EUR 419,000. The Company also has several non-terminable operating leases, primarily for buildings, office facilities, vehicles and other equipment. As of 31 December 2004, the future minimum lease payments for non-terminable operating and capital leases were:

| | Capital leases | Operating leases |
|---|---|---|
| | EUR (000) | EUR (000) |
| **Financial year ended 31 December** | | |
| 2005 | 12 | 737 |
| 2006 | 3 | 574 |
| 2007 | 0 | 557 |
| 2008 | 0 | 452 |
| 2009 | 0 | 438 |
| | **15** | **2,758** |
| **Less:** Current instalments for liabilities from capital leases (are included in current liabilities) | -12 | |
| **Liabilities from capital leases, excluding current instalments** | **3** | |

The future minimum payments for operating leases totalled EUR 2,758,000 and EUR 2,546,000 as of 31 December 2004 and 2003, respectively. Future minimum obligations under capital leases, excluding current instalments, as of 31 December 2004 and 2003, were EUR 15,000 and EUR 59,000, respectively. Depreciation on capitalised assets was EUR 8,000 in 2004. Interest included in the capital leases as of 31 December 2004 was EUR 3,000.

## 12. International Operations and Segment Reporting

The Company licenses and markets its products through direct and indirect distribution channels in Europe. The Company's customers are spread over numerous geographic regions around the world and consist of companies in a wide variety of industries. During 2004, no single customer accounted for more than 4 % of total revenues. Revenue distribution by sales offices was as follows:

| | 2004<br>EUR (000) | 2003<br>EUR (000) |
|---|---|---|
| Austria | 6,555 | 5,258 |
| Germany | 5,499 | 4,295 |
| Netherlands | 2,117 | 1,754 |
| Rest of world | 1,198 | 2,341 |
| **Total revenues** | **15,369** | **13,648** |

The subsidiaries' business operations do not require significant fixed assets.

## 13. Income Taxes

Total tax income/expense for the financial years ended 31 December 2004 and 2003 were allocated to the respective earnings from current operations. Tax income/expense for the respective years was as follows:

| | Current<br>EUR (000) | Deferred<br>EUR (000) | Total<br>EUR (000) |
|---|---|---|---|
| **2003** | | | |
| Austria | -6 | 0 | -6 |
| Foreign | 0 | 0 | 0 |
| | **-6** | **0** | **-6** |
| **2004** | | | |
| Austria | -178 | 451 | 273 |
| Foreign | -30 | 0 | -30 |
| | **-208** | **451** | **243** |

Tax expenses differed from the amounts computed by applying the Austrian income tax rate of 34 % to pre-tax earnings from current operations. This difference can be derived as follows:

| | 2004<br>EUR (000) | 2003<br>EUR (000) |
|---|---|---|
| Earnings before taxes | 2,362 | -413 |
| Tax rate | 34 % | 34 % |
| Expected tax expense (-)<br>or tax income (+) | -803 | +140 |
| Actual tax expense (-)<br>or tax income (+) | +243 | -6 |
| **Difference to be reconciled** | **1,046** | **146** |

The prior period difference of EUR 146,000 is due to the fictitious tax income of EUR 140,000 and the actual minimum corporate tax paid of EUR 6,000. In 2004, the difference is attributable to the use of loss carryforwards in the current taxation as well as the first-time recognition of a deferred tax asset.

The tax effects of temporary differences that lead to increases in deferred tax assets as of 31 December 2004 and 2003, respectively, are presented below:

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| | EUR (000) | EUR (000) |
| **Long-term deferred tax assets** | | |
| Loss carry-forwards | 18,217 | 25,773 |
| Write-down of investments in affiliated companies | 80 | 317 |
| Depreciation on tangible and intangible assets | 2 | 0 |
| Other | 5 | 2 |
| **Total gross deferred tax assets** | **18,304** | **26,092** |
| **Less:** Valuation allowance | -17,853 | -26,092 |
| **Net deferred tax assets** | **451** | **0** |

The majority of the loss carry-forwards can be carried forward indefinitely. Due to the uncertainty with regard to realisability, the Company has capitalised only a portion.

## 14. Other Income and Expenses

Other operating income includes proceeds from asset disposals, reversals of accruals, and reversals of unused allowances for doubtful accounts receivable. Other operating expenses is composed of exchange rate losses and losses on receivables.

| | 2004 | 2003 |
|---|---|---|
| | EUR (000) | EUR (000) |
| Reversal of accruals | 54 | 120 |
| Reversal of unused allowances for doubtful accounts | 410 | 412 |
| Asset disposals | 49 | 16 |
| Other income | 244 | 124 |
| | | |
| Exchange rate losses | -87 | -374 |
| Losses on receivables | -39 | -155 |
| Addition to allowances for doubtful accounts | -386 | -480 |
| Other expenses | -245 | -186 |
| **Other income and expenses, net** | **0** | **-523** |

## 15. Option Plan

On 19 May 1999, the ordinary shareholders' meeting approved the 1999 Share Option Plan (the "1999 Plan"), under which share options, including incentive share options, unqualified options, restricted shares, growth shares, bonus shares, and stock appreciation rights (SARs), may be granted to employees, consultants and senior executives, for up to 518,773 ordinary shares. The plan went into effect on 19 May 1999. The 1999 Plan is administered by the Management Board. The Management Board determines the duration of the respective share option (maximum 10 years); the exercise price may not be less than the fair value of the ordinary share on the option grant date. Unless otherwise provided, after the first year of employment, options may be exercised for 25 % of the number of shares granted. Thereafter, options for 1/48th of the shares granted may be exercised on the first day of each subsequent month following the first calendar year of employment. Employees who received options and were employed prior to the effective date of the Share Option Plan are credited with a maximum of one year's employment.

The third ordinary shareholders' meeting held on 15 February 2000 approved a 3:1 share split. The consequence for holders of share options is that 3 shares can be acquired for each option, which increases the amount of exercisable shares from 518,773 to 1,556,319. At the same time the exercise price decreases to one third of the original exercise price. At the same ordinary shareholders' meeting, the shareholders approved the 2000 Share Option Plan (the "2000 Plan") whereby share options may be granted to employees and senior executives for up to 1,384,803 ordinary shares. As a result, the total number of shares available was reduced by 171,516 shares. After 15 February 2000 share options will only be issued under the terms of the 2000 Plan. The re-issuance of expired options granted under the 1999 Plan may now only be made under the 2000 Plan. After 1 January 2000 options may no longer be granted to members of the Supervisory Board. The 2000 Plan went into effect on 15 February 2000 and is administered by the Management Board. The Management Board determines the duration of the respective share option (maximum 10 years); the exercise price may not be less than the "reasonable fair value" of the ordinary share on the option grant date. The "reasonable fair value" is defined as the average of the official cash quotation for the last 15 trading days prior to the option's grant date, but must be at least EUR 1.00. Unless otherwise provided, after two years of employment, 25 % of the total options granted may be exercised. Afterwards, 1/8th of the total options granted may be exercised at the end of each subsequent 6-months period. Options may only be exercised if the share's market price on the date the declaration of exercise becomes valid exceeds the option's exercise price by at least 10 %. Shares subject to the 2000 Plan may be shares issued from authorised capital or own shares acquired on the stock market or elsewhere. For purposes of this Plan, the Company is also authorised to purchase its own shares from an intermediary bank that tenders authorised capital.

In line with the share option plans 206,656 options have been exercised.

Options that were granted to Management Board Member Thomas Deutschmann are subject to special exercise agreements. These granted options may be exercised for 33,000 shares after the first year of membership on the Management Board, then for another 33,000 shares after an additional year, and 34,000 shares after a total of three years of employment with the Company.

**Overview of the Share Option Plans**

| | Options still available | Options granted | Spread of the exercise price in EUR | Weighted average exercise price in EUR |
|---|---|---|---|---|
| **As of 31/12/2002** | **871,572** | **306,575** | **1 - 23** | **4.21** |
| Options granted | (37,715) | 37,715 | 1 - 1.57 | 1.06 |
| Options expired | 53,053 | (53,053) | 1 - 23 | 4.85 |
| Options exercised | 0 | 0 | 0 | 0 |
| **As of 31/12/2003** | **886,910** | **291,237** | **1 - 23** | **3.68** |
| Options granted | (321,540) | 321,540 | 1.15 - 8.84 | 2.02 |
| Options expired | 18,640 | (18,640) | 1 - 18.69 | 4.03 |
| Options exercised | 0 | 0 | 0 | 0 |
| **As of 31/12/2004** | **584,010** | **594,137** | **1 - 23** | **2,77** |

The following table provides an overview of currently outstanding and exercisable options under the 1999 Plan as of 31 December 2003 and 31 December 2004. The share split on 15 February 2000 has been taken into account.

**1999 Plan**

| **As of 31/12/2003** | | | | | |
|---|---|---|---|---|---|
| **Issued** | | | | **Exercisable** | |
| Spread of the exercise price | Issued options | Weighted remaining exercise period | Weighted average exercise price | Exercisable options | Weighted average exercise price |
| EUR | | in years | EUR | | EUR |
| 4.3 | 85,128 | 5.5 | 4.3 | 85,128 | 4.3 |
| 6.0 | 4,680 | 5.8 | 6.0 | 4,680 | 6.0 |
| 7.3 | 3,120 | 5.9 | 7.3 | 3,120 | 7.3 |
| **4.3 - 7.3** | **92,928** | **5.5** | **4.5** | **92,928** | **4.5** |

| **As of 31/12/2004** | | | | | |
|---|---|---|---|---|---|
| **Issued** | | | | **Exercisable** | |
| Spread of the exercise price | Issued options | Weighted remaining exercise period | Weighted average exercise price | Exercisable options | Weighted average exercise price |
| EUR | | in years | EUR | | EUR |
| 4.3 | 83,568 | 4.5 | 4.3 | 83,568 | 4.3 |
| 6 | 4,680 | 4.8 | 6.0 | 4,680 | 6.0 |
| 7.3 | 3,120 | 4.9 | 7.3 | 3,120 | 7.3 |
| **4.3 - 7.3** | **91,368** | **4.5** | **4.5** | **91,368** | **4.5** |

The following table provides an overview of currently outstanding and exercisable options under the 2000 Plan as of 31 December 2004 and 31 December 2003. The share split on 15 February 2000 has been taken into account.

**2000 Plan**

| As of 31/12/2003 | | | | | |
|---|---|---|---|---|---|
| Issued | | | | Exercisable | |
| Spread of the exercise price | Issued options | Weighted remaining exercise period | Weighted average exercise price | Exercisable options | Weighted average exercise price |
| EUR | | in years | EUR | | EUR |
| 23 | 780 | 6.2 | 23 | 488 | 23 |
| 18.7 | 3,120 | 6.5 | 18.7 | 1,950 | 18.7 |
| 8.8 | 4,615 | 6.8 | 8.8 | 2,657 | 8.8 |
| 3.4 | 5,460 | 7 | 3.4 | 2,730 | 3.4 |
| 2.21 | 2,340 | 7.2 | 2.21 | 943 | 2.21 |
| 1 - 1.57 | 181,994 | 9 | 1.03 | 34,900 | 1.02 |
| **1 - 23** | **198,309** | **8.8** | **1.65** | **43,668** | **2.70** |

| As of 31/12/2004 | | | | | |
|---|---|---|---|---|---|
| Issued | | | | Exercisable | |
| Spread of the exercise price | Issued options | Weighted average exercise price | Weighted average exercise price | Exercisable options | Weighted average exercise price |
| EUR | | in years | EUR | | EUR |
| 23 | 780 | 5.2 | 23 | 683 | 23 |
| 18.7 | 1,560 | 5.5 | 18.7 | 1,365 | 18.7 |
| 8.8 | 3,835 | 5.8 | 8.8 | 3,226 | 8.8 |
| 3.4 | 4,940 | 6.0 | 3.4 | 3,705 | 3.4 |
| 2.61 | 6,760 | 10.0 | 2.61 | 0 | 2.61 |
| 2.47 | 1,560 | 9.2 | 2.47 | 0 | 2.47 |
| 2.21 | 3,380 | 6.2 | 2.21 | 2,275 | 2.21 |
| 1 - 2 | 479,954 | 9.0 | 1.63 | 81,246 | 1.02 |
| **1 - 23** | **502,769** | **8.9** | **1.81** | **92,500** | **1.84** |

**Pro forma Information**
The Company continues to apply APB 25 in accounting for its share option plan. Accordingly, no compensation expense has been recorded in the consolidated income statement. Had compensation expense been recognised in accordance with the fair value me-

thod prescribed by SFAS 123, the Company's pro forma net profit and profit per share as of 31 December 2004 would have been as follows:

| | Financial year ended 31/12/2004 | Financial year ended 31/12/2003 |
|---|---|---|
| | EUR (000) | EUR (000) |
| Net income/loss for the year, as reported | 2,605 | -419 |
| Pro forma expense pursuant to Statement 123 | -66 | -34 |
| Pro forma net income/ loss for the year | 2,539 | -453 |
| Basic and diluted earnings/ loss per share | **EUR 0.28** | **EUR -0.04** |
| Pro forma basic and diluted earnings/loss per share | **EUR 0.27** | **EUR -0.05** |

The weighted average fair value of options issued in 2004 was EUR 1.70 per option (2003: EUR 0.55). The fair value of an option is determined on the issue date using the Black-Scholes pricing model with the following assumptions for the financial years ended 31 December 2004 and 2003, respectively: risk-free interest rate of 4 %, which corresponds to that of government bonds with an original maturity similar to the option's estimated exercise period; exercise period of 5 years for the 2000 Plan; annual volatility of the Company's share price of 122 % for 2004 and 134 % for 2003; and a dividend yield of 0 % for each financial year.

## 16. Financial Commitments and Contingent Liabilities

The Company may, from time to time, become party to legal proceedings.

No proceedings took place in 2004 with regard to the action for damages in the amount of EUR 705,000 brought by a customer against update software AG in July 2002 for alleged failure to perform preliminary contractual disclosure duties. In a hearing on 25 January 2005 the plaintiff rejected the motion for the admission of an expert. In the opinion of both an external expert and update's legal advisor, a favourable outcome for update is likely. Therefore, no additional accrual has been set up.

The Berghuis/ABASE proceedings pending against update Benelux B.V. since 2000 were suspended in September 2002, after the complaining party was ordered by the court to present an expert opinion on various items in the complaint and to name witnesses for examination. However, these orders by the court were never complied with. It must therefore be assumed that the required response by the plaintiff will not occur in the foreseeable future and that the proceedings can no longer be continued. In 2004 as well, there were no proceedings nor actions taken by the plaintiff. However, should plaintiff comply, update Holland's legal representative in the action considers the probability of the plaintiff prevailing as very low. Therefore, no accruals were set up in 2004 with respect to these proceedings.

The Management Board is of the opinion that the Company is not involved in any further legal disputes as of 31 December 2004 that could have a material effect on the Company's earnings or financial position.

## 17. Liquidity and Capitalisation

From 1997 through 1999, the Company primarily financed its business operations through private placements of ordinary shares. Through 31 December 1999, gross proceeds from three private placement rounds of ordinary shares totalled EUR 22.4 million. Since 11 April 2000, the Company's shares have been traded on the Neuer Markt of the German stock exchange in Frankfurt. Effective 1 February 2003, the Company moved to the General Standard segment of that stock exchange. The net proceeds from the initial public offering were EUR 43.6 million. To a minor extent, the Company finances its research and development expense through a secured capital project loan from AWS, which will be repaid in full by June 2007.

Since 2003 the Company has financed its business operations solely from its generated cash flow, which totalled EUR 1,637,000 in 2004.

## 18. Events after the Closing Date

In January 2005, based on the authorisation vested in the Management Board at the ordinary shareholders' meeting of update software AG on 4 May 2001, the Management Board carried out a share capital increase utilising a portion of the authorised capital. The Company's share capital was increased from EUR 9,381,967 to EUR 10,320,163 by issuing 938,196 no-par bearer shares in exchange for cash contributions of EUR 938,196. The issue price per share was EUR 2.61. The shareholders' subscription right was not excluded. The new shares are authorised to participate in profits as of 1 January 2004. Further, at their ordinary meeting in January 2005, the members of the Supervisory Board unanimously approved the Management Board's planned acquisition of a CRM company in Poland. The acquisition is planned for the first quarter of 2005.

## 19. Additional Disclosures on the Consolidated Financial Statments on the Basic of Austrian Accounting Standards

### a. Reporting pursuant to US Generally Accepted Accounting Principles (US-GAAP)

The consolidated financial statements as of 31 December 2004 were drawn up in accordance with US-GAAP. Consolidated financial statements drawn up in accordance with international standards are deemed to represent statements pursuant to Section 245a of the Austrian Commercial Code (Handelsgesetzbuch – HGB) if the terms stipulated in Section 245a(1) numbers 1 to 3 are met. The disclosures required to fulfil these terms are presented below.

### b. Material Differences between Austrian Accounting Standards (HGB) and US-GAAP

The accounting standards under HGB and US-GAAP are characterised in part by differing basic principles. While accounting under HGB emphasises the principle of conservatism and the protection of creditors, US-GAAP places greater emphasis on providing information relevant to decision-making for investors.

The significant differences between HGB and US-GAAP that are relevant for these financial statements concern the following accounting principles:

#### b1) Deferred Taxes

Under US-GAAP, deferred tax assets and liabilities resulting from temporary differences between the carrying amounts of assets and liabilities in the US-GAAP balance sheet and their tax basis, as well as from expected benefits from tax loss carry-forwards, must be recognised. Under Austrian accounting, deferred tax liabilities must be recognised and there is an option to recognise deferred tax assets. Prevailing opinion is that the recognition of deferred tax assets on loss carry-forwards is not permitted under HGB.

#### b2) Other Accruals

Pursuant to US-GAAP, accruals must be set up for liabilities to third parties when it is probable that the liability will be incurred and when it can be reliably measured. Under HGB, the formation of accruals is characterised by the principle of conservatism. In practice, this often leads to the formation of an accrual as soon as a liability becomes known.

#### b3) Measurement of Securities held as Financial Assets

Under US-GAAP, with the exception of held-to-maturity securities, securities are measured at fair value. Depending on whether the securities are held for trading or as available for sale, unrealised measurement gains and losses are recognised as financial income in the income statement or as other comprehensive income directly in shareholders' equity. Under HGB, long-term securities must be stated at cost less extraordinary write-downs if there is a foreseeable lasting impairment loss (this is optional if the impairment is temporary). Short-term securities are stated at the lower of cost or market as of the balance sheet date under HGB.

#### b4) Measurement of Foreign Currency

Under US-GAAP, assets and liabilities denominated in foreign currencies are translated using the average exchange rate as of the balance sheet date. Both realised and unrealised gains and losses are recognised in income. HGB does not allow the recognition of unrealised exchange gains. Therefore, under HGB, currency translation for monetary items must be made under the strict lower of cost or market principle (recognition of the lower value from the initial and closing exchange rate for receivables and of the higher value for liabilities).

#### b5) Operating Lease/Capital Lease

Under US-GAAP, an asset must be included in the lessee's balance sheet if all significant risks and rewards from the leased object have been transferred to the lessee. The tax rules applied in general practice for HGB extend from the same basic principle, but the economic approach is generally not shown to advantage. In certain circumstances this results in assets which are not recognised in the balance sheet of the lessee under HGB but must be recognised under US- GAAP.

#### b6) Costs relating to Capital Increases

Under US-GAAP, costs incurred in connection with an increase in capital are offset against the premium. This means that the proceeds from the capital increase are reduced by this amount and the reduced amount is posted to additional paid-in capital. HGB does not permit an offsetting of the costs incurred in connection with a capital increase from the corresponding proceeds. Therefore, under HGB, such costs must be recognised in the income statement.

### c. Additional Disclosures pursuant to HGB Section 245a (1) Number 3

#### c1) Consolidated Statement of Changes in Fixed Assets

The development of fixed assets is presented in Appendix I.

#### c2) Maturities Schedule for Receivables and Liabilities

Receivables and liabilities, excluding long-term liabilities (cf. Note 9), are entirely short-term with a remaining maturity of less than one year. The long-term liabilities in the amount of EUR 364,000 have a remaining maturity of between one and three years.

#### c3) Disclosures on the Scope of Consolidation

Name, equity interest and registered office of the subsidiaries included in the consolidated financial statements:

| Company | Registered office | Interest in % |
|---|---|---|
| update sales GmbH | Vienna, Austria | 100 |
| update software Germany GmbH | Dreieich, Germany | 100 |
| update software Switzerland GmbH | Dietkon, Switzerland | 100 |
| update software UK Ltd. | Berkshire, England | 100 |
| update software Magyarorszag Kft. | Budapest, Hungary | 100 |
| update software Benelux B.V. | Amsterdam, The Netherlands | 100 |
| update software CZ s.r.o. | Brno, Czech Republic | 100 |
| update software France S.A.R.L. | Paris, France | 100 |

The Hungarian subsidiary, update software Magyarorszag Kft., with registered office in Budapest, was founded in December 2004. The Danish subsidiary, update software Denmark ApS, was dissolved in October 2004.

## Appendix I

| | Acquisition costs | | | | | Accumulated deprecition | Carrying value | | Depreciation 2004 |
|---|---|---|---|---|---|---|---|---|---|
| | As of 01/01/2004 | Additions | Disposals | Exchange difference | As of 31/12/2004 | | As of 01/01/2004 | As of 31/12/2004 | |
| | EUR (000) | EUR (000) | EUR (000) | EUR (000) | EUR (000) | EUR (000) | EUR (000) | EUR (000) | EUR (000) |
| **Tangible fixed assets** | | | | | | | | | |
| IT hardware | 1,786 | 165 | 870 | 2 | 1,083 | 919 | 217 | 164 | 201 |
| Software | 746 | 11 | 1 | 1 | 757 | 749 | 36 | 8 | 39 |
| Office equipment | 733 | 4 | 35 | 0 | 702 | 587 | 208 | 115 | 68 |
| Office furniture | 128 | 4 | 1 | 0 | 131 | 115 | 26 | 16 | 13 |
| Other tangible assets | 375 | 2 | 28 | 0 | 349 | 205 | 210 | 144 | 52 |
| **Total fixed assets** | **3,768** | **186** | **935** | **3** | **3,022** | **2,575** | **697** | **447** | **373** |
| | | | | | | | | | |
| **Intangible fixed assets** | **514** | **0** | **0** | **0** | **514** | **514** | **0** | **0** | **0** |
| **Investment securities** | **95** | **0** | **24** | **0** | **71** | **5** | **88** | **66** | **0** |
| **Other fixed assets** | **49** | **0** | **0** | **0** | **49** | **49** | **0** | **0** | **0** |

## Employees

The average number of employees in 2004 was 106 (2003: 108).

Expenditures for severance pay are as follows:

| | Severance pay |
|---|---|
| | EUR (000) |
| Members of the Board of Management | 29 |
| Other employees | 70 |
| | **99** |

## Miscellaneous

When adding rounded amounts and percentage indications, deviations in calculation may occur due to the use of automatic methods of calculation.

## Executive Bodies of the Company:

In the financial year under review, the Management Board was comprised of the following members:

Mr. Thomas Deutschmann, Chairman
Mrs. Monika Fiala
Mr. Arno Huber

Total remuneration of the Management Board members was EUR 739,000.

In the financial year under review, the Supervisory Board was comprised of the following members:

Mr. Gilbert Hödl (Deputy Chairman)
Mr. Hans Strack-Zimmermann
Mr. Frank Hurtmanns (Chairman)

Expenses for Supervisory Board remuneration totalled EUR 69,000.

Vienna, 20 February 2005

Thomas Deutschmann | Monika Fiala | Arno Huber

## Report of the Independent Auditor

We have audited the accompanying consolidated balance sheet of update software AG as at 31 December 2004, and the related consolidated income statement, cash flow statement and statement of changes in shareholders´ equity for the financial year ending at 31 December 2004. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing (ISA) and in accordance with General Accepted Standards on Auditing in Austria. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on test basis, evidence supporting the amounts and disclosures in the consolidated financial statements; An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of update software AG and its subsidiaries at 31 December 2004 and the results of their operations, cash flows and changes in shareholders´ equity for the financial year ending at 31 December 2004 in accordance with General Accepted Accounting Principles in the United States (US-GAAP).

The group management report has to be audited according to Austrian commercial law (HGB) such as whether the legal requirements have been met for the exemption from the preparation of consolidated financial statements according to Austrian accounting principles.

We confirm that the group management report of update software AG is consistent with the consolidated financial statements and that the legal requirements have been met for the exemption from the preparation of consolidated financial statements according to Austrian accounting principles.

Vienna, 20 February 2005

Deloitte Wirtschaftsprüfungs GmbH

Kurt Schweighart, Auditor and tax consultant
Erich Kandler, Auditor and tax consultant

**This is a translation from German to English.**

If publishing (with the exception of publication as required by law) or disclosing the consolidated annual accounts in any form which deviates from the certified version (e.g. abridged form or translation into other languages), the auditor's report may not be quoted or our audit referred to without our express permission.

The Board of the Management of update software AG would like to thank all shareholders, customers and employees for the trust shown and the good cooperation during the last business year.

## update Contact

Investor Relations • update software AG
Operngasse 17-21 • A-1040 Wien
phone: +43 (1) 878 55-0 • fax: +43 (1) 878 55-505
e-mail: investor.relations@update.com

CEO: Thomas Deutschmann
e-mail: thomas.deutschmann@update.com

CFO: Monika Fiala
e-mail: monika.fiala@update.com

CTO: Arno Huber
e-mail: arno.huber@update.com

Internet: www.update.com
Security code number: 934 523 • Symbol: up2

## Shares and Options of the Members of the Boards

| | Member of | Shares | Options |
|---|---|---|---|
| Gilbert Hödl | Supervisory Board | 93.815 | 0 |
| Frank Hurtmanns | Supervisory Board | 435 | 0 |
| Hans Strack-Zimmermann | Supervisory Board | 0 | 0 |
| Thomas Deutschmann | Management Board | 0 | 100.000 |
| Monika Fiala | Management Board | 0 | 25.939 |
| Arno Huber | Management Board | 848.334 | 0 |