

21 January 2013

The Manager
Company Announcements
Australian Securities Exchange
4th Floor
20 Bridge Street
SYDNEY NSW 2000

Dear Sir,

RE: Second Quarter 2012-13 Update

Perth WA - ISS Group Limited (ASX: ISS) is pleased to provide an update for the second quarter of trading to 31 December 2012. It should be noted that the results presented here are subject to half-year audit review and approval. Therefore, the results in this update may vary from the final reported numbers to be lodged with the ASX by the end of February.

A current agreement with Schlumberger Information Solutions will end on the 31st May 2013. This contract has been a significant contributor to ISS revenues over the previous four financial years. The contract provides Schlumberger Information Solutions with the exclusive distribution rights for ISS Groups BabelFish Data Integration and Data Visualisation Products in the upstream oil and gas sector. The final year of the contract resulted in a reduction in license revenues to ISS of US \$2.9 million in the first half of 2013 compared to the first half 2012.

Despite the above mentioned reduction in license revenues, the revenue for H1 was only down by AUD164,000 or 1.4% from the corresponding period last year. Thus the fall in license revenue has been all but eliminated by the increase in the other revenue streams which grew by 44%.

Net profit before tax (NPBT) for the six months to 31 December 2012 is expected to be \$1.6 million (\$3.2 million – 2011-12). The Board and management are pleased with the results, particularly given the dramatic change in license revenues noted above and are confident that the increase in direct ISS generated revenues will continue in the second half of the year.

One of the key focal points of the Groups strategic plan was to enable the company to manage the drop in revenues, from last year, of the above mentioned contract by facilitating sales growth. The H1 results demonstrate that this has been achieved from a total revenue perspective and positions ISS well for the remainder of this financial year onwards. Whilst the license revenue short fall was filled by a combination of services, maintenance and support revenues, our focus is on facilitating an increase in license revenues as we move forward.

The Group's working capital remains healthy at AUD \$10.6m and the company maintains a zero debt position.

The Group's sales pipeline continues to improve, with the successful hosting of the BabelFish User Group (BUG) expected to translate into additional contracts during H2 of the current financial year.

As prefaced for each quarterly update, readers should note the numbers contained in this report are headline management account numbers only and are subject to review by the company's auditors. They are provided as part of the Company's quarterly market updates only.

Readers should also be aware that given the nature and scale of contract revenues, we caution that significant variations may exist between individual quarterly results and in the comparative results, further, results may vary from previously reported numbers reflecting accounting treatments and the impact of currency fluctuations and audit adjustments.

Summary Table of Results for July to December 2012:

	Q2 13 '000	Q2 12 '000	Q2 +/- %	H1 13 '000	H1 12 '000	H1 +/- %
Project Revenue	3,218	2,205	46%	6,954	4,474	55%
License Revenue	2,017	4,942	(59%)	2,229	5,170	(57%)
Maintenance & Support Revenue	1,149	1,472	(22%)	2,090	1,811	15%
Other Revenue	41	28	50%	78	59	32%
Total Revenue	6,425	8,646	(26%)	11,350	11,514	(1%)
Cost of Sales (labour)	3,667	3,351	(9%)	7,379	6,485	(14%)
Selling, General & Admin	767	565	(36%)	1,661	1,351	(23%)
EBITDA before Exchange Variances	1,733	4,474	(61%)	1,752	3,118	(44%)
Foreign Exchange Gain (Loss)	0	(238)	100%	(71)	168	(143%)
EBITDA	1,733	4,236	(59%)	1,681	3,285	(49%)
Amortisation and depreciation	65	71	9%	133	136	2%
EBIT	1,669	4,165	(60%)	1,548	3,150	(51%)
Net Interest Received	18	34	(46%)	44	85	(49%)
Profit Before Tax	1,687	4,199	(60%)	1,591	3,235	(51%)

Evaluating Q2 13 results specifically; revenues were down 26% on Q2 12 as license revenue fell by US\$2.9 million as mentioned previously. Cost of sales increased by 9% after a cost of living increase and further growth to the sales team. Selling, General and Admin expenses increased due to cost increases of additional resources and general inflation.

The half year results to December show a decrease in Revenue of 1% relative to the H1 of the previous year as a result of decreased license sales. This decrease has been offset by an increase in

services, maintenance and support sales. Cost of Sales for the half year is up by 14% reflecting the implementation of the strategy to increase sales and delivery resources.

Branch Activities:

Australia

The Australian market remains a region of growth with the number of capital projects moving into an operational phase in the short to mid-term future. The relationships with existing customers remain positive and the executing of the BabelFish User Group and exposure to the ISS Group sales platform / demonstration environment is generating new opportunities.

Asia

The region ended the first half with strong revenue results and with the significant opportunities in the latter stages of the tendering process there are expectations of further boosts to revenues in Q3. This remains the most exciting growth market and substantial efforts have been made to ensure consistent and continual increases in contracts and thus revenues in the region.

Roll on projects and services are being won from existing customers which solidifies the revenue base and has placed ISS in a strong growth position in the region.

Europe

The region is delivering on a number of contracts. The employment of a sales resource in Europe will give ISS an avenue to gain access into the extremely competitive European market, particularly on the back of some large contracts with global organisations. There are a number of opportunities that are currently being pursued.

Americas

The introduction of an experienced sales resource and another delivery resource in this region demonstrates our confidence that there is growth potential in the Americas (largely an untapped market for ISS). ISS has recently completed a major production data management solution deployment in the US that provides the market with a local reference. It is anticipated that there will be a small revenue increase in H2, with the revenue rewards associated with the investment in resources being seen in the next financial year.

Summary:

Despite the half year result being down on last year, the board is pleased with the growth in ISS directly generated sales (which increased by 39% on the H1 results of the previous year). We are confident that the platform is in place to facilitate more even growth between first and second half results now, as the strategic plan continues to be implemented.

Yours sincerely,

Richard Pang
CEO
ISS Group Limited

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About ISS Group Limited:

ISS Group delivers operational management software solutions to the global Oil and Gas, Mining, Metals, Minerals and Manufacturing industries. ISS Group was established in 1995 and listed on the ASX in 2004. The Company has offices in Australia, US, Europe and Asia and has a blue chip client base including Chevron, BHP Billiton, Woodside, Santos, Rio Tinto, Shell, BG Group, BP, Hess Corporation, Maersk Oil, Petronas and Fortescue Metals.

The BabelFish™ product suite comprises a number of integrated modules that enable operations to capture, validate, analyse and report against business critical data and workflows. BabelFish™ provides an efficient and integral decision making and problem solving environment for personnel in operations, engineering and business management.

Please visit the ISS Group website www.issgroup.com.au for further information.

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