Technology One Limited

Half Year Report 2011

One vision. **One** vendor. **One** experience.

technology**one**
business software solutions

Our Main Activities

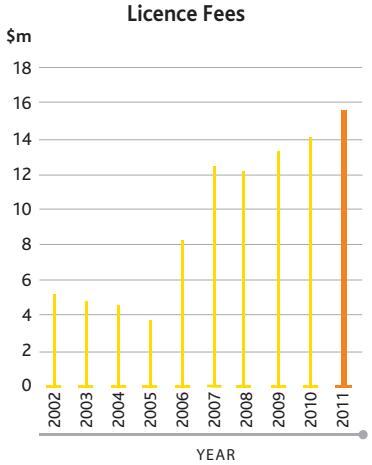
TechnologyOne is a leading supplier of powerful integrated enterprise software solutions.

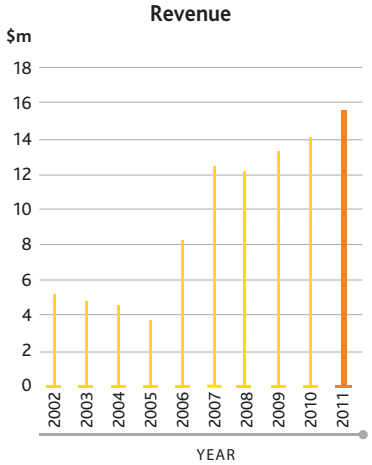
We focus on seven key vertical markets:

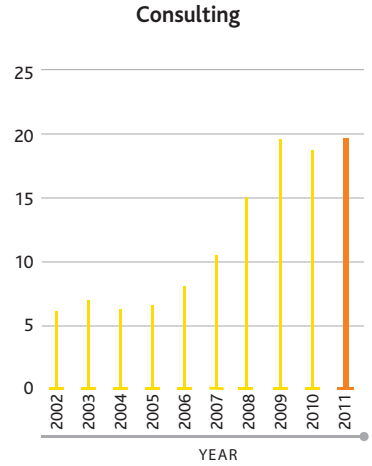
- Financial services
- Education
- Health, community services and not for profit
- Local government
- Government
- Utilities
- Managed services, including property, construction, and media and entertainment

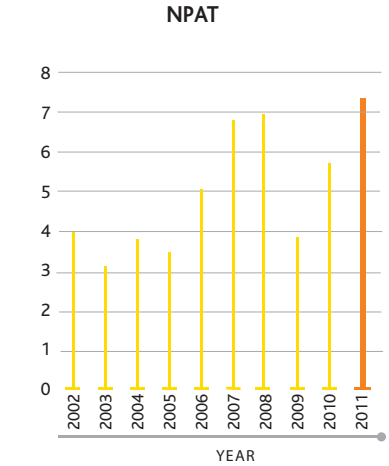
Tens of thousands of people each day use our world class enterprise software solutions, which we develop, market, sell, implement and support. Our Financials, Human Resource & Payroll, Supply Chain, Business Intelligence, Enterprise Budgeting, Performance Planning, Property & Rating, Student Management, Asset Management, Enterprise Content Management and Customer Relationship Management software are used in large organisations and corporations in Australia, New Zealand, Asia, the South Pacific, and the United Kingdom.

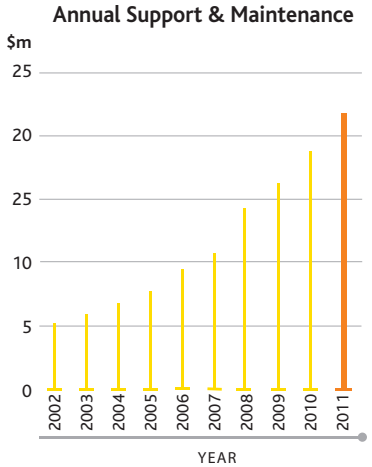
Our 2011 Half Year Highlights

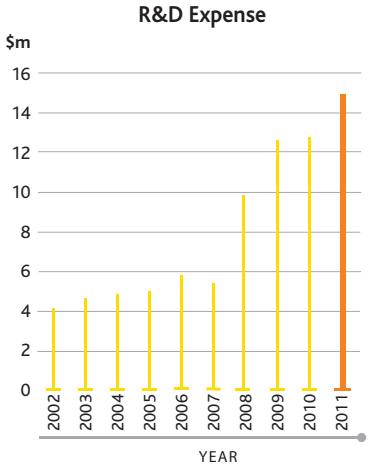












Letter to Shareholders

On behalf of Technology One Limited (TechnologyOne), I am pleased to announce our results for the half year ending 31 March 2011.

TechnologyOne has posted strong continuing growth with Net Profit Before Tax up 33% on the prior half year period. We have continued to increase our market penetration against our multinational competitors in a challenging market, with new contracts across all our major vertical markets.

"Tens of thousands of people each day use our world class enterprise software solutions, which we develop, market, sell, implement and support."

Analysis of Half Year Results

Highlights of our results include:

Net Profit Before Tax up 33%	(up $2.2m, to $9.1m)
Net Profit After Tax up 29%	(up $1.6m, to $7.4m)
Revenue up 21%	(up $12.4m, to $71.6m)
Total Expenses up 19%	(up $10.1m, to $62.5m)
Expenses excluding R&D up 20%	(up $8m, to $47.6m)
R&D expenses up 17%	(up $2.2m, to $14.9m)
R&D expenses as a percentage of revenue is 21% compared to 22% last year	

Our results by revenue stream are as follows:

Initial licence fees up 10%	(up $1.5m, to $15.6m)
Annual licence fees up 16%	(up $3.0m, to $21.8m)
Consulting services fees up 5%	(up $914k, to $19.6m)
TechnologyOne Plus (Project Services) up 82%	(up $4.6m, to $10.3m)
Other Revenues* up 100%	(up $1.5m, to 4.3m)

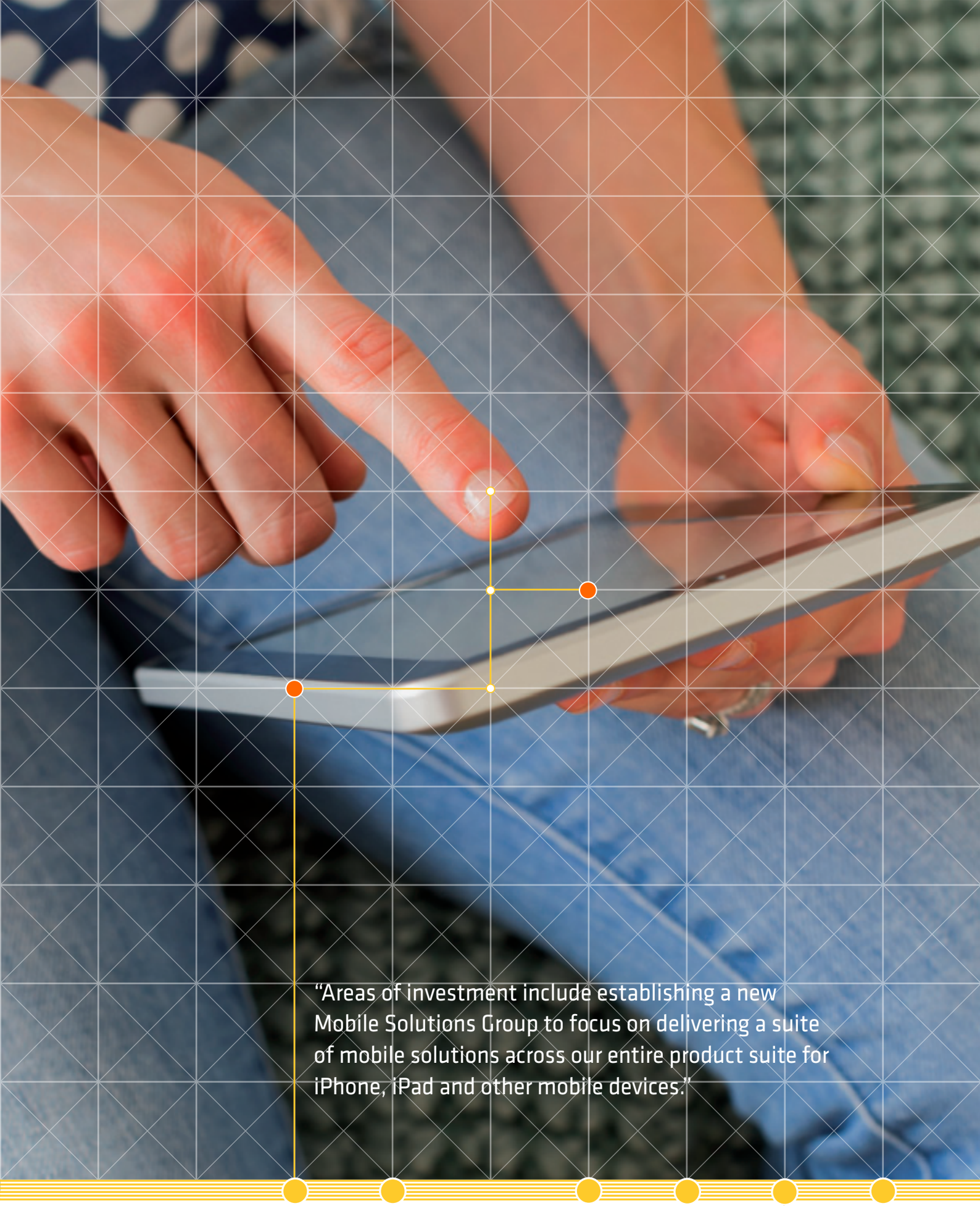
*Other Revenue includes product modifications, interest, sub lease rentals etc.

Our results are especially pleasing given the fact that we have invested in a number of future growth areas, impacting our results this half by in excess of $6.8m. These areas of investment are as follows:

- Our new Solutions group
- Our United Kingdom business
- Building our new Customer Relationship Management product (CRM)
- Building our new Enterprise Content Management product (ECM)
- Building our new Performance Planning product
- Continuing to mature our Human Resource & Payroll product
- Establishing a new Mobile Solutions Group to focus on delivering a suite of mobile solutions across our entire product suite for iPhone, iPad and other mobile devices
- Initial work on our next generation of enterprise software, called TechnologyOne C2 suite

It is also interesting to note that the new R&D centre opened in the second half of the last financial year (April 2010). This is the first time we have incurred the additional R&D centre expenses in our first half, which also impacted our results by an additional $1.2m.

We see significant revenue streams in future years emerging from these investments. These items are discussed in more detail later in this letter.



"Areas of investment include establishing a new Mobile Solutions Group to focus on delivering a suite of mobile solutions across our entire product suite for iPhone, iPad and other mobile devices."

Balance Sheet Strength

TechnologyOne continues to have a strong balance sheet with cash of $29.6m, short term investments available for sale of $3.8m and undrawn banking facilities of $7m. Our debt/equity ratio remains conservative at only 13%.

Operating cashflow was $6.7m, versus a Net Profit After Tax of $7.4m.

Commentary

Continued Licence Fees Growth

We saw continuing growth in Licence Fees in the half, with Licence Fees up 10% driven by our Financials, Supply Chain, Corporate Performance Management, Asset Management, Property & Rating and Student Management products.

Technology One Plus

TechnologyOne Plus has had a strong first half, reflecting both the positive impact of our new highly experienced General Manager appointed two years ago to build this business, as well as the success of our new strategy of working closely with our product group in providing new 'value added' services to our customers. These services have traditionally been provided by other vendors in the past.

This has resulted in improved performance for this division, and a much better outcome for our customers as they can deal with a single supplier for the products, implementation services and now the 'value added' services. TechnologyOne Plus is expected to continue to perform strongly over the full year.

New R&D Centre

We have in the last 12 months established a new 'state of the art' R&D centre in Brisbane to house more than 500 staff. This new R&D centre is critical to our continuing growth and will help us attract the young and talented staff we need, as well as assisting us to increase collaboration and innovation in our R&D teams. The new R&D centre is also important to allow us to develop our next generation of our enterprise suite – TechnologyOne Cloud Computing suite (C2).

Our Next Generation Enterprise Suite – TechnologyOne C2

TechnologyOne is once again embracing the opportunities emerging with new technologies, particularly the advent of Cloud Computing. We are now completing the research into our next generation platform, which will be used to build the new generation of our enterprise suite, called Technology One Cloud Computing suite (C2).

I am confident that our next generation enterprise suite, TechnologyOne C2, will provide us with a significant technological and competitive advantage over our competitors. It will also provide our existing customers with a simple and evolutionary way forward to embrace new concepts, ideas and technologies, such as mobile computing, the iExperience (e.g. iPad, iPhone), and the social networking phenomenon, such as Facebook.

There are significant benefits for both us and our customers as we embrace Cloud Computing, and we are taking advantage of this by re-engineering our business around the Cloud.

To bring the focus we need to manage this large and challenging project we have recently appointed a Director R&D C2. Our new Director R&D C2 brings extensive experience in large scale product development having worked previously in Oracle's R&D labs in Silicon Valley.

New Offshore R&D Centre

Having established a new state of the art R&D centre in Brisbane we are now looking to the challenges that the next stage of our growth will bring and have started investigation into a new R&D centre in an offshore location.

The new Offshore R&D centre will allow us to tap into a new pool of talent outside of Australia, and at the same time free up key staff in our Brisbane R&D centre to focus on building our new and ambitious TechnologyOne C2 product suite.

While our new TechnologyOne C2 suite will be our future, it is important that our customers using our existing Ci (Connected Intelligence) product suite have the continuing strong support they need. The new Offshore R&D centre will provide us operating leverage, allowing us to employ significantly more staff for the same expenditure, which will allow us to improve support time and KPIs for our existing Ci customers and help us in delivering against our Compelling Customer Experience program.

Our plan is to run an initial trial program over a six to twelve month period to prove the new Offshore R&D centre concept, and to develop the expertise, systems and processes for it to be successful; and to quantify the benefits.

Once again to bring a focus to the continuing support and development of our Ci product, and to establish the new Offshore R&D centre, we have appointed a Director R&D Ci. Our new Director R&D Ci is a long term, highly talented TechnologyOne senior manager who has extensive experience in how our Ci products have been built and are supported.

Once our new Offshore R&D centre has been successfully established and proven, this will help us to contain our R&D expenditure in future years, tap into a pool of new talent and at the same time improve our customers' experience with our products.

Compelling Customer Experience

TechnologyOne today is a large, complex and challenging business. To continue to be successful it is important that we do not become bureaucratic and that our customers receive an outstanding and compelling customer experience from us at all times.

To achieve this goal we have created our own unique TechnologyOne Compelling Customer Experience program, which we have over the last 12 months, rolled out to all of our 800+ staff. This program has educated our staff about the behaviours, attitudes, skills and techniques that will allow them to deliver to our customers an outstanding and compelling customer service experience, and ensure that our customers are not impacted by our mistakes.

In parallel to this program we have also started to re-engineer our business to ensure our systems, processes and policies support our people to deliver an outstanding experience to our customers. This re-engineering program will take a number of years to complete – it is a large and complex project and represents a significant undertaking by TechnologyOne to put our customer at the centre of our business.

I believe our commitment to delivering a compelling customer experience and re-engineering our business around our customers will provide us with a significant advantage over our competitors, as our competitors' cultures and business models do not support them in delivering this to the market.

"I am confident that our next generation enterprise suite, TechnologyOne C2, will provide us with a significant technological and competitive advantage over our competitors."

Research & Development (R&D)

R&D was $14.9m in the half year, representing 21% of Revenue. This was a significant investment and is well outside our normal target of 18%. This expenditure, over and above our 18% target, impacted our results by an additional $2.0m expense in the half year.

R&D continued across all our products, but areas of particular interest are as follows:

- Our new and exciting Customer Relationship Management (CRM) solution, which is now starting to gain traction in the market. The initial focus has been on the areas of Grants Management, Fundraising, Contact & Stakeholder Management, Community Housing, Community Engagement, and Case Management.
- Moving our recently acquired Enterprise Content Management (ECM) product to our Connected Intelligence (Ci) platform and providing deep integration across all our products. The first release of our new ECM Ci product is now available and early indications are that we are making substantial headway.
- Stabilisation of our Student Management Ci product has now been completed and R&D is well advanced in delivering the first dual sector Higher Education solution that can simultaneously handle the requirements of both University and TAFE in the one single product.
- The completion of the migration of our Performance Planning product to the Ci platform and providing deep integration across all our products.
- Continued investment in our Human Resource & Payroll product, which is at a crucial and pivotal point in its development.
- Continuing investment in our Business Intelligence, Enterprise Budgeting, Asset Management and Property & Rating products.
- Further investment in new licensable product extensions for each product to drive future sales into our expanding customer base.

A new initiative in the first half of this year has been the creation of a new Mobile Solutions Product Group to allow us to build a new mobility platform and a range of mobility solutions across our entire product range using iPhones, iPads, and other mobile devices. We see significant demand for mobility solutions in our customer base.

Lastly, R&D has also been significantly impacted by our new Compelling Customer Experience program, as we re-engineer our business around our customer. Current projects underway include:

- Creation of an Independent Testing & Quality Assurance group to ensure the quality of the products we deliver to our customers
- Establishing our Support Centre as an independent group outside of R&D, and the creation of new improved systems and processes to ensure we improve the customer experience and meet new levels of KPIs for customer support requests
- Creation of a new role of Product Owner for each product, to work closely with our customers and prospects on our product roadmaps and future direction to ensure our products evolve to meet our customer needs

TechnologyOne College

Today we are one of Australia's largest software companies.

Critical to our future success will be our ability to quickly 'on board' new staff with the training and skills they need to do their tasks to a high standard. It is also important that our existing staff receive ongoing 'just in time' training to continually improve their skills. Given the wide range of products we have, and the number of vertical markets we service, and the wide range of skills we employ (from software engineers, consultants, project managers, technical staff etc.) this is a significant challenge.

Also our customers are looking to us to provide 'just in time' training for their staff to help them use our enterprise software effectively.

To address this challenge, we are planning to open the TechnologyOne College in the next three months. TechnologyOne College will provide continual training courses to our staff, and ultimately our customers.

We have now appointed a senior manager with extensive experience to establish and run the TechnologyOne College.

House of Solutions

Over the last 12 months TechnologyOne's new Solutions Group has been working with our customers to pre-configure our products for 'best practice' within each of our target vertical markets.

These pre-configured solutions dramatically reduce the implementation times and risk typically associated with a large enterprise-wide implementation by allowing a prospective customer to take a 'preconfigured solution' relevant to their industry as the starting point, and then tailor it to the specific needs of their organisation.

This is a significant and ambitious undertaking for the company. This has the potential to significantly streamline our business, reduce our risks, and dramatically enhance the value our solutions provide to our customers in our target vertical markets.

Recent wins such as Corangamite Shire Council, Hepburn City Council and City of Port Phillip, have only been possible because of our new Solutions approach.

The United Kingdom

The United Kingdom (UK) continues to be impacted by the Global Financial Crisis (GFC), and as a new entrant to this market, this has made it challenging for us.

To address these issues we have put in place a new strategy for the UK. As a result of this new strategy, we have divided the UK into two regions creating a new North West Region and a new Southern Region. We have also appointed two new Regional Managers with extensive enterprise software experience in the UK to drive this business, as well as assigning an Operating Officer to spend a considerable amount of time in the UK on a regular basis. Lastly, we are investigating the possibility of a partner to work with us in the UK.

With the new strategy, new structure and new people in place, we are seeing our pipeline of opportunities grow once again and we expect to see new business close towards the end of this financial year.

TechnologyOne remains committed to the UK market, as we see significant long term growth opportunities in the coming years.

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Full Year Guidance

TechnologyOne is confident we will once again achieve continuing growth in the full year due to the following factors:

- Strong committed annual licence and support revenue in the second half
- Continuing strong pipeline of new sales opportunities in the second half

As highlighted at our recent AGM, the biggest challenge for TechnologyOne this year will be managing our expense growth, due to the significant number of investments we are making including:

- Our new products such as Mobile Solutions and CRM
- Continuing strong investment into our existing Ci products
- Ramping up the development of our next generation TechnologyOne C2 series products
- Continued investment in the UK
- The costs associated with the establishment of our new Offshore R&D centre
- Strategic projects to deliver against our Compelling Customer Experience program
- Our new TechnologyOne College initiative

We have a very full agenda for the foreseeable future. Having said that, the TechnologyOne Management team is very focused on managing costs over the next 12 months. For the full year we are expecting expenses to be up approximately 14% on the prior year.

Given these parameters, we believe for the full year the most likely scenario is that Profit After Tax will be up between 10% to15%.

Dividends

In light of our first half results, the dividend for the half year has been increased to 1.46 cents per share, up 10% on the prior year. This represents a payout ratio of 60%.

It is interesting to note that we have continuously paid a dividend since we listed in 1999 (through both the Dot-Com and GFC crisis). The compound growth in dividends over last 10 years has been 28% per annum.

Given the expected continuing strong growth over the full year, the company will once again consider capital management options such as a Special Dividend at the full year.

Outlook

Looking out over future years, we are excited with the growth opportunities ahead.

We expect our existing TechnologyOne Ci suite to continue to be strong in the coming years, coupled with the benefits associated with our focus on providing pre-configured solutions, as well as delivering against our Compelling Customer Experience program.

We also expect our newer products such as ECM, CRM, Mobile Solutions and HR & Payroll to become more mature and move from 'loss making' to profitability.

The UK will in the coming years move from a significant loss position to profit, and given the size of this market has the potential to provide us significant profit growth.

Our new Offshore R&D centre has the potential to reduce our R&D expenditure as a percentage of revenue, without impacting on any of our strategic initiatives, while at the same time improving the level of support our customers experience.

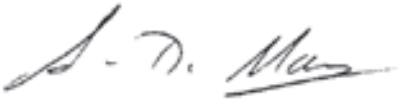
These events will have a significant positive impact on continuing to grow our profits as well as substantially improving our profit margin in the coming years.

Lastly our new generation cloud computing suite, TechnologyOne C2, will in future years create a new platform for continuing growth for us.

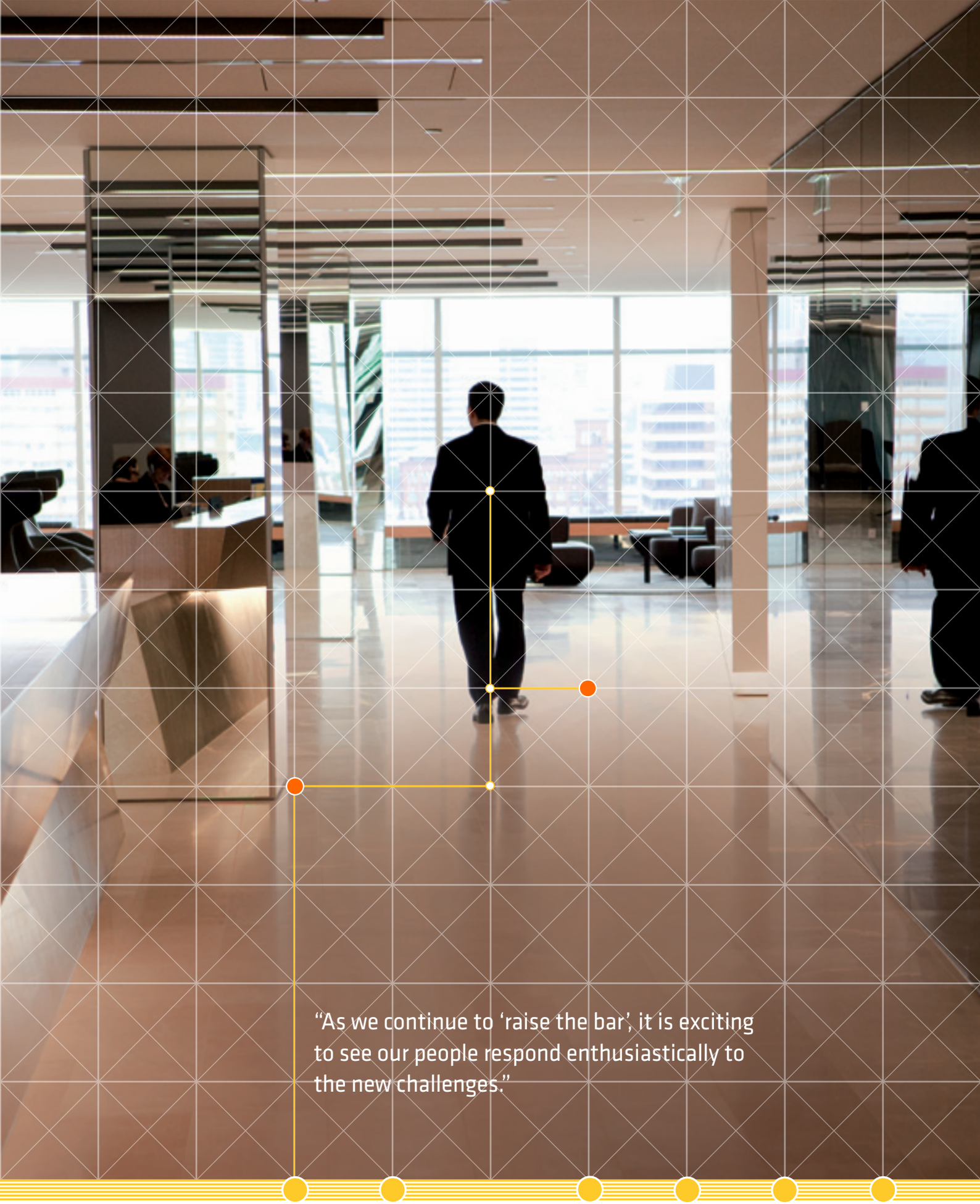
Afterword

I would like to once again acknowledge the hard work, passion and commitment of the TechnologyOne team, and the great work being done to build, market, sell, implement and support our world class suite of enterprise software. As we continue to 'raise the bar', it is exciting to see our people respond enthusiastically to the new challenges.

I would also like to thank you, our shareholders, for your continuing support.



Adrian Di Marco
Executive Chairman



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One vision. One vendor. One experience.

Australia

New Zealand

Asia

South Pacific

United Kingdom

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