updating customer relations

update

2001

Annual Report update.com software AG

update contact:

Investor Relations

update.com software AG
Operng. 17-21
A-1040 Vienna
phone: +43 (1) 878 55-0
fax: +43 (1) 878 55-200
e-mail: investor.relations@update.com

CEO: Ing. Gerhard Schuberth
e-mail: gerhard.schuberth@update.com
CFO: Dr. Marcus Mühlberger
e-mail: marcus.muehlberger@update.com
CTO: Dipl. Ing. Arno Huber
e-mail: arno.huber@update.com

Internet http://www.update.com

Security code number 934 523 Symbol: up2

Shares and options of the members of the boards

	Member of	Shares	Options
Hans Bodingbauer	Supervisory Board	2,540	15,915
Gilbert Hödl	Supervisory Board	843,136	0
Peter Hurwitz	Supervisory Board	3,903	0
Arno Huber	Management Board	848,334	0
Marcus Mühlberger	Management Board	6,040	75,000
Gerhard Schuberth	Management Board	0	150,000

All sections in English are translated from the German text.

Letter from the CEO

Dear Shareholders,

My very first connections with update in 1994 were as a customer. As managing director of Philips Medical Systems, I was responsible for initiating a highly successful CRM project based on marketing.manager from update, whose innovative team proved to be a professional and reliable partner.

In June 2001, I accepted update's offer as CEO, leaving the management of broadband specialist Colt Austria to take up the post. Preliminary talks revealed the magnitude of the challenge ahead. update was an innovative, mid-sized company which, after a period of considerable success, had gone public. However, rapid growth combined with substantial mismanagement led to a post-flotation crisis. It was clear that unless drastic counter measures were taken quickly, there would soon be no further scope for action.

update can still be proud of its solid foundations, however: professional employees, a healthy, sophisticated and proven product with bags of potential and a customer base which has remained loyal to update even through times of economic adversity.

I believed in the company for all of these reasons, otherwise I would not have hesitated in politely but firmly declining update's offer.

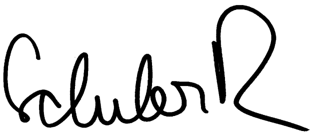
All of the steps taken by the new management team in the second half of 2001 were taken to get the healthy core of the company back on track. The success of these measures can be put down to the patience and understanding of those affected by a restructuring programme backed unconditionally by the executive and supervisory boards. I would like to take this opportunity to thank all those who, like myself, believed we could still enjoy a bright future even after hard times and who remained loyal to update throughout. I look forward to a prosperous future together.

Our course has been set. We have become a lean and healthy organisation. We have cut costs significantly while increasing revenues. Structures are more streamlined, quicker and more efficient. And we have won back the confidence of our customers, partners and employees. We do not want to put this confidence at risk by making unrealistic or inflated announcements.

Trust me, then, when I say that there is more good news: if we continue to work hard and we stay on course, then success is just around the corner. Besides my other tasks, making sure this happens will be the greatest measure of my success.

What does this mean for the coming year? 30% growth, a positive net result and a positive cash flow during the year.

You can take our word for it.



Gerhard Schuberth
CEO

Contents:

Letter from the CEO	**1**
Letter from the Board	**2**
Report of the Supervisory Board	**3**
Company Profile	**3**
Status Report	
Market	4
Finances	5
Employees	6
Products	7
Financial Statements	
Balance Sheets	8
Statements of Income	9
Stockholders' Equity	9
Cash-Flow	10
Notes	11
Auditor's Report	21

Letter from the Board

"2001 – A pivotal year"

Dear Shareholders and Prospects,

The above heading is 2001 in a nutshell: the months following last year's shareholders' meeting culminated in fundamental change at executive and supervisory board levels, organisational restructuring and a change in overall company policy.

	QI+QII	QIII+QIV	Difference
License and maintenance rev.	5.323	6.763	+27%
Services revenues	2.404	2.215	- 8%
Revenue	**7.727**	**8.978**	**16%**
Cost of goods sold	**4.762**	**3.122**	**- 34%**
Gross yield	2.965	5.855	+97%
Sales and marketing	8.218	6.785	- 17%
Research & development	4.796	1.623	- 66%
Administration	2.336	1.567	- 33%
Operating costs	**15.350**	**9.974**	**- 35%**
Operating profit/loss	**- 12.385**	**- 4.119**	**- 67%**

all numbers in Euro m

This change in tack, combined with renewed motivation among our employees and the introduction of new, technologically innovative products, set us on a course for growth and profitability during the remainder of the year.

The "new" management team's key objective was to strike a balance which would enable costs to be cut and, at the same time, Sales, Research & Development and Corporate Finance to be strengthened.

The success of these measures is illustrated in the table on the left, which compares figures from the first and second halves of 2001.

The realisation of these fundamental changes will be the basis for achieving our objectives for this year, making 2002 a "successful year".

Gerhard Schuberth
CEO

Dipl. Ing. Arno Huber
CTO

Dr. Marcus Mühlberger
CFO

Report of the Supervisory Board

update is Europe's leading vendor of standard software solutions for managing professional Customer Relationship Management (CRM) processes. More than 50,000 users in over 500 renowned companies operating throughout the world and in various sectors have been using update's solutions for 13 years, which bears testimony to the vendor's competence.

update's latest product suite, marketing.manager Generation V®, can be seamlessly integrated into any existing IT environment. Several sophisticated add-on programs can be combined with the flagship product, marketing.manager® 5.0, allowing for often unprecedented functionality: communication modules enabling channel and device-independent communication, interfaces or analysis tools for monitoring success. update's Generation V® sets new standards in terms of flexibility and mobility. Rapid implementation at comparatively low cost versus competing vendors ensures a quick Return on Investment (ROI).

update began focusing even more on the development of its strategic partnerships in mid 2001. update now has over 50 partners throughout Europe, including Siemens Business Systems, EDS Systematics AG, Netragon, Plaut, Cognos and ATOS ORIGIN.

update, originally named Marketing Informationssysteme GmbH, was founded in Vienna in 1988 by Gilbert Hödl and Arno Huber. The company's core business has always been the development and sale of software designed to manage sales and marketing processes. Following significant growth during the 1990s, the company name was changed to update.com software AG in 1999. update has been listed on the Frankfurt *Neuer Markt* since April 2000.

Dear Shareholders,

The ability to adapt quickly to changing market conditions is what distinguishes a successful company.

With the appointment of a new management team in the second half of the year, the supervisory board set two primary objectives:

1) turn update into an efficient and profitable company by making use of available CRM competence while
2) cutting costs to a bare minimum.

These objectives were achieved, despite a torrid economic climate. Given that we reached breakeven point in December and that the cash flow situation is significantly better, we can afford to be optimistic for the future.

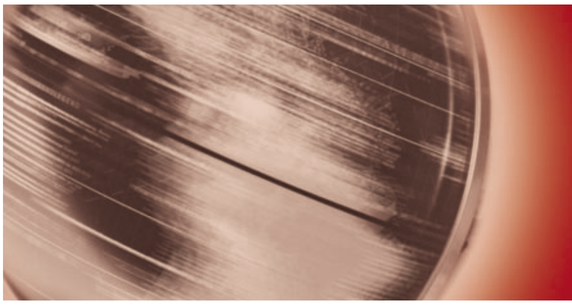
The supervisory board thanks the executive board and all employees for their hard work during the successful re-orientation of the company and for their loyal cooperation.

During regular meetings, the supervisory board has been kept up-to-date on company developments by the executive board and has met all of its legal and statutory obligations. The annual accounts have been examined by KPMG Alpen-Treuhand Wirtschaftsprüfungs- und Steuerberatungs- GmbH, Vienna. Since the inspection yielded no grounds for objection, an unqualified audit certificate was issued.

The supervisory board is in agreement with the annual report submitted by the executive board for the business year 2001 and with the proposal for profit distribution. The year-end accounts have therefore been approved pursuant to § 125, paragraph 2 of the stock corporation law (*Aktiengesetz, AktG*).

We are entirely confident of further success in 2002 and are convinced that update will consolidate its position as a growing and profitable CRM software vendor.

Peter Hurwitz   Dr. Hans Bodingbauer   Gilbert Hödl



Market & Business Sector

The late 1990s and 2000 saw more and more companies re-thinking the way in which they dealt with customer relations. Subsequent initiatives impacted all aspects of dealing with customers and led to an increase in investment in CRM solutions, from customer service to sales and marketing.

Despite a slowdown in spending on technology during 2001, predictions remain in place that the CRM market will continue to grow strongly and it consistently ranks among the top priorities for companies' information technology spending[1].

The internet is predominantly responsible for changing the way in which customers make decisions and purchases. A proliferation of information and new channels has given customers a much broader range of alternatives. However, 2001 has provided further evidence that successful CRM continues to be based on developing business strategy and only then aligning technology to put that strategy into place. With the right strategy, CRM technology continues to provide the tools to enhance customer service and increase efficiency, identify profitable and unprofitable customers and better analyse marketing projects, which can all lead to better top and bottom line results.

However, penetration is still low (e.g. 50% in the most mature verticals such as financial services, down to 20% in the least mature such as manufacturing[2]). There can be few players in any sector whose business would not benefit from better management of their relationships with customers. This provides the strongest players with an opportunity for growth over the next few years.

2001 has seen an increase in customers' preference for broad-suite CRM solutions at the expense of point-solution providers, which will mean that most will try to become part of a broad-suite offering. Many of these players are low on cash and merger and acquisition activity can only increase. AMR Research estimates that of the approximate 500 vendors in the market today, only 15% will still be recognised as CRM providers within 5 years[3].

Of the three types of CRM (Operational, Analytical and Collaborative), 2001 has seen a move towards "collaboration", which means the extension of CRM to outside the company; mainly towards "partner relationship management". This involves sharing information with partners about customers and helps vendors and partners adopt the mindset of team-based selling.

Companies planning a CRM project are therefore advised to choose vendors based on the expected Return on Investment (ROI) and their market positioning.

update's product portfolio already has a head start: its CRM solutions are sophisticated, tried and tested and promise a quick ROI based on rapid implementation and standardisation. A competitive pricing strategy has allowed update to continually focus on customer benefit and customer satisfaction.

update's marketing.manager® Generation V® product suite, launched in the second half of 2001, represents one of the broadest ranges of solutions for the highly demanding CRM market. Standardised and yet highly flexible, the solution is available in 16 languages and is therefore capable of meeting the regional needs of the European market.

The management team in place since mid 2001 recognised the prevailing trends in the sector. The successful restructuring of the company can be put down to the rigorous implementation of measures tailored to these trends. update has been heading towards profitability since the beginning of the third quarter of 2001.

However, the change in tack has yet to impact significantly on share price. update shares have in every respect performed better than the NEMAX index since mid 2001 and prices have remained relatively stable: an upturn reflecting the company's previous success is yet to transpire.

[1] AMR Research, Gartner
[2] AMR Research July 2001
[3] AMR Research

Restructuring

During the first half-year 2001, market trends and the growth of the company were misjudged, as a result of which the company was incorrectly positioned in terms of strategy. The implementation of an inappropriate strategy then led to unrealistic revenue forecasts and spiralling costs. Furthermore, inadequate use was made of the controlling instruments which were in place. Consequently, update found itself in a state of economic turmoil at the end of Q1 2001.

The entire management, apart from the CTO, thus had to be replaced mid year. A stringent cost-cutting programme was successfully initiated, the Corporate Finance division was restructured and all marketing, controlling and administrative activities were moved to the Vienna head office. The expected results were immediate: revenue was increased and costs were cut, resulting in a 63% reduction in the cash-burn rate within 6 months.

Sweeping organisational changes were also made:

- Direct sales were an will be strengthened by focusing on strategic partnerships. This shift means that sales could be increased despite a reduction in sales costs.

- Research & Development divisions scattered throughout five different development centres were centralised in Vienna. Products are now developed in collaboration with Sales and Marketing, ensuring that all efforts are customer-driven. These measures have significantly increased efficiency, performance and productivity in R&D despite a drastic reduction in costs. The launch of update's new Generation V® product suite in October 2001 was a clear sign of the company's renewed focus on core CRM business.

- The entire restructuring process involved the elimination of hierarchies throughout the company, allowing competence to be spotlighted, performance to be strengthened and the company to refocus on core activities.

Revenue and profit

To a great extent, update achieved the objectives set by the new management team in the middle of the year: the fourth quarter of the year was the company's strongest period since flotation. Despite a poor economic climate and a period of economic adversity in the second half-year 2001, update managed to achieve most of its performance targets and is therefore ahead of many of its European competitors as far as restructuring is concerned. update was able to achieve the target set by the management in mid 2001, posting revenues of EUR 16.7 million. The cash-burn rate was also reduced significantly, and will be no more than a memory by mid 2002 at the latest.
The table below contains the most important figures from 2001:

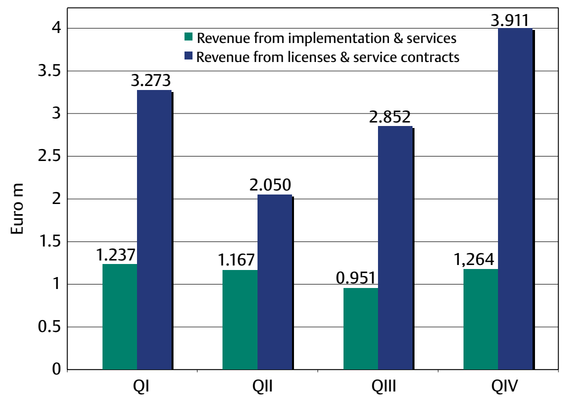
	QI/01	QII/01		QIII/01		QIV/01	
Net Sales	4.510	3.217	-29%	3.803	18%	5.175	36%
COGS:	2.322	2.440	5%	1.638	-33%	1.484	-9%
Gross Profit:	2.188	777	-64%	2.165	179%	3.690	70%
Oper. Costs:	7.449	7.901	6%	5.209	-34%	4.765	-9%
Loss from operations:	**-5.261**	**-7.124**	**-35%**	**-3.044**	**57%**	**-1.075**	**64%**
Cash Burn	**6.684**	**5.190**	**-22%**	**4.961**	**-4%**	**2.475**	**-50%**

all numbers in Euro m

Renewed confidence in the company is also reflected in the acquisition of several new accounts, including market leaders such as Die Sparkasse in Bremen, Leuze Electronic GmbH and, in the Netherlands, Elma Edities B.V. Increasing revenue coupled with continually falling costs resulted in a profit in December for the first time since flotation, confirming the sustained upward trend.

Revenue by quarter

There was a 29% drop in revenue between the first and second quarters, whilst the situation in terms of cost of goods sold and gross yield worsened considerably.

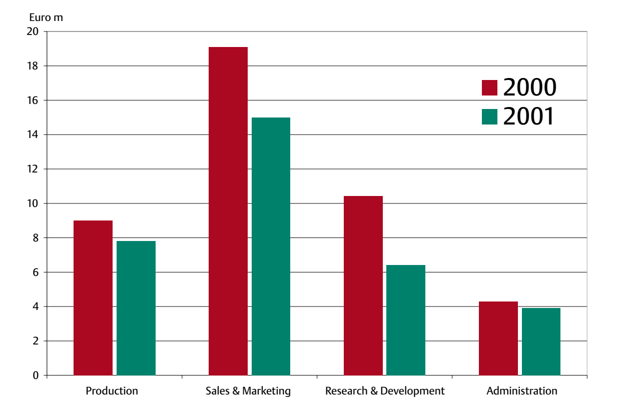


Revenue by Quarter: Increasing revenue coupled with continually falling costs resulted in a profit in December for the first time since flotation.

Revenue was up 18% in the third quarter, however, with the cost of goods sold down 33%. This led to a 179% increase in the gross margin. Total revenue was up by a further 36% in the fourth quarter, with the cost of goods sold down another 9%. This led to a 70% improvement in the gross margin compared with the third quarter.

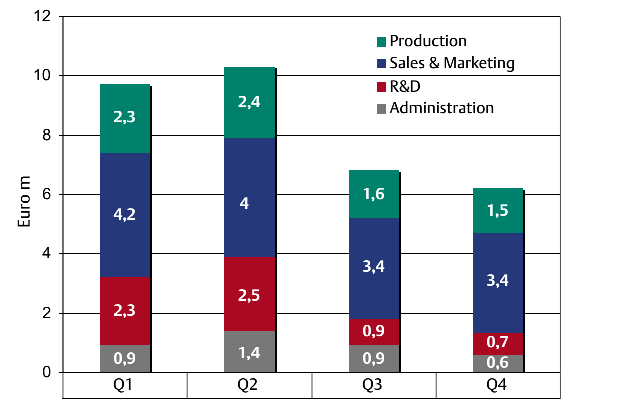
Operating costs

There was an equally gratifying drop in operating costs, which fell by around 40% between the second and fourth quarters. Overall, operating costs in 2001 were 27% lower than in 2000, with the second half-year 2001 accounting for the lion's share of the reduction of costs.



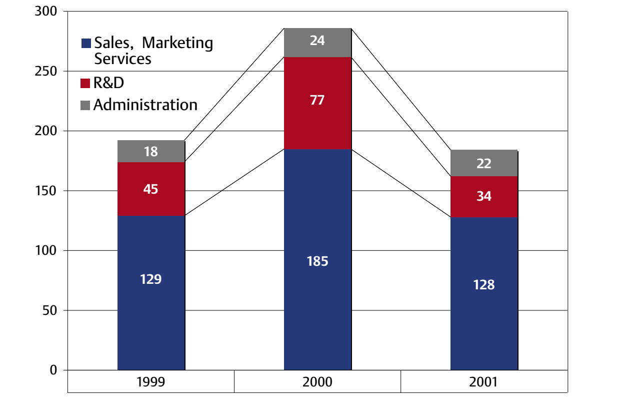
Consolidated costs: Overall, operating costs in 2001 were 27% lower than in 2000. update has more or less succeeded in stabilising overhead costs.

Costs were cut by 21% in Sales and Marketing, 38% in R&D and 9% in Administration. Savings could be made thanks primarily to organisational streamlining and increases in efficiency. The reduction in general administration costs is an indication that update is becoming a streamlined organisation with a high regard for cost awareness. Although update has more or less succeeded in stabilising overhead costs, more can and will be done to keep costs at a healthy level.



Costs per quarter fell by around 40% between the second and fourth quarters.

Employees



Employees 1999 - 2001: There were 184 employees as of the end of 2001, 113 of which in the 8 European offices

Restructuring began in mid 2001 with a significant 40% reduction in the number of employees. Given that the remaining core of highly qualified employees were more than able to compensate for the initial gap, the need for and legitimacy of such a drastic measure is undisputed.

update continues to endorse a combination of highly qualified and highly motivated employees with several years' experience in the CRM arena. Personnel changes at second and third management level have created a team boasting extensive market know-how and management expertise.

In the meantime, update has recruited a small number of new employees in order to cope with renewed growth. Sales and Research & Development in particular have been strengthened by the recruitment of new employees.
There were 184 employees as of the end of 2001, 113 of which in the 8 European offices, with a further 2 focusing on the development of the US subsidiary.

Future Prospects

The aims for this year are to bring the cash-burn rate to an end and to achieve sustained profitability by mid 2002 at the latest. The company expects to increase turnover by around 30% in 2002. update will end 2002 with a positive total operating result.

Family of Products

update's range of software is geared towards medium-sized to large companies in various vertical markets. The CRM product suite is a closed-loop solution designed to support all key CRM processes. update's high-grade support concept guarantees software availability 24/7.

marketing.manager Generation V®

Generation V® is the umbrella brand name for update's new product portfolio, which is based on marketing.manager, 5.0, a highly scalable CRM database application designed for enterprise-wide use. The product supports the customer throughout the entire customer lifecycle and boasts numerous functions enabling Marketing, Presales, Sales and Customer Care and Support to plan and implement activities whilst making routine tasks easier to manage.
Core functionality of marketing.manager includes Contact Management, Calendar/Scheduling, Campaign Management, Telemarketing/Telesales, Opportunity Management, Account Management, Sales Management, Service Management, Order Processing, Analyses/Reporting and Decision Support *inter alia*.

The full functionality of marketing.manager can be accessed via numerous channels and using various devices such as Windows®, the internet (Web) and PDAs.
update.win, the classic client for Microsoft Windows® operating systems, is the standard application for easy access to data over a LAN.
update.web allows the functionality of marketing.manager to be accessed over the internet, at any time, from anywhere.
update.pda: key data in the palm of your hand. Users on the move are able to manage their customer data offline, at any time, using their PDA. Data are synchronised easily and securely with the marketing.manager database.

Generation V® is the umbrella brand name for update's new product portfolio, based on the multi-tenancy-enabled marketing.manager software.

update.phone is the intelligent link between telephone and computer; the standard Telemarketing and Call Centre solution.
update.portal integrates marketing.manager into an enterprise portal. Used in conjunction with a company's website, not only can customers' and partners' online behaviour be tracked and precisely analysed, but specific actions can also be triggered (e.g. follow-up by e-mail).
update.xml allows data to be directly exchanged online between marketing.manager and other XML-capable applications. A standard interface to SAP® R3® is already available.
update.analytical CRM: collaboration between COGNOS and update and its marketing.manager product allows CRM data to be precisely analysed. Analyses deliver precise information quickly, tailored to the specific needs of the customer.

The benefits of this architecture are numerous: integrating all sales channels means all employees can access a single knowledge base, the Web provides an additional sales channel, personalised customer contact and interactive customer service, greater mobility for sales reps as they are relieved of routine tasks, different user groups can work in the same database without influencing each other and global implementation (available in 16 languages, supports several currencies, global support concept).

update.prospectminer

update.prospectminer is an intelligent web-mining tool designed to identify companies on the internet. A set of user-definable criteria ensures the maximum relevance of the results. The entire World Wide Web therefore serves as a database, allowing prospectminer to make use of various internet services. Information on potential customers is extracted from this huge, free database and automatically written up in report format. update.prospectminer is therefore a valuable sales and marketing tool for generating high-value leads.

The huge significance of qualitative web mining has been propelled by the constant growth of the internet. The acquisition of strategically important customers such as Dell Computer Corporation, Hewlett-Packard USA, Sprint Communications Company and Nortel Networks Corporation bears testimony to the success of prospectminer in 2001.

Consolidated Balance Sheets as of December 31st 2001

compared with the previous year's figures	Dec. 31st 2001 1,000 Euro	Dec. 31st 2000 1,000 Euro
Assets:		
Current assets		
Cash and cash equivalents (note 3)	7,444	26,754
Trade accounts receivable	8,226	9,241
less: Allowance for doubtful accounts (note 4)	-1,198	-1,084
Trade accounts receivable (net)	7,028	8,157
Inventory	275	1,087
Prepaid Expenses	172	231
Other current assets (note 5)	281	809
Total current assets	**15,199**	37,038
Property and equipment, net (note 6)	2,138	3,261
Intangible assets (note 2)	268	443
Investment securities (note 8)	114	69
Other non current assets (note 7)	84	72
Total Assets	**17,804**	**40,883**

Liabilities and Stockholders' Equity:		
Current liabilities		
Payable to banks	363	0
Trade accounts payable	1,386	5,911
Income taxes payable	0	140
Accrued liabilities (note 9)	3,423	4,754
Deferred revenues	243	295
Total current liabilities	5,415	11,100
Long-term debt (note 10)	1,090	1,453
Employee benefits (note 11)	133	181
Obligations under capital leases, excluding current installments (note 12)	11	38
Total liabilities	**6,649**	**12,772**
Stockholders' equity		
Common stock of EURO 1 par value (note 15)	9,382	9,382
shares issued: 9,381,967 shares issued and circulating 2001: 9,229,490 shares issued and circulating 2000: 9,379,320		
Additional paid-in capital (note 15)	57,728	57,728
Retained earnings	-55,617	-38,999
Treasury stock	-352	-32
Foreign exchange gains/losses	14	32
Total stockholders' equity	**11,155**	**28,111**
Total liabilities and stockholders' equity	**17,804**	**40,883**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income as of 2001

compared with the previous year's figures	2001 1,000 Euro	2000 1,000 Euro
Net sales		
License and maintenance revenue	12,086	14,909
Service revenue	4,619	5,506
Total net sales	16,705	20,415
Cost of goods sold		
Cost of licenses and maintenance	2,215	2,371
Cost of services	5,669	6,627
Total costs of goods sold	7,884	8,998
Gross profit	**8,820**	**11,417**
Operating Expenses		
Sales and marketing	15,002	19,107
Research and development	6,419	6,900
Acquired in process R&D costs	0	3,528
General & administrative	3,903	4,306
Amortization of goodwill	0	6
Total operating expenses	**25,324**	**33,847**
Loss from operations	**16,504**	**22,430**
Interest income	581	1,256
Interest expense	-108	-173
Other income, net	-540	-855
Loss before income taxes	**-16,571**	**-22,202**
Income taxes (note 17)	-47	-103
Net loss	**-16,618**	**-22,305**
Basic and diluted loss per share, assuming conversion of Class B-shares into Class A-shares (note 19) in Euro	**-1.79**	**-2.55**
Average number of common shares outstanding	9,292,669	8,740,049

See accompanying notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity as of 2001

compared with the previous year's figures

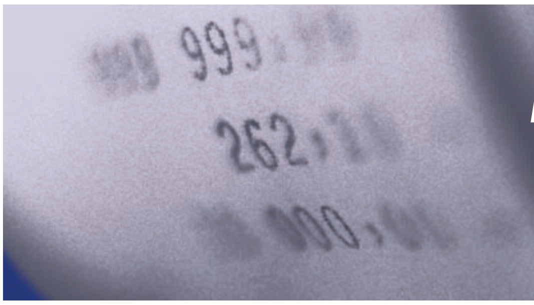
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Foreign exchange gains/losses	Total stockholders' equity
	1,000 Euro	1,000 Euro	1,000 Euro	1,000 Euro	1,000 Euro	1,000 Euro
Balances at December 31st, 1999	**2,340**	**20,003**	**-16,694**	**0**	**-5**	**5,644**
Shares issued	6,900	37,872				44,772
Options issued	142	-142				0
treasury stocks				-32		-32
Net loss			-22,305			-22,305
Special reserves adjustments		-5				-5
Foreign exchange gains					37	37
Balances at December 31st, 2000	**9,382**	**57,728**	**-38,999**	**-32**	**32**	**28,111**
treasury stocks				-320		-320
Net loss			-16,618			-16,618
Foreign exchange gains					-18	-18
Balances at December 31st, 2001	**9,382**	**57,728**	**-55,617**	**-352**	**14**	**11,155**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

	2001 1,000 Euro	2000 1,000 Euro
Operating activities:		
Net loss	-16,618	-22,305
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation & amortization	2,758	1,063
Loss on sale of assets	0	0
Changes in employee benefits	-48	-29
Changes in deferred income taxes	0	95
Foreign currency gains and losses	-18	37
Changes in operating assets and liabilities:		
Increase in accounts receivable	1,129	-3,325
Change in inventory	-166	0
Increase/decrease in accounts payable	-4,524	3,733
Increase in deferred revenue	-54	123
Increase in accrued liabilities	-1,331	1,294
Change in other assets and liabilities	436	-1,219
Net cash used by operating activities	**-18,436**	**-20,533**
Investing activities:		
Cash paid for purchases of property and equipment	-738	-3,497
Proceeds from sales of property and equipment	249	49
Cash paid for investment securities	-45	-57
Net cash used in investing activities	**-526**	**-3,505**
Financing activities:		
Change in obligations under capital leases	-27	-118
Proceeds from issuance of common stock	0	44,772
Changes in treasury stocks	-320	0
Additional paid-in capital for coverage of stock option plans	0	-5
Net cash provided by financing activities	**-347**	**44,649**
Increase in cash and cash equivalents	-19,310	20,611
Cash at beginning of year	26,754	6,143
Cash at end of year	**7,444**	**26,754**
Supplemental disclosure information: Cash paid during period for:		
Interest	102	148
Income taxes	48	6

See accompanying notes to consolidated financial statements.



Notes to Consolidated Financial Statements

1. Organisation and Operations of the Company

update.com software AG (the "Company") was originally founded in 1988 as "Marketing Informationssysteme Gesellschaft m.b.H" as a limited liability company. In October 1989 the Company was renamed "Update Marketing Service Gesellschaft m.b.H.". On April 29th, 1997 the Company converted to a public limited company (*Aktiengesellschaft*) and the name changed to "Update Marketing Service AG" to reflect the new legal form. On October 19th, 1999, the Company was renamed "update.com software AG". The registered office of the Company is in Vienna, Austria. Unless otherwise noted, all references to the Company refer to update.com software AG and its predecessors.

The Company is a leading developer and implementer of Customer Relationship Management software solutions. Customer Relationship Management software solutions automate the key functions that enable enterprises to more effectively acquire, manage and retain customers, partners and other relationships.

The Company is subject to a number of risks, including, but not limited to, operating in a rapidly evolving market, competition from larger companies, dependence upon new products, dependence on key personnel, uncertain profitability, and a concentration of revenues from existing products.

2. Summary of Significant Accounting Policies and Practices

a) Basis of Consolidation

The consolidated financial statements, which have been prepared according to generally accepted accounting principles in the United States (US GAAP), include the accounts of the Company and its subsidiaries. All significant intercompany transactions and balances between companies have been eliminated in consolidation.

b) Initial Public Offering

On April 11th, 2000, the company's shares were listed on the *Neuer Markt* segment of the German Stock Exchange in Frankfurt. As part of the initial public offering a total of 3,195,431 shares were offered, of which 2,077,030 were new shares and 1,118,401 shares were from existing shareholders. In accordance with US GAAP, costs associated with the initial public offering in the amount of EURO 4,089,274 were treated as a reduction of the proceeds from the share offering. The net proceeds of the initial public offering amounted to EURO 43,682,416.

c) Use of Estimates

The financial statements have been prepared in accordance with US GAAP and necessarily include amounts based on estimates and assumptions by management. Actual amounts could differ from those amounts. Significant estimates include provisions for uncollectible trade accounts receivable, useful lives for fixed assets and intangibles, and tax liabilities.

d) Cash and Cash Equivalents

Cash and cash equivalents consist of cash and highly liquid investments with original maturities of three months or less when acquired and which are readily convertible to cash. The Company's investments consist of bank certificates of deposit with original maturities of three months or less, money market accounts and money market funds.

e) Investment Securities

The Company holds assets in various Investment Funds in Austria as required by Austrian tax law to allow for tax deduction of termination indemnity accruals.

f) Property and Equipment

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:

	Period of depreciation years
IT equipment	3 – 5
Software	3
Office equipment	8
Furniture	3 – 8

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

g) Intangible Assets
Intangible assets consist of software, trademarks, patents and customer lists which were acquired as part of the Prospect Miner acquisition. Intangible assets are amortized over 3 years.

h) Inventory
Inventory consists of third party software held for resale. Inventory is held at the lower of cost or fair market value. A loss-free valuation is made by dealing with discounts, which are determined on the basis of the rating of commercialisation. For 2001 and 2000 allowances on inventory, shown in production costs, were made for T€ 979 and T€ 290 respectively.

i) Decline in values of long-lived assets
The Company reviews its long-lived assets for a decline in value if an event or circumstances indicate that such assets may not be maintaining their book value. The book values of long-lived assets are reviewed for impairment based upon the expected future cash-flows (not discounted) associated with them. If this review indicates a deficit, the assets are depreciated to their market value.

j) Revenue Recognition and Deferred Revenue
Revenues from software sales are recognized in accordance with Statement of Position 97-2, "Software Revenue Recognition" (SOP 97-2), issued by the American Institute of Certified Public Accountants. The prerequisite for revenue recognition is the existence of a legally binding contract, completed delivery of the software, an established or determinable license fee, and probable receipt of payment. All prerequisites must be fulfilled.
Revenues from maintenance are recognized pro rata over the period of the contract.
Consulting revenues from projects, including training, consultancy and implementation service, are recognized in accordance with SOP 97-2 and Statement of Position 81-1 "Accounting for Performance of Construction-Type and certain Construction-Type Contracts" (SOP 81-1). According to these documents, percentage-of-completion recognition based upon the project progress is carried out for long-term projects.
Earnings from other consulting activities are recognized based upon the service performed.
In individual cases it might happen, that customers get the right to withdraw from a contract. In these cases the turnover is realized in consideration of an estimated feasibility of executing a withdrawal in accordance with SFAS 48 “Revenue Recognition When Right of Return Exists”.

k) Cost of Goods Sold
Cost of licenses and maintenance includes the costs of media, product packaging, documentation and other production costs and third-party royalties. Also included are the costs of salaries, related taxes and benefits related to maintenance or help desk support personnel.
Cost of services consists primarily of salaries, related taxes and benefits and allocated overhead costs related to consulting, training and implementation services personnel.

l) Research and Development
Research and development costs, which consist primarily of software development costs, are expensed as incurred. Financial accounting standards provide for the capitalization of certain software development costs after technological feasibility of the software is established. Under the Company's current practice of developing new products and enhancements, the technological feasibility of the underlying software is not established until substantially all product development is complete, including the development of a working model. Accordingly, the Company has not capitalized software development costs.

m) Advertising Costs
Advertising costs are expensed as incurred. Advertising expense was approximately T€ 977 for the year ended December 31st, 2001 and T€ 2,181 for the year ended December 31st, 2000.

n) Income Taxes
Income taxes have been accounted for under the asset and liability method in accordance with Statement of Financial Accounting Standards 109, "Accounting for Income Taxes" (SFAS 109). Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under SFAS 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date.

o) Earnings per Share Computation
Basic earnings per share is computed by dividing net income (loss) available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution of securities by including other common stock equivalents, including stock options and warrants, in the weighted average number of common shares outstanding for a period, if dilutive.
Pro forma earnings per share is calculated according to Statement of Financial Standards 123, (SFAS 123) “Accounting for Stock Based Compensation” by dividing net income (loss) including the pro forma expense by the weighted average number of common shares outstanding for the period.

p) Foreign Currency Conversion

The functional currency of the Company's foreign subsidiaries is the local currency in the country in which the subsidiary is located. Assets and liabilities denominated in foreign currencies are converted to Euro using the exchange rate in effect at balance sheet date. Revenues and expenses are converted at the average rates of exchange prevailing during the year. The conversion adjustment resulting from this process is shown within accumulated other comprehensive income (loss) as a component of shareholders' equity. Gains and losses on foreign currency transactions are included in the consolidated statement of income as incurred. To date, gains and losses on foreign currency transactions have not been significant.

q) Stock-based Compensation

The Company accounts for its stock based compensation in accordance with SFAS 123, "Accounting for Stock-based Compensation". As provided by SFAS 123, the Company continues to measure compensation expense for awards granted to employees and directors under the provisions of Accounting Principles Board Opinion (APB 25), "Accounting for Stock Issued to Employees", and related interpretations. The exercise price of options granted under the Company's 1999 stock option plan (the "1999 Plan") is equal to the market price of the Company's stock on the date of grant, and accordingly, no compensation cost has been recorded under APB 25. The company's 2000 stock option plan (the "2000 plan") is treated as a variable plan under APB 25 due to its provision that options may only be exercised if the price of a share amounts to at least 110 % of the exercise price. The excess of the stock price at balance sheet date over the exercise price is accrued over the service period. This resulted in no compensation expense being recognized during 2000. SFAS 123 requires companies that continue to follow APB 25 to provide pro forma disclosures showing the impact of applying the fair value method of SFAS 123 (refer to note 19).

r) Comprehensive Income (Loss)

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

s) Employee Benefits

Austrian labour law requires payment to employees specific termination indemnities upon release from service or retirement at pension age. Employees leaving voluntarily or dismissed for good cause are not entitled to such indemnities.

The company uses the projected unit credit actuarial method to determine termination indemnity cost and the related accrual for financial reporting purposes. The calculation was based on the following assumptions: Interest rate: 6%, Future salary increases: 2%. The assumption remained unchanged compared to previous year.

The Company has a defined contribution pension plan in place in its subsidiary in the United Kingdom. Defined contribution pension expense for the Company was T€ 19 and T€ 29 for 2001 and 2000 respectively.

t) Leases

The Company is lessee of equipment, principally cars and computer software. All leases, that meet certain specified criteria intended to represent situations where the substantive risks and rewards of ownership have been transferred to the lessee are accounted for as capital leases. All other leases are accounted for as operating leases.

3. Cash and Cash Equivalents

Cash and cash equivalents consist of bank certificates of deposit with original maturities of three months or less, money market amounts and investments in money market funds.

Cash and cash equivalents amount to T€ 7,444 at December 31, 2001, of which T€ 1,685 were mortgaged to ensure granted bank guarantees.

4. Trade Accounts Receivable

The allowance for doubtful accounts developed as follows:

	Dec 31st, 2001 T€	Dec 31st, 2000 T€
Allowance for doubtful accounts at beginning of year	1,084	753
Additions charged to bad debt expense	783	548
Write-downs charged against the allowance	-192	-15
Reversal of unused allowance	-477	-202
Allowance for doubtful accounts at end of year	1,198	1,084

5. Other Current Assets

	Dec 31st, 2001 T€	Dec. 31st, 2000 T€
Due from tax authorities	124	547
Due from officers and employees	21	46
Rental and leasing deposits	49	81
Other assets	87	135
	281	809

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

6. Property and Equipment

	Dec 31st, 2001 T€	Dec 31st, 2000 T€
Cost		
IT equipment	2,585	2,454
Software	1,205	1,073
Office equipment	1,054	1,040
Furniture	248	293
Other fixed assets	451	529
	5,543	5,389
Less: Accumulated depreciation	**-3,405**	**-2,128**
Net book value	**2,138**	**3,261**

Depreciation and amortization expense was T€ 1,613 and T€ 1,040 for the fiscal years ended December 31st, 2001 and 2000, respectively.

7. Other non current assets

Other non current assets include investments in affiliated companies, which consist of update Sales & Marketing S.A. Spain (T€ 49). This subsidiary is not included in the consolidated financial statements as its operations are not material for the Company as a whole.

8. Investment Securities

Costs, gross unrealized holding gains, gross unrealized holding losses and fair value at December 31st, 2001 and 2000, were as follows:

	Costs	Gross unrealized holding gains/losses		Fair value
	T€	T€	T€	T€
Available-for-sale securities				
Shares in funds				
December 31st, 2001	118	0	4	114
December 31st, 2000	69	0	0	69

9. Accrued Liabilities

The decrease in accrued payroll and travel expenses is mainly due to the reduced number of employees.

	Dec 31st, 2001 T€	Dec 31st, 2000 T€
VAT, payroll taxes and social security	809	968
Accrued payroll and travel expenses	1,073	1,875
Other accrued liabilities	1,541	1,911
	3,423	**4,754**

Other accrued liabilities include mainly consulting, legal fees, warranties and accrued expenses for other outside services.

10. Long-term Debt

	Carrying amount T€	Fair value T€
December 31st, 2001	1,090	1,037
December 31st, 2000	1,453	1,458

In 1998, the Company entered into a loan agreement with Bank Austria AG. Proceeds from the loan were T€ 1,453. The loan bears an interest rate of 6.25 % p.a. Interest is payable on June 30th and December 31st each year. The loan is guaranteed by Finanzierungsgarantie-Gesellschaft mbH (FGG) according to the rules of the "Technologie-Finanzierungsprogramm" (TFP).
The loan must be repaid either by eleven installments of T€ 121 each on a half-year basis, starting December 31st, 2001, and ending June 30th, 2007, or pari passu earlier, if the VC-investors of the first financing round 1997 sell all of their shares.
The fair value of the Company's long-term debt is calculated by discounting the future cash-flows at a rate currently offered to the Company for similar debt instruments of comparable maturity by the Company's banks.

11.Employee Benefits

	T€
Accrued obligation as of December 31st, 1999	**211**
Interest cost	10
Service cost	54
Payments of Benefits	-94
Accrued obligation as of December 31st, 2000	**181**
Interest cost	11
Service cost	80
Payments of Benefits	-345
Actuarial profit/loss	206
Accrued obligation as of December 31st, 2001	**133**

The accrued employee benefits relate to termination indemnities.

12. Leases

The Company is obligated under capital leases for EDP software and other office equipment. At December 31st, 2001 and 2000 the gross amounts of equipment recorded under capital leases were as follows:

	Dec 31st, 2001 T€	Dec 31st, 2000 T€
Software	0	149
Hardware	0	164
Office equipment	19	32
Cars	0	69
	19	**414**
less: Accumulated amortization	-6	-263
	13	**151**

Depreciation of assets held under capital leases is included in depreciation expense. In 2000 the company entered a non-terminable lease contract for offices. The costs thereby incurred amount to T€ 470 per year.
The Company is also the lessee of several non-terminable operating leases, primarily for buildings, office facilities, cars and other equipment.
Future minimum lease payments under non-terminable operating leases and future minimum capital lease payments as of December 31st, 2001 are:

	Capital leases T€	Operating leases T€
Years ending December 31st		
2002	4	864
2003	4	827
2004	4	780
2005	4	532
2006	2	494
thereafter	0	0
	18	**3,497**
less: Current installments of obligations under capital leases (included in accounts payable)	**-7**	
Obligations under capital leases, excluding current installments	**11**	

Future minimum operating lease payments as of December 31st, 2001 and 2000, were: T€ 199 and T€ 5,086, respectively. Future minimum obligations under capital leases, excluding current installments, as of December 31st, 2001 and 2000, were T€ 12 and T€ 38, respectively.
Amortization charge applicable to capitalized assets as of December 31st, 2001 is: T€ 62.
Imputed interests in the capital leases as of December 31st, 2001 amount to T€ 2.

13. Purchased in Process Research and Development

Purchased in process research and development ("IPR&D") charges relate to acquisitions of technologies in which a portion or all of the purchase price was allocated to acquired in process technology. An evaluation was made to provide and allocate the amount, which was upset at the purchase of the technology in process. The value of these technologies was provided with the aid of the future cash-flows of operative action after taxes, in consideration of the degree of completion at the date of purchasing. Based on this analysis T€ 532 was allocated to intangible assets and capitalized for the year 2000. The depreciation of intangible assets, which were purchased and realised in correlation with this, for 2001 and 2000 ending on December 31st amounted T€ 171 and T€ 71 respectively. In 2001 no research and development arrangements in process were purchased.

14. Research and Development Arrangements

The Company has entered into contractual arrangements with external contractors or companies to provide software programming or development resources to the company. These contracts are short term arrangements ranging from two to twelve months and all intellectual property developed as a result of these contracts belongs to the Company. The cost incurred in fiscal 2001 and 2000 relating to these contracts amounted to T€ 1,570 and T€ 814.

15. Common Stock and Additional Paid-in Capital

The changes in common stock are summarized as follows:

		Common stock T€	Add. paid in capital T€	Nr. of shares issued (Class A)	Nr. of shares issued (Class B)
Balance at December 31st, 1999		**2,340**	**20,003**	**1,285,813**	**1,053,971**
Issuance of 4,150 Class A common stock	a)	4	-4	4,150	0
Issuance of 6,991 Class A common stock	b)	7	-7	6,991	0
Increase of ordinary share capital	c)	4,702	-4,702	2,593,908	2,107,942
Issuance of 26,427 Class A and 77,490 Class B common stock	d)	104	344	26,427	77,490
Issuance of 27,027 Class B common stock	e)	27	89	0	27,027
Initial Public Offer	f)	2,077	41,605	2,077,030	0
conversion Class B common stock	g)	0	0	3,266,430	-3,266,430
Issuance of 121,218 common stock	h)	121	404	121,218	0
Special reserve adjustment	i)	0	-4	0	0
Balance at December 31st, 2000		**9,382**	**57,728**	**9,381,967**	**0**
Balance at December 31st, 2001		**9,382**	**57,728**	**9,381,967**	**0**

Own stocks:

	Number	**Type of stock**	**Initial value T€**
31.12.2000	2,647	common stock	32
31.12.2001	152,477	common stock	352

a) 4,150 common stock at par value of EUR 1.00 and issuing value EUR 13.00
b) 6,991 common stock at par value of EUR 1.00 and issuing value EUR 13.00
c) Increase of capital out of additional paid in capital. (stock split).
d) 26,427 common stock at par value of EUR 1.00 and issuing value EURO 4.33 and 77,490 common stock at par value of EUR 1.00 and issuing value EUR 4.308
e) 27,027 common stock at par value of EUR 1.00 and issuing value EUR 4.308
f) 2,077,030 common stock without par value at issuing value EUR 23.00
g) Conversion of all stocks to a stock class without par value and with the right to vote and standard dividend-right.
h) 121,218 common stock without par value at issuing value EUR 4.33
i) Exercised options posted to a prior period

16. International Operations and Segment Information

The Company operates in a single business segment and licenses and markets its products through direct and indirect channels in Europe, the United States and Asia-Pacific. The Company's customer base is dispersed across many different geographic areas consisting of companies in a variety of industries. During 2001 no single customer accounted for 10 % or more of total revenues.
Information regarding revenues recognized based upon point of sale in different geographic regions is as follows:

	2001 T€	2000 T€
Austria	4,364	7,172
Germany	6,714	7,253
Netherlands	2,436	2,350
Rest of world	3,191	3,640
Total Revenues	**16,705**	**20,415**

No subsidiary operations have significant fixed assets.

17. Income Taxes

Total income tax benefit/expense for the years ended December 31st, 2001 and 2000 were allocated to income from continuing operations.
Income tax benefit/expense for the respective years consists of:

	Current T€	Deferred T€	Total T€
2001			
Austria	48	0	48
Foreign	0	-1	-1
	48	**-1**	**47**
2000			
Austria	5	0	5
Foreign	1	97	98
	6	**97**	**103**

Income tax benefit/expense differed from the amounts computed by applying the Austrian income tax rate of 34 % to pre-tax income from continuing operations as a result of the following:

	2001 T€	2000 T€
Income before income taxes	-16,573	-36,575
Statutory tax rate	34%	34 %
Expected income tax benefit	-5,635	-12,435
Actual income tax benefit/expense	-47	-103
Difference to be reconciled	**-5,682**	**-12,538**
Reconciliation		
Valuation allowance	3,914	13,890
Change in interest rate	468	0
Non tax-deductible expenses	240	0
Other	1,060	-1,352
	5,682	**12,538**

The tax effects of temporary differences that give rise to portions of the deferred tax assets at December 31st, 2001 and 2000 are presented below:

	2001 T€	2000 T€
Deferred tax assets/liabilities		
Net operating loss carry forwards	30,482	22,291
Write-off of investments in affiliated companies	763	979
Depreciation of tangible and amortization of intangible assets	25	11
Other	123	71
Total gross deferred tax assets/liabilities	31,392	23,352
Less: Valuation allowance	-31,392	-23,352
Net deferred tax assets	**0**	**0**

Most tax loss carry forwards can be carried forward indefinitely. Due to uncertainty of the realization, the Company has established a valuation allowance. Based on projected taxable results management believes, that it is more likely than not that the Company will not realize the benefits of these deductible differences.

18. Warrants

Warrants are subscription rights of Class B common stockholders which were granted as part of the capital increases carried out during 1999 and 2000. These warrants allow the holders to purchase shares at a fixed price of EURO 4.33 each until a defined date. Warrants were issued in the following amounts:

- Bridge Loan Warrants – were granted to the investors at the financing round from May 28th, 1998 with the right to purchase 101,871 common stock at a strike price of EURO 4.45.

- Security Agreement Warrants – Offer 1: The Underwriting Offer of July 22nd, 1998 included Offer 1 Warrants, which certified the right to purchase a determined number of stocks at a fixed price, which can be exercised until July 22nd, 2001. Until the end of the exercise period they were partly exercised, namely by Atlas Venture Fund III L.P., Atlas Venture Entrepreneurs' Fund III L.P. and Bank Austria High-Tech Unternehmens-beteiligung GmbH immediately before the Company was listed.

- Security Agreement Warrants – Offer 2: Warrants with the right to purchase 77,490 common stock were granted at the second investment financing round dated July 22nd, 1998. All of them have been exercised in full by the beneficiaries.

Type of warrant	Number	Amount (T€)	Expiration date	Exercise price
Bridge Loan Warrant	101,871	453.24	May 28th, 2003	€ 4.45

19. Incentive Stock Plan

On May 19th, 1999, the Shareholders approved the 1999 Incentive Stock Plan (the "1999 Plan") after stock options, including incentive stock options, not qualified options, qualified stocks, growth stocks, bonus stocks, and Stock Appreciation Rights (SARs), may be granted to employees, consultants and directors, for up to 518,773 shares of common stock. The plan was implemented on May 19th, 1999.
This 1999 Plan is administered by the management board (the "Board"). The Board shall determine the term of each stock option (up to a maximum of 10 years) and the exercise price cannot be less than 100 % of the fair market value of the common stock on the date the option is granted. Except as otherwise provided, options will be exercisable with respect to 25 % of the shares corresponding to the grant after the first year of service. Thereafter options will be exercisable with respect to 1/48th of the shares corresponding to the grant on the first day of each of the subsequent months after the first calendar year of service. Employees who received options and were employed prior to the implementation date of the Incentive Stock Plan were credited for vesting purposes with their service to date up to a maximum of one year. The third ordinary shareholders' meeting held on February 15th, 2000 resolved to carry out a stock split at a 3 for 1 ratio. The consequence for the holder of stock options is the right to receive 3 stocks for 1 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 shareholders' meeting the shareholders approved the 2000 Incentive Stock Plan (the "2000 Plan") whereby stock options may be granted to employees and directors, for up to 1,384,803 shares of common stock thereby reducing the total numer of shares for which options may be granted by 171,516. After February 15th, 2000 new options are granted only under the provisions of the 2000 Plan. After January 1st, 2000 options shall no longer be granted to members of the supervisory board. The 2000 Plan was implemented on February 15th, 2000.
The 2000 Plan is administered by the Board. The Board shall determine the term of each stock option (up to a maximum of 10 years) and the exercise price cannot be less than 100 % of the fair market value of the common stock on the date the option is granted. The fair market value is determined by the average of the cash price of the stocks of update.com software AG of the last 15 trading days at the "Neuer Markt" before grant date. Except as otherwise provided, options became exercisable with respect to 25 % of the shares corresponding to the grant after two years of service. Afterwards the options became exercisable in respect to 1/8th of the shares at the end of each following period of 6 months. Options can be exercised, if the market price exceeds the fair market value by 10% at least at the date of validity of explanation of realization. Options are not transferable except by will or intestacy, and they can be exercised only by the person they were granted to, if this person is alive. Options cannot be transferred, ceded, pledged or lent or be subject to execution, impressments or similar, by the holder in his lifetime. Stocks under the 2000 Plan can be shares of authorized capital or own shares, that were purchased on the stock-market or elsewhere. Therefore the company has the right to purchase it's own shares from a bank that tenders authorized capital.

Options that were granted to members of the Board, are liable to special Stock Option Agreements. With authorization of the stockholders' meeting the options granted to Ing. Gerhard Schuberth can be exercised in relation to 70,000 units after one year of membership of the Board, the rest of the options after another year. One third of the options granted to Dr. Marcus Mühlberger vest at each of the following periods: after 9, 18 and 27 months. The Stock Option Agreement additionally grants 25,000 options to Dr. Marcus Mühlberger by achievement of certain objectives and the agreement of the supervisory board. 12,500 options vest at each of 9 and 18 months after the grant.

Stock Option Activity

In the following summary of stock option activity the stock split on February 15th, 2000 was taken into account in the period from May 19th, 1999 until December 31st, 1999:

	Options available for grant	Outstanding options: Number of shares	Range	Weighted average exercise prices
Outstanding at Dec. 31st, 1999	**632,835**	**856,533**	**€ 4.3 - 7.3**	**€ 4.7**
Reduction of available options	(171,516)	0	0	0
Granted options	(253,279)	253,279	€ 3.4-23	€ 6.6
Matured options	197,449	(197,449)	€ 4.3-23	€ 7.9
Exercises options	0	(139,705)	€ 4.3	€ 4.3
Outstanding at Dec. 31st, 2000	**405,489**	**772,658**	**€ 4.3-23**	**€ 6.1**
Options granted	(288,170)	288,170	€ 1.15–2.21	€ 1.47
Options cancelled	595,417	(595,417)	€ 1.15–23	€ 6.0
Options exercised	0	0	0	0
Outstanding at Dec. 31st, 2001	**712,736**	**465,411**	**€ 1.15 - 23**	**€ 4.6**

The following table summarizes information concerning currently outstanding and exercisable options under the 1999 Plan at December 31st, 2001. The stock split dated February 15th, 2000 was taken into account.

Plan 1999

Outstanding				Exercisable	
As at December 31st, 2000					
Range of exercise prices after stock split	Options outstanding	Weighted remaining contractual life	Weighted average exercise price	Options exercisable	Weighted average exercise price
€		years	€		€
4.3	511,344	8.5	4.3	208,114	4.3
6.0	17,160	8.8	6.0	5,978	6.0
7.3	76,380	8.9	7.3	22,420	7.3
8.6	41,244	9.0	8.6	0	0
4.3 – 8.6	646,128	8.6	5.0	236,512	4.7
As at December 31st, 2001					
Range of exercise prices after stock split	Options outstanding	Weighted remaining contractual life	Weighted average exercise price	Options exercisable	Weighted average exercise price
€		in Jahren	€		€
4.3	139,608	7.5	4.3	112,216	4.3
6.0	10,920	7.8	6.0	6,531	6.0
7.3	7,020	7.9	7.3	3,882	7.3
8.6	-	8.0	8.6	0	8.6
4.3 – 8.6	157,548	7.5	4.6	122,629	4.5

The following table summarizes information concerning currently outstanding and exercisable options under the 2000 Plan at December 31st, 2001. The stock split on February 15th, 2000 was taken into account.

Plan 2000 exercisable not before 01-01-2003	Range of excercise prices	Options outstanding contractual life (years)	Weighted remaining contractual life	Weighted average exercise price
As at December 31st, 2000	€		years	€
	23	38,740	9.2	23
	18.7	17,550	9.5	18.7
	8.8	46,580	9.8	8.8
	3.4	23,660	10	3.4
	3.4 – 23.0	**126,530**	**9.6**	**13.5**
As at December 31st, 2001	€		years	€
	23	18,980	8.2	23
	18.7	8,320	8.5	18.7
	8.8	12,675	8.8	8.8
	3.4	9,880	9.0	3.4
	2.2	7,020	9.2	2.2
	1.5	158,380	9.5	1.5
	1.2	79,228	9.8	1.2
	1.3	13,380	10.0	1.3
	3.4 – 23.0	**307,863**	**9.4**	**3.6**

Proforma Information

The Company continues to apply APB 25 in accounting for its stock based incentive plans. Accordingly, no compensation cost has been recorded in the consolidated statements of operations of the stock options plans. Had compensation cost for the Company's stock based compensation plans been determined in accordance with the fair value method prescribed by SFAS 123, the Company's proforma net loss and loss per share as of December 31st 2001 would have been as follows:

	Year ended Dec. 31st 2001 T€	Year ended Dec. 31st 2000 T€
Net loss, as reported	-16,618	-22,305
Pro forma Statement 123 expense	-310	-635
Net loss, pro forma	-16,928	-22,940
Basic and diluted loss per share, as reported	€ - 1.79	€ -2.55
Pro forma basic and diluted loss per share	€ -1.82	€ -2.62

The weighted average fair value per option granted during 2000 was € 4,30. The fair value of each grant is estimated on the date of grant using the Black Scholes pricing model with the following assumptions: Risk-free interest rate of 4,0 %, corresponding to government securities with original maturities similar to the estimated option life; option lives of 4 years for the 1999 Plan and 5 years for the 2000 Plan; annual volatility of the Company's stock price of 110 % for 2000 and 20 % for 1999; and a dividend yield of 0 %.

20. Commitments and Contingencies

The Company may, from time to time, become party to legal proceedings. Based upon advice from outside legal counsel, management is of the opinion that the Company is not involved in any litigation at December 31st, 2000, that could have any effect on the revenue or financial position of the company.

21. Liquidity and Capital Resources

From 1997 through 1999, the Company primarily financed its operations through private placements of common stock. Through December 31st, 1999, gross proceeds from three private placement rounds of common stock totaled EURO 22.4 million. On April 11th, 2000, the Company's shares were listed on the Neuer Markt of the German Stock Exchange as part of an Initial Public Offering (see footnote 2b). Net proceeds from the IPO amounted to EURO 43.6 million. To a lesser extent, the Company has financed its operations through equipment financing and traditional financing.
The Company is taking steps to restructure the business and reduce costs in order to reduce current expenses. The Company reckons on a positive cash-flow for 2002.

22. Additional Information on consolidated accounts on the basis of Austrian accounting standards

a) Reporting according to US Generally Accepted Accounting Principles

The consolidated financial statements as at December 31st, 2001 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 245 a of the Austrian Commercial Code (HGB) if the terms stipulated in para. 1 subsec. 1 to 3 are satisfactorily met. Fulfillment of these terms is explained below.

b) Substantial differences between Austrian accounting standards (HGB) and US-GAAP

Accounting standards of HGB and US-GAAP are characterized by partly different basic principles. HGB underlines the principle of prudence and the protection of creditors, whereas US-GAAP emphasizes the usefulness of information for 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

According to US-GAAP, deferred tax assets and liabilities resulting from temporary differences between the carrying amount of an asset or liability in the US-GAAP balance sheet and its tax base as well as from tax loss carry-forwards must be recognized. HGB calls for recognition of deferred tax liabilities and provides the option to recognize deferred tax assets. The recognition of deferred tax assets resulting from tax loss carry-forwards is generally not accepted.

b2) Other accruals

According to US-GAAP, accruals have to be set up for obligations to third parties when it is probable that the obligation will have to be settled and when it can be reliably measured. Accruals according to HGB, by contrast, are based on the principle of prudence resulting that an accrual may be set up already based on recognizability of a liability.

b3) Accruals for pensions and severance payments

According to US-GAAP the calculation of accruals for pensions and severance payments are based on the Projected Unit Credit method. This method accrues the future employee benefits based on a linear method over the service period. The calculation considers the estimated salary increase and a discount rate corresponding to market yields. The calculation according to HGB is based on the prevailing method "Teilwertverfahren" and applies a discount rate which does not include inflation. Increases in salary and pensions are normally not considered.

b4) Valuation of securities of financial assets

According US-GAAP securities, with the exception of held-to-maturity securities, are stated at fair value. Depending on whether the securities are held for trading or as available for sale, the unrealized gains and losses are recognized in income or as other comprehensive income in stockholders' equity. According to HGB long-term securities are stated at the lower of cost or market if the impairment is considered to be other than temporary (optional if reduction in value is temporary). Short-term securities are stated at the lower of cost or market.

b5) Measurement of foreign currency

According to US-GAAP, foreign currency assets and liabilities are measured at the closing rate at the balance sheet date. Realized and unrealised gains and losses are recognized in income. HGB does not allow the recognition of unrealised gains. According to the principle of prudence, HGB assets denominated in foreign currency are converted applying the lower of the exchange rate at transaction date or at balance sheet date. Liabilities denominated in foreign currency are stated at the higher of the exchange rate at transaction date or balance sheet date.

b6) Operating Lease/Capital Lease

According to US-GAAP assets have to be included in the balance sheet of the lessee, if significant risks and rewards have been passed to the lessee. Based on tax rules, HGB pursues the same basic principle, but the economic approach is less dominant. Therefore in certain circumstances assets not recognized in the balance sheet of the lessee in accordance with HGB must be recognized in accordance with US-GAAP.

b7) IPO-costs

According to US-GAAP costs of increase in capital are deducted from additional paid-in capital. The proceeds of the share capital increase are reduced by the attributable costs. HGB does not permit deduction of such costs from additional paid-in capital. Such costs must be expensed.

c) Additional information to the statement according to HGB (§245a (1) Z 3 HGB)

c1) Fixed assets schedule

The development of fixed assets is illustrated on page 21.

c2) Maturity of receivables and liabilities

The maturity of receivables and liabilities is detailed below:

	Receivables from goods and services T€	Other recivables T€	Liabilities from goods and services T€	Other Liabilities T€
< 1 year	7.028	281	1.386	3.423
1–5 years				
> 5 years				
	7.028	**281**	**1.386**	**3.423**

c3) List of consolidated subsidiaries

Name, interest and location of the consolidated subsidiaries:

Company	Location	Capital share
update.com sales GmbH	Vienna, Austria	100%
update.com software Germany GmbH	Dreieich, Germany	100%
update.com software (Switzerland) AG	Dietkon, Switzerland	100%
update.com software ltd.	Berkshire, England	100%
update.com software USA Inc.	Grove City, USA	100%
update.com software Denmark ApS	Glostrup, Denmark	100%
update.com software Benelux B.V.	Amsterdam, Netherlands	100%
update.com software CZ s.r.o.	Brno, Czech Republic	100%
update.com software France S.A.R.L.	Paris, France	100%

Average number of employees 2001: 227 (2000: 264)

Executive bodies of the company:

The following people were members of the managing board in 2001:

Gerhard Schuberth, CEO since June 1st, 2001
Dr. Marcus Mühlberger, since July 1st, 2001
Dipl.Ing. Arno Huber
Mrs. Gabriele Rittinghaus, CEO until May 31st, 2001
Mr. Michael Alan Foy, until June 30th, 2001

The following people were members of the supervisory board in 2001:

Mr. Klaus Amann, president until August 2nd, 2001
Mag. Susanne Hödl-Oels, vice-president until May 4th, 2001
Mr. Dilip Advani until May 4th, 2001
Mr. Rajpal Sandhu until July 2nd, 2001
Dr. Hans Bodingbauer, vice-president
Mr. Gilbert Hödl since May 4th, 2001
Mr. Peter Hurwitz, vice president since May 4th, 2001

Vienna, March 8th, 2002

Gerhard Schuberth

Dr. Marcus Mühlberger

Dipl.Ing. Arno Huber

Asset analysis, December 31st, 2001

	Aquisition costs As at 1.1.2001 T€	Assitions T€	Outflows T€	Exchange Diff. T€	As at 31.12.2001 T€	Accumulated Depreciation T€	Book value As at 1.1.2001 T€	As at 31.12.2001 T€	Depreciation 2001 T€
Fixed assets									
IT-Hardware	2,454	343	227	15	2,585	1,705	1,210	881	587
Software	1,073	281	150	1	1,205	852	855	352	718
Office equipment	1,040	102	91	3	1,054	552	622	501	214
Office furniture	293	6	54	3	248	159	172	89	41
Other fixed assets	529	6	85	1	451	137	401	314	52
	5,389	738	606	23	5,543	3,405	3,261	2,138	1,613
Intangible assets	**514**	**0**	**0**	**0**	**514**	**246**	**443**	**268**	**174**
Securities	**69**	**49**	**0**	**0**	**118**	**4**	**69**	**114**	**4**
Other assets	**72**	**31**	**20**	**0**	**83**	**0**	**72**	**83**	**0**

Auditor's report

We have audited the accompanying consolidated balance sheet of update.com software AG as of 31st December 2001, and the related consolidated profit and loss statement, the related consolidated cash flow statement and the related consolidated statement of stockholders' equity for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing and with auditing standards generally accepted in Austria. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 present fairly, in all material respects, the financial position of update.com software AG as of December 31, 2001, and of the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States (US-GAAP).

According to the provisions of Austrian commercial law, the group management report and the existence of the legal preconditions granting exemption from drawing up consolidated financial statements according to Austrian law must be examined.

We confirm that the group management report is consistent with the consolidated financial statements and that the legal requirements for exemption from the obligation to prepare consolidated financial statements according to Austrian law have been fulfilled.

Vienna, 5th March 2002

KPMG Alpen-Treuhand GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft
Dr. Walter Knirsch
Mag. Helmut Kerschbaumer
Wirtschaftsprüfer und Steuerberater

This is a translation from German to English.

Editor: update.com software AG, Operngasse 17-21, A-1040 Wien
Concept, Layout & Production: suxess Verlags- und Werbeges.m.b.H, A-1030 Wien, Photos: Franco Garzarolli, Photodisc
Printer: Stiepan Druck Leobersdorf